

The red-headed step fee

Amid dwindling funding for affordable housing, local source remains a political quagmire

By [Kelly Davis](#)

''Tony Young''s on the hunt for good ideas to boost affordable-housing production in San Diego. - Photo by David Rolland

Tony Young hasn't forgotten a promise he made last July. The San Diego City Council president, a Democrat who tends to be fiscally conservative, was the deciding vote against raising a fee that helps fund affordable housing. But Young's vote came with a warning to opponents of the fee increase—come up with something better or else he'd bring the issue back to the council and his “no” would become “yes.”

“If I don't see good movement on this,” he said at the July 11 meeting, “I would just assume there are no better ideas, so I might as well vote for this fee.”

In an interview for this story, he said that's still his position.

“I don't want people to be under the misunderstanding that I'm not willing to vote on linkage fees,” he said, “because I will if I don't see anything better. It will happen this year.”

“Linkage fee” might be a yawner of a name, but in its 20-year history, the development-impact fee has pumped \$52 million into the city's affordable-housing trust fund. And that's despite being cut in half in 1996 and kept stagnant since then.

The point of the fee—created by the City Council in 1990 during a severe housing shortage and amid the growth of low-paying jobs—was to provide an additional subsidy for affordable housing. For the fee to be legal, the city needed to demonstrate that the jobs being created by new commercial development—hotels, motels, office and retail space—also created the need for affordable housing.

The plan was for the fee to be assessed according to a formula that looked at what types of jobs—meaning wages—and how many a new development created. According to city law, the fee would be adjusted annually depending on the economy—anywhere from no increase to several percentage points.

In 1990, fees ranged from 54 cents per square foot for a new warehouse to \$2.12 per square foot for a new office building. In its first year, the linkage fee generated \$6.2 million. In 1996, when the economy slowed, the City Council voted to slice it in half. And there it stayed.

“The only thing that's happened in the 20 years it's been in existence is to cut it in half, and I can tell you that's not because of lack of effort,” says Craig Benedetto, a lobbyist for the Building Owners and Managers Association, which opposes the fee.

In 2003, the city created an [Affordable Housing Task Force](#), made up of housing advocates and representatives from the business community. Among other [recommendations](#) was an 18-to-1 vote that the linkage fee be returned to its pre-1996 level. That recommendation, though, went nowhere, despite requests by the San Diego Housing Commission that the fee be updated.

Then, in July 2009, the City Auditor's office—created only a year earlier—took a close look at the city's housing trust fund. The linkage fee, [the audit found](#), was “outdated, substantially lower than comparable cities”—in some cases by 195 percent—“and..... not adjusted as required by the municipal code.” Between 2006 and 2008 alone, the audit found, the city's trust fund lost out on \$2.79 million.

““We take in a fraction of the actual demand that’s created,”” said Susan Tinsky, executive director of the [San Diego Housing Federation](#). ““You wouldn’t say to a developer, ‘OK, the cost of providing sewer services for your property is \$100, but we’re just going to assess you \$10, because sewage service is not that important. But that’s what they do for affordable housing—— they say, ‘Your impact is \$100, but at the end of the day, we’re only going to charge you \$1.20.’”””

The audit recommended that the fee be raised to the level proscribed by city law. A subsequent [study](#) paid for by the San Diego Housing Commission found that if the linkage fee had followed the course set out by law, it would have helped fund an additional 620 units of affordable housing.

Last July, the Housing Commission, acknowledging the state of the economy, [came up with a compromise](#): In 2013, the fee would be returned to where it was in 1996. From there, it would increase by 20 percent annually until 2017, when it would be back to 1990 levels. Beginning in July 2018, it would be adjusted annually——either increased or decreased——according to the Building Cost Index

Opponents described it then——and now——as a job killer.

““Rather than waste our time and resources on a debate that’s gone on and raged for 20 years,”” Benedetto said, ““why don’t we focus on something that will actually put a meaningful dent in the provision of affordable housing, rather than focusing on a tax that everybody more or less agrees has an inverse relationship to job creation?””

Even in the best years, the linkage fee generated only about \$2 million Benedetto noted. (Revenue from the fee’s been as high as \$5.39 million in 1999 and as low as \$256,000 in 2010.) ““While that’s not an insignificant amount of money,”” Benedetto added, ““when you look at the actual need for housing, then you realize that it’s just never going to get you there.””

Further hobbling the linkage fee is the city’s ever-expanding enterprise zone——parts of town in which new development is exempt from development-impact fees in order to spur economic growth. Right now, San Diego is the only city in California that includes the linkage fee among those exemptions. But, according to the city’s own numbers, the jobs created within local enterprise zones paid, on average, \$10.88 an hour in 2010, or roughly \$22,600 a year, which would put a person in the Department of Housing and Urban Development’s ““very low income”” category. According to the same report, the affordable-housing trust fund lost out on \$2 million because recent large-scale hotel projects Downtown——like the Omni Hotel, The Ivy (which replaced low-income housing) and the Hilton were exempt from the linkage fee.

(Though the City Council voted last March to [further expand](#) its enterprise zone, now only development that creates higher-paying jobs will be exempt from the linkage fee.)

Last year, another affordable-housing task force came up with a list of revenue options and regulatory reforms to boost affordable-housing production. But many of the options were tax increases that would require the approval of two-thirds of San Diego voters.

““Curing cancer I’m not sure could get a two-thirds vote at this point,”” said City Councilmember Todd Gloria.

Redevelopment has been the largest source of funding for affordable housing, but its future is uncertain at best. And state and federal funding sources have been eliminated or are in jeopardy. So, the linkage fee matters, Gloria said.

““If you’re already losing sources like state bond funds and re development,”” he said, ““we can’t really afford to give up on another source of funding, especially one that we control locally and that’s not at the mercy of Sacramento or Washington D.C.””

Benedetto disagreed: ““The only argument [advocates] have been able to use that’s gotten any traction in the debate down at City Hall is that this money is leveraged against state and federal dollars; those dollars are drying up.””

Benedetto said the business community is eyeing an infrastructure bond for the November 2014 ballot that would

address a range of needs from road improvements to affordable housing. He thinks that with the right amount of community outreach, it'll work.

““If you build a program from the ground up, you can get [voter] support.””

And, on this, Gloria disagreed: ““So you have affordable housing mixed in with roads and public facilities and other things that need attention. What's the size of the bond that you offer, and how much of that can go to affordable housing? And while you can do an everything and-the-kitchen-sink approach in hopes of getting that critical mass of voters, sometimes these things sort of fall into themselves because there's too much in there.””

Is an infrastructure bond the ““better”” idea Tony Young was looking for? ““It's all up to Tony Young,”” Gloria said.

It's uncertain when the issue will come back to the City Council. In [a memo](#) issued Monday, Lorie Zapf, the City Council member who chairs the city's Land Use & Housing Committee, said she's waiting for staff from Councilmembers David Alvarez's and Sherri Lightner's office to finish up a report that lays out the proposals made by the affordable housing task force. That report will go to the Housing Commission's board for review, then to Zapf's committee, then on to the full City Council.

““There is no one silver bullet to solve our city's affordable-housing crisis,”” Tinsky said. ““If we wait for that comprehensive solution to be developed, we will never move forward.... Someone has to pull the trigger and get us off the starting block.””

Email kellyd@sdcitybeat.com or follow her on Twitter at [@citybeatkelly](https://twitter.com/citybeatkelly).

