



San Diego City Housing Impact “Linkage” Fee Summary

Position

The Chamber is not opposed to the fee level as is, but it is opposed to any increase in the Linkage Fee. The Chamber’s will not negotiate a compromise at this time. The Chamber urges the City Council to 1) seeks a broad-based, consistent funding source that could replace the Linkage Fee as long as the fee is a worse alternative to the current linkage fee, and 2) initiate a process that would eventually place Citywide Infrastructure Ballot Measure on a future ballot measure that also would include a provision for funding affordable housing projects.

Rationale

The Chamber believes the City Council should adopt incentives, remove onerous and decrease fees to stimulate the economic growth and job creation. The City Council should adopt a broad-based funding source that would replace or augment the existing linkage fee.

Summary

State law requires local agencies that want to propose a new impact fees on new development to perform a ‘nexus study.’ The study must identify the purpose and the use of the fee, and to demonstrate a reasonable relationship between the fee’s use and the development project on which the fee is imposed as well as demonstrate there is a reasonable relationship between the fee amount and the cost of mitigating the problem.

In 1989, the San Diego Housing Commission hired Keyser Marston Associates, Inc. (KMA) to perform a nexus study that would analyze the linkage between employment in various types of buildings and the number of households that meet the criteria for lower income categories and establish a fee on the buildings to raise revenues for San Diego’s Housing Trust Fund (HTF).

Agreeing with the KMA study, the City Council adopted a Housing Impact, or Linkage, fee on the new construction and expansion of non-residential development in 1992. Projects requiring interior remodeling or changing the structure’s use is subject to the Linkage Fee.

In 1996, the Land Use and Housing (LU&H) Committee and the City Manager recommended the linkage fee be reduced by half immediately, so fees are currently set at:

- \$1.06 per square foot for office and comparable uses
- 80 cents per square foot for research and development space
- 64 cents per square foot for hotels, retail and manufacturing
- 27 cents per square foot for warehouses

The City Council attempted several times to update and increase the fee several times since the fee was reduced. In 2005, the Chamber with the Housing Commission almost worked out compromise, but the LU&H Committee did not agree with the compromise and issue died until 2009.

2009 Update

In July 2009, the City Auditor’s Office issued a tow-part report stating the city was in violation of its municipal code. The Auditor recommended the City Council must update the Linkage Fee to avoid further violations. Land use & Housing (LU&H) Chairman Todd Gloria attempted to increase the fee without adequate vetting of the issue in October 2009. The

LU&H Committee decided to direct the San Diego Housing Commission to hire consultants to perform two studies examining the validity of the linkage fee and another study looking at best practices/alternatives that could replace or augment the linkage fee. Ultimately, KMA was hired to perform the nexus study again, and the Bay Area Economics (BAE) performed the best practices study.

The two studies were released in October 2010, Chairman Gloria attempted to docket the issue in the LU&H November meeting for City Council action before it adjourns for the holiday recess; his attempt was unsuccessful. Chairman Gloria hosted a workshop instead to give the public an opportunity to comment on both studies. LU&H asked the Housing Commission to continue with stakeholders to create recommendations for the updated ordinance and identify best practices/funding sources for the Housing Trust Fund. In December 2010, the Commission formed an advisory group to update the ordinance and identify best practices.

Since January 2011, advisory group have been developing a list of best practices/alternatives to the Linkage Fee, the list is expected to be completed in February 2011. The Commission was supposed to release its recommendations on March 23, but that postponed; the new release will be announced on February 24.

Rick Gentry, CEO & President of the San Diego Housing Commission, met with Chamber staff to discuss the Linkage fee issue. Mr. Gentry informed staff that he would recommend an annual automatic adjustment to the fee; he did not state his other recommendations. Mr. Rick Gentry believes he has the LU&H Committee and the City Council's votes to support his recommendations.

During this time, the Chamber and business organizations formed a Linkage Fee Coalition group. The group met as often as necessary to develop a strategy to defeat an increase. The coalition has been successful in getting businesses and organizations to join its cause. The coalition has been able to postpone the LU&H Committee from taking action on Linkage Fees. The committee will meet February 24, 2011 to discuss its strategy. Chamber staff presently is working on a policy brief packet with talking points, Op-Ed letters, policy papers, summaries for the strategy.

Add City Council's 2011 action: 4-4 Defeat of the proposed Linkage Fee Increase

2013 Update

At the Land Use and Housing hearing on May 22, the San Diego Housing Commission was giving a presentation of 2014 Annual Plan. During questioning by the Committee, the Committee asked about the linkage fee update. Rick Gentry, CEO of the Housing Commission, answered that the fee has not been updated but the Commission hired Keyser Marston to perform an updated Nexus Study on Linkage Fees and that the report should be ready by June or July. During the discussion, the committee

The Chamber