

Three-Pronged Approach to Finance and Build Additional Restricted Affordable Housing in San Diego

Housing affordability is critical to the future all San Diego residents and businesses. Building more housing supply (of all types) to meet demand is the best long-term solution to housing affordability.

A critical first step to building more supply is to reduce regulation and building costs.

An important second step to building more supply is to provide local broad-based sources of funding to help finance the construction of restricted affordable housing (for rent and for sale) to match the State's financial contributions.

It is being communicated that San Diego is at a disadvantage to other Cities in California because they don't have the same amount of local match as other Cities. **Instead of being at a disadvantage, San Diego should be the leader in providing local solutions with a three-pronged approach to support the construction of restricted affordable housing:**

1. **TOT Ballot Measure** - Continue to support the City of San Diego's first dedicated revenue stream for homelessness issues - the TOT Ballot Measure that earned the support of 65.24% of the voters in March 2020:
 - a. The BIA of San Diego and its members heavily supported the broad-based source of funding for affordable housing in the City of San Diego that would require tourists staying at SD hotels to pay the TOT tax, not San Diego residents and businesses.
 - b. This Measure potentially generates revenue exceeding \$150MM for homelessness over 10 years, and increases to appx \$900MM in total revenue for homeless programs over 40 years.
 - c. On June 30, 2020, the CA Court of Appeal ruled that only a simple majority is needed with a Citizen's Initiative – strengthening the case for this Measure to succeed. It will likely be another year before the CA Supreme Court weighs in.
2. **Modified Transfer Tax** - We should consider a modified transfer tax model as another broad-based source of funding.
 - a. This transfer tax (% to be determined) should be charged only at the point of a property sale, and should only be charged on the amount of property value increase a property owner received.
 - b. For example, if a single-family homeowner received \$200,000 in equity on their home, and they decide to sell, a small transfer tax should be charged, but only on the increased value [likely as determined by the assessed value as the base].
 - c. A property owner that doesn't transact, or whose property valuation doesn't increase wouldn't pay this transfer tax. It would only be charged on those that received an increase in their property value, and only at the time of sale.
3. **San Diego MF Property Tax Exemption Program** - An incentive-based structure to provide more affordable housing up front in new developments. The basic proposal would be for developers to provide 20% restricted affordable units (50% of those at an average of 60% AMI, and 50% at an average of 120% AMI) in exchange for 12 years of property tax abatement on the residential portion of the project. After 12 years, the units revert to market rate and the assessor receives full property tax value.
 - a. The City of Seattle has a Multifamily Property Tax Exemption Program (MFTE) that provides 12 years of property tax exemption in exchanges for 20% affordable units (65% - 90% AMI.) After 12 years, the City earns taxes on the full property value, and the owner can lease all units at market rate.
 - b. Many developers in Seattle currently use this program, and a former BIA Chairman, Mike Mahoney has used it, and is a strong advocate to use in in San Diego. Since 1998, 6,100 affordable units have been developed and 3,200 affordable units were in the pipeline as of April 2019. This totals 9,100 affordable units in the last 20 years.
 - c. To fully implement, it probably takes some modifications to the State tax structure, SD BIA could work with CBIA to lead efforts to get a program like this created.

A general property tax increase that requires 2/3 approval for success is unlikely to win in the best of times, and with our current economic uncertainty, is almost certainly destined not to succeed

With this three-pronged approach, we should work collaboratively with the affordable housing community to implement a stronger, more well-rounded, and varied approach to building more restricted affordable housing in San Diego.