

EXECUTIVE SUMMARY

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Recommended Changes to Housing Impact Fees

On July 11, 2011 the City Council will consider a number of changes to the Housing Impact Fees that are being proposed by the San Diego Housing Commission (SDHC). Principally, SDHC is proposing that the City's Housing Impact Fees be increased by 20% per year for five years, beginning in July 2013, until fees are restored to the levels originally adopted in 1990. In addition, the Housing Commission is recommending that beginning in July 2018 the Housing Impact Fees be adjusted annually based on changes in the Building Cost Index for 20 Cities.

In July 2009 the City Auditor released a performance audit of the San Diego Housing Commission (SDHC). The audit report recommended, among other things, that the Housing Impact Fee schedule be reviewed and updated, and that procedures be developed so that Housing Impact Fee updates are recalculated each year and presented to the City Council for approval. Following the City Auditor's report, SDHC contracted with Keyser Marston Associates (KMA) to perform a Jobs Housing Nexus Study as part of an effort to review and update the Housing Impact Fees. The purpose of the Jobs Housing Nexus Study was to quantify the nexus or relationship between new commercial development and the need for affordable housing that is created by such development.

This report provides an overview of the Nexus Study prepared by KMA, and examines several key elements of the Housing Commission's fee proposal, including the basis for setting the fee structure, applying an index for annual fee adjustments, and the possibility of implementing a trigger mechanism in light of current economic conditions. Overall, we believe that the Housing Commission's proposal to restore the Housing Impact Fees to the levels originally adopted in 1990 is an acceptable approach to setting a fee structure, and will provide additional resources to address affordable housing needs. However, other approaches to setting fees, such as a percentage of development costs or as a percentage of nexus costs, could produce a fee structure that is more closely aligned to the results of the Nexus Study.

In addition, we support the recommendation to adjust the Housing Impact Fees annually based on the change in the Building Cost Index for 20 Cities, which will ensure that fees keep pace with costs adjustments and maintain a constant level of mitigation over time. Finally, due to the challenges associated with establishing a trigger mechanism, we believe that the Housing Commission's proposal to maintain the current fee structure for two years, combined with a phased in fee increase, is a suitable approach to accommodating further improvement in local economic conditions.