July 8, 2019

Council President Georgette Gómez
San Diego City Council
City Administration Building
202 "C" Street, 10th Floor
San Diego, CA 92101

RE: Support for Proposed Amendments to the City of San Diego’s Inclusionary Regulations

Council President Georgette Gómez,

On behalf of Circulate San Diego, whose mission is to create excellent mobility choices and vibrant, healthy neighborhoods, I am writing in support of the proposed amendments to the City of San Diego’s Inclusionary Affordable Housing Regulations.

As noted in our 2018 letter,¹ Circulate believes that housing policy should promote the construction of both market rate and deed-restricted affordable homes, in a manner that one does not unreasonably burden the other. Housing policy can achieve the win-win-win goals of affordability, economic development, and addressing climate change.² Council President Gómez’s proposal strikes the appropriate balance to help advance all of these purposes.

The inclusionary proposal and the City of San Diego’s existing enhanced affordable bonus program will work hand-in-hand to encourage the construction of affordable homes. The housing bonus will become more appealing for developers who can receive incentives and density bonuses for building the affordable homes on-site instead of paying the increased in-lieu fee. The housing bonus incentives will increase the likelihood that developers will choose to build on-site instead of paying the in-lieu fee.

The proposal also provides a clear method for updating the in-lieu fee. Updating the fee annually based on a construction costs index is more transparent and straightforward than the current process, which requires a complex formula, advice from consultants, and discretionary action from the Housing Commission. The proposal aligns with our 2018 letter’s recommendation.

Circulate supports the proposed amendments understanding that, were it to stand-alone, it may result in a cooling on production levels and an increase in market rate rents. We are encouraged to see the proposal’s staff report express the need to coordinate and offset the added cost resulting from the proposed inclusionary regulations.

The City of San Diego should continue efforts to reduce the cost of development, and to offset any added costs that may result from the inclusionary update, including through incorporating the following recommendations into the inclusionary update:

- Allow developers to combine building on-site affordable units and paying the in-lieu fee for any remaining affordable requirement, consistent with the City’s enhanced density bonus program. If this recommendation is not adopted, the result will be more developments satisfying the entirety of their affordable obligation with only a fee.

- Defer to the San Diego Housing Federation and their recommendation that the in-lieu fee be raised to between $18 and $22. As developers of affordable homes, they are best able to gauge what fee will strike the best balance between producing on-site inclusionary units and leveraging tax credits to produce more units overall.

- Only allow off-site construction of affordable units under the same terms for off-site that are allowed by the current enhanced density bonus program. This would limit off-site units to be located in the same community planning area and City Council District, or within one mile of the premises of the development.

- Restrict revenue from the in-lieu fee to capital spending including construction, acquisition, and rehabilitation of affordable homes to achieve the equity and economic inclusion goals of inclusionary policies. Fees should be precluded from being used for temporary housing programs.

- The Council should appropriate funds and require that an annual report to the City Council be created to detail the performance of the various inclusionary policies. The report should include information by community planning area on the annual in-lieu fees collected and spent, on-site and off-site units produced, and what numbers and types of projects use the enhanced density bonus, or other bonus programs adopted now or in the future.

Beyond the inclusionary update, the City of San Diego should work towards holistic solutions to the housing crisis by taking the below steps:
• Form a task force to develop reforms to Community Planning Groups.

• Adopt a retooled moderate income bonus program.

• Recalculate development impact fees on a per-square foot basis, instead of per-dwelling unit.

Circulate San Diego is committed to making our region a more affordable place to live, work, and play. We believe that more market-rate and affordable homes, especially near transit, will help achieve these goals. Chair Gómez’s proposed amendments to the inclusionary regulations are a meaningful step towards achieving the shared goal of housing affordability in San Diego.

Sincerely,

Colin Parent
Executive Director and General Counsel

Cc: Mayor Kevin Faulconer