Menu of Potential Revenue Sources

As discussed in the report, a comprehensive housing strategy depends on sufficient public funds to help finance expanded housing opportunities. In addition, there may be desire to provide some subsidy to developers that exceed the basic requirements of the program by providing additional inclusionary units or units at a deeper affordability. This attachment will provide a menu of potential revenue sources available to augment the Housing Trust Fund, including a description of the source and the feasibility of adopting it as revenue for housing programs.

State and Federal Programs

State and Federal governments offer many programs designed to assist developers who construct affordable housing. The State administers the Federal tax credits and tax-exempt bond financing programs, and provides some funding for deferred payment development or home purchase loans. Each program has defined criteria for allocation of funding. Most State and Federal programs give preference to projects providing housing at affordability levels of 50% AMI and below and Federal programs emphasize programs serving people with disabilities and transitional housing. Revenues from the both State and Federal levels are available competitively and are severely limited.

The Housing Commission also uses Federal HOME program funds to augment the City's Housing Trust Fund to make loans to developers of low rent housing and to homebuyers. Again, resources are not sufficient to address local housing needs.

Local Programs

A municipal Housing Trust Fund supported by local revenues demonstrates the City's commitment to affordable housing and maximizes flexibility in designing programs that respond to local needs. San Diego's Housing Trust Fund (HTF) is an integral part of creating new affordable housing units within the City. The primary revenue source for San Diego's HTF is a housing impact fee, sometimes called a linkage fee, on commercial and industrial development and conversion. The fee is based on a percent of the impact from new jobs produced by the development type on the local housing market.

Since the Fund's inception in 1991, the monies have been leveraged to produce over 5,500 affordable housing units and funding for an average of 376 transitional housing beds per year. It is estimated that for every $1 of investment from the Housing Trust Fund, another $8 in other funding has been attracted, although leverage varies among programs. Despite the great success of the Fund, the revenues are severely limited. FY 2001 new revenues were approximately $3.5M. Housing Trust Fund monies have been fully allocated to a variety of programs including, rental development, rehabilitation, first-time homebuyer, transitional housing and special purpose housing.

The July 2000 Housing Element Resolution of the City Council recommended reinstatement of original funding commitments to the Housing Trust Fund. This would include a portion of the transient occupancy tax and a larger linkage fee assessment to commercial developers.

In addition, other sources of new revenue could be explored. In the event that funding for the Housing Trust Fund was expanded, a number of revenue sources could be considered for the subsidy of an inclusionary housing program, as well as, for use with an overall affordable housing strategy.

While there are many types of local revenue that can potentially be used to support the provision of affordable housing, the feasibility of adopting new local revenue sources may be challenging. The type of revenue source will specifically dictate the requirements necessary to adopt it. A fee can be adopted without voter approval. However, there are legal requirements that a nexus be established between the activity being charged the fee and how the revenues collected will be used. Taxes are required to have either a two-thirds or majority vote of residents depending on whether they are collected for general or specific purposes.

The decision to raise new local revenues is a significant one, especially acknowledging the current demands for public expenditures in many areas. However, it should be noted that current fee and assessment levels are far lower than those levied by comparable cities.

Redevelopment Tax-Increment Low-Mod Housing Set-Aside Funds

State redevelopment law set forth under the California Community Redevelopment Law (Health and Safety Code 33000) requires that a minimum 20% of tax increment revenues be allocated for affordable housing. Developers meeting affordability requirements set forth under the Code could be eligible for loans or grants from redevelopment low-mod set-aside funds. Funding priority would be for developments located within one of the city's redevelopment project areas; however, state law allows Redevelopment Set-Aside funds to be used outside of a Redevelopment Project Area if a benefit to the Project Area can be demonstrated. Additionally, the amount of set-aside could be increased above the minimum 20% level. Low-mod funds for San Diego's 15 redevelopment project areas totaled $9,679,912 in FY2001. These are projected to increase to $10,466,000 for FY 2002 and $12,377,896 by FY 2008. The City Council sitting as the Redevelopment Agency allocates redevelopment low-mod funds for all redevelopment project areas.

Currently, a process to prioritize the use of redevelopment low-mod funds is being developed by the City's three redevelopment agencies and the Housing Commission. This item will be heard by the City Council under the title "Comprehensive Affordable Housing Strategy" (CMR 02-164).

Allocation of In-lieu fees

In the event that an inclusionary housing program is adopted that offers the option of an in-lieu fee, it is expected that some developers will opt to pay a fee in-lieu of developing units. Fees collected could be dedicated for use within the inclusionary housing program. The amount of in-lieu fees that will be collected will greatly depend on the type of inclusionary housing program that is adopted. A program that limits opportunities for the payment of a fee in-lieu of construction will naturally result in more construction by developers and collect fewer fees than a program that allows the payment of a fee in all cases. The treatment of the project-size threshold could also have an impact on the amount of fees collected.

Additionally, the degree to which the amount of the fee reflects the actual cost of producing the inclusionary unit is a very significant factor. Many cities have established in-lieu fees at levels far below the cost of actually producing the housing, thereby, limiting the productivity of the fees.

Under the program requirements outlined in this report and Attachment 1, it is expected that many developers will choose to pay a fee in lieu of providing affordable housing in the first and second years of the program.

Linkage Fees

Currently the only source of local funding dedicated to the Housing Trust Fund is the commercial development linkage fee. The original fee amount was established through a nexus study that demonstrated the need for housing based on job production from commercial development types. The fee was then set at an amount equal to 10% of that impact. Effective in 1997, San Diego's linkage fee was cut in half. Since that time the fee has not received the allowable annual adjustment that was originally written into the ordinance. Justification based on the initial nexus study still exists to reinstate the fee at its original funding level.

The current fee, which ranges from $.27-1.06/SF based on development type, is substantially below the original nexus amounts. Furthermore, as compared to other similar cities' linkage fees, that range up to $7 per square foot, the City of San Diego's linkage fee is substantially lower.

Transient Occupancy Tax

A portion of the Transient Occupancy Tax (TOT) was originally dedicated to the Housing Trust Fund. Currently the TOT is 10.5%. Again, this tax is far lower than comparable cities. Tourism creates the need for workforce housing due to its dependence on many low-wage jobs. Therefore, many cities have dedicated a portion of this fee to the production of affordable workforce housing.

Community Development Block Grant

Nationwide more than 35% of Community Development Block Grant (CDBG) funds are used for affordable housing. Existing City policy states that a minimum of 20% of CDBG funds should be used for housing purposes. This amount was anticipated to include both Citywide CDBG allocation to the Housing Commission, as well as, district allocations to specific projects or organizations. However, in recent years, the amount of allocation to housing has been an average of 11-12%.

Real Estate Transfer Tax

The real estate transfer tax is assessed by the County of San Diego at a rate of $1.10 per $1,000 value at the time of property transfer. Of that, 50% is apportioned to the City of San Diego. At current rates, the City's portion of the real estate transfer tax produced approximately $5.7 million dollars in FY 2000-2001. This amount is projected to increase in future years, as property values rise. The real estate transfer tax has a good nexus to the provision of affordable housing.

Broad-Based Funding

There are a variety of broad-based funding sources that could be utilized in addressing the affordable housing crisis, including City General Funds. Many have been recommended as potential funding sources for the infrastructure needs under the Strategic Framework, City of Villages plan. Affordable housing should be considered part of the necessary infrastructure to ensure healthy and vital "villages". Broad-based funding sources include sales and use tax, business license tax, utility users tax, franchise tax or fee, and refuse collection fees. Additionally, some communities have used Proposition 10, tobacco settlement monies for housing, while others have issued General Revenue bonds or short-term property tax levies.

Previously the Housing Commission has advocated that affordable housing be considered part of a viable urban infrastructure. Both the Mayor's Blue Ribbon Committee on City of San Diego Finances and the Strategic Framework Infrastructure Finance Committee have suggested that the City revisit allocation of existing funds and consider new revenue generators. In fact, sources of funding under consideration for infrastructure improvements are the same sources that would be appropriate for affordable housing.