Menu of Potential Incentives

As indicated in the report, a wide variety of incentives are being pursued in order to encourage and promote affordable housing. This attachment will provide a menu of incentives and benefits available for use with an inclusionary program, including a description of the incentives and the feasibility of implementing the incentive. Incentives are considered to be any type of non-monetary or indirect benefits received by the developer.

While there are many incentives that can be used to offset the cost of meeting proposed inclusionary housing requirements, the feasibility and usefulness of incentives varies widely. A variety of factors could impact the use of the incentives, such as the difficulty of implementing the incentive, actual economic benefit of the incentive and usefulness when combined with other incentives. In many cases, it is difficult or impossible to quantify the direct benefit to the developer; however, where possible an estimation of financial benefit of using the incentive will be discussed.

Modified Comparability

Modified comparability allows for some modification of design for the inclusionary units. Each element of modified comparability could be used alone or in association with the other elements for the greatest benefit.

Utilizing the incentives set forth under modified comparability can provide an offset of from $1,000 to $20,000 or more per total unit on development costs depending on development type and level of affordability provided.

Reduced unit sizes

In catering to high-end residential demands, prevailing market development has provided unit sizes that are well above average. According to the Construction Industry Research Board, the average size of a home has increased from 1,500 square feet in the mid-1980s to over 2,000 square feet today. The assumptions for unit sizes in the Keyser Marston pro formas provide for one-bedroom units from 750-900 SF, two bedroom units from 950-1,600 SF and three-bedroom from 1,150-1,900 SF. The proposed incentive of modified comparability has provided a 15% reduction in unit sizes. However, in many cases further reductions could easily be made in unit sizes without compromising habitability.

Modified interior finishes

Many new developments have provided upgraded interior finishes (i.e. appliances, countertops, fixtures, etc.) that add substantial costs to the development. Modified comparability has allowed for a modification of interior unit finishes of up to $5/sf in rental units and $10/sf in for-sale units.

Parking Reduction

A consultant to the San Diego Housing Commission and the Planning Department is currently completing a study analyzing parking demands in various scenarios. One area of focus for the study is the connection between affordable housing and reduced parking demand. In the event that the results of the study demonstrate that existing parking ratios are higher than demand dictates, potential modest parking reductions for housing units affordable to low and very-low families could be considered. However, this will require a concurrent process in order to amend the current parking regulations. This would include full community planning group participation, as well as, Planning Commission and City Council public hearings.

<u>*Project Entitlement*</u>

A package of incentives designed to assist and expedite the entitlement process for residential projects that include affordable housing is being considered concurrently to inclusionary housing under the title "Affordable/In-fill Housing Expedite Program". The incentives would act to reduce project-processing times in the development review process for both discretionary and ministerial projects and increase accountability of all parties. The incentives would include dedication of staff and the establishment of a timeline for processing with accountability. Incentives found under this separate action are not specific to affordable housing in conjunction with inclusionary housing.

It is expected that the utilization of the incentives related to project entitlement would result in substantial timesavings in permitting time. The timesavings would translate into direct financial savings through reduced holding costs in interest on land and property taxes. Attachment 5 demonstrates the interest and property tax savings for a decreased processing timeline based on analysis done for the Balanced Communities Housing Program proposal. The estimated cost savings ranges from $280 to $4,400 per unit.

<u>*Other Incentives*</u>

Density Bonus

Density bonuses are a frequently used incentive to encourage the provision of affordable housing. In California, the most commonly used density bonus associated with inclusionary housing programs is based on the State Density Bonus program. Feedback from the Inclusionary Housing Working Group included two major concerns with using the density bonus. The first is the expense of moving between construction types when the addition of bonus units are unable to be accommodated under the original construction type. As densities increase, the cost of construction could increase if the addition of units requires that higher grade of construction materials and increased safety and fire code requirements under the building code.

The second concern is that developers have been reluctant to take advantage of even the maximize allowable density due to community opposition. Currently, Assembly Bill 1866 is seeking to address this condition, as it is a concern that is being expressed statewide. AB 1866 would amend the Government Code, requiring that only ministerial procedures be used when approving a density bonus or companion unit for applications that meet the requirements of the ordinance and do not require any other additional discretionary review. AB 1866 would also expand the density bonus law to include some benefit when housing is provided that is affordable for purchase at up to 120% of AMI.

The program requirements outlined in this report and Attachment 1 do not meet the thresholds for using the State-mandated density bonus. However, a developer could choose to exceed the basic requirements of the program in order to benefit from the State density bonus program. In order to be eligible for the bonus, a developer would be required to provide either 10% of a project's units at 50% AMI or 20% of the units at 60% AMI. As a result, the developer could utilize up to a

25% density bonus. This has the greatest potential utility where developers anticipate using financing programs that produce housing at similarly deeper affordability levels.

The resulting benefit to developers can be demonstrated in the value of "free land". That is, the unanticipated gain in utilization of land. This benefit is shown in Attachment 6 based on analysis completed for the Balanced Communities Housing Program proposal. The potential benefit could range from $7,500 to $15,000 per unit.

FAR Bonus

Some developments may benefit from adjustments to the building envelope. The use of increased Floor Area Ratios may allow further utilization of the density bonus under some circumstances or alternatively add value to market rate units. Terms of the Floor Area Ratio bonus have not been defined.

Water and Sewer Fee Reductions

Water and sewer fee reductions are currently authorized in redevelopment areas. Residential projects in Redevelopment Areas that are privately funded (i.e., are not subject to a Disposition and Development Agreement with the Redevelopment Agency) and which meet affordability requirements of Redevelopment Law are eligible for the water and sewer fee reductions. Under the policy, combined water and sewer fees have been reduced in the amount of $2,000 per dwelling unit for the entire project.

Similar provisions could be developed citywide for residential development with affordable units. However, one must bear in mind that any reduction to water and sewer fees would come at a cost to the Metropolitan Wastewater and Water Departments. Recently proposed or adopted rate increases are needed to support planned capacity needs. A reduction in revenues to these departments would necessitate increases to user rates on an accelerated schedule.

In the event that the policy was amended to allow for reductions on the affordable units only as proposed in this report, the maximum impact to the Metropolitan Wastewater and Water Departments would be approximately $1,200,000 annually. This assumes current production levels of 6,000 housing units per year. Actual impact is assumed to be less due to the fact that some developers will choose to pay a fee in lieu of providing housing. Fee reductions would not be available to these developers. This impact could be further limited by only allowing reductions for developers providing inclusionary housing within the original development site.

DIF and FBA Fee Deferrals

Fee deferrals for Development Impact Fees and Facility Benefit Assessments are currently authorized. However, the policy could be revised to make it more beneficial by revising income level restrictions and/or changing the provisions for performance guarantees. The benefit for paying fees at Certificate of Occupancy instead of Building Permitting stage is shown in Attachment 7. The analysis is based on prototypes established for the Balanced Communities Housing Program proposal. Cost savings could range from $480 to $1,500 per unit.

ATTACHMENT 3

Project-Based Section 8

Project-based Section 8 is a Federal program that ties Section 8 rental assistance directly to a specific unit or project. The program can subsidize up to 25% of a project's units for a period of up to a 10 years. The program pays competitive market-rate rents, comparable to neighborhood units, within HUD's Fair Market Rent limitations. Currently, the Housing Commission can assign up to 1,800 of Section 8 vouchers to the project-based program. The number of available Project-Based vouchers will fluctuate as it relates to 20% of all Section 8 vouchers allocated to the city annually.

Other potential incentives include site assembly, land write down and marketing and screening assistance.