



January 25, 2017

Councilmember Sherman
City Administration Building
202 C Street, 11th Floor
San Diego, CA 92101

RE: Recommendations for Win-Win-Win Approaches to Housing Affordability in the City of San Diego

Dear Councilmember Sherman:

On behalf of Circulate San Diego, whose mission it is to create excellent mobility choices and vibrant, healthy neighborhoods, I am writing to provide recommendations for a framework on how to craft improvements to housing policy in the City of San Diego.

San Diego is a purple city. Progressive and conservative stakeholders have influence in public policymaking. Substantial policy changes at the City require a diverse ideological coalition to be enacted.

Fortunately, an ideologically diverse consensus has formed to support more housing affordability in the San Diego region. The consensus generally supports new homes, especially near transit, to advance the three general goals of economic development, affordability, and environmental sustainability.

As San Diego seeks to improve housing affordability, public policy reforms should be crafted to advance each of these three goals in tandem, without undermining one to promote another. Such a win-win-win approach will ensure that meaningful public policy changes will have the broad support necessary to be adopted.

Public policy can promote more housing affordability through a win-win-win approach by meeting three criteria:

- Criteria 1: New land use reforms should be made city-wide, not in limited geographic areas.
- Criteria 2: New subsidies for deed-restricted affordable homes should not add more costs to market rate development.
- Criteria 3: New incentives for market rate development should not undermine existing policies to promote affordability.

As the City of San Diego begins to develop reforms to make the region more affordable, we recommend that policy be crafted to meet these three criteria. Circulate San Diego's recent report *Transit Oriented*

Development (“TOD Report”)¹ demonstrates how this can be accomplished, by identifying a variety of actionable policy tools the City of San Diego can adopt that follow this win-win-win approach.

Criteria 1: New land use reforms should be made city-wide, not in limited geographic areas.

San Diego’s policy to continue updating community plans should continue, but that should not be the entire focus of San Diego’s efforts to construct new and more affordable homes. Climate change, housing affordability, and economic vibrancy are all city-wide concerns. City-wide challenges merit city-wide policy solutions.

Unlike community plan updates, a city-wide approach does not single out individual neighborhoods, which tends to attract and organize opposition that favors the unaffordable status quo. City-wide policy tends to mobilize the participation of influential pro-housing forces like advocacy non-profits, economic development groups, and the development industry. These groups often do not have the bandwidth or incentives to meaningfully advocate around every community plan update, but they are able to effectively engage on city-wide policy proposals.

The best recent example of a city-wide policy for new homes is the Affordable Homes Bonus Program adopted by the City of San Diego in 2016.² That policy effectively added development capacity across the City, especially near transit. The program makes it easier to build market-rate homes, affordable homes, and helps concentrate them near transit. That helps to achieve a win-win-win outcome for economic development, affordability, and environmental sustainability.

Circulate’s TOD Report identifies a variety of other city-wide policies San Diego can adopt. They include reduced parking requirements near transit stations, and improvements to the Affordable Homes Bonus Program, among others.

Criteria 2: New subsidies for deed-restricted affordable homes should not add more costs to market rate development.

Public policy should not create new costs to market rate development in order to generate new funding to subsidize affordable homes. San Diego requires more construction of both deed-restricted homes for low income individuals, and new market rate homes to become more affordable across varying income levels.³

An example of a policy that does not meet this criteria: The City of San Diego could require new market rate developments to pay higher than current impact fees to subsidize deed-restricted low income

¹ Colin Parent, Transit Oriented Development, Circulate San Diego (January 9, 2017), available at <http://www.circulatesd.org/todreport>.

² See Circulate San Diego, Policy Letter: Coalition of Supporters for Affordable Homes Bonus Program (June 16, 2016), available at <http://www.circulatesd.org/affordablehomesbonus>.

³ Addressing the Housing Affordability Crisis in San Diego and Beyond, San Diego Housing Commission (November 25, 2015) available at http://www.sdhc.org/uploadedFiles/Media_Center/Significant_Documents_Reports/SDHC%20Housing%20Affordability%20Study%20Report.pdf.

homes. Such a policy would capture some of the value from new development and redistribute it for the creation of more subsidized homes. However, that same policy would also increase the costs and decrease the supply of new market rate homes, which is counter to the goal of providing more housing overall.

Again, the recently adopted Affordable Homes Bonus Program provides an example of a better way to generate subsidies for affordable homes. Like the hypothetical policy in the above paragraph, San Diego's Affordable Homes Bonus Program does contemplate market rate developments directly contributing to the development of subsidized homes. However, the exaction from market rate developers only occur in the Affordable Homes Bonus Program when developers receive sufficient entitlement enhancements to offset the costs of cross-subsidizing the affordable units.⁴

Circulate San Diego's TOD Report provides examples of similar programs to fund deed-restricted affordable homes, without adding costs to market rate homes. For example, our report suggests a program to sell additional floor area ratio rights to commercial developments. The proceeds from that program should be directed to San Diego's Housing Trust Fund. Such a program would involve market rate development voluntarily contributing to subsidized homes, but without adding to the cost of new market rate homes.

Criteria 3: New incentives for market rate development should not undermine existing policies to promote affordability.

Promoting the development of new market rate homes should be done in a manner that holds harmless the resources generated for deed-restricted affordable homes from existing programs in San Diego. Promoting the construction of more market rate home should not come at the cost of reducing resources for subsidized homes.

An example of a policy that does not meet this criteria: San Diego could reduce the current requirement for new residential development to pay a fee that contributes to deed-restricted affordable homes. Such a policy would likely boost the construction of market rate homes, or at least reduce their cost. However, that same policy would not be a win-win-win because it would fail to hold harmless the existing resources available to subsidize deed-restricted affordable homes.

The hypothetical policy in the above paragraph would be the wrong approach because it pits the need for more subsidized affordable homes against the need for more market rate homes. San Diego needs both, not one over the other.

Again, the Affordable Homes Bonus Program provides a useful example of a better win-win-win approach. The program expands the ability of developers to build more market rate units. However, the extra market rate units are only available when the developer commits to building all of the affordable units required by the prior program, and contributes additional affordable units beyond that. That policy

⁴ For a discussion of how added development capacity can effectively pay for subsidized inclusionary affordable homes, without adding to the burdens of market rate housing, read Alan Durning and Dan Bertolet, "Inclusionary Zoning: The Most Promising—or Counter-Productive—of All Housing Policies," Sightline Institute, November 29, 2016, available at <http://www.sightline.org/2016/11/29/inclusionary-zoning-the-most-promising-or-counter-productive-of-all-housing-policies>.

created a win-win-win outcome, where more market rate units are provided, but only when the prior affordable housing contribution is satisfied and expanded upon.

Circulate San Diego's TOD Report provides examples of policy changes that would benefit market rate home construction, without undermining existing policy that promotes deed-restricted affordable homes. For example, our report suggests reducing parking requirements for developments near transit. However, we also recommend that the residential parking reductions should not be as generous as the reductions already provided by the Affordable Homes Bonus Program. That way, developers would still have an incentive to dedicate affordable units if they wanted to receive the maximum parking benefits.

Conclusion:

Circulate San Diego is a strong supporter of making San Diego more affordable. Like many regions in California, San Diego's affordability challenges require more of both market rate and subsidized affordable homes. Locating more homes near transit will also help reduce greenhouse gas emissions, by allowing people to get around more easily without using a car.

San Diego can pursue a set of policy reforms that benefit both affordable and market rate home construction, while simultaneously benefitting the environment and reducing greenhouse gas emissions. These goals are not mutually exclusive, and public policy should be designed to advance them simultaneously through win-win-win arrangements. Our recent TOD Report identifies a variety of options for the City to consider, and we look forward to helping the City of San Diego as it peruses a more affordable future.

Sincerely,



Colin Parent
Policy Counsel, Circulate San Diego
Phone: (858) 442-7374
Email: cparent@circulatesd.org

cc:

Mayor Kevin Faulconer
Members of the City Council of San Diego
Mike Hansen
Jack Straw
David Graham
Jeff Murphy