THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: November 1, 2013 **IBA Report Number:** 13-49

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Proposed Housing Impact Fee Adjustments

The Office of the Independent Budget Analyst (IBA) reviewed the Updated Nexus Study, held discussions with the San Diego Housing Commission (SDHC) staff and stakeholders, and reviewed fees of other California municipalities/jurisdictions. Our report on this matter provides the following:

- A summary of the Updated Study;
- Arguments in favor and against housing impact fees;
- Information related to housing impact fees in other municipalities/jurisdictions;
- Alternative funding sources for generating revenue to support affordable housing reviewed by the Task Force.
- Alternatives for restructuring the SDHC proposed fee adjustments including consideration of: 1) more modest increases in line with the SDHC 2011 proposal; 2) an exemption for industrial and manufacturing facilities; and 3) deferred fee payments.

This report also includes a recommendation that City Council request additional information from the SDHC regarding how they plan to use the new fee revenue to subsidize/incentivize affordable housing.

OVERVIEW

In April 1990, the City Council adopted the San Diego Housing Trust Fund Ordinance (Housing Ordinance) which established the Housing Impact Fees in the Commercial Development division within the San Diego Municipal Code. To support the adoption of the Housing Impact Fee, the San Diego Housing Trust Fund Task Force commissioned Keyser Marston Associates (KMA) in 1989 to complete a nexus study to establish a reasonable relationship or nexus between non-residential commercial development and increased demand for housing affordable to lower income households.

Per the adopted ordinance, it was the intent of the City Council to establish a policy that new office, retail, research and development, manufacturing, warehouse, and hotel development would pay a share of the costs to construct affordable housing for the low and very low income employees of the new developments. In addition to establishing the Housing Impact Fees (Appendix A of Municipal Code Section 98.0609), the Municipal Code established that these fees were to be revised annually by the percentage increase or decrease in the Building Cost Index (BCI) of the Cost Indices for Twenty Cities published by McGraw-Hill. The SDHC, in consultation with the City Engineer was to prepare a recommendation to the City Council for the appropriate revision by March 1 each year. However, no adjustments were made until 1996 when the fees were reduced.

<u>1996 Fee Reduction</u>
In July 1996, the City Council reduced the original Housing Impact Fee by fifty percent (50%) for each of the development categories. Per City Manager Report No. 96-129, the fee reduction was intended to act as an economic stimulus for business investment. The impact on the economic activity and the Housing Trust Fund was recommended to be evaluated in two years.

<u>2009 City Auditor Performance Audit</u>
In FY 2009, the City Auditor conducted a performance audit of the SDHC as part of the FY 2009 Audit Work Plan. Among the results of the performance audit, the City Auditor's Office found that the Housing Impact Fees were "outdated, substantially lower than comparable cities, and were not adjusted as required by the Municipal Code resulting in an estimated underfunding of $2.79 million for fiscal years 2006 through 2008". The audit report provided several recommendations including but not limited to:

- Review the Housing Impact Fee schedule and if feasible, update the fees through 2009 to be consistent with the Municipal Code.
- The City and the SDHC should develop and implement procedures such that the Housing Impact Fees are recalculated each year and a recommendation be presented to the City Council for consideration each year.
- If the Municipal Code is not going to be followed, then the it should be amended to reflect the fee expectations.

<u>2011 Nexus Study and Recommended Fee Adjustments</u>
Responding to the performance audit recommendations, the SDHC commissioned KMA to complete a new nexus study (2010 Nexus Study). In July 2011, based upon KMA's completed study, the SDHC staff presented recommendations to the City Council to update the Housing Impact Fees. The recommendations that were presented included:

- Maintaining the existing Housing Impact Fees for two years (July 2011 – June 2013);

- Beginning in July 2013, increase the Housing Impact Fees by twenty percent (20%) each year for five years, returning the fees to the originally approved amounts set in 1990 by July 2017; and
- Beginning in July 2018, annually adjust the Housing Offset by the Building Cost Index as prescribed in the Municipal Code.

Although the City Council acknowledged the importance of providing affordable housing, based largely upon concerns related to the slowed economy, the City Council did not approve the recommendations from the SDHC staff. The City Council requested that the SDHC and the 2011 Best Practices Task Force (Task Force), comprised of a variety of stakeholders including advocates of affordable housing and members of the business community, identify new revenue sources and return to the City Council with recommendations for broad-based revenue sources.

From July through November 2011, the SDHC and the Task Force held multiple meetings and presented a status report to the LU&H Committee on October 26, 2011 and Task Force recommendations to the LU&H Committee on November 16, 2011. The multiple Task Force recommendations, as presented in San Diego Housing Commission Land Use & Housing Report Number LUH11-010, included a three year Affordable Housing Master Plan to increase affordable housing production within the City. The goal of the plan was to streamline development regulations and create a broad-based sustainable revenue stream dedicated to affordable housing programs. No actions were taken related to these recommendations.

Since the Housing Impact Fee adjustments were presented to the City Council in July 2011, several conditions related to the economy and affordable housing funding sources have changed. Although the economy has improved since July 2011 funding sources available for affordable housing have diminished. The dissolution of the City's Redevelopment Agency, federal budget cuts related to sequestration, and reduced funding available through the State's Proposition 1C and Proposition 46 have significantly reduced the funding sources available for affordable housing. For example, the dissolution of the City's Redevelopment Agency and impacts of sequestration have reduced available funding by an estimated $35 million and resulted in a reduction of approximately 800 Section 8 vouchers. Based on the recommendations of the 2009 Performance Audit Report, as well as the need to identify new resources for affordable housing, the SDHC commissioned KMA to update the 2010 Nexus Study. This update was completed in August 2013.

<u>Recommendations From the Updated Nexus Study</u>

On October 11, 2013, the SDHC staff presented the SDHC Board of Directors (SDHC Board) with proposed adjustments to the Housing Impact Fees. Per the discussion amongst the SDHC Board members, the SDHC Board stated it was not the appropriate governing body to make a decision on the recommendation from staff and forwarded the item to the full City Council for consideration without a recommendation.

On November 4, 2013, the SDHC staff will present the City Council with a request to update the Housing Impact Fees based upon the updated KMA nexus study (Updated Study) completed in August 2013. The recommendations from the SDHC staff include:

- Adjust the Housing Impact Fees to 1.5% of the total current cost for commercial development as calculated by the Updated Study;
- Require the fees to be automatically adjusted annually based on the changes to the Engineering News Record (ENR) BCI; and
- Update the ordinance to rename the Housing Impact Fees to the Workforce Housing Offsets (Housing Offsets). The Housing Offsets had previously been referred to as Linkage Fees and Housing Impact Fees on Commercial Development.

The Office of the Independent Budget Analyst (IBA) reviewed the Updated Nexus Study, held discussions with the SDHC staff and stakeholders, and reviewed fees of other California municipalities/jurisdictions. This report provides:

- A summary of the Updated Study;
- Arguments in favor and against housing impact fees;
- Information related to housing impact fees in other municipalities/jurisdictions; and
- Alternative funding sources for generating revenue to support affordable housing reviewed by the Task Force.
- Alternatives for restructuring the SDHC proposed fee adjustments.

FISCAL/POLICY DISCUSSION

OVERVIEW OF UPDATED STUDY

In March 2013, the SDHC contracted with KMA to update the nexus study completed in 2010. The goal of the nexus study is to support or illustrate the link between new non-residential development, related job creation, and the resulting demand for new affordable housing. Costs associated with developing affordable housing as a result of this link are known as nexus costs.

In brief, the Updated Study applies several key assumptions (provided in Appendix A of the study) to determine the projected total nexus costs for each category of new non-residential development. The resulting total nexus cost represents the amount needed to fully fund the development of all the affordable housing needs for the new employees. The total nexus costs, per facility, per square foot, from the study are as follows:

Faciltiy Type	Total Nexus Cost (per Sq. Ft.)
Office	$72.41
Hotel	$66.88
Retail	$96.28
Research & Development	$33.78
Manufacturing/Industrial	$33.78
Warehouse/Storage	$11.91

The total nexus cost represents the maximum fee levels that are supported by the study. The proposed fees, as recommended by the study, are at levels below the maximum amount. The Updated Study recommends the Housing Offsets be set at 1.5% of total development costs with an automatic annual adjustment based on the BCI of the Cost Indices of Twenty Cities. KMA's evaluation assumes a fee increase of this level could be absorbed without a significant impact on development decisions.

The following table provides a comparison of the original, current, and new fees. Additionally, an illustration of the projected impacts of adjusting the Housing Offsets as recommended, for a 100,000 square foot facility, is shown in the following table.

Comparison of Original Fee, Current Fee, and New Fee Proposal					
Faciltiy Type	Original Adopted Fee (1990)	Current Fee (Reduced in 1996)	Recommended New Fee (Updated Study)	Increase of Recommended New Fee compared to Current Fee	Percentage increase of New Fee compared to Current Fee
Office	$2.12	$1.06	$5.32	$4.26	402%
Hotel	$1.28	$0.64	$4.73	$4.09	639%
Retail	$1.28	$0.64	$4.96	$4.32	675%
Research & Development	$1.60	$0.80	$4.14	$3.34	418%
Manufacturing/Industrial	$1.28	$0.64	$3.05	$2.41	377%
Warehouse/Storage	$0.54	$0.27	$2.28	$2.01	744%

Projected Impacts of New Housing Offset Fees for a 100,000 Square Foot Facility					
Faciltiy Type	Current Fee (Reduced in 1996)	Recommended New Fee (Updated Study)	Fee amounts based on Current Fee	Fee amounts based on New Fee	Difference in New Fee over Current Fee
Office	$1.06	$5.32	$106,000	$532,000	$426,000
Hotel	$0.64	$4.73	$64,000	$473,000	$409,000
Retail	$0.64	$4.96	$64,000	$496,000	$432,000
Research & Development	$0.80	$4.14	$80,000	$414,000	$334,000
Manufacturing/Industrial	$0.64	$3.05	$64,000	$305,000	$241,000
Warehouse/Storage	$0.27	$2.28	$27,000	$228,000	$201,000

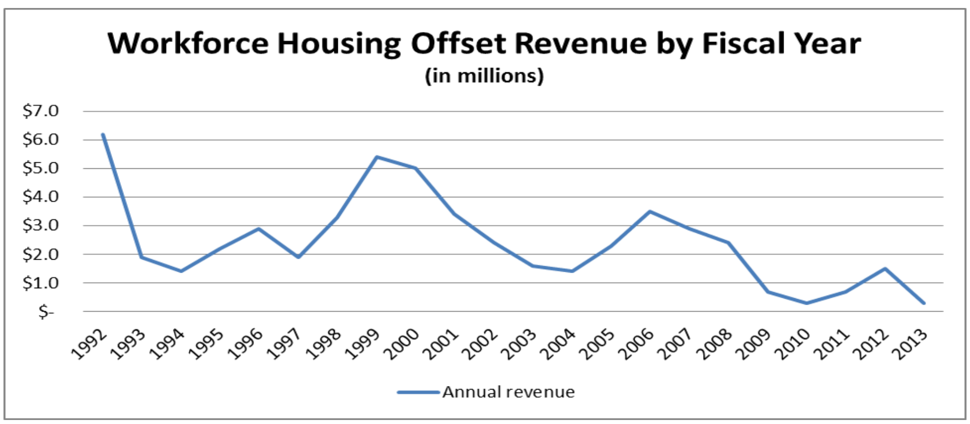
As a comparison, the Updated Study provides an example of what the fees would have been if annual indexing had occurred and the fee had not been reduced in 1996.

Faciltiy Type	Current Fee (Reduced 50% in 1996)	1990 with Annual Increases[1]	Recommended New Fee (Updated Study)
Office	$1.06	$4.19	$5.32
Hotel	$0.64	$2.53	$4.73
Retail	$0.64	$2.53	$4.96
Research & Development	$0.80	$3.16	$4.14
Manufacturing/Industrial	$0.64	$2.53	$3.05
Warehouse/Storage	$0.27	$1.07	$2.28

[1]Fee is the originally approved rates from 1990 indexed annually in accordance with the Municipal Code and no rate reduction in 1996.

REVENUE GENERATED FROM THE HOUSING OFFSETS

Since 1992, based upon information from the Updated Study, the Housing Offsets have generated average annual revenue of approximately $2.4 million, for a total of $53.3 million. The revenues generated from the Housing Offsets are the primary funding source of leveraging Federal and State funds. The SDHC has been able to develop 3,889 units of affordable housing over the 22 year period. The table below illustrates the revenue that has been generated from the Housing Offsets on an annual basis.



Per SDHC staff, the recommended Housing Offset adjustments are projected to generate an additional $8 - $10 million annually. The incremental increase in revenue is anticipated to be able to provide an additional 80 to 100 affordable housing units annually, based upon an estimated $100,000 subsidy per unit. The SDHC staff has indicated they have a list of potential projects that will be pursued should additional funding become available.

SUPPORT AND OPPOSITION RELATED TO HOUSING OFFSETS

Based upon our research and discussions with SDHC staff and industry stakeholders, there is an ongoing debate regarding the appropriateness of Housing Offsets as a major funding source for affordable housing. Supporters of housing impact fees cite a reasonable link between new non-residential development and the need for additional affordable housing. Those in opposition find the connection between new development and the additional need for affordable housing (as presented in the Updated Study) to be dubious, and support a broader based funding mechanism. The following issues have been raised in support and opposition of the Housing Offsets.

Support

- The Housing Offset provides an appropriate revenue source for providing additional infrastructure that are necessitated by new development. The calculated marginal costs of the additional housing needs are applied directly to those driving the new demand.
- The enactment of the Housing Offset provides a revenue source without a general tax increase and provides flexibility for how it is used by the agency.
- Land value appreciation or rent increases are believed to be sufficient to recoup the additional costs related to the Housing Offsets. Amortizing the Housing Offsets over the financing term of a development project results in minimal monthly rent increases per square foot.
- The fees may not serve as a disincentive for growth as developers can base their decision to build upon the demand of the market for new commercial space. In the Commercial Development Linkage Fee Analysis (nexus study) conducted by David Paul Rosen & Associates for the City of Oakland in 2001, the Developers indicated that the linkage fees had no discernible impact on development as the fee levels were relatively small as a percentage of development costs, and developer’s decisions to build or not to build is based on the strength of market demand.
- Housing impact fee programs exist throughout California and have been successful in providing funding for affordable housing programs.

Opposition

- An increase in Housing Offsets may cause developers to opt to postpone further development or expansion or consider alternate locations within the region that do not impose housing impact fees. No other municipality in the San Diego region has a similar fee. A delay in development could impede the growth in the local economy.
- The strength of the study and the resulting total nexus cost is questionable due to debatable assumptions made within the study, such as the costs to construct affordable housing, the amount of revenue generated from rents or appropriate adjustments to capture the effects of unemployment.
- There is debate that the economy has recovered to a point to consider an action that could impede growth or expansion. The Housing Offsets were reduced in 1996 due to concerns of a slowed economy, and certain economic indicators, such as the unemployment figure, have yet to recover to the 1996 levels.

- The Updated Study does not take into consideration the use of additional/alternative funding sources or the SDHC's practice of attempting to leverage funding to increase the total amount of funding available for affordable housing.
- The Updated Study projects the additional costs related to the Housing Offset could be mitigated by the developer by potentially lowering land costs. Opponents contend that no analysis has been conducted on the possible impacts of reduced land costs to the City.
- A comprehensive plan with broad-based, sustainable funding sources and regulatory changes should be considered and an increase to the Housing Offset should not be solely relied upon.

HOUSING IMPACT FEE PROGRAMS OF OTHER CITIES

The Updated Study provided a snapshot of other California jurisdictions and their respective housing impact fee programs (pages 66 – 68). It includes 27 California jurisdictions and provides additional information related to the fees such as exemptions from the fees and thresholds triggering the imposed fee. Attachment 1 provides an excerpt from this information, focusing on the jurisdictions with larger populations.

As illustrated in Attachment 1, many of the jurisdictions have a higher average fee than San Diego's current fee, with the exception of the County of Sacramento (which is similar to San Diego). Additionally, many of the jurisdictions have exemptions for square footage thresholds and certain types of development, such as non-profit organizations. The comprehensive list in the Updated Study further illustrates this trend.

IDENTIFYING OTHER FUNDING AND POLICY OPTIONS

Other SDHC Affordable Housing Funding Sources

Currently, the SDHC utilizes multiple funding sources to address affordable housing needs including the Housing Offsets, Inclusionary Affordable Housing Fees, and loan repayments and earned interest from Community Development Block Grant (CDBG), and Former Redevelopment Agency loans. Additionally, the SDHC and Civic San Diego have been working to leverage existing available funding sources and identify potential other options. Some of these options are illustrated in Attachment 2 to this report.

2011 Affordable Housing Task Force Recommendations

On November 16, 2011, the SDHC presented the Affordable Housing Task Force's final recommendations for additional revenue sources to the LU&H Committee. As outlined in San Diego Housing Commission Land Use and Housing Report 11-010, the recommendations included alternative funding sources such as, but not limited to the following:

Infrastructure Bond - Issuing a broad infrastructure bond which includes an affordable housing component may be desirable considering the City's infrastructure needs. General Obligation (GO) bonds are backed by the full faith and credit of the issuing municipality, including the ability to raise taxes to make debt financing payments. GO bonds require two-thirds voter approval and are typically the least expensive type of debt available to municipalities. Other cities have been successful at utilizing this funding vehicle for affordable housing.

Increase of the Real Estate Transfer Tax –. The County of San Diego collects $1.10 per $1,000 of the sale price when any real property is sold. The City is credited $0.55 per $1,000 against the County's charge, giving both the County and City each $0.55 per $1,000 of the sale price. The funds are collected by the County upon a sale of real property within City limits and transferred to the City on a monthly basis. For FY 2014, it is projected that the City's General Fund will receive $7 million from this fee. This funding source trends with the housing market conditions.

Reallocation of TOT Funding - Reallocation of one percent (1%) of TOT revenue, similar to what was previously allocated when the Housing Fund Ordinance was originally adopted. The City Council voted to suspend dedication of TOT revenues to the Housing Fund in 1993. A return to the original funding allocation of 1% of the TOT funding would result in approximately $1.5 million being directed to the Housing Fund or approximately $860,000 if one percent (1%) of only the General Fund's portion of the TOT is allocated. The reallocation of TOT funding would reduce funding of programs currently receiving TOT funds, such as the Park and Recreation Department.

Policy Updates – Review and updates to the administrative approval process for new development could be considered. The development of an Affordable Housing Overlay Zone or a Master Environmental Impact Report may contribute to incentivizing the undertaking of affordable housing projects. Creating "by-right" zoning would reduce barriers to development and potential reduce development timelines. Consultation and collaboration with other City departments such as the Planning Department would be necessary.

<u>State Legislation</u>
The City should continue to support State legislation that could provide cities with new local funding opportunities. An example of legislation which could support affordable housing funding is Senate Bill 1 (Steinberg) – Sustainable Communities Investment Authorities Act which could potentially provide tax increment financing for mixed-use transit-oriented development where affordable housing could be a significant component. Additionally, proposed State legislation to reduce the required percentage of voter approval for GO bonds from two-thirds (66%) to fifty-one (51%) percent would benefit the City. Currently the two-third voter approval requirement presents a significant challenge to issuing GO bonds.

<u>Alternative Affordable Housing Funding Strategies in Select Cities</u>
The following comparable cities/jurisdictions have taken alternative approaches to dedicate funding sources for affordable housing.

San Francisco, CA - Dedicating Property Tax Revenue - With the dissolution of redevelopment agencies in February 2012, cities and other local taxing entities are receiving tax increment in the form of additional property tax revenue into their General Fund. San Francisco is an example of where the dedication of these funds was formalized. In November 2012 San Francisco voters approved Proposition C to create a new Affordable Housing Trust Fund which provides up to $51 million annually over 30 years and is largely funded with additional property tax revenue received per redevelopment dissolution.[1] Formalizing this provides a permanent source of funding for affordable housing.

Bay Area Cities in California - Public Private Partnerships – Several cities have developed public private partnership funds to finance affordable housing and other services. For example, the Bay Area Transit Oriented Housing Fund is a $50 million public-private financing resource that provides up-front funding for the development of affordable housing and other community services near transit lines throughout the nine-county San Francisco Bay area. Through the fund, which was started with $10 million in seed capital from the Metropolitan Transportation Commission, experienced non-profit and for profit developers, municipal agencies, and joint ventures of these entities can access flexible, affordable capital to purchase and/or improve available property near transit lines.

Austin, TX - GO Bonds – Sixty-three percent (63%) of Austin, TX voters approved a $50 million GO bond to fund affordable housing in 2006 and will be voting in November 2013 on an additional $65 million GO Bond issuance for affordable rental and ownership housing and preservation of existing affordable housing.

Phoenix, AZ – Since 1984, Phoenix, AZ voters have approved a total of $179 million of GO bonds in four separate special elections (1984, 1988, 2001, and 2006) to fund affordable housing, shelters for low income and homeless, service facilities for the poor and elderly, and renovation of public housing units.

ITEMS FOR COUNCIL CONSIDERATION

<u>Alternative Housing Offset Fee Structures and Features</u>

In our review of information related to housing impact fees in other jurisdictions, several alternative fee structures were noted. The City Council may want to consider one or more of these features for San Diego's Housing Offsets program.

Exempt Certain Types of Development –The qualifying characteristics for the exemptions (if allowed) vary per program and include but are not limited to: the type of facility; the size of the facility; and/or the type of business to be conducted within the facility. Currently, the City provides exemptions for identified Enterprise Zones and developments undertaken for any general governmental purpose. The Council may want to consider exempting industrial and manufacturing projects in order to support the City's economic development goals of attracting and retaining middle-income manufacturing jobs.

[1] The Trust Fund is also funded by an increase in business license fees and a portion of the hotel tax.

Delay Implementation – SDHC has proposed the effective date of the adjustments to the Housing Offsets to be upon the final approval of the proposed adjustments. Setting a specific effective date six months to one year in the future would allow for information related to the fee adjustments to fully reach the markets and allow the competitive markets to adjust accordingly.

Phase Implementation – A phased implementation, similar to the July 2011 proposal, would provide a certain but gradual fee increase schedule. This would mitigate the immediate impact of the increases and allow the incorporation of the fee adjustments in future cost estimates and project evaluations.

Deferred Payment – The current process for paying the Housing Offset is when building a permit is issued. Delaying the payment of the Housing Offset to later time (i.e. certificate of occupancy) would allow the development to generate project revenue, softening the impact of the fee increases.

CONCLUSION AND RECOMMENDATIONS

San Diego was cited as the second least affordable housing market in the country in a survey released October 23, 2013 by a banking information website, Interest.com. Identifying funding sources for this critical need has been a challenge across the country including for the City of San Diego. Addressing affordable housing needs will require a multi-faceted mix of Federal, State, and local funding sources as well as private/public partnerships . The City's linkage fee, in place since 1990, is an important resource in that mix. However, in 1996, due to the political climate and a weaker economy, these fees were cut in half where they have remained for the past 17 years. Furthermore, the fees have not been adjusted annually to reflect market growth as required by the Municipal Code. Years of opportunity for generating additional revenue for affordable housing, through systematic inflationary increases to the existing fee, have been lost.

The City erred in not adhering to its municipal code requirement to update the fees incrementally; and further chose to make drastic reductions to a fee in place for six years. The SDHC proposed fee adjustments before the City Council attempt to "make up" for this loss. The SDHC proposed fee adjustments, which range from 377% to 744% depending on type of facility, are excessive. These fee increases are justified by some by comparing the new fees with what "would have been" had the fee not been reduced and had it been adjusted annually as required. However, that rationale does not acknowledge the reality of the impact of the significant fee increases on the cost of building commercial projects in this city and the potential for losing these projects to surrounding cities, where no linkage fees exist.

As noted above, the linkage fees are an important source of funding for addressing, in part, the City's affordable housing needs. These fees are long overdue for an update which should occur now but increases should be within reason. Going forward the City should be diligent about adhering to the municipal code which requires annual updates. Additionally, consideration could be given to changes in the fee structure, consistent with other cities, relative to exemptions and/or deferred payment of fees. To accomplish this Council may want to consider the following:

1. **Enact a more modest fee adjustment, in line with the 2011 SDHC proposal**. The chart below shows what the adjusted fees would be for FY 2015 through FY 2018 had the Housing Commission's 2011 proposal been enacted at that time. Implementation of the 2011 proposal would increase fees by 40% in FY 2015 over current fees, compared to 377% to 744% increases (depending upon facility) proposed by SDHC . Using the 2011 model, fees would increase in FY 2015 by 40%, then would increase by 20% annually (over the base fee) for FY 2016 through FY 2018. By FY 2018, fees would be returned to the original fees enacted in 1990. Beginning in FY 2019, consistent with the new SDHC proposal, fees would be adjusted annually and administratively by the Building Cost Index.

Adjusted Fee Increases Based on Schedule for July 2011 Proposed Fee Adjustments[1]

Faciltiy Type	Current Fee	FY15	FY16	FY17	FY18
Office	$1.06	$1.49	$1.70	$1.91	$2.12
Hotel	$0.64	$0.89	$1.02	$1.15	$1.28
Retail	$0.64	$0.89	$1.02	$1.15	$1.28
Research & Development	$0.80	$1.12	$1.28	$1.44	$1.60
Manufacturing/Industrial	$0.64	$0.89	$1.02	$1.15	$1.28
Warehouse/Storage	$0.27	$0.38	$0.43	$0.49	$0.54

[1]Fee to be adjusted annually thereafter by the selected index.

Implementing the fee increases effective July 1, 2014 (FY2015) rather than immediately would give the industry seven months advance notice for the initial increases and would then phase remaining increases in over four years. It is roughly estimated that this alternative would result in new revenue of $17 million from FY 2015 to FY 2018, while the SDHC proposal would generate an estimated $40 million over the same time period. With either scenario, it is imperative that alternative funding sources be identified to augment the housing offset revenue, such as dedicating a portion of a voter-approved GO infrastructure bond to affordable housing as several other cities have done.

The IBA supported the Housing Commission's 2011 proposal to restore Housing Impact Fees to levels originally adopted in 1990.

2. **Consider exempting industrial and manufacturing facilities**
Increasing housing offset fees furthers the policy objective of providing needed affordable housing, but it also hinders the important economic development

objective of attracting and retaining middle-income manufacturing jobs. Unlike commercial developments built to accommodate retail and professional office uses, industrial developments such as those for manufacturing and distribution, are base sector uses which need not be located in San Diego. In fact, the City struggles to attract and retain these land uses, due to the high costs of doing business in coastal California. While commercial development has the ability to pass costs along to consumers of their goods and services, industrial users typically do not because project location decisions are largely based on the costs of doing business which often cannot be directly passed on to consumers.

Unlike low-wage hotel/retail jobs and high-wage high-tech jobs, manufacturing and distributing jobs are middle-income "blue collar" jobs which are the very jobs the City is struggling to replace. In order to support the City's economic development goal of attracting and retaining middle-income manufacturing jobs, the IBA recommends the City Council consider exempting manufacturing and warehouse distribution projects from the housing offset fee. As the number of these projects tends to be relatively small, we believe the impact on total housing offset fee revenue will be negligible.

3. **Consider the deferral of fee payments**
   The current process calls for payment of the Housing Offset when a building permit is issued. The Council may wish to consider deferring payment of the Housing Offset until a later date (e.g., when the Certificate of Occupancy is issued) rather than when a building permit is issued. Deferments of Facilities Benefits Assessments (FBAs) and Developer Impact Fees (DIFs) are currently available at the request of the developer and subject to approval. By deferring the collection of a fee until developers are better able to generate project revenues (from rents or sale), the impact of the increased fee is softened and the fee is still collected at a later date. A fee deferral may require a municipal code amendment.

4. **Request additional information from SDHC on the use of new fee revenue**
   The Council may wish to request additional information on how SDHC staff expect to use new Housing Offset Fee revenue to subsidize/incentivize more affordable housing. Will more projects get done and/or will larger percentage of cost subsidies be offered? What is the difference in terms of realizing additional affordable housing units? Under what circumstances are project subsidies paid back to SDHC to be reinvested in new projects (i.e., residual receipts loans)?

Chris Ojeda
Fiscal & Policy Analyst

Erin Noel
Fiscal & Policy Analyst

Nicole Nelson
Research Analyst

APPROVED: Andrea Tevlin
Independent Budget Analyst

Attachments: 1. Housing Impact Fees in Other California Jurisdictions
2. Other Funding Sources for Affordable Housing