



Good Neighbors

San Diego
Housing Commission

REPORT

DATE: For the Agenda of March 2, 2000 Item 105

REPORT NO.: HCR01-028

SUBJECT: Discussion of Methods and Standards for Housing Trust
Fund Fee Variance Requests (Citywide)

SUMMARY

Issue: Should the Commission change its method or standards for review of requests for variance from the payment of Housing Trust Fund Linkage Fees?

Recommendation: That the Commission maintain its current methods and standards for review and approval of variance requests.

Fiscal Impact: None with this action.

BACKGROUND

At its meeting of December 1, 2000, the Board considered Housing Commission Report 00-113, Request for Variance from the City's Housing Impact Fee by Golden Triangle Self Storage. In the course of their discussion, Board members asked staff to return with a more detailed explanation of the Housing Trust Fund variance process.



DISCUSSION

The Housing Trust Fund Linkage Fee

Municipal Code Section 98.0601 states, "It is the policy of The City of San Diego that new office, retail, research and development, manufacturing, warehouse, and hotel development pay a fair share of the costs of subsidy necessary to house the low and very low income employees who will occupy the jobs new to the region related to such development." The Housing Trust Fund Linkage Fee is based on an economic analysis that establishes the impact a new or expanded business site has on the housing market. This impact considers the number of employees typical for a proposed use as well as the range of salaries anticipated. The fee is charged on all nonresidential buildings or tenant improvements that require a building permit. The City created a housing impact ("Linkage") fee at approximately ten percent of the documented economic impact. (That fee has since been cut in half.) Current fees, which were set in Fiscal Year 1997, are:

<u>Type of Nonresidential Use:</u>	<u>Rate per Sq. Foot</u>
Office	\$1.06
Research and Development	\$.80
Hotel, Retail, Manufacturing	\$.64
Warehouse	\$.27

Housing Commission Housing Trust Fund Responsibilities

Housing Commission responsibilities related to the administration of the Housing Trust Fund, including consideration of variance requests, are established in Housing Commission Policy No. 300.501 and in Municipal Code Sections 98.0501 – 98.0618.

Municipal Code Section 98.0614 authorizes the Commission to grant variances. Section 98.0615 lists standards for hardship variances: special circumstances unique to the project justify the grant of variance; the project has been determined to not be feasible without the variance; a specific and substantial financial hardship resulting from the Linkage Fee can be identified; and no alternative means of compliance are available. To date, no one has requested a hardship variance.

Section 98.0616 states,

"In addition to variances granted pursuant to the provisions of Section 98.0615, a variance may also be granted by the

Commission in the case of development projects which consist of construction built for and suitable solely for a specific use involving few or no employees. In the case of a variance granted pursuant to this section for a use which involves few employees, the variance may specify a reduced fee applicable to the project. Any variance granted under this section shall expire upon the conversion of the building to another use or upon the remodeling of the building to permit additional employees.”

Since the inception of the Trust Fund in 1990, the Commission has heard fifty requests for variance under this Section (an average of five requests per year) and has granted relief of \$706,516 in non-collection of Linkage Fees while collecting \$157,952 of the original assessments linked to those variance requests. During this same period, the City collected over \$31 million in Linkage Fees for the Housing Trust Fund (See Attachment).

Housing Commission Process for Consideration of Variance Requests

Prior to submitting a variance request, project sponsors confer with Housing Commission staff. Through this process, sponsors of developments that do not meet conditions for variance are discouraged from applying. For this reason, most formal requests are ultimately determined to warrant a variance or a reduction of the fee.

The most common application for variance has been for common use areas of religious buildings, such as sanctuary space or Sunday school classrooms because this type of space is suitable solely for a specific use that involves few employees (most “staff” are volunteers, part-time employees, or full-time employees whose regular work space elsewhere is subject to Linkage Fees). Another common circumstance is the modernization or upgrading of educational or recreational space (such as Cal Western Law School library, The Bishop’s School performing arts center, and Pro Kids Golf Academy). Often, this type of building activity involves an expansion of capacity and, in some cases, staff.

In circumstances where the use of the building would clearly lend itself to a variance and any increase in staffing capacity is limited to two or fewer full-time positions, the Commission has allowed variances under Section 98.0616 (“...construction built for...a specific use involving few or no employees.”). If the number of new employees is expected to exceed two, the Commission has reduced the fee so that the space (or a proportionate percentage of the space) allotted to the current employee base is not subject to a Linkage fee.

The Linkage fee is intended to address the impact that new employment has on the housing supply. In cases where the commercial activity also provides housing for employees, the impact on the housing supply is reduced by the provision of housing. Self-storage facilities, which typically include a facility manager's apartment on the grounds of the property, are an example of this situation. For such cases, the Commission has taken the housing into consideration when deciding to approve a variance or a reduction in the impact fee.

Processing Fees

An applicant for a variance from the Housing Impact Fee must submit a completed application and supporting documents to the Housing Commission after the City's Facilities Finance department has assessed the Fee. Although not mandated by Ordinance, a processing fee of \$1,000 is required, except in the case of nonprofit organizations. To date, only \$2,000 in fees has been collected because almost all of the variance applications have been received from nonprofit organizations. In the most recent case, Golden Triangle Self-Storage, staff waived the fee because a precedent for self-storage facilities had been established in three prior instances and the staff work to process the variance request was minimal.

Summary

When the Housing Trust Fund was first envisioned, the City Council anticipated circumstances where variances from payment of the Housing Impact Fee would be appropriate and the Council authorized the Housing Commission to grant such variances. To date, the Commission's standard has been to approve applications for which the impact is a net increase of no more than two full-time positions and to reduce Linkage Fees when housing is provided or the new space will replace space used by the existing employee base. Staff recommends that these criteria continue to serve as guidelines for variance requests because they are clear and in compliance with the direction provided by the Municipal Code.

Alternatives

The Commission may set forth other criteria for granting variances. The Commission may adjust the fee structure charged for processing variances requests or may require that waiver of any fee be specifically presented to the

Commission for consideration. A mix of these ideas would be that the Commission would reduce the variance request fee but require payment of all applicants, including nonprofit developers.

Submitted by,

Approved by,

Pat Duplechan
Director, Housing Programs

Elizabeth C. Morris
Chief Executive Officer

**Signature on File
With Original Document**

Attachment: Low Employee Density Variance Schedule

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