

**OFFICE OF INDEPENDENT BUDGET ANALYST  
CITY OF SAN DIEGO  
M E M O R A N D U M**

No. 06-7

DATE: April 2, 2006

TO: Council President Peters and City Council Members

FROM: Andrea Tevlin, Independent Budget Analyst

SUBJECT: ITEM #201 INCLUSIONARY HOUSING - TIMING OF IN-LIEU FEE  
CALCULATION

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The report to Council on this matter recommends adjusting the time of the in-lieu fee calculation from the time of building permit application (current procedure) to earlier in the process, specifically, to the time the first application for development is deemed complete. The IBA issued a memo on March 17, 2006, showing the beneficial impact to a single development project and the corresponding loss to the Inclusionary Housing Trust if the proposed adjustment is approved. This issue is being contemplated in response to the Building Industry's opposition to the current approach.

Under the current procedure a 100,000 square foot project that begins the process in July 2005 (when the fee is \$2.50), but completes the project in July 2006 (when the fee is estimated to be \$7.31) would pay a \$731,000 fee. With the proposed adjustment, the project would pay \$250,000 resulting in a \$481,000 loss to the Inclusionary Housing Trust. The staff report is correct in stating that it is very difficult to determine the total impact to the City's ability to provide affordable housing units if this change is approved. However, given this single example, the impacts could be significant.

Since implementation of the fee in 2003, 200 projects were subject to it, with the overwhelming majority (176) exercising the fee option rather than building affordable units. This has resulted in \$7.9 million being collected in the trust to date. This is a mere "drop in the bucket" to the affordable housing needs identified by the Affordable Housing Task Force in 2003.

The Task Force report identified a housing need for the period 2003-2013 of 114,000 units. Recognizing this as unrealistic, they proposed a goal of 8,415 per year in order to accomplish 84,150 new units by 2013. About a third of these (3,197) were determined to be necessary to meet the needs of households with incomes at or below 80% of the Area Median Income. The Task Force estimated that 700 of these units would be created each year through the inclusionary housing requirements. With the building industry relying more heavily on the in-lieu fee than creation of new units, this goal is likely not achievable. They further estimated that to create the remaining 2497 units would require \$122 million in local subsidy.

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Adjusting the timing of the fee calculation will not only hurt the Inclusionary Housing Trust, but it will continue as a disincentive to opt to build new affordable units. On the Council Docket for Tuesday, April 4<sup>th</sup> is continuing resolution R2006-702 Declaring a Continued State of Emergency Due to Severe Shortage of Affordable Housing in the City of San Diego. Given the policy priority of this issue for the City, the Council should not consider this adjustment without serious discussions of other effective means to addressing this issue over the long term.

[SIGNED]

Andrea Tevlin

Independent Budget Analyst

cc: Honorable Mayor Jerry Sanders