OFFICE OF COUNCILMEMBER MYRTLE COLE
FOURTH COUNCIL DISTRICT

M E M O R A N D U M

DATE: October 2, 2014

TO: Council President Todd Gloria

FROM: Councilmember Myrtle Cole, Fourth Council District Myrtle Cole

SUBJECT: The Housing Impact Fee and Proposed Municipal Code Updates

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The City of San Diego remains in a continued state of emergency due to the severe shortage of affordable housing, despite numerous successful initiatives to preserve and produce affordable housing.

The Housing Impact Fee program (alternatively referred to as the Linkage Fee or Workforce Housing Offset Fee program) was initially established in 1990. The program levied a fee on developers of certain non-residential projects for the purpose of providing affordable housing, based on a nexus study. The 1990 fee was set at a level that amounted to approximately 1.5% of construction costs at that time. In 1996, the Council adopted an ordinance that reduced rates by 50% and after nearly two decades and numerous attempts to update the Housing Impact Fee program, those reduced fees are still in effect today.

In July of this year, the Housing Commission presented a Memorandum of Understanding (MOU) (Attachment A) which was a result of its negotiations with the Jobs Coalition. The general terms of the MOU are as follows:

- Fee: Starting January 1, 2015, raise Housing Impact Fees 100%, to the level they were before they were cut in half in 1996.
- Sunset the Housing Impact Fee increase on January 1, 2018, unless certain agreed-upon milestones, as detailed in the MOU, are met.
- Exempt manufacturing, warehouse, and nonprofit hospitals from the Housing Impact Fee for the purposes of economic development.
- Do not raise the fee levels for research and development construction, for the purpose of economic development.
- Strengthen exemption process for high-wage employers.

- Remove requirement for annual recommendation to the Council for revenue level update based on a construction cost index.

The MOU as presented raised a myriad of concerns and I believe that strong opposition was warranted regarding the inclusion of a sunset provision.

To ensure that progress is made to address San Diego's affordable housing crisis while promoting economic development, I initiated a dialogue with the Jobs Coalition. In the spirit of cooperation, **I am pleased to present the following compromise proposal:**

Proposed Municipal Code Updates

- **Fee: Raise the Housing Impact Fee 100%, phased-in over three years, to the 1990 level (the level they were before they were cut in half in 1996). Phase-in period takes effect on January 1, 2015.**
- **The Housing Impact Fee adjustment will not sunset.**
- **Exempt manufacturing, warehouse, and nonprofit hospitals from the Housing Impact Fee for the purposes of economic development.**
- **No adjustment to the fee levels for research and development construction, for the purpose of economic development.**
- **Remove requirement for annual recommendation to the Council for revenue level update based on a construction cost index.**

Additional Recommendations

- **My commitment to reform efforts such as streamlining permitting processes and completing long stalled updates to community plans continues. In addition to the proposed Municipal Code updates, I respectfully request that the Mayor consider the reform measures included in the proposed MOU between the Housing Commission and the Jobs Coalition and present a reform plan to the City Council.**
- **Additionally, I respectfully request that Housing Commission propose a plan to improve the City's waiver process, including strengthening the waiver process for high-wage employers, consistent with the August 2013 *Jobs-Housing Nexus Study* prepared for the City by Keyser Marston Associates, Inc.**

Based on historical data collection, my proposal is expected to generate an additional $3 million more over a five-year period over the current fees. I strongly believe that this is a positive step toward addressing housing affordability as our city continues to grow. This compromise provides greater certainty, will help to create a supply of affordable housing, and will encourage business and development.

I ask that this proposal be considered as the City Council revisits the Housing Impact Fee program.

MC:pi

cc:
City Councilmembers
Mayor Kevin Faulconer
City Attorney Jan Goldsmith
Andrea Tevlin, Independent Budget Analyst
Craig Benedetto, Jobs Coalition
Rick Gentry, San Diego Housing Commission
Bruce Reznik, San Diego Housing Federation

PROPOSED - Memorandum of Understanding on Workforce Housing
July 2, 2014

Introduction:

This document is intended to be a memorandum of understanding between the Housing Commission and the Jobs Coalition. The parties agree to the following outline of a compromise concerning issues affecting the Housing Impact Fee.

This memorandum of understanding identifies what the parties agree to jointly recommend as actions the San Diego City Council and other relevant entitles should take. The implementation of any and all of the recommendations is subject to City Council approval in its legislative discretion.

Summary of Plan:

1. Direct Staff to Identify Additional Funding Sources
    a. City Council to direct the Independent Budget Analyst to advise the Council on potential revenue sources for affordable homes in San Diego

2. Make ALL Homes More Affordable
    a. Direct staff to prepare a code update to Density Bonus program
    b. Direct staff to prepare a code update to Transit Overlay District
    c. Direct City staff to convene a taskforce to prepare an Affordable Smart Growth plan
    d. Direct staff to prepare a Planning Priorities Plan

3. Maximize Subsidized Housing Dollars
    a. Direct staff to identify City land for development of affordable homes
    b. Advocate in Sacramento for housing reform
    c. Housing Commission to prepare Affordable Homes Report

4. Immediate Municipal Code Changes
    a. Permanently defer collections of Facilities Benefit Assessments (FBA) until projects receive certificates of occupancy or final building inspections
    b. Defer Housing Impact Fee collections until projects receive certificates of occupancy or final building inspections
    c. Grandfather Housing Impact Fee levels for "pipeline projects" whose ministerial or discretionary applications have been "deemed complete"
    d. Exempt manufacturing, warehouse, and nonprofit hospitals from the Housing Impact Fee for the purposes of economic development
    e. Do not raise the fee levels for research and development construction, for the purpose of economic development
    f. Strengthen exemption process for high-wage employers
    g. Starting January 1, 2015, raise Housing Impact Fees 100%, to the level they were at before they were cut in half in 1996, and sunset the increase and return to 2014 levels beginning January 1, 2018.
    h. The sunset provisions of the ordinance will not be reconsidered by the City Council unless certain milestones, as detailed by this agreement, are reached.

Plan Specifics:

1. Identify Additional Funding Sources:

    a. Creation of IBA Report on Revenue Options for Homes:
        i. City Council: Direct Independent Budget Analyst (IBA) to prepare a report on the feasibility and potential revenue for affordable housing from at least the below sources. Direct the City Attorney to work with IBA to advise the Council on the legality of each of these sources. The Council will review options and direct City Staff to implement feasible long-term solutions.
        ii. Independent Budget Analyst (IBA): Report to the Council on the feasibility and revenue from potential sources, including at least the below options. The IBA can also examine other revenues according to its best judgment.
            1. TOT Future Revenue:
                a. Identify a baseline of current annual TOT revenues for ongoing General Fund contributions.
                b. Enact a municipal code amendment to dedicate a percentage of future TOT revenues in excess of the baseline, as it is collected, to the Affordable Housing Trust Fund. Expenditures from Trust Fund would still be approved annually according to the existing process for allocating monies from the Affordable Housing Fund.
            2. City Redevelopment Property Tax Trust Fund: Dedicating 20% of new revenues to the City General Funds that will result from the dissolution of the City's Redevelopment agency.
            3. County Redevelopment Property Tax Fund: Dedicating 20% of new revenues to the County of San Diego's General Funds that will result from the dissolution of the City's Redevelopment agency, so long as cities match a percentage of contributions, similar to the policy considered by Santa Clara County.
            4. Local Tax Increment: Allocating a percentage of future tax increment (growth) in either specified areas or citywide, starting at a specific date with a specified percentage of new revenue funding the Housing Trust Fund.
            5. Including affordable housing funding, or funding for infrastructure related to affordable housing, in an infrastructure bond submitted to a public vote in 2016.
            6. Creating a stand-alone housing bond to finance affordable housing construction, submitted to a public vote in 2016.
            7. Housing revenue potential from possible State actions:
                a. Infrastructure Finance Districts as proposed to be amended through bills pending in the legislature
                b. SB 391 or its successor
                c. Proposition 41 funds for veteran housing

2. Make ALL Housing More Affordable:

    a. City Council: Direct the City Attorney with input and direction from the San Diego Housing Commission, Development Services and the Planning Department to prepare for the Council's consideration, and subject to the City Council's approval in its

legislative discretion, an update to the City's Density Bonus program. The draft ordinance should identify a "menu of incentives" that are predictable to both developers and communities, consistent with Government Code Sections 65915 through 65918, and similar to the model used by the City and County of Los Angeles.

b. City Council: Direct the City Attorney with input and direction from the San Diego Housing Commission, Development Services and the Planning Department to prepare for the Council's consideration, and subject to the City Council's approval in its legislative discretion, a geographic update to the City's Transit Overlay District and the ways new developments can satisfy parking requirements within that district.

c. City Council: Request Development Services and Planning Departments to convene a group of affordable housing, market-rate development, and community planning stakeholders to prepare a comprehensive and feasible plan ("Affordable Smart Growth Plan") to improve options for smart growth in San Diego.

    i. The plan should include or examine the feasibility of at least the following:
        1. Streamlining permitting process
        2. Implementing staff development opportunities
        3. Increasing density in communities
        4. Amending FAR restrictions throughout the city
        5. Tools to make projects more ministerial, if consistent with newly updated community plans
        6. Prioritizing allocation of infrastructure improvement dollars to communities that accept density increase as a part of community plan or specific plan updates
        7. Implementing joint defense agreements at the application stage of the process
        8. Issuing permits with a standard condition that amend permits when state or federal agencies amend projects through their permitting process
        9. Electronic plan submissions
        10. Other cost reductions like the development of a parks master plan

    ii. City Council: Direct City Attorney to evaluate feasibility of creation of joint defense agreements and other elements of Affordable Smart Growth Plan.

    iii. City Council: Support Mayor's efforts to modernize DSD and Planning Departments based on the Affordable Smart Growth Plan.

d. City Council: Request the Planning Department to develop a plan ("Planning Priorities Document") for review by Council to include the following:
    i. Proposed allocation and expenditures of funds from recent increases in General Plan maintenance fees ("GPMF") to update at least two community plans per year from the prioritized list until all community plans are updated – OR – provide GPMF monies to "priority development area" plan updates, as identified and prioritized.
    ii. Priority list of community plan updates should be based on factors to include developable or redevelopable land, infrastructure readiness, the market to support development, opportunities for infill, and other relevant factors.

3. Maximizing Subsidized Housing Dollars:

    a. City Land:
        i. City Council: Request from City Real Estate Department a list of all vacant or underutilized properties owned by the City.
        ii. City Council: Direct the Housing Commission to convene a group of affordable housing stakeholders to review list of City lands for feasibility of use for affordable housing.
        iii. Housing Commission: Develop for review by the City Council a proposal with the City of San Diego for a mechanism to allow for appropriate City land to be developed as affordable housing. Options to be considered will include transferring land to the Housing Commission for either development of affordable housing through an open request for proposal process, or as a public contribution to a blended investment fund to develop affordable housing.

    b. City Legislative Advocacy for Affordable Housing:
        i. Housing Commission: Work with Mayor's office to develop a legislative and advocacy program for the City that supports affordable housing .
            1. Revise the tax credit review and allocation process to allow for the development of more cost-efficient affordable housing, including by reexamining energy efficiency and proximity to amenity rules.
            2. Support bills in Sacramento to ease implementation of infrastructure financing districts (IFDs), and to ensure a percentage of new IFD revenues finance affordable housing.
            3. Support SB 391 or its successor, and other bills related to affordable housing development.

    c. Local Development Policies
        i. Housing Commission: Report to the City Council within 90 days with a report of cost-reduction items that could be adopted locally to reduce the cost of developing affordable and inclusionary housing ("Affordable Homes Report"). Report will examine at least the following:
            1. Updating the City's affordable housing expedite program.
            2. Amortizing impact fees over the life of an affordable project.

4. Immediate Municipal Code Changes:

    a. City Council: Direct the City Attorney with input and direction from the San Diego Housing Commission to prepare for consideration and adoption by the City Council within 60 days, amendments to the Municipal Code that reflect the following and as detailed below, subject to City Council approval, in its legislative discretion:
        i. Permanently defer collections of Facilities Benefit Assessments (FBA) until projects receive certificates of occupancy or final building inspections.
        ii. Defer Housing Impact Fee collections until projects receive certificates of occupancy or final building inspections.
        iii. Grandfather Housing Impact Fee levels for "pipeline projects" whose ministerial or discretionary applications have been "deemed complete."
        iv. Exempt manufacturing, warehouse, and nonprofit hospitals from the Housing Impact Fee for the purposes of economic development.

v. Do not raise the fee levels for research and development construction, for the purpose of economic development.
vi. Strengthen exemption process for high-wage employers.
vii. Starting January 1, 2015, raise Housing Impact Fees 100%, to the level they were at before they were cut in half in 1996, and sunset the increase and return to 2014 levels beginning January 1, 2018.
viii. The sunset provisions of the ordinance will not be reconsidered by the City Council unless certain milestones, as detailed by this agreement, are reached.

b. City Council: Direct Housing Commission to wait until 2018 before making any additional recommendations related to updating the Housing Impact Fee.

c. City Council: Agree not to remove the sunset provision from the fee update, and direct the Housing Commission not to recommend any such action, unless the City achieves the following milestones:

i. Approval of changes that substantially improve the applicability and performance of the affordable housing, as well as the sustainable development expedite programs.
ii. Adoption of one or more of the meaningful (defined as having a significant impact on reducing the cost of development either by cost or time) regulatory reforms that would have a demonstrable impact on reducing or offsetting the cost of commercial development.
iii. Adoption of one or more of the meaningful (see aforementioned definition) regulatory reforms that would have a demonstrable impact on reducing or offsetting the cost of developing market rate and affordable homes.
iv. Complete two or more community plan updates (or a suitable alternative in a micro community plan area) in an area as prioritized in the Planning Priorities Document.
v. Complete two or more regulatory or cost reforms that require ordinance code changes or environmental review.

d. City Council: Agree that if affordable housing revenue is generated through some of the other concepts listed above, then the City Council in its legislative discretion will hear and consider proposals to offset or reduce the various fees charged to developers.

e. Facilities Benefit Assessments (FBA): Direct the City Attorney to prepare an immediate update to the Municipal Code to make permanent the deferral of FBA fees until projects receive certificates of occupancy or final building inspections, subject to City Council approval in its legislative discretion.

f. Housing Impact Fee: Direct the City Attorney with input and direction from the San Diego Housing Commission to prepare for the Council's consideration, and subject to the City Council's approval in its legislative discretion, to prepare an immediate update to the Affordable Housing Impact Fee to reflect the following:

i. Housing Impact Fee Increases: Beginning January 1, 2015, increase fee 100%, and to revert back to the 2014 levels on January 1, 2018.

Attachment 2

Introduction:

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i. Housing Impact Fee Increases: Beginning January 1, 2015, increase fee 100%, and to revert back to the 2014 levels on January 1, 2018.

ii. Include provisions to allow projects deemed by Development Services to be substantially complete to pay fees at the level they are at the time of substantial completion.

iii. Include provisions to allow deferral of Housing Impact Fees until projects receive certificates of occupancy or final building inspections.

iv. Economic Development Exemptions:
    1. Exempt manufacturing, warehouse facilities, and nonprofit hospitals.
    2. Do not raise fee levels for construction under the research and development category.

v. Strengthen and Clarify Exemption Process:
    1. Clarify that waivers and reductions are decided by a vote of the appointed Housing Commission, with appeals available within 30 days by the City Council.
    2. Clarify that waivers or reductions are available where developers can demonstrate that fewer low-wage jobs will be created than the 2013 nexus study justifies for the fee level charged to the development.
    3. Housing Commission to publish guidelines, variance log, and application form on website for applicants for waivers or reductions.

vi. Cap the percentage of funds used for Transitional Housing:
    1. Amend the Municipal Code to cap the percentage of Housing Impact Fee that can be spent on transitional housing to 20% of annual revenues.

vii. Remove requirement for annual recommendation to the Council for revenue level updates based on a construction cost index.

Dated: 7.2.14

Jobs Coalition

Richard C. Gentry
President & Chief Executive Officer
San Diego Housing Commission

Attachment 3

Jobs-Housing Nexus Study

Prepared for:
City of San Diego

Prepared by:
Keyser Marston Associates, Inc.

August 2013

Table of Contents

INTRODUCTION

The following report summarizes an analysis of the impacts of non-residential development on the demand for affordable housing in the City of San Diego (City). The report has been prepared by Keyser Marston Associates, Inc. for the San Diego Housing Commission (SDHC), in order to assist the City in updating its housing impact fee program.

Background

The City of San Diego Housing Impact Fee Ordinance was established in 1990 to address the affordable housing demand created by non-residential development. Keyser Marston Associates, Inc. (KMA) performed the nexus analysis in support of the housing impact fees. In 1996, the fees were reduced by 50%. Subsequently the City and SDHC embarked on several efforts to update the nexus analysis and consider changes in the housing impact fees, as follows:

- In 2002, the City Council declared a "State of Emergency Due to Severe Shortage of Affordable Housing in San Diego." As part of the response to the housing shortage, the City commissioned KMA to conduct a fully updated nexus analysis. The nexus study was completed in December 2004 but was never formally presented to SDHC or the City.

- In 2008, KMA, at the request of SDHC, reviewed and partially updated the 2004 report. Like the 2004 report, the 2008 review was never formally presented.

- In September 2009, the City Council's Land Use and Housing Committee recommended that the impact fee program be reviewed and evaluated and in October 2009, the City Council approved the Committee's recommendation. As a result, KMA completed a new nexus analysis in October 2010. The KMA study, and SDHC's recommendation for increased fee levels, were presented to the City Council in July 2011. The Council did not adopt SDHC's proposal to increase fee levels.

- The present study was requested by SDHC in March 2013 and comprises a comprehensive update of KMA's 2010 study.

Purpose

The purpose of a nexus analysis is to document the linkages among construction of new workplace buildings (such as office, retail, hotel, etc.), the employees that work in them, and the demand for affordable housing. Since the jobs in all buildings cover a range of compensation levels, and the households a range of sizes, there is need for additional housing at all affordability levels. This analysis quantifies the housing need at each affordability level associated with each type of workplace building.

The analysis is conducted to meet the requirements of several U.S. Supreme Court decisions and also California Code Section 66000 and following. Such analyses are called linkage, or nexus, analyses.

Analysis Scope

This analysis examines the types of workplace buildings that are listed in the existing Housing Impact Fee ordinance as follows:

- Office
- Hotel and other lodging
- Retail/entertainment
- Research and Development/manufacturing/industrial
- Warehouse/storage

The following affordability levels are addressed in the analysis:

- Very Low Income (under 50% of Area Median Income, or AMI)
- Low Income (50% to 80% AMI)
- Moderate Income (80% to 120% AMI)

Report Organization

The report is organized into five sections as follows:

- Section I – presents a summary of the nexus concept and some of the key issues and underlying assumptions in the analyses linking jobs and housing demand.

- Section II – provides an overview of the historical and projected growth of jobs and housing in the City.

- Section III – presents an analysis of the jobs and housing relationships associated with individual prototype workplace buildings and concludes with a quantification of the number of households at each income level associated with each building type.

- Section IV – contains a summary of the costs of delivering housing units affordable to households at the income levels under study, allocated to each square foot of building area.

- Section V – provides materials to assist policy makers in evaluating alternative fee levels, including possible indices for increasing the level of the fee over time. The material in this section is not part of the nexus analysis.

- Appendix A – presents a summary matrix of key analysis assumptions and discussion of specific factors in relation to the nexus concept.

- Appendix B – contains supporting information related to worker occupations and incomes.

- Appendix C – contains supporting information related to the affordability gap calculations.

Data Sources and Qualifications

The analyses in this report have been prepared using the best and most recent data available. Local data were used whenever possible. The major sources were the U.S. Census Bureau's 2009-2011 American Community Survey, the U.S. Bureau of Labor Statistics, the California Employment Development Department, and San Diego Association of Governments (SANDAG). While we believe all sources utilized are sufficiently accurate for the purposes of the analyses, we cannot guarantee their accuracy. Keyser Marston Associates, Inc. (KMA) assumes no liability for information from these and other sources.

SECTION I – THE NEXUS CONCEPT AND MAJOR ISSUES

Introduction

This section outlines the nexus concept and some of the key issues surrounding the linking of new non-residential development to the demand for new residential units in the City of San Diego. The nexus analysis and discussion focus on the relationships among development, growth, employment, income of workers, and demand for affordable housing. The analysis yields a connection between new construction of the types of buildings in which there are workers and the need for additional affordable housing, a connection that is quantified both in terms of number of units and the amount of subsidy assistance needed to make the units affordable.

The Legal Basis and Context

The first housing linkage programs were adopted in the cities of San Francisco and Boston in the mid-1980s. To support the linkage, the City of San Francisco commissioned an analysis to show the relationships, or what might now be characterized as an early version of a nexus analysis. Since that time there have been several court cases and California statutes that affect what local jurisdictions must demonstrate when imposing impact fees on development projects. The most important U.S. Supreme Court cases are Nollan v. California Coastal Commission and Dolan v. City of Tigard (Oregon). The rulings on these cases, and others, help clarify what governments must find in the way of the nature of the relationship between the problem to be mitigated and the action contributing to the problem. Here, the problem is the lack of affordable housing and the action contributing to the problem is building workspaces that mean more jobs and worker households needing more affordable housing.

Following the Nollan decision in 1987, the California legislature enacted AB 1600 which requires local agencies proposing an impact fee on a development project to identify the purpose of the fee, the use of the fee, and to determine that there is a reasonable relationship between the fee's use and the development project on which the fee is imposed. The local agency must also demonstrate that there is a reasonable relationship between the fee amount and the cost of mitigating the problem that the fee addresses. Studies by local governments designed to fulfill the requirements of AB 1600 are often referred to as AB 1600 or "nexus" studies.

One court case that involved housing linkage fees was Commercial Builders of Northern California v. City of Sacramento. The commercial builders of Sacramento sued the City following the City's adoption of a housing linkage fee. Both the U.S. District Court and the Ninth Circuit Court of Appeals upheld the City of Sacramento and rejected the builders' petition. The U.S. Supreme Court denied a petition to hear the case, letting stand the lower court's opinion. The authors of this nexus study were the authors of the Sacramento study.

Since the Sacramento case in 1991 there have been several additional court rulings reaffirming and clarifying the ability of California cities to adopt impact fees. A notable case was the San Remo Hotel v. the City and County of San Francisco, which upheld the impact fee levied by the City and County on the conversion of residence hotels to tourist hotels and other uses. The court found that a suitable nexus, or deleterious impact, had been demonstrated. In 2009, in the Building Industry Association of Central California v. the City of Patterson, the Court invalidated the City's fee since the impact of the proposed project as related to the fee had not been demonstrated. The most recent ruling was in 2010 when the court upheld most of the impact fees levied by the City of Lemoore in Southern California. Of note relevant to housing impact fees was the judges' opinion that a "fee" may be "established for a broad class of projects by legislation of general applicability….the fact that specific construction plans are not in place does not render the fee unreasonable." In other words, cities do not have to identify specific affordable housing projects to be constructed at the time of adoption.

In summary, the case law at this time appears to be fully supportive of jobs/housing impact fees such as the impact fee that has been in place in the City of San Diego since 1990 and is the subject of this nexus analysis.

The Nexus Methodology

An overview of the basic nexus concept and methodology is helpful to understanding the discussion and concepts presented in this section. This overview consists of a quick "walk through" of the major steps of the analysis. The nexus analysis links new commercial buildings (or other workplaces) with new workers in the City; these workers demand additional housing in proximity to the jobs, a portion of which needs to be affordable to the workers in lower and middle income households.

The methodology utilized in this analysis is a "micro" analysis that examines individual buildings. The micro nexus readily lends itself to quantification that serves as a basis for quantifying the nexus cost, or basis for the fee amount, for each building type.

To illustrate the micro nexus, very simply, we can walk through the major calculations of a building. We begin by assuming a prototypical building of some specific size and then make calculations as follows:

- We estimate the total number of employees working in the building based on average employment density experience.

- We use occupation and income information for typical job types in the building to calculate how many of those jobs pay compensation at the levels addressed in the analysis. Compensation data is from the California Employment Development Department (EDD) and is specific to San Diego County as of 2012. Worker occupations by building type are derived from the 2012 Occupational Employment Survey by the U.S. Bureau of Labor Statistics.

- We know from the Census that most employees are members of households where more than one person is employed and the number of workers by household size; we use factors derived from the Census to translate number of workers into households of various size represented in each income category.

- Then, we calculate how many of the Very Low-, Low-, and Moderate-Income households are associated with the building and divide by the building size to arrive at coefficients of housing units per square foot of building area.

- In the last step, we multiply the number of lower income households per square foot by the costs of delivering housing units affordable to these income groups.

The factors and relationships utilized in the analysis reflect long-term average conditions. Short-term conditions, such as a recession or a vigorous boom period, are not an appropriate basis for estimating impacts over the life of the building.

The Relationship between Job Growth and Population Growth

A major social issue driving this analysis is growth in lower and middle income households. New population growth in most U.S. regions occurs primarily as a result of job growth. Over the long term, the vast majority of growth in the State of California and its sub-regions is job-driven. Many people coming to the region would not come if they could not expect to find a job. People born in the local area would not stay without jobs. This is the long-term pattern. In the short-term, economic cycles and other factors can result in population growth without jobs to support the growth. If an economic region in the U.S. does not maintain job growth, there is an out-migration to regions where job growth is occurring. Many cities in the Midwest during the 1970s and 1980s are examples of this outmigration, and some U.S. cities continued to lose population in more recent decades.

Not all population growth in San Diego is the result of new jobs in the region. Retirees, students, and others who are not part of the work force all generate demand for housing. However, non-working households are not included in the analysis since the purpose is to demonstrate the linkage between new buildings, new workers, and demand for housing. Since only working households are part of this equation, the demand for housing generated by non-working households is excluded.

The Relationship between Construction and Job Growth

Employment growth does not have one cause. Many factors underlie the reasons for growth in employment in a given region; these factors are complex, interrelated, and often associated with forces at the national and international levels. One of the factors is the delivery of new workplace buildings. The nexus argument does not make the case that the construction of new buildings is solely responsible for growth. However, new construction is uniquely important, first, as one of a number of parallel factors contributing to growth, and second, as a unique and essential condition precedent to growth.

As to the first, construction itself encourages growth. When the State economy is growing, the most rapidly growing areas in the State are those where new construction is vigorous as a vital industry. In regions such as San Diego where multiple forces of growth exist, the political and regulatory environment join forces with the development industry to attract growth by providing new work spaces, particularly those of a speculative nature. The development industry frequently serves as a proactive force inducing growth to occur or be attracted to specific geographic areas or locations.

Second, workplace buildings bear a special relationship to growth, different from other parallel causes, in that buildings are a *condition precedent* to growth. Job growth does not occur in modern service economies without buildings to house new workers. Unlike other factors that are responsible for growth, buildings play the additional unique role that growth cannot occur without them for a sustained period of time. Conversely, it is well established that the inability to construct new workplace buildings will constrain or even halt job growth.

Addressing the Housing Needs of a New Population vs. the Existing Population

The Housing Element of the City of San Diego and SDHC have clearly documented that the housing needs of the existing lower and middle income households are not being met. This existing housing shortage, especially at the lowest income levels, is manifested in numerous ways such as payment of far more than 30% of income for rent as set forth in Federal and State guidelines, overcrowding, and other factors that are extensively documented by the Census and other reports.

This nexus study does not address the housing needs of the existing population. Rather, the study focuses exclusively on documenting and quantifying the housing needs of new households where an employee works in a new workplace building.

Local analyses of housing conditions have found that new housing affordable to lower and moderate income households is not being added to the supply in sufficient quantity to meet the needs of new employee households. If this were not the case, and significant numbers of units were being added to

the supply to accommodate the low to moderate income groups, or if residential units in the City were experiencing significant long-term vacancy levels, particularly in affordable units, then the need for new units would be questionable.

Substitution Factor

Any given new building in the City of San Diego may be occupied partly, or even perhaps totally, by employees relocating from elsewhere in the City. Buildings are often leased entirely to firms relocating from other buildings in the same jurisdiction. However, when a firm relocates to a new building from elsewhere in the region, there is a space in an existing building that is vacated and occupied by another firm. That building in turn may be filled by some combination of newcomers to the area and existing workers. Somewhere in the chain there are jobs new to the region. The net effect is that new buildings accommodate new employees, although not necessarily inside of the new buildings themselves.

Indirect Employment and Multiplier Effects

The multiplier effect refers to the concept that the income generated by a new job recycles through the economy and results in additional jobs. The total number of jobs generated is broken down into three categories – direct, indirect, and induced. In the case of the nexus analysis, the direct jobs are those located in the new workplace buildings that would be subject to the linkage fee. Multiplier effects encompass indirect and induced employment. Indirect jobs are generated by suppliers to the businesses located in the new workplace buildings. Finally, induced jobs are generated by local spending on goods and services by employees.

Multiplier effects vary by industry. Industries that draw heavily on a network of local suppliers tend to generate larger multiplier effects. Industries that are labor-intensive also tend to have larger multiplier effects as a result of the induced effects of employee spending.

Theoretically, a jobs/housing nexus analysis could consider multiplier effects although the potential for double-counting exists to the extent that indirect and induced jobs are added in other new buildings in the City of San Diego subject to the linkage fee. KMA chooses to omit the multiplier effects (the indirect and induced employment impacts) to avoid potential double-counting and make the analysis more conservative.

In addition, the nexus analysis addresses direct "inside" employment only. In the case of an office building, for example, direct employment covers the various managerial, professional, and clerical people that work in the building; it does not include the janitorial workers, the window washers, the security guards, the delivery services, the landscape maintenance workers, and many others that are associated with the normal functioning of an office building. In other words, any analysis that ties lower income housing to the number of workers inside buildings will continue to understate the demand.

Thus, confining the analysis to the direct employees does not address all the low to moderate income workers associated with each type of building and understates the impacts.

Changes in Labor Force Participation

In the 1960s through the 1980s, there were significant increases in labor force participation, primarily among women. As a result, some of the new workers were re-entering the labor force and already had local housing, thus reducing demand for housing associated with job growth. In earlier nexus analyses, KMA would adjust the analysis to account for this. However, increases in participation rates by women have stabilized and even declined slightly, and labor force participation rates for men have been on a downward trajectory since 1970. As such, an adjustment for increase in labor force participation is no longer warranted in a nexus analysis.

Economic Cycles

An impact analysis of this nature is intended to support a one-time impact requirement to address impacts generated over the life of a project (generally 40 years or more). Short-term conditions, such as a recession or a vigorous boom period, are not an appropriate basis for estimating impacts over the life of the building. These cycles can produce impacts that are higher or lower on a temporary basis.

Development of new workspace buildings tends to be minimal during a recession and generally remains minimal until conditions improve or there is confidence that improved conditions are imminent. When this occurs, the improved economic condition will absorb existing vacant space and underutilized capacity of existing workers, employed and unemployed. By the time new buildings become occupied, current conditions will have likely improved.

To the limited extent that new workspace buildings are built during a recession, housing impacts from these new buildings may not be fully experienced immediately, though, the impacts will be experienced at some point. New buildings delivered during a recession can sometimes sit vacant for a period after completion. Even if new buildings are immediately occupied, overall absorption of space can still be zero or negative if other buildings are vacated in the process. Jobs added may also be filled in part by unemployed or underemployed workers who are already housed locally. As the economy recovers, firms will begin to expand and hire again filling unoccupied space as unemployment is reduced. New space delivered during the recession still adds to the total supply of employment space in the region. Though the jobs are not realized immediately, as the economy recovers and vacant space is filled, this new employment space absorbs or accommodates job growth. Although there may be a delay in time, the fundamental relationship between new buildings, added jobs, and housing needs remains over the long term.

In contrast, during a vigorous economic boom period, conditions exist in which elevated impacts are experienced on a temporary basis. As an example, compression of employment densities can occur as firms add employees while making do with existing space. Compressed employment densities mean more jobs added for a given amount of building area. Boom periods also tend to go hand-in-hand with rising development costs and increasing home prices. These factors can bring market rate housing out of reach from a larger percentage of the workforce and increase the cost of delivering affordable units.

Discount for Changing Industries / Long-Term Declines in Employment

While short-term declines in employment related to economic cycles do not warrant an adjustment in the nexus analysis for the reasons described above, long-term or structural declines in specific industry sectors do warrant an adjustment.

It is general practice to examine major sectors of the local economy and determine if there are long-term trends in employment suggesting either decline or restructuring. In the case of long-term decline of one or more industries or sectors, it is appropriate to recognize that all new jobs may not be net new jobs. On the other hand, as discussed above, short-term temporary declines in employment do not warrant an adjustment. In San Francisco, by way of example, there was major long-term economic decline in the industrial land use activity sectors, as evidenced by the decline of the Port and its related activities. During the 1980s in that city, for every job gained in an office building, there was more than half a job lost in the industrial sector. Short-term upheavals such as the closing of a military base or single large manufacturing plant may also warrant an adjustment in the analysis.

San Diego's economy, like that of the U.S. as a whole, is constantly evolving. In recent years, the region's economy has become more diverse and less reliant upon military and defense industries. A few industry sectors in San Diego have experienced long-term declines in employment, as shown in Table I-1. Industry sectors experiencing long-term declines in employment include aerospace, computer and electronics manufacturing, banking, and durable goods manufacturing, among others. These are jobs that, once lost, never return and so the workers are forced to find employment in other industries. Declining industries may occupy special purpose space not readily re-occupied by other types of industries or tenants and therefore be taken out of the supply. Over time, displaced workers will presumably find new work locally and thus some of the employment in new buildings would be for workers who would not be new to the City or County and who already have housing. Based on the data in Table I-1, a 16% downward adjustment to the findings of the analysis is made to account for permanent job losses and downsizing in declining industries. The 16% adjustment factor is the equivalent of saying about one of every six jobs added is filled by a worker that has been downsized from a declining industry and already lives locally. This is likely conservative given it derived from declines in employment between 1990, when the unemployment rate was 4.6%, and 2012 with an

unemployment rate of 8.9%. Some of the decline in employment between the two periods could be the result of cyclical conditions and a higher unemployment rate in 2012. Never-the-less, the analysis conservatively assumes the entire decrease in employment is the result of a permanent structural change.

Other City of San Diego Affordable Housing Programs

The City of San Diego is committed to creating new opportunities for affordable housing as well as preserving the existing affordable housing stock.

SDHC was established by the City as a public agency dedicated to preserving and increasing affordable housing within the City of San Diego. Since 1981, SDHC has contributed more than nearly $1.3 billion in loans and bond financing to projects that produced 14,500 affordable units. The City has a comprehensive and multi-faceted program that tackles the affordable housing shortage from many approaches. The Housing Impact Fee program is but one of many financial resources that the City uses to increase the supply of affordable housing in San Diego.

TABLE I-1

SAN DIEGO COUNTY INDUSTRIES EXPERIENCING LONG-TERM DECLINES IN EMPLOYMENT
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

INDUSTRIES WITH LONG-TERM DECLINES IN EMPLOYMENT / SAN DIEGO COUNTY	1990 TOTAL EMPLOYMENT	2012 [2] TOTAL EMPLOYMENT	CHANGE SINCE 1990 Total	Percent
Unemployment Rate in San Diego County (1)	4.6%	8.9%		
Industries With Declining Long-Term Employment				
Aerospace Product & Parts Manufacturing	22,900	6,800	(16,100)	-70.3%
Computer & Electronic Product Manufacturing	32,400	24,700	(7,700)	-23.8%
Credit Intermediation & Related Activities (banking)	27,100	19,500	(7,600)	-28.0%
Manufacturing - Durable Goods - other	68,100	61,900	(6,200)	-9.1%
Building Finishing Contractors	12,800	9,900	(2,900)	-22.7%
Heavy & Civil Engineering Construction	7,800	5,900	(1,900)	-24.4%
Building Foundation & Exterior Contractors	8,700	6,800	(1,900)	-21.8%
Warehousing & Storage	3,200	1,600	(1,600)	-50.0%
US Department of Defense	23,700	22,100	(1,600)	-6.8%
Other Specialty Trade Contractors	6,200	4,900	(1,300)	-21.0%
Ship & Boat Building	7,300	6,100	(1,200)	-16.4%
Construction of Buildings	13,800	12,700	(1,100)	-8.0%
Federal Government excluding Defense	25,500	24,600	(900)	-3.5%
Mining and Logging	600	400	(200)	-33.3%
Publishing Industries (except Internet)	7,900	7,700	(200)	-2.5%
Manufacturing - Nondurable Goods	22,900	22,800	(100)	-0.4%
INDUSTRIES WITH DECLINING EMPLOYMENT	290,900	238,400	(52,500)	-18.0%
GROWING and STABLE INDUSTRIES	686,500	1,020,400	333,900	48.6%
TOTAL EMPLOYMENT IN SAN DIEGO COUNTY	977,400	1,258,800	281,400	28.8%
Decline in Employment in Declining Industries			(52,500)	
Growth in Employment in Growing / Stable Industries			333,900	
Jobs in growth industries filled by workers from declining industries			-15.7%	
Adjustment to analysis results: For every new job, the percent filled by employees from declining industries		round to	-16%	

(1) As of March of each year.

(2) Conservative approach for evaluating declining industries given higher unemployment rate in 2012 to 1990. Higher unemployment rate in 2012 compared to 1990 will tend to over-state the long term or structural declines in certain industries. A portion of the indicated decline is likely explained by cyclical market conditions in 2012 as compared to 1990.

Source: California Employment Development Department.

SECTION II – MACRO ECONOMIC JOBS/HOUSING ANALYSIS

This section examines the relationships in San Diego that underlie the jobs/housing linkage. In particular, the history of employment growth, housing production, and affordable housing production are reviewed. The history of housing production, particularly affordable housing production, compared with the demand generated by new workers is also examined.

In addition to historical data, this section contains a projection of jobs and dwelling units, as indicated by local and Statewide planning agencies, such as SANDAG. It must be emphasized, however, that the nexus relationships as established in this analysis are not contingent upon a specific projected level of employment growth being realized. The relationships linking employment and affordable housing are critical to the nexus, but the specific projected levels of growth are not. If employment growth occurs more slowly than projected, construction and housing demand will also be less than projected. In addition, in this analysis, linkages are established on a per-square-foot basis (Section III).

Employment History and Trends

SANDAG regularly publishes a regional employment inventory, including projections and other related data. According to SANDAG, "the purpose of the Demographic and Economic Forecasting Model is to forecast annually the size and structure of the region's economy and to produce a demographic forecast consistent with that future economy."[1] SANDAG is the most widely used data source by local planning agencies in the San Diego area. To capture the full range of business cycles, the time period between 1990 and 2008 is examined (2008 is used by SANDAG as a benchmark year in their most current projections as of this writing). According to SANDAG, employment growth in the City of San Diego between 1990 and 2008 registered a net increase of 147,800 total jobs, or an increase of 22%.

Year	Jobs in San Diego
1990[2]	673,722
2008[3]	821,521
Growth	147,799

Characteristics of San Diego Employees and Their Households

This section examines several key characteristics of San Diego employees and their households, particularly those that are relevant to the jobs/affordable housing linkage. These characteristics include:

[1] 2050 Regional Growth Forecast Process and Model Documentation, June 2010.
[2] SANDAG Regional Employment Inventory. 1994.
[3] SANDAG Cities/County Forecast 2050.

- The number of workers per worker household on average;
- Income characteristics; and
- Commute patterns.

Each of these factors impacts how many new workers in San Diego buildings will seek housing within the City. These characteristics become key inputs in the micro economic analysis of the linkage between workplace buildings and affordable housing demand.

Workers per Worker Household

The workers per household characteristic provides the link between the number of employees and the number of households associated with the employees, recognizing that most households today have more than one worker. The number of workers per household in a given geographic area is a function of household size, labor force participation rate, and employment availability, as well as other factors.

Historically, the national labor force participation rate rose steadily for three decades since the early 1960s as more and more women entered the labor force. The rate appears to have leveled off in the 1990s. Nexus studies prepared in the late 1980s and early 1990s often made an adjustment for increases in labor force participation to recognize that some employment growth already was living locally and had housing. As noted earlier, we no longer make such an adjustment.

For the nexus analysis, the characteristic of most direct interest is the number of workers per worker household. Worker households are defined as those households with one or more persons with work related income, including the self-employed, as reported in the 2009-2011 American Community Survey (ACS). In other words, worker households are distinguished from total households in that the universe of worker households does not include elderly or other households in which members are retired or do not work for other reasons. Student households and unemployed households on public assistance are also excluded from worker households.

According to the 2009-2011 ACS, the number of workers per worker household in the County of San Diego was 1.72. Since workers in the City of San Diego live all over San Diego County, the County average is used in the analysis.

Wages and Salaries of San Diego Workers and Household Income

The average wage or salary of San Diego workers and the income of households formed by the 1.72 workers determines the household's ability to afford housing. The California Employment Development Department reports information on average wages and salaries paid to San Diego County workers, by occupation type.

A summary of the occupations associated with each building was developed from the 2012 National Industry-Specific Occupational Employment Estimates, produced by the Bureau of Labor Statistics, which cross-references occupations by industry. Appendix B Tables 1, 3, 5, 7, and 9 present summaries for each building type.

The following is a summary table of the average salary levels for the three major occupation groups by building type. A detailed summary of wages and salaries for occupations in each building type is provided in Appendix B Tables 2, 4, 6, 8, and 10. The percentages refer to the share of employment within the building in the occupation group.

San Diego County Wages by Building Type

Building Type	Major Occupation Group	% of Employment in Building	Average Annual Income
Office	Office and administrative support occupations	27%	$37,600
	Business and financial operations occupations	11%	$73,600
	Computer and mathematical occupations	8%	$83,900
Hotel	Building and grounds cleaning and maintenance occupations	29%	$23,200
	Food preparation and serving related occupations	25%	$22,000
	Office and administrative support occupations	19%	$30,300
Retail	Food preparation and serving related occupations	33%	$22,100
	Sales and related occupations	32%	$28,800
	Office and administrative support occupations	11%	$32,700
Manufacturing	Production occupations	32%	$36,700
	Architecture and engineering occupations	12%	$87,900
	Office and administrative support occupations	10%	$39,000

Building Type	Major Occupation Group	% of Employment in Building	Average Annual Income
Warehouse	Transportation and material moving occupations	27%	$31,600
	Office and administrative support occupations	23%	$34,800
	Sales and related occupations	21%	$61,900

Source: California Employment Development Department, 2012 Occupational Employment Statistics Survey, Wages 1st Quarter 2012.

The occupations with the lowest compensation levels are in the retail and hotel industries, which are the industries associated with San Diego's important tourism sector.

Household Income

When workers in these occupations form households, their income, either alone or in combination with other workers, produce the household income. In addition, of course, there may be children and/or other household members who are not employed. The annual Median Income of a four-person household in San Diego County for the year 2013, as published by HCD, is $75,900. This analysis focuses on three classifications of household income:

- Very Low Income – up to 50% of Median Income
- Low Income – 50% to 80% of Median Income
- Moderate Income – 80% to 120% of Median Income

The upper limit of income classifications for two, three, and four person households in San Diego County for 2013 appear in the table below. These income levels are the levels set and utilized by HCD for most housing programs.

Two Person Household	
Very Low Income	$33,050
Low Income	$52,900
Median Income	$60,700
Three Person Household	
Very Low Income	$37,150
Low Income	$59,500
Median Income	$68,300
Four Person Household	
Very Low Income	$41,300
Low Income	$66,100
Median Income	$75,900

Source: California Department of Housing and Community Development.

Commute Relationships and Trends

This section provides a brief summary of existing commute relationships and the adjustment reflected in the analysis to reduce housing demand to a local or City of San Diego share using existing commute patterns as benchmark. This adjustment to a local share is not technically required for nexus purposes as the analysis could consider all housing demand irrespective of jurisdictional boundaries. Application of a commute factor is one of several conservative assumptions incorporated into the analysis.

The primary source of information regarding commute relationships is the American Community Survey (ACS), published by the U.S. Census Bureau. Working with only ACS data, the share of jobs in San Diego held by San Diego residents is computed at 60.4%. In San Diego, however, the Census Bureau's data does not provide a complete picture because it only covers jobs held by residents of the U.S. San Diego's city limits extend to the U.S.–Mexico border and SANDAG has documented significant cross-border commuting. SANDAG's September 2011 Cross-Border Travel Behavior Survey indicates approximately 26% of crossings into San Diego County are for trips to work.

Since relying exclusively on U.S. Census data could distort the share of San Diego's work force that resides within the City, KMA estimated the number of jobs in San Diego held by residents of Mexico. Estimates are based on combining data on border crossings from the U.S. Department of Transportation (USDOT) with SANDAG's September 2011 Cross-Border Travel Behavior Survey. Using these sources, it was estimated that approximately 24,200 jobs in San Diego are held by residents of Mexico commuting over the border daily for work (see Appendix B Table 11). This figure was used to adjust the ACS data

which, given it is derived from a survey of U.S. residents, does not account for workers who reside in Mexico. The result is a modified share of jobs in San Diego held by San Diego residents of 58.6% which has been applied in the analysis.

It is important to recognize that the commute share does not necessarily represent the demand for housing in San Diego. Taken to the extreme, one can hypothesize a city with very few workers living in it because there is very little housing or because few can afford to live there.

It should also be noted that even if housing were available and affordable, it is unlikely that 100% of people would live and work in the same city. The choice of where one lives depends on additional factors (schools, style of housing, types of amenities, and local services, etc.) as well as where one works.

As stated at the outset of this section, the commute share can be a policy choice or target. The existing condition is merely a starting point for the analysis and serves as useful benchmark for reducing total demand to a local share.

As to long-term trends, in San Diego as in most metropolitan regions, the share of jobs held by local residents has been declining for decades. As land is more available and affordable in outlying jurisdictions, the share of workers who reside outside the City is continually increasing, resulting in more commuting.

Housing

This section provides a brief summary of selected characteristics of the housing market that affect the ability of worker families to find housing in San Diego. This section also examines growth in housing units in San Diego to meet the demand of new worker households.

Housing Production

SANDAG and California Department of Finance data indicate that from 1990 through 2012, over 90,000 new housing units were constructed in the City of San Diego. As shown in Table II-1, annual building activity greatly varied over the two-plus decades. The high year was 1990, when almost 7,000 new units were added, and the low year was 2010, when only 645 new units were added. Construction activity was very strong during the decade from 1998 to 2008. On average, 3,935 units were constructed annually over the 23-year period.

As noted earlier, during 1990-2008, SANDAG estimates that 147,799 new jobs were created in San Diego. Also discussed earlier, there are approximately 1.72 workers per worker household, meaning that 147,799 new jobs can be equated to 85,930 households demanding housing somewhere within commuting distance to a job in San Diego.

It is important to note that housing demand generated by new employment is not equivalent to total housing demand. Each community experiences demand for its housing by people who work in other jurisdictions as well. In addition, there is a share of total demand attributable to non-working households. Every time the worker(s) in a household leaves the labor market, such as upon retirement, if the household remains in the same housing unit, the unit is removed from the pool of units for working households, thus resulting in demand for a new unit even though there is no employment growth.

To estimate the increase in housing demand generated by new retirees in the City, KMA relied on U.S. Census and SANDAG data to calculate the increase in the population between age 65 and 85 between 1990 and 2008. KMA excluded households over 85, recognizing that a significant portion of this population will require other housing solutions, such as nursing care, living with adult children, etc. KMA adjusted this population growth to estimate the number of newly retired households in San Diego, using U.S. Census data on employment rates and average household size, as shown in Table II-2. In total, KMA estimates that over the time period there were over 8,000 new non-working households between the ages of 65 and 85 in San Diego, thus increasing the total demand for new housing by that amount.

In total, KMA estimates that 85,930 new worker households and 8,345 new retirees created a demand for 94,274 new housing units between 1990 and 2008. During that same time period, San Diego added 79,595 net new housing units (Table II-1). Therefore, we can say that of the total new units in demand, the City production was sufficient to accommodate a significant portion of new housing demand (without consideration of affordability). Other ways of expressing the relationship are indicated below.

1990 through 2007	
Increase in Jobs	147,799
Increase in Worker Households (New Units in Demand) @ 1.72	85,930
Increase in Non-Working Households over age 65	8,345
Total New Housing Demand	94,274
Residential Construction in San Diego (from Table II-1)	79,595
Relationship of New Housing Units to New Worker Households	0.84:1
Deficit for 1:1 Ratio	(14,679)

The households not accommodated in the City of San Diego presumably found housing elsewhere in the region within commuting distance.

Housing Production by Affordability Level

KMA estimated the level of affordable housing production for the period from 1999 to 2012 to develop a sense of whether production has kept pace with demand. In the 2004 Housing Impact Fee Nexus Analysis, KMA assembled data on affordable housing production for the period between 1999 and 2004. The data source was a City Manager's Report on the City's Comprehensive Affordable Housing Strategy dated July 31, 2002 that discussed historical production and estimated future production based on projects in the pipeline.

The City's Annual Housing Element Progress Report provides information on affordable units permitted in the past eight years, between 2005 through 2012. Combining these two data sources allows us to estimate roughly the level of affordable housing production over a 14-year period. Between 1999 and 2012, there were about 6,177 affordable units constructed or permitted for construction, not including market-rate units that might be affordable. This represents approximately 11% of new dwelling units constructed, with the remaining new dwelling units available at market rates. See Table II-1 for more information. Not all of the affordable housing constructed or permitted during this time is likely to be available to new worker households, as some of it may be restricted to senior households, or other (typically) non-working populations.

The above analysis and discussion demonstrates that despite the notable accomplishments of the City of San Diego in the production of affordable housing, affordable units represent a small percentage of total units produced.

Future Projections

The jobs/housing nexus relationship in support of requiring new workspaces to contribute to new housing is based on best estimates of future trends and relationships in San Diego. In this context, projections of jobs, new workers households, and new housing units are provided in this section. The methodology for calculating the impact of specific building types does not, however, rely on any specific set of projections for employment and housing growth. (See Section III.)

Employment Projections

SANDAG provides projections of employment for the entire San Diego region. The most recent available is the 2050 Regional Forecast, published in 2010. For the purposes of this analysis, KMA examined the changes between the 2008 benchmark year and 2030, to match approximately the historical time frame examined earlier. Employment projections for San Diego are estimated as follows:

Year	Total Jobs
2008	821,521
2030[4]	928,178
Total Increase	106,657

The SANDAG projection for the 2008 to 2030 time period envisions the City adding an average of about 4,800 jobs per year over the 22-year period. See Table II-3 for more information. At 1.72 workers per worker household, these new jobs would generate approximately 62,010 new worker households (106,657 jobs divided by 1.72) that need housing in the San Diego region.

The SANDAG projections for residential construction in San Diego indicate 121,039 new units will be added. As discussed earlier, this housing would accommodate all households, not just worker households. Looking at demographic projections provided by SANDAG, it is clear that the City of San Diego expects significant increases in the number of non-working households over the forecasted timeframe. KMA estimated the increase in housing demand generated by new retirees in the City, and found it to be a significant source of future housing demand.

SANDAG anticipates that, with the aging of baby boomers, the number of San Diegans between the ages of 65 and 85 will more than double between 2008 and 2030, from 121,000 to almost 267,000. KMA excluded households over 85, recognizing that a significant portion of this population will require other housing solutions such as assisted living, nursing care, living with adult children, etc. Projected population growth between ages of 65 and 85 was used to estimate the number of newly retired households in San Diego, using U.S. Census data on labor force participation rates and household size for this age group. In total, KMA estimates that there will be about 66,890 new non-working households over age 65 in San Diego, thus increasing the total demand for new housing by that amount. See Table II-3.

In total, KMA estimates that 62,010 new worker households and 66,890 new retiree households will create a demand for 128,900 new housing units. Since SANDAG projects that 121,000 net new units will be built over the period, we can say that of the total new units in demand, the City production will fall short of accommodating new housing demand generated by new worker households and new retirees (without consideration of affordability) by about 7,900 units.

[4] SANDAG Cities/County Forecast 2050.

Affordability

Finally, the ratio of total new units and new worker households and related discussion does not take into account the matter of affordability. Based on the findings of this nexus analysis -- between 55% and 94% of new worker households will have incomes of 120% of Median Income or less (depending on the building type) -- the number of affordable units needed will far exceed affordable unit production under any likely scenario. During the 14 years reviewed, approximately 6,177 affordable units, or roughly 11% of total units, were constructed. Even if this rate of affordable unit production were maintained, the supply of affordable housing to the new work force would be far from adequate to meet new demand. A commercial linkage fee program would provide additional resources to improve affordable unit production for new worker households.

Homeless Individuals as Participants in the Labor Force

Homelessness is a serious and persistent problem in San Diego County. According to the Regional Task Force on the Homeless (RTFH), the January 2013 "point-in-time" count identified 9,028 homeless individuals throughout the County. More than half of this total, or 4,574 individuals, were unsheltered at the time of the survey. SDHC is actively engaged with other public, private, and non-profit organizations in a concerted effort to end homelessness through development of new housing options and wraparound supportive services.

While specific data on employment among homeless individuals in San Diego County are not readily available, both government and private sector studies confirm that a small proportion of homeless people are in fact employed. Review of these regional, state, and national studies offers the following highlights regarding this issue:

- An October 2010 Homeless Employment Report by Sacramento Steps Forward included a survey of homeless people which determined that 12% of the surveyed homeless respondents were employed at the time. (*2010 Homeless Employment Report: Findings & Recommendations*, by Bob Erlenbusch, Shannon Stevens, Kate Towson, and Michele Watts, October 2010)

- In December 1999, The Urban Institute prepared a report entitled "Homelessness: Programs and the People They Serve" for the Interagency Council on the Homeless. The report included a national survey of homeless assistance providers and clients. The survey found that 44% of homeless clients reported "any paid work in the past month". Of those reporting work, 20% -- or just under 9% of the total surveyed homeless clients -- indicated that the employment took the form of a job expected to last at least three months. (*Homelessness: Programs and the People They Serve; Findings of the National Survey of Homeless Assistance Providers and Clients*, prepared for Interagency Council on the Homeless by The Urban Institute, December 1999)

- Finally, the California Workforce Investment Board found that 1.3% of dislocated workers in California who were participating in Workforce Investment Act (WIA) programs in 2010 were homeless. (*Results Achieved Under the Workforce Investment Act [WIA] for Program Year 2010-2011*, California Workforce Investment Board Annual Report)

The table below identifies the proportion of worker households for each non-residential building type that fall into the Extremely Low-Income tier (under 30% of Median Income). The detailed methodology used in formulating these estimates is presented in Section III, pages 30 to 32 of this report. As shown below, it is estimated that 18% of hotel and retail worker households fall into the Extremely Low-Income tier. The actual proportion may be higher – the State Employment Development Department (EDD) data utilized in the analysis annualizes all worker incomes based upon the assumption that they have full-time employment (anecdotally we know part-time work to be prevalent especially in the retail sector). Other land use categories also have a small percentage of worker households that fall into the Extremely Low-Income tier. Given the survey information suggesting homeless individuals do participate in the labor force, it follows then that a small portion of jobs added by new workspace buildings are likely to be held by homeless individuals, particularly with jobs near the lower end of the pay scale.

Percent of Worker Households					
	Office	**Hotel**	**Retail**	**R&D/Manufacturing/ Industrial**	**Warehouse/ Storage**
Extremely Low Income	2.8%	18.3%	18.0%	2.7%	5.1%

TABLE II-1

AFFORDABLE UNIT PRODUCTION
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

NET INCREASE IN HOUSING UNITS 1990-2012[1]

Year	Total
1990	6,921
1991	4,860
1992	4,570
1993	3,213
1994	2,912
1995	2,233
1996	2,394
1997	3,362
1998	5,646
1999	4,904
2000	2,526
2001	4,107
2002	6,265
2003	4,930
2004	6,448
2005	5,860
2006	3,776
2007	4,668
2008	5,710
2009	1,291
2010	645
2011	1,165
2012	2,096
Total: 1990 - 2012	**90,502**
Annual Avg: 1990 - 2012	**3,935**
Total: 1990 - 2007	**79,595**
Total: 1999 - 2012	**54,391**
Annual Avg: 1999 - 2012	**3,885**

TOTAL UNITS BY AFFORDABILITY LEVEL, 1999-2012[2]

Affordability Level	Total Affordable	
	Units	% Share
Very Low: < 50% Median Income	3,263	53%
Low: 50 - 80% Median Income	2,470	40%
Moderate: 80 - 120% Median Income	444	7%
Total Affordable Units	**6,177**	**100%**
Annual Average	**441**	

Affordable Units as Share of Average Housing Unit Production Rate[3]	**11%**

[1] Source: California Department of Finance.

[2] Affordable unit count is based on two sources: 1999-2004 data represents completed and pipeline units included in the Manager's report dated July 31, 2002 regarding the status of the City's Comprehensive Affordable Housing Strategy. 2005-2012 data is based on permitted units included in the Annual Housing Element Progress Report.

[3] Based on annual average affordable units 1999 through 2012 and annual average net increase in housing units 1999 through 2012.

TABLE II-2

HISTORICAL RELATIONSHIP: EMPLOYMENT GROWTH, RESIDENTIAL UNIT DEMAND
JOBS HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Housing Demand Generated by Working Households			
Job Growth - per SANDAG [1]			
1990 Jobs		673,722	
2008 Jobs		821,521	2008 is SANDAG benchmark year
Net Jobs Added 1990-2007	22%	147,799	jobs
Worker Households @ 1.72		85,930	worker households
Housing Demand Generated by Retiring Workers			
Population Aged 65 - 85:	1990[2,3]	103,292	
Population Aged 65 - 85:	2008[1,3]	121,396	
Increase		18,104	
Not in Labor Force[4,6]	85.20%	15,425	
New Households Not in Labor Force, age 65 and older @[5,6]	1.85	8,345	retired households
Total Housing Demand		**94,274**	
Housing Units Added [7]			
New Units 1990 - 2007		79,595	housing units
Deficit for 1:1 Ratio		0.84	:1

[1] SANDAG 2050 Cities/County Forecast and SANDAG San Diego Profile based on US Census data.

[2] 1990 US Census.

[3] Does not include San Diegans older than 85, recognizing that a significant portion of this population will require additional services such as assisted living, nursing care, living with children, etc.

[4] 2006-2008 American Community Survey.

[5] Average household size, age 65 and older, San Diego County. 2006-2008 American Community Survey

[6] Data from the 2006-2008 American Community Survey (ACS) was used for consistency with the period applicable to the housing demand estimates.

[7] From Table II-1.

TABLE II-3

PROJECTION: EMPLOYMENT GROWTH, RESIDENTIAL UNIT DEMAND
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

I. SANDAG PROJECTIONS

Housing Demand Generated by Worker Households

Projected Job Growth - Per SANDAG [1]				
2008			821,521	2008 is SANDAG benchmark year
2030			928,178	
Increase			106,657	Jobs
Worker Households @	1.72		62,010	Worker Households

Housing Demand Generated by Retiring Workers

Population Aged 65 - 85:	2008[1,2]		121,396
Population Aged 65 - 85:	2030[1,2]		266,513
Increase			145,117
Not in Labor Force[3]		85.20%	123,640
New Households Not in Labor Force, age 65 and older @[4]		1.85	66,890
Total Housing Demand			**128,900**

Projected Housing Units - Per SANDAG [1]			
2008		508,436	
2030		629,475	
Increase		121,039	Housing Units

Relationship Housing Units to New Households

Deficit for 1:1 Ratio	0.94	:1

[1] SANDAG 2050 Cities/County Forecast.

[2] Does not include San Diegans older than 85, recognizing that a significant portion of this population will require additional services such as assisted living, nursing care, living with children, etc.

[3] 2006-2008 American Community Survey.

[4] Average household size, age 65 and older, San Diego County. 2006-2008 American Community Survey.

SECTION III – MICRO ECONOMIC JOBS/HOUSING ANALYSIS

This section presents a summary of the analysis of the linkage between five types of workplace buildings and the estimated number of worker households in the income categories that will, on average, be employed within those buildings. This section should not be read or reproduced without the narrative and analysis presented in the previous sections.

Analysis Approach and Framework

The micro analysis establishes the jobs/housing linkages for individual building types or land use activities. This section quantifies the connection between employment growth in San Diego and affordable housing demand.

The analysis approach is to examine the employment associated with the development of 100,000-square-foot building modules. The building size is used solely to facilitate understanding of the analysis by being able to avoid cumbersome fractions. Then, through a series of linkage steps, the number of employees is converted to households and housing units by affordability level. The findings are expressed in terms of numbers of households related to building area. In the final step, we convert the numbers of households for 100,000-square-foot buildings back to the per-square-foot level.

The building types or land use activities addressed in the analysis are:

- Office
- Hotel and other lodging
- Retail/entertainment
- Research and development/manufacturing/industrial
- Warehouse/storage

Section II presented information on the income categories addressed in this analysis. For a four-person household, the maximum qualifying income levels for 2013 are:

- Median Income – $75,900
- Very Low Income – under 50% of Median (up to $41,300)
- Low Income – 50% to 80% of Median (between $41,300 and $66,100)
- Moderate Income – 80% to 120% of Median (between $66,100 and $91,100)

The analysis is conducted using a model that KMA has developed for application in many other jurisdictions for which the firm has conducted similar analyses. The model inputs are all local data to the extent possible, and are fully documented.

Analysis Steps

Tables III-1 through III-4 at the end of this section summarize the nexus analysis steps for the five building types. Following is a description of each step of the analysis:

Step 1 – Estimate of Total New Employees

The first step in Table III-1 identifies the total number of direct employees who will work at or in the building type being analyzed. Average employment density factors are used to make the conversion. The density factors used in this analysis are:

- *Office* – 250 square feet per employee. This figure is right in the middle of typical office densities, which are usually found in the range of 200 to 300 square feet per employee depending on the character of the office activity (corporate headquarters vs. back office to illustrate extremes). The average is based on gross building area and takes into account the lobby, corridors, restrooms, etc.

- *Hotel* – One employee per room and 500 square feet per hotel room, or 500 square feet per employee. This rate covers a cross-section of hotel types from lower service hotels, where rooms may be smaller than 500 square feet, to higher service convention hotels, where average room size (inclusive of lobbies, restaurants, meeting space, etc.) is larger, but the number of employees per room is higher.

- *Retail* – 350 square feet per employee. This category covers a broad range of experience from high service restaurants, where densities are far greater than average, to some retail uses, such as furniture stores, where densities are far lower.

- *Research and Development/Manufacturing/Industrial* – 500 square feet per employee. Manufacturing employment densities are variable and depend on the nature of the manufacturing activity. This classification uses an aggregate density scaled to industries and uses that are appropriate for the San Diego economy including industrial parks, general light industrial uses, research and development, biotech manufacturing, machinery, electrical equipment, defense manufacturing, and transportation equipment.

- *Warehouse /Storage* – 2,000 square feet per employee. This category covers a broad range of facility types incorporating higher employment density facilities engaged in wholesale trade to transportation and storage facilities that tend to have lower employment densities.

All density factors are averages and individual uses can be expected to be fairly divergent from the average from time to time. (An ordinance variance provision usually addresses the possibility of a building that is so divergent from the average so as to need special treatment.)

For ease of analysis and understanding, KMA conducted the analysis on prototype buildings at 100,000 square feet. We have used this size building in order to count jobs and housing units in whole numbers that can be readily communicated and understood. At the conclusion of the analysis, the findings are divided by building size to express the linkages per square foot, which are very small fractions of housing units.

Based on the density factors outlined above, the number of employees in our hypothetical 100,000-square-foot buildings are as follows: Office will house 400 employees; Hotel 200 employees; Retail 286 employees; Research and Development/Manufacturing/Industrial 200 employees; and Warehouse/Storage 50 employees.

Step 2 – Adjustment for Changing Industries

This step is an adjustment to take into account any declines, changes, and shifts within all sectors of the economy and to recognize that new space is not always 100% equivalent to net new employees. As discussed in Sections I and II, a 16% adjustment is utilized to recognize the long-term shifts in employment occurring in San Diego County and the likelihood of continuing changes to the local economy.

Step 3 – Adjustment from Employees to Employee Households

This step (Table III-1) converts the number of employees to the number of employee households that will work at or in the building type being analyzed. This step recognizes that there is, on average, more than one worker per household, and thus the number of housing units in demand for new workers must be reduced. As noted in Section II, all non-working households, such as retired persons, students, and those on public assistance, have been eliminated from the workers per worker household ratio. The San Diego County average is 1.72 workers per worker households.

Step 4 – Occupational Distribution of Employees

The occupational breakdown of employees is the first step to arriving at income levels. Using the 2012 National Industry-Specific Occupational Estimates, a cross matrix of “industries” and occupations,

produced by the Bureau of Labor Statistics (BLS), we are able to estimate the occupational composition of employees in the five types of buildings. The occupations that reflect the expected mix of activities in the new buildings are presented in Appendix B Tables 1, 3, 5, 7, and 9.

- Office buildings' "industry" mix has to be tailored to reflect the types of activities attracted to office space in San Diego. These industries represent a mix of professional service activities including business and financial operations, insurance, architecture and engineering, computer and mathematical, legal, management, health care, and sales. Because there are significant regional differences in the composition of office building employment, KMA weighted the industry mix based on San Diego County employment levels to ensure that it is representative of San Diego's economic base. Office and administrative support occupations (i.e., clerical) comprise 27% of all office-related employment.

- Hotels employ workers primarily from three main occupation categories: building and grounds cleaning and maintenance (maid service, etc.), food preparation and serving related, and office and administrative support, which together make up 73% of hotel workers. Other hotel occupations include personal care, management, and maintenance and repair.

- Retail employment is dominated by three main occupation groups: food preparation and serving (33%), sales (32%), and office and administrative support (11%). These three occupations together account for 75% of retail workers. The remaining 25% of retail workers are in occupations that include transportation, cleaning, maintenance, and production.

- Manufacturing employment is concentrated in production occupations (32%), architecture and engineering occupations (12%), and office and administration occupations (10%). The remaining occupations include management, business and financial, computer and mathematical, and life, physical, and social science occupations.

- Warehouse and storage occupations consist of transportation and material moving occupations (27%), office and administrative support (23%), and sales and related occupations (21%). The remaining 29% is made up of management, business and financial, computer and mathematical, maintenance and repair, and production occupations.

The numbers in Step #4 (Table III-1) indicate both the percentage of total employee households and the number of employee households in our hypothetical 100,000-square-foot buildings.

Step 5 – Estimates of Employee Households Meeting the Lower Income Definitions

In this step, occupation is translated to income based on recent San Diego wage and salary information for the occupations associated with each building type. The wage and salary information indicated in Appendix B Tables 2, 4, 6, 8, and 10 provided the income inputs to the model. This step in the analysis calculates the number of employee households that fall into each income category for each size household.

Individual employee income data was used to calculate the number of households that fall into these income categories by assuming that multiple earner households are, on average, formed of individuals with similar incomes. In addition, the model recognizes that the number of workers is dependent upon household size, and includes a distribution of number of workers by household size. Employee households not falling into one of the major occupation categories per Appendix B Tables 2, 4, 6, 8, and 10 were assumed to have the same income distribution as the major occupation categories.

Step 6 – Estimate of Household Size Distribution

In this step, household size distribution is input into the model in order to estimate the income and household size combinations that meet the income definitions established by the State, as used by the City. The household size distribution utilized in the analysis is that of San Diego County since the City draws workers from throughout the County.

Step 7 – Estimate of Households that meet HUD Size and Income Criteria

For this step, the KMA model incorporates a matrix of household size and income to establish probability factors for the two criteria in combination. For each occupational group a probability factor was calculated for each income and household size level. This step is performed for each occupational category and multiplied by the number of households.

Table III-2 shows the result after completing Steps #5, #6, and #7. The calculated numbers of households that meet size and income criteria shown in Table III-2 are for the Very Low Income or under 50% of Median Income category. The methodology is repeated for each income tier. See Table III-3.

Summary by Income Level

Table III-3 indicates the results of the analysis for the additional income categories for the five prototypical 100,000-square-foot buildings. The table presents the number of households in each affordability category, the total number up to 120% of Median, and the remaining households earning over 120% of Median.

The table below summarizes the percentage of total new worker households that fall into each income category. As indicated, over 90% of retail and hotel worker households are below the 120% of Median Income level. Office worker households have the highest incomes on average, with only 17% of worker households below 50% of Median and 44% earning greater than 120% of Median. Warehouse and Manufacturing worker households are in between these extremes with a moderate number of workers in the Very Low Income category, but a significant share of employees in the Low and Moderate Income categories.

Percent of Worker Households by Income Category

	Office	Hotel	Retail	R&D/Manufacturing/ Industrial	Warehouse/ Storage
Very Low	17%	53%	52%	15%	26%
Low	23%	32%	32%	21%	29%
Moderate	17%	8%	10%	16%	17%
Total <120% AMI	56%	93%	94%	53%	72%

Adjustment for Commute Relationship

Table III-4 indicates the results of the analysis both before and after an adjustment for commute relationship. As discussed in Section II, 58.6% of the jobs in San Diego are estimated to be held by residents of the City. In other words, if the existing commute relationship were to hold for new employee households, 58.6% would be expected to reside in the City of San Diego, with the remainder distributed throughout the region, including across the border in Mexico. The estimates of households for each income category in a prototypical 100,000-square-foot building are adjusted downwards by this commute factor. This adjustment is not technically required for nexus purposes. The City could, for example, choose to include all housing demand in the nexus analysis. The City could also choose to use a factor other than the existing commute relationship that might incorporate policy considerations such as a goal to house a greater or lesser percentage of the work force locally.

Summary by Square Foot Building Area

The analysis thus far has worked with prototypical buildings of 100,000 square feet. In this step, the conclusions are translated to a per-square-foot level and expressed as coefficients. These coefficients state the portion of a household, or housing unit, by affordability level for which each square foot of building area is associated. See Table III-5.

This is the summary of the housing nexus analysis, or the linkage from buildings to employees, to housing demand by income level. We believe that it is a conservative approximation (i.e., it understates at the low end) of the households by income/affordability level associated with these building types.

TABLE III-1

NET NEW HOUSEHOLDS AND OCCUPATION DISTRIBUTION BY BUILDING TYPE
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Prototypical 100,000 Sq.Ft. Buildings	OFFICE	HOTEL	RETAIL	MANUF. / INDUSTRIAL	WAREHOUSE / STORAGE
Step 1 - Estimate of Employees per 100,000 Sq.Ft.					
Employee Density Factor (sq.ft./emp)	250	500 *	350	500	2,000
Number of Employees	400	200	286	200	50
Step 2 - Adjustment for Changing Industries and Long Term Declines in Employment (16%)	336	168	240	168	42
Step 3 - Adjustment for Number of Households (1.72)	195	98	140	98	24
Step 4 - Occupation Distribution[1]					
Management Occupations	6.8%	4.2%	2.3%	8.7%	6.2%
Business and Financial Operations	10.5%	1.4%	0.7%	6.9%	4.2%
Computer and Mathematical	7.9%	0.1%	0.2%	6.7%	2.8%
Architecture and Engineering	4.5%	0.0%	0.0%	12.3%	0.9%
Life, Physical, and Social Science	1.0%	0.0%	0.0%	9.1%	0.2%
Community and Social Services	0.3%	0.0%	0.0%	0.2%	0.0%
Legal	2.4%	0.0%	0.0%	0.2%	0.0%
Education, Training, and Library	0.1%	0.0%	0.0%	0.2%	0.0%
Arts, Design, Entertainment, Sports, and Media	1.6%	0.5%	1.4%	0.7%	0.9%
Healthcare Practitioners and Technical	8.2%	0.0%	1.7%	0.8%	0.3%
Healthcare Support	4.3%	0.4%	0.3%	0.2%	0.0%
Protective Service	2.3%	2.3%	0.3%	0.3%	0.1%
Food Preparation and Serving Related	0.3%	25.4%	33.2%	0.2%	0.1%
Building and Grounds Cleaning and Maint.	6.5%	29.3%	0.8%	0.5%	0.6%
Personal Care and Service	0.5%	7.1%	2.6%	0.1%	0.0%
Sales and Related	6.6%	2.5%	31.7%	2.7%	21.1%
Office and Administrative Support	27.1%	18.6%	10.5%	9.9%	23.1%
Farming, Fishing, and Forestry	0.0%	0.0%	0.1%	0.1%	0.8%
Construction and Extraction	0.9%	0.2%	0.2%	1.3%	0.3%
Installation, Maintenance, and Repair	3.0%	4.7%	4.8%	3.5%	6.5%
Production	2.6%	1.9%	2.4%	31.9%	5.3%
Transportation and Material Moving	2.5%	1.3%	6.7%	3.5%	26.5%
Totals	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Management Occupations	13.3	4.1	3.2	8.5	1.5
Business and Financial Operations	20.5	1.4	0.9	6.8	1.0
Computer and Mathematical	15.5	0.1	0.3	6.5	0.7
Architecture and Engineering	8.8	0.0	0.1	12.0	0.2
Life, Physical, and Social Science	1.9	0.0	0.0	8.9	0.0
Community and Social Services	0.7	0.0	0.0	0.2	0.0
Legal	4.6	0.0	0.0	0.2	0.0
Education, Training, and Library	0.3	0.0	0.0	0.2	0.0
Arts, Design, Entertainment, Sports, and Media	3.1	0.5	1.9	0.7	0.2
Healthcare Practitioners and Technical	16.0	0.0	2.4	0.8	0.1
Healthcare Support	8.4	0.4	0.4	0.2	0.0
Protective Service	4.6	2.2	0.4	0.3	0.0
Food Preparation and Serving Related	0.7	24.8	46.4	0.2	0.0
Building and Grounds Cleaning and Maint.	12.7	28.7	1.1	0.5	0.1
Personal Care and Service	1.0	6.9	3.6	0.1	0.0
Sales and Related	12.9	2.4	44.3	2.6	5.2
Office and Administrative Support	53.0	18.2	14.6	9.7	5.6
Farming, Fishing, and Forestry	0.1	0.0	0.1	0.1	0.2
Construction and Extraction	1.7	0.2	0.3	1.3	0.1
Installation, Maintenance, and Repair	5.9	4.6	6.6	3.4	1.6
Production	5.1	1.9	3.4	31.2	1.3
Transportation and Material Moving	4.8	1.3	9.4	3.4	6.5
Totals	**195**	**98**	**140**	**98**	**24**

* 1 employee per room @ 500 sq.ft./room

[1]See Tables in Appendix B for more information on how the percentages were derived.

TABLE III-2

ESTIMATE OF QUALIFYING HOUSEHOLDS BY INCOME LEVEL
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Prototypical 100,000 Sq.Ft. Buildings
Analysis for Households Earning Less than 50% Median

	OFFICE	HOTEL	RETAIL	MANUF. / INDUSTRIAL	WAREHOUSE / STORAGE
Step 5, 6, & 7 - Households Earning Less than 50% Median [1]					
Management	0.03	0.05	0.00	0.00	0.00
Business and Financial Operations	0.29	0.00	0.00	0.06	0.02
Computer and Mathematical	0.14	0.00	0.00	0.03	0.00
Architecture and Engineering	0.03	0.00	0.00	0.04	0.00
Life, Physical and Social Science	0.00	0.00	0.00	0.32	0.00
Community and Social Services	0.00	0.00	0.00	0.00	0.00
Legal	0.00	0.00	0.00	0.00	0.00
Education Training and Library	0.00	0.00	0.00	0.00	0.00
Arts, Design, Entertainment, Sports, and Media	0.00	0.00	0.00	0.00	0.00
Healthcare Practitioners and Technical	0.12	0.00	0.00	0.00	0.00
Healthcare Support	2.80	0.00	0.00	0.00	0.00
Protective Service	0.00	0.00	0.00	0.00	0.00
Food Preparation and Serving Related	0.00	16.07	29.67	0.00	0.00
Building Grounds and Maintenance	6.76	17.28	0.00	0.00	0.00
Personal Care and Service	0.00	3.94	0.00	0.00	0.00
Sales and Related	3.03	0.00	22.66	0.00	0.70
Office and Admin	13.80	8.12	5.62	2.36	1.82
Farm, Fishing, and Forestry	0.00	0.00	0.00	0.00	0.00
Construction and Extraction	0.00	0.00	0.00	0.00	0.00
Installation Maintenance and Repair	0.00	1.07	1.11	0.00	0.23
Production	0.00	0.00	0.00	9.83	0.43
Transportation and Material Moving	0.00	0.00	4.44	0.00	2.59
HH earning less than 50% Median - major occupations	27.01	46.52	63.51	12.64	5.79
HH earning less than 50% Median - all other occupations	5.75	5.56	9.53	2.13	0.44
Total Households Earning Less than 50% of Median	**32.8**	**52.1**	**73.0**	**14.8**	**6.2**

[1] See Tables in Appendix B for additional information on Major Occupation Categories

TABLE III-3

WORKER HOUSEHOLDS BY AFFORDABILITY LEVEL
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Analysis for Households Before Commute Adjustment
Per 100,000 sq. ft. of building area.

	OFFICE	HOTEL	RETAIL	MANUF. / INDUSTRIAL	WAREHOUSE / STORAGE
NUMBER OF HOUSEHOLDS BY INCOME TIER					
Under 50% Median Income	32.8	52.1	73.0	14.8	6.2
50% to 80% Median Income	44.1	30.8	45.4	20.9	7.0
80% to 120% Median Income	33.1	7.9	13.2	15.8	4.2
Subtotal to 120% AMI	**110.0**	**90.8**	**131.6**	**51.5**	**17.5**
Above 120% Median	85.5	7.0	8.0	46.3	6.9
Total New Worker Households	**195.5**	**97.7**	**139.6**	**97.7**	**24.4**
PERCENTAGE OF HOUSEHOLDS BY INCOME TIER					
Under 50% Median Income	16.8%	53.3%	52.3%	15.1%	25.5%
50% to 80% Median Income	22.6%	31.6%	32.5%	21.3%	28.7%
80% to 120% Median Income	16.9%	8.0%	9.5%	16.2%	17.4%
Subtotal to 120% AMI	**56.2%**	**92.9%**	**94.2%**	**52.7%**	**71.6%**
Above 120% Median	43.8%	7.1%	5.8%	47.3%	28.4%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Notes:

[1] Before commute adjustment.

TABLE III-4

WORKER HOUSEHOLDS BY AFFORDABILITY LEVEL AFTER COMMUTE ADJUSTMENT
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

PROTOTYPICAL 100,000 SQ. FT. BUILDINGS

BEFORE COMMUTE ADJUSTMENT

	Number of Households[1]				
	OFFICE	**HOTEL**	**RETAIL**	**MANUF. / INDUSTRIAL**	**WAREHOUSE / STORAGE**
Under 50% of Median Income	32.8	52.1	73.0	14.8	6.2
50% to 80% of Median Income	44.1	30.8	45.4	20.9	7.0
80% to 120% of Median Income	33.1	7.9	13.2	15.8	4.2
Total	**110.0**	**90.8**	**131.6**	**51.5**	**17.5**

AFTER 58.6% Commute Adjustment

	Number of Households[1]				
	OFFICE	**HOTEL**	**RETAIL**	**MANUF. / INDUSTRIAL**	**WAREHOUSE / STORAGE**
Under 50% of Median Income	19.2	30.5	42.8	8.7	3.7
50% to 80% of Median Income	25.9	18.1	26.6	12.2	4.1
80% to 120% of Median Income	19.4	4.6	7.7	9.3	2.5
Total	**64.4**	**53.2**	**77.1**	**30.2**	**10.2**

[1] Per 100,000 sq. ft. of building area

TABLE III-5

HOUSING DEMAND NEXUS FACTORS PER SQ.FT. OF BUILDING AREA
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

WITH COMMUTE ADJUSTMENT AT 58.6%

	Number of Housing Units per Square Foot of Building Area[1]				
	OFFICE	**HOTEL**	**RETAIL**	**MANUF. / INDUSTRIAL**	**WAREHOUSE / STORAGE**
Under 50% Median Income	0.00019197	0.00030524	0.00042797	0.00008659	0.00003652
50% to 80% Median Income	0.00025862	0.00018071	0.00026580	0.00012227	0.00004109
80% to 120% Median Income	0.00019374	0.00004607	0.00007734	0.00009274	0.00002487
Total	**0.00064433**	**0.00053202**	**0.00077111**	**0.00030160**	**0.00010249**

[1]Calculated by dividing number of household in bottom of Table III-4 by 100,000 to convert households per 100,000 sq. ft. building to households per 1 sq. ft. of building.

SECTION IV: TOTAL HOUSING LINKAGE COSTS

This section takes the conclusions of the previous section on the number of households in the Very Low, Low, and Moderate Income categories associated with each building type and identifies the total cost of assistance required to make housing affordable. This section puts a cost on the units for each income level to produce the "total nexus cost."

A key component of the analysis is the size of the gap between what households can afford and the cost of producing additional housing in San Diego, known as the "affordability gap." The analysis uses a standard methodology consistent with SDHC's policies to determine what households can afford, and compares that to the cost of providing additional housing. The analysis is conducted for various household sizes in three categories of Area Median Income: under 50% (Very Low Income), 50% to 80% (Low Income), and 80% to 120% (Moderate Income). Income definitions for housing programs are established by the State of California Department of Housing and Community Development (HCD) for varying household sizes, as presented in Section II and summarized in Table IV-1.

For the purposes of the nexus analysis, rental housing is assumed for the Very Low and Low Income categories, while ownership units are assumed for the Moderate Income category.

Project Descriptions

In order to determine the affordability gap, there is a need to match a household at each income level with a unit type and size according to government regulations and policies. The prototypical projects for both rental and ownership units are designed to represent what SDHC is most likely to assist in the future.

SDHC has typically assisted two types of rental development: garden-style apartments and higher density stacked-flats over podium apartments. Similarly, with ownership units, SDHC has assisted both lower density townhomes and higher density stacked-flat condominiums. "Greenfield" sites available for multi-family development are increasingly rare within the City of San Diego, and land values have risen significantly over the past decade as vacant sites have been absorbed. As a result, an increasing proportion of the affordable housing developments assisted by SDHC will involve higher densities as well as structured parking. Therefore, the analysis has assumed that 40% of the affordable units will be developed as garden or townhome units, and 60% will be developed as stacked flat condominiums over podium parking. All units are assumed to have two bedrooms. The average three-person household is assumed to be accommodated in a two-bedroom unit, per local policy.

Detailed descriptions of the development prototypes, including development costs, affordable values, and the affordability gap calculations, can be found in the tables at the end of this section. A brief overview is presented here.

Project descriptions for the development prototypes can be summarized as follows:

- Garden-style apartments are assumed to be wood-frame construction, built at a density of 25 units to the acre, with 950-square-foot two-bedroom units. Parking is provided at 1.50 spaces per unit.

- Stacked-flat apartment units are built at a density of 50 units to the acre, with 800-square-foot two-bedroom units. The buildings are assumed to have four stories of wood-frame construction over a podium. Structured parking is provided at 1.30 spaces per unit.

- Townhome units are assumed to be 1,200-square-foot two-bedroom units, with two parking spaces in an attached garage. The units are built at a density of 20 units to the acre.

- The higher density condominium units are estimated at 1,000 square feet, with 1.75 spaces per unit of structured parking. The building is built at a density of 45 units to the acre, with wood-frame construction over a parking podium.

The parking ratios used for the rental development prototypes reflect the City's recently adopted parking regulations for Reduced Parking Demand Housing (§142.0527, Chapter 14, Article 2, Division 5 of the San Diego Municipal code). The ordinance, which was adopted by the San Diego City Council in November 2012, allows for the application of lower parking requirements for affordable housing rental developments.

Maximum affordability gaps are determined based on the top end of the income categories. This is a conservative assumption, which produces a lower affordability gap average than reality, since not all households have income at the top end of the range. For Very Low Income households, rents are set to be affordable at 50% of Median Income, and for Low Income households, at 80% of Median Income. For Moderate Income households, maximum sales prices are calculated based on 120% of Median Income, with 35% of income set aside for housing (as opposed to 30% for rental units).

Development Costs

The cost of developing new residential units in San Diego was assembled from a number of sources. Land costs were gathered from recent land sale data collected by KMA. KMA is also actively working on a number of rental and condominium projects at various locations in the San Diego area and has recent developer pro forma financial analyses from which to draw cost information. Using these sources, KMA prepared a summary of average total development costs, broken down into the major cost components: land acquisition, direct or construction costs, indirect costs, and financing costs.

Affordability Gap

The KMA financial pro formas estimating the affordability gap for the above prototypes are presented in Appendix C Tables 1-17. Each pro forma contains:

i. A project description;

ii. Estimates of development costs;

iii. Stabilized net operating income for the rental prototypes based on two affordability scenarios: (a) all units affordable to households at 50% AMI (Very Low Income); and (b) all units affordable to households at 80% AMI (Low Income);

iv. Maximum affordable sales price for the ownership prototypes based on all units affordable to households at 120% AMI (Moderate Income);

v. Estimates of maximum warranted investment for the rental prototypes, which include supportable debt and/or equity investment, and tax credit equity investment for the Very Low Income rental prototype; and

vi. The resulting financing gap generated by the development prototype reflective of the difference between warranted investment and development costs for rental units, and the difference between net sales proceeds and development costs for ownership units.

The inputs and assumptions used in the KMA pro formas are based on KMA's experience with comparable developments throughout San Diego. In particular, KMA notes the following:

- The cost estimates do not assume a prevailing wage requirement.

- The City of San Diego is diverse in terms of real estate market factors. Therefore, the KMA pro formas assumed land costs ranging from a low of $25 per square foot to a high of $50 per square foot of land, reflecting project location and achievable density.

- As specific sites have not been defined for this study, KMA assumed an allowance for off-site improvements ranging between $3 and $5 per square foot of site area, and an allowance for on-site improvements ranging from $10 to $15 per square foot of site area.

- It is assumed that Very Low Income units will be financed with tax-exempt bonds combined with the 4% Low Income Housing Tax Credit. KMA did not assume that Very Low Income units could be financed with 9% Low Income Housing Tax Credits due to the highly competitive nature of this funding source.

- Low and Moderate Income units are assumed to be financed using conventional debt and equity financing sources.

- The affordability gap conclusions resulting from the KMA pro forma analyses are summarized as follows:

Rental	**Garden Apartments**	**Stacked Flats Over Podium Parking**	**Average Rental** (1)
Very Low Income (50% AMI)	($108,000)	($139,000)	($127,000)
Low Income (80% AMI)	($105,000)	($164,000)	($140,000)

Ownership	**Townhomes**	**Stacked Flats Over Podium Parking**	**Average Ownership** (1)
Moderate (120% AMI)	($12,000)	($93,000)	($61,000)

(1) Assumes 40% of affordable units delivered in lower density developments (garden apartments) and 60% of affordable units delivered in higher density developments (stacked flats over podium parking).

Total Linkage Costs

The last step in the linkage fee analysis marries the findings on the numbers of households at each of the lower income ranges associated with the five types of buildings to the affordability gaps, or the costs of delivering or housing for them in San Diego.

Table IV-2 summarizes the analysis. The affordability gaps are drawn from the prior discussion. Demand for affordable units at each of the lower income ranges that is generated per square foot of building area is drawn from Table III-5 in the previous section. At the right, the "Nexus Cost Per Square Foot" shows the results of the calculation: affordability gap times the number of units per square foot of building area.

The total nexus costs for the five building types are as follows:

Office	$72.41
Hotel	$66.88
Retail	$96.28
R&D/Manufacturing/Industrial	$33.78
Warehouse/Storage	$11.91

These costs express the total linkage or nexus costs per square foot for the five building types. These total nexus costs represent the ceiling for any requirement placed on new construction for affordable housing. The totals are not recommended levels for fees; they represent only the maximums established by this analysis, below which fees or other requirements may be set.

Conservative Assumptions Underlying the Nexus Cost Estimates

In establishing the total nexus cost, many conservative assumptions were employed in the analysis that result in a total nexus cost that may be understated by a considerable amount. These conservative assumptions are summarized below.

1. Only direct employees are counted in the analysis. Many indirect employees are also associated with each new workspace. Indirect employees in an office building, for example, include janitors, window washers, landscape maintenance people, delivery personnel, and a whole range of others. Hotels do have many of these workers on staff, but hotels also "contract out" a number of services that are not taken into account in the analysis.

2. Annual incomes for workers reflect full time employment based upon the California Employment Development Department's convention for reporting the compensation information. Of course many workers work less than full time; therefore, annual compensations used in the analysis are probably overstated especially for retail which tends to have a high number of part-time employees.

3. Using small households produces lower affordability gaps than larger households in larger units.

4. Affordable rents and sale prices are based upon the top of each income range. For example, units for Very Low Income households (0% to 50% AMI), have rents based on 50% of AMI. This is a particularly conservative assumption, in that the number of households generated at the Extremely Low Income level is significant for certain non-residential building types. KMA estimates that at least 18% of worker households generated by the Hotel and Retail building types are Extremely Low Income Households (30% of AMI). This income level equates to $19,850 for a two-person household, $22,300 for a three-person household, and $24,800 for a four-person household. These

households earn close to the California minimum wage -- $8.00 per hour -- depending on the number of workers in the household. Households at these income levels typically have the fewest housing options, and are most at risk of homelessness.

5. The estimates of affordability gaps for units at 50% of Area Median Income assume the availability of tax-exempt financing and 4% Low Income Housing Tax Credits. This financial assistance is competitively allocated and the investment market for tax credits fluctuates over time. Incorporating this external funding source into the gap analysis results in lower gaps to be funded at the local level.

In completing the 2010 nexus analysis, KMA and SDHC participated in several stakeholder workshops. Based on input received in these workshops, KMA incorporated the following additional modifications to the nexus analysis.

6. Long-term shifts in the regional economy can result in declines in employment in certain industries even as other industries add jobs. An adjustment is included to account for the fact that some new jobs will be filled by workers who are downsized from a declining industry and who already have housing locally. As described in Section I, KMA incorporated a -16% reduction in the nexus analysis to account for long-term unemployment resulting from declining industries.

7. The results of the nexus analysis are adjusted downward to reflect existing commute patterns, including an estimate of workers commuting from Mexico. Only households likely to seek housing in the City are included based on the existing commute pattern. This existing relationship is influenced by the availability of affordable housing in the City. Incorporating this commute adjustment results in a larger reduction in the fee amounts supported by the nexus study.

In summary, many less conservative assumptions could be made that would result in higher linkage costs.

TABLE IV-1

INCOME DEFINITIONS, 2013
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

INCOME - UPPER END FOR EACH CATEGORY

Family Size	Very Low Income 50% AMI	Low Income 80% AMI	Moderate Income 120% AMI
1 Person	$28,900	$46,250	$63,750
2 Persons	$33,050	$52,900	$72,900
3 Persons	$37,150	$59,500	$82,000
4 Persons	$41,300	$66,100	$91,100
5 Persons	$44,600	$71,400	$98,400

Source: California Department of Housing and Community Development.

TABLE IV-2

TOTAL HOUSING NEXUS COST
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

WITH COMMUTE ADJUSTMENT AT 58.6%

	Affordability Gap[1]	Nexus Cost Per Sq. Ft.				
INCOME CATEGORY		**OFFICE**	**HOTEL**	**RETAIL**	**MANUF. / INDUSTRIAL**	**WAREHOUSE / STORAGE**
Under 50% of Median Income[2]	$127,000	$24.38	$38.77	$54.35	$11.00	$4.64
50% to 80% of Median Income[2]	$140,000	$36.21	$25.30	$37.21	$17.12	$5.75
80% to 120% of Median Income[3]	$61,000	$11.82	$2.81	$4.72	$5.66	$1.52
Total		**$72.41**	**$66.88**	**$96.28**	**$33.78**	**$11.91**

1. Assumes two-bedroom units. Affordability gap for under 50% of Median category assumes 4% tax credits.
2. Assumes households are housed in rental units.
3. Assumes households are housed in ownership units.

SECTION V – MATERIALS TO ASSIST IN UPDATING THE FEE PROGRAM

The purpose of this section is to provide guidance to policy makers in setting fee levels and designing the program. A particular focus is devoted to facilitating an understanding of whether the existing linkage fees or proposed fee increases are likely to alter development decisions, or drive activity to other jurisdictions.

As indicated at the end of the previous section, the nexus analysis establishes maximum fee levels supported by the analysis. Recognizing a variety of City objectives, policy makers may set the fees at any level below the maximum, and may design other program features to meet local goals and objectives.

The materials in this section are not part of the nexus analysis. Instead, this section provides an assembly of materials that helps answer the questions frequently asked when designing or updating a fee program:

- How can the fee level be selected?
- What do other cities do in their programs?
- What are some of the options for indexing the fee over time?

Fee Levels

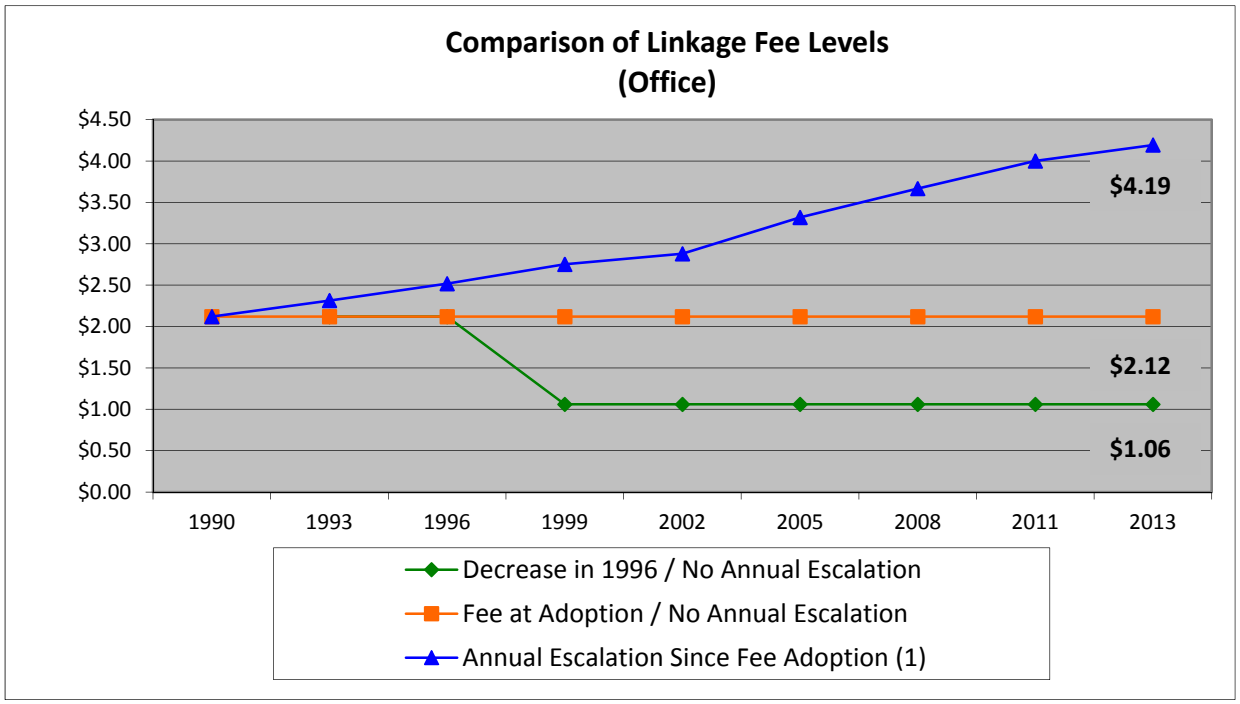
Existing Linkage Fee Levels

Before presenting approaches to fee revisions, it is useful to briefly review linkage fee levels since the original program was adopted. All non-residential building types are subject to the fee. The City's Department of Development Services determines the building type and the applicable fee. In 1996, the City Council reduced the fee by half to spur business development. The fee has not been adjusted since 1996.

	Fee at Adoption	Fee Since 1996
Office	$2.12	$1.06
Hotel	$1.28	$0.64
Retail	$1.28	$0.64
R&D	$1.60	$0.80
Manufacturing	$1.28	$0.64
Warehouse	$0.54	$0.27

As shown in Table V-I, KMA compared the actual linkage fee levels for the years 1990, 1996, and 2013 against: (1) the fee levels if no adjustment had been made in 1996; and (2) the fee levels assuming an annual escalation of the fee based on the Construction ENR Building Cost Index, as allowed under the existing ordinance.

A graphic representation of the KMA comparison for the Office fee appears below. As shown, the Office fee at adoption was $2.12, the fee was decreased by half to $1.06 in 1996, and has remained the same over the past 23 years. Assuming the Office fee was not reduced in 1996 and no other adjustments were made since adoption, the office fee at adoption would have remained constant at $2.12 per square foot between 1990 and 2013. Assuming the fee was subject to an annual escalation factor, as allowed in the ordinance, the fee would have increased from $2.12 per square foot in 1990 to $4.19 per square foot by 2013.



(1) Source: McGraw Hill Construction ENR Building Cost Index.

Historical Fee Collection

The linkage fee represents the primary source of funds for SDHC's Housing Trust Fund, accounting for 77% of the Housing Trust Fund's total revenues since Fiscal Year 1992. To date, SDHC has collected a total of $53.6 million in linkage fee revenues.

Fee revenue collected by SDHC can be examined by type of development. For example, over the past seven years, SDHC has collected a total of $11.3 million in linkage fee revenues from 14.3 million SF of non-residential development. As shown below, the majority of the revenues came from office buildings (60%), followed by research and development buildings (11%), and retail buildings (11%).

Building Type	FY 2006 – FY 2012 Non-Residential Development (SF)	FY 2006 – FY 2012 Linkage Fee Revenue
Office	6,300,000 SF	$6,677,000
R&D	1,553,000 SF	$1,242,000
Retail	1,899,000 SF	$1,209,000
Hotel	867,000 SF	$555,000
Warehouse	2,040,000 SF	$548,000
School	685,000 SF	$548,000
Manufacturing	609,000 SF	$390,000
Total [(1)]	**14,258,000 SF**	**$11,290,000**

[(1)] Reflects totals after adjustments and credits.

Source: City of San Diego.

Estimate of Foregone Fee Revenue

As indicated previously, the linkage fee was reduced by half in 1996. For illustrative purposes, KMA estimated the amount of fee revenue foregone under two scenarios:

- Test 1: Linkage fees collected assuming no adjustment to the fee in 1996; and
- Test 2: Linkage fees collected assuming an annual escalation of the fee based on the Construction ENR Building Cost Index.

As presented in Table V-2, and summarized below, Test 1 yielded a total of $92.6 million in linkage fee revenues, and Test 2 yielded a total of $123.9 million, differences of $39.3 million and $70.6 million, respectively, from the actual revenue amount collected.

As shown below, assuming a typical per-unit affordable housing subsidy of $100,000 for the period 1992-2013, an estimate of 393 additional units could have been developed under Test 1 (no adjustment made to the fee in 1996). Similarly, under Test 2 (annual escalation in the fee based on the construction cost index), an estimated additional 705 units could have been developed.

	Actual Collected	Test 1: No Adjustment in 1996	Test 2: No Adjustment in 1996 + Escalation (1)
FY 1992 – 2013	$53.3 mm	$92.6 mm	$123.9 mm
Potential Number of Additional Units Developed @ Typical Subsidy of $100,000/unit(2)		393 units	705 units

(1) Based on annual McGraw Hill Construction ENR Building Cost Index History.

(2) Reflects historic estimate of typical financing gap amounts, 1992-2013.

Linkage Fee Levels in the Context of San Diego Development Economics

When considering fee levels, there are several economic or real estate factors that may be taken into account in recommending or enacting affordable housing requirements. A primary concern is that fee levels not be so onerous that they significantly constrain development.

Survey of Linkage Fee Programs

As part of this study, KMA reviewed linkage fee programs in approximately 25 other cities and counties in California ranging in population from 7,000 to 1.4 million. A relative perspective on how the City's existing linkage fee program compares with programs in other jurisdictions in California is presented in Table V-3 and summarized below:

Current Level of Fee per SF	City of San Diego	State of California (range of findings)		
Office	$1.06	$0.58	-	$22.83
Hotel	$0.64	$0.64 (1)	-	$17.10
Retail	$0.64	$0.64	-	$21.30
R&D	$0.80	$0.57	-	$15.21
Manufacturing	$0.64	$0.28	-	$18.44
Warehouse	$0.27	$0.08	-	$18.44
Thresholds	No minimum threshold	25,000 SF	-	No minimum threshold
Geographic Exemptions	Excludes some geographic areas (enterprise zones)	redevelopment areas	-	No exemptions
Specific Use Exemptions	Development by government entities.	churches, educational facilities, hospitals, child care, non-profits, etc.	-	No exemptions

(1) Excludes jurisdictions where fee paid on a per-room basis.

Note: The chart has been assembled to present an overview, and as a result, terms are simplified.

Ordinance or Program Features

A Housing Impact Fee program often includes features to address a jurisdiction's policy objectives or specific concerns. The most common are:

- *Minimum Threshold Size* – A minimum threshold sets a building size over which fees are in effect. As shown above, San Diego does not have a minimum threshold, while other jurisdictions have thresholds as high as 25,000 square feet. In general, the programs with the highest fees tend to have more significant thresholds. Programs with low fees often have no thresholds and all construction is subject to the fee.

- *Geographic Area Exemptions* – Some cities with linkage fee programs exclude specific areas such as redevelopment areas. San Diego's program previously allowed for the exemption of new businesses developed in San Diego's two enterprise zones: the Metro Zone (formerly the Southeast/Barrio Logan Enterprise Zone) established in 1983 and the South Bay Enterprise Zone established in 1991. These zones have since been incorporated into the San Diego Regional Enterprise Zone. In July 2013, Governor Brown signed Assembly Bill (AB) 93 and Senate Bill (SB) 90 (clean-up legislation to AB 93). The bills eliminate the State's Enterprise Zone (EZ) program effective January 1, 2014 and replace it with sales tax exemptions for the manufacturing and biotech industries, hiring tax credits within former EZ areas, and income tax credits for employers and businesses. As such, the exemption allowed for developments within the San Diego Regional Enterprise Zone would thereby cease on January 1, 2014.

- Specific Use Exemptions – Cities may also choose to exempt specific uses. For example, these may include churches, hospitals, child care centers, and development by non-profits.

Linkage Fees as a Percent of Total Development Costs

Policy makers may establish linkage fees at any level below the maximum nexus cost for the building types addressed in the analysis. One approach to establishing fee levels is based on comparing the linkage fee against the development costs associated with each building. This approach facilitates an evaluation of whether the amount is likely to affect development decisions.

In a city as large as San Diego, there is a broad range of conditions and development "products" that might be built for various building types or land uses. For example, office buildings can range from minimal one-story structures with surface parking, to multiple-story buildings with podium parking, to high-rises with subterranean parking. To cover the range, we have assembled prototypes for each of the major commercial and industrial building types.

KMA prepared base case project descriptions and development budgets for representative non-residential product types currently being developed in the San Diego market. The prototypes are used as a "starting point" on which to test the impact of potential linkage fees on development costs.

Tables V-4 through V-7 provide the development cost estimates for the prototypes analyzed by KMA, as follows:

- Office Prototypes:
  - Garden Office – 3 stories, surface parking
  - Suburban Mid-Rise Office – 5 stories, deck/structured parking
  - Urban High-Rise Office – 15 stories, subterranean parking

- Hotel Prototypes:
  - Extended Stay Hotel – 3 story, surface parking
  - Full-Service Mid-Rise Hotel – 6 stories, structured parking
  - Full-Service High-Rise Hotel – 15+ stories, subterranean parking

- Retail Prototypes:
  - Strip Retail Center – 1 story, surface parking
  - Community Retail Center – 1 story, surface parking
  - Urban Retail Center – 1-2 stories, deck/structured parking

- Industrial Prototypes:
  - Research and Development – 2–3 stories, surface parking
  - Manufacturing/Industrial – 1–2 stories, surface parking
  - Warehouse/Storage – 1 story, surface parking

KMA's experience with financial feasibility analyses for non-residential development proposals in San Diego was a major frame of reference in developing the prototypes and typical development cost estimates. The inputs and assumptions assumed by KMA are as follows (costs have been rounded):

- Acquisition costs were estimated on a per-square-foot basis. For each land use type, acquisition costs were estimated to range as follows (reflecting the multiple scenarios analyzed):

Acquisition Costs	Per Square Foot (SF) Site Area
Office	$25 - $300 /SF
Hotel	$25 - $300 /SF
Retail	$25 - $50 /SF
R&D	$30/SF
Manufacturing	$20/SF
Warehouse	$15 /SF

- Direct construction costs, including site improvements, parking, shell construction, tenant improvements, and furniture/fixtures/equipment, were estimated for each land use type as follows:

Direct Costs	Per Square Foot (SF) Gross Building Area
Office	$150 - $310 /SF
Hotel	$135 - $275 /SF
Retail	$130 - $230 /SF
R&D	$150/SF
Manufacturing	$105/SF
Warehouse	$80/SF

- Indirect and financing costs -- including factors such as architecture and engineering, legal and accounting, taxes and insurance, developer overhead fee, marketing and lease-up, loan fees, and construction interest reserve – were combined and estimated as a percent of total direct costs:

Indirect and Financing Costs	% of Direct Costs
Office	30% of Directs
Hotel	30% - 35% of Directs
Retail	30% of Directs
R&D	30% of Directs
Manufacturing	30% of Directs
Warehouse	30% of Directs

- Cost for public permits and fees were based on KMA's review of permit and fee data provided to KMA for comparable developments within the City of San Diego.

Permits and Fees	***Per Square Foot (SF) Gross Building Area***
Office	$8/SF
Hotel	$10/SF
Retail	$10/SF
R&D	$8/SF
Manufacturing	$8/SF
Warehouse	$8/SF

Overall, total development costs per square foot of building area are summarized below for each non-residential development prototype (ranges in cost reflect multiple scenarios). The columns to the right illustrate possible fee levels calibrated as a percent of total development costs, ranging from a low of 0.5% to a high of 2.0%.

Non-Residential Building Type	**Total Development Costs ($/SF GBA)**	**Average Development Costs ($/SF GBA)**	**Fee Level Per SF @ % of Total Costs**			
			0.5%	**1.0%**	**1.5%**	**2.0%**
Office	$264 - $489	$354	$1.77	$3.54	$5.32	$7.09
Hotel	$216 - $431	$315	$1.58	$3.15	$4.73	$6.30
Retail	$267 - $410	$331	$1.65	$3.31	$4.96	$6.61
R&D	$276	$276	$1.38	$2.76	$4.14	$5.52
Manufacturing	$203	$203	$1.02	$2.03	$3.05	$4.06
Warehouse	$152	$152	$0.76	$1.52	$2.28	$3.04

GBA = Gross Building Area.

For comparison purposes, the current fee and the fee at adoption can also be compared to total development costs for each building type. As shown below, the current fee reflects between 0.2% and 0.3% of current development costs and the fee at adoption reflects between 0.4% and 0.6% of current development costs.

Non-Residential Building Type	Total Development Costs ($/SF GBA)	Average Development Costs ($/SF GBA)	Current Fee (in place since 1996)		Fee at Adoption (in 1990)	
			$/SF GBA	% of Costs	$/SF GBA	% of Costs
Office	$264 - $489	$354	$1.06	0.3%	$2.12	0.6%
Hotel	$216 - $431	$315	$0.64	0.2%	$1.28	0.4%
Retail	$267 - $410	$331	$0.64	0.2%	$1.28	0.4%
R&D	$276	$276	$0.80	0.3%	$1.60	0.6%
Manufacturing	$203	$203	$0.64	0.3%	$1.28	0.6%
Warehouse	$152	$152	$0.27	0.2%	$0.54	0.4%

GBA = Gross Building Area.

Fee as Percent of Nexus Cost

Policy makers may establish fees at any level below the maximum fee for the building types identified in the KMA nexus analysis – Office, Hotel, Retail/Entertainment, Manufacturing/Industrial, Warehouse/Storage – (1) in the same proportion to the nexus conclusions, or (2) independently selecting the fee for each building type based on weighing policy considerations separately for each building type.

When the City adopted housing impact fees initially, fees were set at between 5% and 20% of the calculated nexus costs (depending on land use), which included only Very Low and Low Income tiers, or up to 80% of Area Median Income. The current analysis assumes up to 120% of Area Median Income, resulting in higher total nexus costs. In the event the City wishes to continue using this approach, the following table illustrates potential fee levels set at 10% of the nexus amounts for each building type:

Non-Residential Building Type	Nexus Costs	Potential Fee @ 10% of Nexus Cost
Office	$72.41	$7.24
Hotel	$66.88	$6.69
Retail	$96.28	$9.63
R&D/Manufacturing/Industrial	$33.78	$3.38
Warehouse/Storage	$11.91	$1.19

The principal advantage of this approach lies in its simplicity and avoidance of addressing each fee independently. The disadvantage is that there could be a disproportionate burden on one building type. Alternately, there could be lost opportunity in not charging a fee on a building type that could sustain a higher fee level.

Impact of Fee on Development

This section reviews historic construction activity and employment growth in the City of San Diego since the linkage fee was adopted. It also provides a qualitative assessment of the likelihood of the fee preventing construction from occurring in San Diego, and/or redirecting development to other jurisdictions.

Overview of Construction Activity

Table V-8 summarizes construction activity by land use type for the City of San Diego, the balance of San Diego County, and the State of California for the period from 1990 through 2012. Construction activity can be measured in terms of building permit valuation data compiled by the Construction Industry Research Board. Since 1990, approximately $4.8 billion in hotel, office, retail, and industrial development has been permitted in the City of San Diego. This represents average annual permit valuation of $207.5 million. The largest category of permit valuation was office use, representing $2.3 billion in valuation during 1990-2012.

Within the balance of the County, approximately $4.3 billion in development valuation was permitted in these land use categories during 1990-2012, representing approximately $189 million in average annual permit valuation. The largest categories were retail ($1.7 billion) and industrial ($1.5 billion).

The measure of construction activity in the City of San Diego can also be compared to the balance of the County on a proportionate share basis. The table below summarizes total permit valuation in the City of San Diego as a percent of the County total (inclusive of the City):

Building Permit Valuation, 1990-2012 Total	**City of San Diego**	**County of San Diego (including City)**	**City as Percent of County**
Office	$2,317.9 mm	$3,063.7 mm	76%
Hotel	$672.6 mm	$1,074.4 mm	63%
Retail	$946.8 mm	$2,643.2 mm	36%
Industrial	$835.6 mm	$2,326.3 mm	36%
Total	**$4,772.8 mm**	**$9,107.5 mm**	**52%**

As shown in the table, the City accounted for the majority of office and hotel development in the County during the time period. This finding suggests that the City of San Diego has continued to capture a greater share of new office and hotel development than the rest of the County. On the other hand, industrial and retail uses have developed more rapidly in the balance of the County than the City of San Diego. This trend is not surprising in light of the greater land availability which largely explains the significant expansion of business parks, as well as new residential communities with supporting retail uses, in suburban areas such as Carlsbad, San Marcos, and Chula Vista over the time period.

Overview of Employment Growth

Table V-9 summarizes trends in employment growth for the City of San Diego, the balance of San Diego County, and State of California for the period 1990 to 2011. To ensure a consistent data source, KMA relied on U.S. Census and State of California Employment Development Department (EDD) data to calculate employment growth. (Note that the employment figures in Section II are slightly different as they are based on SANDAG estimates). As shown in the table, the rates of job growth in all three areas over the time period are relatively similar. Total employment in the City of San Diego increased from 681,218 jobs in 1990 to 811,364 jobs in 2011. This represents a total increase of 130,146 jobs, and an average annual increase of 6,197 jobs or 0.8%.

The rates of employment growth in the balance of San Diego County and the State were similar to the City's growth rate, as shown in the table below. It should be noted that population growth within the City of San Diego lagged behind population growth in the balance of the County by an even greater amount. In other words, the lower employment growth rate for the City as versus the County is not meaningful when considered in context of the slower population growth occurring in the City during this same time period.

Change in Employment by Place of Work, 1990-2011	Average Annual Growth in Employment	Average Annual Growth in Population
City of San Diego	0.8%	0.8%
County of San Diego (excluding City)	2.0%	1.3%
State of California	0.6%	1.1%

Source: U.S. Census Bureau, State of California Employment Development Department, and State of California Department of Finance

The Burden of Paying for Impact Fees

The question is sometimes raised as to "who pays" for the housing impact fee. For example, does the burden fall on developers, end user/tenants, or landowners. Of course, the developer pays the fee at the time of building permit issuance. The question is focused on whether the fee is ultimately passed through to end users or tenants, results in reduced developer profits, or results in a reduction in land value achieved by the landowner who sells a development site to a developer.

It is the KMA view based on our experience with real estate economics that an impact fee charged for affordable housing functions similarly to any other development exaction. In other words, it is absorbed over time into the market for buying and selling of development sites. Whether this is true in the case of every development project depends on economic cycles, timing of land acquisition and entitlement,

and numerous other external factors. Obviously, if a proposed development site is already in use for another economically viable purpose, any increase in developer exactions will tend to delay the feasibility of implementing new development on the site.

Timing of Fee Payment

The question has been raised whether there is a measurable benefit to allowing the payment of the linkage fee to occur later than building permit issuance, e.g., at certificate of occupancy. The objective of this approach would be to offer an offsetting economic incentive to developers to help reduce the impact of the fee obligation. However, the reverse impact also holds – the City would receive the linkage fee revenue at a later date, and it would experience delays in implementing its affordable housing program.

The economic benefit to developer of paying a fee at certificate of occupancy, rather than building permit issuance, can be estimated in the form of savings in cost of funds or interest carrying costs. The chart below provides an illustration of the potential magnitude of interest carry savings to a developer for various fee levels. For this illustration, KMA has used an office building, ranging from a garden office to an urban high-rise. We have assumed construction periods ranging from a low of 12 months to a high of 24 months. In each case, we have assumed an annualized carrying cost of 9.0%, reflecting the blended cost of debt and equity needed for construction.

		Office		
		Garden	**Suburban Mid-Rise**	**Urban High-Rise**
Total Development Costs ($/SF GBA)		$264/SF	$310/SF	$489/SF
Construction Period		12 months	18 months	24 months
Fee Level		**Potential Interest Carry Savings**		
Existing Fee @	$1.06 /SF	$0.10 /SF	$0.14 /SF	$0.19 /SF
Fee @ 1.0% of Costs	$2.64 – $4.89/SF	$0.24 /SF	$0.42 /SF	$0.88 /SF
Fee @ 2.0% of Costs	$5.27 - $9.79 /SF	$0.47/SF	$0.84 /SF	$1.76 /SF

As shown above, depending on the type of office building, potential interest carry savings is estimated to range between $0.10/SF and $0.19/SF for the existing fee, $0.24/SF and $0.88/SF for a potential fee at 1.0% of costs, and between $0.47/SF and $1.76/SF for a potential fee at 2.0% of costs. As shown, the absolute savings for the existing fee is relatively minor because the existing fee itself is less than 0.5% of development costs.

In addition to the potential interest carry savings, it should also be recognized that the last dollars to raise in equity are often the most difficult to obtain and the most costly. As a result, for some projects the savings could be somewhat greater than that indicated above.

Discussion of Potential Indices for Fee Level Adjustment

There are a number of potential indices that could be used to adjust fee levels in the future. Some potential objectives that could potentially be taken into consideration in selecting an appropriate index for the fee are as follows:

Administrative Objectives

- Simple and easily administered
- Clear and objective, not subject to interpretation
- Tied to readily accessible and neutral third party published source

Potential Policy Objectives

- Maintain ability to mitigate impacts/fund affordable housing over long-term
- Maintain consistent fee burden over long-term
- Respond to economic cycles: fee relief during economic downturn, increased fees with a strong economy

The following chart reviews a range of potential indices that could be used to adjust the fee in the future.

Index	Concept / Description	Advantages	Disadvantages
#1 Building Cost Index (BCI)	Fees go up or down based on building construction costs. Published by Engineering News Record (ENR). Available at national average and for 20 cities (not San Diego; Los Angeles is nearest city available).	Very well established and the current index established in the ordinance. Consistent fee burden over time relative to construction costs.	May not trend with changes in non-construction development costs (land, other soft costs). May not trend with cost to produce affordable units. Only addresses cost side of the equation.

Index	Concept / Description	Advantages	Disadvantages
#2 Construction Costs Index (CCI)	Also published by ENR and similar to Building Cost Indices but with different weighting of labor and material cost categories.	Very well established. Consistent fee burden over time relative to construction costs.	May not trend with changes in non-construction development costs (land, other soft costs). May not trend with cost to produce affordable units. Only addresses cost side of the equation.
#3 Consumer Price Index (CPI)	Published by the U.S. Bureau of Labor Statistics. Available for major metro areas including San Diego.	Very well established. Generally tracks with inflation. Available for San Diego specifically.	May not trend with: - Construction costs (consistent fee burden) or - Cost to produce affordable units (consistent ability to mitigate impacts)
#4 Bureau of Labor Statistics (BLS) Construction Indices	BLS publishes "producer price indices" for a long list of industries.	Opportunity for index tied to specific types of construction.	Different indices for different uses somewhat more complicated.

Index	Concept / Description	Advantages	Disadvantages
#5 Housing Affordability Index	Metric tied to housing affordability. Fees go up as housing becomes less affordable. Based on what median household can afford versus median housing cost	Maintains consistent level of mitigation. Revenue increase as cost to produce unit increases.	Would not maintain consistent fee burden. Requires special calculation by the City and not produced by a neutral third party.

Recommendations

The decision to amend the City's Housing Impact Fees is a policy matter in which multiple City objectives are likely to be taken into consideration in addition to the goal of creating more affordable housing. Legally the City may select fees at any level up to the maximum supported by the nexus analysis; however, as a practical matter, most cities do not desire to set fees so high they become a deterrent to development. Accordingly, the focus of KMA's recommendations as outlined below is on bracketing an upper end of the range or maximum within which the City can have a reasonable degree of confidence that new development will not be significantly impaired.

Maximum Fee Levels

KMA's recommendation is that potential amended Housing Impact Fees be set within a range of up to 1.5% of total development costs. The recommended maximums are based on KMA's evaluation as to the fee increase that could be absorbed without a significant impact on development decisions. KMA further notes that the fees initially adopted in 1990 were set at a level equivalent to approximately 1.5% of development costs.

KMA's recommendations and other relevant benchmarks are summarized in the table below including: the current fee in place since 1996 (half the 1990 fees); the original 1990 fees; the fees today had the 1990 fees been indexed in accordance with the ENR index per the current ordinance; and the recommended maximum fee levels equivalent to 1.5% of development costs (using the development prototypes and cost estimates described earlier in this section). As noted previously, the current fee levels equate to 0.2% to 0.3% of development costs. All figures are expressed per square foot of gross building area.

Recommended Maximum Fee Levels for Consideration and Relevant Benchmarks

	Current Fee (Since 1996)	Fee as Adopted (in 1990)	Fee if Index the 1990 fees to today (ENR Index per Current Ordinance)	Recommended Maximum Fee Levels for Consideration (up to 1.5% of Development Costs)
Office	$1.06	$2.12	$4.19	$5.32
Hotel	$0.64	$1.28	$2.53	$4.73
Retail	$0.64	$1.28	$2.53	$4.96
Research & Development	$0.80	$1.60	$3.16	$4.14
Manufacturing/Industrial	$0.64	$1.28	$2.53	$3.05
Warehouse/Storage	$0.27	$0.54	$1.07	$2.28

Note: The nexus analysis combined research and development uses with manufacturing/industrial uses although research and development has a separate fee level in the ordinance.

Housing impact fees, like other development impact fees and exactions, ultimately become a factor in the price developers are willing to pay for development sites. A fee increase will, generally speaking, increase development costs and reduce the price developers will pay for sites. KMA's evaluation regarding the ability to absorb a fee increase up to the recommended maximum is based upon all the various criteria and considerations outlined above and a calibration of potential fee levels relative to land values. If fees are established at 1.5% of estimated development costs, it is estimated that a market adjustment in the value of development sites in the range of 5% to 10% could result for most non-residential building types. In our evaluation, the market will be able to adjust to such a change in a relatively short period. For example, if land values appreciated at an average rate comparable to inflation, then a 5% to 10% adjustment in value could be absorbed in two to three years. Fee levels higher than 1.5% of development costs will have a more significant impact on land value, and have the potential to delay or discourage new non-residential development.

As noted previously, the current Housing Impact Fees reflect between 0.2% and 0.3% of current estimated total development costs. Thus, new fees at 1.5% of development costs would represent an increase on the order of 1.2% to 1.3% of development costs.

Annual Escalation Index

Application of an annual index to the fee level is necessary to maintain the ability to mitigate impacts over time. KMA recommends leaving in place the current index: the Building Cost Index for twenty cities published by ENR. However, we recommend that the ordinance be modified to make application

of the index automatic rather than subject to a discretionary action by the City Council each year. As noted earlier, the Building Cost Index is well established, readily available, and would provide for a consistent fee burden over time relative to construction cost.

TABLE V-1

LINKAGE FEE LEVELS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

		1990	1996	2013
I.	**Decrease in 1996 / No Annual Escalation**			
	Office	$2.12	$1.06	$1.06
	Hotel	$1.28	$0.64	$0.64
	Retail	$1.28	$0.64	$0.64
	Research and Development	$1.60	$0.80	$0.80
	Manufacturing	$1.28	$0.64	$0.64
	Warehouse	$0.54	$0.27	$0.27
II.	**Fee at Adoption / No Annual Escalation**			
	Office	$2.12	$2.12	$2.12
	Hotel	$1.28	$1.28	$1.28
	Retail	$1.28	$1.28	$1.28
	Research and Development	$1.60	$1.60	$1.60
	Manufacturing	$1.28	$1.28	$1.28
	Warehouse	$0.54	$0.54	$0.54
III.	**Annual Escalation Since Fee Adoption** (1)			
	Building Cost Index (1)	*2,634*	*3,128*	*5,210*
	% Change from Previous Year		*0.6%*	*1.9%*
	Office	$2.12	$2.52	$4.19
	Hotel	$1.28	$1.52	$2.53
	Retail	$1.28	$1.52	$2.53
	Research and Development	$1.60	$1.90	$3.16
	Manufacturing	$1.28	$1.52	$2.53
	Warehouse	$0.54	$0.64	$1.07

(1) Source: McGraw Hill Construction ENR Building Cost Index.

TABLE V-2

TOTAL LINKAGE FEE REVENUES, FY 1992 - 2013
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

	Linkage Fee Revenues			
Fiscal Year	Actual Collected	Test 1: No Adjustment in 1996		Test 2: No Adjustment in 1996 plus Escalation (1)
1992	$6,211,000	$6,211,000		$6,211,000
1993	$1,899,000	$1,899,000	3.3%	$1,961,000
1994	$1,432,000	$1,432,000	5.9%	$1,567,000
1995	$2,242,000	$2,242,000	2.1%	$2,505,000
1996	$2,885,000	$2,885,000	0.6%	$3,241,000
1997	$1,859,000	$3,718,000	5.9%	$4,422,000
1998	$3,283,000	$6,566,000	1.8%	$7,948,000
1999	$5,398,000	$10,796,000	1.5%	$13,258,000
2000	$4,953,000	$9,906,000	2.3%	$12,443,000
2001	$3,382,000	$6,764,000	1.5%	$8,620,000
2002	$2,425,000	$4,850,000	0.8%	$6,231,000
2003	$1,645,000	$3,290,000	1.8%	$4,302,000
2004	$1,448,000	$2,896,000	3.2%	$3,908,000
2005	$2,262,000	$4,524,000	9.7%	$6,700,000
2006	$3,520,000	$7,040,000	5.0%	$10,947,000
2007	$2,949,000	$5,898,000	2.6%	$9,408,000
2008	$2,389,000	$4,778,000	2.6%	$7,819,000
2009	$677,000	$1,354,000	5.3%	$2,333,000
2010	$333,000	$666,000	0.0%	$1,147,000
2011	$662,000	$1,324,000	3.6%	$2,364,000
2012	$1,463,000	$2,926,000	2.9%	$5,376,000
2013	$307,000	$614,000	1.9%	$1,149,000
Total	**$53,317,000**	**$92,579,000**		**$123,860,000**
Potential Number of Additional Units Developed @ Typical Subsidy of $100,000 /Unit		**393 Units**		**705 Units**

(1) Based on annual McGraw Hill Construction ENR Building Cost Index History.

TABLE V-3

COMPARISON OF JOBS HOUSING LINKAGE FEE PROGRAMS, CALIFORNIA
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Jurisdiction	Yr. Adopted/ Updated	Current Fee Levels per SF	Thresholds & Exemptions	Build Option/ Other	Market Strength	Comments
High Fee Cities						
City and County of San Francisco Population: 797,983	1981 Updated in 2002, 07	• Office $22.83 • Hotel $17.10 • Retail & Entertainment $21.30 • R&D $15.21 • Integrated PDR $17.95 • Small Enterprise $17.95	25,000 GSF threshold	Yes May contribute land for housing	Very Substantial	Fee is adjusted annually based on the construction cost increases
City of Palo Alto Population: 63,475	1984 Updated in 2002	• Commercial & Industrial $18.44	No Minimum threshold Churches; colleges and universities; commercial recreation; hospitals, convalescent facilities; private clubs, lodges, fraternal organizations, private education facilities; and public facilities are exempt	Yes	Very Substantial	Fee is adjusted annually based on CPI
City of Menlo Park Population: 31,669	1998	• Office & R&D $14.71 • All other commercial and industrial $7.98	10,000 gross SF threshold Churches, private clubs, lodges, fraternal orgs, public facilities and projects with few or no employees are exempt	Yes, preferred May provide housing on- or off-site	Very Substantial	Fee is adjusted annually based on CPI
Medium Fee Cities						
County of Marin Population: 250,666	2003	• Office & R&D $7.19 • Retail & Restaurant $5.40 • Warehouse $1.94 • Manufacturing $3.74 • Hotel/Motel (/Room) $1,745	No minimum threshold	Yes, preferred	Substantial	
City of St. Helena Population: 5,838	2004	• Office $3.61 • Commercial & Retail $4.57 • Hotel $3.33 • Winery & Industrial $1.11	Small childcare facilities, churches, non-profits, vineyards, and public facilities are exempt	Yes, subject to city council approval	Substantial	
Town of Corte Madera Population: 9,191	2001	• Office $4.79 • R&D lab $3.20 • Light Industrial $2.79 • Warehouse $0.40 • Retail $8.38 • Com Services $1.20 • Restaurant $4.39 • Hotel $1.20 • Health Club & Rec $2.00 • Training facility/ School $2.39	No minimum threshold	N/A	Substantial	
City of Santa Monica Population: 89,153	1984 Updated in 2002	Office only • First 15,000 SF $5.06 • 15,000 + SF $11.24	15,000 sf exemption for new construction, 10,000 sf exemption for additions	Yes	Very Substantial	Includes fee for open space as well. Fees adjusted quarterly based on CPI. No comprehensive update since adoption.
City of Sunnyvale Population: 138,436	1984 Updated in 2003	• Industrial & Office $9.08	Applies only to the portion of the project that is in excess of allowable FAR (typically 0.35:1)	N/A	Very Substantial	
City of Mountain View Population: 73,394	2001 Updated in 2012	• Industrial, Office & High Tech $10.00 • Hotel, Retail & Entertainment $2.37	Fee is 50% less if building meets threshold: Office <10,000 SF Hotel <25,000 SF Retail <25,000 SF	Yes	Very Substantial	

Note: This chart has been assembled to present an overview, and as a result, terms are simplified. The information is recent but not all data has been updated as of the date of this report. In some cases, fees are adjusted by an index (such as CPI) which may not be reflected. For use other than general comparison, please consult the code and staff of the jurisdiction.

TABLE V-3

COMPARISON OF JOBS HOUSING LINKAGE FEE PROGRAMS, CALIFORNIA
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Jurisdiction	Yr. Adopted/ Updated	Current Fee Levels per SF		Thresholds & Exemptions	Build Option/ Other	Market Strength	Comments
Medium Fee Cities (Continued)							
City of Walnut Creek Population: 64,168	2005	• Office, retail, hotel and medical	$5.00	First 500 SF no fee applied	Yes	Very Substantial	Reviewed every five years
City of Oakland Population: 389,397	2002	• Office & Warehouse	$4.00	25,000 SF exemption	Yes Can build units equal to total eligible SF times 0.0004	Moderate	Fee due in 3 installments. Fee adjusted with an annual escalator tied to residential construction cost increases.
City of Cupertino Population: 57,459	1993	• Industrial, Office, Hotel, Retail, R&D • Planned Industrial Park Zones	$5.23 $2.62	No minimum threshold	N/A	Very Substantial	Fee is adjusted annually based on CPI
City of Berkeley Population: 111,008	1993	• All Commercial • Industrial	$4.00 $2.00	7,500 SF threshold	Yes	Substantial	Fee has not changed since 1993; may negotiate fee downward based on hardship or reduced impact
Low Fee Cities							
City of Napa Population: 76,560	1999	• Office • Hotel • Retail • Industrial & Wine Pdn & Small Warehouse • Warehouse (30-100K SF) • Warehouse (100K+ SF)	$1.00 $1.40 $0.80 $0.50 $0.30 $0.20	No minimum threshold Non-profits are exempt	Units or land dedication; on a case by case basis	Moderate/ Substantial	Fee has not changed since 1999
County of Napa Population: 135,377	Updated 2004	• Office • Hotel • Retail • Industrial • Warehouse	$2.00 $3.00 $2.00 $1.00 $0.80	No minimum threshold Non-profits are exempt	Units or land dedication; on a case by case basis	Moderate/ Substantial	There is a companion fee of 1% of construction costs on all residential construction
City of Petaluma Population: 57,265	2003	• Commercial • Industrial • Retail	$2.08 $2.15 $3.59	Fee is 50% less if located in redevelopment project area Schools and churches exempt	N/A	Moderate/ Substantial	
County of Sonoma Population: 478,551	2005	• Office • Hotel • Retail • Services • Industrial • Warehousing • Ag Processing	$2.40 $2.40 $4.15 $4.15 $2.48 $2.48 $2.48	First 2,000 SD exempt Non-profits, redevelopment areas are exempt	Yes Program specifies number of units per 1,000 SF	Moderate	Fee adjusted annually by ENR construction cost index
City of Cotati Population: 7,154	2006	• Commercial • Industrial • Retail	$2.08 $2.15 $3.59	First 2,000 SF exempt Non-profits exempt	Yes Program specifies number of units per 1,000 SF	Moderate	Fee adjusted annually by ENR construction cost index
City of Alameda Population: 73,239	1989	• Office • Retail • Warehouse • Manufacturing • Hotel/Motel (/Room)	$4.21 $2.14 $0.73 $0.73 $1,081	No minimum threshold	Yes Program specifies number of units per 100,000 SF	Moderate	Fee may be adjusted by CPI
City of West Hollywood Population: 34,564	1986	• Non-Residential	$2.85	N/A	N/A	Substantial	Fees adjusted by CPI annually

Note: This chart has been assembled to present an overview, and as a result, terms are simplified. The information is recent but not all data has been updated as of the date of this report. In some cases, fees are adjusted by an index (such as CPI) which may not be reflected. For use other than general comparison, please consult the code and staff of the jurisdiction.

TABLE V-3

COMPARISON OF JOBS HOUSING LINKAGE FEE PROGRAMS, CALIFORNIA
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Jurisdiction	Yr. Adopted/ Updated	Current Fee Levels per SF	Thresholds & Exemptions	Build Option/ Other	Market Strength	Comments
Low Fee Cities (Continued)						
City of Pleasanton Population: 69,220		• Commercial, Office & Industrial $2.83	No minimum threshold	N/A	Moderate	Fee adjusted annually
City of Sacramento Population: 463,537	1989 Most recent update, 2005	• Office $2.25 • Hotel $2.14 • R&D $1.91 • Commercial $1.80 • Manufacturing $1.41 • Warehouse/Office $0.82	No minimum threshold Mortuary, parking lots, garages, RC storage, Christmas tree lots, B&Bs, mini-storage, alcoholic beverage sales, reverse vending machines, mobile recycling, and small recyclable collection facilities	Pay 20% fee plus build at reduced nexus (not meaningful given amount of fee)	Moderate	North Natomas area has separate fee structure
City of San Diego Population: 1,296,437	1990 Fees reduced in 1996; have not been readjusted	• Office $1.06 • Hotel $0.64 • R&D $0.80 • Retail $0.64 • Manufacturing $0.64 • Warehouse $0.27	No minimum threshold Development by government entities. No exempted uses.	Can dedicate land or air rights in lieu of fee	Substantial	
City of Livermore Population: 79,710	1999	• Retail $0.90 • Service Retail $0.678 • Office $0.579 • Hotel (Per Room) $442 • Manufacturing $0.277 • Warehouse $0.08 • Business Park $0.574 • Heavy Industrial $0.2 • Light Industrial $0.18	No minimum threshold Church; private or public schools	Yes Negotiated on case-by-case basis	Moderate	
City of Folsom Population: 70,564	2002	• Office, Retail, Light Industrial, and Manufacturing $1.20 Up to 200,000 SF, 100% of fee; 200,000-250,000 SF, 75% of fee; 250,000-300,000 SF, 50% of fee; 300,000 and up, 25% of fee.	No minimum threshold Select nonprofits, small child care centers, churches, mini storage, parking garages, private garages, private schools, etc.	Yes Provide new or rehab housing affordable to very low income households. Also, land dedication	Moderate/ Substantial	Fee is adjusted annually based on construction cost index
County of Sacramento Population: 1,408,480	1989	• Office $0.97 • Hotel $0.92 • R&D $0.82 • Commercial $0.77 • Manufacturing $0.61 • Indoor Recreational Centers $0.50 • Warehouse $0.26	No minimum threshold Service uses operated by non-profits are exempt	Pay 20% fee plus build at reduced nexus (not meaningful given amount of fee)	Moderate	Currently in the process of updating
City of Elk Grove Population: 146,537	1988 (inherited from County when incorporated)	$30 flat fee plus: • Office $0.97 • Hotel $0.92 • R&D $0.82 • Commercial $0.77 • Manufacturing $0.61 • Indoor Recreational Centers $0.50 • Warehouse $0.26	No minimum threshold Membership organizations (churches, non-profits, etc.), mini storage, car storage, marinas, car washes, private parking garages and agricultural uses exempt	Pay 20% fee plus build at reduced nexus (not meaningful given amount of fee)	Moderate	City may update fee after County of Sacramento updates its fee. Rancho Cordova and Citrus Heights have identical or very similar fee structures

Note: This chart has been assembled to present an overview, and as a result, terms are simplified. The information is recent but not all data has been updated as of the date of this report. In some cases, fees are adjusted by an index (such as CPI) which may not be reflected. For use other than general comparison, please consult the code and staff of the jurisdiction.

TABLE V-4

NON-RESIDENTIAL DEVELOPMENT PROTOTYPES: OFFICE
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

	Garden Office		Suburban Mid-Rise Office		Urban High-Rise Office	
I. Project Description						
Site Size (Acres)	3.50 Acres		2.00 Acres		1.00 Acres	
Floor Area Ratio (FAR)	0.40		1.50		4.00	
Gross Building Area	61,000 SF		131,000 SF		174,000 SF	
Density						
Number of Stories	3 Stories		5 Stories		15 Stories	
Number of Rooms	N/A Rooms		N/A Rooms		N/A Rooms	
Parking Spaces	244 Spaces		524 Spaces		435 Spaces	
Parking Ratio	4.0 Spaces/1,000 SF		4.0 Spaces/1,000 SF		2.5 Spaces/1,000 SF	
Type	Surface		Deck / Structured		Subterranean	
II. Development Costs						
Land Acquisition	$25 /SF	$3,812,000	$50 /SF	$4,356,000	$300 /SF	$13,068,000
Sitework	$5 /SF	$762,000	$10 /SF	$871,000	$20 /SF	$871,000
Parking	$1,500 /Space	$366,000	$10,000 /Space	$5,240,000	$35,000 /Space	$15,225,000
Shell Construction	$100 /SF	$6,100,000	$125 /SF	$16,375,000	$180 /SF	$31,320,000
Tenant Improvements/FF&E	$30 /SF	$1,830,000	$35 /SF	$4,585,000	$40 /SF	$6,960,000
Subtotal Direct Costs	$148 /SF	$9,058,000	$207 /SF	$27,071,000	$313 /SF	$54,376,000
Add: Indirect/Financing Costs (1)	30% of Directs	$2,717,000	30% of Directs	$8,121,000	30% of Directs	$16,313,000
Add: Permits and Fees	$8 /SF	$488,000	$8 /SF	$1,048,000	$8 /SF	$1,392,000
Total Development Costs	$264 /SF	$16,075,000	$310 /SF	$40,596,000	$489 /SF	$85,149,000

(1) Includes architecture & engineering, legal & accounting, taxes & insurance, developer fee, marketing/leasing, and other indirects. Excludes permits and fees.

TABLE V-5

NON-RESIDENTIAL DEVELOPMENT PROTOTYPES: HOTEL
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

	Extended Stay Hotel		Full-Service Mid-Rise Hotel		Full-Service High-Rise Hotel	
I. Project Description						
Site Size (Acres)	3.00 Acres		2.00 Acres		1.00 Acres	
Floor Area Ratio (FAR)	0.80		2.00		6.00	
Gross Building Area	105,000 SF		174,000 SF		261,000 SF	
Density						
Number of Stories	3 Stories		6 Stories		15+ Stories	
Number of Rooms	175 Rooms		230 Rooms		300 Rooms	
Parking Spaces	126 Spaces		174 Spaces		196 Spaces	
Parking Ratio	1.2 Spaces/Room		1.0 Spaces/Room		0.8 Spaces/Room	
Type	Surface		Structured		Subterranean	
II. Development Costs						
Land Acquisition	$25 /SF	$3,267,000	$50 /SF	$4,356,000	$300 /SF	$13,068,000
Sitework	$5 /SF	$653,000	$8 /SF	$697,000	$15 /SF	$653,000
Parking	$1,500 /Space	$189,000	$15,000 /Space	$2,610,000	$35,000 /Space	$6,851,000
Shell Construction	$110 /SF	$11,550,000	$150 /SF	$26,100,000	$200 /SF	$52,200,000
Tenant Improvements/FF&E	$10,000 /Room	$1,750,000	$25,000 /Room	$5,750,000	$40,000 /Room	$12,000,000
Subtotal Direct Costs	$135 /SF	$14,142,000	$202 /SF	$35,157,000	$275 /SF	$71,704,000
Add: Indirect/Financing Costs (1)	30% of Directs	$4,243,000	30% of Directs	$10,547,000	35% of Directs	$25,096,000
Add: Permits and Fees	$10 /SF	$1,050,000	$10 /SF	$1,740,000	$10 /SF	$2,610,000
Total Development Costs	$216 /SF	$22,702,000	$298 /SF	$51,800,000	$431 /SF	$112,478,000

(1) Includes architecture & engineering, legal & accounting, taxes & insurance, developer fee, marketing/leasing, and other indirects. Excludes permits and fees.

TABLE V-6

NON-RESIDENTIAL DEVELOPMENT PROTOTYPES: RETAIL
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

	Strip Retail Center		Community Retail Center		Urban Retail Center	
I. Project Description						
Site Size (Acres)	2.50 Acres		10.00 Acres		4.00 Acres	
Floor Area Ratio (FAR)	0.30		0.25		0.50	
Gross Building Area	33,000 SF		109,000 SF		87,000 SF	
Density						
Number of Stories	1 Stories		1 Stories		1 - 2 Stories	
Number of Rooms	N/A Rooms		N/A Rooms		N/A Rooms	
Parking Spaces	165 Spaces		545 Spaces		348 Spaces	
Parking Ratio	5.0 Spaces/1,000 SF		5.0 Spaces/1,000 SF		4.0 Spaces/1,000 SF	
Type	Surface		Surface		Deck / structured	
II. Development Costs						
Land Acquisition	$25 /SF	$2,723,000	$25 /SF	$10,890,000	$50 /SF	$8,712,000
Sitework	$5 /SF	$545,000	$5 /SF	$2,178,000	$8 /SF	$1,394,000
Parking	$1,500 /Space	$248,000	$1,500 /Space	$818,000	$15,000 /Space	$5,220,000
Shell Construction	$90 /SF	$2,970,000	$105 /SF	$11,445,000	$125 /SF	$10,875,000
Tenant Improvements/FF&E	$20 /SF	$660,000	$25 /SF	$2,725,000	$30 /SF	$2,610,000
Subtotal Direct Costs	$134 /SF	$4,423,000	$157 /SF	$17,166,000	$231 /SF	$20,099,000
Add: Indirect/Financing Costs (1)	30% of Directs	$1,327,000	30% of Directs	$5,150,000	30% of Directs	$6,030,000
Add: Permits and Fees	$10 /SF	$330,000	$10 /SF	$1,090,000	$10 /SF	$870,000
Total Development Costs	$267 /SF	$8,803,000	$315 /SF	$34,296,000	$410 /SF	$35,711,000

(1) Includes architecture & engineering, legal & accounting, taxes & insurance, developer fee, marketing/leasing, and other indirects. Excludes permits and fees.

TABLE V-7

NON-RESIDENTIAL DEVELOPMENT PROTOTYPES: INDUSTRIAL
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

	Research & Development		Manufacturing / Industrial		Warehouse / Storage	
I. Project Description						
Site Size (Acres)	4.00 Acres		3.50 Acres		5.00 Acres	
Floor Area Ratio (FAR)	0.40		0.35		0.35	
Gross Building Area	70,000 SF		53,000 SF		76,000 SF	
Density						
Number of Stories	2 - 3 Stories		1 - 2 Stories		1 Stories	
Number of Rooms	N/A Rooms		N/A Rooms		N/A Rooms	
Parking Spaces	280 Spaces		212 Spaces		190 Spaces	
Parking Ratio	4.0 Spaces/1,000 SF		4.0 Spaces/1,000 SF		2.5 Spaces/1,000 SF	
Type	Surface		Surface		Surface	
II. Development Costs						
Land Acquisition	$30 /SF	$5,227,000	$20 /SF	$3,049,000	$15 /SF	$3,267,000
Sitework	$5 /SF	$871,000	$5 /SF	$762,000	$5 /SF	$1,089,000
Parking	$1,500 /Space	$420,000	$1,500 /Space	$318,000	$1,500 /Space	$285,000
Shell Construction	$90 /SF	$6,300,000	$60 /SF	$3,180,000	$50 /SF	$3,800,000
Tenant Improvements/FF&E	$40 /SF	$2,800,000	$25 /SF	$1,325,000	$10 /SF	$760,000
Subtotal Direct Costs	$148 /SF	$10,391,000	$105 /SF	$5,585,000	$78 /SF	$5,934,000
Add: Indirect/Financing Costs (1)	30% of Directs	$3,117,000	30% of Directs	$1,676,000	30% of Directs	$1,780,000
Add: Permits and Fees	$8 /SF	$560,000	$8 /SF	$424,000	$8 /SF	$608,000
Total Development Costs	$276 /SF	$19,295,000	$203 /SF	$10,734,000	$152 /SF	$11,589,000

(1) Includes architecture & engineering, legal & accounting, taxes & insurance, developer fee, marketing/leasing, and other indirects. Excludes permits and fees.

TABLE V-8

NON-RESIDENTIAL BUILDING PERMIT VALUATION
TRENDS BY LAND USE
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

(in millions)	1990	1991	1992	1993	1994	1995	1996	1997	1998
City of San Diego									
Office	$100.8	$46.5	$14.9	$8.7	$9.8	$1.1	$67.1	$102.0	$137.7
Hotel	$48.8	$29.6	$6.2	$5.7	$0.0	$0.0	$0.5	$8.0	$25.8
Retail (1)	$98.7	$16.2	$40.2	$27.5	$24.5	$46.1	$34.9	$29.6	$36.5
Industrial	$53.8	$27.0	$61.2	$9.5	$16.0	$33.0	$38.7	$51.9	$62.7
Total, City	$302.1	$119.3	$122.4	$51.5	$50.2	$80.2	$141.2	$191.6	$262.7
Percent Change	N/A	-60.5%	2.6%	-57.9%	-2.4%	59.6%	76.1%	35.7%	37.1%
County of San Diego - Excl. City									
Office	$47.1	$48.8	$5.9	$6.2	$4.5	$68.4	$8.4	$28.8	$57.0
Hotel	$40.6	$33.3	$4.1	$0.0	$0.5	$8.4	$10.9	$22.9	$17.5
Retail (1)	$85.7	$79.2	$48.5	$86.9	$57.6	$73.7	$73.7	$78.8	$102.4
Industrial	$57.9	$44.5	$21.1	$14.4	$17.6	$25.2	$63.0	$133.8	$209.2
Total, County - Excl. City	$231.3	$205.8	$79.6	$107.5	$80.1	$175.8	$156.0	$264.3	$386.1
Percent Change	N/A	-11.0%	-61.3%	35.1%	-25.5%	119.5%	-11.3%	69.4%	46.1%
State of California									
Office	$1,931.9	$1,178.0	$647.1	$624.8	$479.1	$619.6	$772.5	$1,655.3	$1,922.6
Hotel	$441.9	$294.7	$83.7	$73.9	$63.3	$49.6	$120.1	$341.4	$516.8
Retail (1)	$2,161.0	$1,512.2	$1,460.6	$1,210.0	$1,308.8	$1,334.2	$1,488.8	$1,751.2	$1,959.2
Industrial	$1,591.4	$892.0	$626.0	$489.2	$649.6	$732.9	$1,140.6	$1,598.4	$2,466.5
Total, State	$6,126.2	$3,877.0	$2,817.4	$2,397.9	$2,500.9	$2,736.3	$3,521.9	$5,346.3	$6,865.1
Percent Change	N/A	-36.7%	-27.3%	-14.9%	4.3%	9.4%	28.7%	51.8%	28.4%

(1) Includes Stores and Other Merchandise and Service Stations.

Source: Construction Industry Research Board
Prepared by: Keyser Marston Associates, Inc.
Filename: SDHC\SDHC_Section V_V2\7/30/2013; lag

TABLE V-8

NON-RESIDENTIAL BUILDING PERMIT VALUATION
TRENDS BY LAND USE
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

(in millions)	1999	2000	2001	2002	2003	2004	2005	2006	2007
City of San Diego									
Office	$191.0	$126.4	$127.7	$73.5	$72.7	$196.3	$225.5	$142.9	$266.1
Hotel	$41.8	$43.7	$56.7	$95.7	$12.9	$28.6	$61.1	$133.9	$24.8
Retail (1)	$95.4	$113.5	$82.4	$41.5	$18.5	$43.2	$43.1	$20.5	$35.0
Industrial	$52.2	$47.0	$47.3	$24.9	$53.2	$62.1	$68.8	$66.7	$38.1
Total, City	$380.3	$330.6	$314.1	$235.6	$157.3	$330.3	$398.4	$364.1	$364.0
Percent Change	44.8%	-13.1%	-5.0%	-25.0%	-33.2%	109.9%	20.6%	-8.6%	0.0%
County of San Diego - Excl. City									
Office	$31.5	$27.2	$41.7	$49.0	$37.3	$40.5	$41.1	$50.2	$54.3
Hotel	$12.0	$34.4	$15.6	$1.5	$8.7	$11.4	$8.1	$64.3	$18.2
Retail (1)	$58.0	$65.9	$63.0	$102.3	$179.2	$91.7	$96.5	$132.2	$74.0
Industrial	$141.4	$118.0	$42.9	$103.2	$77.8	$55.0	$101.4	$86.7	$80.3
Total, County - Excl. City	$242.9	$245.6	$163.2	$256.0	$302.9	$198.6	$247.2	$333.4	$226.8
Percent Change	-37.1%	1.1%	-33.5%	56.9%	18.3%	-34.4%	24.4%	34.9%	-32.0%
State of California									
Office	$1,927.5	$3,185.9	$2,551.4	$1,387.6	$1,132.6	$1,626.6	$1,881.9	$2,661.1	$3,384.8
Hotel	$561.7	$723.4	$664.5	$540.8	$218.4	$273.2	$384.4	$829.2	$894.1
Retail (1)	$2,269.0	$2,325.0	$2,229.4	$2,611.8	$2,306.3	$2,621.9	$2,984.9	$3,019.1	$3,328.9
Industrial	$2,256.2	$2,206.2	1548.119	$1,216.8	$1,320.2	$1,456.3	$1,693.4	$1,756.6	$1,446.1
Total, State	$7,014.4	$8,440.5	$6,993.4	$5,757.0	$4,977.5	$5,978.0	$6,944.6	$8,266.0	$9,053.9
Percent Change	2.2%	20.3%	-17.1%	-17.7%	-13.5%	20.1%	16.2%	19.0%	9.5%

Source: Construction Industry Research Board
Prepared by: Keyser Marston Associates, Inc.
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TABLE V-8

NON-RESIDENTIAL BUILDING PERMIT VALUATION
TRENDS BY LAND USE
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

(in millions)	2008	2009	2010	2011	2012	Change, 1990-2012 Total	Change, 1990-2012 Average Annual
City of San Diego							
Office	$107.6	$2.0	$14.6	$72.6	$210.6	$2,317.9	$100.8
Hotel	$28.5	$0.0	$0.0	$8.8	$11.4	$672.6	$29.2
Retail (1)	$36.7	$8.3	$9.1	$18.9	$26.3	$946.8	$41.2
Industrial	$10.1	$0.0	$0.0	$0.0	$11.3	$835.6	$36.3
Total, City	$182.9	$10.3	$23.8	$100.3	$259.6	$4,772.8	$207.5
Percent Change	-49.7%	-94.4%	130.2%	322.2%	158.9%		
County of San Diego - Excl. City							
Office	$43.4	$20.6	$7.0	$17.7	$9.1	$745.8	$32.4
Hotel	$12.3	$3.8	$9.0	$44.1	$20.2	$401.8	$17.5
Retail (1)	$75.2	$12.8	$23.6	$22.7	$12.8	$1,696.4	$73.8
Industrial	$47.0	$25.7	$7.9	$3.6	$13.0	$1,490.7	$64.8
Total, County - Excl. City	$177.9	$62.9	$47.6	$88.2	$55.1	$4,334.7	$188.5
Percent Change	-21.5%	-64.7%	-24.4%	85.5%	-37.5%		
State of California							
Office	$2,014.4	$511.0	$626.6	$669.4	$1,447.4	$34,839.3	$1,514.8
Hotel	$604.7	$120.1	$97.1	$163.8	$160.3	$8,221.3	$357.4
Retail (1)	$2,811.5	$936.0	$895.9	$947.6	$958.1	$44,431.3	$1,931.8
Industrial	$938.1	$359.9	$358.3	$469.2	$1,409.8	$28,621.8	$1,244.4
Total, State	$6,368.6	$1,927.0	$1,978.0	$2,250.1	$3,975.6	$116,113.7	$5,048.4
Percent Change	-29.7%	-69.7%	2.6%	13.8%	76.7%		

Source: Construction Industry Research Board
Prepared by: Keyser Marston Associates, Inc.
Filename: SDHC\SDHC_Section V_V2\7/30/2013; lag

TABLE V-9

EMPLOYMENT BY PLACE OF WORK, TRENDS BY LAND USE
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

			1990 - 2011		
	1990	2011	Total Change	Average Annual Change	Average Annual Rate of Increase
City of San Diego (1)	681,218	811,364	130,146	6,197	0.8%
County of San Diego (2) (excluding City of San Diego)	296,182	446,536	150,354	7,160	2.0%
State of California (2)	12,863,800	14,672,800	1,809,000	86,143	0.6%

(1) Source: U.S. Census Bureau American Community Survey.
(2) Source: State of California Employment Development Department.

APPENDIX A
Additional Discussion of Nexus Concepts and Assumptions

APPENDIX A – ADDITIONAL DISCUSSION OF NEXUS CONCEPTS AND ASSUMPTIONS

Matrix of Key Nexus Analysis Concepts and Assumptions

For ease of reference, we have organized the major assumptions of the nexus analysis into a matrix format with a brief description of each.

	Key Assumption	***Description***
A. Employment		
1.	Relationship Between Construction and Job Growth	Construction of new work space buildings results in new jobs added to the region.
2.	Substitution Factor	Although some / all jobs in a given new building may be relocated from elsewhere in the region, this relocation makes other space available so that somewhere in the chain new jobs are added.
3.	Multiplier Effects	Multiplier effects are not included in the analysis. This is one of many conservative assumptions we make in the analysis.
4.	Adjustment for Declining Industries	Long-term shifts in the regional economy can result in declines in employment in certain industries even as other industries add jobs. An adjustment is included to account for the fact that some new jobs will be filled by workers who are downsized from a declining industry and who already have housing locally.
5.	Unemployment / Excess Labor Force Capacity	Conditions of high unemployment / excess labor force capacity may occur temporarily as a result of economic cycles. However, temporary conditions do not undermine the underlying assumption that new work space buildings accommodate added jobs over the long term. Long-term shifts in employment are recognized under item 4 above.
6.	Labor Force Participation	Labor force participation rates are assumed to be stable for purposes of the analysis. This is a conservative assumption given labor force participation rates for men have been on a downward trajectory since 1970 while increases in participation rates by women have stabilized recently and even declined slightly.
7.	Employment Density	The analysis is based upon assumptions about employment density or the number of square feet of building area per employee (Table III-1).

	Key Assumption	*Description*
B. Worker Occupation and Compensation Level		
1.	Worker Occupations	Worker occupations are based on U.S. Bureau of Labor Statistics data. For uses such as office and manufacturing, it is necessary to identify a mix of industries representative of San Diego's economic base in order to arrive at occupational distribution. See Appendix B for more information.
2.	Compensation Levels	Compensation levels are based on 2012 data from the California Employment Development Department (EDD). The EDD data assumes hourly employees have full-time employment (another conservative assumption). See Appendix B for more information.
C. Households		
1.	Population and household growth is linked to employment growth	Workers would not come to the area if they could not expect to find a job. Existing workers would not stay in the region over the long term without jobs.
2.	Non-working Households are Excluded	Only population growth arising from new employment is included in the analysis. Non-working households such as retirees and students are not included.
3.	Existing Housing Needs	The analysis does not address existing housing needs. Only housing needs arising from employment growth are included.
4.	Multiple Earner Households	Given that most households have more than one worker, the analysis uses a distribution of workers by household size based on 2009-2011 Census data (American Community Survey). Workers in multiple earner households are assumed to have similar incomes. While there are many exceptions to this, demographic studies in recent years have shown this to be the trend.
5.	Household size distribution	Household size distribution is based on 2009-2011 Census data (American Community Survey).
6.	Variations in income by household size	No distinction is made between the incomes of workers in different size households. This assumption likely understates the number of households falling into the lower income tiers. Census data indicates average household income for five and six person households is actually less than three and four person households.

	Key Assumption	*Description*
7.	Commute Adjustment	The results of the nexus are adjusted downward to reflect existing commute patterns, including an estimate of workers commuting from Mexico. Only households likely to seek housing in the City are included based on the existing commute pattern. This existing relationship is influenced by the availability of affordable housing in the City.
D. Affordability Gaps		
1.	Rents and Sale Prices	Affordable rents and sale prices are based upon the top of each income range. For example, units for Very Low Income households (0% to 50% AMI), have rents based on 50% of AMI. This is another one of the conservative assumptions incorporated into the analysis.
2.	Rental Unit Prototype	Very Low and Low Income households are assumed to be housed in rental units. Forty percent of the affordable rental units are assumed to be provided as garden apartments, and 60% as stacked flats over podium parking. Low Income Housing Tax Credit financing (4%) is assumed for Very Low Income units.
3.	Ownership Prototype	Moderate Income households are assumed to be housed in for sale units. Forty percent of the affordable units are assumed to be provided as townhomes, and 60% as stacked flats over podium parking.

Discussion of Specific Factors in Relation to the Nexus Concept

1. Multiplier Effects

The multiplier effect refers to the concept that the income generated by a new job recycles through the economy and results in additional jobs. The total number of jobs generated is broken down into three categories – direct, indirect, and induced. In the case of the nexus analysis, the direct jobs are those located in the new workplace buildings that would be subject to the linkage fee. Multiplier effects encompass indirect and induced employment. Indirect jobs are generated by suppliers to the businesses located in the new workplace buildings. Finally, induced jobs are generated by local spending on goods and services by employees.

Multiplier effects vary by industry. Industries that draw heavily on a network of local suppliers tend to generate larger multiplier effects. Industries that are labor-intensive also tend to have larger multiplier effects as a result of the induced effects of employee spending.

Theoretically, a jobs/housing nexus analysis could consider multiplier effects although the potential for double-counting exists. The potential for double counting exists to the extent indirect and induced jobs

are added in other new buildings in the City of San Diego subject to the linkage fee. KMA chooses to omit the multiplier effects (the indirect and induced employment impacts), as it avoids potential double-counting and makes the analysis more conservative.

2. Population Growth Resulting from Non-Employment Factors

Not all population growth in San Diego is the result of new jobs in the region. Retirees, students, and others who are not part of the work force all generate demand for housing. However, non-working households are not included in the analysis since the purpose is to demonstrate the linkage between new buildings, new workers and new worker households, and demand for housing. Since only working households are part of this equation, non-working households are excluded.

SANDAG projections anticipate significant growth in the population over the age of 65 over the next 20 years; retired households are expected to represent a significant component of future household growth and overall housing demand in the region.

3. Likelihood of Different Job Categories to Attract New Population from Outside the Region

An underlying concept in the analysis is that there is a relationship between job growth and population growth. Workers from outside the region would not come without an expectation that they could find a job. People born locally and entering the work force, or for example, who came to attend college, would not stay without jobs. However, the analysis does not assume employers are recruiting from outside the region to fill specific jobs or job categories. The analysis also does not assume workers are relocating to fill specific openings.

4. Differences in Number of Workers and Household Size by Occupation Category

The analysis accounts for multiple earner households based on Census data. The Census provides data on the number of workers in households of different sizes. The Census does not provide data to show whether there are differences in this pattern by occupational category. Given this data constraint, the model does not differentiate by occupational category when incorporating information on the distribution of household sizes and number of workers per household.

Anecdotally, one can observe some workers at the lower end of the pay scale address the issue of housing affordability by means of shared living situations which result in more workers in a given size household. However, we can also find examples of workers at the lower end of the pay scale who have larger families with children. If these examples could be quantified, they would tend to push the results of the nexus in opposite directions (the first would drive the results down, while the second would drive them up). The relative importance of these two factors cannot be determined based on the data available.

5. Accounting for Demolition of Existing Buildings

For demolition of existing structures, some programs provide an offset to any impacts of the proposed construction; however, we understand that San Diego's ordinance does not provide such an exemption. Buildings are charged the fee once during their useful lives in order to mitigate the impacts. The affordable units that are assisted also have a limited useful life and eventually need to be rehabbed or replaced. Replacing older or obsolete employment space "renews" the impacts over the life of a new building and collecting the fee on the new building "renews" the mitigation of those impacts.

6. Consistency with SANDAG Projections

The nexus analysis methodology is consistent with the approach that SANDAG uses in their projections. The nexus assumes employment growth is a key driver of growth in the number of working households. Similarly, one of the key features of SANDAG's models is the integration of demographic projections with economic models and job growth forecasts in recognition of the linkage that exists.[5]

7. Upward Mobility of Workers

New employment spaces add jobs across a distribution of occupational categories. Over time, some workers will move up the career ladder, for example into managerial occupations. However, not all workers will "move up" and those that do leave a position that is usually filled by a new worker. Occupational and income composition are not affected in the aggregate by the upward mobility of particular workers.

8. Housing New Worker Households in Existing Housing Units

The analysis assumes that the existing housing stock in San Diego is needed to meet the housing needs of the existing population. New worker households, including those needing affordable housing, will need to be accommodated by adding to the existing housing stock.

[5] 2050 Regional Growth Forecast Process and Model Documentation, SANDAG, June 10, 2010.

APPENDIX B
Worker Occupations and Incomes

APPENDIX B TABLE 1

2012 NATIONAL OFFICE WORKER DISTRIBUTION BY OCCUPATION
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Major Occupations (4% or more)	2012 National Office Industry Occupation Distribution	
Management Occupations	1,971,207	6.8%
Business and Financial Operations Occupations	3,033,492	*10.5%*
Computer and Mathematical Occupations	2,284,908	*7.9%*
Architecture and Engineering Occupations	1,305,897	*4.5%*
Healthcare Practitioners and Technical Occupations	2,356,591	*8.2%*
Healthcare Support Occupations	1,241,460	*4.3%*
Building and Grounds Cleaning and Maintenance Occupations	1,873,044	*6.5%*
Sales and Related Occupations	1,901,881	*6.6%*
Office and Administrative Support Occupations	7,833,621	*27.1%*
All Other Office Related Occupations	5,066,839	*17.6%*
INDUSTRY TOTAL	28,868,940	100.0%

Source: Bureau of Labor Statistics
Prepared by: Keyser Marston Associates, Inc.
Filename:SDHC_Appendix B_Office_v2;7/30/2013; dd

APPENDIX B TABLE 2

AVERAGE ANNUAL COMPENSATION, 2012
OFFICE WORKER OCCUPATIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Occupation [1]	2012 Avg. Compensation [2]	% of Total Occupation Group [3]	% of Total Office Workers
Management Occupations			
Chief Executives	$194,800	4.2%	0.3%
General and Operations Managers	$130,300	28.8%	2.0%
Marketing Managers	$132,300	4.8%	0.3%
Sales Managers	$117,300	5.1%	0.4%
Administrative Services Managers	$86,000	4.3%	0.3%
Computer and Information Systems Managers	$135,900	9.5%	0.6%
Financial Managers	$128,400	12.2%	0.8%
Architectural and Engineering Managers	$142,200	4.7%	0.3%
Property, Real Estate, and Community Association Managers	$64,000	8.6%	0.6%
Managers, All Other	$119,700	4.9%	0.3%
All Other Management Occupations (Avg. All Categories)	$119,100	13.0%	0.9%
Weighted Mean Annual Wage	***$123,700***	**100.0%**	**6.8%**
Business and Financial Operations Occupations			
Claims Adjusters, Examiners, and Investigators	$59,600	4.6%	0.5%
Human Resources Specialists	$65,700	5.6%	0.6%
Management Analysts	$81,700	10.7%	1.1%
Market Research Analysts and Marketing Specialists	$66,400	7.7%	0.8%
Business Operations Specialists, All Other	$71,300	9.9%	1.0%
Accountants and Auditors	$75,200	22.2%	2.3%
Financial Analysts	$92,500	5.9%	0.6%
Personal Financial Advisors	$79,800	5.4%	0.6%
Loan Officers	$67,700	6.0%	0.6%
All Other Business and Financial Operations Occupations (Avg. All Categories)	$71,600	21.8%	2.3%
Weighted Mean Annual Wage	***$73,600***	**100.0%**	**10.5%**
Computer and Mathematical Occupations			
Computer Systems Analysts	$87,900	13.9%	1.1%
Computer Programmers	$77,200	10.3%	0.8%
Software Developers, Applications	$100,800	18.9%	1.5%
Software Developers, Systems Software	$104,600	12.1%	1.0%
Network and Computer Systems Administrators	$78,100	8.6%	0.7%
Computer Network Architects	$91,700	4.4%	0.3%
Computer User Support Specialists	$51,000	12.7%	1.0%
Computer Network Support Specialists	$51,000	4.6%	0.4%
All Other Computer and Mathematical Occupations (Avg. All Categories)	$86,000	14.4%	1.1%
Weighted Mean Annual Wage	***$83,900***	**100.0%**	**7.9%**
Architecture and Engineering Occupations			
Architects, Except Landscape and Naval	$91,500	9.3%	0.4%
Civil Engineers	$87,400	17.9%	0.8%
Electrical Engineers	$100,600	5.8%	0.3%
Electronics Engineers, Except Computer	$103,500	4.9%	0.2%
Mechanical Engineers	$89,900	7.6%	0.3%
Architectural and Civil Drafters	$56,500	8.4%	0.4%
Civil Engineering Technicians	$61,900	4.1%	0.2%
All Other Architecture and Engineering Occupations (Avg. All Categories)	$84,700	42.0%	1.9%
Weighted Mean Annual Wage	***$84,700***	**100.0%**	**4.5%**

Source: Bureau of Labor Statistics
Prepared by: Keyser Marston Associates, Inc.
Filename:SDHC_Appendix B_Office_v2;7/30/2013; dd

APPENDIX B TABLE 2

AVERAGE ANNUAL COMPENSATION, 2012
OFFICE WORKER OCCUPATIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Occupation [1]	2012 Avg. Compensation [2]	% of Total Occupation Group [3]	% of Total Office Workers
Healthcare Practitioners and Technical Occupations			
Dentists, General	$164,100	4.6%	0.4%
Family and General Practitioners	$176,900	4.1%	0.3%
Physicians and Surgeons, All Other	$194,100	8.1%	0.7%
Physical Therapists	$89,700	4.2%	0.3%
Registered Nurses	$86,000	13.5%	1.1%
Dental Hygienists	$85,600	9.7%	0.8%
Licensed Practical and Licensed Vocational Nurses	$48,900	6.4%	0.5%
All Other Healthcare Practitioners and Technical Occupations (Avg. All Categories)	$86,700	49.4%	4.0%
Weighted Mean Annual Wage	***$100,100***	**100.0%**	**8.2%**
Healthcare Support Occupations			
Nursing Assistants	$26,600	4.4%	0.2%
Dental Assistants	$37,700	28.2%	1.2%
Medical Assistants	$32,100	39.7%	1.7%
Veterinary Assistants and Laboratory Animal Caretakers	$28,100	5.2%	0.2%
All Other Healthcare Support Occupations (Avg. All Categories)	$30,900	22.5%	1.0%
Weighted Mean Annual Wage	***$33,000***	**100.0%**	**4.3%**
Building and Grounds Cleaning and Maintenance Occupations			
Janitors and Cleaners, Except Maids and Housekeeping Cleaners	$27,000	51.7%	3.4%
Maids and Housekeeping Cleaners	$21,400	8.4%	0.5%
Landscaping and Groundskeeping Workers	$26,800	27.1%	1.8%
All Other Building and Grounds Cleaning and Maintenance Occupations (Avg. All Categories)	$27,100	12.8%	0.8%
Weighted Mean Annual Wage	***$26,500***	**100.0%**	**6.5%**
Sales and Related Occupations			
Counter and Rental Clerks	$30,700	7.1%	0.5%
Insurance Sales Agents	$86,200	11.9%	0.8%
Securities, Commodities, and Financial Services Sales Agents	$75,700	9.5%	0.6%
Sales Representatives, Services, All Other	$69,300	19.3%	1.3%
Sales Representatives, Wholesale and Manufacturing, Technical and Scientific Products	$87,500	4.2%	0.3%
Sales Representatives, Wholesale and Manufacturing, Except Technical and Scientific Products	$63,400	4.0%	0.3%
Real Estate Sales Agents	$44,600	10.0%	0.7%
Telemarketers	$25,600	8.4%	0.6%
All Other Sales and Related Occupations (Avg. All Categories)	$39,700	25.6%	1.7%
Weighted Mean Annual Wage	***$56,000***	**100.0%**	**6.6%**
Office and Administrative Support Occupations			
First-Line Supervisors of Office and Administrative Support Workers	$56,500	7.0%	1.9%
Bookkeeping, Accounting, and Auditing Clerks	$40,500	7.7%	2.1%
Tellers	$27,700	5.0%	1.4%
Customer Service Representatives	$38,100	13.3%	3.6%
Receptionists and Information Clerks	$29,300	7.9%	2.1%
Executive Secretaries and Executive Administrative Assistants	$49,300	4.1%	1.1%
Medical Secretaries	$35,100	5.1%	1.4%
Secretaries and Administrative Assistants, Except Legal, Medical, and Executive	$38,400	9.5%	2.6%
Office Clerks, General	$31,300	12.3%	3.3%
All Other Office and Administrative Support Occupations (Avg. All Categories)	$37,300	28.0%	7.6%
Weighted Mean Annual Wage	***$37,600***	**100.0%**	**27.1%**
			82.4%

[1] Including occupations representing 4% or more of the major occupation group

[2] The methodology utilized by the California Employment Development Department (EDD) assumes that hourly paid employees are employed full-time. Annual compensation is calculated by EDD by multiplying hourly wages by 40 hours per work week by 52 weeks.

[3] Occupation percentages are based on the 2012 National Industry - Specific Occupational Employment survey compiled by the Bureau of Labor Statistics. Wages are based on the California Employment Development Department 2012 wage levels.

Source: Bureau of Labor Statistics
Prepared by: Keyser Marston Associates, Inc.
Filename:SDHC_Appendix B_Office_v2;7/30/2013; dd

APPENDIX B TABLE 3

2012 NATIONAL HOTEL WORKER DISTRIBUTION BY OCCUPATION
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Major Occupations (3% or more)	2012 National Hotel Industry Occupation Distribution	
Management Occupations	73,430	4.2%
Food Preparation and Serving Related Occupations	442,000	*25.4%*
Building and Grounds Cleaning and Maintenance Occupations	510,530	*29.3%*
Personal Care and Service Occupations	123,270	*7.1%*
Office and Administrative Support Occupations	323,780	*18.6%*
Installation, Maintenance, and Repair Occupations	81,930	*4.7%*
All Other Hotel Related Occupations	185,970	*10.7%*
INDUSTRY TOTAL	1,740,910	100.0%

Source: Bureau of Labor Statistics
Prepared by: Keyser Marston Associates, Inc.
Filename: SDHC_Appendix B_Hotel_v2 7/30/2013; dd

APPENDIX B TABLE 4

AVERAGE ANNUAL COMPENSATION, 2012
HOTEL WORKER OCCUPATIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Occupation [1]	2012 Avg. Compensation [2]	% of Total Occupation Group [3]	% of Total Hotel Workers
Management Occupations			
General and Operations Managers	$130,300	20.1%	0.8%
Sales Managers	$117,300	9.5%	0.4%
Financial Managers	$128,400	4.7%	0.2%
Food Service Managers	$58,700	11.8%	0.5%
Lodging Managers	$56,200	36.2%	1.5%
All Other Management Occupations (Avg. All Categories)	$119,100	17.7%	0.7%
Weighted Mean Annual Wage	***$91,700***	**100.0%**	**4.2%**
Food Preparation and Serving Related Occupations			
First-Line Supervisors of Food Preparation and Serving Workers	$31,800	4.9%	1.2%
Cooks, Restaurant	$25,700	13.3%	3.4%
Bartenders	$21,600	8.5%	2.2%
Waiters and Waitresses	$20,100	29.8%	7.6%
Food Servers, Nonrestaurant	$23,200	7.4%	1.9%
Dining Room and Cafeteria Attendants and Bartender Helpers	$19,100	9.9%	2.5%
Dishwashers	$19,500	6.7%	1.7%
All Other Food Prep and Serving Related Occupations (Avg. All Categories)	$22,200	19.5%	4.9%
Weighted Mean Annual Wage	***$22,000***	**100.0%**	**25.4%**
Building and Grounds Cleaning and Maintenance Occupations			
First-Line Supervisors of Housekeeping and Janitorial Workers	$40,500	5.9%	1.7%
Janitors and Cleaners, Except Maids and Housekeeping Cleaners	$27,000	8.8%	2.6%
Maids and Housekeeping Cleaners	$21,400	82.4%	24.2%
All Other Bldg & Grounds Cleaning & Maintenance Occup. (Avg. All Categories)	$27,100	3.0%	0.9%
Weighted Mean Annual Wage	***$23,200***	**100.0%**	**29.3%**
Personal Care and Service Occupations			
Gaming Supervisors	$53,100	9.1%	0.6%
Gaming Dealers	$20,100	29.7%	2.1%
Amusement and Recreation Attendants	$20,800	8.9%	0.6%
Baggage Porters and Bellhops	$22,600	18.9%	1.3%
Concierges	$28,100	9.2%	0.6%
Recreation Workers	$26,300	4.6%	0.3%
All Other Personal Care and Service Occupations (Avg. All Categories)	$26,000	19.6%	1.4%
Weighted Mean Annual Wage	***$25,800***	**100.0%**	**7.1%**
Office and Administrative Support Occupations			
First-Line Supervisors of Office and Administrative Support Workers	$56,500	7.6%	1.4%
Bookkeeping, Accounting, and Auditing Clerks	$40,500	6.0%	1.1%
Hotel, Motel, and Resort Desk Clerks	$24,300	66.6%	12.4%
All Other Office and Administrative Support Occupations (Avg. All Categories)	$37,300	19.8%	3.7%
Weighted Mean Annual Wage	***$30,300***	**100.0%**	**18.6%**

Source: Bureau of Labor Statistics
Prepared by: Keyser Marston Associates, Inc.
Filename:SDHC_Appendix B_Hotel_v2;7/30/2013; dd

APPENDIX B TABLE 4

AVERAGE ANNUAL COMPENSATION, 2012
HOTEL WORKER OCCUPATIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Occupation [1]	2012 Avg. Compensation [2]	% of Total Occupation Group [3]	% of Total Hotel Workers
Installation, Maintenance, and Repair Occupations			
First-Line Supervisors of Mechanics, Installers, and Repairers	$72,000	7.9%	0.4%
Maintenance and Repair Workers, General	$37,100	86.5%	4.1%
All Other Install., Maintenance, and Repair Occupations (Avg. All Categories)	$46,800	5.6%	0.3%
Weighted Mean Annual Wage	***$40,400***	**100.0%**	**4.7%**
			89.3%

[1] Including occupations representing 4% or more of the major occupation group

[2] The methodology utilized by the California Employment Development Department (EDD) assumes that hourly paid employees are employed full-time. Annual compensation is calculated by EDD by multiplying hourly wages by 40 hours per work week by 52 weeks.

[3] Occupation percentages are based on the 2012 National Industry - Specific Occupational Employment survey compiled by the Bureau of Labor Statistics. Wages are based on the 2012 California Employment Development Department wage levels.

Source: Bureau of Labor Statistics
Prepared by: Keyser Marston Associates, Inc.
Filename:SDHC_Appendix B_Hotel_v2;7/30/2013; dd

APPENDIX B TABLE 5

2012 NATIONAL RETAIL WORKER DISTRIBUTION BY OCCUPATION
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Major Occupations (3% or more)		2012 National Retail Industry Occupation Distribution	
Food Preparation and Serving Related Occupations		9,469,680	33.2%
Sales and Related Occupations		9,039,490	*31.7%*
Office and Administrative Support Occupations		2,986,880	*10.5%*
Installation, Maintenance, and Repair Occupations		1,355,950	*4.8%*
Transportation and Material Moving Occupations		1,920,590	*6.7%*
All Other Retail Related Occupations		3,715,580	*13.0%*
	INDUSTRY TOTAL	28,488,170	100.0%

Source: Bureau of Labor Statistics
Prepared by: Keyser Marston Associates, Inc.
Filename:SDHC_Appendix B_Retail_v2;7/30/2013; dd

APPENDIX B TABLE 6

AVERAGE ANNUAL COMPENSATION, 2012
RETAIL WORKER OCCUPATIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Occupation [1]	2012 Avg. Compensation [2]	% of Total Occupation Group [3]	% of Total Retail Workers
Food Preparation and Serving Related Occupations			
First-Line Supervisors of Food Preparation and Serving Workers	$31,800	7.1%	2.4%
Cooks, Fast Food	$20,300	5.2%	1.7%
Cooks, Restaurant	$25,700	9.5%	3.1%
Food Preparation Workers	$20,800	6.1%	2.0%
Bartenders	$21,600	4.3%	1.4%
Combined Food Preparation and Serving Workers, Including Fast Food	$20,900	28.3%	9.4%
Waiters and Waitresses	$20,100	21.6%	7.2%
Dishwashers	$19,500	4.4%	1.5%
All Other Food Preparation and Serving Related Occupations (Avg. All Categories)	$22,200	13.6%	4.5%
Weighted Mean Annual Wage	***$22,100***	**100.0%**	**33.2%**
Sales and Related Occupations			
First-Line Supervisors of Retail Sales Workers	$44,800	12.6%	4.0%
Cashiers	$22,700	34.0%	10.8%
Retail Salespersons	$27,000	45.0%	14.3%
All Other Sales and Related Occupations (Avg. All Categories)	$39,700	8.3%	2.6%
Weighted Mean Annual Wage	***$28,800***	**100.0%**	**31.7%**
Office and Administrative Support Occupations			
First-Line Supervisors of Office and Administrative Support Workers	$56,500	6.3%	0.7%
Bookkeeping, Accounting, and Auditing Clerks	$40,500	7.7%	0.8%
Customer Service Representatives	$38,100	9.9%	1.0%
Shipping, Receiving, and Traffic Clerks	$31,300	6.0%	0.6%
Stock Clerks and Order Fillers	$24,900	42.4%	4.5%
Secretaries and Administrative Assistants, Except Legal, Medical, and Executive	$38,400	4.5%	0.5%
Office Clerks, General	$31,300	9.9%	1.0%
All Other Office and Administrative Support Occupations (Avg. All Categories)	$37,300	13.4%	1.4%
Weighted Mean Annual Wage	***$32,700***	**100.0%**	**10.5%**

Source: Bureau of Labor Statistics
Prepared by: Keyser Marston Associates, Inc.
Filename:SDHC_Appendix B_Retail_v2;7/30/2013; dd

APPENDIX B TABLE 6

AVERAGE ANNUAL COMPENSATION, 2012
RETAIL WORKER OCCUPATIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Occupation [1]	2012 Avg. Compensation [2]	% of Total Occupation Group [3]	% of Total Retail Workers
Installation, Maintenance, and Repair Occupations			
First-Line Supervisors of Mechanics, Installers, and Repairers	$72,000	8.3%	0.4%
Automotive Body and Related Repairers	$43,500	9.3%	0.4%
Automotive Service Technicians and Mechanics	$44,100	38.1%	1.8%
Tire Repairers and Changers	$27,100	6.6%	0.3%
Maintenance and Repair Workers, General	$37,100	4.8%	0.2%
All Other Installation, Maintenance, and Repair Occupations (Avg. All Categories)	$46,800	33.0%	1.6%
Weighted Mean Annual Wage	***$45,800***	**100.0%**	**4.8%**
Transportation and Material Moving Occupations			
Driver/Sales Workers	$30,800	10.1%	0.7%
Heavy and Tractor-Trailer Truck Drivers	$41,600	4.2%	0.3%
Light Truck or Delivery Services Drivers	$36,200	20.1%	1.4%
Parking Lot Attendants	$22,500	4.8%	0.3%
Automotive and Watercraft Service Attendants	$23,600	5.2%	0.4%
Cleaners of Vehicles and Equipment	$22,600	11.4%	0.8%
Laborers and Freight, Stock, and Material Movers, Hand	$27,000	24.2%	1.6%
Packers and Packagers, Hand	$21,200	8.7%	0.6%
All Other Transportation and Material Moving Occupations (Avg. All Categories)	$32,500	11.3%	0.8%
Weighted Mean Annual Wage	***$29,100***	**100.0%**	**6.7%**
			87.0%

[1] Including occupations representing 4% or more of the major occupation group

[2] The methodology utilized by the California Employment Development Department (EDD) assumes that hourly paid employees are employed full-time. Annual compensation is calculated by EDD by multiplying hourly wages by 40 hours per work week by 52 weeks.

[3] Occupation percentages are based on the 2012 National Industry - Specific Occupational Employment survey compiled by the Bureau of Labor Statistics. Wages are based on the 2012 California Employment Development Department wage levels.

Source: Bureau of Labor Statistics
Prepared by: Keyser Marston Associates, Inc.
Filename:SDHC_Appendix B_Retail_v2;7/30/2013; dd

APPENDIX B TABLE 7

2012 NATIONAL MANUFACTURING WORKER DISTRIBUTION BY OCCUPATION
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Major Occupations (4% or more)		2012 National Manufacturing Industry Occupation Distribution	
Management Occupations		373,190	8.7%
Business and Financial Operations Occupations		297,431	*6.9%*
Computer and Mathematical Occupations		286,109	*6.7%*
Architecture and Engineering Occupations		527,548	*12.3%*
Life, Physical, and Social Science Occupations		392,351	*9.1%*
Office and Administrative Support Occupations		426,666	*9.9%*
Production Occupations		1,368,616	*31.9%*
All Other Manufacturing Related Occupations		620,068	*14.4%*
	INDUSTRY TOTAL	4,291,980	100.0%

Source: Bureau of Labor Statistics
Prepared by: Keyser Marston Associates, Inc.
Filename:SDHC_Appendix B_Manufacturing_v2;7/30/2013; dd

APPENDIX B TABLE 8

AVERAGE ANNUAL COMPENSATION, 2012
MANUFACTURING WORKER OCCUPATIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Occupation [1]	2012 Avg. Compensation [2]	% of Total Occupation Group [3]	% of Total Manufacturing Workers
Management Occupations			
General and Operations Managers	$130,300	22.9%	2.0%
Marketing Managers	$132,300	4.4%	0.4%
Sales Managers	$117,300	4.7%	0.4%
Computer and Information Systems Managers	$135,900	7.5%	0.7%
Financial Managers	$128,400	5.9%	0.5%
Industrial Production Managers	$101,600	11.2%	1.0%
Architectural and Engineering Managers	$142,200	13.7%	1.2%
Natural Sciences Managers	$172,000	8.4%	0.7%
Managers, All Other	$119,700	6.3%	0.5%
All Other Management Occupations (Avg. All Categories)	$119,100	15.0%	1.3%
Weighted Mean Annual Wage	***$129,600***	**100.0%**	**8.7%**
Business and Financial Operations Occupations			
Purchasing Agents, Except Wholesale, Retail, and Farm Products	$68,700	14.6%	1.0%
Compliance Officers	$75,300	6.0%	0.4%
Human Resources Specialists	$65,700	5.3%	0.4%
Logisticians	$81,400	6.6%	0.5%
Management Analysts	$81,700	8.5%	0.6%
Training and Development Specialists	$64,400	4.5%	0.3%
Market Research Analysts and Marketing Specialists	$66,400	8.7%	0.6%
Business Operations Specialists, All Other	$71,300	16.5%	1.1%
Accountants and Auditors	$75,200	14.4%	1.0%
Financial Analysts	$92,500	5.8%	0.4%
All Other Business and Financial Operations Occupations (Avg. All Categories)	$71,600	9.1%	0.6%
Weighted Mean Annual Wage	***$73,500***	**100.0%**	**6.9%**
Computer and Mathematical Occupations			
Computer Systems Analysts	$87,900	9.6%	0.6%
Computer Programmers	$77,200	7.6%	0.5%
Software Developers, Applications	$100,800	19.7%	1.3%
Software Developers, Systems Software	$104,600	27.6%	1.8%
Network and Computer Systems Administrators	$78,100	7.0%	0.5%
Computer User Support Specialists	$51,000	7.6%	0.5%
All Other Computer and Mathematical Occupations (Avg. All Categories)	$86,000	20.9%	1.4%
Weighted Mean Annual Wage	***$90,400***	**100.0%**	**6.7%**
Architecture and Engineering Occupations			
Aerospace Engineers	$96,200	8.2%	1.0%
Computer Hardware Engineers	$103,500	7.8%	1.0%
Electrical Engineers	$100,600	9.0%	1.1%
Electronics Engineers, Except Computer	$103,500	7.3%	0.9%
Industrial Engineers	$83,900	14.3%	1.8%
Mechanical Engineers	$89,900	12.5%	1.5%
Engineers, All Other	$100,600	5.3%	0.7%
Electrical and Electronics Engineering Technicians	$62,700	7.9%	1.0%
Industrial Engineering Technicians	$51,700	5.0%	0.6%
All Other Architecture and Engineering Occupations (Avg. All Categories)	$84,700	22.6%	2.8%
Weighted Mean Annual Wage	***$87,900***	**100.0%**	**12.3%**

Source: Bureau of Labor Statistics
Prepared by: Keyser Marston Associates, Inc.
Filename:SDHC_Appendix B_Manufacturing_v2;7/30/2013; dd

APPENDIX B TABLE 8

AVERAGE ANNUAL COMPENSATION, 2012
MANUFACTURING WORKER OCCUPATIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Occupation [1]	2012 Avg. Compensation [2]	% of Total Occupation Group [3]	% of Total Manufacturing Workers
Life, Physical, and Social Science Occupations			
Biochemists and Biophysicists	$97,800	8.2%	0.7%
Microbiologists	$64,000	4.7%	0.4%
Medical Scientists, Except Epidemiologists	$84,000	19.4%	1.8%
Chemists	$88,700	16.7%	1.5%
Biological Technicians	$47,500	11.8%	1.1%
Chemical Technicians	$57,500	6.3%	0.6%
Social Science Research Assistants	$40,400	4.4%	0.4%
Life, Physical, and Social Science Technicians, All Other	$54,000	4.2%	0.4%
All Other Life, Physical, and Social Science Occupations (Avg. All Categories)	$76,000	24.4%	2.2%
Weighted Mean Annual Wage	***$73,900***	**100.0%**	**9.1%**
Office and Administrative Support Occupations			
First-Line Supervisors of Office and Administrative Support Workers	$56,500	5.5%	0.5%
Bookkeeping, Accounting, and Auditing Clerks	$40,500	8.4%	0.8%
Customer Service Representatives	$38,100	9.0%	0.9%
Production, Planning, and Expediting Clerks	$51,300	9.5%	0.9%
Shipping, Receiving, and Traffic Clerks	$31,300	11.5%	1.1%
Stock Clerks and Order Fillers	$24,900	6.1%	0.6%
Executive Secretaries and Executive Administrative Assistants	$49,300	9.5%	0.9%
Secretaries and Administrative Assistants, Except Legal, Medical, and Executive	$38,400	11.7%	1.2%
Office Clerks, General	$31,300	13.5%	1.3%
All Other Office and Administrative Support Occupations (Avg. All Categories)	$37,300	15.1%	1.5%
Weighted Mean Annual Wage	***$39,000***	**100.0%**	**9.9%**
Production Occupations			
First-Line Supervisors of Production and Operating Workers	$60,700	7.6%	2.4%
Electrical and Electronic Equipment Assemblers	$30,300	7.8%	2.5%
Team Assemblers	$26,800	10.9%	3.5%
Machinists	$43,300	9.7%	3.1%
Welders, Cutters, Solderers, and Brazers	$41,500	4.2%	1.3%
Inspectors, Testers, Sorters, Samplers, and Weighers	$39,200	8.1%	2.6%
Packaging and Filling Machine Operators and Tenders	$26,800	5.6%	1.8%
All Other Production Occupations (Avg. All Categories)	$35,100	46.0%	14.7%
Weighted Mean Annual Wage	***$36,700***	**100.0%**	**31.9%**
			85.6%

[1] Including occupations representing 4% or more of the major occupation group

[2] The methodology utilized by the California Employment Development Department (EDD) assumes that hourly paid employees are employed full-time. Annual compensation is calculated by EDD by multiplying hourly wages by 40 hours per work week by 52 weeks.

[3] Occupation percentages are based on the 2012 National Industry - Specific Occupational Employment survey compiled by the Bureau of Labor Statistics. Wages are based on the California Employment Development Department 2012 wage levels.

Source: Bureau of Labor Statistics
Prepared by: Keyser Marston Associates, Inc.
Filename:SDHC_Appendix B_Manufacturing_v2;7/30/2013; dd

APPENDIX B TABLE 9

2012 NATIONAL WAREHOUSING & STORAGE WORKER DISTRIBUTION BY OCCUPATION
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Major Occupations (3% or more)	2012 National Warehousing & Storage Industry Occupation Distribution	
Management Occupations	335,130	6.2%
Business and Financial Operations Occupations	230,090	*4.2%*
Sales and Related Occupations	1,149,520	*21.1%*
Office and Administrative Support Occupations	1,258,200	*23.1%*
Installation, Maintenance, and Repair Occupations	355,730	*6.5%*
Production Occupations	287,870	*5.3%*
Transportation and Material Moving Occupations	1,441,660	*26.5%*
All Other Warehousing & Storage Related Occupations	384,280	*7.1%*
INDUSTRY TOTAL	5,442,480	100.0%

Source: Bureau of Labor Statistics
Prepared by: Keyser Marston Associates, Inc.
Filename: SDHC_Appendix B_Warehousing & Storage_v2; 7/30/2013; dd

APPENDIX B TABLE 10

AVERAGE ANNUAL COMPENSATION, 2012
WAREHOUSING & STORAGE WORKER OCCUPATIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Occupation [1]	2012 Avg. Compensation [2]	% of Total Occupation Group [3]	% of Total Warehousing & Storage Workers
Management Occupations			
Chief Executives	$194,800	4.8%	0.3%
General and Operations Managers	$130,300	45.0%	2.8%
Sales Managers	$117,300	16.4%	1.0%
Financial Managers	$128,400	6.0%	0.4%
Transportation, Storage, and Distribution Managers	$93,400	7.0%	0.4%
All Other Management Occupations (Avg. All Categories)	$119,100	20.9%	1.3%
Weighted Mean Annual Wage	***$126,200***	**100.0%**	**6.2%**
Business and Financial Operations Occupations			
Wholesale and Retail Buyers, Except Farm Products	$64,000	17.3%	0.7%
Purchasing Agents, Except Wholesale, Retail, and Farm Products	$68,700	7.1%	0.3%
Human Resources Specialists	$65,700	5.6%	0.2%
Logisticians	$81,400	4.2%	0.2%
Management Analysts	$81,700	4.9%	0.2%
Market Research Analysts and Marketing Specialists	$66,400	13.5%	0.6%
Business Operations Specialists, All Other	$71,300	11.9%	0.5%
Accountants and Auditors	$75,200	20.8%	0.9%
All Other Business and Financial Operations Occupations (Avg. All Categories)	$71,600	14.6%	0.6%
Weighted Mean Annual Wage	***$70,700***	**100.0%**	**4.2%**
Sales and Related Occupations			
First-Line Supervisors of Non-Retail Sales Workers	$72,400	6.5%	1.4%
Parts Salespersons	$34,000	4.5%	0.9%
Retail Salespersons	$27,000	4.4%	0.9%
Sales Reps, Wholesale and Manufacturing, Technical and Scientific Products	$87,500	13.3%	2.8%
Sales Reps, Wholesale and Manufacturing, Except Technical and Scientific Products	$63,400	61.2%	12.9%
All Other Sales and Related Occupations (Avg. All Categories)	$39,700	10.1%	2.1%
Weighted Mean Annual Wage	***$61,900***	**100.0%**	**21.1%**
Office and Administrative Support Occupations			
First-Line Supervisors of Office and Administrative Support Workers	$56,500	5.6%	1.3%
Bookkeeping, Accounting, and Auditing Clerks	$40,500	9.3%	2.2%
Customer Service Representatives	$38,100	13.2%	3.0%
Order Clerks	$31,500	4.8%	1.1%
Shipping, Receiving, and Traffic Clerks	$31,300	13.9%	3.2%
Stock Clerks and Order Fillers	$24,900	17.7%	4.1%
Secretaries and Administrative Assistants, Except Legal, Medical, and Executive	$38,400	7.3%	1.7%
Office Clerks, General	$31,300	12.1%	2.8%
All Other Office and Administrative Support Occupations (Avg. All Categories)	$37,300	16.1%	3.7%
Weighted Mean Annual Wage	***$34,800***	**100.0%**	**23.1%**

Source: Bureau of Labor Statistics
Prepared by: Keyser Marston Associates, Inc.
Filename: SDHC_Appendix B_Warehousing & Storage_v2; 7/30/2013; dd

APPENDIX B TABLE 10

AVERAGE ANNUAL COMPENSATION, 2012
WAREHOUSING & STORAGE WORKER OCCUPATIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Occupation [1]	2012 Avg. Compensation [2]	% of Total Occupation Group [3]	% of Total Warehousing & Storage Workers
Installation, Maintenance, and Repair Occupations			
First-Line Supervisors of Mechanics, Installers, and Repairers	$72,000	8.1%	0.5%
Computer, Automated Teller, and Office Machine Repairers	$39,500	8.6%	0.6%
Automotive Service Technicians and Mechanics	$44,100	4.1%	0.3%
Bus and Truck Mechanics and Diesel Engine Specialists	$52,700	10.2%	0.7%
Farm Equipment Mechanics and Service Technicians	$38,800	7.2%	0.5%
Mobile Heavy Equipment Mechanics, Except Engines	$53,900	8.6%	0.6%
Industrial Machinery Mechanics	$55,200	8.8%	0.6%
Maintenance and Repair Workers, General	$37,100	13.9%	0.9%
Installation, Maintenance, and Repair Workers, All Other	$35,900	5.0%	0.3%
All Other Installation, Maintenance, and Repair Occupations (Avg. All Categories)	$46,800	25.4%	1.7%
Weighted Mean Annual Wage	***$47,600***	**100.0%**	**6.5%**
Production Occupations			
First-Line Supervisors of Production and Operating Workers	$60,700	8.9%	0.5%
Team Assemblers	$26,800	19.0%	1.0%
Assemblers and Fabricators, All Other	$30,900	4.2%	0.2%
Machinists	$43,300	6.0%	0.3%
Welders, Cutters, Solderers, and Brazers	$41,500	5.7%	0.3%
Inspectors, Testers, Sorters, Samplers, and Weighers	$39,200	10.5%	0.6%
Packaging and Filling Machine Operators and Tenders	$26,800	10.2%	0.5%
All Other Production Occupations (Avg. All Categories)	$35,100	35.5%	1.9%
Weighted Mean Annual Wage	***$36,100***	**100.0%**	**5.3%**
Transportation and Material Moving Occupations			
Driver/Sales Workers	$30,800	8.5%	2.2%
Heavy and Tractor-Trailer Truck Drivers	$41,600	15.5%	4.1%
Light Truck or Delivery Services Drivers	$36,200	10.3%	2.7%
Industrial Truck and Tractor Operators	$35,900	10.5%	2.8%
Laborers and Freight, Stock, and Material Movers, Hand	$27,000	36.0%	9.5%
Packers and Packagers, Hand	$21,200	8.5%	2.3%
All Other Transportation and Material Moving Occupations (Avg. All Categories)	$32,500	10.8%	2.9%
Weighted Mean Annual Wage	***$31,600***	**100.0%**	**26.5%**
			92.9%

[1] Including occupations representing 4% or more of the major occupation group

[2] The methodology utilized by the California Employment Development Department (EDD) assumes that hourly paid employees are employed full-time. Annual compensation is calculated by EDD by multiplying hourly wages by 40 hours per work week by 52 weeks.

[3] Occupation percentages are based on the 2012 National Industry - Specific Occupational Employment survey compiled by the Bureau of Labor Statistics. Wages are based on the 2009 Occupational Employment Survey data for San Diego County updated by the California Employment Development Department to 2010 wage levels.

Source: Bureau of Labor Statistics
Prepared by: Keyser Marston Associates, Inc.
Filename: SDHC_Appendix B_Warehousing & Storage_v2; 7/30/2013; dd

APPENDIX B TABLE 11

WORKERS COMMUTING FROM MEXICO TO SAN DIEGO
JOBS HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

Year	2012
Total North-Bound Border Crossings: San Ysidro and Otay Mesa[1]	41,330,000
Percent of crossings that are Commute Trips to Work[2]	25.7%
Estimate of Border Crossings that are Commute Trips	10,622,000
Number of Annual Work Days[3]	245
Estimated Number of Workers Crossing the Border	43,400
San Diego Share of Total Employment in County[4]	56%
Estimate of Number of Workers Crossing the Border for Work in City of San Diego	24,200

[1] U.S. Department of Transportation, Research and Innovative Technology Administration, Bureau of Transportation Statistics, Border Crossing/Entry Data, based on the U.S. Department of Homeland Security, Customs and Border Protection. Includes passengers and pedestrians.
[2] SANDAG 2011. Cross-Border travel behavior survey.
[3] Assumes an average of 5 days per week and 49 weeks per year.
[4] 2009-2011 Amercian Community Survey 3-Year Estimates

APPENDIX C
Affordability Gap Analysis

RENTAL PROTOTYPES

Affordability Gap Analysis
Jobs-Housing Nexus Study

APPENDIX C TABLE 1

GARDEN APARTMENTS

DEVELOPMENT PROFILE
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

I.	**Product Type**		Garden Apartments		
	Construction Type		Type V		
	Tenure		Rental		
II.	**Site Area**		174,240	SF	
			4.0	Acres	
III.	**Number of Stories**		2 - 3	Stories	
IV.	**Unit Mix**				
		# of Units	Unit Size		
	Two Bedroom	100 Units	950	SF	
V.	**Density**		25.0	Units/Acre	
VI.	**Gross Building Area**				
	Residential Net Building Area		95,000	SF	95%
	Building Efficiency		5,000	SF	5%
	Total Gross Building Area (GBA)		100,000	SF	100%
VII.	**Floor Area Ratio (FAR)**		0.57		
VIII.	**Parking**				
	Type		Surface		
	Parking Spaces		Parking Ratio (1)		
	Residents	130 Spaces	1.30	Spaces/Unit	
	Visitor	15 Spaces	0.15	Spaces/Unit	
	Staff	5 Spaces	0.05	Spaces/Unit	
	Total	150 Spaces			

(1) Reflects parking requirements for Reduced Parking Demand Housing. Assumes development is designated as a High parking demand development.

APPENDIX C TABLE 2

GARDEN APARTMENTS

ESTIMATED DEVELOPMENT COSTS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

		Low Income (80% AMI)				Very Low Income (50% AMI) (4% Tax Credits)			
		Totals	Per Unit		Comments	Totals	Per Unit		Comments
I.	**Acquisition Costs**	$4,356,000	$43,560	$25	Per SF Site	$4,356,000	$43,560	$25	Per SF Site
II.	**Direct Costs** (1)								
	Off-Site Improvements	$523,000	$5,230	$3	Per SF Site	$523,000	$5,230	$3	Per SF Site
	On-Sites/Landscaping	$1,742,000	$17,420	$10	Per SF Site	$1,742,000	$17,420	$10	Per SF Site
	Shell Construction	$10,000,000	$100,000	$100	Per SF GBA	$10,000,000	$100,000	$100	Per SF GBA
	Parking	$0	$0		Included above	$0	$0		Included above
	Amenities/FF&E	$250,000	$2,500		Allowance	$250,000	$2,500		Allowance
	Contingency	$626,000	$6,260	5.0%	of Directs	$626,000	$6,260	5.0%	of Directs
	Total Direct Costs	$13,141,000	$131,410	$131	Per SF GBA	$13,141,000	$131,410	$131	Per SF GBA
III.	**Indirect Costs**								
	Architecture & Engineering	$788,000	$7,880	6.0%	of Directs	$788,000	$7,880	6.0%	of Directs
	Permits & Fees (2)	$2,000,000	$20,000	$20	Per SF GBA	$2,000,000	$20,000	$20	Per SF GBA
	Legal & Accounting	$263,000	$2,630	2.0%	of Directs	$263,000	$2,630	2.0%	of Directs
	Taxes & Insurance	$263,000	$2,630	2.0%	of Directs	$263,000	$2,630	2.0%	of Directs
	Developer Fee	$526,000	$5,260	4.0%	of Directs	$2,500,000	$25,000	19.0%	of Directs
	Marketing/Lease-Up	$150,000	$1,500		Allowance	$150,000	$1,500		Allowance
	Contingency	$200,000	$2,000	5.0%	of Indirects	$298,000	$2,980	5.0%	of Indirects
	Total Indirect Costs	$4,190,000	$41,900	31.9%	of Directs	$6,262,000	$62,620	47.7%	of Directs
IV.	**Financing Costs**								
	Loan Fees	$227,000	$2,270	1.7%	of Directs	$592,000	$5,920	4.5%	of Directs
	Interest During Construction	$682,000	$6,820	5.2%	of Directs	$493,000	$4,930	3.8%	of Directs
	Interest During Lease-Up	$455,000	$4,550	3.5%	of Directs	$329,000	$3,290	2.5%	of Directs
	TCAC/Syndication Fees	$0	$0	0.0%	of Directs	$150,000	$1,500	1.1%	of Directs
	Operating Lease-Up/Reserves	$244,000	$2,440	1.9%	of Directs	$286,000	$2,860	2.2%	of Directs
	Total Financing Costs	$1,608,000	$16,080	12.2%	of Directs	$1,850,000	$18,500	14.1%	of Directs
V.	**Total Development Costs**	**$23,295,000**	**$232,950**	**$233**	**Per SF GBA**	**$25,609,000**	**$256,090**	**$256**	**Per SF GBA**

(1) Excludes the payment of prevailing wages.
(2) Estimate. Not verified by KMA or the City.

Prepared by: Keyser Marston Associates, Inc.
Filename: SDHC_Section IV and Appendix C_v2; 7/30/2013;rks

APPENDIX C TABLE 3

GARDEN APARTMENTS

AFFORDABLE RENTS AND UNIT VALUES AND NET OPERATING INCOME
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

	Low Income (80% of AMI)			Very Low Income (50% of AMI)		
I. Affordable Rent - Per Unit						
Family Size			3.0			3.0
Number of Bedrooms			2			2
Household Income			$59,500			$37,150
Income Allocation to Housing			30%			30%
Monthly Housing Cost			$1,488			$929
(Less) Utility Allowance (1)			($51)			($51)
Maximum Monthly Rent			**$1,437**			**$878**
		Total	**Per Unit**		**Total**	**Per Unit**
II. Net Operating Income (NOI)						
Units		100	1		100	1
Gross Scheduled Income (GSI)						
Monthly		$143,650	$1,437		$87,775	$878
Annual		$1,724,000	$17,240		$1,053,000	$10,530
Other Income	$15	$18,000	$180	$10	$12,000	$120
(Less) Vacancy	5.0%	($86,000)	($860)	5.0%	($53,000)	($530)
Effective Gross Income (EGI)		$1,656,000	$16,560		$1,012,000	$10,120
(Less) Operating Expenses (2)		($495,000)	($4,950)		($495,000)	($4,950)
(Less) Property Taxes		($200,000)	($2,000) (3)		$0	$0 (4)
Net Operating Income (NOI)		**$961,000**	**$9,610**		**$517,000**	**$5,170**

(1) Assumes San Diego Housing Commission (SDHC) 2013 utility allowances of $51/month.
(2) Includes replacement reserves, monitoring fee, assessments, etc.
(3) Based on capitalized income approach: assumes a 1.25% tax rate and a 6.0% cap rate.
(4) Assumes development is tax-exempt based on partnership with non-profit developer.

APPENDIX C TABLE 4

GARDEN APARTMENTS

AFFORDABILITY GAP FOR RENTAL UNITS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

	Low Income (80% AMI)		Very Low Income (50% AMI)	
	Total	**Per Unit**	**Total**	**Per Unit**
I. Net Operating Income (NOI)	$961,000	$9,610	$517,000	$5,170
II. Target Return on Investment	7.5%	7.5%	N/A	N/A
III. Sources of Funds				
Supportable Debt	N/A	N/A	$6,978,000	$70,000
Market Value of Tax Credits	N/A	N/A	$7,626,000	$76,000
Deferred Developer Fee	N/A	N/A	$250,000	$3,000
IV. Warranted Investment	$12,813,000	$128,000	$14,854,000	$149,000
V. (Less) Total Development Costs	($23,295,000)	($233,000)	($25,609,000)	($256,000)
VI. Affordability Gap	**($10,482,000)**	**($105,000)**	**($10,755,000)**	**($108,000)**

APPENDIX C TABLE 5

GARDEN APARTMENTS

FINANCING COSTS - ASSUMPTIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

		Low Income (80% AMI)		Very Low Income (50% AMI)
I.	**Loan Fees**			
	Total Development Costs (1)	$18,939,000		
	Loan to Cost Ratio (LTC)	80.0%		
	Construction Loan Amount	$15,151,000		
	Eligible Basis			$19,552,000
	Add: Land			$4,356,000
	Aggregate Basis			$23,908,000
	Minimum Required Tax-Exempt Bond		55%	$13,149,000
	Construction Loan Fees:			
	Loan Amount	$15,151,000		$13,149,000
	Points / Issuance Costs	1.5		4.5%
	Total Loan Fees	227,000		$592,000
II.	**Interest During Construction**			
	Interest Rate	6.0%		5.0%
	Term (Months)	15		15
	Average Balance Out	60.0%		60.0%
	Interest During Construction	$682,000		$493,000
III.	**Interest During Lease-Up**			
	Interest Rate	6.0%		5.0%
	Term (Months)	6		6
	Average Balance Out	100.0%		100.0%
	Interest During Lease-Up	$455,000		$329,000
IV.	**TCAC Fees**			
	Application Fee			$2,000
	Compliance Monitoring Fee		$410 /Unit	$41,000
	One Year of Tax Credit Value @		4.0%	$32,000
	Total TCAC Fees			$75,000
	Syndication Fees			$75,000
	Total TCAC/Syndication Fees			$150,000
V.	**Operating Lease-Up/Reserves**			
	Operating Expenses	3 months	$174,000	$124,000
	Debt Service	3 months		$112,000
	10% of Op Expenses	10.0%	$70,000	$50,000
	Total Operating Reserves		$244,000	$286,000

(1) Excluding acquisition costs.

APPENDIX C TABLE 6

GARDEN APARTMENTS

AFFORDABILITY GAP FOR RENTAL UNITS - ASSUMPTIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

	Very Low - 50% AMI (4% Tax Credits)
(1) Supportable Debt	
NOI	$517,000
Interest Rate	5.00%
Term	30
Debt Coverage	1.15
Annual Debt Service	$449,565
Supportable Debt	$6,978,000

(2) Low Income Housing Tax Credits

Threshold Basis Limits		Effective: January 2013		
Two Bedroom	100 Units @	$268,000 /Unit		$26,800,000
Add: Basis Adjustment			14.0% *	$3,752,000
Add: Local Development Impact Fees			20.0%	$400,000
Add: Affordability <50%	100 Units		1.0%	$26,800,000
Total Threshold Basis Limit				$57,752,000

* Assumes 10% for projects with elevator service and 4% for projects with energy efficient features.

Estimate of Eligible Basis		
Total Development Costs		$25,609,000
(Less) Ineligible Costs		($6,057,000)
Eligible Basis		$19,552,000
Maximum Eligible Basis		$19,552,000
Tax Credit Qualified Units	100.0%	$19,552,000
Impacted Bonus Factor	130.0%	$25,417,600
Tax Credit Rate	3.19%	$810,821
Total Tax Credits	10	$8,108,214
Limited Partner Share	99.0%	$8,027,132
Present Market Value	95.0%	$7,626,000

(3) Estimate of Deferred Developer Overhead Fee

Eligible Basis		$19,552,000
(Less) Developer Fee		($2,500,000)
Unadjusted Eligible Basis		$17,052,000
Total Developer Overhead Fee	14.7%	$2,500,000
Developer Overhead Fee		$2,500,000
Total Deferred Developer Overhead Fee	10.0%	$250,000

APPENDIX C TABLE 7

STACKED FLATS OVER PODIUM PARKING

DEVELOPMENT PROFILE
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

I.	**Product Type**		Stacked Flats		
	Construction Type		Type V		
	Tenure		Rental		
II.	**Site Area**		87,120	SF	
			2.0	Acres	
III.	**Number of Stories**		4	Stories	
IV.	**Unit Mix**				
		# of Units	Unit Size		
	Two Bedroom	100 Units	800	SF	
V.	**Density**		50.0	Units/Acre	
VI.	**Gross Building Area**				
	Residential Net Building Area		80,000	SF	85%
	Building Efficiency		14,100	SF	15%
	Total Gross Building Area (GBA)		94,100	SF	100%
VII.	**Floor Area Ratio (FAR)**		1.08		
VIII.	**Parking**				
	Type		Podium/Subterranean		
	Parking Spaces		Parking Ratio (1)		
	Residents	110 Spaces	1.10	Spaces/Unit	
	Visitor	15 Spaces	0.15	Spaces/Unit	
	Staff	5 Spaces	0.05	Spaces/Unit	
	Total	130 Spaces			

(1) Reflects parking requirements for Reduced Parking Demand Housing. Assumes development is designated as a Medium parking demand development.

RENTAL

APPENDIX C TABLE 8

ESTIMATED DEVELOPMENT COSTS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

STACKED FLATS OVER
PODIUM PARKING

	Low Income (80% AMI)			Very Low Income (50% AMI) (4% Tax Credits)		
	Totals	**Per Unit**	**Comments**	**Totals**	**Per Unit**	**Comments**
I. Acquisition Costs	$4,356,000	$43,560	$50 Per SF Site	$4,356,000	$43,560	$50 Per SF Site
II. Direct Costs (1)						
Off-Site Improvements	$436,000	$4,360	$5 Per SF Site	$436,000	$4,360	$5 Per SF Site
On-Sites/Landscaping	$1,307,000	$13,070	$15 Per SF Site	$1,307,000	$13,070	$15 Per SF Site
Shell Construction	$11,763,000	$117,630	$125 Per SF GBA	$11,763,000	$117,630	$125 Per SF GBA
Parking	$3,250,000	$32,500	$25,000 Per Space	$3,250,000	$32,500	$25,000 Per Space
Amenities/FF&E	$250,000	$2,500	Allowance	$250,000	$2,500	Allowance
Contingency	$850,000	$8,500	5.0% of Directs	$850,000	$8,500	5.0% of Directs
Total Direct Costs	$17,856,000	$178,560	$190 Per SF GBA	$17,856,000	$178,560	$190 Per SF GBA
III. Indirect Costs						
Architecture & Engineering	$1,071,000	$10,710	6.0% of Directs	$1,071,000	$10,710	6.0% of Directs
Permits & Fees (2)	$1,882,000	$18,820	$20 Per SF GBA	$1,882,000	$18,820	$20 Per SF GBA
Legal & Accounting	$357,000	$3,570	2.0% of Directs	$357,000	$3,570	2.0% of Directs
Taxes & Insurance	$357,000	$3,570	2.0% of Directs	$357,000	$3,570	2.0% of Directs
Developer Fee	$714,000	$7,140	4.0% of Directs	$2,500,000	$25,000	14.0% of Directs
Marketing/Lease-Up	$150,000	$1,500	Allowance	$150,000	$1,500	Allowance
Contingency	$227,000	$2,270	5.0% of Indirects	$316,000	$3,160	5.0% of Indirects
Total Indirect Costs	$4,758,000	$47,580	26.6% of Directs	$6,633,000	$66,330	37.1% of Directs
IV. Financing Costs						
Loan Fees	$298,000	$2,980	1.7% of Directs	$592,000	$5,920	3.3% of Directs
Interest During Construction	$1,072,000	$10,720	6.0% of Directs	$592,000	$5,920	3.3% of Directs
Interest During Lease-Up	$596,000	$5,960	3.3% of Directs	$329,000	$3,290	1.8% of Directs
TCAC/Syndication Fees	$0	$0	0.0% of Directs	$159,000	$1,590	0.9% of Directs
Operating Lease-Up/Reserves	$244,000	$2,440	1.4% of Directs	$286,000	$2,860	1.6% of Directs
Total Financing Costs	$2,210,000	$22,100	12.4% of Directs	$1,958,000	$19,580	11.0% of Directs
V. Total Development Costs	**$29,180,000**	**$291,800**	**$310 Per SF GBA**	**$30,803,000**	**$308,030**	**$327 Per SF GBA**

(1) Excludes the payment of prevailing wages.
(2) Estimate. Not verified by KMA or the City.

APPENDIX C TABLE 9

AFFORDABLE RENTS AND UNIT VALUES AND NET OPERATING INCOME
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

STACKED FLATS OVER PODIUM PARKING

	Low Income (80% of AMI)			Very Low Income (50% of AMI)		
I. Affordable Rent - Per Unit						
Family Size			3.0			3.0
Number of Bedrooms			2			2
Household Income			$59,500			$37,150
Income Allocation to Housing			30%			30%
Monthly Housing Cost			$1,488			$929
(Less) Utility Allowance (1)			($51)			($51)
Maximum Monthly Rent			**$1,437**			**$878**
		Total	**Per Unit**		**Total**	**Per Unit**
II. Net Operating Income (NOI)						
Units		100	1		100	1
Gross Scheduled Income (GSI)						
Monthly		$143,650	$1,437		$87,775	$878
Annual		$1,724,000	$17,240		$1,053,000	$10,530
Other Income	$15	$18,000	$180	$10	$12,000	$120
(Less) Vacancy	5.0%	($86,000)	($860)	5.0%	($53,000)	($530)
Effective Gross Income (EGI)		$1,656,000	$16,560		$1,012,000	$10,120
(Less) Operating Expenses (2)		($495,000)	($4,950)		($495,000)	($4,950)
(Less) Property Taxes		($200,000)	($2,000) (3)		$0	$0 (4)
Net Operating Income (NOI)		**$961,000**	**$9,610**		**$517,000**	**$5,170**

(1) Assumes San Diego Housing Commission (SDHC) 2013 utility allowances at $51/month.
(2) Includes replacement reserves, monitoring fee, assessments, etc.
(3) Based on capitalized income approach: assumes a 1.25% tax rate and a 6.0% cap rate.
(4) Assumes development is tax-exempt based on partnership with non-profit developer.

APPENDIX C TABLE 10

STACKED FLATS OVER PODIUM PARKING

AFFORDABILITY GAP FOR RENTAL UNITS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

	Low Income (80% AMI)		Very Low Income (50% AMI)	
	Total	**Per Unit**	**Total**	**Per Unit**
I. Net Operating Income (NOI)	$961,000	$9,610	$517,000	$5,170
II. Target Return on Investment	7.5%	7.5%	N/A	N/A
III. Sources of Funds				
Supportable Debt	N/A	N/A	$6,978,000	$70,000
Market Value of Tax Credits	N/A	N/A	$9,682,000	$97,000
Deferred Developer Fee	N/A	N/A	$250,000	$3,000
IV. Warranted Investment	$12,813,000	$128,000	$16,910,000	$170,000
V. (Less) Total Development Costs	($29,180,000)	($292,000)	($30,803,000)	($308,000)
VI. Affordability Gap	**($16,367,000)**	**($164,000)**	**($13,893,000)**	**($139,000)**

APPENDIX C TABLE 11

STACKED FLATS OVER PODIUM PARKING

FINANCING COSTS - ASSUMPTIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

		Low Income (80% AMI)		Very Low Income (50% AMI)
I.	**Loan Fees**			
	Total Development Costs (1)	$24,824,000		
	Loan to Cost Ratio (LTC)	80.0%		
	Construction Loan Amount	$19,859,000		
	Eligible Basis			$19,552,000
	Add: Land			$4,356,000
	Aggregate Basis			$23,908,000
	Minimum Required Tax-Exempt Bond		55%	$13,149,000
	Construction Loan Fees:			
	Loan Amount	$19,859,000		$13,149,000
	Points / Issuance Costs	1.5		4.5%
	Total Loan Fees	298,000		$592,000
II.	**Interest During Construction**			
	Interest Rate	6.0%		5.0%
	Term (Months)	18		18
	Average Balance Out	60.0%		60.0%
	Interest During Construction	$1,072,000		$592,000
III.	**Interest During Lease-Up**			
	Interest Rate	6.0%		5.0%
	Term (Months)	6		6
	Average Balance Out	100.0%		100.0%
	Interest During Lease-Up	$596,000		$329,000
IV.	**TCAC Fees**			
	Application Fee			$2,000
	Compliance Monitoring Fee		$410 /Unit	$41,000
	One Year of Tax Credit Value @		4.0%	$41,000
	Total TCAC Fees			$84,000
	Syndication Fees			$75,000
	Total TCAC/Syndication Fees			$159,000
V.	**Operating Lease-Up/Reserves**			
	Operating Expenses 3 months	$174,000		$124,000
	Debt Service 3 months			$112,000
	10% of Op Expenses 10.0%	$70,000		$50,000
	Total Operating Reserves	$244,000		$286,000

(1) Excluding acquisition costs.

APPENDIX C TABLE 12

STACKED FLATS OVER PODIUM PARKING

AFFORDABILITY GAP FOR RENTAL UNITS - ASSUMPTIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

					Very Low - 50% AMI (4% Tax Credits)
(1)	Supportable Debt				
	NOI				$517,000
	Interest Rate				5.00%
	Term				30
	Debt Coverage				1.15
	Annual Debt Service				$449,565
	Supportable Debt				$6,978,000
(2)	Low Income Housing Tax Credits				
	Threshold Basis Limits		Effective: January 2013		
	Two Bedroom	100 Units @	$268,000 /Unit		$26,800,000
	Add: Basis Adjustment			21.0% *	$5,628,000
	Add: Local Development Impact Fees			20.0%	$500,000
	Add: Affordability <50%	100 Units		1.0%	$26,800,000
	Total Threshold Basis Limit				$59,728,000
	* Assumes 10% for projects with elevator service, 7% for projects with parking beneath residential units, and 4% for projects with energy efficient features.				
	Estimate of Eligible Basis				
	Total Development Costs				$30,803,000
	(Less) Ineligible Costs				($5,979,000)
	Eligible Basis				$24,824,000
	Maximum Eligible Basis				$24,824,000
	Tax Credit Qualified Units			100.0%	$24,824,000
	Impacted Bonus Factor			130.0%	$32,271,200
	Tax Credit Rate			3.19%	$1,029,451
	Total Tax Credits			10	$10,294,513
	Limited Partner Share			99.0%	$10,191,568
	Present Market Value			95.0%	$9,682,000
(3)	Estimate of Deferred Developer Overhead Fee				
	Eligible Basis				$24,824,000
	(Less) Developer Fee				($2,500,000)
	Unadjusted Eligible Basis				$22,324,000
	Total Developer Overhead Fee			11.2%	$2,500,000
	Developer Overhead Fee				$2,500,000
	Total Deferred Developer Overhead Fee			10.0%	$250,000

OWNERSHIP PROTOTYPES

Affordability Gap Analysis
Jobs-Housing Nexus Study

APPENDIX C TABLE 13

TOWNHOMES
WITH ATTACHED GARAGES

DEVELOPMENT PROFILE
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

I.	**Product Type**		Townhome	
	Construction Type		Type V - Wood-frame with attached garages	
	Tenure		For-Sale	
II.	**Site Area**		43,560	SF
			1.0	Acres
III.	**Number of Stories**		2	Stories
IV.	**Unit Mix**	# of Units	Unit Size	
	Two Bedroom	20 Units	1,200	SF
V.	**Density**		20.0	Units/Acre
VI.	**Gross Building Area (GBA)**			
	Residential		24,000 SF	100%
	Common Areas		0 SF	0%
	Total Gross Building Area		24,000 SF	100%
VII.	**Floor Area Ratio (FAR)**		0.55	
VIII.	**Parking**			
	Type		Attached Garage	
	Parking Ratio - Residential		2.00	Spaces/Unit
	Total Number of Spaces		40	Spaces

APPENDIX C TABLE 14

TOWNHOMES
WITH ATTACHED GARAGES

ESTIMATED DEVELOPMENT COSTS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

		Moderate Income (120% of AMI)			
		Totals	**Per Unit**		**Comments**
I.	**Acquisition Costs**	$1,089,000	$54,450	$25	Per SF Site
II.	**Direct Costs** (1)				
	Off-Site Improvements	$131,000	$6,550	$3	Per SF Site
	On-Sites/Landscaping	$436,000	$21,800	$10	Per SF Site
	Shell Construction	$2,400,000	$120,000	$100	Per SF GBA
	Parking	$0	$0		Included above
	Amenities/FF&E	$20,000	$1,000		Allowance
	Contingency	$149,000	$7,450	5.0%	of Directs
	Total Direct Costs	$3,136,000	$156,800	$131	Per SF GBA
III.	**Indirect Costs**				
	Architecture & Engineering	$188,000	$9,400	6.0%	of Directs
	Permits & Fees (2)	$480,000	$24,000	$20	Per SF GBA
	Legal & Accounting	$63,000	$3,150	2.0%	of Directs
	Taxes & Insurance	$63,000	$3,150	2.0%	of Directs
	Developer Fee	$125,000	$6,250	4.0%	of Directs
	Marketing/Sales	$40,000	$2,000		Allowance
	Contingency	$48,000	$2,400	5.0%	of Indirects
	Total Indirect Costs	$1,007,000	$50,350	32.1%	of Directs
IV.	**Financing Costs**				
	Loan Fees	$56,000	$2,800	1.8%	of Directs
	Interest During Construction	$134,000	$6,700	4.3%	of Directs
	Interest During Sales	$30,000	$1,500	1.0%	of Directs
	HOA Dues on Unsold Units	$10,000	$500	0.3%	of Directs
	Total Financing Costs	$230,000	$11,500	7.3%	of Directs
V.	**Total Development Costs**	**$5,462,000**	**$273,100**	**$228**	**Per SF GBA**

(1) Excludes the payment of prevailing wages.
(2) Estimate. Not verified by KMA or the City.

APPENDIX C TABLE 15

TOWNHOMES
WITH ATTACHED GARAGES

MAXIMUM AFFORDABLE PURCHASE PRICE
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

		Moderate Income (120% of AMI)
I.	Family Size	3
	Number of Bedrooms	2
II.	Household Income (Rounded)	$82,000
	Income Allocation to Housing	35.0%
	Amount Available for Housing	$28,700
III.	Annual HOA (1)	$3,900
	Taxes & Assessment	1.25%
	Annual Taxes (2)	$3,838
IV.	Available for Mortgage	$20,963
V.	Interest Rate	6.0%
	Down Payment	5.0%
VI.	Supportable Mortgage	$291,364
	Add: Down Payment	$15,350
VII.	**Maximum Affordable Unit Price (Rounded)**	**$307,000**

(1) KMA estimate.
(2) Based on affordable sales price.

APPENDIX C TABLE 16

TOWNHOMES
WITH ATTACHED GARAGES

ESTIMATE OF AFFORDABILITY GAP
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

			Moderate Income (120% of AMI)
I.	Maximum Unit Price Per Unit		$307,000
II.	Gross Sales Proceeds	20 Units	$6,140,000
	(Less) Cost of Sale	3.0% of Value (1)	($184,000)
	(Less) Developer Profit	12.0% of Value (1)	($737,000)
	Net Sales Proceeds		$5,219,000
III.	(Less) Development Costs		($5,462,000)
IV.	**Affordability Gap**		**($243,000)**
	Per Unit		**($12,000)**

(1) Based on affordable sales price.

APPENDIX C TABLE 17

TOWNHOMES
WITH ATTACHED GARAGES

FINANCING COSTS - ASSUMPTIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

I. Construction Loan Fees

Total Development Costs (1)	$4,373,000
Loan to Cost Ratio (LTC)	85.0%
Construction Loan Amount	$3,717,000
Points	1.5
Loan Fees	$56,000

II. Interest During Construction

Construction Loan Amount	$3,717,000
Interest Rate	6.0%
Average Balance Out	60.0%
Term (Months)	12
Interest During Construction	$134,000

III. Interest During Sales

Interest Rate	6.0%
Term (Months)	4
Average Balance Out	40.0%
Interest During Sales	$30,000

IV. HOA Dues on Unsold Units

Monthly Dues	$325
Number of Units	20
Average Balance Out	40.0%
Term	4
HOA Dues on Unsold Units	$10,000

(1) Excluding acquisition costs.

APPENDIX C TABLE 18

STACKED FLATS OVER PODIUM PARKING

DEVELOPMENT PROFILE
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

I.	**Product Type**		Stacked Flat	
	Construction Type		Type V - Wood-frame over parking podium	
	Tenure		For-Sale	
II.	**Site Area**		43,560	SF
			1.0	Acres
III.	**Number of Stories**		3	Stories over parking podium
IV.	**Unit Mix**	# of Units	Unit Size	
	Two Bedroom	45 Units	1,000	SF
V.	**Density**		45.0	Units/Acre
VI.	**Gross Building Area (GBA)**			
	Residential		45,000 SF	85%
	Common Areas		7,900 SF	15%
	Total Gross Building Area		52,900 SF	100%
VII.	**Floor Area Ratio (FAR)**		1.21	
VIII.	**Parking**			
	Type		Structured	
	Parking Ratio - Residential		1.75	Spaces/Unit
	Total Number of Spaces		79	Spaces

APPENDIX C TABLE 19

STACKED FLAT OVER PODIUM PARKING

ESTIMATE DEVELOPMENT COSTS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

		Moderate Income (120% of AMI)			
		Totals	**Per Unit**		**Comments**
I.	**Acquisition Costs**	$2,178,000	$48,400	$50	Per SF Site
II.	**Direct Costs** (1)				
	Off-Site Improvements	$218,000	$4,844	$5	Per SF Site
	On-Sites/Landscaping	$653,000	$14,511	$15	Per SF Site
	Shell Construction	$6,613,000	$146,956	$125	Per SF GBA
	Parking	$1,969,000	$43,756	$25,000	Per Space
	Amenities/FF&E	$113,000	$2,500		Allowance
	Contingency	$478,000	$10,622	5.0%	of Directs
	Total Direct Costs	$10,044,000	$223,200	$190	Per SF GBA
III.	**Indirect Costs**				
	Architecture & Engineering	$603,000	$13,400	6.0%	of Directs
	Permits & Fees (2)	$1,058,000	$23,511	$20	Per SF GBA
	Legal & Accounting	$201,000	$4,467	2.0%	of Directs
	Taxes & Insurance	$201,000	$4,467	2.0%	of Directs
	Developer Fee	$402,000	$8,933	4.0%	of Directs
	Marketing/Sales	$113,000	$2,500		Allowance
	Contingency	$129,000	$2,867	5.0%	of Indirects
	Total Indirect Costs	$2,707,000	$60,156	27.0%	of Directs
IV.	**Financing Costs**				
	Loan Fees	$175,000	$3,889	1.7%	of Directs
	Interest During Construction	$630,000	$14,000	6.3%	of Directs
	Interest During Sales	$140,000	$3,111	1.4%	of Directs
	HOA Dues on Unsold Units	$35,000	$778	0.3%	of Directs
	Total Financing Costs	$980,000	$21,778	9.8%	of Directs
V.	**Total Development Costs**	**$15,909,000**	**$353,533**	**$301**	**Per SF GBA**

(1) Excludes the payment of prevailing wages.
(2) Estimate. Not verified by KMA or the City.

APPENDIX C TABLE 20

STACKED FLATS OVER PODIUM PARKING

AFFORDABLE PURCHASE PRICE
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

		Moderate Income (120% of AMI)
I.	Family Size	3
	Number of Bedrooms	2
II.	Household Income (Rounded)	$82,000
	Income Allocation to Housing	35.0%
	Amount Available for Housing	$28,700
III.	Annual HOA (1)	$3,900
	Taxes & Assessment	1.25%
	Annual Taxes (2)	$3,838
IV.	Available for Mortgage	$20,963
V.	Interest Rate	6.0%
	Down Payment	5.0%
VI.	Supportable Mortgage	$291,364
	Add: Down Payment	$15,350
VII.	**Maximum Affordable Unit Price (Rounded)**	**$307,000**

(1) Estimate.
(2) Based on affordable sales price.

APPENDIX C TABLE 21

STACKED FLATS OVER PODIUM PARKING

ESTIMATE OF AFFORDABILITY GAP
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

				Moderate Income (120% of AMI)
I.	Maximum Unit Price Per Unit			$307,000
II.	Gross Sales Proceeds	45	Units	$13,815,000
	(Less) Cost of Sale	3.0%	of Value (1)	($414,000)
	(Less) Developer Profit	12.0%	of Value (1)	($1,658,000)
	Net Sales Proceeds			$11,743,000
III.	(Less) Development Costs			($15,909,000)
IV.	**Affordability Gap**			**($4,166,000)**
	Per Unit			**($93,000)**

(1) Based on affordable sales price.

APPENDIX C TABLE 22

STACKED FLATS OVER PODIUM PARKING

FINANCING COSTS - ASSUMPTIONS
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO , CA

I. Construction Loan Fees

Total Development Costs (1)	$13,731,000
Loan to Cost Ratio (LTC)	85.0%
Construction Loan Amount	$11,671,000
Points	1.5
Loan Fees	$175,000

II. Interest During Construction

Construction Loan Amount	$11,671,000
Interest Rate	6.0%
Average Balance Out	60.0%
Term (Months)	18
Interest During Construction	$630,000

III. Interest During Sales

Interest Rate	6.0%
Term (Months)	6
Average Balance Out	40.0%
Interest During Sales	$140,000

IV. HOA Dues on Unsold Units

Monthly Dues	$325
Number of Units	45
Average Balance Out	40.0%
Term	6
HOA Dues on Unsold Units	$35,000

(1) Excluding acquisition costs.

KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

To: Colin Parent, Policy Director, San Diego Housing Commission

From: KEYSER MARSTON ASSOCIATES, INC.

Date: October 15, 2013

Subject: Supplemental Clarifications to the KMA Jobs-Housing Nexus Study

I. Introduction

This memorandum (Clarification) provides supplemental clarifications to the Jobs-Housing Nexus Study prepared by Keyser Marston Associates, Inc. (KMA) dated August 2013 (Nexus Study). The Nexus Study was prepared to provide updated nexus support for the City of San Diego's (City's) Housing Impact Fee originally adopted in 1990. This Clarification addresses specific issues that may be of interest to decision-makers in considering the proposed changes to the Housing Impact Fee, including the recent *Koontz* case, to the extent that it is even applicable.

II. Maximum Nexus Amounts up through Low Income Support the Maximum Recommended Fee Levels

The Nexus Study calculates maximum nexus cost amounts inclusive of Very Low, Low, and Moderate Income worker households. The City may also wish to evaluate nexus amounts when only Very Low and Low Income worker households are considered. The Nexus Study provides detailed calculations sufficient to determine the maximum nexus amounts without inclusion of Moderate Income workers. Table IV-2 on page 46 of the Nexus Study breaks out the components of the maximum supported nexus costs by Very Low (under 50% AMI), Low (50% to 80% AMI), and Moderate (80% to 120% AMI). The attached Table 1 presents the total nexus costs with Moderate Income workers omitted. The chart below presents these revised nexus amounts by building type, and compares these figures to the maximum fee levels recommended by KMA. As shown in the chart, the maximum fee levels recommended by KMA fall well within the nexus costs up through Low Income worker households.

Exhibit 1: Nexus Costs excluding Moderate Income Workers

	Office	*Hotel*	*Retail*	*R&D/ Manufacturing / Industrial*	*Warehouse/ Storage*
Nexus Cost – Very Low and Low Income Workers Only	$60.59	$64.07	$91.56	$28.12	$10.39
KMA Recommended Maximum Fee Levels for Consideration (up to 1.5% of Development Costs)	$5.32	$4.73	$4.96	$4.14 R&D $3.05 Manufacturing / Industrial	$2.28

III. Residential and Non-Residential Fees Combined Do Not Exceed the Maximums Supported by Nexus Studies

The combined affordable housing fee requirements applicable to residential development (existing fees) and non-residential development (proposed increased fees) will never exceed the maximums supported by the nexus, even considering minor overlap between the affordable housing impacts mitigated, given that fees are always well below the supported nexus.

The City has a Housing Impact Fee that applies to non-residential development and an Affordable Housing Fee that applies to residential development. The fees are supported by separate Jobs-Housing Nexus and Residential Nexus studies[1] that document the affordable housing impacts of new non-residential and residential development, respectively. The studies share a common conceptual framework in that they both quantify affordable housing demand of new workers. The Jobs-Housing Nexus Study addresses the affordable housing needs of workers in new workplace buildings built in the City of San Diego. The Residential Nexus Analysis addresses affordable housing needs for workers in sectors of the economy that serve residents of new market-rate residential units built in San Diego. These sectors include retail, health care, education, and government.

The Jobs-Housing Nexus Study counts many jobs not counted in the Residential Nexus Analysis and vice versa. A key distinction is that the Residential Nexus counts only those net new jobs specifically *related to services to new residents of the City of San Diego.* In contrast, jobs

[1] *Jobs-Housing Nexus Study,* prepared by Keyser Marston Associates, Inc. (KMA) and dated August 2013 and *Residential Nexus Analysis,* prepared by KMA and dated January 2011.

counted in the Jobs-Housing Nexus include office, hotel, manufacturing, and research and development jobs which are not typically oriented to serving local residents (medical offices are an exception).

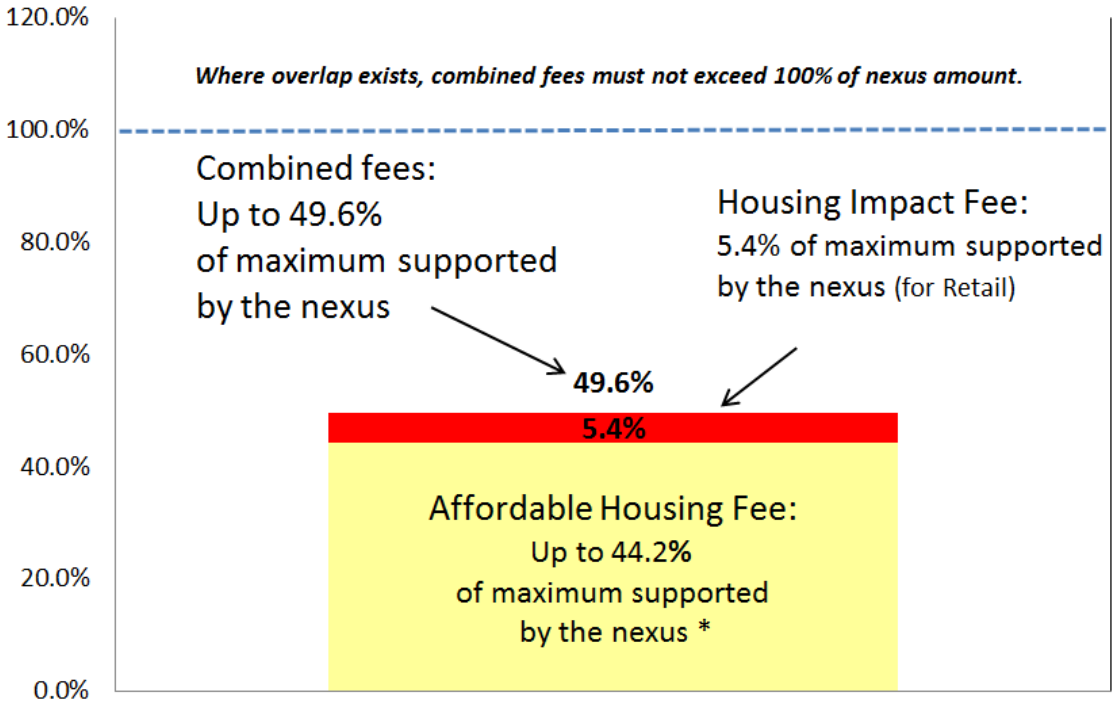
The Residential Nexus also counts jobs not counted in the Jobs-Housing Nexus. Public employees such as teachers and transit workers are examples. These jobs are not counted in the Jobs-Housing Nexus because governmental purpose buildings are exempt from the Housing Impact Fee.

Retail and medical office have a greater potential for overlap in the jobs counted between the two studies. However, even with these uses, the Residential Nexus is only counting that portion of jobs which is associated with services to *new* residents. Most retail serves a broader customer base than just new residents, for example, local businesses and their employees, existing residents, tourists, and residents of nearby cities, none of which are captured in the Residential Nexus.

Even considering the rare instances where overlap could be more significant, the existing residential fee requirements and the proposed increased fees on non-residential uses are, in all cases, well below the level that would mitigate 100% of the impacts. This conclusion is based on comparing the respective fee levels to the respective nexus maximums and then adding them together to ensure that combined mitigation requirements would still be within the nexus even in rare instances where overlap in impacts mitigated may be more of a factor. Exhibit 2 below provides a graphical illustration for retail (selected because the potential for overlap is greater than other uses). Exhibits 3, 4, and 5 show the computation for all uses subject to the fee. As shown in Exhibit 3, combined residential and non-residential fee requirements represent mitigation of no more than 66% of the impacts or full mitigation cost documented and quantified in the nexus studies. In the vast majority of cases, far less than 66% of impacts are mitigated.

Exhibit 2: Demonstration that Combined Fees are Well Below 100% of Nexus

Illustration of overlap analysis applied to Retail category



*Percent of nexus based on single-family detached (selected as having the highest percentage of nexus).

Exhibit 3: Maximum Percent of Impacts Mitigated by Combined Residential and Non-Residential Requirements

	Commercial: Proposed Increased Fee as Percent of Maximum Supported Nexus (from Exhibit 4)	*Residential: Current Fee as Percent of Supported Nexus (highest % from Exhibit 5 for SFD)*	*Maximum Mitigation based on Combined Non-Residential + Residential Fees*
Office	9% of nexus	44% of nexus	53% of nexus
Hotel	7% of nexus	44% of nexus	51% of nexus
Retail	5% of nexus	44% of nexus	49% of nexus
Research & Development	15% of nexus	44% of nexus	59% of nexus
Manufacturing / Industrial	11% of nexus	44% of nexus	55% of nexus
Warehouse/ Storage	22% of nexus	44% of nexus	66% of nexus

Exhibit 4: Proposed Housing Impact Fee (Non-Residential) as Percent of Nexus Maximums

	Proposed Housing Impact Fee per Square Foot	*Maximum Supported Nexus Fee per Sq.Ft.*[1]	*Recommended Maximum Fee as Percent of Maximum Supported Nexus*
Office	$5.32	$60.59	9% of nexus
Hotel	$4.73	$64.07	7% of nexus
Retail	$4.96	$91.56	5% of nexus
Research & Development	$4.14	$28.12	15% of nexus
Manufacturing / Industrial	$3.05	$28.12	11% of nexus
Warehouse/ Storage	$2.28	$10.39	22% of nexus

1. Includes worker households earning up to 80% AMI. Refer to Section II of this Clarification.

Exhibit 5: Current Affordable Housing Fee (Residential) as Percent of Nexus Maximums

	Current Fee Per Square Foot	*Maximum Supported Fee Per Sq.Ft. through 65% AMI*[2]	*Current Fee as Percent of Supported Nexus*
Prototype 1: SFD	$8.20	$18.55	44% of nexus
Prototype 2: Townhome	$8.20	$23.29	35% of nexus
Prototype 3: Stacked Flat	$8.20	$35.14	23% of nexus
Prototype 4: Mid/High Rise Condo	$8.20	$49.47	17% of nexus
Prototype 5: Garden Apartment	$8.20	$25.16	33% of nexus
Prototype 6: Stacked Flat Apartments	$8.20	$35.18	23% of nexus

IV. Nexus Study Quantifies the Nexus between New Workplace Buildings and Affordable Housing Demand

Development of new non-residential buildings is both a requirement for, and major contributing cause of, job growth in San Diego which, because a significant share of new jobs for these new non-residential buildings are at lower compensation levels, is in turn, a major contributing cause of the need for additional housing affordable for Very Low and Low Income worker households in San Diego, as documented and quantified in the Nexus Study.

This is true because development of new non-residential buildings is inextricably linked with the needs of businesses and end users for additional space which is required to accommodate their expansion plans and the accompanying jobs that go hand-in-hand with that growth. Construction of new non-residential buildings is most prevalent when economic conditions drive businesses to expand operations, requiring additional employees, and creating demand for new space. Periods of strong economic growth are typically accompanied by declining vacancy rates as businesses seek to expand and compete for limited available space. This in turn creates an environment of rising rents, making construction of new non-residential space both financially feasible and essential to continued economic expansion and job growth. In this environment, developers make business decisions to develop new space based on reasonable expectations that, if space is developed, there will be demand for it and it will be occupied with tenants and their workers. Lenders, as a pre-condition to underwriting the financing for such projects, will

[2] If the Residential Nexus Analysis had presented findings through 80% of AMI, those findings would have been used for for consistency with the Housing Impact Fee. Using findings at 65% of AMI overstates the fee as a percent of nexus and ensures the combined fee requirements could never exceed the nexus.

sometimes require that space be pre-leased, at least to a certain degree, to tenants or end users who commit to occupy the space at completion. Expansion plans of businesses or end users with unique or specific requirements for new space can warrant construction of new buildings even when conditions in the marketplace do not make development more widely feasible.

V. Nexus Study assumes Housing Fees Collected will be Leveraged

A most important source in recent years of funding for affordable housing development comes from the Federal government in the form of tax credits (which result in reduced income tax payment by tax credit investors in exchange for equity funding). For the purposes of calculating the affordability gap, the Nexus Study assumes that Very Low Income units will be financed with tax-exempt bonds combined with the 4% Low Income Housing Tax Credit, and thus local funds from fee revenues are indeed assumed to leveraged.

For the purposes of estimating the affordability gaps for Low Income households, KMA does not assume additional sources of affordable housing financing. While affordable housing developments assisted by the City typically utilize an array of funding sources, it is not assured that these sources will be available in the future. Accessing these sources also tends to be highly competitive due to the limited supply. For example, KMA did not assume that Very Low Income units could be financed with 9% Low Income Housing Tax Credits due to the highly competitive nature of this funding source and the very few units that San Diego gets to build every year with 9% tax credits.

There are many reasons that the City leverages Housing Impact Fee revenue with other funding sources to finance new affordable housing. However, the reasons do not imply that the fee should be based on the assumption that leveraging will occur. One reason that the City leverages funding sources is that the Housing Impact Fee does not generate enough fee revenue to fully subsidize the affordable housing demand generated by the workers located in new commercial buildings, and the City must leverage additional funds to create housing. A second reason is that new commercial development is just one source of demand for affordable housing. As such, one would not expect the Housing Impact Fee to be the sole, or even primary, source of funds for any particular housing project, and SDHC practice has shown that they are not. The mitigation costs as calculated in the Nexus Study assign far less than a roughly proportional burden on new commercial development for all of the reasons that have been discussed in the Nexus Study and this Clarification, taking into consideration the tenets of *Nollan*, *Dolan*, and *Koontz*, whether or not such holdings even apply to Housing Impact Fees.

VI. Nexus Study excludes the Demand for Affordable Housing from Government Workers

The nexus analysis includes the demand for affordable housing generated by employees who will work in new commercial and industrial buildings. Workers in buildings built for a governmental purpose which will be occupied by government workers (e.g., post offices, schools), and which are not subject to the Housing Impact Fee, are not included in the analysis. Demand for housing generated by government workers is neither directly nor indirectly allocated to commercial or industrial uses. The approach is consistent with the principle that fees must not exceed the cost of mitigating impacts caused by the specific buildings that are subject to the fee excluding any existing deficiencies or other sources of future housing needs.

VII. Market Forces Alone are Unlikely to Produce Significant Affordable Housing

Private development interests have often suggested that reduction in barriers to, and costs of, development will enable the private sector to produce affordable housing units without government assistance or intervention. KMA has extensive experience in the development economics of both market-rate and affordable housing in San Diego County. It is the consistent KMA finding that the cost to develop new housing units exceeds the amount that a Very Low Income or Low Income household can afford to pay in rent or sales price. In other words, development of housing units affordable to Very Low Income or Low Income households is infeasible without external subsidy such as loans and grants from Federal, State, or local government agencies. Thus, the affordable housing shortage is unlikely to be, and has not been, resolved by the voluntary production of units affordable to Very Low Income and Low Income households by private builders.

VIII. Increased Commuting is a Symptom of, Rather than Solution to, Affordable Housing Shortages

Some observers argue that a higher degree of commuting from outside the City will alleviate the need for additional affordable housing unit production within the City. The Nexus Study includes an extensive analysis of existing commute patterns in the City of San Diego, including an evaluation of the number of jobs in San Diego held by residents commuting from Mexico. As shown in the discussion and analysis on pages 17-18, 32, 44 (item 7), 80 (item C-7), and 99 (Appendix B Table 11), the Nexus Study uses a commute adjustment of 58.6%. In other words, KMA estimates that 58.6% of jobs in the City of San Diego are held by residents of San Diego, with the balance of job holders commuting from outside the City. KMA incorporates this adjustment in the nexus analysis, effectively reducing the nexus results by over 40%.

Incorporation of this commute adjustment essentially "locks in" the current commuting pattern, which reflects the existing shortfall of affordable housing in the City and the need for workers to travel longer distances to find affordable housing. This adjustment would create added impacts to transportation infrastructure and is inconsistent with the City's policy objective of encouraging smart growth developments that support alternative forms of transportation, reduced traffic congestion, and enhanced environmental quality.

IX. Fee Amounts are Proportional to Public Burdens Created by Individual Fee Payers

The Nexus Study demonstrates that: (1) each commercial building type generates affordable housing impacts; (2) the recommended fee amount is proportional to the public burden created by the individual fee payer; and (3) the recommended fee amounts fall far short of the total cost burden to produce the needed affordable housing. In order to illustrate these findings, KMA applied the nexus methodology to five of the illustrative commercial development prototypes presented in pages 69-72 of the Nexus Study. As shown in Table 2, the nexus results for each of the individual development prototypes analyzed – in terms of affordable housing demand and mitigation costs – greatly exceed the recommended maximum fee levels. The analysis in Table 2 is organized as follows:

- *Section I* of the table summarizes the project description for each illustrative development prototype.

- *Sections II* through *VII* conduct the step-by-step nexus analysis used in the Nexus Study (with corresponding page references). The key exception is that KMA has used only Very Low Income and Low Income workers in *Section VII* of Table 2 to arrive at the total mitigation cost for each commercial development prototype. (This adjustment is consistent with the discussion above in Section II of this Clarification, wherein Moderate Income workers are excluded from the nexus analysis.)

- *Section VIII* presents the recommended maximum fee for each prototype.

- *Section IX* compares the recommended maximum fee as a percent of the mitigation cost.

As summarized in Exhibit 6, these findings indicate that the recommended fees account for a relatively small portion of the total mitigation cost for each development prototype, ranging between 5.4% and 21.9% of the total mitigation cost.

Exhibit 6: Recommended Maximum Fee as a % of Nexus Mitigation Costs

Commercial Development Prototypes (pp. 69-72 of Nexus Study)	*Suburban Mid-Rise Office*	*Full Service Mid-Rise Hotel*	*Community Retail Center*	*Manufacturing/ Industrial*	*Warehouse/ Storage*
Total Mitigation Cost - Very Low and Low Income Worker Households Only	$7,945,000	$11,148,000	$9,975,000	$1,487,000	$789,000
Recommended Maximum Fee	$697,000	$823,000	$541,000	$162,000	$173,000
Recommended Maximum Fee as % of Nexus Mitigation Cost	8.8%	7.4%	5.4%	10.9%	21.9%

X. Housing Needs of Retirees are Not Included in the Nexus Analysis

The nexus analysis and its conclusions regarding maximum supported housing impact fees are based solely on the incremental employment growth from new workplace buildings constructed in the City of San Diego and the resulting incremental demand for affordable housing from worker households. Retirees and their housing needs are not included in arriving at the maximum supported fee levels. The analysis includes new workers and, by definition, retirees are not in the work force and not included in the analysis. Seniors who continue to participate in the work force would be included. KMA addresses these issues on pages 14 and 81 of the Nexus Study.

The Nexus Study includes Section II, entitled the Macro Economic Jobs/housing Analysis, to examine and illustrate the relationship between job growth and housing construction in the City as a whole. This section provides a general overview and background information on the history of employment growth, housing production, affordable housing need, and future trends. As part of this section, KMA assembled information from SANDAG and U.S. Census sources included in a table on page 26 of the Nexus Study which indicate that, in the coming years, growth in the population over the age of 65 will be a significant factor in the overall increased demand for housing. The aging population is an important factor in considering the long-term trends in housing demand examined in that section. However, this background discussion is incidental to the core of the nexus analysis presented in Sections III and IV of the Nexus Study, which consider only the housing needs of new workers.

XI. Most Workers in New Workplace Buildings Represent Net New Workers in the City of San Diego

The Nexus Study appropriately assumes that all workers in new workplace buildings will be new workers to the City. As discussed on pages 6-8 of the Nexus Study, new residents moving to San Diego, as well as people born in San Diego, would not stay if they could not find jobs. Additionally, while new buildings may be developed and occupied by existing firms and employees within the City, the buildings vacated by those firms and employees will eventually be re-leased or re-purposed for new businesses and employees. In order to be conservative, however, KMA incorporated a downward adjustment to the nexus results to account for permanent job losses and downsizing in declining industries. KMA undertook a detailed analysis of long-term declines in employment, as discussed on pages 10, 12 (Table I-1), 29 (Step 2), and 78 (item 4) of the Nexus Study. Based on this analysis, KMA has assumed a -16% reduction in the nexus results. In other words, one of every six jobs is assumed to be filled by a worker that has been downsized from a declining industry and already lives locally. As noted on page 44 (item 6), this conservative adjustment was first incorporated into the 2010 nexus analysis in response to issues and concerns raised during the stakeholder workshops.

XII. Nexus Study Includes Part-Time Workers

The Nexus Study includes part-time employment as explicitly noted in the analysis text. This is consistent with all California Employment Development Department (EDD) data and U.S. Bureau of Labor Statistics (BLS) data which include part-time jobs in all summaries of employment by occupation and by industry. Individual workers holding more than one job are not recognized explicitly in the analysis because no good data set prepared by the State or Federal government exists. However, annual compensation data from EDD used in the analysis assumes that all workers are able to achieve full-time employment, either with one job or by combining multiple jobs. This assumption likely overstates worker incomes, since not all part-time workers in fact have multiple jobs, making the nexus analysis and conclusions conservative.

For multiple worker households, all workers are included as contributing to household income regardless of whether a worker is full-time or part-time. Compensation of part-time workers in multiple earner households is estimated as if that worker had full-time employment. Again, this approach likely overstates household income, understating the need for affordable housing, and making the nexus analysis and conclusions conservative.

Specific industry data has also been consulted where available, such as the restaurant industry, a major component of the Retail category. The National Restaurant Industry Operations Report (2009/2010), for example, compiles data on various types of restaurants, providing information on building sizes, sales levels, and employee levels, part-time and full-time. Limited-service restaurants, for example, have an average of 142 square feet per full-time equivalent employee. However, because restaurants have a number of part-time employees, the average employment density is higher at 92 square feet per employee when computed based on total full- and part-time employees instead of full-time equivalents. This may be compared to the far lower density used in the nexus analysis of each employee (part-time or full-time) at a density of 350 square feet. Results for other types of restaurants ranging from full-service operations to fast food are not that widely different in density conclusions and all types of restaurants have employment densities at substantially less than the 350 square foot per employee used in the analysis.

In summary, the results of the nexus analysis are not inflated by the treatment of part-time employment and multiple job workers.

XIII. Nexus Analysis is based on Current Employment, Income, and Housing Conditions

The Nexus Study is grounded in existing conditions in the City of San Diego in which a large share of jobs in new workplace buildings do not pay well enough for workers to afford market-rate housing, no excess supply of affordable housing exists, and funding sources such as the Federal tax credit program are insufficient to address the cost of providing housing for these workers. This condition has persisted for at least the past 20-plus years since the Housing Impact Fee ordinance was first established. Despite longstanding policies and programs aimed at addressing the lack of affordable housing, needs have consistently been greater than resources. Notwithstanding the persistent shortage of affordable housing, it is always possible that conditions could shift over time, as a result of the City's policies to promote affordable housing, or otherwise.

Specifically, the nexus analysis is based on the current conditions and relationships between housing price, incomes, job creation, and affordable housing demand in San Diego. The nexus analysis does not speculate about how long-term trends in worker incomes in relation to housing costs might hypothetically influence housing affordability or the lack thereof. The nexus analysis is based on conditions as they are today and does not speculate on how future conditions could be different.

KMA recommends that an updated nexus analysis be prepared approximately every 10 years to bring the findings up to date with potential changes to housing markets, development costs, worker compensation levels, household patterns, and other factors important to the nexus conclusions.

attachments

TABLE 1

TOTAL HOUSING NEXUS COST - VERY LOW AND LOW INCOME WORKERS ONLY
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

WITH COMMUTE ADJUSTMENT AT 58.6%

	Affordability Gap[1]	Nexus Cost Per Sq. Ft.				
INCOME CATEGORY		**OFFICE**	**HOTEL**	**RETAIL**	**R&D/MANUF./ INDUSTRIAL**	**WAREHOUSE / STORAGE**
Under 50% of Median Income[2]	$127,000	$24.38	$38.77	$54.35	$11.00	$4.64
50% to 80% of Median Income[2]	$140,000	$36.21	$25.30	$37.21	$17.12	$5.75
Total		**$60.59**	**$64.07**	**$91.56**	**$28.12**	**$10.39**

1. Assumes two-bedroom units. Affordability gap for under 50% of Median category assumes 4% tax credits.
2. Assumes households are housed in rental units.

Prepared by: Keyser Marston Associates, Inc.
Filename:SDHC_Commercial Linkage_Table 1 10/15/2013; dd

TABLE 2

RECOMMENDED MAXIMUM FEES RELATIVE TO NEXUS FINDINGS AS APPLIED TO NON-RESIDENTIAL DEVELOPMENT PROTOTYPES
JOBS-HOUSING NEXUS STUDY
CITY OF SAN DIEGO, CA

			Suburban Mid-Rise Office		Full Service Mid-Rise Hotel		Community Retail Center		Manufacturing / Industrial		Warehouse/Storage	
I.	Gross Building Area (p. 69-72)		131,000 SF		174,000 SF 348 Rooms (1)		109,000 SF		53,000 SF		76,000 SF	
II.	Number of Jobs Created (p.34)		250 SF/Employee 524		1.0 Employee/Room 348		350 SF/Employee 311		500 SF/Employee 106		2,000 SF/Employee 38	
III.	Adjustment for Changing Industries and Long-Term Declines (p.34)	16.0%	440		292		262		89		32	
IV.	Adjustment for Households (p. 34)	1.72	256		170		152		52		19	
V.	Units Demanded - Before Commute Adjustment (p.36)											
	Under 50% Median Income		43	16.8%	91	53.3%	80	52.3%	8	15.1%	5	25.5%
	50% - 80% Median Income		58	22.6%	54	31.6%	49	32.5%	11	21.3%	5	28.7%
	Total		101	39.4%	144	84.9%	129	84.8%	19	36.4%	10	54.2%
VI.	Units Demanded - After Commute Adjustment (p.37)	58.6%										
	Under 50% Median Income		25	16.8%	53	53.3%	47	52.3%	5	15.1%	3	25.5%
	50% - 80% Median Income		34	22.6%	31	31.6%	29	32.5%	6	21.3%	3	28.7%
	Total		59	39.4%	85	84.9%	76	84.8%	11	36.4%	6	54.2%
VII.	Cost to Mitigate Affordable Housing Impact with Commute Adjustment (p. 46)	Affordability Gap										
	Under 50% Median Income	$127,000	$3,200,000		$6,742,000		$5,920,000		$582,000		$352,000	
	50% - 80% Median Income	$140,000	$4,745,000		$4,406,000		$4,055,000		$905,000		$437,000	
	Total Mitigation Cost		$7,945,000		$11,148,000		$9,975,000		$1,487,000		$789,000	
	Per SF		$61 /SF		$64 /SF		$92 /SF		$28 /SF		$10 /SF	
VIII.	Recommended Maximum Fee per SF (p. 62)		$5.32 /SF		$4.73 /SF		$4.96 /SF		$3.05 /SF		$2.28 /SF	
	Total Recommended Maximum Fee for Prototype Developments		$697,000		$823,000		$541,000		$162,000		$173,000	
IX.	Recommended Maximum Fee as a % of Mitigation Cost		8.8%		7.4%		5.4%		10.9%		21.9%	

(1) Based on assumed room size of 500 SF for purposes of consistency with households and occupation distribution estimates in the Nexus Study (Table III-1, p. 34).
(2) Very Low and Low Income workers only. Refer to Table 1.

Prepared by: Keyser Marston Associates, Inc.
Filename i:\SDHC_Commercial Linkage_Table 2;10/15/2013;lag

THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: November 1, 2013 **IBA Report Number:** 13-49

City Council Docket Date: November 4, 2013

Item Number: 200

Proposed Housing Impact Fee Adjustments

The Office of the Independent Budget Analyst (IBA) reviewed the Updated Nexus Study, held discussions with the San Diego Housing Commission (SDHC) staff and stakeholders, and reviewed fees of other California municipalities/jurisdictions. Our report on this matter provides the following:

- A summary of the Updated Study;
- Arguments in favor and against housing impact fees;
- Information related to housing impact fees in other municipalities/jurisdictions;
- Alternative funding sources for generating revenue to support affordable housing reviewed by the Task Force.
- Alternatives for restructuring the SDHC proposed fee adjustments including consideration of: 1) more modest increases in line with the SDHC 2011 proposal; 2) an exemption for industrial and manufacturing facilities; and 3) deferred fee payments.

This report also includes a recommendation that City Council request additional information from the SDHC regarding how they plan to use the new fee revenue to subsidize/incentivize affordable housing.

OVERVIEW

In April 1990, the City Council adopted the San Diego Housing Trust Fund Ordinance (Housing Ordinance) which established the Housing Impact Fees in the Commercial Development division within the San Diego Municipal Code. To support the adoption of the Housing Impact Fee, the San Diego Housing Trust Fund Task Force commissioned Keyser Marston Associates (KMA) in 1989 to complete a nexus study to establish a

reasonable relationship or nexus between non-residential commercial development and increased demand for housing affordable to lower income households.

Per the adopted ordinance, it was the intent of the City Council to establish a policy that new office, retail, research and development, manufacturing, warehouse, and hotel development would pay a share of the costs to construct affordable housing for the low and very low income employees of the new developments. In addition to establishing the Housing Impact Fees (Appendix A of Municipal Code Section 98.0609), the Municipal Code established that these fees were to be revised annually by the percentage increase or decrease in the Building Cost Index (BCI) of the Cost Indices for Twenty Cities published by McGraw-Hill. The SDHC, in consultation with the City Engineer was to prepare a recommendation to the City Council for the appropriate revision by March 1 each year. However, no adjustments were made until 1996 when the fees were reduced.

1996 Fee Reduction

In July 1996, the City Council reduced the original Housing Impact Fee by fifty percent (50%) for each of the development categories. Per City Manager Report No. 96-129, the fee reduction was intended to act as an economic stimulus for business investment. The impact on the economic activity and the Housing Trust Fund was recommended to be evaluated in two years.

2009 City Auditor Performance Audit

In FY 2009, the City Auditor conducted a performance audit of the SDHC as part of the FY 2009 Audit Work Plan. Among the results of the performance audit, the City Auditor's Office found that the Housing Impact Fees were "outdated, substantially lower than comparable cities, and were not adjusted as required by the Municipal Code resulting in an estimated underfunding of $2.79 million for fiscal years 2006 through 2008". The audit report provided several recommendations including but not limited to:

- Review the Housing Impact Fee schedule and if feasible, update the fees through 2009 to be consistent with the Municipal Code.
- The City and the SDHC should develop and implement procedures such that the Housing Impact Fees are recalculated each year and a recommendation be presented to the City Council for consideration each year.
- If the Municipal Code is not going to be followed, then the it should be amended to reflect the fee expectations.

2011 Nexus Study and Recommended Fee Adjustments

Responding to the performance audit recommendations, the SDHC commissioned KMA to complete a new nexus study (2010 Nexus Study). In July 2011, based upon KMA's completed study, the SDHC staff presented recommendations to the City Council to update the Housing Impact Fees. The recommendations that were presented included:

- Maintaining the existing Housing Impact Fees for two years (July 2011 – June 2013);

- Beginning in July 2013, increase the Housing Impact Fees by twenty percent (20%) each year for five years, returning the fees to the originally approved amounts set in 1990 by July 2017; and
- Beginning in July 2018, annually adjust the Housing Offset by the Building Cost Index as prescribed in the Municipal Code.

Although the City Council acknowledged the importance of providing affordable housing, based largely upon concerns related to the slowed economy, the City Council did not approve the recommendations from the SDHC staff. The City Council requested that the SDHC and the 2011 Best Practices Task Force (Task Force), comprised of a variety of stakeholders including advocates of affordable housing and members of the business community, identify new revenue sources and return to the City Council with recommendations for broad-based revenue sources.

From July through November 2011, the SDHC and the Task Force held multiple meetings and presented a status report to the LU&H Committee on October 26, 2011 and Task Force recommendations to the LU&H Committee on November 16, 2011. The multiple Task Force recommendations, as presented in San Diego Housing Commission Land Use & Housing Report Number LUH11-010, included a three year Affordable Housing Master Plan to increase affordable housing production within the City. The goal of the plan was to streamline development regulations and create a broad-based sustainable revenue stream dedicated to affordable housing programs. No actions were taken related to these recommendations.

Since the Housing Impact Fee adjustments were presented to the City Council in July 2011, several conditions related to the economy and affordable housing funding sources have changed. Although the economy has improved since July 2011 funding sources available for affordable housing have diminished. The dissolution of the City's Redevelopment Agency, federal budget cuts related to sequestration, and reduced funding available through the State's Proposition 1C and Proposition 46 have significantly reduced the funding sources available for affordable housing. For example, the dissolution of the City's Redevelopment Agency and impacts of sequestration have reduced available funding by an estimated $35 million and resulted in a reduction of approximately 800 Section 8 vouchers. Based on the recommendations of the 2009 Performance Audit Report, as well as the need to identify new resources for affordable housing, the SDHC commissioned KMA to update the 2010 Nexus Study. This update was completed in August 2013.

Recommendations From the Updated Nexus Study

On October 11, 2013, the SDHC staff presented the SDHC Board of Directors (SDHC Board) with proposed adjustments to the Housing Impact Fees. Per the discussion amongst the SDHC Board members, the SDHC Board stated it was not the appropriate governing body to make a decision on the recommendation from staff and forwarded the item to the full City Council for consideration without a recommendation.

On November 4, 2013, the SDHC staff will present the City Council with a request to update the Housing Impact Fees based upon the updated KMA nexus study (Updated Study) completed in August 2013. The recommendations from the SDHC staff include:

- Adjust the Housing Impact Fees to 1.5% of the total current cost for commercial development as calculated by the Updated Study;
- Require the fees to be automatically adjusted annually based on the changes to the Engineering News Record (ENR) BCI; and
- Update the ordinance to rename the Housing Impact Fees to the Workforce Housing Offsets (Housing Offsets). The Housing Offsets had previously been referred to as Linkage Fees and Housing Impact Fees on Commercial Development.

The Office of the Independent Budget Analyst (IBA) reviewed the Updated Nexus Study, held discussions with the SDHC staff and stakeholders, and reviewed fees of other California municipalities/jurisdictions. This report provides:

- A summary of the Updated Study;
- Arguments in favor and against housing impact fees;
- Information related to housing impact fees in other municipalities/jurisdictions; and
- Alternative funding sources for generating revenue to support affordable housing reviewed by the Task Force.
- Alternatives for restructuring the SDHC proposed fee adjustments.

FISCAL/POLICY DISCUSSION

OVERVIEW OF UPDATED STUDY

In March 2013, the SDHC contracted with KMA to update the nexus study completed in 2010. The goal of the nexus study is to support or illustrate the link between new non-residential development, related job creation, and the resulting demand for new affordable housing. Costs associated with developing affordable housing as a result of this link are known as nexus costs.

In brief, the Updated Study applies several key assumptions (provided in Appendix A of the study) to determine the projected total nexus costs for each category of new non-residential development. The resulting total nexus cost represents the amount needed to fully fund the development of all the affordable housing needs for the new employees. The total nexus costs, per facility, per square foot, from the study are as follows:

Faciltiy Type	Total Nexus Cost (per Sq. Ft.)
Office	$72.41
Hotel	$66.88
Retail	$96.28
Research & Development	$33.78
Manufacturing/Industrial	$33.78
Warehouse/Storage	$11.91

The total nexus cost represents the maximum fee levels that are supported by the study. The proposed fees, as recommended by the study, are at levels below the maximum amount. The Updated Study recommends the Housing Offsets be set at 1.5% of total development costs with an automatic annual adjustment based on the BCI of the Cost Indices of Twenty Cities. KMA's evaluation assumes a fee increase of this level could be absorbed without a significant impact on development decisions.

The following table provides a comparison of the original, current, and new fees. Additionally, an illustration of the projected impacts of adjusting the Housing Offsets as recommended, for a 100,000 square foot facility, is shown in the following table.

Comparison of Original Fee, Current Fee, and New Fee Proposal					
Faciltiy Type	Original Adopted Fee (1990)	Current Fee (Reduced in 1996)	Recommended New Fee (Updated Study)	Increase of Recommended New Fee compared to Current Fee	Percentage increase of New Fee compared to Current Fee
Office	$2.12	$1.06	$5.32	$4.26	402%
Hotel	$1.28	$0.64	$4.73	$4.09	639%
Retail	$1.28	$0.64	$4.96	$4.32	675%
Research & Development	$1.60	$0.80	$4.14	$3.34	418%
Manufacturing/Industrial	$1.28	$0.64	$3.05	$2.41	377%
Warehouse/Storage	$0.54	$0.27	$2.28	$2.01	744%

Projected Impacts of New Housing Offset Fees for a 100,000 Square Foot Facility					
Faciltiy Type	Current Fee (Reduced in 1996)	Recommended New Fee (Updated Study)	Fee amounts based on Current Fee	Fee amounts based on New Fee	Difference in New Fee over Current Fee
Office	$1.06	$5.32	$106,000	$532,000	$426,000
Hotel	$0.64	$4.73	$64,000	$473,000	$409,000
Retail	$0.64	$4.96	$64,000	$496,000	$432,000
Research & Development	$0.80	$4.14	$80,000	$414,000	$334,000
Manufacturing/Industrial	$0.64	$3.05	$64,000	$305,000	$241,000
Warehouse/Storage	$0.27	$2.28	$27,000	$228,000	$201,000

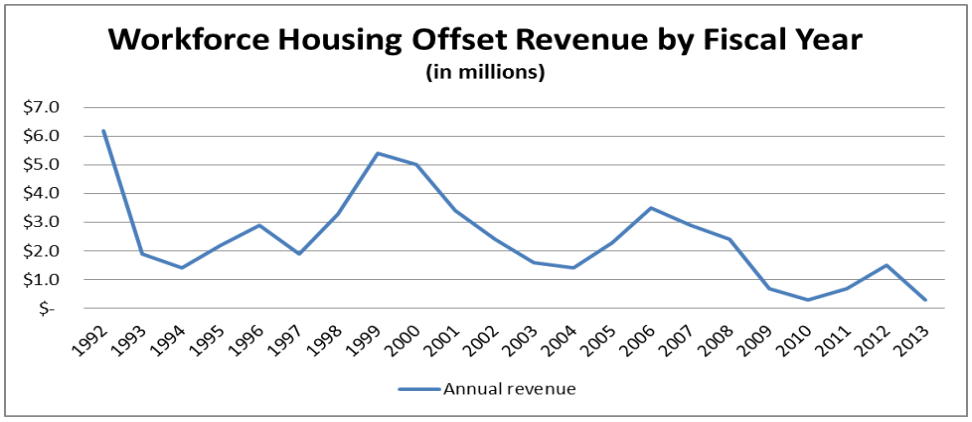
As a comparison, the Updated Study provides an example of what the fees would have been if annual indexing had occurred and the fee had not been reduced in 1996.

Faciltiy Type	Current Fee (Reduced 50% in 1996)	1990 with Annual Increases[1]	Recommended New Fee (Updated Study)
Office	$1.06	$4.19	$5.32
Hotel	$0.64	$2.53	$4.73
Retail	$0.64	$2.53	$4.96
Research & Development	$0.80	$3.16	$4.14
Manufacturing/Industrial	$0.64	$2.53	$3.05
Warehouse/Storage	$0.27	$1.07	$2.28

[1]Fee is the originally approved rates from 1990 indexed annually in accordance with the Municipal Code and no rate reduction in 1996.

REVENUE GENERATED FROM THE HOUSING OFFSETS

Since 1992, based upon information from the Updated Study, the Housing Offsets have generated average annual revenue of approximately $2.4 million, for a total of $53.3 million. The revenues generated from the Housing Offsets are the primary funding source of leveraging Federal and State funds. The SDHC has been able to develop 3,889 units of affordable housing over the 22 year period. The table below illustrates the revenue that has been generated from the Housing Offsets on an annual basis.



Per SDHC staff, the recommended Housing Offset adjustments are projected to generate an additional $8 - $10 million annually. The incremental increase in revenue is anticipated to be able to provide an additional 80 to 100 affordable housing units annually, based upon an estimated $100,000 subsidy per unit. The SDHC staff has indicated they have a list of potential projects that will be pursued should additional funding become available.

SUPPORT AND OPPOSITION RELATED TO HOUSING OFFSETS

Based upon our research and discussions with SDHC staff and industry stakeholders, there is an ongoing debate regarding the appropriateness of Housing Offsets as a major funding source for affordable housing. Supporters of housing impact fees cite a reasonable link between new non-residential development and the need for additional affordable housing. Those in opposition find the connection between new development

and the additional need for affordable housing (as presented in the Updated Study) to be dubious, and support a broader based funding mechanism. The following issues have been raised in support and opposition of the Housing Offsets.

Support

- The Housing Offset provides an appropriate revenue source for providing additional infrastructure that are necessitated by new development. The calculated marginal costs of the additional housing needs are applied directly to those driving the new demand.

- The enactment of the Housing Offset provides a revenue source without a general tax increase and provides flexibility for how it is used by the agency.

- Land value appreciation or rent increases are believed to be sufficient to recoup the additional costs related to the Housing Offsets. Amortizing the Housing Offsets over the financing term of a development project results in minimal monthly rent increases per square foot.

- The fees may not serve as a disincentive for growth as developers can base their decision to build upon the demand of the market for new commercial space. In the Commercial Development Linkage Fee Analysis (nexus study) conducted by David Paul Rosen & Associates for the City of Oakland in 2001, the Developers indicated that the linkage fees had no discernible impact on development as the fee levels were relatively small as a percentage of development costs, and developer's decisions to build or not to build is based on the strength of market demand.

- Housing impact fee programs exist throughout California and have been successful in providing funding for affordable housing programs.

Opposition

- An increase in Housing Offsets may cause developers to opt to postpone further development or expansion or consider alternate locations within the region that do not impose housing impact fees. No other municipality in the San Diego region has a similar fee. A delay in development could impede the growth in the local economy.

- The strength of the study and the resulting total nexus cost is questionable due to debatable assumptions made within the study, such as the costs to construct affordable housing, the amount of revenue generated from rents or appropriate adjustments to capture the effects of unemployment.

- There is debate that the economy has recovered to a point to consider an action that could impede growth or expansion. The Housing Offsets were reduced in 1996 due to concerns of a slowed economy, and certain economic indicators, such as the unemployment figure, have yet to recover to the 1996 levels.

- The Updated Study does not take into consideration the use of additional/alternative funding sources or the SDHC's practice of attempting to leverage funding to increase the total amount of funding available for affordable housing.
- The Updated Study projects the additional costs related to the Housing Offset could be mitigated by the developer by potentially lowering land costs. Opponents contend that no analysis has been conducted on the possible impacts of reduced land costs to the City.
- A comprehensive plan with broad-based, sustainable funding sources and regulatory changes should be considered and an increase to the Housing Offset should not be solely relied upon.

HOUSING IMPACT FEE PROGRAMS OF OTHER CITIES

The Updated Study provided a snapshot of other California jurisdictions and their respective housing impact fee programs (pages 66 – 68). It includes 27 California jurisdictions and provides additional information related to the fees such as exemptions from the fees and thresholds triggering the imposed fee. Attachment 1 provides an excerpt from this information, focusing on the jurisdictions with larger populations.

As illustrated in Attachment 1, many of the jurisdictions have a higher average fee than San Diego's current fee, with the exception of the County of Sacramento (which is similar to San Diego). Additionally, many of the jurisdictions have exemptions for square footage thresholds and certain types of development, such as non-profit organizations. The comprehensive list in the Updated Study further illustrates this trend.

IDENTIFYING OTHER FUNDING AND POLICY OPTIONS

Other SDHC Affordable Housing Funding Sources

Currently, the SDHC utilizes multiple funding sources to address affordable housing needs including the Housing Offsets, Inclusionary Affordable Housing Fees, and loan repayments and earned interest from Community Development Block Grant (CDBG), and Former Redevelopment Agency loans. Additionally, the SDHC and Civic San Diego have been working to leverage existing available funding sources and identify potential other options. Some of these options are illustrated in Attachment 2 to this report.

2011 Affordable Housing Task Force Recommendations

On November 16, 2011, the SDHC presented the Affordable Housing Task Force's final recommendations for additional revenue sources to the LU&H Committee. As outlined in San Diego Housing Commission Land Use and Housing Report 11-010, the recommendations included alternative funding sources such as, but not limited to the following:

Infrastructure Bond - Issuing a broad infrastructure bond which includes an affordable housing component may be desirable considering the City's infrastructure needs. General Obligation (GO) bonds are backed by the full faith and credit of the issuing municipality,

including the ability to raise taxes to make debt financing payments. GO bonds require two-thirds voter approval and are typically the least expensive type of debt available to municipalities. Other cities have been successful at utilizing this funding vehicle for affordable housing.

Increase of the Real Estate Transfer Tax –. The County of San Diego collects $1.10 per $1,000 of the sale price when any real property is sold. The City is credited $0.55 per $1,000 against the County's charge, giving both the County and City each $0.55 per $1,000 of the sale price. The funds are collected by the County upon a sale of real property within City limits and transferred to the City on a monthly basis. For FY 2014, it is projected that the City's General Fund will receive $7 million from this fee. This funding source trends with the housing market conditions.

Reallocation of TOT Funding - Reallocation of one percent (1%) of TOT revenue, similar to what was previously allocated when the Housing Fund Ordinance was originally adopted. The City Council voted to suspend dedication of TOT revenues to the Housing Fund in 1993. A return to the original funding allocation of 1% of the TOT funding would result in approximately $1.5 million being directed to the Housing Fund or approximately $860,000 if one percent (1%) of only the General Fund's portion of the TOT is allocated. The reallocation of TOT funding would reduce funding of programs currently receiving TOT funds, such as the Park and Recreation Department.

Policy Updates – Review and updates to the administrative approval process for new development could be considered. The development of an Affordable Housing Overlay Zone or a Master Environmental Impact Report may contribute to incentivizing the undertaking of affordable housing projects. Creating "by-right" zoning would reduce barriers to development and potential reduce development timelines. Consultation and collaboration with other City departments such as the Planning Department would be necessary.

State Legislation

The City should continue to support State legislation that could provide cities with new local funding opportunities. An example of legislation which could support affordable housing funding is Senate Bill 1 (Steinberg) – Sustainable Communities Investment Authorities Act which could potentially provide tax increment financing for mixed-use transit-oriented development where affordable housing could be a significant component. Additionally, proposed State legislation to reduce the required percentage of voter approval for GO bonds from two-thirds (66%) to fifty-one (51%) percent would benefit the City. Currently the two-third voter approval requirement presents a significant challenge to issuing GO bonds.

Alternative Affordable Housing Funding Strategies in Select Cities

The following comparable cities/jurisdictions have taken alternative approaches to dedicate funding sources for affordable housing.

San Francisco, CA - Dedicating Property Tax Revenue - With the dissolution of redevelopment agencies in February 2012, cities and other local taxing entities are

receiving tax increment in the form of additional property tax revenue into their General Fund. San Francisco is an example of where the dedication of these funds was formalized. In November 2012 San Francisco voters approved Proposition C to create a new Affordable Housing Trust Fund which provides up to $51 million annually over 30 years and is largely funded with additional property tax revenue received per redevelopment dissolution.[1] Formalizing this provides a permanent source of funding for affordable housing.

Bay Area Cities in California - Public Private Partnerships – Several cities have developed public private partnership funds to finance affordable housing and other services. For example, the Bay Area Transit Oriented Housing Fund is a $50 million public-private financing resource that provides up-front funding for the development of affordable housing and other community services near transit lines throughout the nine-county San Francisco Bay area. Through the fund, which was started with $10 million in seed capital from the Metropolitan Transportation Commission, experienced non-profit and for profit developers, municipal agencies, and joint ventures of these entities can access flexible, affordable capital to purchase and/or improve available property near transit lines.

Austin, TX - GO Bonds – Sixty-three percent (63%) of Austin, TX voters approved a $50 million GO bond to fund affordable housing in 2006 and will be voting in November 2013 on an additional $65 million GO Bond issuance for affordable rental and ownership housing and preservation of existing affordable housing.

Phoenix, AZ – Since 1984, Phoenix, AZ voters have approved a total of $179 million of GO bonds in four separate special elections (1984, 1988, 2001, and 2006) to fund affordable housing, shelters for low income and homeless, service facilities for the poor and elderly, and renovation of public housing units.

ITEMS FOR COUNCIL CONSIDERATION

Alternative Housing Offset Fee Structures and Features

In our review of information related to housing impact fees in other jurisdictions, several alternative fee structures were noted. The City Council may want to consider one or more of these features for San Diego's Housing Offsets program.

Exempt Certain Types of Development –The qualifying characteristics for the exemptions (if allowed) vary per program and include but are not limited to: the type of facility; the size of the facility; and/or the type of business to be conducted within the facility. Currently, the City provides exemptions for identified Enterprise Zones and developments undertaken for any general governmental purpose. The Council may want to consider exempting industrial and manufacturing projects in order to support the City's economic development goals of attracting and retaining middle-income manufacturing jobs.

[1] The Trust Fund is also funded by an increase in business license fees and a portion of the hotel tax.

Delay Implementation – SDHC has proposed the effective date of the adjustments to the Housing Offsets to be upon the final approval of the proposed adjustments. Setting a specific effective date six months to one year in the future would allow for information related to the fee adjustments to fully reach the markets and allow the competitive markets to adjust accordingly.

Phase Implementation – A phased implementation, similar to the July 2011 proposal, would provide a certain but gradual fee increase schedule. This would mitigate the immediate impact of the increases and allow the incorporation of the fee adjustments in future cost estimates and project evaluations.

Deferred Payment – The current process for paying the Housing Offset is when building a permit is issued. Delaying the payment of the Housing Offset to later time (i.e. certificate of occupancy) would allow the development to generate project revenue, softening the impact of the fee increases.

CONCLUSION AND RECOMMENDATIONS

San Diego was cited as the second least affordable housing market in the country in a survey released October 23, 2013 by a banking information website, Interest.com. Identifying funding sources for this critical need has been a challenge across the country including for the City of San Diego. Addressing affordable housing needs will require a multi-faceted mix of Federal, State, and local funding sources as well as private/public partnerships . The City's linkage fee, in place since 1990, is an important resource in that mix. However, in 1996, due to the political climate and a weaker economy, these fees were cut in half where they have remained for the past 17 years. Furthermore, the fees have not been adjusted annually to reflect market growth as required by the Municipal Code. Years of opportunity for generating additional revenue for affordable housing, through systematic inflationary increases to the existing fee, have been lost.

The City erred in not adhering to its municipal code requirement to update the fees incrementally; and further chose to make drastic reductions to a fee in place for six years. The SDHC proposed fee adjustments before the City Council attempt to "make up" for this loss. The SDHC proposed fee adjustments, which range from 377% to 744% depending on type of facility, are excessive. These fee increases are justified by some by comparing the new fees with what "would have been" had the fee not been reduced and had it been adjusted annually as required. However, that rationale does not acknowledge the reality of the impact of the significant fee increases on the cost of building commercial projects in this city and the potential for losing these projects to surrounding cities, where no linkage fees exist.

As noted above, the linkage fees are an important source of funding for addressing, in part, the City's affordable housing needs. These fees are long overdue for an update which should occur now but increases should be within reason. Going forward the City

should be diligent about adhering to the municipal code which requires annual updates. Additionally, consideration could be given to changes in the fee structure, consistent with other cities, relative to exemptions and/or deferred payment of fees. To accomplish this Council may want to consider the following:

1. **Enact a more modest fee adjustment, in line with the 2011 SDHC proposal**. The chart below shows what the adjusted fees would be for FY 2015 through FY 2018 had the Housing Commission's 2011 proposal been enacted at that time. Implementation of the 2011 proposal would increase fees by 40% in FY 2015 over current fees, compared to 377% to 744% increases (depending upon facility) proposed by SDHC . Using the 2011 model, fees would increase in FY 2015 by 40%, then would increase by 20% annually (over the base fee) for FY 2016 through FY 2018. By FY 2018, fees would be returned to the original fees enacted in 1990. Beginning in FY 2019, consistent with the new SDHC proposal, fees would be adjusted annually and administratively by the Building Cost Index.

Adjusted Fee Increases Based on Schedule for July 2011 Proposed Fee Adjustments[1]

Faciltiy Type	Current Fee	FY15	FY16	FY17	FY18
Office	$1.06	$1.49	$1.70	$1.91	$2.12
Hotel	$0.64	$0.89	$1.02	$1.15	$1.28
Retail	$0.64	$0.89	$1.02	$1.15	$1.28
Research & Development	$0.80	$1.12	$1.28	$1.44	$1.60
Manufacturing/Industrial	$0.64	$0.89	$1.02	$1.15	$1.28
Warehouse/Storage	$0.27	$0.38	$0.43	$0.49	$0.54

[1]Fee to be adjusted annually thereafter by the selected index.

Implementing the fee increases effective July 1, 2014 (FY2015) rather than immediately would give the industry seven months advance notice for the initial increases and would then phase remaining increases in over four years. It is roughly estimated that this alternative would result in new revenue of $17 million from FY 2015 to FY 2018, while the SDHC proposal would generate an estimated $40 million over the same time period. With either scenario, it is imperative that alternative funding sources be identified to augment the housing offset revenue, such as dedicating a portion of a voter-approved GO infrastructure bond to affordable housing as several other cities have done.

The IBA supported the Housing Commission's 2011 proposal to restore Housing Impact Fees to levels originally adopted in 1990.

2. **Consider exempting industrial and manufacturing facilities**
Increasing housing offset fees furthers the policy objective of providing needed affordable housing, but it also hinders the important economic development

objective of attracting and retaining middle-income manufacturing jobs. Unlike commercial developments built to accommodate retail and professional office uses, industrial developments such as those for manufacturing and distribution, are base sector uses which need not be located in San Diego. In fact, the City struggles to attract and retain these land uses, due to the high costs of doing business in coastal California. While commercial development has the ability to pass costs along to consumers of their goods and services, industrial users typically do not because project location decisions are largely based on the costs of doing business which often cannot be directly passed on to consumers.

Unlike low-wage hotel/retail jobs and high-wage high-tech jobs, manufacturing and distributing jobs are middle-income "blue collar" jobs which are the very jobs the City is struggling to replace. In order to support the City's economic development goal of attracting and retaining middle-income manufacturing jobs, the IBA recommends the City Council consider exempting manufacturing and warehouse distribution projects from the housing offset fee. As the number of these projects tends to be relatively small, we believe the impact on total housing offset fee revenue will be negligible.

3. **Consider the deferral of fee payments**
   The current process calls for payment of the Housing Offset when a building permit is issued. The Council may wish to consider deferring payment of the Housing Offset until a later date (e.g., when the Certificate of Occupancy is issued) rather than when a building permit is issued. Deferments of Facilities Benefits Assessments (FBAs) and Developer Impact Fees (DIFs) are currently available at the request of the developer and subject to approval. By deferring the collection of a fee until developers are better able to generate project revenues (from rents or sale), the impact of the increased fee is softened and the fee is still collected at a later date. A fee deferral may require a municipal code amendment.

4. **Request additional information from SDHC on the use of new fee revenue**
   The Council may wish to request additional information on how SDHC staff expect to use new Housing Offset Fee revenue to subsidize/incentivize more affordable housing. Will more projects get done and/or will larger percentage of cost subsidies be offered? What is the difference in terms of realizing additional affordable housing units? Under what circumstances are project subsidies paid back to SDHC to be reinvested in new projects (i.e., residual receipts loans)?

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APPROVED: Andrea Tevlin
Independent Budget Analyst

Attachments: 1. Housing Impact Fees in Other California Jurisdictions
2. Other Funding Sources for Affordable Housing

Attachment 6

THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: September 19, 2014 **IBA Report Number:** 14-36

Smart Growth and Land Use Docket Date: September 24, 2014

Item Number: 3

Fiscal Impact of Proposed Housing Impact Fee Exemptions & Status of Revenue Resources Report

OVERVIEW

On September 24, 2014, the Smart Growth and Land Use Committee (SG&LU) will consider the Workforce Housing Plan that was proposed as a joint recommendation by the San Diego Housing Commission (SDHC) and the Jobs Coalition. It was first presented at the July 17, 2014 SG&LU meeting, and Committee members discussed a variety of elements that were included in the Workforce Housing Plan and corresponding proposed Memorandum of Understanding (MOU), most notably the Housing Impact Fee and other regulatory reforms. Among the proposed changes to the Housing Impact Fee were exemptions for specific commercial development categories including manufacturing, warehouse, and nonprofit hospitals. It also excludes the research and development (R&D) category from the fee *increase* that is proposed for the office, hotel and retail categories.

IBA Report 14-29 was presented at the July 17, 2014 meeting. It provided a preliminary review and summary of key components of the Workforce Housing Plan and Housing Impact Fee amendments. The report identified a number of concerns about the most recent proposal, among them:

- The proposal to return to original 1990 fees ($2.12[1]), effective January 1, 2015, is certain for only a three-year period;
- During this time revenue would increase by an estimated $1.4 million annually[2], providing 42 new housing units after three years;

[1] References the fee for the office category.
[2] This estimate was provided by the San Diego Housing Commission in July 2014

- Whether 1990 fees continue beyond this time is contingent upon the City achieving loosely defined conditions laid out by development community;
- If conditions are not met within three years, the fee would return to 1996 levels ($1.06[3]); and
- The proposal does not include annual adjustments even in the event of returning to lower 1996 levels.

Our office presented three options for revisions for Committee consideration which focused on the following components: removing the sunset provision; adding an automatic annual adjustment; clearly defining the conditions the City must meet; phasing in a 25% increase over the next four years with an automatic annual adjustment.

At the July 17th meeting, our office was directed to conduct a fiscal impact analysis of the proposed Housing Impact Fee exemptions and report back to SG&LU at the September 24, 2014 meeting. Additionally, the Committee requested our office to report back with the scope and timeline of a report intended to examine potential revenue resources that could support affordable housing in the City.

FISCAL/POLICY DISCUSSION

Timing and Scope of Revenue Resources Report

The proposed MOU includes a section that requests our office to examine potential sources of revenue that could support affordable housing in the City. At SG&LU's last meeting, the Committee requested our office to report back with the scope of that report and a timeline for when it would be issued. We have begun work on the report, and recognize that while affordable housing is an important priority, it is one of several held by the City, including making repairs and improvements to infrastructure and completing projects to comply with new storm water regulations.

To that end, our report will examine a number of major revenue sources the City could pursue for various purposes that are not limited solely to those contemplated in the MOU. We expect to release this report in October.

Proposed Exemptions from the Housing Impact Fee

As part of the Workforce Housing Plan, the MOU proposes exemptions from the Housing Impact Fee for manufacturing, warehouse, and nonprofit hospitals. It also excludes research and development (R&D) projects, as defined in the Municipal Code, from the fee *increase* that is proposed for the office, hotel and retail categories. See the chart below for proposed amendments to the Housing Impact Fee per the proposed MOU.

[3] References the fee for the office category.

Propsed Amendments to Housing Impact Fee (July 2014 Proposal)			
	Current Fee	Proposed Fee (Jan 2015)	Fee if Sunset Provision Enacted (Jan 2018)
Office	$1.06	$2.12	$1.06
Hotel	$0.64	$1.28	$0.64
Retail	$0.64	$1.28	$0.64
R&D	$0.80	$0.80	$0.80
Manufacturing	$0.64	$0.00	$0.00
Warehouse	$0.27	$0.00	$0.00

As illustrated by the table above, the fees for office, hotel, and retail would increase by 100% to the original amount at the time of the fee's adoption (1990), effective January 1, 2015. R&D would remain constant at $0.80/square foot, and manufacturing, warehouse and nonprofit hospitals would be exempt from the fee entirely. Although there is a provision in the MOU to potentially sunset the fee increase after three years, there is no similar provision for the fee exemptions. It is the IBA's understanding that these exemptions will remain in place in the event the proposed fee increases sunset in January 2018.

It should be noted that a fee for nonprofit hospitals is not specifically shown in the table. Currently, hospital projects are considered and categorized under the office category by staff in the Development Services Department and Facilities Financing Division. Per the proposed exemptions, nonprofit hospitals would no longer be subject to the currently charged office fee.

Rationale for Proposed Exemptions

In IBA Report 13-49, our office discussed alternative proposals to the proposed 2013 Housing Impact Fee amendments. At that time, our office recommended consideration of exemptions from the fee for **manufacturing** and **warehouse distribution** projects, citing that exempting this type of use would support the City's economic development goal of attracting and retaining middle-income manufacturing jobs.

The City's recently adopted Economic Development Strategy (actions 2-3-3 and 2-4-2) specifically recommends and provides for amending the Municipal Code to exempt manufacturing and distribution (warehouse) from imposition of the Housing Impact Fee. The proposed exemption for manufacturing and warehouse in the July 2014 MOU is consistent with this recommendation. Over the last five fiscal years, manufacturing and warehouse projects have declined and these exemptions are unlikely to significantly diminish Housing Trust Fund collections going forward.

The proposed MOU also includes an exemption for **nonprofit hospitals** for the purpose of economic development. This is not the first time an exemption of this type has been discussed. Hospital exemptions were also considered as part of the 2011 Housing Impact Fee proposal. They were again mentioned during the November 4, 2014 City Council meeting when the

Council considered the proposed 2013 Housing Impact Fee amendments. Additionally, existing language in Municipal Code Section 98.0618 provides exemptions within Enterprise Zones[4] for "urgent care facilities" and "hospitals, intermediate care facilities, and nursing facilities". City staff indicates the enterprise zone exemption for health care facilities was originally intended to incentivize the construction of health care facilities in what were determined to be medically underserved areas at the time.

Economic Development staff has suggested to our office that hospitals are retailers of medical services, not part of the City's economic base. The Economic Development Strategy does not identify hospitals as an industry that should be accorded economic incentives. Staff also indicates that given their nonprofit status, hospitals are already exempt from property tax.

Recent Housing Impact Fee Collections & Fiscal Impact of Proposed Exemptions

Based on information received from the City's Facilities Financing Division, our office has analyzed Housing Impact Fee collections over a nine year period, from FY 2006 to FY 2014. The dataset provided includes all Housing Impact Fee collections coded by type of use. The following analysis refers to the table in Attachment 1, which summarizes these Housing Trust Fund collections.

According to the information provided, fees collected for manufacturing and warehouse projects averaged 8.0% of total Housing Impact Fee revenue over the nine year period. The total Housing Impact Fee average annual collection over the nine year period is about $1.64[5] million. Applying the average 8.0% collection for warehouse and manufacturing projects to the $1.64 million annual average suggests that the cost of these two exemptions is approximately $131,000 annually.

As discussed earlier, hospitals have been historically charged the office Housing Impact Fee. The dataset provided includes information that indicates if the office collection was for a hospital development. This is important for our analysis because, as discussed earlier, nonprofit hospitals were included as a proposed exemption in the MOU, but are not currently specified as a separate category. By breaking out the hospital collections from FY 2006 through FY 2014, our office estimates that approximately 9.6% of average annual collections over this nine year period are due to hospital collections. Although the information does not indicate whether or not these hospital developments are specifically nonprofits, it is the IBA's understanding that most of the larger hospitals in the San Diego region are considered to be nonprofit organizations. Considering this, the fiscal impact of exempting nonprofit hospitals is close to a 9.6% average annual decrease in Housing Impact Fee revenue, which equates to approximately $158,000 annually, on average.

Based on this analysis of collections from FY 2006 through FY 2014, our office roughly estimates that exempting these three use types (manufacturing, warehouse, and nonprofit

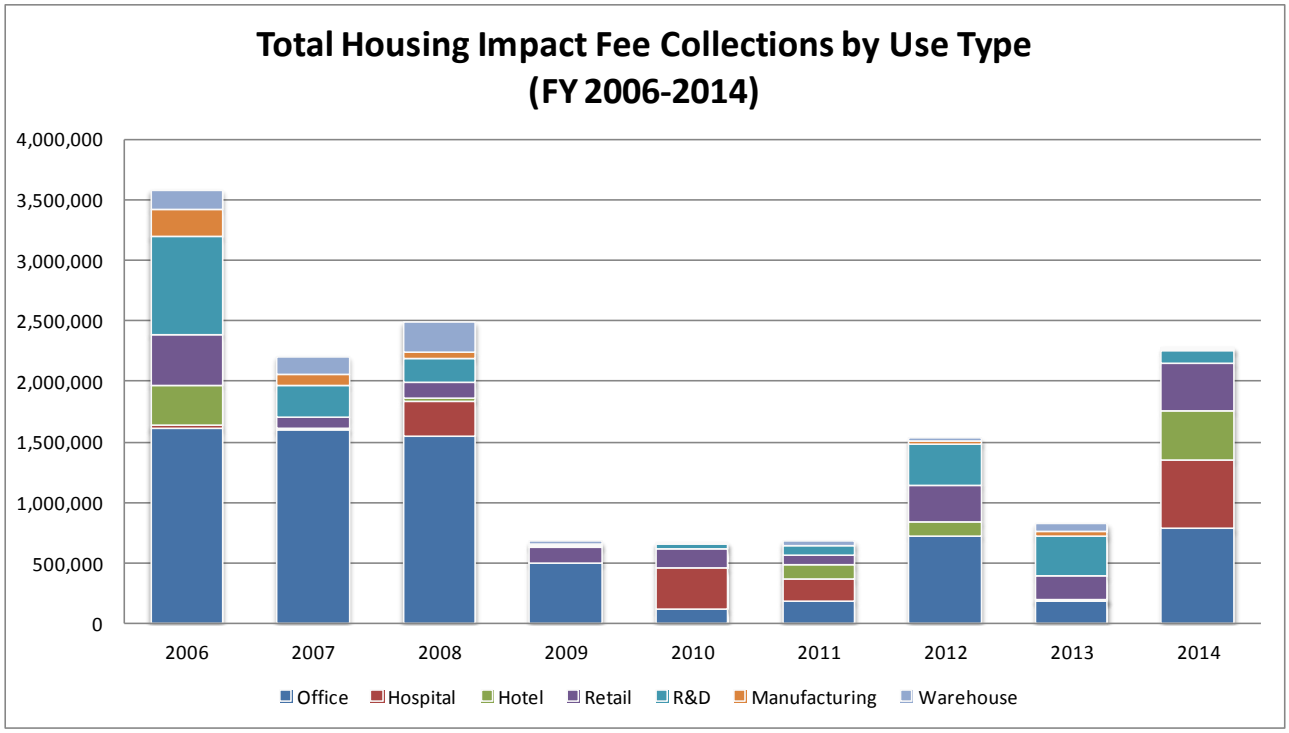
[4] Enterprise Zones were eliminated as of January 1, 2014.

[5] It should be noted that other figures have been used to describe the average annual collection of Housing Impact Fees. Our office believes $1.64 million is an appropriate figure in this case, as it refers to the same time period that was used to evaluate collections by use type which was supplied by the City's Facilities Financing Division.

hospitals) may result in a combined revenue decrease of about 17.6% of Housing Impact Fee revenue, or about $289,000 annually.

Although these figures provide some insight into how these proposed exemptions may fiscally impact Housing Impact Fee revenue, several issues should be noted when considering this analysis, as discussed below:

- Housing Impact Fee revenue fluctuated significantly over the nine year period. As can be seen in the following chart, the lack of an identifiable trend in both total collections and by use type, speaks to the unpredictability of collections. This may be explained by a variety of economic factors, including the significant economic downturn in 2008. Most notably for this specific time period, there was a significant reduction in overall collections during the fiscal years of 2009, 2010, 2011 and 2013.



- Collections from hospital developments occurred in six of the nine years, with particularly large collections in fiscal years 2008, 2010 and 2014. These outliers may skew the estimated collection rate for nonprofit hospitals.
- Recent collections from manufacturing and warehouse development may not accurately represent future trends in revenue collections. According to Economic Development staff, the fiscal impact of the proposed exemptions for manufacturing and warehouse projects to the Housing Trust Fund are expected to be minimal. Despite some demand for new manufacturing and distribution space, rising industrial land values make such new development almost infeasible except in Otay Mesa (mainly warehouses) and for special-purpose high-tech manufacturing (factories) in North City. Even in Otay Mesa, new warehouse construction will not likely occur until most of the current inventory of

vacant warehouse space is absorbed. Additionally, staff estimate that developable industrial land in the remainder of the City is likely to be developed for office, retail, R&D, and hospital uses, which is consistent with relatively higher property values coupled with increased demand and relatively low vacancy for these types of uses.

Fee Increases Proposed in the MOU

The remaining non-exempt categories (office, hotel, retail and R&D) represent roughly 83% of collections from FY 2006 – FY 2014. These non-exempt categories represent a significant portion of overall revenue, and the proposed fee increases for office, hotel and retail may offset any potential decreases resulting from the exemptions. However, if specific stipulations are not met as outlined in the MOU, these fee increases may sunset. In this case, although the City may realize increased collections in the short term due to the fee increase for office, hotel and retail, it should be noted that there is no specific provision in the MOU to sunset the exemptions. If the fee increase were to sunset after three years according to conditions in the MOU, reducing the fee to 1996 levels, Housing Impact Fee reductions resulting from these exemptions would continue.

Other Issues to Consider

Request to Strengthen the Exemption Process

The MOU also includes language that requests Municipal Code amendments to "strengthen the exemption process for high wage employers". This refers to an application process currently in place that commercial developers may utilize to determine whether they may be exempted from the applicable Housing Impact Fee. This is undertaken through submitting an appeal to the San Diego Housing Commission, followed by a determination also made by them. Committee members may want to discuss the intent behind this inclusion into the MOU, and for the appeal process to be better defined in order to achieve intended goals.

Nonprofit Hospital Exemption

Hospitals are currently charged housing impact fees under the office category. Although hospitals provide important services to citizens, they may not require fee incentives to promote development or rehabilitation. Over the last nine fiscal years, hospital projects (most, if not all of which, have been nonprofit) have contributed $1.42 million to the Housing Trust Fund. Given that a nonprofit hospital exemption represents approximately 9.6% of all Housing Trust Fund collections over the last nine years, the Committee may wish to consider whether this exemption should be included in this MOU or any subsequent proposal.

If the decision is made to go forward with an exemption for nonprofit hospitals, then the Committee should ask staff to work with the Office of the City Attorney to clarify the language in the MOU and Municipal Code to ensure that staff can accurately determine a hospital project's exemption status.

CONCLUSION

The Workforce Housing Plan was proposed as a joint recommendation by the SDHC and the Jobs Coalition to the July 17, 2014 SG&LU meeting. At this meeting, our office was requested

to provide a fiscal impact analysis of the proposed Housing Impact Fee exemptions. Our office estimates the fiscal impact of exemptions for manufacturing, warehouse and nonprofit hospitals to be roughly 17.6%, or about $289,000, based on the average collections from FY 2006 – FY 2014. Though this estimate may provide some insight into how these exemptions may affect collections, we note that Housing Impact Fee revenue is difficult to predict and may be influenced by a variety of economic factors.

The Committee also requested our office provide the timing and scope of a report intended to examine potential revenue resources that could support affordable housing in the City. This revenue report is expected to be released in October and while our office recognizes that affordable housing is an important priority, it is one of several held by the City, including making repairs and improvements to infrastructure and completing projects to comply with new storm water regulations. To that end, this report will examine a number of major revenue sources the City could pursue that are not limited solely to those contemplated in the MOU.

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Research Analyst

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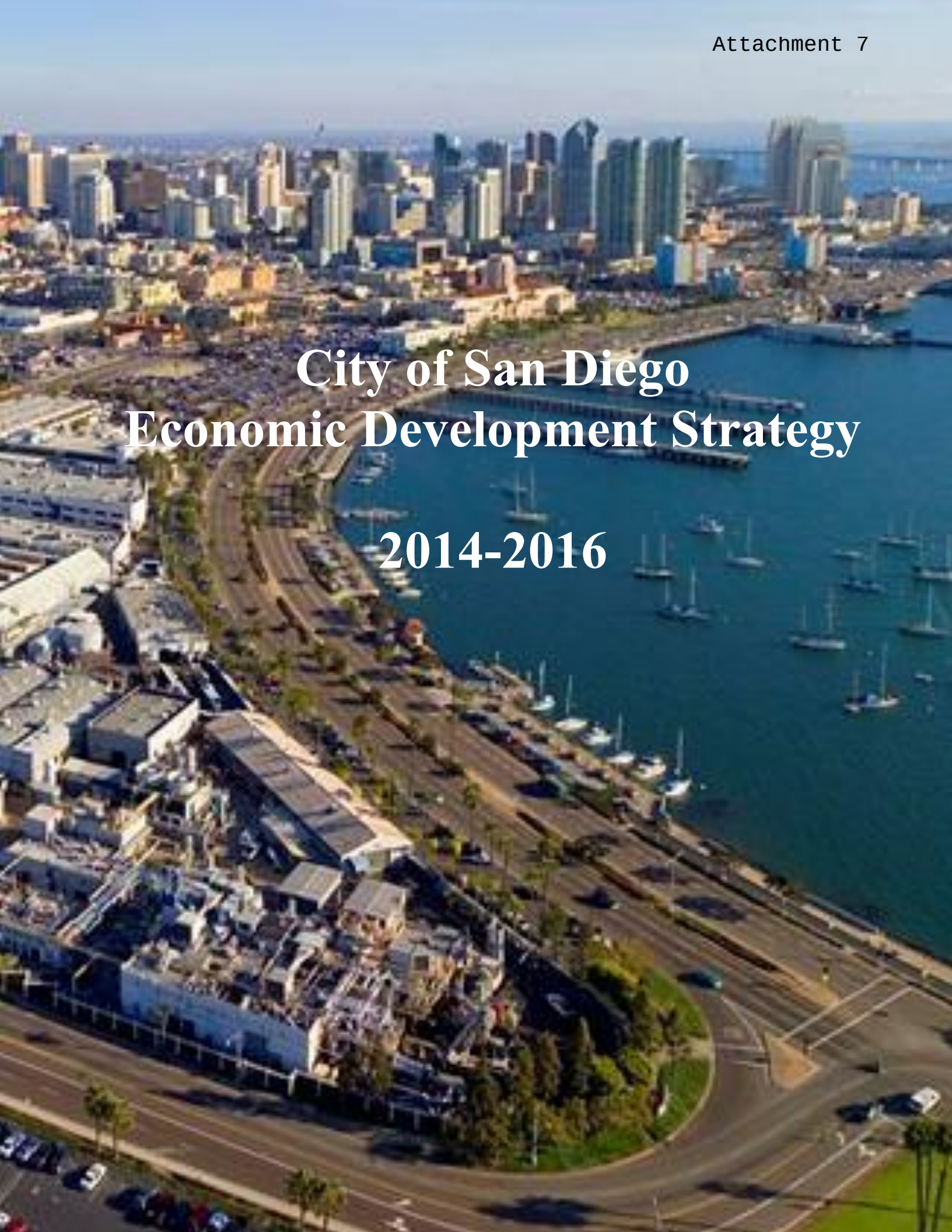
Deputy Director

APPROVED: Andrea Tevlin
Independent Budget Analyst

Attachment: 1. Total Housing Impact Fee Collections by Use Type (FY 2006- FY 2014)

Total Housing Impact Fee Collections by Use Type from 2006-2014												
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**TOTAL**	**Average Annual Collection**	**Average Annual Collection %**
Office	1,601,329	1,591,420	1,543,908	491,697	114,125	179,496	722,198	178,428	775,051	$7,197,651	$799,739	48.8%
Hospital	29,150	0	288,610	0	336,085	182,995	0	8,056	574,646	$1,419,542	$157,727	9.6%
Hotel	337,030	10,831	27,044	6,404	0	112,577	109,051	1,675	404,176	$1,008,788	$112,088	6.8%
Retail	414,644	93,449	123,234	126,629	163,121	77,425	307,976	194,480	388,664	$1,889,623	$209,958	12.8%
R&D	806,117	266,941	206,267	10,443	37,418	81,548	341,646	331,024	108,401	$2,189,806	$243,312	14.9%
Manufacturing	232,978	87,753	40,972	15,085	0	0	24,328	35,128	10,636	$446,880	$49,653	3.0%
Warehouse	152,660	150,873	254,355	27,199	7,107	45,217	20,963	72,403	5,070	$735,847	$81,761	5.0%
Other*	-37,950	-18,400	0	0	-20,553	-18,513	-6,715	-45,393	0	-$147,525	-$16,392	-1.0%
Total	**$3,535,957**	**$2,182,868**	**$2,484,391**	**$677,458**	**$637,303**	**$660,744**	**$1,519,447**	**$775,800**	**$2,266,643**	**$14,740,612**	**$1,637,846**	
** "Other" includes credits that are not attached to a specific development type, or other miscelaneous fee collections allocated to the Housing Trust Fund*												

Attachment 7



City of San Diego
Economic Development Strategy

2014-2016

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Executive Summary

This Economic Development Strategy lays the foundation for sustained economic recovery and fiscal stability for the City of San Diego.

San Diego's economic base has evolved from a dependence on the military and tourism to a focus on high-technology manufacturing and international trade. The City's highly-skilled labor force, pleasant Mediterranean climate, and unique proximity to Mexico and the Pacific Rim provide comparative advantages for established businesses and those considering relocation to San Diego.

This Economic Development Strategy lays out a Mission Statement, Strategic Objectives, and a set of Economic Indicators that will help the City track progress annually. It also lays out specific Tactical Objectives and Actions for four base sectors, a neighborhood business strategy, and other economic development efforts.

Economic Development Mission

The City's Economic Development Mission is as follows:

To create a wide spectrum of job opportunities for San Diego residents by expanding the City's economic base and increasing local economic activity, and to generate new tax revenues for essential public services by expanding the City's tax base.

Strategic Objectives

The City's Economic Development Mission can be translated into three Strategic Objectives.

#1: Economic Base ("Traded Economy") Growth

Attract, retain, and expand businesses in the City's four economic base or "traded economy" sectors (innovation/manufacturing, international trade & logistics, military, and tourism), focusing especially on emerging sectors such as Cleantech & Energy Efficiency and the Food & Beverage industry clusters.

#2: Middle-Income Jobs

Increase the number of middle-income jobs, especially in economic base sectors.

#3: Neighborhood Businesses

Increase the amount of neighborhood business activity, especially in underserved neighborhoods

Economic Indicators

Progress toward the goals of this Economic Development Strategy can be tracked through the use of seven relevant economic indicators.

1. Increase the Gross Regional Product (GRP) of the San Diego Region
2. Increase the percentage of the workforce that earns middle-wage incomes
3. Decrease the rate of local unemployment
4. Increase the local median income
5. Decrease the percentage of people living in poverty
6. Increase General Fund tax revenues as a percentage of GRP
7. Increase the business activity in the City's neighborhood business districts.

Economic Base Industries

This Economic Development Strategy makes reference to San Diego's four "economic base" sectors (interchangeably referred to as "traded economies") and lays out Tactical Objectives and Actions for these sectors.

"Economic base" Sectors are groups of industries that produce goods and/or services that are sold outside the region, thus bringing money and wealth into the region. Unlike local businesses, which serve local customers but do not increase the region's overall economy, "economic base" industries create the foundation of jobs and wealth for the entire region, bringing money in from the outside that circulates again and again within San Diego to boost the economy. San Diego's four economic base industries are:

1. Manufacturing and Innovation
2. International Trade & Logistics
3. Military
4. Tourism

This Economic Development Strategy lays out Tactical Objectives and Actions for each of these four base industries that, if achieved, will help San Diego make progress toward the first two of the three Strategic Objectives and the seven Economic Indicators.

Neighborhood Business Districts

This Economic Development Strategy also calls out the importance of nurturing small, locally-owned neighborhood businesses, especially in older neighborhood business districts with an emphasis on historically underserved neighborhoods. Focusing effort on such businesses has two major benefits. First, in contrast to corporate chain retail stores, locally owned businesses retain money in the local economy to be re-circulated again and again. Second, the success of such businesses, especially when concentrated in business districts, can serve to revitalize San Diego's older neighborhoods, achieving many other goals in the process. This Economic Development Strategy also lays out Tactical Goals and Actions for locally-owned small businesses and neighborhood business districts.

Other Economic Development Efforts

This Economic Development Strategy identifies four other areas of City activity that should be used to support economic development efforts.

- The City's tax structure, which can be adjusted to assist base sectors such as Manufacturing and Tourism that provide the economic foundation of the region.
- City services and operations
- Workforce development and education that is vital to meet the demands of a 21st century economy.
- City relationships to external economic development organizations, whose efforts must be co-ordinated with the City for maximum economic benefit.

This Economic Development Strategy provides Tactical Objectives and Actions for each one of these four additional economic development efforts.

1. Introduction

This Economic Development Strategy is intended to guide the City of San Diego's economic development efforts for the next three years. In doing so, this strategy serves several purposes.

First, it is designed to inform local policymakers and investors about the nature of the City's economic base, specifically by describing the driving industries that form the basis for future economic prosperity.

Second, it describes the City's strengths and weaknesses as well as the City's existing efforts through various programs and initiatives, and examines various threats to fiscal, social, and economic stability.

Finally, and most importantly it lays out an economic development action plan designed ensure fiscal and economic prosperity well into the future.

The term "economic development" refers to activities undertaken by the public sector to promote job creation and retention, to ensure a strong, growing and diversified economy, and to increase the size of the local tax base.

Since the 1950s, the City of San Diego has engaged in a wide variety of economic development activities, including programs that have focused on:

- Business attraction
- Business retention and expansion
- Commercial and neighborhood revitalization
- Redevelopment
- Small business assistance
- Tourism promotion
- International trade promotion, and
- Development of City-owned industrial land.

Economic development success depends not only on these business-oriented programs, but also on complementary efforts to provide public infrastructure, affordable housing, education and workforce training, and a cost-effective and predictable regulatory framework.

A successful economic development strategy focuses on growing the *economic base*, which is that segment of the economy that brings money into San Diego by exporting goods and services to the rest of the nation and the world. Because this process of exporting goods and services can be viewed as "trade," these economic base sectors are sometimes known as "traded economies" – the way in which a region is economically connected to the rest of the nation and the world. Some of these earnings are spent to import goods and services from outside the metropolitan area – typically goods and services which can't be cost-effectively produced or provided internally. But some of it is circulated and re-circulated through the local economy. Local own-

ership and local consumption of goods produced locally ("internal spending") can provide additional economic benefits even beyond those provided by the earnings of the economic base.

This Economic Development Strategy first discusses how San Diego earns money through the export of goods and services, and then examines how to augment those economic benefits through support of locally-owned establishments.

An effective economic development strategy contains the following elements[1]:

(1) Mission,

(2) Goals and Actions,

(3) Economic Indicators and Performance Measures.

Accordingly, these three elements are included in this Economic Development Strategy. Proposed specific actions are listed for each segment of the economic base and for neighborhood-based businesses.

This Economic Development Strategy is focused primarily on the implementation of policies and the administration of programs and initiatives that can reasonably be expected to improve the City's business climate to attract job-creating and revenue-generating capital investments in the near-term. Broader quality-of-life issues that influence or affect economic competiveness over the long-term are contained in the City's 2008 General Plan. These issues may be revisited during the development of the Economic Development Strategy for the period beginning in 2017.

[1] These three elements are derived from research and guidance provided by Council Policy 900-01 "Economic Development," the City Auditor's Office, and expert outside organizations such as the Government Finance Officers Association (GFOA), the National Performance Management Advisory Commission, the U.S. Government Accountability Office (GAO), the U.S. Office of Management and Budget (OMB), and the international City/County Management Association (ICMA).

2. Mission, Strategic Objectives, and Performance Measures[2]

The City's Economic Development Mission is:

To create a wide spectrum of job opportunities for San Diego residents by expanding the City's economic base and increasing local economic activity, and to generate new tax revenues for essential public services by expanding the City's tax base.

2-1. Strategic Objectives

The City's Economic Development Mission can be translated into three Strategic Objectives.

#1: Economic Base ("traded economies") Growth

Attract, retain, and expand businesses in the City's four economic base sectors (manufacturing & innovation, international trade & logistics, military, and tourism).

#2: Middle-Income Jobs

Increase the number of middle-income jobs, especially in economic base sectors.

#3: Neighborhood Businesses

Increase the amount of neighborhood business activity, especially in underserved neighborhoods.

In the following section, Strategic Objectives are translated into Tactical Objectives that will be pursued through actions and evaluated through metrics, specifically, and more broadly through economic performance indicators. .

[2] Editor's Note: The Mission Statement, Strategic Objectives, and Performance Measures listed here are similar to those listed in the annual budget documents for the City's internal economic development units, but are much broader and intended to provide goals and objective standards for the City as a whole, including all of the departments and offices whose activities have some bearing on the City's overall economic development efforts.

2-2. Economic Performance Indicators

Progress toward the City's Strategic Goals can be measured using readily available data. The following seven Economic Performance Indicators are directly linked to the three Strategic Objectives:

1. Increase the Gross Regional Product (GRP) of the San Diego Region
2. Increase the percentage of the workforce that earns middle-wage incomes
3. Decrease the rate of local unemployment
4. Increase the local median income
5. Decrease the percentage of people living in poverty
6. Increase General Fund tax revenues as a percentage of GRP
7. Increase the business activity in the City's neighborhood business districts.

All of these performances measures can be tracked with readily available empirical data and can be used as a "report card" to track the City's progress. Taking the Actions in order to accomplish the Tactical Objectives and make progress toward the Strategic Objectives should "move the needle" on these economic indicators. If San Diego does not make progress toward these economic indicators, the City should revisit all facets of this strategy – the Strategic Objectives, the Tactical Objectives, and the Actions – to determine whether they need to be re-tooled.

Figure 1: Overall Economic Performance Indicators

Economic Indicator	2013 San Diego	2017 San Diego	2013 California	2013 United States
1. Gross Regional, State, or Domestic Product (GRP)[3]	$177 billion	TBD	$2 trillion	$15.610 trillion
2. Percentage of Residents Earning Middle Income Wages[4]	28%	TBD	27%	53%
3. Unemployment Rate[5]	7.0%	TBD	8.9%	7.3%
4. Median Household Income[6]	$60,330	TBD	$58,328	$51,371
5. Percentage of Persons Below Poverty Line[7]	15%	TBD	16.6%	15.9%
6. General Fund Tax Revenue as a Percentage of GRP[8]	$0.5913978 %	TBD		
7. Total Sales in Neighborhood Business Districts.	In process	TBD	N/A	N/A

[3] National University System Institute for Policy Research (NUSIPR), and International Monetary Fund, figures are for end of 2012. Figures for California and the United States are the Gross State Product (GSP), and Gross Domestic Product (GDP) respectively.
[4] Ibid.
[5] U.S. Census Bureau, figure is for August 2013.
[6] Ibid., figure is for end of 2012.
[7] Ibid., figure is for end of 2012
[8] Financial Management Department and NUSIPR, FY2012 General Fund budget actual receipts divided by 2012 GRP.

Economic Indicator	Competing California Metropolitan Areas			
	San Diego-Carlsbad-San Marcos	**Los Angeles-Long Beach-Santa Ana**	**San Francisco-Oakland-Fremont**	**San Jose-Sunnyvale-Santa Clara**
1. Gross (Regional) Product (GRP)[9]	$177 billion	$766 billion	$360 billion	$174 billion
2. Residents Earning Middle Income Wages[10]	28%	26%	28%	25%
3. Unemployment Rate[11]	7.0%	9.2%	6.5%	7.5%
4. Median Household Income[12]	$60,330	$53,001	$73,012	$91,425
5. Percentage of Persons Below the Poverty Line[13]	15%	19.1%	15%	10.8%
6. General Fund Tax Revenue as a Percentage of GRP[14]	0.64%	0.60%	0.85%	1.60%

[9] National University System Institute for Policy Research (NUSIPR), and International Monetary Fund, figures are for end of 2012. Figures for California and the United States are the Gross State Product (GSP), and Gross Domestic Product (GDP) respectively.
[10] Ibid.
[11] U.S. Census Bureau, figure is for October 2013.
[12] Ibid., figure is for end of 2012.
[13] Ibid., figure is for end of 2012
[14] Financial Management Department and NUSIPR, FY2012 General Fund budget actual receipts divided by 2012 GRP.

2-3. Manufacturing & Innovation

Tactical Objectives

1. Increase the number of factory (production) jobs in San Diego

2. Increase the number of manufacturing sector jobs in San Diego

3. Increase the number of manufacturing sector jobs that are linked to local research and development operations

4. Increase the number of manufacturing plants in San Diego which have a taxable point of sale

5. Increase employment among startup tech companies, especially downtown and in other commercial districts.

Actions

1. Track all conversion of Prime Industrial Lands to non-industrial uses and provide a report on such conversions to the City Council every year.

2. Review the Municipal Code to identify any code changes required to implement General Plan Policies EP-A.1 and EP-A.12, related to Prime Industrial Land.

3. Amend the Municipal Code to exempt manufacturing from the Housing Impact Fee.

4. Review the Municipal Code to identify any code changes to improve the viability and feasibility of manufacturing in the City's industrial zones.

5. Make City-owned industrial property available for sale or lease to manufacturing companies to build or expand manufacturing plants in accordance with Council Policy 900-03.

6. Require cross-departmental collaboration of City staff to develop and ensure a streamlined, consistent, and rapid review/approval process for manufacturing and warehouse projects.

7. Create a "Buy San Diego" campaign aimed at increasing local demand for products made in San Diego – not only among consumers but among local businesses as well.

8. Initiate a collaborative process with manufacturers to ensure that they have a sustainable, long-term, cost-effective source of reclaimed and potable water for industrial cooling and processing, and make the necessary changes to the Municipal Code.

9. Actively support federal defense appropriations for the purchase and repair of military hardware that is or can be manufactured within the City.

10. Support and take advantage of state economic development incentives for business expansion, attraction, and retention.

11. Promote the City's efforts to create a sustainable water supply and long-term security and independence for residents and businesses.

12. Update Council Policies 900-03, 900-04, and 900-12, which guide industrial development within the City

13. Assemble a Manufacturing Roundtable to include industry and labor representatives to implement the proposed Actions listed above as well as other reforms and initiatives.

Metrics

1. An increase in the number of factory (production) jobs in the City.

2. An increase in the amount of sales and use tax received by the City from manufacturing plants.

2-4. International Trade & Logistics

Tactical Objectives

1. Increase the number of distribution jobs in San Diego.

2. Increase the utilization of the 10th Avenue Marine Terminal.

3. Aggressively market the Foreign Trade Zone Program to all potential new users.

Actions

1. Maintain and staff a bi-national affairs office in Tijuana in order to more effectively facilitate cross-border commerce and logistics in accordance with General Plan Policy EP-J.1

2. Amend the Municipal Code to exempt wholesale distribution from the Housing Impact Fee.

3. Prioritize transportation Capital Improvement Program funds to improve truck circulation to and from the Otay Mesa Port of Entry facilities.

4. Continue to seek state and federal funding for improvements to border-related infrastructure such as completion of the 905 Freeway and important collector streets that facilitate the movement of goods.

5. Pursue enhancements to the commercial cross-border trade facilities in accordance with General Plan Policy EP-J.4 and EP-J.6

6. Continue to collaborate with General Services Administration, the City of Tijuana, and SANDAG to expand and improve the ports of entry.

7. Protect and preserve the Prime Industrial Lands identified in the City's General Plan pursuant to General Plan Policies EP-A.1, EP-A.12, EP-J.9

8. Pursue funding to expand and provide better connections to the 10th Avenue Marine Terminal.

9. Work collaboratively with the Port of San Diego to ensure that the 50-year Port Master Plan protects and enhances opportunities to expand the trade economy on port land.

10. Assemble an International Trade & Logistics Roundtable to include industry and labor representatives to implement the proposed Actions listed above as well as other reforms and initiatives.

Metrics

1. An increase in the value of goods shipped through the Otay Mesa Port-of-Entry.
2. An increase in the value of goods shipped through San Diego International Airport
3. An increase in the tonnage of goods shipped through the 10th Avenue Marine Terminal.
4. An increase in the number of logistics and distribution jobs in San Diego.
5. A decrease in the conversion of Prime Industrial Land acreage to other uses.
6. An increase in state and federal funding of logistics/transportation infrastructure

2-5. Military

Tactical Objectives

1. Increase the number of ships, aircraft, and personnel at each of the City's military installations

2. Increase the procurement of locally produced goods and services by the military at San Diego businesses

Actions

1. Work collaboratively with local military commanders and with congressional delegates to ensure that San Diego's military installations are retained and expanded; and that San Diego businesses have opportunities to provide goods and services to the commands at these installations in accordance with General Plan Policy EP-H.2.

2. Encourage the Navy to bring "Green Fleet" demonstration projects to San Diego and especially to procure biofuel developed or produced in the City.

3. Ensure that San Diego is always represented at the SANDAG Military Working Group meetings to ensure that City of San Diego and Department of the Navy are able to proactively address issues affecting both parties.

Metrics

1. An increase in the level of military spending at local military installations.

2. An increase in the number of civilian jobs in the local military economy.

3. An increase in the amount of military purchasing in the local economy.

2-6. Tourism

Tactical Objectives

1. Increase the overall economic activity of the tourism industry cluster by increasing the number of dollars spent in the local economy by visitors from outside the region.

2. Ensure that Transient Occupancy Tax (TOT) funding and Tourism Marketing District (TMD) funding provide the most "bang for the buck".

3. Complete the Convention Center expansion and encourage increased private sector investment in aging private visitor facilities.

4. Dedicate City Capital Improvement funds toward projects that enhance the City's attractiveness, including streets and bike lanes, sidewalks, public facilities and parks and beaches

Actions

1. Build, expand, and enhance important publicly-owned attractions and facilities such as the Convention Center, Cruise Ship Terminal, City beaches, San Diego International Airport, and similar assets in accordance with General Plan Policies EP-I.2 and EP-I.3

2. Establish a fair and competitive process to evaluate Citywide TOT grants and Economic Development & Tourism Support ("EDTS") grants to ensure that the City receives the maximum value for these funds in accordance with the guidance of General Plan Policy EP-I.1

3. Assemble a Tourism Roundtable to include industry and labor representatives to implement the proposed Actions listed above as well as other reforms and initiatives.

Metrics

1. An increase in the number of room nights sold at San Diego hotels and motels.

2. An increase in the amount of TOT revenue received by the City based on the current rate.

3. An increase in the utilization of the Convention Center that results in a higher number of room nights sold.

4. An increase in the amount of sales tax received by the City from eating and drinking establishments based on the current rate.

5. An increase in funding for the improvement and expansion of infrastructure, including streets and bike lanes, sidewalks, public facilities, and parks and beaches.

2-7. San Diego's Neighborhood Businesses

Tactical Objectives

1. Increase the number of locally-owned small businesses in San Diego

2. Strengthen the business base of existing older business districts

3. Target city investment in older business districts and adjacent neighborhoods, especially those in traditionally underserved neighborhoods.

4. Maximize the effectiveness of the City's neighborhood and small business programs.

Actions

1. Develop a replacement program for redevelopment by partnering with private corporations, philanthropic organizations, and lending institutions.

2. Encourage formation of new assessment districts, such as maintenance assessment districts (MADs) and property and business improvement districts (PBIDs), to enhance existing community programs.

3. Support state legislative efforts to clarify and strengthen the role of assessment districts.

4. Continue to lobby at the federal level against further cuts in CDBG funding.

5. Retool the City's existing small business programs to target assistance to locally-owned small businesses in the city's older neighborhoods, especially underserved neighborhoods.

6. Evaluate relevant Land Development Code regulations to lessen the regulatory burden on locally-owned small businesses and home-based businesses that are compatible with residential surroundings.

Metrics

1. Increase in the number of small businesses in the City, especially in underserved neighborhoods.

2. Number of business improvement districts (BIDs) augmented with new financing tools.

3. Number of new BIDs, PBIDs, MAD's and other neighborhood business district management entities created.

4. Percentage of City's infrastructure investment targeted to older neighborhoods with business districts, especially in historically underserved neighborhoods.

2-8. City Tax Structure

Tactical Objectives

1. Reduce the City's reliance on base industry tax revenues so that economic development objectives and fiscal policy are aligned.

2. Create a better understanding of the fiscal consequences of land use decisions.

Actions

1. Restructure the City's taxation structure to reduce the dependence on manufacturing and tourism.

2. Reinstate the requirement for fiscal impact analysis not just for large development projects but also for Community Plan Updates and for the establishment of regulations on base industries.

3. Assemble a Retailers Roundtable, to include the retailers, retail organizations, and other tax generators to implement these Actions as well as other reforms and initiatives that can expand the City's tax base.

Metrics

1. A decrease in the proportionate share of the City's General Fund tax revenues paid by manufacturers and hoteliers.

2-9. City Policies, Procedures, & Operations

Tactical Objectives

1. Alignment of key city services and operations with the City's economic development goals.

Actions

1. Initiate a top-down assessment of key city services and operations by the Chief Operating Officer to determine where and how those services and operations do and do not align with the City's economic development goals.
2. Form an Economic Development Cabinet composed of Department Directors and Deputy Chief Operating Officers, led by the City's Assistant Chief Operating Officer to coordinate inter-departmental efforts related to key industries and projects.
3. Provide a mechanism for external stakeholders to provide *specific* recommendations regarding necessary changes to City ordinances, policies, and procedures in order to encourage economic development.
4. Review and reform/update all council policies related to economic development that may constrain the City from pursuing our economic development goals.

Metrics

1. Formation of an Economic Development Advisory Group that reports to City Council annually.

2. A consolidated cumulative list of implemented and proposed reforms (both Mayoral and those requiring City Council approval) that result from both the Chief Operating Officer's review and the feedback from external stakeholders for aligning city operations with economic development goals.

2-10. Workforce Development & Education

Tactical Objectives

1. Increase in the employment of local residents by local businesses.
2. Lead by example in providing 21st century training and educational opportunities for the City workforce to advance in their careers.

Actions

1. Maintain a direct role on the San Diego Consortium Policy Board (the governing body of the San Diego Workforce Partnership - SDWP) to determine, review and approve of funding initiatives, policy, and program focus areas for SDWP to ensure that federal funds are spent efficiently and that San Diegans are afforded the best opportunities to train or re-train for specific industries and occupations

2. Work with SDWP, academic researchers, and the local school districts, community colleges and universities to ensure that workforce development professionals and educators have a clear picture of the changing nature of local employment needs.

3. Use tools such as Economic Development ~~Incentive~~ Agreements to encourage local businesses to give first preference for new job opportunities to San Diego residents.

4. Continue to support workforce development programs or other efforts that target underrepresented groups, provide training for veterans, help low-wage earners to move up career ladders, prepare youth for the workforce, place long term unemployed individuals, and establish entry level professional classifications for recent college graduates (to gain full-time professional experience) using the City of San Diego's Management Trainee model.

4. Encourage expansion in training and mentorship programs such as CONNECT2Careers San Diego, which call for a commitment from employers to such programs.
5. Invest in the City's workforce by offering training and tuition reimbursement opportunities to City employees.

2-11. City Relationships With External Organizations

Tactical Objectives

1. Memorialize the relationships between the City and other economic development entities.

2. Ensure that contracts with economic development entities have a clear purpose with clear goals and deliverables.

Actions

1. Evaluate all existing relationships with external organizations to determine the strategic purpose for each relationship and, where appropriate, define those relationships in formal documents.

2. Use competitive bidding when procuring economic development services such as marketing and promotion from outside entities.

3. Include clear and quantifiable performance measures and deliverables in contracts.

4. Preclude the use of City funds by any economic development contractor for any activities that are contrary to the goals and objectives of this Economic Development Strategy.

Metrics

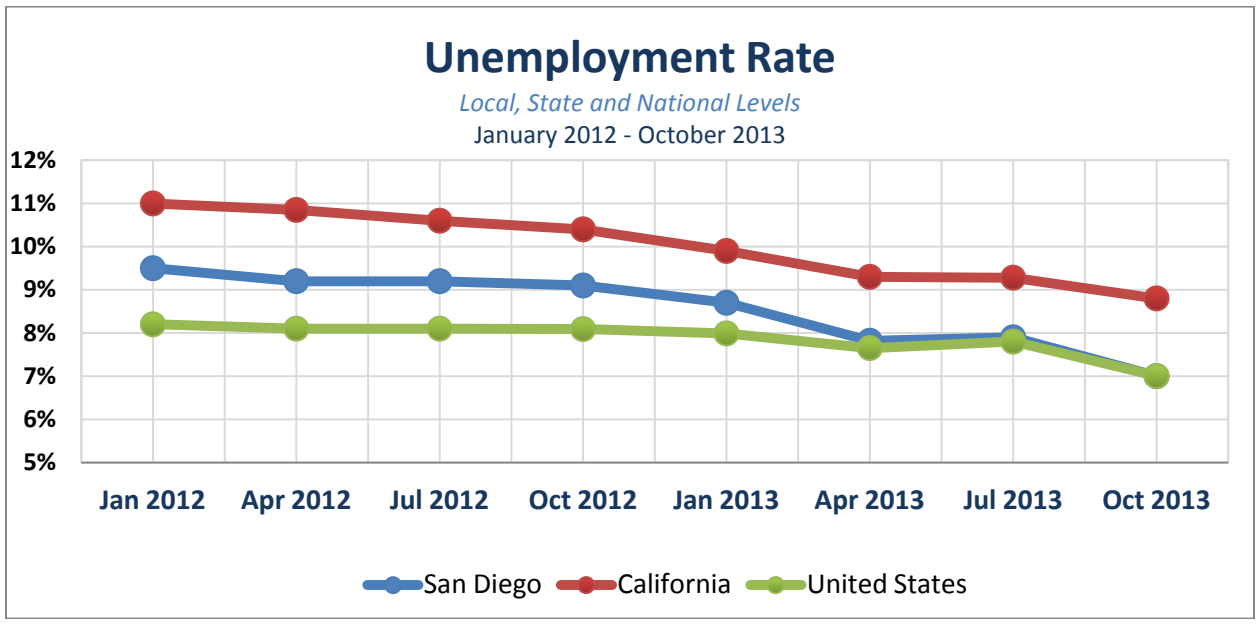
1. An increase in the number of contracts awarded on the basis of a competitive bidding process.

2. Number of MOU's or other documents memorializing the City's relationships with other economic development entities.

3. The San Diego Economy

The recent economic recession that our nation has experienced for the last several years has not left San Diego untouched. Despite recent improvements, San Diego still suffers from a persistently high local unemployment rate (7% as of October 2013). Though this is about the same as the national average and below the statewide rate of approximately 8.7%, it is one of the reasons why the need for job creation dominates the public conversation. Spending in the construction, manufacturing, finance, and real estate sectors is recovering gradually, but the short-term economic recovery still masks a long-term challenge.

Figure 2: San Diego's Regional Unemployment Rate



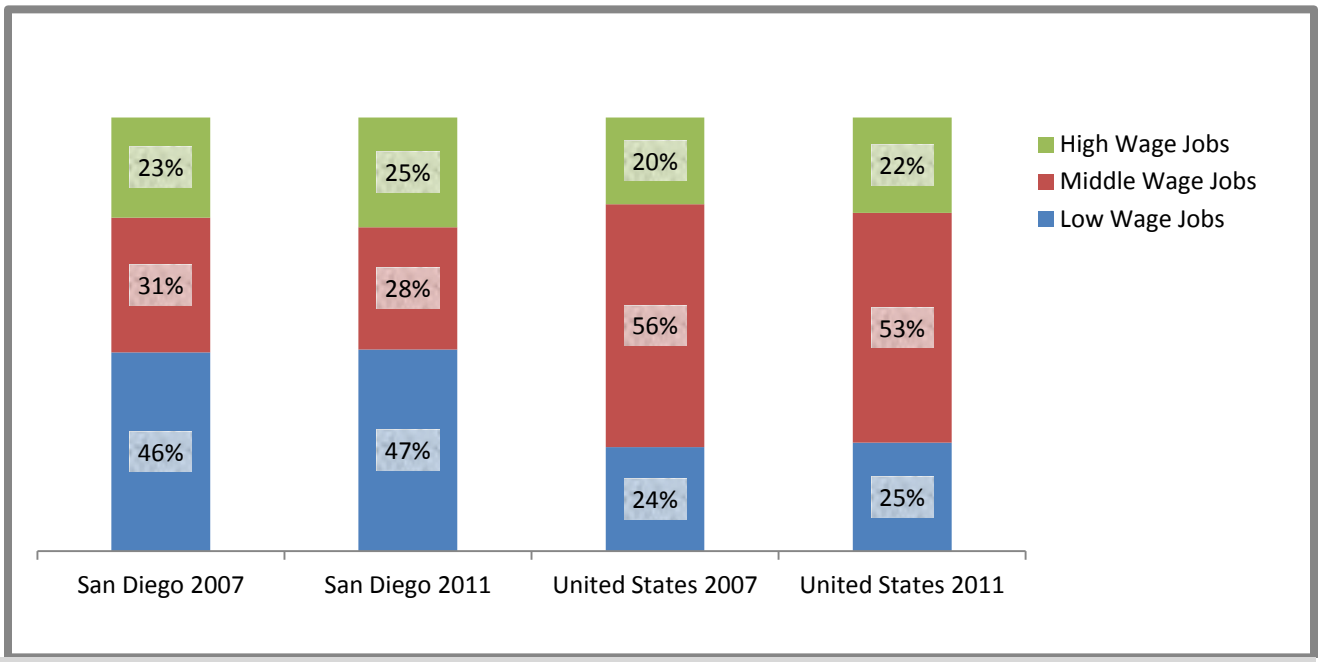
Source: San Diego Workforce Partnership, Labor Market Dashboard October, 2013

3-1. The Hourglass Economy

Despite the improvement in the unemployment rate, most job creation is either in low-wage service sector industries – retail and tourism – or high-wage jobs for highly educated scientists, engineers, and managers across many industries. The result is an economy that looks like an "hourglass": A small number of employees making high wages at the top and a large number of employees making low wages at the bottom, with relatively few middle-income jobs in between.

A recent report from the National University System Institute for Policy Research ("NUSIPR") illustrates the continued trend toward the hourglass economy in San Diego, showing that the trend accelerated between 2007 and 2011:

Figure 3: Loss of Middle Wage Jobs Accelerates in San Diego as Compared to the Nation.



"High Wage" jobs are those that provide compensation 25% or more above the overall average (mean) wage, "Middle Wage" jobs are those paying +/- 25% of the average overall wage, and "Low Wage" jobs are those paying 25% or less than the average overall wage for San Diego County

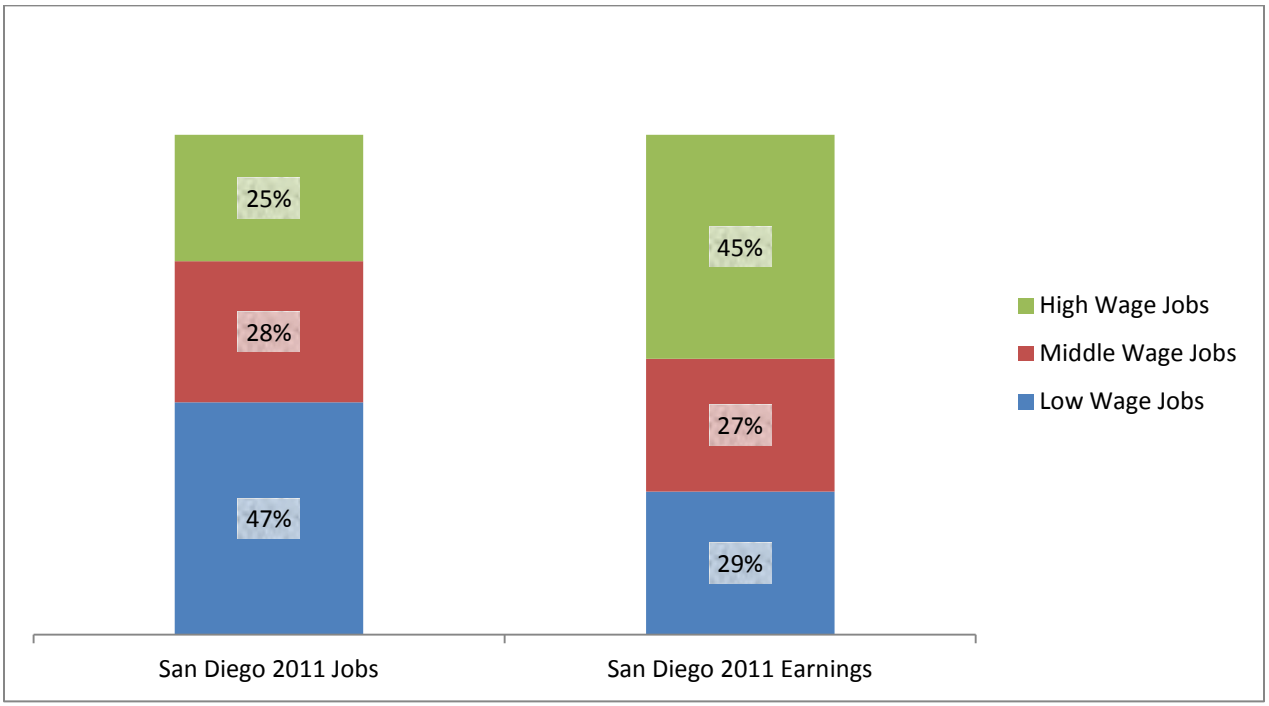
Average Wage =	$24/hour or $50,000 annually
High Wage =	More than $30/hour or $62,500+/annually
Middle Wage =	$18 - $30/hour of $37,500 - $62,500/annually
Low Wage =	Less than $18/hour or $37,700 annually

After evaluating economic data for the period 2007 – 2011, Kelly Cunningham, Chief Economist for NUSIPR reported in December of 2012 that:

"While San Diego's low-wage jobs declined in both number and total wages, the decreases were not nearly as deep as among middle-wage jobs. It becomes clear from this examination of occupations and wages that middle-wage jobs are disappearing and San Diego's employment base is increasingly stratified towards technically skilled, high-wage jobs on one side, and relatively low-skilled, low paid positions on the other."

And as Figure 4 shows, the "Hourglass Economy" is far more pronounced in San Diego than in the nation as a whole, though it is similar to the statewide trend in California.

Figure 4: San Diego's Income Distribution

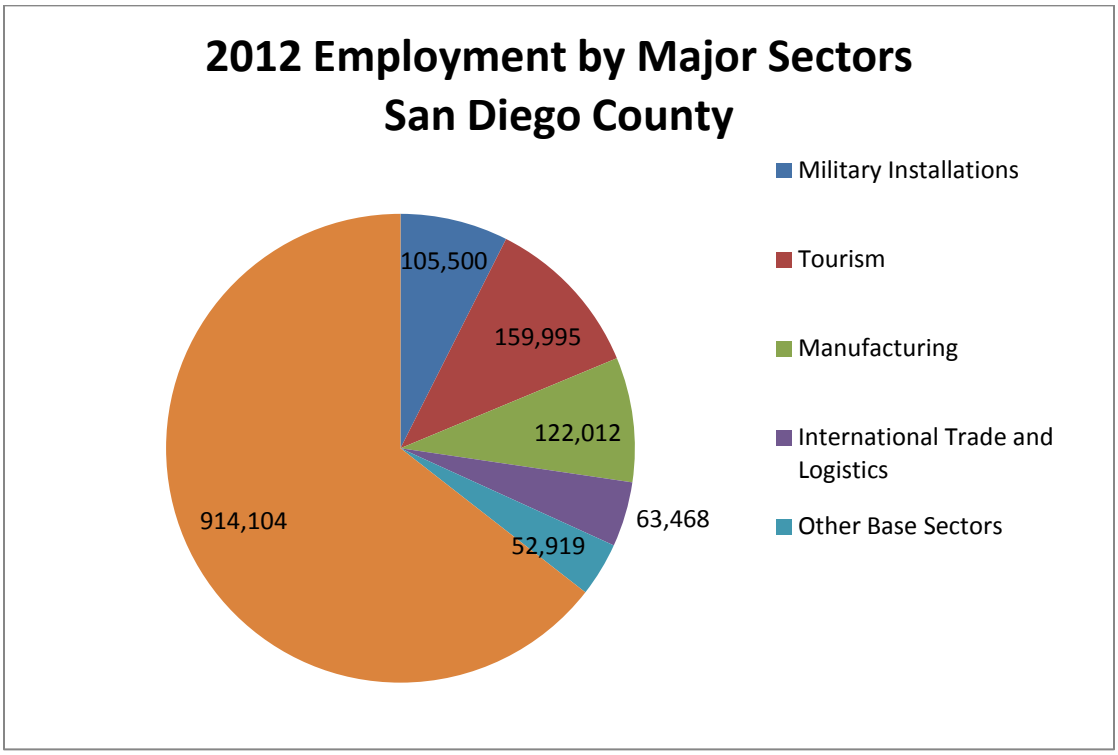


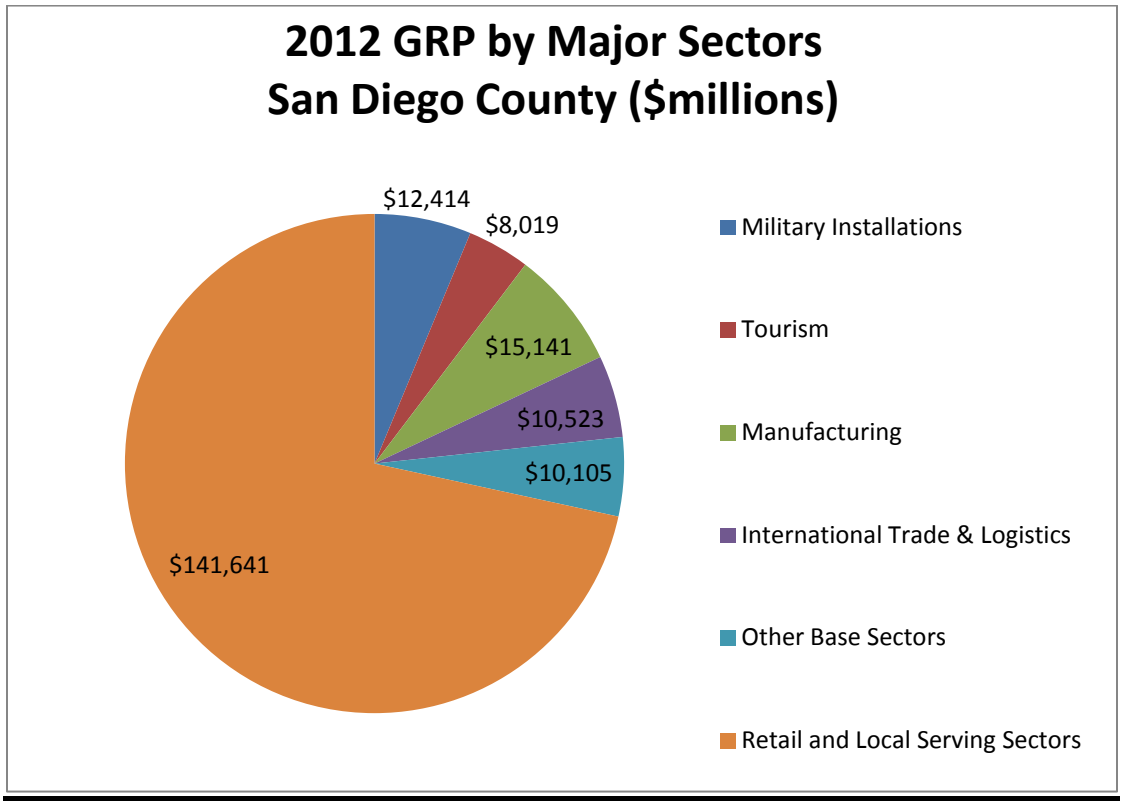
3.2 San Diego's Economic Situation

As shown in Figure 2 , San Diego's regional unemployment rate has dropped to match the nation's at 7% and is well under the state average. Looking forward, several industries remain strong and several others are growing. Businesses in the Biotechnology & Medical Devices cluster are still experiencing steady growth and the Food & Beverage Industry is doing exceptionally well. Although Electronics & Telecommunications shed jobs throughout the recession, industry leader Qualcomm has several large projects under development and has added several thousand jobs. Tourism industries shed some jobs during the recent recession but have more recently gained strength and are once again poised for growth. These gains have translated into increased growth in the retail sector that has resulted in modest sales tax revenue growth for the City, and the subsequent restoration of municipal services that had been cut during the depths of the recent economic downturn.

Economic policies focused on growth of the economic base can lead to lower unemployment, improved socioeconomic conditions, and fiscal stability. The development of new economic development "tools" and accommodative regulatory policies can accelerate growth without negative impacts to quality-of-life concerns. Support to neighborhood businesses can also contribute to economic growth by increasing economic activity and providing greater stability overall.

Figure 5: Employment and Gross Regional Product By Economic Sector





4. San Diego's Economic Base Sectors ("Traded Economies")

Although economic development debates often discuss business growth as if all businesses are the same, in fact different business sectors have vastly different effects on the City's economy. Most important is the difference between "base sector" and a "non-base sector". Both are extremely important to the City's economy, but they play different roles.

An *economic base sector* is a sector of the local economy that produces goods and services locally but then sells them outside the region to customers around the nation and the world, bringing money and wealth into the region. Businesses which produce goods, energy, and services which otherwise would be imported from outside the local area, for domestic consumption, also contribute to the economic base. This money and wealth is then circulated and re-circulated in the local economy as local businesses sell goods and services to local customers. A region's economic base is its economic engine because it increases the amount of money and wealth in a region. In San Diego, base sector industries have also been described as comprising "Traded Clusters" or "Traded Economies."

San Diego's four most important *base sectors* are:

1. Manufacturing & Innovation
2. International Trade & Logistics
3. Military
4. Tourism

San Diego is unusual among U.S. metro areas because manufacturing is closely related to what is often known as the "innovation economy". Unlike many metropolitan areas, San Diego economy provides a research & development "backbone" that helps create new products, which are then manufactured in the region, especially in biotech and high-tech. For this reason, San Diego's "export" or "traded" economy consists largely of high-value goods and services, such as the wireless telecommunications goods and services produced by Qualcomm, Motorola, Nokia, Broadcom, and other high-technology manufacturers.

Base sectors businesses tend to be medium-sized or large businesses that have many choices about where to locate. San Diego is extremely dependent on these industries for economic success. Therefore, an effective economic development effort will understand the competitive advantages and disadvantages the region has for these businesses and seek to help these businesses stay in the region and grow.

A *non-base sector* is a sector of the local economy that produces goods and services primarily to local customers. The *non-base* economy includes such sectors as retail and wholesale trade, government, schools, medical offices, churches, and nonprofit organizations that cater to the local population. As Figure 6 suggests, non-base businesses can primarily serve *people* – that is, individual customers – or they can serve *local businesses.*

These businesses are important to a region, but they do not grow the regional economy the way a *base sector* business does. These businesses can help grow a region's economy, however, if they are part of a base industry's "supply chain" – that is, the chain of suppliers – thus permitting a base industry to spend dollars locally rather than outside the region. The two columns below illustrate the relationship between base and non-base industries.

Economic Base	Non-Base
Mines	Rock Quarries
Manufacturing Plants	Construction Companies
Petroleum Refineries	Gasoline Service Stations
Commercial Fishing Fleets	Fish Markets
Meat Packing	Meat Markets
Corporate Headquarters Office	Auto Insurance Offices
Amusement Parks	Neighborhood Parks
Production Studios	Movie Theaters
Regional Distribution Centers	Retail Stores
Government Research Laboratory	Reference (testing) Laboratory
Book and Magazine Publishing	Book Stores
Software Development and Web Hosting	Computer Repair and IT Service Firms
Farms	Local Produce Delivery Services
Medical Research Institute	Medical Offices and Hospitals
Major State/Federal Government Offices	Local Government Offices
National Political Organization Offices	Consulting Firms

The circulation and recirculation of money and wealth in a region is called the *multiplier effect*. Different businesses and industries have different multiplier effects – that is, the money may re-circulate within the region to a greater or lesser degree depending on the needs of that particular business or industry.

Regional economic development strategies typically focus on growing a region's *economic base sectors*, to ensure that more money and wealth flows into the region. Local or neighborhood economic development strategies often focus on ensuring that residents and businesses purchase goods and services from local vendors rather than from vendors outside the region or the neighborhood.

While important to the residents of the City, local non-base businesses and institutions rarely need to be "retained" through economic development efforts as their mobility is extremely limited. However, smaller businesses are vulnerable to large corporate chains which have the financial ability to "crowd-out" smaller "Main Street" or "Mom and Pop" businesses; and they can benefit greatly if local customers choose to buy goods and services from them rather than from corporate chains.

Figure 6: Understanding the Importance of the Economic Base

Base Sector Industries Drive Rest of the Economy

Because they bring outside dollars into the community, base sector industries are the *engines of the economy*. Without healthy base sector industries, the rest of the economy cannot prosper.

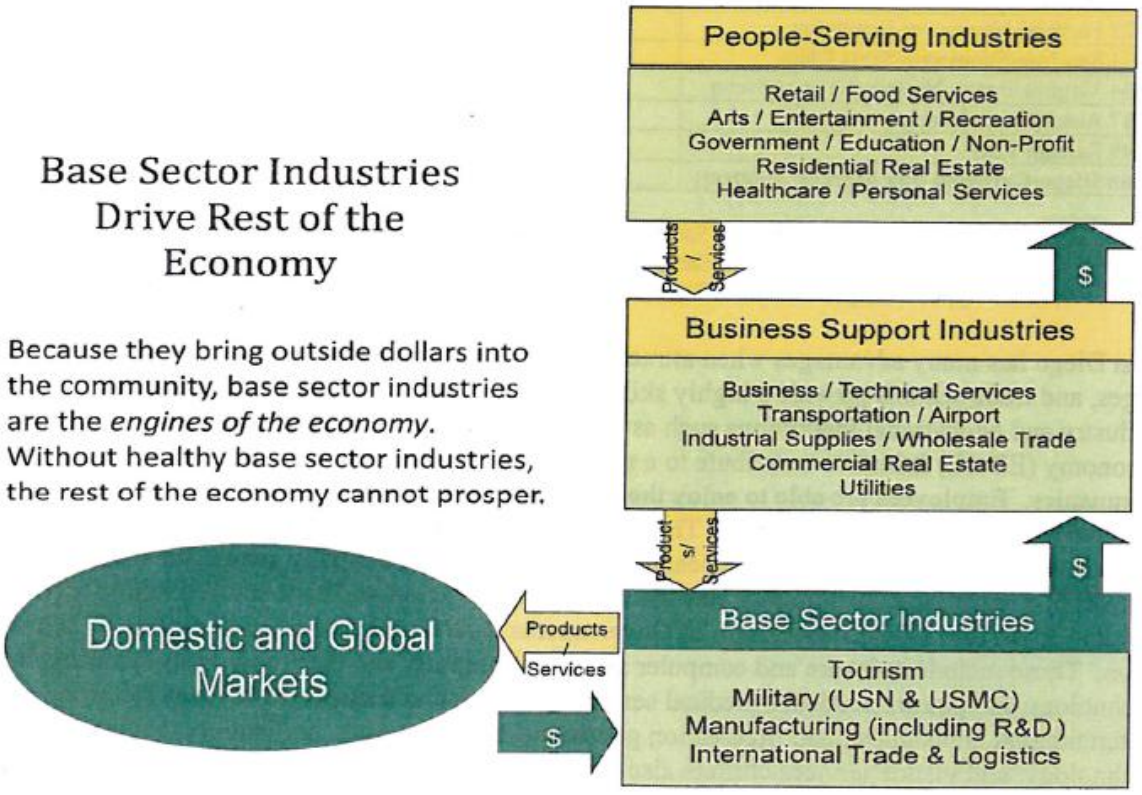


Figure 7: San Diego Base Sectors, Subsectors, Industries, and Industry Clusters

Terms	EDS Base Sector Category Required by Council Policy 900-01 "Economic Development"[1]				
	Manufacturing	International Trade & Logistics	Military	Tourism	Appendix A Other Base Sector Industries
SANDAG "Traded Industry Clusters" [2]					
Action Sports Manufacturing	√				
Advanced Precision Manufacturing	√				
Aerospace, Navigation, and Maritime Technologies	√				
Apparel Manufacturing	√				
Biomedical Devices & Products	√				
Biotechnology & Pharmaceuticals	√				
Cleantech	√				√
Entertainment & Hospitality				√	
Fruits & Vegetables	Not Significantly Represented within the City of San Diego				
Horticulture					
Information & Communications Technologies	√				√
Publishing & Marketing					√
Specialty Foods & Microbreweries	√				
San Diego Regional EDC "Key Industries" [3]					
Innovation	√				√
Cleantech	√				
Information & Communications	√				√
Life Sciences	√				√
Sports and Active Lifestyle	√				√
Military			√		
Defense	√		√		
Maritime	√				
Aerospace	√				
Tourism				√	
Conventions and Tourism				√	
Local					
Healthcare	Not Considered Part of the Economic Base				
Intellect					
Universities & Research Institutes					√
Other Terms Used Locally [4]					
BlueTech	√		√		√
Maritime	√	√	√		√
Maritime Technology	√		√		√
Cybersecurity			√		√
Analytics					√
Uniformed Military			√		
Research/Technology/Innovation	√				√
Wireless Health	√				√
Selected NAICS Sectors, Subsectors, and Industries [5]					
Sector 31-33 Manufacturing	√				
311. Food Manufacturing	√				
312. Beverage and Tobacco Product Manufacturing	√				
315. Apparel Manufacturing	√				
325. Chemical Manufacturing	√				
332. Fabricated Metal Product Manufacturing	√				
333. Machinery Manufacturing	√				
334. Computer and Electronic Product Manufacturing	√				
335. Electrical Equipment, Appliance and Component Mfg.	√				
336. Transportation Equipment Manufacturing	√				
337. Furniture and Related Product Manufacturing	√				
339. Miscellaneous Manufacturing	√				
Sector 48-49 Transportation and Warehousing					
481. Air Transportation		√			
482. Rail Transportation		√			
483. Water Transportation		√			
484. Truck Transportation		√			
493. Warehousing and Storage		√			

San Diego Base Sectors, Subsectors, Industries, and Industry Clusters

Terms	EDS Base Sector Category Required by Council Policy 900-01 "Economic Development"[1]				
	Manufacturing	International Trade & Logistics	Military	Tourism	Appendix A Other Base Sector Industries
Selected NAICS Sectors, Subsectors, and Industries [5]					
Sector 51. Information					√
511. Publishing Industries					√
513. Broadcasting and Telecommunications					√
514. Information Services and Data Processing Services					√
Sector 54. Professional, Scientific, and Technical Services					
5417. Scientific Research and Development Services					√
Sector 71. Art, Entertainment, and Recreation					
712. Museums, Historical Sites, and Similar Institutions				√	
713110. Amusement and Theme Parks				√	
Sector 72. Accommodation and Food Services				√	
721. Accommodation				√	
722. Food Services and Drinking Places				√	
Sector 92. Public Administration					
928. National Security and International Affairs			√		

[1] Adopted by San Diego City Council in 2012 following recommendation of approval by the City Council's Economic Development & Strategies Committee.

[2] Prepared by the San Diego Association of Governments – Service Bureau, 2012. These clusters are based on groups of NAICS industries.

[3] Prepared by the San Diego Regional Economic Development Corp., 2012, listed on website.

[4] Terms currently used by the Maritime Alliance, the Security Network, the West Health Institute, San Diego CyberHive, CONNECT, San Diego Regional Chamber of Commerce, and other organizations.

[5] The North American Industry Classification System (NAICS) was prepared by the United States Office of Management and Budget in 1997 and adopted by the governments of the United States, Mexico, and Canada in 1997 and 1998. It is used by most state and local governments and research institutes since Census data is aggregated according to these classifications throughout North America.

San Diego's Competitive Situation

Figure 8 displays the 15 metro areas that compete with San Diego directly in at least one of the four base industries. All 15 have highly educated workforces. Nine are located in or near bay/harbor areas. Four are direct competitors in three of four base industries. Of these four, two are in California and a third is elsewhere on the West Coast.

Figure 8: Metropolitan Statistical Areas Which Compete with San Diego for Economic Activity

15 Competing Metropolitan Statistical Areas ≥ 1 Million Population (# = MSA size ranking)	Competes With San Diego Based on Attractiveness to:			
	Managers of International Trade/Logistics Businesses	Managers of Manufacturing Businesses and Research Firms	Tourists and Convention Planners	Military Officers and DoD Civilians
#02 Los Angeles-Long Beach-Santa Ana (3)	√	√	√	
#04 Dallas-Fort Worth-Arlington	√	√		
#07 Miami-Fort Lauderdale-Pompano Beach	√	√	√	
#08 Washington-Arlington-Alexandria		√		√
#10 Boston-Cambridge-Quincy		√		
#12 San Francisco-Oakland-Fremont	√	√	√	
#13 Phoenix-Mesa-Scottsdale		√		
#14 Riverside-San Bernardino-Ontario	√			
#15 Seattle-Tacoma-Bellevue	√	√	√	
#21 Denver-Aurora		√		
#23 Portland-Vancouver-Beaverton		√		
#31 San Jose-Sunnyvale-Santa Clara		√		
#34 Virginia Beach-Norfolk-Newport News		√		√
#37 Austin-Round Rock		√		
#49 Raleigh-Cary		√		
#17 San Diego-Carlsbad-San Marcos	√	√	√	√

Red Type = Competes in three of San Diego's four primary economic base segments
Blue Type = Competes in two of San Diego's four primary economic base segments
Black Type = Competes in one of San Diego's four primary economic base segments

Comparative Advantages

San Diego has many advantages when attracting and retaining companies. These include the following:

- Local universities, colleges, and trade schools provide a highly skilled and educated workforce.
- Collaboration between industry and educational institutions contribute to an environment where businesses can source a productive workforce.
- Employees are able to enjoy the moderate coastal ("Mediterranean") climate of the region, making it an attractive place to live, work, and play.
- The City is also home to established business clusters with strong support networks. Trade organizations, labor organizations, chambers of commerce, and other non-profit organizations provide training, networking, advocacy, and bulk purchasing services to member companies. Unions and other employee organizations help to create labor force stability and re-employment networks.

- The City is a gateway to Asia, Latin America and, most particularly Baja California, Mexico. With an active port, airport, and land ports of entry, San Diego is well situated for domestic and international trade.

Comparative Disadvantages

Despite these competitive advantages, San Diego also must deal with a number of competitive disadvantages that can make it difficult to attract and retain important businesses. Some of these are related to local market conditions and some are related to the business climate in California. These include:

- The high cost of living and especially the high cost of land. This cost manifests itself not only in high housing cost, which can be a burden to employees, but also in high prices for industrial land as well.
- High electricity and water costs relative to the other parts of the nation. This is due in part to the fact that San Diego imports approximately 80% of both.
- A more significant regulatory burden than can be found in other states.

These competitive disadvantages are not unique to San Diego. In fact, they are shared by most California cities. Hence, San Diego's competitive disadvantages are relative to the rest of the nation. San Diego is highly competitive within California.

Many of San Diego's competitive advantages - an educated labor force and high-level labor skills – are most important in industries and operations that operate at the top of the value chain, such as research and development functions, management. Industries that provide middle-income "blue collar" jobs aren't as dependent on these factors, and thus present a challenge when seeking to retain or expand those operations.

Existing Policies to Improve Competiveness

In 2008 the City adopted an updated General Plan which included a number of policies in several elements which were designed to ameliorate traffic congestion, high housing costs, the lack of available industrial land and to create an attractive, safe, pedestrian-oriented "City of Villages." Contemporary planning principles are embodied throughout the document, most notably in the Land Use Element, Urban Design Element, Economic Prosperity Element, Public Facilities Element, and the Mobility Element. The implementation of these policies could lead to more vibrant communities, each with distinct identities, but linked through modern cost-effective transit and transportation options. The creative adaptive re-use of existing structures and the rebuilding of City infrastructure will not only lead to a better quality of life for City residents, but can help to retain skilled workers which are important for the success of innovative manufacturing enterprises, and is essential for the attraction of tourists. A summary of these General Plan policies is found in Appendix J: General Plan Policies which support the Economic Development Strategy.

4-1. Manufacturing and Innovation

San Diego has one of the largest manufacturing economies in the nation, and – in large part because of its connection to the region's innovation economy – manufacturing is well-positioned to grow in the future.

According to the National University System Institute for Policy Research (NUSIPR), the manufacturing sector is the largest single driver of the San Diego economy, contributing approximately $15 billion annually to the Gross Regional Product (GRP). In addition, the Brookings Institution recently found that San Diego has the highest-value export products of any U.S. city, in large part because of the export of high-end manufactured products such as wireless telecommunications equipment.

Manufacturing is especially important to San Diego for two reasons: compensation and the multiplier effect. Manufacturing jobs typically pay middle-income wage and include fringe benefits such as medical insurance. They are more likely than other jobs to be filled by local residents. In addition, manufacturing's multiplier effect is extremely high – often between 3 and 7, compared with 1.5 to 2 for other industries. This means that every manufacturing job created results, indirectly, in the creation of 2 to 6 additional jobs in the other sectors of the local economy. Manufacturing also generates higher tax revenues than other industries because capital equipment is taxable – manufacturing is a heavy user of capital equipment – and because many manufacturers sell taxable goods to other businesses and organizations in California.

San Diego's manufacturing sector is unusually diverse, and generally includes the region's robust research and development ("R&D") activities. This sector is sometimes referred to as the "Innovation Economy," because it is closely linked to UC San Diego, private research institutions, and local incubators which often provide research and commercialization breakthroughs that can then be translated into new manufacturing opportunities. This is part of the reason why the Brookings Institution recently found that San Diego's exported goods are the highest-value in the nation. Major manufacturing industries include biotech and medical devices, cleantech, defense and security systems, electronics & telecommunications, and more recently, food and beverages. However, San Diego's manufacturers are not only engaged in research and development (R&D) and manufacturing, but also in sales, distribution, product servicing, and repair activities in a wide range of industries.

Although the local manufacturing sector has seen declines in recent years, San Diego continues to have a comparative advantage in attracting and retaining new investment in this sector for several reasons:

- Very high labor quality including ex-military personnel with security clearances.
- The continued presence of major primary research institutes and universities such as Sanford-Burnham, Salk, Scripps, UCSD, SDSU and related support organizations.
- A business culture of innovation, collaboration, and entrepreneurism which fosters the growth of smaller manufacturing businesses which produce goods for local, state, and west coast markets.
- Production-sharing opportunities based on close proximity to Mexico.

Industrial gas turbines manufactured at Solar Turbines in Centre City and Kearny Mesa

San Diego's traditional innovation and manufacturing strengths include wireless telecommunications equipment as well as biotech and precision medical devices, which are centered around Torrey Pines/La Jolla and Kearny Mesa and Mira Mesa. Emerging strengths include the "cleantech" industry, principally biofuels, solar energy systems, and clean gas turbines; food and beverage (especially craft brewing); and software and high-tech industries which are located in North City communities and in the downtown area.

Specific Challenges to Increasing Manufacturing & Innovation Employment

As stated above, San Diego as a whole has both competitive advantages and competitive disadvantages in attracting and retaining business overall. However, San Diego is at a disadvantage in the manufacturing and innovation sectors in particular because the City is running out of raw land and because the cost, supply and availability of water is a concern. As with other competitive disadvantages, these are not unique within California to San Diego; they are shared by other big California metropolitan areas, especially in coastal areas. Nevertheless, they are important concerns that must be addressed.

The City first identified a shortage of land for manufacturing in the 1970s. The 2008 General Plan identified and mapped Prime Industrial Land and adopted policy language calling for protection of such land.

As for water, manufacturing and related R&D activities consume large volumes of water for a variety of industrial processing functions such as cooling, rinsing, cleaning, and steam boiler make-up. In addition, the emerging food and beverage industry is water-intensive. But the cost of potable water has risen dramatically in recent years – greatly exceeding normal inflation adjustments – and is now significantly higher than in some competing cities. The City's reclaimed water production plant

provides an important source of relief from rising potable water prices for many manufacturers located in the northern part of the City.

Johnson & Johnson's La Jolla R&D laboratory is cooled using reclaimed water

Likewise, the City has adopted specific policies and statutes that encourage potable water conservation. SDMC 67.3804(f) provides a specific exemption from certain mandatory potable water conservation requirements for manufacturers and contract research organizations which conserve potable water and use reclaimed water for industrial use.

The City has made substantial recent investments in its potable water supply infrastructure in order to ensure the reliability of its water delivery infrastructure. Local storage and delivery infrastructure coupled with enhanced procurement of raw water has dramatically reduced the City's reliance on deliveries from the Metropolitan Water District (MWD) and ensures local control over water supplies during drought conditions. These investments and the subsequent reliability improvements can be expected to improve the City's attractiveness to water-dependent industries such as Biotechnology & Medical Devices and Food & Beverages.

4-2: International Trade & Logistics

As noted in the City's 2008 General Plan, international trade is the fastest-growing component of the nation's Gross Domestic Product ("GDP"), accounting for up to half of the nation's annual GDP growth in recent years. As a gateway to both Asia and Latin America, San Diego is unusually well-suited to capture a significant part of this economic growth.

San Diego is home to an international airport near downtown, an international airport just across the border in Tijuana, the 8th-largest seaport on the West Coast, and two major international land ports of entry – San Ysidro and Otay Mesa. San Ysidro is the busiest border crossing in the world, with some 40 million people and 17 million vehicles crossing northbound on an annual basis. At Otay Mesa, more than $20 billion a year in freight alone crosses the border. A 2013 analysis by the Brookings Institute concluded that the region's export values total close to $160 billion per year.

International Trade & Logistics is an industry group that encompasses a wide variety of related service-sector industries, business establishments, and governmental agencies such as the Port of San Diego and the San Diego Airport Authority, all of which facilitate the shipment of goods to and from the City. Businesses in this industry group include trucking companies, freight forwarders, customs brokers, air-freight operators, third-party logistics companies ("3PLs"), maquiladora servicing companies, translators, security firms, banks, international law firms, and government agencies which inspect and authorize shipments.

Many of these businesses are located in Otay Mesa industrial parks near the port-of-entry at the terminus of the 905 Freeway, where the vast majority of ground freight crosses the border from Mexico. Both ports of entry are being upgraded on both sides of the border. Any reduction in border crossing delays should result in increased economic benefits to San Diego. A 2007 study by the San Diego Association of Governments ("SANDAG") showed that the San Diego region lost approximately $539 million in gross revenues from reduced freight activity.

Logistics businesses are located in and around the downtown area in order to have close proximity to the Port of San Diego and the San Diego International Airport. San Diego International Airport has air freight capacity, non-stop service to Asia, Europe, Canada, and Mexico, and is the primary airport for the San Diego region. According to the Brookings Institute, three local industries, Computer & Electronics, Transportation Equipment, and Chemicals sent over $7 billion worth of goods abroad.[15] More information on San Diego's export potential can be found in Appendix I: Global San Diego Export Plan. These businesses and quasi-government agencies create thousands of middle-income jobs, which frequently do not require advanced college degrees or skill sets, thus making these jobs potentially available to most City residents.

As with Manufacturing, opportunities in International Trade & Logistics are closely related to other sectors of the economy. For example, as labor costs in Asia have risen, manufacturing in Mexico has become competitive again. The cost differential between Mexican and Asian labor has narrowed substantially while the quality of Mexican manufacturing and its proximity to the United States often

[15] Brooking Institution, Global San Diego Export Plan, p.8

makes "near-sourcing" of manufacturing back to Mexico worthwhile for American companies. This is especially beneficial to San Diego, which has traditionally had a close link between R&D and manufacturing. San Diego companies can take advantage of lower Mexican labor costs without sacrificing quality or access to the factory floor. As a result, in the last two years, several new distribution centers representing over one million square feet have been constructed in San Diego, mostly in Otay Mesa.

Bananas being off-loaded at the Port's 10th Avenue Marine Terminal

The Port of San Diego also facilitates international trade activity though its 10th Avenue Marine Terminal, which provides for the importation of a wide variety of bulk products and large pieces of equipment. These products include cement from China and Thailand; sand from Mexico; fertilizer from Norway; fresh fruit from Guatemala, Costa Rica, Peru, Ecuador, and Australia; steel products from Europe, Korea, and China; and wind turbines from the Great Lakes region.

The Port of San Diego is the West Coast's 8th largest port based on total tonnage shipped -6.5 million tons. Combined with National City Marine Terminal, these ports generate an economic impact estimated at $1.7 billion. The 96-acre 10th Avenue Marine Terminal provides 822 jobs at average wages totally $54,032 annually, 28% greater than the countywide average for all jobs.[16]

[16] NUSIPR, San Diego's Maritime Trade: A Critical Economic Engine, 2008, p.3

4-3. Military

The military has always played an important role in the San Diego economy, and over the past 50 years its presence has stimulated not only direct economic activity but important spinoff benefits in research and development. The military still plays an important role. The repair and maintenance of naval vessels provides thousands of jobs in Barrio Logan and Kearny Mesa at employers such as General Dynamics-NASSCO, BAE Systems, Northrop Grumman, and Pacific Ship Repair & Fabrication. Similarly, other defense contractors such as Lockheed Martin in Scripps Ranch are also dependent on the presence of the Pacific Fleet for its contract opportunities. It is important to note that San Diego-based manufacturers of military hardware such as ships, aircraft, and other defense and security systems are more "mobile" than defense contractors which solely or primarily provide services at local military installations. These defense system manufacturers are more likely to expand or relocate based on specific policies, incentives, cost structures, labor availability/skills, and overall perceptions of the local business climate. These businesses are addressed in the chapter on Manufacturing & Innovation.

San Diego must always be aware of both new initiatives and possible cutbacks at the Pentagon. Any increase or decrease in military activity – the number of ships, aircraft, military and civilian personnel – will affect these defense contractors and local service providers which fall within this sector of the local economy.

Any increase or decrease in the number of ships, aircraft, or military and federal civilian personnel will have a direct impact on some local defense contractors and on retail and service sector businesses that cater to these personnel.

New procurement opportunities may also arise from more recent non-traditional military initiatives. One such example of a military priority that is well suited for San Diego is the Great Green Fleet initiative. Launched by the Department of the Navy in 2009, this initiative seeks to replace half of the Navy's fossil-fuel procurement with renewable biofuels by 2020. Several demonstration projects have been undertaken and local biofuel companies may be well positioned to supply the Navy.

4-4. Tourism

In part because of its warm coastal climate, San Diego is the 5th-ranked leisure tourism destination and the 10th-ranked business destination in the United States, competing with similar cities such as Los Angeles, San Francisco, Seattle, and Miami. The San Diego Convention Center hosts more than 200 events per year and the city's ability to compete for conventions will increase when the pending expansion is completed. The San Diego Zoo is world-renowned, and Spanish-era facilities in and near Mission Valley and Old Town provide cultural tourism attractions. San Diego's emerging beer manufacturing industry also augments this sector, drawing in thousands of beer aficionados to industry events as well as local breweries and brewpubs.

The economic impact statistics are impressive. San Diego reportedly attracts 31 million visitors a year spending billions annually in the local economy. Tourism employs 160,000 San Diegans, and generates $8 billion of GRP, making it the third-largest economic sector in the region after manufacturing and the military.

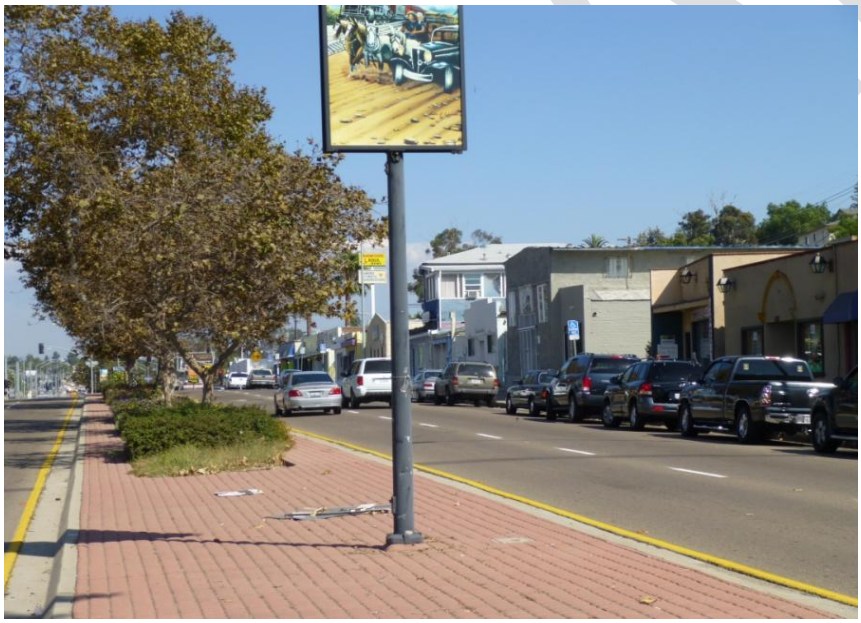
Because the U.S. tourism economy is so competitive, however, San Diego faces constant challenges in retaining its position. Cities across the country are continually improving both their marketing efforts and their visitor facilities, meaning San Diego must do the same. San Diego is taking many steps to keep up. The Tourism Marketing District provides funds to promote San Diego to outside visitors. The expansion of the Convention Center will help San Diego remain competitive in drawing business travelers, attracting new events, and retaining large events like ComiCon.

5. San Diego's Neighborhood Businesses

San Diego is well-situated to encourage small local businesses and startup companies, especially in the city's many distinctive older commercial corridors and districts. Although most of these businesses serve local customers and are not part of the "economic base," they can play a powerful role in both strengthening the local economy and creating renewed vitality in the city's older neighborhood-based business districts.

Neighborhood retail businesses provide significant economic benefits to the city and its residents. Not only do they provide goods and services conveniently on a neighborhood scale, but they can help retain money in the local economy that flows into the region through base industries.

A large corporate retailer typically exports wealth out of the region -- undercutting the economic benefit of base industries, which import wealth into the region from other places. Small retail firms can protect against this outflow of wealth. The owners of small retail stores typically live in the local community and frequently spend their revenue and profits buying goods and services locally – both for their business and for themselves. Some estimates indicate that profits expended locally by a locally owned small business are re-circulated within the local economy 4-7 times before the money leaves the local economy through capital accumulation.

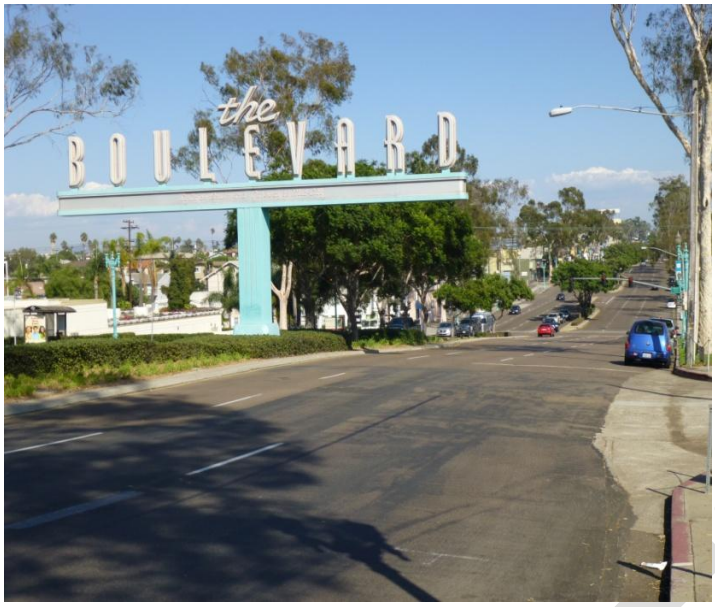


Imperial Avenue in the Diamond BID

San Diego has a wide range of older commercial corridors and districts that provide a distinctive character and have the potential to anchor revitalization of the surrounding neighborhoods.

These operations tend to occupy older structures in "Main Street" corridors located throughout the City, with the majority found between Adams Avenue in the north to Imperial Avenue in the south.

These older commercial corridors offer a richer shopping experience that often includes authentic and diverse dining and entertainment experiences. Special events such as street fairs, restaurant walks, and farmers markets offer residents and shoppers opportunities to experience the individual characteristics of the commercial neighborhoods.



El Cajon Boulevard in North Park

In some neighborhoods – such as Downtown, Hillcrest, and North Park – neighborhood small businesses have already helped to bring these neighborhoods back. In other neighborhoods, the potential has not been realized as strongly.

By creating opportunities for entrepreneurship and encouraging small businesses to succeed, not only are new jobs created but commercial corridors are revitalized and surrounding neighborhoods are stabilized, which facilitates further economic development in accordance with General Plan Policy EP-B.2.

Another key element in developing the small business economy is encouraging micro-businesses such as home-based businesses. Such businesses may be the predecessors of larger businesses that relocate into office or retail space or they may remain small but provide employment that supports the City's General Plan Policy EP-B.8. Strong neighborhood business districts yield increased sales-tax receipts from tourist shopping as well as increased property tax revenue resulting from increased property values in the business districts themselves and surrounding residential neighborhoods.

The City's business license tax structure already recognizes the importance of small businesses. Approximately 93% of the 90,000 licensed businesses in the City have 12 or fewer employees. These businesses pay a business license tax of only $34 per year, compared to $125 plus $5 per additional employee for businesses with 13 or more employees. General Funds of approximately $20 per licensed small business are used to support the City's Office of Small Business, which provides technical assistance to small and startup businesses and also runs many programs intended to benefit retailers in the city's older commercial corridors and commercial districts.

South Park's 30th St/.Fern St. commercial corridor

In addition, the City works closely to oversee and support 17 non-profit business associations who manage the City's 18 business improvement districts, or BIDs, which assist neighborhood businesses in working together to strengthen their business districts. The City also helps many of these non-profit business associations to manage and operate property-based assessment districts and parking districts, which provide additional sources of revenue to promote neighborhood businesses and commercial neighborhood revitalization. Assessment Districts generate funding for promotion of tourism, development of economic opportunities, and for clean and safe programs which benefit more than 12,000 businesses and 17,600 property owners in 20 neighborhoods. Unfortunately, the formation and operation of Assessment Districts has been impacted by recent case law which has created uncertainty in this area. The Community Parking District program facilitates development of local solutions to mitigate parking-related impacts which may be dampening economic activity.

The City also provides a wide variety of other business and housing programs aimed at revitalizing older neighborhoods in need of investment. Many of these programs, such as the Community Development Block Grant program, are funded by the U.S. Department of Housing & Urban Development. However, neighborhood revitalization in San Diego suffered a significant blow in 2012 when California eliminated redevelopment, which provided tax-increment financing as a source of funding for investment in such neighborhoods. The CDBG program is scheduled to receive $78 million in payments from the former redevelopment program to further strengthen neighborhood revitalization efforts, though these payments are currently being challenged by the state Department of Finance.

6. Efforts to Support Economic Development

In order to implement the economic development efforts described above, the City can and should undertake renewed and re-focused efforts in four areas that affect business growth and prosperity. These are:

1. The City's Tax Structure
2. City Policies, Procedures, and Operations
3. Workforce Development & Education
4. City Relationships to External Organizations

6-1. The City's Tax Structure

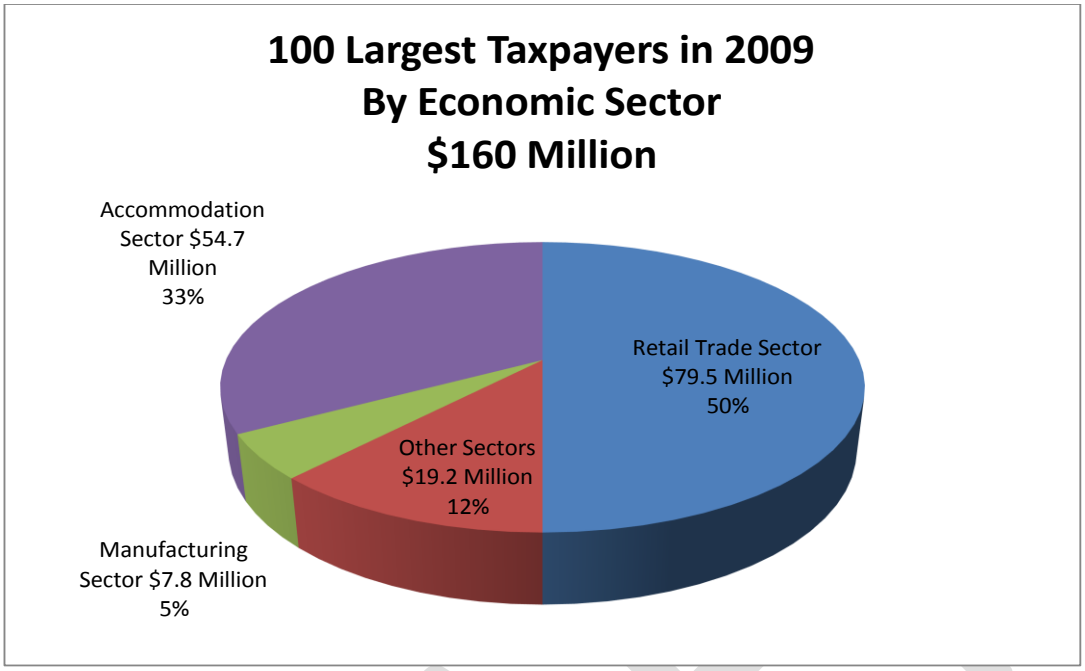
The City's economic development efforts are undermined by relatively heavier taxation of base sector industries, especially hoteliers and manufacturers. To a large extent, this disconnect is created by California's tax structure, which limits local governments' ability to rely on property value appreciation as a revenue source and depends largely on the sale of tangible goods to sustain its tax base. As a result, California cities' economic development efforts tend to focus on businesses that engage in retail transactions in order to obtain Sales Tax.

Under the current local tax structure, the City's solvency depends heavily on tourism, manufacturing, and retailing. Manufacturing in particular – especially medical device and equipment manufacturing -- generates a significant amount of sales and use tax. Yet as Figure 8 shows, there is no logical relationship between (1) wages/salaries; (2) the tax burden; and (3) whether or not an economic sector is part of the economic base. So, for example, manufacturing – which pays middle-high wages and is part of the economic base – also has a high tax burden.

Figure 8: Wages & Tax Burdens by Economic Sector

Sector	Wages/Salaries	Tax Burden	Economic Base
Tourism	Low	High	Yes
Manufacturing	Middle-High	High	Yes
Retail	Low	High	No
Services	Middle-High	Low	No

Figure 9: Local Tax Distribution by Economic Sector



The City's business tax structure relies more heavily on the retail, food service, accommodation, and manufacturing sectors than on service sector establishments. The City's Business Tax is $5 per employee, but the cost to provide city services is approximately $200 per employee. Therefore, the current City tax structure favors businesses – such as those in the service sector – that pay only the Business Tax, but not Sales, Use or Transient Occupancy Taxes, at the expense of base sector businesses – such as manufacturing, retailing, and tourism – that must pay those other taxes.

Manufacturers must pay sales and use tax on expensive machinery as well as collecting sales tax on taxable goods sold. In the accommodation sector, hoteliers must pay sales and Transient Occupancy Taxes collected from visitors. Restaurants, including those catering to tourists, must also pay sales taxes on food sold. As shown in Figure 9 above, Manufacturing and Tourism (both base sectors), are bearing a disproportionate share of local taxes. Manufacturing is the most important source of middle-income jobs.

Additionally, the City's fiscal and economic development policies and programs have been significantly disconnected from its land use, utility, and other policies. One exception has been the General Plan and many of its associated community plans, which have emphasized the importance of manufacturing and wholesale trade. The City used to require a fiscal impact analysis for major development projects. This requirement has been removed from the Municipal Code, although the city still requires a fiscal and market study for discretionary approval of certain large retail establishments and occasionally requests fiscal impact analyses for other large discretionary projects.

Tax equity that is consistent with this economic development strategy could be achieved by gradually restructuring the local tax burden away from base sector industries such as tourism and manufacturing, and towards the service sector. As an example, any increase to the $5/employee Business Tax could be off-set with tax credits for Sales, Use and Transient Occupancy Taxes paid. As high ener-

gy, water, and real estate costs drive a shift from the production of goods towards the provision of services, a more equitable tax structure could provide for long-term fiscal stability and funding for infrastructure improvements, which would in turn make the City more attractive for all types of commercial and industrial investment.

A more balanced and sustainable tax structure could also allow for the creation of other new innovative economic development programs. For instance the City could create its own Enterprise Zones in older areas of the City where market-based impediments have resulted in a lack of new commercial and industrial investment.

6-2. City, Policies, Procedures & Operations

The key economic sectors described above rely on a wide variety of City services and operations to succeed as follows:

- Transportation, including streets and freeways, rail and bus transit, airports, and ports.
- City telecommunications facilities,
- Citywide water, sewer, and stormwater system
- Emergency facilities
- Police and fire services
- Sanitation and recycling
- Parks and open space
- Zoning and code compliance
- City capital improvement projects
- City contracting and procurement
- Management of city-owned real estate
- Issuing permits and licenses
- Creation and management of special districts

The chart and descriptions below provide some examples of how these departments interact with businesses in ways which can influence private business investment decisions and can impact overall economic prosperity.

Figure 10: Key City Departments Affecting Economic Development Efforts

Key City Department	Building & Development Permit Approvals	Licensing	Infrastructure and Tourist Attractions	Business Use of City Property	Procurement and Financial Services to Businesses	Management of Assessment Districts
Economic Development			√			√
Planning	√					
Development Services	√	√				
Public Utilities	√	√	√	√		
Real Estate Assets				√		√
Fire Rescue	√	√				
Police		√				
Purchasing & Contracting				√	√	√
Transportation & Storm Water	√	√				
Environmental Services				√		
Engineering & Capital Projects			√			
City Treasurer		√			√	√
Parks & Recreation			√	√		√
Debt Management					√	√

These departments and functions affecting economic development efforts are described in more detail in Appendix D: Internal Operational Guidance & Coordination.

6-3. Workforce Development & Education

It is almost impossible to overstate the importance of having a highly skilled workforce to meet staff business operations. As technology transforms the way products are developed, manufactured, delivered and sold in a global marketplace, the ability of businesses to access qualified human resources is paramount. Equipping the future workforce with the tools to meet the talent needs of the base-sector industries will help attract, retain, and encourage expansion of these companies as well as increase City residents' standard of living.

Figure 8: Projected Employment Growth Within San Diego County (By Industry Cluster/Sector)

Sector/Cluster	2012 Jobs	2015 Jobs	2018 Jobs	Additional Jobs by 2018	% Change	2012 Establishments	2012 Avg. Annual Wage
Largest Growth							
Construction	137,738	148,546	158,019	20,281	15%	8,536	$95,635
Health Care	137,915	148,477	156,347	18,432	13%	7,520	$61,825
Entertainment and Hospitality **(Tourism)***	162,516	172,262	180,579	18,063	11%	6,737	$26,080
Rapidly Growing							
Life Sciences **(Biotech & Medical Devices)***	50,574	56,635	60,239	9,665	19%	1,059	$145,060
Info & Communication Tech **(Electronics & Telecommunications, Software & Web Development)***	81,836	85,334	89,117	7,281	9%	3,138	$124,539
Aerospace, Navigation & Maritime Tech **(Defense & Security Systems)***	26,603	28,688	30,115	3,512	13%	456	$106,772
Emerging							
Advanced Precision Manufacturing **(Manufacturing)***	4,591	4,856	5,193	602	13%	278	$56,036
Specialty Foods & Microbreweries **(Food & Beverage Production)***	1,690	1,857	1,986	296	18%	40	$60,443
Total Additional Jobs by 2018				**60,069**			

*Sector/cluster names that correlate with City of San Diego Economic Development Strategy.
Source: QCEW Employees, Non-QCEW Employees & Self-Employed - EMSI 2013.1 Class of Worker
Data compiled by the San Diego Workforce Partnership, March 2013

The City does not directly provide either education or job training except for training and education programs provided to its own employees. However, the City has strong relationships with educational institutions and entities such as the San Diego Workforce Partnership and it is well positioned to work with public and private organizations.

6-4. City Relationships with External Organizations

San Diego's businesses are served by numerous non-profit organizations, including membership-focused trade organizations, chambers of commerce, economic development organizations, labor organizations, and unique service providers. Most of these organizations cater to businesses in a single economic sector, such as accommodation or manufacturing, or to a single or related group of industries such as biotechnology or cleantech. The City's relationship with some of these organizations, especially with regard to industrial development, is delineated in Council Policy 900-04.

The City's relationship with these external organizations is very important. The City exchanges information with these organizations on a regular basis and can also play an important convening and coordinating role to maximize the effectiveness of these organizations and the value of the relationships with them. A list of this organizations is included in **Appendix F: List of External Stakeholder Organizations.**

Appendix A: Base Sector Economic Engines

Military

The City has a long history of working with the Department of the Navy, including the Pacific Fleet, the United States Marine Corps (USMC), the Space and Naval Warfare Systems Command (SPAWAR), along with several other commands.

United States Navy (USN)

The U.S. Navy continues to operate a number of major installations in San Diego. These include: the Naval Station San Diego located in Barrio Logan stretching into National City; the Space and Naval Warfare Systems Command (SPAWAR) in the Midway area; and smaller facilities located in downtown, Point Loma, and Kearny Mesa. Installations in nearby cities of Coronado and Imperial Beach provide additional payroll spending and local contracting opportunities. The Navy has stationed well over 100,000 military and civilian personnel throughout the County, most of these in the City of San Diego.

Naval Base San Diego

The Naval Base San Diego (aka "32nd St. Naval Station") is located in Barrio Logan and in the harbor area of neighboring National City. It is the principal harbor for the Pacific Fleet and includes berths for over 46 U.S. Navy cruisers, destroyer, frigates and support vessels, as well as 12 additional U.S. Coast Guard and Military Sealift Command ships. 30,000 military personnel and contractors are stationed or employed here, thus providing significant payroll expenditures to support local retailers and service sector businesses. Ship repair, fueling, and procurement activities create many civilian jobs within military service contractor businesses in nearby areas of the City.[17]

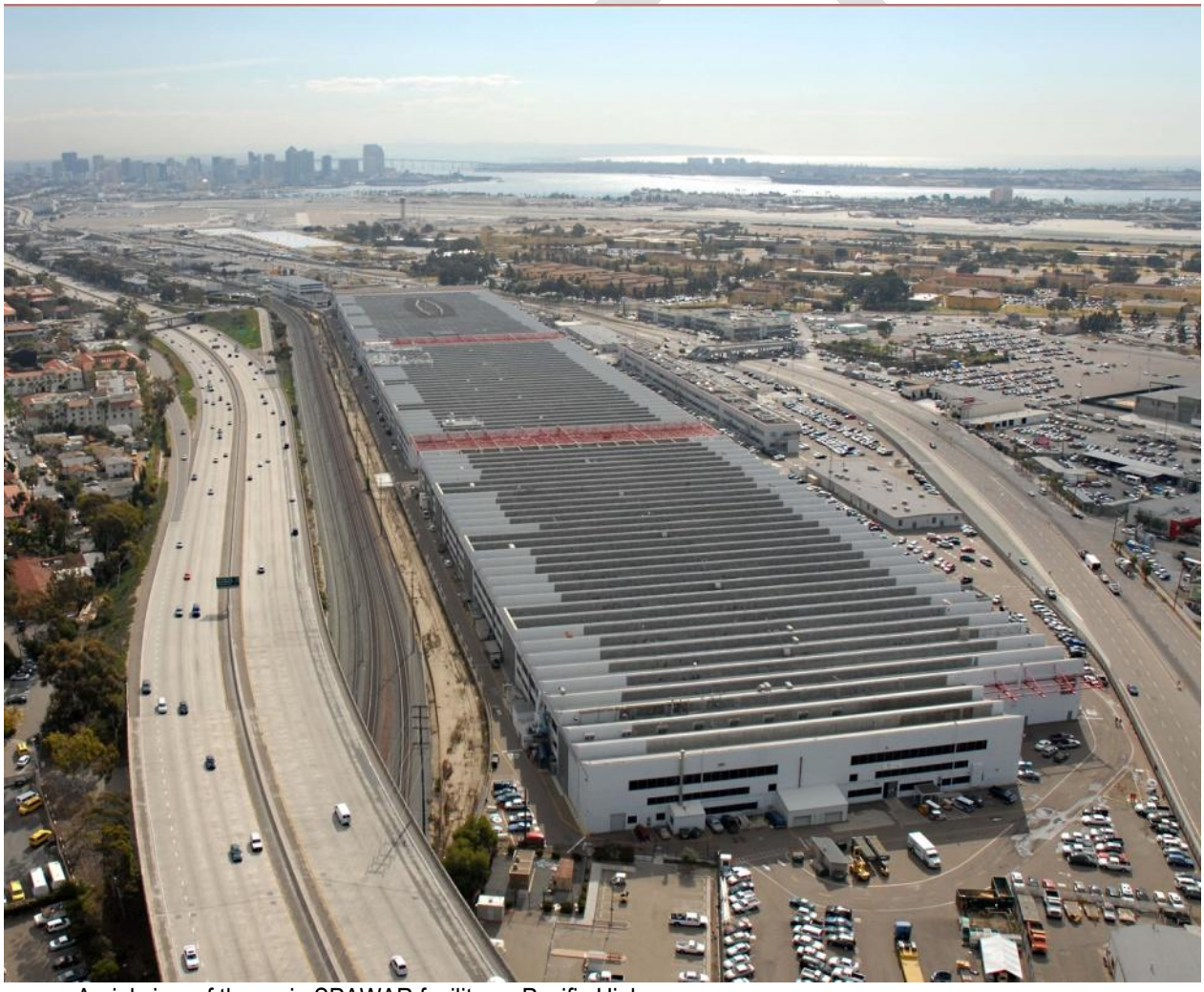
[17] Naval Base San Diego (photo credit United States Navy, CNIC Naval Base San Diego website)

Space and Naval Warfare Systems Command (SPAWAR)

The SPAWAR installation has over 4,500 military and civilian employees many of them highly paid engineers. SPAWAR's overall economic impact is even greater since it contracts with many local defense contractors for additional goods and services.

The Department of the Navy has announced its intention to expand and construct new facilities throughout the County ensuring a long-term presence. The U.S. Navy has continued to move additional warships to its San Diego and Coronado port facilities which not only increases local payroll expenditures but provides significant new ship repair/maintenance contracts for local businesses.

The Department of the Navy has indicated to local contractors that it intends to continue to have a large physical presence in San Diego County and to retain those existing San Diego installations that are currently operating. This large physical presence means that these military installations will remain a pillar of stability for the local economy.



Aerial view of the main SPAWAR facility on Pacific Highway

United States Marine Corps. (USMC)

The U.S. Marine Corps. continues to operate the Marine Corps Recruit Depot adjacent to San Diego Bay, one of only two such training facilities in the nation, and the Marine Corps Air Station (MCAS) Miramar. Payroll spending from a larger contingent of Marines stationed at nearby Camp Pendelton in Oceanside also contributes to the regional economy which benefits San Diego retailers and service sector businesses. The USMC has stationed over 56,000 Marines primarily in these three locations.

Marine Corps Recruit Depot (MCRD)

The Marine Corps Recruit Depot is located between the communities of Point Loma and Midway-Pacific Highway on 388 acres of reclaimed tidelands. One of only two such facilities in the nation, MCRD provides training to USMC recruits in a "boot camp" environment. MCRD provides economic stimulus through payroll and procurement plus the positive fiscal and economic impacts resulting from visiting families at graduation times. Known for its unique Spanish colonial revival style appearance, the overall site and specific building plans were developed by renowned architect, Bertram Goodhue, who also designed the buildings built in San Diego's Balboa Park for the 1915 Panama-California Exposition. Twenty-five of the Depot's buildings are on the National Register of Historic Places.

Marine recruits marching during promotion ceremony at Marine Corps Recruit Depot – San Diego ("MCRD")

Marine Corps Air Station Miramar (MCAS Miramar)

Marine Corps Air Station Miramar ("MCAS Miramar") is located on 23,116 acres between the communities of Mira Mesa and Kearny Mesa in the northern part of the City. This airbase is home to the USMC's 3rd Marine Aircraft Wing and its 15,000 military and civilian personnel.

Aerial view of Marine Corps. Air Station Miramar (MCAS Miramar)

MCAS Miramar

Additional Information

Additional information about the impact of the Department of the Navy can be found at:

http://www.sdmac.org/2010SDMACMilitaryEconomicImpactStudy.aspx

Tourism

In a national survey by the U.S. News and World Report ranking the best vacation spots in the U.S. and the world for 2011, San Diego ranked third in the nation and 18th in the world. San Diego ranked high in vacation destinations due to its weather, beautiful beaches, and its ability to retain its small City feel making it a popular destination for families looking for a relaxing vacation.

Major Attractions

Although tourism in San Diego has seen declines due to the recent recession, visitor related industries will to continue to be a major driver of the local economy. Significant attractions include the San Diego Zoo, Sea World, Seaport Village, the Gaslamp Quarter, Old Town, Mission Bay, Petco Park, Qualcomm Stadium, La Jolla Cove, Convention Center, and of course the City's world-renowned beaches.

Cultural Tourism

San Diego is the oldest City in California, claimed for Spain in 1542 by explorer Juan Cabrillo with the first settlements established in 1769 at the Fort Presidio and San Diego Mission de Alcala. San Diego became part of Mexico as a result of that nation's independence in 1821 and later became part of the United States in 1850. Both Fort Presidio and Mission San Diego de Alcala are listed as National Historic Landmarks as are many of the older structures in Old Town and Balboa Park. San Diego's Spanish heritage as seen through these historic structures and the grounds surrounding them are cornerstones of the City's cultural tourism. The 19th century buildings in Old Town have been painstakingly restored and most are operated today as restaurants and gift shops. Balboa Park, reportedly boasts the largest complex of museums other than the Smithsonian in Washington DC. The adjacent City of Tijuanain Mexico is a short drive or train ride away. Visitors can easily tour and enjoy these facilities as well as visit the pedestrian-oriented City of Tijuana in a single day.

Mission San Diego de Alcala in Mission Valley

Promotions

Marketing of major events and facilities is funded in part through the Tourism Marketing District ("TMD"), a business assessment district which levies a fee on hotel room nights for this purpose. Funding is also provided from the City's Transient Occupancy Tax ("TOT") Fund through the Economic Development & Tourism Support Program ("EDTS").

Public Benefits

In addition to the economic impacts described above, tourism related business establishments such as hotels, motels, restaurants and boutique retail outlets generate significant tax revenues for the City's General Fund. The City receives a share of property tax paid by these businesses, a 1% local sales tax, and most significantly, all of the 10.5% Transient Occupancy Tax (TOT) levied on visitors staying at local hotels and motels. The City received $150 million in TOT revenue in FY2012.

Additional Information

Additional information about the economic impact of the tourism industries can be at:
http://www.sandiego.org/nav/Media/ResearchAndReports

Manufacturing

Medical test kits being packaged in a clean room at Gen-Probe Corp.

Biotech & Medical Devices

Biotech industries have existed in San Diego since the late 1960's, but did not experience much growth outside of medical devices until the 1980's. The biotechnology industry cluster is mainly comprised of three basic industries: drugs, diagnostics, and devices. Companies such as Alere, CareFusion, Gen-Probe, Illumina, and Shire operate major manufacturing plants. Drug manufacturers Amylin Pharmaceuticals, Johnson & Johnson, Novartis, and Pfizer continue to operate major research laboratories in the University Community area.

Additionally, a significant number of "toolbox" companies which produce drug screening and discovery devices, reagents, and other bio-chemicals provide a complementary and supportive business environment. The drug industry has been characterized by a high degree of risk, reward, and volatility. This environment is manifest through a massive number of start-ups, spin-offs, and mergers & acquisitions resulting in some degree of employment fluctuation. In contrast, the diagnostic, device, and "toolbox" industries are characterized by stability and steady growth. These industries contain the majority of actual biotech manufacturing jobs. In addition, devices and diagnostic products are subject to sales tax, which also has the added benefit of generating substantial tax revenues for the General Fund.

Despite the high costs of doing business in California, the biotechnology industry still finds San Diego an attractive location for R&D and some types of manufacturing. Manufacturing creates middle income jobs opportunities and in many instances creates sales, use, and property tax revenue for the City's General Fund. Despite the volatility described above, this industry cluster has remained a significant economic engine within the City and by almost any measure is ranked as the nation's third largest biotechnology cluster.

Cleantech

The cleantech industry cluster in San Diego is comprised of a number of industries which are engaged in the development, manufacturing, distribution, and installation of products which produce renewable energy, clean energy, energy efficiency, energy storage, biofuels, or other products which reduce pollution and/or natural resource depletion worldwide. Many of these businesses also provide a range of closely related services to governments, other businesses, or individual consumers.

New Leaf Biofuel in Barrio Logan produces biodiesel from used cooking oil collected from restaurants throughout San Diego County.

Solar tracker assembly line at Soitec Solar Industries in Rancho Bernardo

The market is driven by state and national mandates, such as AB 32, and by state and national subsidies for the manufacturing or consumption of cleantech products such as solar panels and biofuels.

San Diego's cleantech businesses include primarily solar energy, biofuel, water purification, and energy efficiency systems manufacturers. San Diego's solar industry includes two major manufacturers, Soitec Solar Industries and Kyocera Solar, plus dozens of related businesses engaged in the financing, operating, and installation of solar energy systems used by homeowners, businesses, gov-

ernments, and investor owned utilities such as SDG&E. The biofuel industry includes one small manufacturer, New Leaf Biofuel, which is already producing on a commercial scale in the Barrio Logan community. Additionally, others such as; Menem International, Sapphire Energy, Synthetic Genomics, and General Atomics are developing a new generation of biofuels from certain strains of algae or cellulosic materials. In 2009, the University of California at San Diego established the San Diego Center for Algae Biotechnology (SD-CAB) to further the development of innovative research solutions for the commercialization of fuel production from algae.

Much like biotech and other high-tech industries, cleantech businesses are attracted to San Diego because of its highly skilled and highly educated workforce, and because of its culture of entrepreneurship, innovation, and collaboration. San Diego's abundant sunshine creates a natural market for the solar industry. Collaboration between government and industry on cleantech initiatives and the success of CleanTECH San Diego (a local trade organization), has spurred growth in this industry cluster.

In the near term, the Cleantech industry cluster will continue to be driven by a combination of federal, state, and local mandates for renewable energy and energy conservation; procurement of cleantech products by government agencies; and the provision of ratepayer and taxpayer subsidies. In the long term, consumers may increasingly seek cleantech products as they become more cost-effective as compared to fossil-based alternatives. Most cleantech products require a highly skilled and highly educated labor force to develop and produce, and San Diego clearly has such a labor force.

Employee checking biofuel tanks at Menom International in Rancho Bernardo

Defense & Security Systems

Four of the City's 10 largest employers are in the Defense & Security Systems industry cluster and operate as defense contractors: General Atomics, General Dynamics, Northrop Grumman, and Science Applications International Corp. ("SAIC"). Dozens of smaller and medium-sized defense contractors and sub-contractors contribute to a cluster of related industries, such as manufacturing unmanned aerial vehicles (UAV's), aerospace components, avionics, "C4ISR" systems, and other products sold to the U.S. Departments of Defense, Homeland Security, and foreign governments.

During the early 1990's the end of the cold war resulted in a fairly massive and rapid reduction of the number of defense contracts let by the U.S government. Rising energy and insurance costs in California squeezed margins to the point that major aerospace contractors like General Dynamics decided to close or downsize operations which had been in existence for decades. This resulted in a shock to the local economy due to the loss of tens of thousands of jobs.

While the talk of defense conversion was a way for some impacted companies to convert to new markets, many San Diego defense contractors adapted by developing more sophisticated products with greater profit margins consistent with advancements in military science and military intelligence. As such, San Diego's defense contractors remain strong.

Parts for the Predator unmanned aerial vehicle (UAV) are manufactured by General Atomics Aeronautical Systems at factories in Rancho Bernardo and Sabre Springs.

In 2011 they employed tens of thousands of San Diegans in fulfillment of contract values exceeding $11 billion, a figure that according to NUSIPR represents 14% of Gross Regional Product ("GRP"). The fastest growth has occurred in the manufacturing of aerospace systems and components which increased in local contract value from $56 million in 2001 to over $2.9 billion in 2011. Most of this astounding growth has occurred within one industry – the manufacturing of unmanned aerial vehicles (UAV's) and related systems. This industry currently amounts to almost half of local aerospace contract value and nearly 12% of the total defense contract values fulfilled in San Diego. San Diego has emerged as a global leader in UAV development and production, and is probably the epicenter of this rapidly growing industry. General Atomics is now San Diego's largest defense contractor and second largest manufacturer with almost 7,400 employees. Northrop Grumman, which operates

several UAV R&D facilities in Rancho Bernardo employs almost 5,000 locally in several divisions. Other San Diego defense plants and labs operated by L-3, BAE Systems, and SAIC supply components and major sub-systems for UAV and other defense systems as well. NUSIPR estimates that the development and manufacturing of UAV's in San Diego results in total employment of over 7,000 people and total economic impacts of approximately $2.3 billion.[18] Raytheon, Lockheed-Martin, and ATK also operate major plants and labs employing hundreds more San Diegans at each location.

San Diego has the only major shipbuilding operation on the west coast of the United States. This operation has been located in Barrio Logan since 1960 and is operated by General Dynamics NASSCO as a result of General Dynamics acquisition of the former National Steel And Shipbuilding Company.

This major manufacturing operation employs over 3,600- mostly unionized blue collar workers. While General Dynamics NASSCO produces some commercial ships, the majority are warships and support vessels built for the U.S. Navy. General Dynamics NASSCO also performs repair work for commercial and naval ships. It is a unique, important and very special asset for the City. "Cyber security" firms (discussed below) often get contracts to supply software/IT solutions to the Department of Defense.

San Diego is still competitive in the attraction of defense contractors. The shipyards of Barrio Logan are the only major waterfront shipbuilding operations on the West Coast. The unmanned aircraft industry has most of its R&D and manufacturing operations in or near San Diego. The presence of the military installations provides numerous contract fulfillment opportunities and defense contractors have unparalleled access to military veterans who are not only highly skilled in the use of military equipment, but also frequently possess expensive Secret and Top Secret security clearances upon discharge.

[18] NUSIPR, Unmanned Aerial Vehicles – An Assessment of their Impact on San Diego's Defense Company, prepared for San Diego North Chamber of Commerce, 2012, p.11

Electronics & Telecommunications

Electronics and telecommunications businesses have been a major part of San Diego's economy since National Cash Register (NCR) built its massive 113-acre computer manufacturing plant in Rancho Bernardo in 1968. In the early 1970's Kyocera, Sony Electronics, and Hewlett-Packard soon followed, creating a wave of new investments in semiconductors, circuit boards, computer peripherals, and a wide variety of electronic components, integrated systems, and other products throughout the 1980's. All of these industry leaders still have major headquarters (HQ), research & development (R&D), and manufacturing operations in the San Diego communities of Rancho Bernardo and Kearny Mesa.

During the 1990s several companies, which had developed advanced wireless communications technologies for military or security applications, launched commercial endeavors, such as the manufacturing and commercialization of cellular telephones, data storage and encryption products, and technologies. These endeavors, along with the development and manufacturing of other products, ushered in a new wave of investment in these and related industries such as software and web development.

Large printers assembled at Hewlett-Packard Co. in Rancho Bernardo

By 2000, the "tech wreck" combined with energy deregulation, and rapidly escalating California Workmen's Compensation insurance costs, led to a series of devastating plant closures in the local semiconductor, circuit board, and television industries. Between 2000 and 2005 over 10,000 job losses occurred in Rancho Bernardo, Mira Mesa, and Kearny Mesa, San Diego's traditional hubs for these and related industries. Plans for large new industrial complexes by Intel and Sun Microsystems were cancelled and the City's cellular phone manufacturers began to relocate manufacturing and later R&D operations to off-shore locations.

Much like the defense adaptation which took place in the 1995-2005 period, San Diego electronics and telecommunications companies began to focus on government and business-to-business markets, offering enterprise class systems and solutions which tended to have higher margins, and were sold with long-term service contracts. San Diego's electronics and telecommunication cluster is smaller than its peak in 2000, but appears to have stabilized at current levels.

Food & Beverage Production

The food and beverage industry has quietly emerged as a viable source of job growth during the last ten years. Like many of the other San Diego industry clusters, this industry cluster thrives on the value-added by skilled labor, the support of local consumers and tourists, the business savvy of local entrepreneurs, and the ability to sell products to consumers in other states and foreign countries. San Diego County has a significant number of specialty foods manufacturers and the City has captured its fair share of these businesses. Otay Mesa is emerging as a geographic hub of processed specialty foods due to its relatively low land and labor costs. Several companies in that community are producing significant volumes of specialty foods which are sold at discount retail chains and international membership warehouse stores.

The craft brew and microbrewing industry has recently emerged as a source of job growth. According to the San Diego Brewers Guild and the Brewers Association, craft beer is the fastest growing segment of alcoholic beverage production in the United States. These businesses tend to be located in the northern part of the City and North County cities and several have won international acclaim due to the development of very high quality beers. The close proximity of many of these local breweries facilitates is a form of tourism, as aficionados of fine ales, porters, stouts, and barley wines can travel to several locations in an afternoon for brewery tours.

Production vessels at AleSmith Brewing Co. in Mira Mesa

Bottling line at Coronado Brewing Co. in Bay Park

Patrons can sample beers in tasting rooms and purchase bottled beers in the same way as people frequent the wineries of Napa, Sonoma, and Temecula. San Diego is emerging as one of the nation's hubs of craft/microbrewing.

Tasting room at Ballast Point Brewing in Scripps Ranch

Food and beverage manufacturers create excellent public benefits. Beer manufacturing creates 4.7 additional jobs in the wholesale, retail, and service sectors for each direct brewery job.[19] Although it is classified within the manufacturing sector, the brewing of high quality "craft beer" creates additional sales and TOT tax revenues as beer tasting tours and major industry events attract visitors from outside San Diego.

Frozen hamburger patties being packaed at Jensen Meats in Otay Mesa

Food manufacturing has a multiplier of 4.1 generating three additional jobs for each direct job, well above the average multiplier of 2.0 . Jobs in the food manufacturing industry pay an average of $41,842 according to South County Economic Development Council.[20] Most of San Diego's food manufacturers are located in Otay Mesa which has cost-effective real estate options, access to a skilled labor pool in South Bay, and access to two existing cold storage facilities. These 7 manufacturers are producing meat products, tortillas, baked goods, and other specialty foods and reportedly employ approximately 1,000 workers. These employers typically provide health insurance and other benefits.

Municipal water and sewer services are extremely important to this industry. Water is used in large volumes to produce both food and beverage products from raw materials and for sanitation. Reclaimed ("recycled") water cannot be used inside food and beverage plants, so manufacturers are totally reliant on the availability of potable water, and are greatly impacted by increases in water commodity rates as well as water capacity charges. Food and beverage producers are also highly reliant on cost-effective sewer services to remove discharged wastewater.

[19] California Association of Local Economic Development – "Using Multipliers"
[20] Regional Food Cluster Profile, South County Economic Development Council, 2009

International Trade & Logistics

The International Border with Mexico

San Diego's proximity to Tijuana, Baja California, Mexico provides the City with an important comparative advantage in terms of capturing international trade activity. The United States is Mexico's largest export market consuming over 80% of Mexico's goods, equating to approximately $230 billion. Conversely, the Unites States exports approximately $163 billion worth of goods to Mexico. San Diego's direct physical connection to the international border and its cultural connection to City of Tijuana's population of 1.3 million people is by far the largest of any U.S. city bordering Mexico. This juxtaposition gives San Diego a unique and special position with Mexico as a gateway city and a critical economic engine for the San Diego-Tijuana region.

The U.S./Mexico International Port of Entry at San Ysidro is reportedly the busiest in the Western Hemisphere, due in part to the sheer size of the San Diego-Tijuana metropolitan area which has a combined population estimated at over 6 million people. Thousands of workers and tourists purchase goods and services on both sides of the border every day. According to the U.S. General Services Administration (GSA), 50,000 northbound vehicles are processed and 25,000 northbound pedestrians cross each day. A study conducted by the San Diego Association of Governments

(SANDAG) projects an 87% increase in vehicle traffic in San Ysidro by the year 2030. In order to accommodate that growth in traffic and better meet the changing needs of the tenant agencies and the general public, in 2004, the GSA began to work with local, state and federal government and community representatives from U.S. and Mexico to discuss the reconfiguration and expansion of the Port of Entry in Tijuana and San Ysidro. The result is a $732 million "Port of the Future" for the San Ysidro Port of Entry that features a sustainable design as well as technology to improve processing of northbound vehicular and pedestrian traffic. Phase I of this expansion project is complete and Phase II is under construction. The 2014 fiscal year President's budget features a $226 million request to fund Phase 3 of the project. Upon completion, the San Ysidro Port of Entry will be a facility that is sustainable, operationally scalable, and will dramatically reduce the Port's carbon footprint, while at the same time enhancing U.S. Customs and Border Protection's (CBP) ability to conduct their mission to guard the Nation's borders while fostering economic security through lawful international trade and travel.

The Otay Mesa Port-of-Entry at the border accommodates approximately 775,000 tractor-trailer trucks annually, carrying goods valued at approximately $27 billion. The Otay Mesa border crossing is adjacent to several large industrial parks containing over 14 million square feet of existing industrial space and over 1,000 acres of developable industrial land. In 1988 the city received the authority to administer the federal Foreign-Trade Zone (FTZ) Program throughout the entire county of San Diego. In 2011, the City reorganized the FTZ program to a new format, the "alternative site framework" or ASF. This new structure allows companies to obtain approval to activate as an FTZ facility quickly. In Otay Mesa the recent and proposed construction of several modern distribution centers, comparatively low lease rates, tax and duty advantages, and the completion of the 905 Freeway will enable the City to position itself as an attractive location for trade-servicing and logistics companies. In addition, the proposed new State Route 11 and new Otay Mesa East Port of Entry will improve the movement of goods and people between the United States and Mexico. The construction contract for segment 1 of the SR 11/Otay Mesa East Port of Entry project is expected to be awarded in late 2013. The estimated completion date is 2015. Subsequent segments will be built as funding becomes available (expected to begin in 2016).

The Port of San Diego

The Port of San Diego facilitates international trade activity though its 10th Avenue Marine Terminal, in the City of San Diego and 24th Street Marine Terminal in the City of National City. The Port of San Diego is ranked as the West Coast's 8th largest port based on total tonnage shipped -6.5 million tons. Combined with the National City Marine Terminal, these ports generate an economic impact estimated at $1.7 billion. The 96-acre 10th Avenue Marine Terminal is utilized mainly for the importation of a wide variety of bulk products and large pieces of equipment. These products include cement from China and Thailand; sand from Mexico; fertilizer from Norway; fresh fruit from Guatemala, Costa Rica, Peru, Ecuador, and Australia; steel products from Europe, Korea, and China; and wind turbines from the Great Lakes region. It is also home to companies that provide for 822 jobs at average wages of $54,032 annually, 28% greater than the countywide average for all jobs.[21] The National City Marine Terminal's inbound cargoes consists of largely automobiles and lumber.

Additional Information

More information about maritime trade at the Port of San Diego can be found here: http://www.portofsandiego.org/about-us/view-financial-information/447-economic-and-fiscal-impact-of-port-tidelands.html

[21] NUSIPR, San Diego's Maritime Trade: A Critical Economic Engine, 2008, p.3

Logistics

The globalization of the world economy is a result of a great variety of factors including; competition between multinational corporations, increased labor skill levels in "low labor cost" producer nations, the rising power and influence of major general merchandise retailers, and technological innovations which have made it possible to construct longer, larger, and more complex global supply-chain management systems. A supply-chain is a system or organizations, activities, technologies and resources that help move a product or service from supplier to customer. This trend towards globalization has resulted in the movement of manufacturing jobs to cheap-labor countries at an alarming rate.

However, California cities have successfully replaced some of these lost manufacturing jobs with new jobs created in large warehouse operations called distribution centers (DC's). As global supply chain systems shift manufacturing to off-shore locations the distribution functions are reorganized creating new job opportunities for supply chain related employment. Many distribution functions are still performed by manufacturers and retailers, but are now frequently provided by third party logistics companies (3PL's). Advanced supply chain technologies are used by manufacturers and 3PL's to operate these large DC's resulting in a very competitive industry where efficiency, flexibility, and speed are of paramount importance. Retailers, wholesale merchants and manufacturers are constantly modifying their merchandise orders to respond to fluctuating consumer demand and requiring "just in time" delivery. Many of the packaging, labeling, and re-packaging functions formerly performed internally by manufacturers and retailers at one end of the supply chain system are increasingly now performed in the middle of the supply chain system at the DC's. These value-added functions require higher labor quality and frequently pay wages and benefits in the middle income range, much like the traditional manufacturing jobs. California employers posted approximately 50,400 job openings in 2012 for logistics and supply chain occupations. The median 2012 hourly wages ranged from $14 to $28. In the next three years, the demand for a workforce skilled in the various fields of supply chain technology and logistics is expected to have nearly 55,000 jobs. [22] Community College Districts in San Diego region have established curriculum and certification programs to help meet the new occupational demands of the logistics and supply chain employers.

West coast cities with ports-of-entry are now aggressively competing to be selected for the sites of new distribution centers. These regional DC's provide cities with an important means of expanding their economic base and providing local residents with these choice blue collar job opportunities. Most of the city's distribution centers are located in Carmel Mountain Ranch, Kearny Mesa, Mira Mesa, Otay Mesa, and Navajo.

[insert photo of Mission Trails Industrial Park here]

[22] California Community Colleges Economic & Workforce Development, Sector Profile - Supply Chain & International Trade, 2013, p.1 & 4

The Port of San Diego's 10th Avenue Marine Terminal cannot accommodate the massive modern off-loading cranes and other critical infrastructure for large container ships. The Terminal is relatively constrained by existing commercial, residential, and governmental development and facilities, limiting the Port's ability to add significant infrastructure to support contemporary container ship operations. However, is well suited for certain Pacific Rim niche market opportunities. To better utilize the acreage available at the Port, a plan to make improvements and to renovate this facility could create thousands of middle income quality jobs for San Diego residents.

The Panama Canal expansion is scheduled to open in Spring 2015. The city should work closely with the Port to explore new opportunities that will result from this expanded trade route. As the gateway to North America, San Diego's port can offer fast, easy access free from the congestion of larger ports. Currently the Port imports more goods than exports. This trade imbalance should be reduced by filling the ships that now leave empty with San Diego products. A plan to achieve this goal should be developed and implemented with the Port and addressed in the San Diego Metropolitan Export Initiative.

According to NUSIPR, *"Development scenarios for the Port of San Diego have very large positive new benefits from expanding terminal operations to accommodating greater cargo demands. The highest overall economic impact comes from developing a new containerized banana operation as well as a break bulk banana operation. The total cost for this project is about $64.8 million, including $24 million to relocate the current CEMEX operation, according to the Port's analysis. Nearly 5,000 direct, induced, and indirect jobs would be created primarily by the operation of the containerized banana tenant."*[23]

[23] Ibid, p 16-17

Other Base Sector Industry Clusters and Business Establishments

There are a variety of other industries and large business establishments which are outside the Manufacturing Sector and do not provide services to tourists or within the realm of International Trade & Logistics. These businesses range from very small high-tech web development companies to very large national corporate headquarters establishments. They are also part of the economic base because, despite being located within the retail and service sectors, they are generally providing such services to people outside San Diego – throughout the nation, and in many instances, worldwide.

Major Corporate Headquarters Establishments

San Diego is home to a number of significant corporate headquarters, large administrative offices, and primary research institutions which employ thousands of San Diegans and help to establish the City as a well-renowned location for business. These corporate headquarters establishments provide administrative services to businesses that are either very large or geographically widespread. In the retail sector Charlotte Russe, Jack in the Box, Petco, and Cricket Communications are all household names. Less well known businesses like LPL, AMN Healthcare, and HD Supply, are more likely to serve business and institutional customers. Although technically categorized within the Manufacturing sector, Sony Electronics and ResMed have no actual manufacturing operations in San Diego but chose to construct large world headquarters offices here. These establishments have beneficial economic impacts that approach those of similar sized manufacturing plants since they constitute part of the economic base and also create middle-income jobs.

Cricket Communications has its national corporate headquarters in Kearny Mesa

LPL Corp. will consolidate its corporate headquarters functions into this 415,000 square foot building in 2014

Software & Web Development

San Diego has had a significant number of important software development businesses, on-line retailers, and analytics services businesses, which complement the City's high-tech manufacturers and research institutions. Several firms in San Diego have developed encryption and other cyber security technologies which are increasingly sought after by government agencies and large corporations. Included in this category are other "information technology" businesses like Science Applications International ("SAIC"). However, while they may manufacturer some tangible products, their principal function is to provide services such as "systems integration" or "digital compression" technologies, which are then sold or licensed to government agencies and other businesses. These businesses, like Intuit, and Mitchell International also employ many thousands of local residents providing very high-paying salaries and many also generate sales tax revenues for the City's General Fund.

Intuit's 465,000 square foot software development campus in Torrey Highlands

San Diego's corporate headquarters and information technology businesses are located in the City due to the residential preferences of owners, and the ability to access highly educated, professional, technical, and managerial employees. The economic development opportunities in these areas lie in concerted business attraction and retention activity. Attracting and retaining major corporate headquarters is well served by engagement from leaders in the public and private sectors. The Office of the Mayor, City Council, local trade organizations such as the San Diego Regional Chamber of Commerce and the San Diego Regional Economic Development Corporation are influential in attraction and retention efforts. Aggressive competition from cities in other states, and economic pressure can prevent a company from locating in San Diego. Proactive engagement by local leaders helps to reduce the uncertainty of locating in San Diego, which in turn makes San Diego an enticing location to headquarter their business. The City has been successful in helping companies navigate local permitting and land use regulations. Future City efforts should focus on collaborating on marketing the region, developing strong bonds with existing companies, and improving local regulations that may be a barrier to business attraction.

Appendix B. Community Investment & Revitalization

Community investment and revitalization is another key element of the City's Economic Development Strategy. Community investment and revitalization traditionally focuses on older urban neighborhoods that are densely populated and have experienced disinvestment or limited investment and/or have public infrastructure/facility deficiencies. The economic health and well being of these older communities is vital to the larger economic well being of the entire City. A myriad of strategies and tools are used by the City of San Diego to address community investment and revitalization. Furthermore, opportunities exist to expand existing tools and develop new approaches. These are discussed below.

Infrastructure Investment

The City faces an over $1 billion backlog in deferred capital and infrastructure spending within the City. These deficiencies are located Citywide but predominately impact the older more densely populated communities that have not experienced widespread infrastructure investment. Sustainable and strategic investments in public infrastructure and facilities will likely increase property values, decrease crime, spur new private investment, and create new construction jobs.

Post-Redevelopment Era

Redevelopment Agencies throughout California were dissolved on February 1, 2012, including the City of San Diego's Redevelopment Agency, pursuant to state law. Redevelopment served as a key economic development tool for almost 400 communities statewide for approximately 60 years by financing infrastructure and public facilities, facilitating new development and reconstruction/rehabilitation of older, often historically significant structures, remediating brown field sites, financing affordable housing and implementing the re-use of former military bases. The City's former Redevelopment Agency afforded San Diego with a variety of financing and development tools to remove physical and economic blight, provide for affordable housing and improve older neighborhoods, commercial and industrial districts.

The City of San Diego elected to serve as the Successor Agency to implement the wind down of the former Redevelopment Agency. In addition, Civic San Diego was formed as a City-owned nonprofit organization to serve as a consultant to the City and to replace Centre City Development Corporation (CCDC) and Southeastern Economic Development Corporation (SEDC). Its main charge is to the wind down the activities of the former Redevelopment Agency and to perform economic development and planning functions within certain designated areas of the City. Civic San Diego is developing an Economic Development Strategy for the areas under its stewardship that can form an addition to this document upon completion or be folded into a future update. In 2012, Civic San Diego formed the Civic San Diego Economic Growth and Neighborhood Investment Fund, a Community Development Entity (CDE) and a subsidiary of Civic San Diego for the purpose of applying for New Markets Tax Credit (NMTC) allocations and managing Qualifying Low-Income Community Investment (QLICI). The NMTC program is a federal tax incentive authorized by the federal gov-

ernment to help spur the investment of capital in small business and commercial real estate located in communities of need.

Public-Private Partnerships

The City of San Diego has successfully supported the efforts of private entities which have been investing in its older communities. The efforts of these private sector entitles has led to the development of numerous community projects that might not otherwise have occurred, such as the City Heights Urban Village, Market Creek Plaza in Southeastern San Diego, and the Salvation Army Ray and Joan Kroc Corps Community Center in Rolando/East San Diego. Maintaining and expanding these types of public-private partnerships could provide another mechanism to spur investment in San Diego communities.

Special Assessment Districts

Special Assessments Districts are financing mechanisms that can be used to finance the construction and maintenance of infrastructure. Assessments are collected as direct levies on the property tax bill of all parcels directly benefiting from the provision of services financed by the district. The City has several assessment districts that are formed and governed pursuant to the following state laws.

The Landscaping and Lighting Act of 1972

The 1972 Landscaping and Lighting District Act is a tool available to local government agencies to pay for landscaping, lighting and other improvements and services in public areas. The law allows municipalities to form special benefit districts for the purpose of financing these improvements. Assessments are levied on properties that receive benefits or services in excess of those provided by the City. The City uses this 1972 Act as the basis for forming Maintenance Assessment Districts (MADs). The City currently has over fifty MAD's, the majority of which are administered by the City. However, certain MADs operating in urbanized commercial corridors are administered by non-profits. Conceptually, these organizations are affiliated with the community they serve and through this involvement are attuned to the specific needs of that community.

The Mello-Roos Community Facilities Act of 1982

The Act allows any county, city, special district, school district or joint powers authority to establish a Mello-Roos Community Facilities District (a "CFD") which allows for financing of public improvements and services. The services and improvements that Mello-Roos CFDs can finance include streets, sewer systems and other basic infrastructure, police protection, fire protection, ambulance services, schools, parks, libraries, museums and other cultural facilities. In 2012, the City approved a type of CFD to fund the expansion of the convention center, which has direct and significant economic benefit for the City. While there are many benefits to using CFD's as a financing tool, they can be difficult to form in a developed area based on the legal requirements for approval.

Property and Business Improvement District Law of 1994

A Property and Business Improvement District, or "PBID", is an innovative revitalization tool for commercial neighborhoods. Established by law in the early 1990's, PBIDs are public/private sector partnerships that perform a variety of services to improve the image of their cities and promote individual business districts. They also carry out economic development services by working to attract, retain and expand businesses. This law enables a city, county, or joint powers authority (made up of cities and/or counties only) to establish a PBID and levy annual assessments on businesses and/or property owners within its boundaries. Improvements which may be financed include parking facilities, parks, fountains, benches, trash receptacles, street lighting, and decorations. Services that may be financed include promotion of public events, furnishing music in public places and promotion of tourism. In addition to the above, this act also allows financing of streets, rehabilitation or removal of existing structures, and security facilities and equipment. The City currently has one PBID which is located within the downtown area. This district was formed first formed in 2000 and renewed in 2005 for a 10-year period. In order to maintain enhanced service levels, the district will need to be renewed again in 2015.

Community Development Block Grant Program

The City can also address the deferred capital backlog through strategic use of Community Development Block Grant (CDBG) funds, which are received annually from the U.S. Department of Housing and Urban Development (HUD). According to HUD, CDBG funding "provides communities with resources to address a wide range of unique community development needs…it works to ensure decent affordable housing, to provide services to the most vulnerable in our communities, and to create jobs through the expansion and retention of businesses. CDBG is an important tool for helping local governments tackle serious challenges facing their communities[24]." Accordingly, the vast majority of CDBG funding must be used to serve low and moderate income households and areas, many of which suffer from under-investment and infrastructure deficiencies as mentioned above.

In addition to Capital Improvement Projects, CDBG funds can also be used for economic development programs such as; business loans, business incubators, façade improvement programs, micro-enterprise assistance, and job readiness training. These programs focus on improving the economic and social well being of low and moderate income communities and provide opportunities to enhance neighborhoods and create jobs.

The City's CDBG allocation has been dwindling over the past three years FY 2011 ($16.3M), FY 2012 ($13.6M), FY 2013 ($11.3M) and it is expected to continue in that trajectory. However, in the early 1990's CDBG funds were loaned to the former Redevelopment Agency as "seed money" to initiate redevelopment activities in newly created Redevelopment Areas. This investment, totaling over $78M, is scheduled to be repaid to the CDBG program over ten years (2010-2019). While the repayments are restricted to CDBG eligible uses and expenditure deadlines, they serve as a substantial investment resource that can be strategically aligned with identified priority needs.

[24] U.S. Department of Housing and Urban Development, Community Development Block Grant website

The City will plan for expenditure of these funds as well as annual CDBG allocations through a five-year Consolidated Plan, which identifies the City's housing and community development needs, priorities, goals, and strategies. The current Consolidated Plan expires at the end of FY 2014. Over the next year, the City will have an opportunity, through development of a new five-year Plan, to allocate resources toward economic development opportunities and priority areas identified in this strategy.

The Sustainable Communities and Climate Protection Act

The Sustainable Communities and Climate Protection Act of 2008, also known as Senate Bill (SB) 375, is a state law targeting greenhouse gas emissions and the Global Warming Solutions Act of 2006, also known as Assembly Bill (AB) 32 sets goals for the reduction of statewide greenhouse gas emissions. The City of San Diego has developed policies and has been coordinating with other local and regional planning agencies in addressing these laws. Opportunities exist to identify funding and partner with local agencies and private parties to develop projects such as transit oriented development projects and smart growth projects to implement the statutes.

Appendix C: Fiscal Impacts by Land Use

The following sections detail the sources of revenue typically received by the City according to land use:

Non-Profit Establishments

Non-profit establishments include hospitals, churches, schools, and various charity organizations that provide a wide array of medical and social services desired by the community. State and local tax codes provide blanket property tax exemptions in lieu of the presumed societal benefits resulting from the provision of these services. Some non-profit organizations provide "in-lieu" payments to reimburse local governments for the costs of municipal services provided to these organizations (such as police, fire, paramedic, street repair, etc.) however most do not.

Residential Units

The City of San Diego receives 18% of the local 1% property tax, about $550 for the median priced single family home (approximately $476,000 in 2014) plus state subventions amounting to approximately $150/unit for a total of about $700/unit, or about $5,000/acre. Revenues from most multi-family units are much lower, except for very high-end luxury apartments and condos whose property tax remittances may actually exceed service delivery costs.

Business Offices

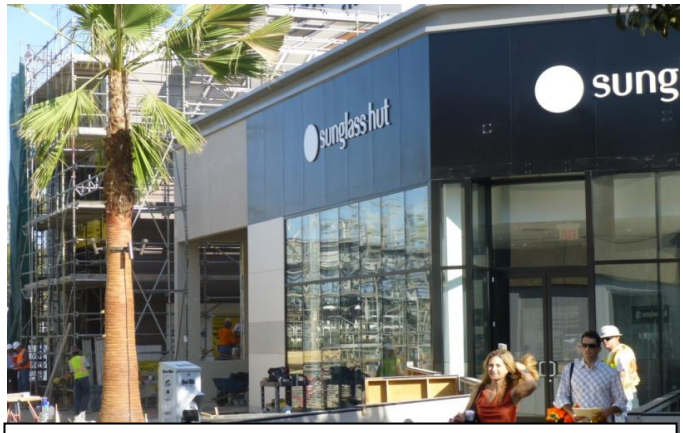
Although some office spaces are occupied by corporate sales teams which generate sales tax from business-to-business sales, or franchise fees in the case of a public utility, this land use typically generates a combination of property tax and business license tax.

Vehicle Dealerships

Vehicle dealerships generate significant sales tax revenues based on the 1% local sales tax on the purchase price of each vehicle sold. A typical auto dealership can easily generate $50,000 - $100,000/acre in sales tax. San Diego has, in many instances, assisted with building and development permits in order to facilitate the modernization and improved efficiency of its dealerships in order to increase taxable sales. State law prohibits local jurisdictions from offering sales tax rebates, providing land at below-market prices, or funding required public improvements specifically to "poach" vehicle dealerships from neighboring jurisdictions. However, jurisdictions are free to provide staff assistance throughout the permitting process, to approve discretionary permits and rezoning ordinances, and to enact land use and other broad-based policies in order to attract these businesses or induce them to expand within a city. Dealerships typically have few employees on a per acre basis, about 20 per acre, resulting in low business license tax generation, but very low service delivery costs.

Large Retailers

Regional shopping malls, so-called "power centers," "lifestyle centers," "outlet centers," and freestanding large format retail stores (aka "big box" stores) can also generate significant sales tax revenues for the City by reducing sales "leakage" to other jurisdictions or by inducing shoppers from other jurisdictions to purchase taxable goods from retailers within the City.



Westfield Corp. recently spent $180 million to upgrade University Town Center shopping mall. At full build-out UTC is expected to generate an additional 3 million annually to the General Fund

<u>San Diego has four regional malls:</u>

Fashion Valley Center
Horton Plaza
Mission Valley Center
University Towne Center

<u>San Diego has four power centers:</u>

Carmel Mountain Ranch Center
College Grove Center
Mira Mesa Market Center
Palm Promenade

San Diego also has a wide variety of smaller shopping centers evenly spaced throughout the City. The location and size of shopping centers is typically driven by demographics and in part because the City is essentially built-out, with scarce land availability. As such, the City has little ability to influence the locations of any new major shopping centers. California law also prevents the provision of tax rebates to "poach" large retailers from other California cities. However, much like the case with vehicle dealerships, the City is still free to use its land use authority to improve conditions that influence the willingness and ability of large shopping center developers and large retailers to improve and expand existing centers within the City.

<u>R&D Laboratories</u>

R&D laboratories are the dominant land use in the "Golden Triangle" area north of the UTC shopping center ("Torrey Pines," "Sorrento Valley," and "Sorrento Mesa") and are also commonly established in Carmel Valley, Carmel Mountain Ranch, Scripps Ranch, Rancho Bernardo, and Torrey Highlands. Ranging from small single-story "wet-labs" to 12-story telecommunications towers, these facilities form an increasingly large segment of the City's industrial capacity. Base sector employers in the biotech and telecommunications industry clusters use these facilities to develop products which are mostly produced in offshore locations. These highly improved facilities tend to gen-

erate property tax and use tax revenues which tend to exceed municipal service delivery costs, however the lack of product sales typically means that no sales tax will be generated for the City.

Manufacturing Plants

Manufacturing plants are often large tax revenue generators for the City in addition to sources of middle-income job opportunities. As discussed above, the local 1% sales tax is typically allocated to the point of sale. Corporate sales offices are frequently located in or very near to the manufacturing plant where the product is produced. Although many products are exempt from tax due to resale or because the customer is the federal government, many are not. Products sold to end-users such as other businesses are frequently subject to sales tax. Medical devices and business equipment are the most obvious examples. Manufacturing equipment used in California is also subject to sales or use tax. Unsecured tangible personal property such as machinery is also subject to property tax, and the largest and heaviest plants often use millions of dollars worth of such equipment, thus providing revenues to the City throughout the useful service life of such equipment. Finally, manufacturers often consume large amounts of natural gas, which is subject to the City's 3% gas franchise fee collected by San Diego Gas & Electric Co.

Hotels & Motels

Hotels and motels are also significant generators of local tax revenues. The largest source of revenue from these businesses comes from the City's 10.5% Transient Occupancy Tax levied on the sale of room nights to customers. In 2013 the City received approximately $156 million in TOT revenues and expects to receive approximately $168 million in FY2014. Since the larger hotels offer room service and incorporate large restaurants and sell prepared food mainly to non-City residents, these businesses also generate significant sales tax revenues. Hotels also have very high real property tax assessments providing a third source of General Fund revenue.

Determination of Fiscal Impacts

Figure C-1 below summaries the fiscal impacts of the most common land use types found in San Diego. This chart shows that there is a fairly wide range of fiscal impacts associated with various common land uses. The net fiscal impact is determined by calculating the reasonably foreseeable tax revenue to be generated by a project or land use, then subtracting the service delivery costs (municipal services provided to residents and businesses) of the same project or land use. In order to accurately compare the fiscal impacts of various land uses it is helpful to analyze each of them on a per acre basis. Tax revenue does not include special assessments, property-based fees, charges, or commodity sales.

Figure C-1: Fiscal Impact Analysis Chart

Land Use	Employees/EDU per Acre[25]	Service Delivery Costs @ $1,200/EDU or @ $200/employee[26]	Tax Revenue Source(s)[27]	Tax Revenue/Acre	Net Fiscal Impact
Non-Profit Establish-ments	73	-$14,600	Use Sales		-$14,600
SF Residential Units	7 EDU	-$8,400	Property	+$4,900	-$3,500
Business Offices	87	-$17,400	Property Business License	+$20,000 +$435 =$20,435	-$3,035
MF Residential Units	18 EDU	-$22,560	Property	+30,000	+$7,440
R&D Laboratories	65	-$13,000	Property Business License Use	+25,000 +220 +10,000 =$35,220	+$22,220
Manufacturing Plants	44	-$8,800	Property Business License Use Sales	+$25,000 +$220 +$10,000 +$10,000 =$45,220	+$36,420
Large Retailers	62	-$12,400	Property Business License Sales	+$18,000 +$310 +$43,000 =$61,310	+$48,910
Vehicle Dealerships	18	-$3,600	Property Business License Sales	+$30,000 +$90 +$75,000 =$105,090	+$101,490
Hotels & Motels	44	-$8,800	Property Rental Use Sales Transient Occupancy	+$11,000 +$220 +$100 +$500 +$100,000 =$111,820	+$103,020

Green type = Base Sector Land Uses

Blue Type = May be Base Sector Land Uses Depending on Size and Function

[25] Non-residential employment intensity figures from San Diego Jobs Housing Nexus Study, KMA/SDHC, 2010 p.34, CoStar, Inc., Office of Economic Growth Services

[26] Various fiscal impacts studies and San Diego 2014 Budget

[27] SD County Assessor, CA Board of Equalization, Office of the City Treasurer

Appendix D. Internal Operational Guidance & Coordination

The business and industries described above rely on well maintained infrastructure to produce, ship, and receive goods, to dispose of waste products, and for protection from fire and theft. Existing businesses can rely on the infrastructure not only to accommodate their existing business needs, but it can act as a catalyst for them to expand and to also attract outside business to the region. Various City departments are tasked with the responsibility to ensure that the proper infrastructure is in place and well functioning. Such infrastructure includes, but is not limited to, a transportation network in good working repair, including streets and freeways, airports, land ports, seaports, City telecommunications facilities, water and sewer treatment and distribution facilities, storm water management systems, and emergency facilities. Other departments are tasked with ensuring public safety and quality of life concerns such as fire and police protection, emergency medical response, sanitation, recycling, zoning, parks and open space management, and code compliance. Still other City departments provide services to the "front line" departments. These services include contracting and procurement services, management of City real estate, financial management, and construction of capital improvement projects (CIP).

Several of the City's departments directly impact businesses and interact with them through the issuance of permits and licenses; the establishment and management of special districts; granting access or use of City property for business operations; or by contracting with businesses for goods and services. It is essential that the City's departments be coordinated in terms of points of alignment with economic development goals and objectives.

The chart and descriptions below provide some examples of how these departments interact with businesses in ways which can influence private business investment decisions and can impact overall economic prosperity.

Figure D-1: Key City Departments Affecting Economic Development Efforts

Key City Department	Building & Development Permit Approvals	Licensing	Infrastructure and Tourist Attractions	Business Use of City Property	Procurement and Financial Services to Businesses	Management of Assessment Districts
Economic Development			√			√
Planning	√					
Development Services	√	√				
Public Utilities	√	√	√	√		
Real Estate Assets				√		√
Fire Rescue	√	√				
Police		√				
Purchasing & Contracting				√	√	√
Transportation & Storm Water	√	√				
Environmental Services				√		
Engineering & Capital Projects			√			
City Treasurer		√			√	√
Parks & Recreation			√	√		√
Debt Management					√	√

Economic Development

The Economic Development Division administers a wide range of community development and economic development programs to facilitate private investments which will lead to the creation of jobs, the generation of tax revenue, and the revitalization of older and underserved neighborhoods. These programs are described in greater detail in **Appendix G: Economic Development Programs and Business Districts.**

Planning

The Planning Department develops, monitors and implements the City's General Plan- a document that guides the City's economic development policies and goals as they relate to land use. These policies are further implemented through Community Plans, which directly impact neighborhood zoning and land use decisions that have direct impacts on the nature and types of business that locate in an area.

The General Plan also calls for protection and preservation of the City's industrial lands from encroachment from non-industrial uses. Competition for low-priced industrial land and buildings can also negatively impact (increase) the cost of doing business in the City, as can the costs of mitigating land use conflicts which inevitably arise from the close juxtaposition of sensitive land uses such residences, churches, schools, parks, and similar family-oriented uses.

The Facilities Financing Section regularly updates Public Facilities Financing Plans for the City's planned communities, and collects fees on development projects. These efforts provide for essential municipal infrastructure such as streets, roads, bridges, parks, libraries, fire stations, etc.

Development Services

The Development Services Department ("DSD") has perhaps the greatest influence on business investment decisions since it issues the vast majority of all permits and land use approvals to businesses. The majority of these are building permits issued to businesses to allow the construction and modification of buildings and related facilities in accordance with adopted State building, fire, mechanical and electrical codes. In addition, DSD issues land use and development permits for facilities in the California Coastal Zone, community overlay zones, and for facilities and properties which require variances from City codes, special use permits, or re-zoning ordinances. The timely and cost-effective issuance of permits and other required approvals has an enormous impact on businesses which must supply goods and services to customers in competitive national and international markets. Delays in the issuance of such approvals, or the imposition of fees which are unforeseen or believed to be unreasonable are most frequently cited as concerns by business managers considering potential investment decisions. Certainty and predictability are factors that have a huge impact on businesses which are operating in volatile and competitive situations.

Public Utilities

The Public Utilities Department ("PUD") provides potable and recycled (aka "reclaimed") water to all businesses, and similarly provides for the disposal of wastewater from them. The Public Utilities Department operates two "Enterprise Funds" through two major branches – the Water Utility and the Wastewater Utility - through ten divisions which must be fully self-sustaining enterprises in accordance with the City Charter.

The Water Utility provides potable water to all business customers in the City except those served by Cal America, located in a portion of the Otay Mesa community. This Utility also provides recycled water to businesses in portions of Black Mountain Ranch, Kearny Mesa, Mira Mesa, MCAS Miramar, Miramar Ranch North, Rancho Penasquitos, Scripps Miramar Ranch, Tijuana River Valley, and University. Aside from land, labor, and electricity, water and sewer services are arguably the two of the most important input factors for the production process. High volumes of water are consumed in industrial plants for product make-up, rinsing, steam and energy production, and for facility cooling. The cost and consistent availability of potable and reclaimed water is of utmost importance to manufacturing businesses and contract research organizations. Increased water costs and mandatory conservation measures can negatively impact the City's ability to attract new industrial and especially manufacturing investments. The Water Utility provides certification of businesses that have met all of the requirements for participation in the City's Guaranteed Water for Industry Program.

Similarly, the ability of businesses to efficiently and cost-effectively discharge wastewater at the end of the production process is also extremely important for business investment decisions. The Wastewater Utility regularly assesses and monitors wastewater conveyance and treatment capacity throughout the City to ensure available capacity. A capacity evaluation of impacted wastewater facilities needs to demonstrate that sewer capacity is available to accommodate new development. If capacity is unavailable, upsizing of sewer facilities would be required. For instance, in working with DSD, the department continuously monitors the issuance and transaction of wastewater capacity in the Rancho Bernardo area to ensure the overall capacity in this area does not to exceed the treatment agreement between the City and the City of Escondido. Service rates for industrial discharges and pre-treatment requirements are issued and monitored by the Industrial Wastewater Discharge (IWD) and Food Establishment Wastewater Discharge (FEWD) programs, which can affect the profitability and competiveness of manufacturing and research businesses.

Real Estate Assets

The City's current Economic Development Division originated in the former "Property Department" which is now called the Real Estate Assets Department ("READ") since this department at one time managed, leased, and sold thousands of acres of the City's industrially-zoned land, most of which was formerly "Pueblo" or "public" lands. Since most of the City's industrial lands have been sold and developed, and the City's economic development units were moved to other operating departments of the City (currently DSD) READ now plays a more indirect role in economic development efforts than it did in the past. However, READ still manages useful industrial properties (or properties with potential for industrial development). The process of making such properties available to industrial businesses is set forth in Council Policy 900-03 "Management & Marketing of City-

Owned Industrial Properties" and provides for the sale or lease of such properties in order to create jobs and other economic public benefits. READ also manages city-owned properties that can be used by community organizations to provide services that enhance communities and provide economic development opportunities to residents.

Fire

The Fire-Rescue Department ("SDFD") is responsible for providing fire and life safety services to all communities within the City of San Diego. In addition, it issues a number of permits for special events and activities that promote tourism and generate revenue that can be recycled back into the community.

This department also performs routine inspections of thousands of commercial and industrial sites throughout the City to ensure safety of operations and is tasked with responsibility to oversee businesses using combustible, explosive, and dangerous materials.

Police

Provision of public safety is of critical importance to the well being of neighborhoods, residents as well as tourists, and can impact employment, investment and income as a result. Reduced crime in neighborhoods can contribute to economic growth and stability. Likewise, safe streets make San Diego more attractive for individuals to visit, positively impacting tourism revenue and activity.

The Police Department is responsible for issuing a variety of permits and licenses including special operating permits for police regulated businesses, permits for special events and activities that promote tourism and generate revenue, and participation in the licensing of alcoholic beverage manufacturers.

Purchasing & Contracting

Many of the City's revitalization, real estate, and other economic development efforts require the procurement of goods and services. The Purchasing & Contracting Department ("P&C") is responsible for administering the City's centralized procurement and materials management functions to ensure the availability of material, supplies, equipment (commodities) and services to meet the City's operational needs. In addition, the department provides numerous opportunities for small businesses through the City's Equal Opportunity Contracting Program to grow their operations. The efficient procurement of goods and services from local businesses may help facilitate employment opportunities at these businesses in addition to the traditional function of delivering of services and improvements to the community.

Transportation & Storm Water

The Storm Water Division (SWD) of the Transportation & Storm Water Department is tasked with responsibility for enforcing rules promulgated by the San Diego Regional Water Quality Control Board ("SDRWQCB"). These rules establish land development standards and require routine in-

spection of commercial and industrial facilities. The SWD must also enforce any illicit discharges into the storm drain system that could have a negative effect on water quality. Additionally, this department is responsible for maintaining storm drains and an extensive system of drainage structures. These structures include underground pipes as well as flood channels throughout the City, including in industrial areas such as Grantville and Sorrento Valley. Alleviation of flooding in Sorrento Valley is one of the highest priorities for the local biotech industry.

The Transportation Division of the Transportation & Storm Water Department evaluates and restripes streets in commercial and industrial areas in order to provide more on-street parking when its needed to improve business operations when off-street parking may be inadequate for customers.

Environmental Services

The Environmental Services Department ("ESD") provides solid waste collection and disposal services to the City's residents and businesses and operates a full-service landfill and composting facility for public use. ESD also manages several recycling programs including: (1) processing of post-consumer paper, plastics, glass, and metal containers that ESD collects from residences; (2) processing of yard waste, tree trimmings, wood waste, and food waste into mulch, compost, and other useful products, putting ESD in a position to provide feed stocks to the manufacturers of recycled products and biomass energy producers; (3) construction and demolition waste; (4) providing recycling technical support to businesses and multifamily residences which typically results in cost savings for them; (5) providing education and outreach for the residential, business, and government sectors; and (6) providing green procurement services internally to City departments which results in savings.

In addition, ESD manages the City's energy use and programs; explores innovative options to increase energy independence and works to advance more sustainable practices within the City and community. Meeting energy efficiency and renewable energy targets often includes the procurement of products and equipment that are emerging technologies.

Public Works

The Engineering & Capital Projects ("E&CP") Division of the Public Works Department interacts directly with consulting architectural and engineering consultant and construction contracting businesses in the execution of the City's Capital Improvement Program (CIP). It provides the planning, design and construction of critical transportation and water/wastewater infrastructure used by businesses to access labor and to ship and receive goods. The projects managed by Engineering & Capital Projects can play an instrumental role in stimulating job growth through maintaining and improving infrastructure and putting individuals to work.

City Treasurer

The City Treasurer administers the Business Tax Certificate Program and collects business taxes from virtually all businesses in the City. Business assessments for the City's various Business Improvement Districts are also collected with the City's business tax. The City's Small Business En-

hancement Program is funded based on a minimum number of small businesses registering and paying business taxes to the City. The City Treasurer is also responsible for the collection and reporting of parking meter revenue which is used to fund the Community Parking District program and other eligible activities related to parking management and control within parking meter impacted areas. The timely and accurate collection of these tax revenues, assessments, and fees allows the City to provide important services to businesses and business districts.

Park and Recreation

The Park and Recreation Department is responsible for the daily operations and maintenance of the parks, open space, aquatic areas, and public recreation facilities throughout the City. Parks such as Balboa Park, Mission Bay and the beaches are enjoyed not only by local residents, but County residents and tourists who visit San Diego. Proper recreational programming and maintenance of these areas is vital to attracting tourists and visitors to San Diego as well as attracting and retaining businesses as a health and quality of life issue.

Office of Special Events

The Office of Special Events collaborates with visitor industry partners such as the San Diego Tourism Authority, San Diego Convention Center Corporation, San Diego Sports Commission, and San Diego Tourism Marketing District in the development of bid proposals to secure major special events, conventions and filming that generate tourism in San Diego. Major special events, conventions and filming contribute significantly to San Diego's economy through the generation of Transit Occupancy Tax (TOT), sales tax, and other direct and indirect spending. Long-term branding and economic development benefits are also derived from the significant national and international media exposure brought to the region by these types of activities. The Office of Special Events provides liaison services to key entities such as the event organizer, site manager or meeting planner, host committee, business and residential community and city departments to ensure the success of the activity.

Economic Development Opportunities

The departments listed above implement City policies and provides basic services to both residents and businesses. The effective coordination of the activities of these departments, which may impact the City's ability to conduct its economic development activities, is critical to the achievement of the broad-based performance measures identified in this strategy. The City's overall operating budget is well in excess of $3 billion annually, its enforcement capabilities are significant, and the extent to which economic development efforts can be recognized and reasonably accommodated within this context creates opportunities to achieve immediate positive fiscal and economic impacts.

Appendix E: Education & Workforce Development

Long-Term Workforce Development Opportunities

The City has a vested interest in preparing its young adults to compete for the best jobs created by San Diego businesses. Educational initiatives at the K-12 level will take years to bear fruit so the City should continue to encourage its school districts to seek long-term improvements in academic fundamentals. The proper preparation of youth for entrance into colleges and universities will better prepare City residents to compete for middle and high-income jobs opportunities following graduation. Additionally, it is vital for high school teachers to be exposed to San Diego's industries to provide them with the context, examples, and real world connections that can be used in their classroom curriculum.

The following six (6) K-12 school districts serve residents of San Diego:

Del Mar Union School District
Poway Unified School District
San Diego Unified School District
San Dieguito Union High School District
San Ysidro School District
Sweetwater Union High School District
South Bay Union School District
Solana Beach School District

San Diego's post secondary education system regularly ranks well nationally because local universities offer a full range of undergraduate majors, master's and Ph.D. programs, and are committed to producing groundbreaking research. These institutions educate and provide workforce training to the region's diverse economy which enables the City to compete globally to attract new companies and industries generating significant private investment and new jobs for the region. San Diego is served by two major public universities, three smaller private universities, three private law schools, a public medical school, several community colleges, plus trade and vocational schools:

Universities, Colleges, and Law Schools

- Alliant University
- Cal-Western School of Law
- Cuyamaca College
- Mesa College
- Miramar College
- Grossmont College
- Palomar College
- Point Loma Nazarene University
- San Diego City College
- San Diego State University ("SDSU")
- Southwestern College
- Thomas Jefferson School of Law
- University of California at San Diego ("UCSD")
- University of California at San Diego School of Medicine
- University of San Diego ("USD")
- University of San Diego School of Law

Trade and Vocational Schools

Ashford University
Bridgepoint University
Coleman College
Fashion Institute of Design & Merchandising
ITT Technical Institute
National University
University of Phoenix

Short-term Workforce Development Opportunities

In the short term, established training programs can help to match willing workers with willing employers. Typically these programs are offered by training organizations which seek to train or retrain employees for specific trades and industries. In addition, these training providers orient their services to dislocated workers and others who lack the requisite skills to compete for specific jobs.

City of San Diego Entry Level Professional Classification

The City of San Diego's Management Trainee job position is the formal entry level classification for professional administrative, budgetary, community development, crime analysis/research, economics, information systems management, organization effectiveness, personnel/human resources, procurement, real estate, and recycling career fields for recent college graduates. Individuals hired in this classification are full-time permanent employees upon passing the required probationary period and are generally under-filling a higher level professional classification. After gaining the requisite experience, Management Trainees may be eligible for career advancement to higher level professional classifications. This classification is different from the City's internship program that enables City departments to hire temporary, part-time students for short periods of time to do specific projects and gain public administration experience.

On-The-Job-Training (OJT)

The SDWP administers the On-the-Job Training program. OJT is designed to help businesses hire and train persons who do not have sufficient experience and knowledge in the jobs for which they are being hired. The employer's training expenses will be paid at a rate not to exceed 50% of the wages the new hire earns during the contracted training period. OJT is a viable training option for participants who perform better with a hands-on training experience rather than traditional classroom setting.

Employment Training Panel (ETP)

The State of California's Employment Training Panel (ETP) provides financial assistance to California businesses to support customized worker training to:

- Attract and retain businesses that contribute to a healthy California economy;
- Provide workers with secure jobs that pay good wages and have opportunities for advancement;
- Assist employers to successfully compete in the global economy; and
- Promote the benefits and ongoing investment of training among employers.

CONNECT2Careers San Diego (C2CSD)

SDWP has developed a sustainable youth employment program through the support of local government, education, private, public and non-profit organizations. The C2CSD will provide youth with meaningful job placements now and in the years to come by providing development, preparation and summer employment services to young people between the ages of 16-21 throughout the City of San Diego. This broad-based summer job effort is the type of program that addresses the need for a highly educated and skilled future workforce, and provides an opportunity for youth to earn money, gain meaningful work experience, and be exposed to various careers through work based learning opportunities. This program also gives businesses an opportunity to give back to the community and play a significant role in recruiting and training future employees especially for new emerging industries such as Cleantech and Food & Beverage Production, as well as established industries such as Biotech & Medical Devices and Electronics & Telecommunications.

Life Sciences Summer Institute

The Life Sciences Summer Institute is one of the SDWP's most exciting youth programs. Students from all over the county spend part of the summer in life sciences "boot camp" learning about how to work in a lab. Then, they are placed in labs for real-life work experience. Perhaps even more impressive, the same program is available for teachers. Groups of science teachers come every summer to learn about how the life sciences industry operates, and return to their classrooms to incorporate into their lessons plans what they have learned.

Appendix F: List of External Stakeholder Organizations

Accion San Diego
Asian Business Association of San Diego
BIOCOM
Building Industry Association (BIA)
Business Improvement District Council (BID Council)
California Restaurant Association – San Diego Chapter (CRA)
Center for Policy Initiatives
Central San Diego Black Chamber of Commerce
City Heights Community Development Corp.
Civic San Diego
Clairemont-Bay Park Chamber of Commerce
CleanTECH San Diego
CommNexus
Community Planners Committee (CPC)
CONNECT
Downtown San Diego Partnership
East County Economic Development Corporation
Equinox Center
Golden Triangle Chamber of Commerce / Pacific Triangle Partnership
Industrial Environmental Association
Mayor's Office of Binational Affairs
Mira Mesa Chamber of Commerce
National Association Industrial & Office Properties (NAIOP)
National University System Institute for Policy Research (NUSIPR)
Otay Mesa Chamber of Commerce
Peninsula Chamber of Commerce
Port of San Diego Ship Repair Association
San Diego Association of Governments (SANDAG)
San Diego Brewers Guild (SDBG)
San Diego Center for International Trade Development
San Diego Convention Center Corp.
San Diego County Regional Airport Authority
San Diego County Taxpayers Association (SDCTA)
San Diego County Hispanic Chamber of Commerce
San Diego Hotel Motel Association
San Diego Military Advisory Council (SDMAC)
San Diego North Chamber of Commerce
San Diego Regional Chamber of Commerce
San Diego Regional Economic Development Corp. (EDC)
San Diego Imperial Counties Labor Council
San Diego Small Business Development Center
San Diego Tourism Authority
San Diego Tourism Marketing District Corporation
San Diego Workforce Partnership
San Ysidro Chamber of Commerce
Security Network & Maritime Alliance
South County Economic Development Council
Unified Port of San Diego
Urban Land Institute
World Trade Center San Diego

Appendix G:
Economic Development Programs & Business Districts

The City of San Diego provides a variety of programs that are focused on the retention, and expansion of local businesses and the attraction of new businesses to the area. These programs form the backbone of the City's economic development strategy. Increasing the promotion of these programs and helping companies avail themselves of the benefits they provide will enhance the local economy.

Business & Industry Incentive Program - Council Policy 900-12

The Business & Industry Incentive Program was created by the San Diego City Council in 1993 to improve the business climate of the City, by providing certain financial incentives, and permit assistance to a variety of business investors citywide. This program serves as the City's primary economic development platform, and its incentives may be combined with those from other City programs, the *Business Finance Program*, the *Business Cooperation Program*, the *Guaranteed Water For Industry Program*, and with other incentives offered through State and Federal programs and incentive zones. Businesses that are consistent with the City's current Community & Economic Development Strategy typically achieve the following:

- Provide significant revenues and/or jobs that contribute to a healthy economy; or
- Promote the stability and growth of City taxes and other revenue; or
- Construct appropriate development in older parts of the City; or
- Are being induced by other jurisdictions to relocate from San Diego;

Such businesses can receive ministerial "off-the-shelf" incentives which are approved at the staff level such as: assistance in determining the density entitlements or development requirements for real property ("due diligence") plus assistance and expedited review for obtaining any necessary permits required for land developments or to modify an existing building or other structure.

These same businesses may also receive other discretionary incentives recommended by staff and approved by the San Diego City Council, such as: a reimbursement of all or a portion of building and/or development related fees on new commercial and industrial development using new tax revenues to be generated by the project as the funding source for the incentive. This incentive is implemented through an Economic Development Agreement between the City and the business.

Business Cooperation Program

The Business Cooperation Program was adopted by the City Council in 1996 and is designed to simultaneously lower the cost of doing business in San Diego while at the same time generating new sales and use tax revenue to fund essential City General Fund services. Businesses and non-profit firms frequently have options regarding how they can report the local 1% sales and use taxes, and certain reporting methods can result in a net increase in the amount of tax allocated to the City by the State Board of Equalization. This program allows City staff to provide sales and use tax rebates to businesses that participate in the program. This program provides tax rebates equal to 50% of any net additional tax revenue received by the City.

Guaranteed Water for Industry Program

The Guaranteed Water for Industry Program was adopted by the San Diego City Council in 1998 to address industry concerns regarding the potential for mandatory water conservation measures in the event of a future drought. Manufacturing plants, data centers, and research laboratories provide significant fiscal and economic benefits to the City. In order to achieve these benefits, these firms need assurances that they will not be subject to future "cut-backs" or other mandatory conservation measures due to water shortages. However these capital-intensive operations frequently need large volumes of water to operate their production and cooling systems.

This program provides that when such firms use reclaimed water to the extent possible, and implement potable water conservation measures, they can be exempted from mandatory Level 2 conservation measures in the event of a drought. This program is designed to benefit San Diego industrial businesses within the Optimized Zone. The Optimized Zone is a designated area within the northern part of San Diego which has reclaimed water infrastructure. The City assists manufacturers and research organizations in obtaining the necessary approvals from the County Health Department and California Department of Health Services to utilize reclaimed water. This program currently has five participating businesses with more certifications expected in the coming years.

Governor's Economic Development Initiative (GEDI)

In 2013, the California Legislature repealed the Enterprise Zone (EZ) Act effective January 1, 2014, and approved three new economic incentive programs that will be implemented at various times in 2014. Although the City will not have a direct role in the administration of this initiative, the City will market these incentives and assist local businesses in accessing them. The new incentive programs include:

California Competes – A new statewide program which provides for the allocation of California Income Tax credits, on a case-by-case-basis, to businesses which agree to make specified commercial and industrial investments.

Hiring Tax Credit – A new incentive zone program which provides California Income Tax credits to businesses within defined geographical areas of the state, when new employees meeting specified criteria are added to payrolls.

Sales/Use Tax Exemption – A change to the Revenue & Taxation Code which provides a 4.2% sales and use tax exemption from the tax imposed on manufacturing equipment and specified R&D equipment purchases.

While the EZ and the similar Local Agency Military Base Recovery Area (LAMBRA) programs will no longer be in effect, qualifying companies have through calendar year 2014 to claim hiring credits and put into service qualifying equipment purchased in 2013.

Foreign Trade Zone Program

Business that import foreign goods into the United States, and in some cases export goods, may realize significant savings. Foreign Trade Zone (FTZ) Program benefits include: U.S. Customs duty deferral, duty exemption, and other benefits.

The San Diego Foreign-Trade Zones No. 153 reorganized its FTZ procedures in 2011 to assist businesses to participate in the program expeditiously. Companies located within San Diego County can now secure FTZ status for warehousing and distribution operations in approximately thirty (30) days from the time an application is accepted. Manufacturing companies may also benefit from additional streamlined procedures.

Business Finance Program

The San Diego Regional Revolving Loan Fund (SDRRLF) and Small Business Micro Revolving Loan Fund (SBMRLF) offer financial assistance for small to mid-size business owners with growing companies that require capital, but are unable to meet the terms of traditional banks. The Revolving Loan funds can supplement private financing of new or rehabilitated buildings, fixed machinery and equipment, working capital and soft costs. This gap financing program ranges from $25,000 to $150,000 for the SBMRLF and $150,000 to $500,000 for the SDRRLF. The loan program covers businesses in the cities of San Diego and Chula Vista. Through careful screening of loan applicants and creative loan structuring, the program can get business owners closer to their goals working with lenders and other community lending programs.

Economic Development & Tourism Support Program

The City's Economic Development and Tourism Support (EDTS) Program provides Transient Occupancy Tax funds through a competitive merit based application process, to qualified nonprofit, tax-exempt organizations that produce programs and events that improve the City's economy by boosting tourism, attracting new businesses, and increasing jobs in the area.

Tourism Marketing District

The San Diego Tourism Marketing District (TMD) follows the model of Tourism BIDs that utilize the efficiencies of private sector operation in the market-based promotion of local and regional business and transient tourism to generate room night stays. Tourism BIDs, such as the SDTMD allow lodging business owners to organize their efforts to increase tourism. In San Diego, lodging business owners within the District are assessed and those funds are used to provide programs and services that specifically benefit the assessed lodging businesses. Beginning in 2008, lodging businesses with 70 or more rooms paid a 2.0% assessment to fund activities to increase room night stays at assessed businesses. A majority of these TMD assessments were directed to the Tourism Authority (formerly ConVis) for specific sales and marketing activities to promote San Diego and increase room night stays at assessed businesses. The TMD was renewed effective January 1, 2013 and the assessment was authorized to be levied on all lodging businesses within the City with those businesses with 30 or more rooms paying 2.0% and those with fewer rooms paying 0.55%. The programs and activities to be funded include hotel meeting sales, event management and group sales development, tourism development including travel & trade, group meeting direct marketing, consumer direct sales & marketing programs, multi-year tourism development, and destination marketing with specific call to action. Through the initial five-year TMD term, it is estimated that approximately, $121+ million in TMD funds have been deployed through local organizations, yielding approximately $2.25 billion in TOT revenue.

Business Improvement Districts

San Diego's Business Improvement Districts (BIDs) are City-designated geographic-based areas where the business owners are assessed annually to fund activities and improvements to promote the business district. The City of San Diego supports BIDs as a tool for strengthening small business communities, creating new jobs, attracting new businesses, and revitalizing older commercial neighborhoods across the city. The City partners with merchants associations, representing the assessed business owners, to implement the BID program.

The Office of Small Business administers the BID program, which is the largest tenant-based program in the State of California. The program dates back to 1970 with the creation of the Downtown Improvement Area, California's first metropolitan downtown district. Since that time, the small business community and the City of San Diego have created 18 active districts. More than 11,000 small businesses participate in these assessment districts raising more than $1.3 million annually.

A BID provides business area merchants with the resources to develop marketing campaigns, increase awareness, and enhance public improvement projects in partnership with the City. An organized business community can work more effectively to create positive change and increase support for businesses in the area. In San Diego, BID associations work closely with elected officials and city staff to voice collective concerns, monitor business regulations and obtain funding and support for their business development projects.

The BID associations have developed a variety of successful marketing activities that generate business for the districts. These activities range from special events such as restaurant tours, block parties, weekly farmers markets and holiday festivals to developing public relations and marketing materials. BID associations promote businesses through the Internet, social media and cooperative advertising campaigns; they develop and distribute business directories, coupon books, and other district brochures. BID associations coordinate some of San Diego's most popular, large-scale street festivals, including the Adams Avenue Street Fair, Gaslamp's Mardi Gras, and Hillcrest's CityFest. BID associations also market the districts to potential businesses in an effort to reduce vacancies, provide a varied mix of businesses and strengthen the BID. All of these activities help to further market the districts to customers.

The City has grant programs which provide opportunities for additional funding for the merchant associations. There are also programs geared toward assisting individual businesses. For instance, the City's Office of Small Business offers the Storefront Improvement Program, which provides small businesses with design assistance and incentive payments to assist with storefront renovations. The City also supports the San Diego Business Improvement District Council, a non-profit organization whose membership includes the BID associations, which disseminates information and provides resources and expertise to its members to assist small businesses.

Small Business Enhancement Program (SBEP) – Citywide Grants

This program focuses on expanding economic opportunities for small businesses by supporting not-for-profit organizations which provide specialized services to small businesses citywide. It is expected that Small Business Enhancement Program funds will be leveraged by recipients to enhance small businesses services with the purpose of creating, growing, and retaining small businesses in San Diego. Examples of the services and training provided include business development, contracting and procurement, disability accommodations and technical assistance training.

Storefront Improvement Program

The Storefront Improvement Program (SIP) revitalizes building facades visible to customers, neighboring merchants, and residents. The City of San Diego provides design assistance and financial incentives of up to $10,000 in the form of rebates to small business owners who wish to make a creative change to their storefronts.

All applications are subject to review for eligibility. The City's Storefront Improvement Program is open to small businesses (12 or fewer employees) located in the City of San Diego with a current Business Tax Certificate.

Community Parking District Program

The City has a two-pronged approach to address parking concerns in older commercial neighborhoods. The Parking Advisory Board was created by ordinance in 2004 (City Council Policy #100-18) to advise the City on broader policy issues related to parking, and especially as to the impacts on commercial neighborhoods. The City also established the Parking Meter District Program in 1997 to provide parking impacted commercial communities with a mechanism to devise and implement parking management solutions. The Program was updated and renamed the Community Parking District Program in 2004.

There are currently six designated community parking districts within the City. A portion of the revenue from parking meters within these districts may be used to implement solutions such as parking lots, parking structures, valet parking, parking/transportation signage, and related extraordinary landscaping, maintenance, and security.

Small Local Business Enterprise (SLBE) Program

The SLBE Program is designed to facilitate the award of City contracts to small and local business enterprises by encouraging a 20% SLBE participation rate. It provides for a minimum bid discount of 2% for SLBE contractors or prime contractors which sub-contract to SLBE's as defined by the program. In addition to bid discounts, the Program provides for additional points in negotiated professional services contracts and increased points and discounts as the level of local and small local business participation increases. The intended impacts include: increasing the number of certified businesses participating in City contracting and in development projects, increasing the circulation of City dollars within the community and thus stimulating stronger economic activity, and promoting the development of certified businesses through joint ventures and mentor/protégé relationships.

Appendix H: List of Available Industrial Properties

Appendix I: Summary of Findings:

San Diego Metropolitan Export Initiative

[to follow behind this page]

Appendix J: General Plan Policies Which Support the Economic Development Strategy

HOUSING

Land Use Element: City Villages Strategy

LU-A.1.

Designate a hierarchy of village sites for citywide implementation.

a. Affirm the position of Downtown San Diego as the regional hub by maintaining and enhancing its role as the major business center in the region and encouraging is continued development as a major urban residential center with the largest concentration of high-density multi-family housing in the region.
b. Encourage further intensification of employment uses throughout Subregional Employment Districts. Where appropriate, consider collocating medium- to high- density residential uses with employment uses (see also Economic Prosperity Element).
c. Designate Neighborhood, Community, and Urban Village Centers, as appropriate, in community plans throughout the City, where consistent with public facilities adequacy and other goals of the General Plan.
d. Revitalize transit corridors through the application of plan designations and zoning that permits a higher intensity of mixed-use development. Include some combination of: residual above commercial development, employment users, commercial users, and higher density- residential development.

LU-A.2

Identify sites suitable for mixed-use village development that will complement the existing community fabric or help achieve desired community character, with input from recognized community planning groups and the general public.

LU-A.10

Design infill projects along corridors to enhance or maintain a “Main Street” character through attention to site and building design, land use mix, housing opportunities, and streetscape improvements.

Land Use Element: General Plan and Land Use Categories

LU-B.3

Plan for and develop mixed-use projects where a site or sites are developed in an integrated, compatible, and comprehensively planned manner involving two or more land uses.

Land Use Element: Community Planning

LU-C.2.

Prepare community plans to address aspects of development that are specific to the community, including: distribution and arrangement of land uses (both public and private); the local street and transit network; location, prioritization, and the provision of public facilities, community and site-specific urban design guidelines; urban design guidelines addressing the public realm; community and site-specific recommendations to preserve and enhance natural and cultural resources; and coastal resource policies (when within the Coastal Zone).

a. Apply land use designations at the parcel level to guide development within a community.
    1. Include a variety of residential densities, including mixed use, to increase the amount of housing types and sizes and provide affordable housing opportunities.
    2. Designate open space and evaluate publicly-owned land for future dedication and privately –owned lands for acquisition or protection through easements.
    3. Evaluate employment land and designate according to its role in the community and in the region.
    4. Designate land uses with careful consideration to hazard areas including areas affected by flooding and seismic risk as identifies by Figure CE-5 Flood Hazard Areas and Figure PH-9 Geo-technical and Relative risk areas.
b. Draft each community plan with achievable goals, and avoid creating a plan that is a "wish list" or a vague view of the future.
c. Provide plan policies and land use maps that are detailed enough to provide the foundation for fair and predictable land use planning.
d. Provide detailed, site-specific recommendations for village sites.
e. Recommend appropriate implementation mechanisms to efficiently implement General Plan and community plan recommendations
f. Establish a mobility network to effectively move workers and residents
g. Update the applicable public facilities financing plan to assure that public facility demands are adjusted to account for changes in future land use and for updates costs associates with new public facilities.

LU-C.3.

Maintain or increase the city's supply of land designated for various residential densities as community plans are prepared, updated, or amended.

Land Use Element: Consistency

LU-F.3.

Create and apply incentive zoning measures to achieve the desired mix of land uses and public benefits.

a. Continue to provide incentives to development proposals that contribute to the provision of affordable housing, environmental enhancement, urban design, and energy conservation, as well as those that provide public facilities and amenities over and above regulatory requirements.

b. Ensure that the granting of development incentives does not result in an adverse impact upon health, welfare, and safety of the surrounding community or upon any designated cultural and/or historic resource.
c. The provision of development incentives should be re-evaluated on a regular basis to be certain that the granting of incentives remains in proportion with the benefits derived.

Land Use Element: Balanced Communities and Equitable Development

LU-H.1.

Promote development of balanced communities that take into account community-wide involvement, participation, and needs.

a. Plan village development with the involvement of a broad range of neighborhood, business, and recognized community planning groups and consideration of the needs of individual neighborhoods, available resources, and willing partners.
b. Invest strategically in public infrastructure and offer development incentives that are consistent with the neighborhoods vision.
c. Recognize the important role that schools play in neighborhood life and look for opportunities to form closer partnerships among local schools, residents, neighborhood groups, and the City with the goal of improving public education.
d. Ensure that neighborhood development and redevelopment addresses the needs of older people, particularly those disadvantaged by age, disability, or poverty.
e. Provide affordable housing opportunities within the community to help offset the displacement of the existing population.
f. Provide a full range of senior housing from active adult to convalescent care in an environment conducive to the specific needs of the senior population.

LU-H.3.

Provide a variety of housing types and sizes with varying levels of affordability in the residential and village developments.

LU-H.7. Provide a variety of different types of land uses within a community in order to offer opportunities for a diverse mix of uses and to help create a balance of land uses within a community (see also LU-A.7.)

Urban Design Element: Mixed-Use Villages

UD-C.1.

In villages and transit corridors identified in community plans, provide a mix of uses that create vibrant, active places in villages.

a. Encourage both vertical (stacked) and horizontal (side-by-side) mixed-use development.
b. Achieve a mix of housing types, by pursuing innovative designs to meet the needs of a broad range of households.

c. Encourage placement of active uses, such as retailers, restaurants, cultural facilities and amenities, and other various services, on the ground floor of buildings in areas where the greatest levels of pedestrian activity are sought.
d. Encourage the provision of approximately ten percent of a project's net site area as public space, with adjustments for smaller (less than ten acres) or constrained sites. Public space may be provided in the form of plazas, greens, gardens, pocket parks, amphitheaters, community meeting rooms, public facilities and services, and social services (see also UD-C.5 and UD-E.1).
    1. When public space is provided in the form of public parks in accordance with Recreation Element, Policy RE-A.9, and the public park space may be used to meet population-based park requirements.
    2. Where multiple property owners are involved in a village development, develop incentives or other mechanisms to help provide well-located public spaces.
e. Utilize existing or create new Land Development Code zone packages or other regulations as needed for mixed-use development.
    1. Provide standards that address the particular design issues related to mixed-use projects, such as parking, noise attenuation and security measures, and minimize negative impacts on the community.
    2. Provide standards that address bulk, mass, articulation, height, and transition issues such as the interface with surrounding or adjacent development and uses, and minimize negative impacts on the community.
f. Encourage location of mixed-use projects in transition areas and areas where small-scale commercial uses can fit into a residential neighborhood context.

INFASTRUCTURE

Economic Prosperity Element: Base Sector Industrial Uses

EP-A.1.

Protect base sector uses that provide quality job opportunities including middle-income jobs; provide for secondary employment and supporting uses; and maintain areas where smaller emerging industrial uses can locate in a multi-tenant setting. When updating community plans or considering plan amendments, the industrial land use designations contained in the Land Use and Community Planning Element should be appropriately applied to protect viable sites for base sector and related employment uses.

EP-A.2.

Encourage a broader geographic distribution of high technology businesses throughout the City.

EP-A.3.

Encourage large regional employers to locate and expand in the Regional Center or Subregional Employment Areas.

EP-A.4.

Include base sector uses appropriate to an office setting in Urban Village and Community Village Centers.

EP-A.5.

Consider the redesignation of non-industrial properties to industrial use where land use conflicts can be minimized. Evaluate the extent to which the proposed designation and subsequent industrial development would:

- Accommodate the expansion of existing industrial uses to facilitate their retention in the area in which they are located.
- Not intrude into existing residential neighborhoods or disrupt existing commercial activities and other uses.
- Mitigate any environmental impacts (traffic, noise, lighting, air pollution, and odor) to adjacent land.
- Be adequately served by existing and planned infrastructure.

Economic Prosperity Element: Non-Base Sector Employment Uses

EP-A.6.

Provide for the establishment or retention of non-base sector employment uses to serve base sector industries and community needs and encourage the development of small businesses. To the extent possible, consider locating these types of employment uses near housing. When updating community plans or considering plan amendments, land use designations contained in the Land Use and Community Planning Element should be appropriately applied to provide for non-base sector employment uses.

EP-A.7. Increase the allowable intensity of employment uses in Subregional Employment Areas and Urban Village Centers where transportation and transit infrastructure exist. The role of transit and other alternative modes of transportation on development project review are further specified in the Mobility Element, Policies ME-C.8 through ME-C.10.

EP-A.8.

Concentrate more intense office development in Subregional Employment Areas and in Urban Villages with transit access.

EP-A.9.

Efficiently utilize employment lands through increased intensity in “urban villages” and Subregional Employment Areas.

EP-A.10.

Locate compatible employment uses on infill industrial sites and establish incentives to support job growth in existing urban areas.

EP-A.11.

Encourage the provision of workforce housing within employment areas not identified as Prime Industrial Land that is compatible with wage structures associated with existing and forecasted employment.

Economic Prosperity Element: Prime Industrial Land

EP-A.12.

Protect Prime Industrial Land as shown on the Industrial and Prime Industrial Land Map, Figure EP-1. As community plans are updated, the applicability of the Prime Industrial Land Map will be revisited and changes considered.

a) Amend the boundaries of Figure EP-1 if community plan updates or community plan amendments lead to an addition of Prime Industrial Lands, or conversely, a conversion of Prime Industrial Land uses to other uses that would necessitate the removal of properties from the Prime Industrial Land identification.
b) Amend the boundaries of Figure EP-1 if community plan updates or community plan amendments/rezones lead to a collocation (the geographic integration of residential uses and other non-industrial uses into industrial uses located on the same premises) of uses.
c) Justification for a land use change must be supported by an evaluation of the prime industrial land criteria in Appendix C, EP-1, the collocation/conversion suitability factors in Appendix C, EP-2, and the potential contribution of the area to the local and regional economy.

EP-A.13.

In areas identified as Prime Industrial Land as shown on Figure EP-1, do not permit discretionary use permits for public assembly or sensitive receptor land uses.

Economic Prosperity Element: Other Industrial Land

EP-A.18. Amend the Public Facilities Financing Plan concurrently to identify needed facilities if residential uses are proposed in industrially designated areas.

Economic Prosperity Element: All Industrial Areas

EP-A.20.

Meet the following requirements in all industrial areas as a part of the discretionary review of projects involving residential, commercial, institutional, mixed-use, public assembly, or other sensitive receptor land uses:

- Analyze the Collocation/Conversion Suitability Factors in Appendix C, EP-2.
- Incorporate pedestrian design elements including pedestrian-oriented street and sidewalk connections to adjacent properties, activity centers, and transit.
- Require payment of the conversion/collocation project's fair share of community facilities required to serve the project (at the time of occupancy).

Public Facilities Element: Financing

PF-A.2.

Address current and future public facility needs by pursing, adopting, implementing, and maintaining a di-

verse funding and management strategy.

a. Ensure effective management and optimal allocation of all financial resources for both capital and operational needs.
b. Maximize operational and capital effectiveness.
c. Continue to develop, evaluate, and apply innovative public infrastructure and facility financing mechanisms and strategies. Employ a public infrastructure financing strategy that includes a variety of financing mechanisms such as:
    - Supporting state and local government fiscal reform efforts which provide an equitable redistribution of property tax proceeds or other revenues to the City from the State
    - Assuming an active leadership role in planning and implementing infrastructure investments on a collaborative regional basis and apportion, as applicable and appropriate, eligible infrastructure expenses to support regionally beneficial capital improvement projects;
    - Coordinating with all appropriate authorities and agencies for a more efficient use of shared resourses, and increased joint use of facilities and services;
    - Adopting new, or increase existing, CIP funding sources for needed public facilities and infrastructure;
    - Working in partnership with stakeholders to design a bond measure to address the City's unfunded needs for capital improvements projects to support development;
    - Adopting facilities, infrastructure, improvements and/or maintenance districts and other special assessments for locally prioritized facilities and/or services;
    - Pursuing Regional Comprehensive Plan and Smart Growth Incentive Program funding for transportation projects that have been prioritized consistent with Section B, Public Facilities and Services Prioritization, of this element;
    - Continuing to use and seek a broad range of funding sources to finance public facilities and infrastructure;
    - Evaluating City real estate assets for opportunities to address public facility needs;
    - Partnering with other agencies and organizations to leverage public financing and resources with private funds and assets;
    - Utilizing development, reimbursement, and other agreements to provide timely public facilities to area of benefit;
    - Coordinating with redevelopment agencies to effectively utilize tax increment and other agency financing to leverage additional funds, initiate public and private investment, and address needs; and
    - Maximizing the procurement of grants, endowments, and private donations for public facility and services needs.

PF-A.3.

Maintain an effective facilities financing program to ensure the impact of new development is mitigated through appropriate fees identified in PFFPs

PF-A.4.

Integrate all planning and development policies and strategies into the annual development of the CIP to ensure projects are programmed in a cost efficient manner.

a. Review all capital projects for consistency with adopted planning documents, including the General Plan, community plans, PFFP, and others.
b. Evaluate the fiscal impact and timing of needed capital improvements to minimize the burdern on

operations and maintenance budgets.

c. Conduct annual conformance and audit reports of the CIP.

Public Facilities Element: Capital Programming and Financing

PF-B.2.

Coordinate the allocation of public resources for priorities across the City organization, to maximize operational and capital investment efficiencies.

PF-B.3.

Create an organization-wide method for identifying and ranking capital improvement projects for proposed inclusion in the annual CIP and to guide the City's applications for regional, state, federal, or other funds.

Public Facilities Element: Evaluation of Growth, Facilities, and Services

PF-C.2.

Require a fiscal impact analysis to identify operations and maintenance costs with a community plan amendment proposal of potential fiscal significance.

PF-C.7.

Conduct periodic review of the fiscal impacts of private development throughout the City. This information will assist in land use and capital planning decisions by providing data regarding the amount, intensity, location, and timing of new development.

Public Facilities Element: Information Infrastructure

PF-L.1.

Incorporate appropriate information infrastructure requirements into all relevant local policies, ordinances, and plans.

PF-L.2.

Coordinate with all agencies and programmed project schedules to minimize disruptions to residents and public rights-of-way, and incorporate information infrastructure needs and opportunities.

PF-L.3.

Provide infrastructure to ensure seamless communications and universally available access to data for all internal and external groups.

PF-L.4.

Facilitate economic development citywide, with consideration of the City's status in the border region of Mexico, with adequate provision of an information infrastructure system.

PF-L.5.

Work with private telecommunication service providers to develop and maintain an integrated information infrastructure system.

PF-L.12

Monitor emerging technologies to develop and maintain an effective information infrastructure system and strategy citywide.

Public Facilities Element: Public Utilities

PF.M.2.

Coordinate with all public and private utilities to focus utility capital investments and design projects to help implement the City of Villages strategy.

PF-M.4.

Cooperatively plan for and design new or expanded public utilities and associated facilities (e.g., telecommunications infrastructure, planned energy generation facilities, gas compressor stations, gas transmission lines, electrical substations and other large scale gas and electrical facilities) to maximize environmental and community benefits.

Public Facilities Element: Regional Facilities

PF-N.1.

Assume an active leadership role in planning and implementing regional facility and infrastructure investments through collaborative efforts.

PF-N.2.

Collaborate with public, private, and non-profit agencies to implement alternative investment policies and strategies that support growth in urban locations.

PF-N.3.

Encourage infrastructure investments in regional capital facilities that provide a positive economic impact and leverage for competitive advantages.

PF-N.5.

Adopt an equitable mechanism to secure fair-share contributions for both regional infrastructure and regional-serving public facilities within the City which benefit other agencies, organizations, and private parties in the region.

TRANSPORTATION

Mobility Element: Walkability

ME-A.5.

Provide adequate sidewalk widths and clear path of travel as determined by street classification, adjoining land uses, and expected pedestrian usage.

a. Minimize obstructions and barriers that inhibit pedestrian circulation.
b. Consider pedestrian impacts when designing the width and number of driveways within a street segment.

ME-A.6.

Work toward achieving a complete, functional and interconnected pedestrian network.

a. Ensure that pedestrian facilities such as sidewalks, trails, bridges, pedestrian-oriented and street lighting, ramps, stairways and other facilities are implemented as needed to support pedestrian circulation.

ME-A.8.

Encourage a mix of uses in villages, commercial centers, transit corridors, employment centers and other areas as identified in community plans so that it is possible for a greater number of short trips to be made by walking.

Urban Design Element: Pedestrian-Oriented Design

UD-C.4.

Create pedestrian-friendly village centers (see also Mobility Element, Sections A and C).

a. Respect pedestrian-orientation by creating entries directly to the street and active uses at street level.
b. Design or redesign buildings to include pedestrian-friendly entrances, outdoor dining areas, plazas, transparent windows, public art, and a variety of other elements to encourage pedestrian activity and interest at the ground floor level.
c. Orient buildings in village centers to commercial local streets, or to internal project drives that are designed to function like a public street, in order to create a pedestrian oriented shopping experience, including provision of on-street parking.
d. Provide pathways that offer direct connections from the street to building entrances.
e. Break up the exterior facades of large retail establishment structures into distinct building masses distinguished by offsetting planes, rooflines and overhangs or other means.
f. Where feasible, use small buildings in key locations to create a human scale environment in large retail centers. Incorporate separate individual main entrances directly leading to the outside from individual stores.

Mobility Element: Transit

ME-B.1.

Work closely with regional agencies and others to increase transit ridership and mode share through increased transit service accessibility, frequency, connectivity, and availability.

a. Develop an urban network of routes that operate with a base, mid-day service frequency of ten-minute intervals or better.
b. Provide transit routes that offer efficient connections between highly frequented origins and destinations.
c. Enhance overall transit customer experience through attention to safety, station areas, vehicles, seating, and other factors.

ME-B.2.

Support the provision of higher-frequency transit service and capital investments to benefit higher-density residential or mixed-use areas; higher-intensity employment areas and activity centers; and community plan-identified neighborhood, community, and urban villages; and transit-oriented development areas.

ME-B.3.

Design and locate transit stops/stations to provide convenient access to high activity/density areas, respect neighborhood and activity center character, implement community plan recommendations, enhance the users' personal experience of each neighborhood/center, and contain comfortable walk and wait environments for customers (see also Urban Design Element,

Policy UD-A.9).

ME-B.5.

Integrate the regional transit system with the intercity rail network.

ME-B.8.

Support efforts to use alternative fuels in transit vehicles to help implement air quality and energy conservation goals.

Mobility Element: Transit Supportive City Land Use Planning

ME-B.9.

Make transit planning an integral component of long range planning documents and the development review process.

a. Identify recommended transit routes and stops/stations as a part of the preparation of community plans and community plan amendments, and through the development review process.
b. Plan for transit-supportive villages, transit corridors, and other higher-intensity uses in areas that are served by existing or planned higher-quality transit services, in accordance with Land Use and

Community Planning Element, Sections A and C.

c. Proactively seek reservations or dedications of right-of-way along transit routes and stations through the planning and development review process.
d. Locate new public facilities that generate large numbers of person trips, such as libraries, community service centers, and some recreational facilities in areas with existing or planned transit access.
e. Design for walkability in accordance with the Urban Design Element, as pedestrian supportive design also helps create a transit supportive environment.
f. Address rail corridor safety in the design of development adjacent to or near railroad rights-of-way.

Mobility Element: Project Review Considerations

ME-C.9.

Implement best practices for multi-modal quality/level of service analysis guidelines to evaluate potential transportation improvements from a multi-modal perspective in order to determine optimal improvements that balance the needs of all users of the right of way.

ME-C.10

Provide transportation facilities to serve new growth in accordance with Policies MEK.4-K.6, and Public Facilities Element, Sections A-C .

Mobility Element: Intelligent Transportation Systems

ME-D.1.

Utilize the substantial regional Intelligent Transportation Systems (ITS) investments to achieve cost-effective improvements in transportation system performance and operations wherever possible.

ME-D.2.

Develop an ITS Plan for the City to facilitate effective implementation and operation of ITS in the City. The proposed ITS Plan should identify and prioritize specific short- and long-term ITS projects. Once identified, ITS projects should be strategically implemented as funding becomes incrementally available.

ME-D.6.

Support the use of technology to improve transit services through tracking vehicles, maintaining schedules, predicting demand, facilitating fare payment, and operating fleets more efficiently.

Mobility Element: Transportation and Demand Management

ME-E.1.

Support and implement TDM strategies including, but not limited to: alternative modes of transportation, alternative work schedules, and telework.

ME-E.2.

Maintain and enhance personal mobility options by supporting public and private transportation projects that will facilitate the implementation of Transportation Demand Management (TDM) strategies.

ME-E.3.

Emphasize the movement of people rather than vehicles.

ME-E.4.

Promote the most efficient use of the City's existing transportation network.

ME-E.5.

Support SANDAG's efforts to market TDM benefits to employers and identify strategies to reduce peak period employee commute trips.

ME-E.6.

Require new development to have site designs and on-site amenities that support alternative modes of transportation. Emphasize pedestrian and bicycle-friendly design, accessibility to transit, and provision of amenities that are supportive and conducive to implementing TDM strategies such as car sharing vehicles and parking spaces, bike lockers, preferred rideshare parking, showers and lockers, on-site food service, and child care, where appropriate.

ME-E.7.

Consider TDM programs with achievable trip reduction goals as partial mitigation for development project traffic and air quality impacts.

ME-E.8.

Monitor implementation of TDM programs to ensure effectiveness.

Mobility Element: Bicycling

ME-F.1.

Implement the Bicycle Master Plan, which identifies existing and future needs, and provides specific recommendations for facilities and programs over the next 20 years.

a. Update the plan periodically as required by Caltrans, in a manner consistent with General Plan goals and policies.
b. Coordinate with other local jurisdictions, SANDAG, schools, and community organizations to review and comment on bicycle issues of mutual concern.
c. Reference and refine the plan, as needed, in conjunction with community plan updates.
d. Improve connectivity of the multi-use trail network, for use by bicyclists and others as appropriate.

ME-F.2.

Identify and implement a network of bikeways that are feasible, fundable, and serve bicyclists' needs, espe-

cially for travel to employment centers, village centers, schools, commercial districts, transit stations, and institutions.

a. Develop a bikeway network that is continuous, closes gaps in the existing system, improves safety, and serves important destinations.
b. Implement bicycle facilities based on a priority program that considers existing deficiencies, safety, commuting needs, connectivity of routes, and community input.
c. Recognize that bicyclists use all City roadways.
    1. Design future roadways to accommodate bicycle travel; and
    2. Upgrade existing roadways to enhance bicycle travel, where feasible.

ME-F.3.

Maintain and improve the quality, operation, and integrity of the bikeway network and roadways regularly used by bicyclists.

ME-F.4.

Provide safe, convenient, and adequate short- and long-term bicycle parking facilities and other bicycle amenities for employment, retail, multifamily housing, schools and colleges, and transit facility uses.

a. Continue to require bicycle parking in commercial and multiple unit residential zones.

b. Provide bicycle facilities and amenities to help reduce the number of vehicle trips.

ME-F.5.

Increase the number of bicycle-transit trips by coordinating with transit agencies to provide safe routes to transit stops and stations, to provide secure bicycle parking facilities, and to accommodate bicycles on transit vehicles.

Mobility Element: Parking Management

ME-G.1.

Provide and manage parking so that it is reasonably available when and where it is needed.

a. Where parking deficiencies exist, prepare parking master plans to inventory existing parking (public and private), identify appropriate solutions, and plan needed improvements.
b. Implement strategies to address community parking problems using a mix of parking supply, management, and demand solutions, including but not limited to those described on Table ME-3, Parking Strategies Toolbox.
c. Optimize parking prices to reflect an equilibrium between supply and demand. Consider the positive and negative implications of parking pricing when developing solutions to parking problems.

ME-G.2.

Implement innovative and up-to-date parking regulations that address the vehicular and bicycle parking needs generated by development.

a. Adjust parking rates for development projects to take into consideration access to existing and funded transit with a base mid-day service frequency of ten to fifteen minutes, affordable housing parking needs, shared parking opportunities for mixed-use development, provision of on-site car sharing vehicles and parking spaces and implementation of TDM plans.
b. Strive to reduce the amount of land devoted to parking through measures such as parking structures, shared parking, mixed-use developments, and managed public parking (see also ME-G.3), while still providing appropriate levels of parking.

ME-G.3.

Manage parking spaces in the public rights-of-way to meet public need and improve investment of parking management revenue to benefit areas with most significant parking impacts.

a. Continue and expand the use of Community Parking Districts (CPD). The CPDs can be formed by communities to implement plans and activities designed to alleviate parking impacts specific to the community's needs. The CPDs also improve the allocation and investment of parking management revenue by providing the Community Parking Districts with a portion of the revenue generated within their boundaries for the direct benefit of the district.
b. Implement parking management tools that optimize on-street parking turnover, where appropriate.
c. Judiciously limit or prohibit on street parking where needed to improve safety, or to implement multi-modal facilities such as bikeways, transit ways, and parkways.

ME-G.5

Implement parking strategies that are designed to help reduce the number and length of automobile trips. Reduced automobile trips would lessen traffic and air quality impacts, including greenhouse gas emissions (see also Conservation Element, Section A).

Mobility Element: Airports

ME-H.1.

Participate in the development and implementation of the San Diego International Airport Master Plan. The Master Plan addresses terminal conditions and capacity, vehicle parking capacity, multi-modal ground connections to terminal areas, and ground access needed to support the forecasted demand for passengers and cargo.

ME-H.2.

Participate in the development and implementation of long-range regional plans that address regional commercial air carrier capacity to accommodate forecasted air passenger and cargo demands and the integration of multi-modal ground connections to the regional aviation system.

ME-H.3.

Provide general aviation facilities at Montgomery Field and Brown Field in accordance with their respective airport master plans or layout plans, City regulations, and Federal Aviation Administration requirements.

a. Accommodate forecasted general aviation demand within the limitations of federal, state, and local funding, user fees, and environmental and regulatory constraints.

b. Seek federal and state funding assistance to develop, implement, and update Airport Master Plans, as needed, for Montgomery Field and Brown Field to support the forecasted demand for general aviation and public safety operations.

ME-H.4.

Support training and operation activities at military aviation installations that are essential for national defense and our local economy.

Mobility Element: Goods Movement/Freight

ME-J.1.

Support infrastructure improvements and use of emerging technologies that will facilitate the clearance, timely movement, and security of domestic and international trade, including facilities for the efficient intermodal transfer of goods between truck, rail, marine, and air transportation modes.

ME-J.2.

Preserve property for planned roadway and railroad rights-of-way, marine and air terminals, and other needed transportation facilities.

ME-J.3.

Support measures to alleviate on-street truck parking and staging and peak period truck usage on freeways. These measures may include, but are not limited to: designating off-street truck staging areas; shared used of park-and-ride lots; and shared use of other public and private parking lots where appropriate.

ME-J.4. Implement measures to minimize the impacts of truck traffic, deliveries, and staging in residential and mixed-use neighborhoods.

ME-J.6.

Support improvement of inter-regional freight service between San Diego and the rest of the continent.

ME-J.7.

Support preparation and implementation of plans, in cooperation with railroad operators and owners, for providing freight service to major industrial areas in San Diego.

ME-J.8.

Work with the San Diego Unified Port District, Caltrans, and SANDAG to capitalize on potential economic and mobility benefits, and identify and mitigate potential environmental and public health impacts of goods movement to the San Diego region

ME-J.9.

Support efforts that facilitate the efficient movement of goods across the U.S.- Mexico Border.

Mobility Element: Regional Coordination and Financing

ME-K.1.

Identify and prioritize transportation improvement projects for inclusion in the City of San Diego's annual Capital Improvements Program (CIP) and to guide the City's applications for regional, state or federal funds, in accordance with Public Facilities Element, Policy PF.B.3.

ME-K.2. Take a leadership role in efforts to increase transportation funding to benefit areas that have the strongest commitment to locating or maintaining higher densities/intensities in areas served by existing or planned transit.

ME-K.3. Work with SANDAG to increase the share of regional funding (over the 2030 RTP levels) allocated to pedestrian, bicycle, and transportation systems management projects.

ME-K.4.

Determine necessary transportation improvements to serve new development at the community plan level, and where necessary, at the project level.

ME-K.5. Require the dedication and/or improvement of transportation facilities in conjunction with the sub-division of land, negotiated development agreements, discretionary permits, and facilities financing plans.

ME-K.6.

Require development proposals to provide a mix of multi-modal transportation facilities, where needed, in accordance with the policies established in the Public Facilities Element, Section C.

Land Use Element: Transportation

LU-I.11

Implement the City of Villages concept for mixed-use, transit-oriented development as a way to minimize the need to drive by increasing opportunities for individuals to live near where they work, offering a convenient mix of local goods and services, and providing access to high quality transit services.

LU-H.6.

Provide linkages among employment sites, housing, and villages via an integrated transit system and a well-defined pedestrian and bicycle network.