



CITY OF CORONADO

CITY COUNCIL STAFF REPORT

April 15, 2025

{{section.number}}d

CONSIDERATION OF A POTENTIAL INCREASE OF THE CITY'S AFFORDABLE HOUSING IN-LIEU FEE

RECOMMENDATION:

Receive report, consider an appropriate increase to the City's Affordable Housing In-Lieu Fee, and adopt a resolution amending the amount of subdivision fees for the Affordable Housing Fund.

BACKGROUND:

Section 82.21 of the Coronado Municipal Code requires subdivision projects involving two or more residential lots to reserve 20% of the units for lower income households or pay an in-lieu fee of \$7,000 per unit. For example, a developer of a four-unit residential subdivision who chooses to pay the In-Lieu fee instead of dedicating on-site affordable units would be assessed a fee of \$28,000. Since adoption of the ordinance, all subdivision applicants have elected to pay the in-lieu fee.

Fees collected through the program are deposited into a dedicated affordable housing fund. Funds may only be spent on providing new affordable housing units in the City. The City's current fee of \$7,000/unit was established in 1993 and has not been updated since. The City's Affordable Housing fund has a current balance of approximately \$1.7 million.

In response to a Policy 2 request, staff presented the City Council with a report on the City's Affordable Housing In-Lieu Fee on October 19, 2021. Following a presentation and discussion, the Council directed staff to hire a qualified consultant to prepare a development impact fee nexus study to review the In-Lieu Fee and the City's development impact fees, evaluate potential new fees, make recommendations on fee rates, and ensure any new or modified fees are consistent with the California Mitigation Fee Act (Assembly Bill 1600) and related legislation.

The City subsequently released a Request for Proposals (RFP) and received two proposals. On June 7, 2022, the City Council authorized a contract in the amount of \$63,000 to DTA, Inc. Following two years of unsatisfactory progress on the project, the City exercised its contractual right to terminate its agreement with DTA for convenience on June 11, 2024.

Due to the protracted schedule and lack of progress on the project, coupled with a Housing Element Update requirement to review and consider updates to the City's Affordable Housing In-Lieu Fee, staff subsequently hired Keyser-Marston Associates to complete a focused analysis on the In-Lieu Fee so that the City Council could consider possible changes before the end of the year. Staff intends to resume work on development impact fees in 2025.

ANALYSIS:

High land costs make it economically challenging to develop affordable housing in Coronado. The City has 18 deed-restricted affordable housing properties that accommodate 172 total units; however, all of those units were produced and publicly subsidized by former redevelopment housing set-aside monies. Staff is not aware of any affordable units developed in Coronado without funding assistance from the City.

Cities throughout California lost their primary funding source for developing affordable housing when the state dissolved redevelopment agencies in 2011. The loss of redevelopment funds, lack of private sector investment, and scarcity of grant opportunities for higher income communities leaves the City with three primary funding sources to produce affordable housing: 1) residual funds paid into the City's Housing Successor account from former redevelopment loan repayments; 2) the General Fund; and 3) the Affordable Housing In-Lieu Fee.

The City's Affordable Housing Fund has a current balance of approximately \$1.7 million. Recent property sales data indicates that multi-family zoned residential properties can command between \$500 - \$750 per square foot (sf). Accordingly, a 7,000 sf lot that can accommodate four residential units could be expected to sell for \$3.5 - \$5.25 million. At the current rate of \$7,000 per unit, 500 market rate units would need to be developed through new subdivisions to generate the minimum \$3.5 million necessary to acquire a property that could support four affordable units and additional funding would be needed for redevelopment and long-term property management.

Coronado's In-lieu fee level is comparable to some inland jurisdictions in the San Diego region, but it is substantially lower than coastal cities that share Coronado's built-out and high land cost characteristics. The following table summarizes In-Lieu fee programs in neighboring cities (a more detailed survey can be found in Attachment 2, appendix E):

City	Year Updated	Project Thresholds	Fee Amount
Carlsbad	2024	7+ units, rental & for-sale	\$18/sf
Coronado	1993	2+ units, for-sale only	\$7,000/unit
Chula Vista	2024	20+ units, rental & for-sale	varies
Del Mar	2024	2+ units, rental & for-sale	\$27,350/unit
Encinitas	2024	7+ units, rental & for-sale	\$24.08/sf
Oceanside	2024	10+ units, rental & for-sale	\$20/sf
San Diego	2020	varies, rental & for-sale	\$25 - \$50/sf
Poway	2018	1+ units, rental & for-sale	\$500/unit
San Marcos	2000	1+ for sale units, 6+ rental	\$9,300/unit
Solana Beach	2023	5+ units, rental & for sale	\$27.22/sf
Vista	2022	20+ units, rental & for-sale	\$17.56/sf

Inclusionary Housing In-Lieu Fee Study

Keyser-Marston Associates, Inc. (KMA) completed a draft Inclusionary Housing In-Lieu Fee Study (Attachment 2) to evaluate the City's Affordable Housing In-Lieu Fee and to determine a potential fee increase that would be commensurate with the actual cost to produce affordable housing in Coronado. As part of this effort, KMA reviewed the City's existing ordinance, revenue generated from the current fee program, and in-lieu fee programs in other San Diego County jurisdictions. KMA then reviewed market data trends, local land values, development cost estimates, and other industry standards, and prepared financial pro forma models to estimate the residual land value generated by a variety of residential project types. Residual land values were calculated for both 100% market-rate projects and projects with 80% market-rate and 20% affordable units to determine the economic impact of providing affordable housing and the in-lieu fee levels that would be needed for the City or a developer to produce affordable units.

KMA evaluated a number of development scenarios in their report, including a series of prototypes based on characteristics of recently developed multi-family projects in Coronado, rental and for-sale home products, and scenarios for both on-site and off-site production of affordable units. To determine supportable fee levels, KMA considered the following two approaches:

- **Approach 1: Economic Impact of Including Affordable Units On-Site.** For this approach, KMA prepared financial pro forma models for four distinct development prototypes that are representative of multi-family development recently completed in Coronado. KMA then compared the residual land values, defined as the value of a completed housing project minus the underlying land value, of a 100% market-rate project vs a project with an 80% - 20% market-rate and affordable mix. The difference in the residual land value between the two scenarios represents the financial impact of providing on-site affordable units.

KMA determined that the estimated financial impact of providing 20% affordable units on-site ranged from \$248,000 to \$818,000 per market rate unit, or \$133 to \$364/sf.

- **Approach 2: Off-Site Affordability Gap.** This approach determines the amount of in-lieu fees the City would need to receive from a market-rate developer to produce affordable housing at an off-site location. KMA prepared financial pro forma models for two development prototypes, a 25-unit apartment project and a 10-unit condominium (for-sale) project. KMA then calculated the affordability gap (the amount the City would need to collect per affordable unit) to determine appropriate in-lieu fee levels.

This approach resulted in an estimated funding gap of \$296,000/unit or \$132 to \$158/sf for for-sale units and \$133,000/unit or \$59 to \$71/sf for rental units.

Supportable In-Lieu Fee Levels

The following table shows the supportable fee levels for each approach that could be assessed on residential project based on whether the type of affordable housing produced is rental or for-sale. Fee levels are expressed as both a flat fee (as currently applied in Coronado) and on a per square-foot basis. As shown at the bottom of the table, KMA recommends that the maximum fee level the City should consider is \$59/sf, which was the lowest amount calculated among the various development scenarios they studied.

Potential Fee Levels		
	Approach to Setting Fee Levels	
	Approach 1: On-Site Production	Approach 2: Off-Site Production
FOR-SALE – 20% MODERATE		
Per Market-Rate Net	\$133 - \$364/sf (avg \$220) Or \$249,000 - \$818,000/unit (avg \$468,000)	\$132 - \$158 (avg \$142) Or \$296,000/unit
RENTAL – 20% LOWER		
Per Market-Rate Net	---	\$59 - \$71 Average: \$64 OR \$133,000/unit
➤ KMA RECOMMENDED MAXIMUM FEE LEVEL - \$59/SF		

Considerations to Determine an Appropriate Fee Level

Although the City Council could adopt a fee as high as \$59/sf, it has full discretion to set a lower fee as deemed reasonable and appropriate. The recommended maximum In-Lieu Fee level of \$59/sf would be highest rate of any city in San Diego County. Similar coastal cities in the region charge between \$18 - \$27/sf. The City of San Diego's fee for the University Community Planning Area is \$50/sf, but \$25/sf for most of the rest of the city.

The following table illustrates how increasing the City's In-Lieu fee to \$59/sf (maximum recommended fee level) and \$27/sf (highest fee charged by a comparable coastal city) would impact subdivision projects in Coronado, assuming unit sizes of 2,000 sf:

Number of Units	Existing In-Lieu Fee	\$59/SF In-Lieu Fee	\$27/SF In-Lieu Fee
2	\$14,000	\$236,000	\$108,000
4	\$28,000	\$472,000	\$216,000
8	\$56,000	\$944,000	\$432,000
10	\$70,000	\$1,180,000	\$540,000

Flat Fee vs Square-Foot Based Fee

KMA recommends the City establish its fee on a square-foot basis to avoid deterring development of smaller units, which are typically more affordable than larger units.

In-Lieu Fee Applicability – Rental and For-Sale Developments

Most surveyed cities require both rental and for-sale residential developments to participate in their inclusionary affordable housing programs. The City of Coronado's ordinance only applies to residential subdivisions involving for-sale units. Although the City receives very few applications for apartments projects, the City Council could consider amending the ordinance to apply to all new residential development projects.

Automatic Annual Increases

If the City Council chooses to increase the fee, they should consider whether to include an annual automatic adjustment to the in-lieu fee. Options for an automatic annual increase include the Consumer Price Index (CPI), Building Cost Index (BCI), or the Construction Cost Index (CCI). These options are further detailed in section III of the attached Inclusionary Housing In-Lieu Fee Study.

Project Pipelining

If the City Council decides to increase the Affordable Housing In-Lieu Fee, the Council may wish to establish a pipelining policy to exempt certain subdivision projects from paying the increased fee. The City Council may consider applying pipelined status to the following classes of projects:

- Approved Tentative Maps and Tentative Parcel Maps that have been approved by the City Council, but have not completed the Final Map process or been recorded;
- Active applications for Tentative Maps and Tentative Parcel Maps;
- Any Tentative Map or Tentative Parcel Map submitted prior to a Council imposed deadline. Under this option, the Council may choose to delay the date the fee increase goes into effect.
- A combination of one or more of the above options.

FISCAL IMPACT: Raising the City's Affordable Housing In-Lieu Fee would result in the City accruing additional funds in its Affordable Housing In-Lieu Fee Account. The actual fiscal impact would depend on the fee level set by the City Council.

ALTERNATIVE:

The City Council may keep the current affordable housing fee as-is or direct staff to prepare appropriate documentation to raise the fee as desired.

CALIFORNIA ENVIRONMENTAL QUALITY ACT:

Not Applicable.

PUBLIC NOTICE:

Public notice of this public hearing was published in the Coronado Eagle/Journal on Wednesday, April 2, 2025.

ATTACHMENTS:

1. Resolution 2025-17
2. Inclusionary Housing In-Lieu Fee Study (Keyser-Marston Associates, Inc.)

Submitted By: Community Development Department / Richard Grunow