

Asian Business Association of San Diego
San Diego Regional Chamber of Commerce
San Diego County Building Industry Association
Southern California Rental Housing Association
Downtown San Diego Partnership
BOMA San Diego
NAIOP San Diego

July 16, 2019

Honorable Georgette Gomez &
Members of the San Diego City Council
City of San Diego
202 C Street, 10th Floor
San Diego, CA 92101

RE: Proposed Inclusionary Housing Policy Updates

Dear Council President Gomez & Members of the San Diego City Council:

On behalf of the undersigned members of the coalition, we would like to address the upcoming City Council hearing to discuss the proposed revisions to the City's inclusionary housing ordinance. Our coalition cannot support the current proposal without some modifications.

Our coalition comprises thousands of member companies, representing hundreds of thousands of employees throughout the San Diego region. Our coalition, and our members have been very concerned about the economic environment in San Diego, including the cost of living impacts due to the high price of housing. While this is a shared perspective amongst many involved in the inclusionary housing discussion, the means to address the housing affordability situation differ.

The coalition members firmly believe the housing affordability issues in this market, and in California in general, are the result of a number of reasons, not the least of which is the lack of supply compared to demand. As you know, nothing short of dramatically increasing the ability to provide supply, at all income levels, while reducing, to the extent local government can, the cost and time to deliver housing will help.

These comments, including the recommendations below, have been consistent from the very first conversations when this process to review the City's inclusionary housing rules started a year ago. While they are now more specific, reflecting the ordinance's current form, we have been and remain concerned about the consequences of adding a significant new burden to housing production. Our Coalition is, in good faith, trying to find solutions to our housing issues, not just objections for ideology's sake.

That said, the coalition understands that this proposal is moving forward for consideration, and with the hope of preserving builders' ability to increase housing supply, we offer the following recommended amendments, that were unanimously agreed to by the City's Planning Commission, to the proposed ordinance.

1. VESTING - Include **vesting language** in the text of the ordinance for both **discretionary and ministerial permits** that follows the current state legal standard of protections following a "deemed complete" application. For discretionary projects, this would be for project applications that are deemed complete. This threshold is critical given the significant investment capital expended prior to this discussion and proposed change being known **and would be applicable to both the onsite construction requirement, as well as in lieu fee payment as compliance options.**
2. IN LIEU FEE - **Reduction in the in lieu fee to the San Diego Housing Federation proposed \$18.00 per square foot.** This still represents a nearly 80% increase from the current fee, and is still problematic from a project feasibility standpoint.
3. PHASING IN OF FEE - **A real three years of phase in, commencing July 1, 2020, versus the currently proposed period of less than two years.** This would not defer the significant increase already set for July 1, 2019. The current draft proposal's phase in period is really only 19 months, resulting in less than two years for the economic dust to settle and land values to absorb the impact. Three years is a bare minimum for the land development environment to adjust to these significant changes.
4. AMI AVERAGING - **Amend the AMI requirement to allow for an average of 10% @ 60% AMI rather than the proposed 10% @ 50% AMI. In addition, we propose that the program allow for units that may be** targeted to households earning up to 80% AMI and as low as 30% provided the average affordability of a single project does not exceed 60% AMI. This income averaging approach insures that both a deeper level of affordability and broader lever of affordability will be achieved, and is consistent with financing affordable rental projects utilizing 4% low-income housing tax credits in accordance with Section 42 of the Internal Revenue Code.
5. PERFORMANCE METRICS - Include performance metrics to measure housing production post adoption of the revised inclusionary housing policy and, should housing production significantly drop, the inclusionary housing policy revisions would be held in abeyance until such time that the housing market returns to pre-adoption production levels. The Council has previously discussed the concept of performance metrics, and has adopted, and, in fact, demanded them of City staff in relation to other policy discussions, including the expenditure of funds for homelessness issues. We believe the same standard should apply to this proposed change.

6. 80% AMI OPTION - Add the option that was in the draft policy considered by the City's Rules Committee for 15% inclusionary housing at 80% AMI. Options that allow for a greater number of units, provided at a higher AMI, but still one that is unmet in this market, should be allowed, as was in the original draft of the proposed ordinance.
7. BLENDING OPTIONS - Allow for a blending of compliance options that help tailor the needs by community for the requirements on each project. Each community in San Diego is unique, as are the needs and ability of a project to meet those needs. We believe additional flexibility in being allowed to blend compliance through onsite and offsite construction, as well as in lieu fee payment options will better improve project feasibility.
8. REGULATORY CERTAINTY - Create regulatory certainty whereby community plans and other zoning amendments will not impose a higher inclusionary housing requirement.

Thank you for your consideration of these amendments. We believe these are modest, particularly in comparison to the changes being proposed, and fair, given the economic environment surrounding land development and new home construction. We stand ready to discuss with you and will be prepared to address them at the hearing on this subject on July 30th.

Sincerely,

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CC: Honorable Mayor Kevin Faulconer
Honorable City Attorney Mara Elliott
Andrea Tevlin, Independent Budget Analyst