



California

CITY OF OCEANSIDE

MINUTES OF THE CITY COUNCIL

May 31, 2002

ADJOURNED MEETING 10:00 AM COUNCIL CHAMBERS

Mayor

Terry Johnson

Deputy Mayor

Jack Feller

Councilmembers

Betty Harding
Carol McCauley
Esther Sanchez

City Clerk

Barbara Riegel Wayne

City Treasurer

Rosemary Jones

The adjourned meeting of the Oceanside City Council was called to order by Mayor Johnson at 10:00 AM, May 31, 2002, for the purpose of a workshop. The Pledge of Allegiance was led by Deputy Mayor Feller.

ROLL CALL

Present were Mayor Johnson, Deputy Mayor Feller and Councilmembers Harding, McCauley and Sanchez [arrived at 10:17 AM]. Also present were City Clerk Barbara Riegel Wayne, City Attorney Duane Bennett, City Treasurer Rosemary Jones and City Manager Steve Jepsen.

WORKSHOP ITEMS

1. **Presentation and discussion of the FY 2002-2004 Biennial Budgets**

CITY MANAGER JEPSEN explained that staff would present the City Manager's recommendations for the budget. This is the beginning of the review process, so nothing is cast in stone. He encouraged Council to ask questions and to make recommendations and suggestions so staff could decipher if Council wanted to go in a different direction.

The City is facing a challenging year with a lot of uncertainties at the State level that could push Oceanside in a different direction within a short period of time even after the budget is adopted in June. Staff is presenting a continuation of base services that Council has seen in the past; it is a very conservative budget because of the uncertainties. The only program he is aware of that has been added through Council's initiative is the program that provides for the operation of the Libby Lake Resource Center. Carol Swindell, Chief Financial Officer, will discuss the budget in more detail.

CAROL SWINDELL, Chief Financial Officer, presented an overview of the proposed budget with some of the highlights. The fiscal year 2002-2004 biennial budget is proposed in the face of 2 primary revenue uncertainties: the largest is the State budget, and the second is the economy since we are currently coming out of a recession.

Staff hopes that revenues will improve as the economy improves, but right now the two-year budget is presented with limited revenue growth because of the economy and the State budget. As City Manager Jepsen stated, the expenditure proposals basically maintain existing essential services and reflect existing compensation agreements. There are limited spending initiatives.

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MEETING BY CITY COUNCIL**

The proposed General Fund budget for the next 2 years focuses primarily on public safety, which represents about 57% of the total General Fund spending. The proposed increase in public safety for FY 2002-03 is 5%, with 6% for FY 2003-04. The remainder of the General Fund spending increases by 2% in year one and 3% in year two. The total proposed General Fund is \$77,200,000 for 2002-03 and \$80,900,000 for 2003-04. She noted that the public safety figures do not include the cost for the lease on the Regional Communication System (RCS) 800 MHz radio system.

The State budget impact is uncertain. The State currently faces a significant deficit of \$23,600,000,000, which represents 24% of the State's original proposed budget for this year and 1.7% of California's total economy.

Our primary General Fund revenue source from the State is the Vehicle License Fees (VLF), which totals \$9,000,000. Of that amount, \$6,000,000 is the backfill portion, which is the at-risk portion and represents 7.4% of the total General Fund. If the City were to lose that, it would have a significant and devastating impact on the City's budget. The State budget proposes to eliminate the reimbursement for booking fees, which represents \$600,000 for Oceanside. In addition, the City would lose Library funds totaling \$123,000.

The Southern California economy is less impacted by the downturn than is Northern California, but obviously that economic downturn impacts the State budget and the City has some impact from it as well. The City is experiencing weakened receipts for the transient occupancy tax (TOT), and our sales tax growth is dampened from what it has been over the past several years. Staff is hopeful and optimistic that the economy will come out of the recession within the next year, but there would be some lag in the local revenue impact as we come out of the recession.

Property tax revenue remains as the City's one bright spot, with strong valuation increases. That is where we are projecting the largest increase in growth. Staff recommends a review of certain fee schedules; any revenue impact from that is not included in this budget. On the revenue side, there is a shift of interest revenue from the General Fund to the utilities fund. City Manager Jepsen will discuss this in more detail later.

Expenditures

On the expenditure side, last year Council approved an enhanced public safety retirement benefit, and in the FY 2002-03 proposed budget, the additional cost for that benefit is \$800,000. In addition, the Police Department budget includes a Communication Manager position that would be funded by internal savings. The Fire Department budget includes full academy costs for both years of the biennial budget. The Fire and Police Departments will review their budgets in detail this afternoon.

Other than those public safety initiatives, there are no new programs proposed in the budget. This is a maintenance level budget. We do have State health insurance rates that are increasing by 25%, with some additional costs to the City, but there is no increased City participation or increased City contribution proposed in this budget.

Staff recommends establishing a worker's compensation reserve of \$700,000 in year one and \$200,000 in year two; this is in response to an actuarial study that suggested a reserve to fund existing claims that are unfunded for their remaining life. We also have experienced increased utilities costs in the budget because of the State energy crisis. Included in the proposed budget is a financing plan to pay for the San Luis Rey River flood control debt service for the remaining life of the debt. Finally, there is a Community Facilities Capital Fund of \$875,000 that is continued in year one but is suspended in year two as a pledge to support the 800 MHz radio system as an alternative financing source.

The departments will present to Council their supplemental requests that are not included in the proposed budget, for consideration outside of the budget. They include:

- Fire department initiatives for personnel retention

- Citywide confined space program
- Afterschool programs
- Making up lost State revenue for the Library
- Police positions
- Commercial Façade program

Several policy issues are presented to Council as part of this budget: 1) the reserve fund levels and 2) the vacancy factor which staff is recommending be phased out over several years. Regarding the reserve fund levels, she reviewed the budget reserve plan that Council adopted as part of last year's two-year budget cycle. Subsequent to that two-year budget being adopted, there were other reserves Council implemented that were listed in the revised plan. She also reviewed staff recommendations in reserves at the end of the current fiscal year (6/30/2002) and reserves for FY 2002-03 and 2003-04. It includes:

- Healthy City cash flow reserve at 7% of the budget
- capital projects fund – this fund was established to provide a source of revenue for demonstration projects
- establish a revenue/economic stabilization fund – expected to eventually grow to \$2,100,000.
- infrastructure reserve of \$4,700,000
- San Luis Rey debt fund - the General Fund portion is \$1,200,000 and is part of the financing plan.
- Unallocated capital reserve - proposed to continue at \$1,500,000
- energy reserve – We had an energy reserve of \$1,000,000, but since energy rates have stabilized, staff is recommending that this reserve no longer be included.
- close out old funds - A couple of funds have negative balances, so staff recommends closing them out and using the General Fund reserves to take care of those.

She stated City Manager Jepsen would review the water and sewer interest earnings.

CITY MANAGER JEPSEN reported that Council had a discussion about the utility rates and directed staff to return within 30 days to advise on what it would cost to restore 100% of those. The proposed budget reflects the agreement he worked out with the Utilities Commission regarding how to restore the interest money over time. As Council knows, one of the problems we have had was that attempting to restore it in 25% increments was too large a number for the City to accommodate. Staff suggested 10% increments and, to remember the last budget cycle, the Utilities Department had indicated that they were going to spend the sewer fund down to nearly zero due to capital projects on the table and because the interest was not significant. However, they have not yet spent that down.

The proposed budget includes restoration of the water interest funds over the next 2 years, going from the current 75% to 95% restored, and then 100% restored in the third year. The sewer funds are currently at 25% restored, and they would go to 45% over the next 2 years of the budget. The total interest for year 1 would be \$216,000, and in year 2 it would be \$430,000.

In Council's consideration of supplementals, this could be considered a negative supplemental because it would reduce revenue. But to go to 100% restoration of the interest money in year, 1 it would cost an additional \$655,000, and in year 2 it would cost an additional \$441,000. These are budget estimates based on our current rate of return and the assumption that the department does not spend down those accounts. The reality is that they will probably spend down those accounts over the next 2 years. This also does not take into consideration the fact that there are ongoing funds, like checking account funds, that do not earn the same level of interest. Plus, the Utilities' cash flow needs are significant at \$3,000,000 to \$4,000,000 in water and at least half of that for the wastewater operations on an ongoing basis. Staff will go whatever direction Council prefers as the budget is discussed.

COUNCILMEMBER McCAULEY inquired if, when it was mentioned that the health insurances rates were increasing, any information was received from the Public Employees' Retirement System (PERS) about those increases.

[Councilmember Sanchez arrived at 10:17 AM]

MS. SWINDELL responded yes, and the PERS rate is proposed to increase by an average of 25%. When staff budgets health insurance, we budget what our average participation rate is; not the maximum. So as those costs increase, the City will have some additional health insurance costs. But there is no proposed increase in City contribution included in this budget.

COUNCILMEMBER McCAULEY questioned if the 24% PERS increase was budgeted.

MS. SWINDELL responded affirmatively.

DEPUTY MAYOR FELLER asked if the City is in jeopardy of not getting the property tax money.

MS. SWINDELL replied that property tax revenue is limited by Proposition 13. The City receives revenue as new development comes on board or when property is turned over. To the extent that property values continue to increase, Oceanside's property values are the lowest of any community in the North County area. If the trend continues and properties turn over, we should continue to see strong increases in that revenue source. If the property values do not continue to increase for some reason, or if property owners do not sell their property, that growth rate will be limited.

DEPUTY MAYOR FELLER asked if there is any danger of losing that revenue, like what happened with the VLF backfill.

MS. SWINDELL responded no.

Continuing with the presentation, she stated the final policy issue that Council may want to consider as part of this budget is a satellite senior center. The cost of that is not included in the proposed budget. Should Council wish to consider such a proposal, then consideration would need to be given for both the operating cost impact and the initial capital outlay.

Regarding the 5-year forecast, she reviewed some of the assumptions used to prepare the forecast. To preface the forecast, she warned about the State budget situation; if something drastic happens to the VLF revenue or any other State funding, then this 5-year forecast will need to be completely revised. The forecast was prepared under the assumption that revenue growth will be limited as we recover from the recession, but then we will begin to grow as the economy strengthens. The major revenue drivers for the General Fund are property tax, sales tax and the State VLF. The major expenditure driver is compensation.

The revenue assumptions are that: property tax growth will increase from 5% to 8% a year; sales tax growth will be 3.5% for the first FY and then grow to 5% by 2004-05 and continue through the forecast period; the VLF growth from the state is currently budgeted at 0%; other revenue growth will average between 2 and 5%; interest earnings accrue to the Utilities Fund in a phased plan; and the revenue does not include any potential effects of fee studies.

The expenditure assumptions are: compensation growth is projected at actual cost for the first 2 FYs, and then assumed to be 5% for FY 2004-05, and 4.6% for FY 2006-07; benefit rates will increase by 3%; operating expenditures will increase by 3 to 4%; it reflects the San Luis Rey debt service financing plan; the vacancy

factor is gradually phased out by \$100,000 per year; and expenditures do not include costs for a satellite Senior Center.

She displayed a chart showing the 5-year projections. It shows that, for the first 2 years of the budget, revenues exceed proposed spending. Beginning in FY 2004-05, the lines cross and expenditure growth will exceed the revenue growth if these assumptions hold true. The City needs to be cautious as we consider ongoing operating costs that might be included in the proposed budget. In addition, it illustrates the need to continue Council's focus on economic development initiatives to strengthen our revenue growth.

DEPUTY MAYOR FELLER asked what the vacancy factor is.

MS. SWINDELL explained that previous budgets included an assumed vacancy factor of 3% for all departments except for Police and Fire — where the vacancy was 1%. In Police and Fire, which makes up the majority of our budget, they need to have full staffing. So if they have a vacancy and they don't have staff to fill that, they have to use overtime as a funding mechanism. So there really is no savings. For the other departments, as we are in a tightened economic time, we may not see vacancy factors as high as 3%. And the smaller departments that typically have low turnover do not have enough budgeted monies to cover their spending with that kind of built-in vacancy factor. Finally, if the vacancy factor were budgeted, it would provide some cushion if some catastrophic impact comes from the State.

MAYOR JOHNSON asked if an on-site airport manager was budgeted.

CITY MANAGER JEPSEN stated that the Public Works budget would provide Council with the information on the airport manager position.

Regarding the vacancy factor, we budget as if all positions are full. However, during the course of the year, there will be some turnover in positions. Staff wants to recapture that money that is not going to be expended because of vacant positions and then allow Council to re-budget it. This will allow Council to maximize the amount of money available to do the things it wants to do. Ms. Swindell indicated that a very conservative approach would be to not have a vacancy factor and then you have that money available as a reserve if something were to happen during the year, since we know there will be vacancies throughout the year.

COUNCILMEMBER MCCAULEY recalled that in the past, Council was given a blue summary sheet for each department that provided information such as the number of employees, positions budgeted and the increase and depletion of these. She would like to get that information again.

Also on the vacancy factor, she recalled that 3-4 years ago Council requested that the vacancy factor be eliminated because some departments were carrying huge numbers of positions that were not being filled; called "ghost employees". To determine whether or not Council wanted to continue even with a 3% vacancy factor, she would like it spelled out when we are approving positions for each department, how many of those positions are actually filled and how many are just being funded for future filling.

COUNCILMEMBER HARDING stated the vacancy factor has always puzzled her. She recalled that many years ago the departments would use the word "position" so Council never knew if the position was filled or not. So by putting the money in the reserves, we know that when we fill that we have to take some money on vacancy factors. To her, it is not a budget that the public and Council can understand. If there are 180 positions in Public Works and 35 of those are vacant, it gives a false impression to the public that there are more workers out there than there actually are. She is pleased to see this going away.

CITY MANAGER JEPSEN clarified that the proposal is to phase out the vacancy factor over the next few years. It will not be gone in the first year of the budget.

Regarding the positions that are filled vs. vacant and pending State approval of the Governor's budget, he has implemented a process that requires close examination of any positions to be filled. The City is not filling anything other than essential positions until the Governor's budget is approved. What will happen within the next 30-60 days is unknown, and Council could get a false sense of what is vacant and what is filled. Staff could advise Council of what has been vacant on an on-going basis, which may be more revealing.

COUNCILMEMBER HARDING noted that yesterday she met with elected officials from 4 different cities, and 3 of them mentioned that their cities had imposed hiring freezes because of the uncertainties. Until it is clear what will happen, we need to be very careful how we spend our money.

A) **City Council Offices**

MICHELLE SKAGGS-LAWRENCE, Assistant to the City Manager, reported that Council's mission statement indicates that the Council establishes City policy, sets direction, citywide goals, provide leadership, and most importantly represents the citizens of Oceanside. The proposed FY 2002-03 Council budget is \$800,767, which represents a 6% increase over the current budget. An additional 3.7% is included for FY 2003-04.

Personnel services in FY 2002-03 shows an increase of 12% to \$428,511 and there are 3 primary reasons for that increase: the vacancy factor is not included in the 2002-03 budget; there are also step and benefit increases for permanent employees; and we have also reserved the capacity in this budget for Council to consider elected officials' salary increases. Staff identified the maximum amount allowable, if Council chooses to do that at a future date.

Maintenance and operations went up slightly due to an increase in miscellaneous supplies expenditures and a request for a color printer for the Council offices. The interfund charges decreased slightly.

Regarding specifics of the maintenance and operations budget, there is a slight reduction in equipment maintenance and repair. Rents and leases for FY 2001-02 are \$6,400 for Council's portion of the rental rate for the Xerox machine. That has been transferred to the IT division, so it will no longer show up in this budget. Postage increased slightly based on current usage. Materials and supplies has a slight increase because it includes \$2,600 for a new color printer and \$1,400 for miscellaneous expenses based on Council's current spending. Each Councilmember has an individual allotment, and it is recommended that it be increased to \$450. Advisory group support is listed at \$3,500, and the Sister Cities support remains at \$6,000. Books and publications decreased slightly based on use. The Nextel/Cox@home was not budgeted in the current fiscal year, so an increase is necessary to an amount that would be appropriate for next year. The same amount is maintained in the training category. A total of \$32,450 for travel and conference is approximately \$6,000 each and \$2,000 in the shared account. Memberships and dues has a slight increase.

COUNCILMEMBER HARDING asked what the shared account is.

MS. LAWRENCE replied that within your travel budget there is a pool of money that is not identified for a specific Councilmember.

COUNCILMEMBER HARDING inquired if the Washington trip that the Mayor and Deputy Mayor take each year comes out of the shared account. She does not think it should come out of their individual budget because that is an annual event.

MS. LAWRENCE explained that in the past, Council did a combination of things depending on the Mayor and Deputy Mayor's travel budget at that time. For instance, in the Mayor's case, some of the money to travel to Washington, DC was charged to the shared account. The purpose is to give Council a little more flexibility.

COUNCILMEMBER HARDING thought that the required trips should be discussed at some time since the Mayor will always be required and should go to more places than anyone else. The other required trips, such as to Washington, DC should be taken either equally from each Councilmember's accounts or from a different account altogether to make it more understandable to the public. It is important that the City officials attend, but the Mayor and Deputy Mayor, particularly the Mayor, accounts are hit more because they are required to travel to more places.

MAYOR JOHNSON asked what the \$8,760 for training covers.

MS. LAWRENCE indicated that pot of money is used for costs associated with the facilitator for the strategic planning efforts.

COUNCILMEMBER SANCHEZ asked the amount Council spent in these various categories to get a better idea of what we actually do and what we may not need to do.

MS. LAWRENCE replied that those reports are available, and she will be sure to get them to the Council. The information is on the computer as well.

COUNCILMEMBER McCAULEY received a memo a while back about the color printer, at which time she commented that she did not think Council needed a color printer. She asked what it was requested for.

CITY MANAGER JEPSEN said the color printer is primarily a request from the Mayor's office to print the certificates and other things given out at Council meetings. Currently, someone else in the office interacts with the Mayor's legislative aide to print the certificates. If the color printer were purchased, the Mayor's aide could take care of this.

COUNCILMEMBER SANCHEZ asked how many color printers there are.

MS. LAWRENCE replied there are 2 that she is aware of on the third floor: one in the Manager's Office area, and this would be the second.

COUNCILMEMBER SANCHEZ asked if other departments have a color printer.

CITY MANAGER JEPSEN advised there are various sizes of color printers in various departments. The one recommended for Council is nice but not terribly expensive.

MS. LAWRENCE summarized the primary changes to the Council budget for FY 2002-03: there is reserved capacity for Council to consider a salary increase at a future time — [Council salary increases, if approved, (\$19,992) + (\$3,000 in expense allowance)]; staff salary and fringe benefits increases (\$23,485); added Nextel and Cox@home charges (\$3,820); and the increase in the supply budget for miscellaneous items and a color printer (\$4,010).

COUNCILMEMBER SANCHEZ is not in favor of a Council salary increase based on the current economic times. It is inappropriate to even consider it.

B) **City Manager's Office**

ASSISTANT TO THE CITY MANAGER LAWRENCE presented the budget for the City Manager's Office. The City Manager's Office mission statement is to provide support to the City Council and manage the provision of all City services, direct city departments, oversee financial planning and budget preparation, public information, citizen group support and policy development.

The primary objectives are to implement the Council's policies, to ensure effective levels of service, and to ensure sound fiscal management of all our operations.

The Manager's Office currently has 10 people, and staff is not recommending any staff changes.

The City Manager's budget has 3 programs: Management services, Media relations and a Contingency fund. The proposed 2002-03 budget is \$1,132,306, which represents a 10% increase over the current budget. They built in an additional 4% for planning purposes in FY 2003-04. Management services has a 9% increase; Media relations is increasing by 15; and no changes are in the Contingency budget. The 9% increase in management services is primarily reflected in the vacancy rate issue and the planned salary and benefit increases. Similar to the Council budget, they also included Nextel services. The Manager's Office has nearly \$20,000 in interfund increases.

In Media relations they are dealing with the vacancy factor issue in a small department, and there are also salary and benefit increases. Staff included \$8,000 for the Annual Report project, which was previously un-budgeted. There are some incremental increases in mailing costs for the quarterly magazine and additional increases in the interfund. The money generated from ad sales for the quarterly magazine is not listed because staff changed the accounting process. They used to show a net figure, but these are gross figures. Staff anticipates ad revenues for next year to be slightly over \$75,000 and about \$76,000 the following FY. So that would actually reduce the cost in FY 2002-03 in Media relations to about \$151,000, but it would be shown in a different part of the budget.

C) **City Treasurer's Department**

CITY TREASURER JONES reported that the Treasurer's Office has a small and simple budget. The mission statement of the Treasurer's Office is to manage cash and monitor revenues and expenditures so as to provide available funds for expenditures while keeping idle funds fully invested; to manage and trade the investment portfolio in order to earn the highest rate of return while protecting the principal; and to manage the special assessment of the City.

The primary objectives of the Treasurer's Office are: to manage the Treasury operation by actively managing the investment portfolio of \$140,000,000 so as to attain the highest rate of return within the parameters of safety first, liquidity second, and lastly yield; to practice effective cash management through careful monitoring of the revenues and expenditures, and work closely with the Treasurer's Citizen Oversight Committee to study economic trends and determine effective portfolio management strategies. The Treasurer's Office closely monitors and reviews the City's adopted investment policy; and presents it to Council annually.

The Treasurer's office has a staff of 3 employees: the City Treasurer; the Investment Officer, and the Accounting Technician. The budget summary by program shows that personnel services are proposed at \$139,031 for FY 2002-03 and \$146,477 for FY 2003-04. These figures include merit raises for both employees in both years, it includes the Treasurer's raise, and the benefits for the employees, which has increased.

The non-personnel/operating services dropped this year because they took \$13,000 they had used in a previous year when the City got the Bloomberg computer system. We absorbed the cost at that time, but this year we are charging that cost off to the interest revenue. The Bloomberg system allows the City to take the interest out of the portfolio and disburse it among the different recipients of the enterprise funds, so that will be charged to them. Under non-personnel, \$78,000 of that is the contract with United American Capital Corp. The rest of it is consumed with the postage, maintenance and operation of the office equipment, materials and supplies, California Municipal Treasurers Association (CMTA) and Municipal Treasurers Association (MTA) membership dues, mileage reimbursement, conference expenses, training, and one cell phone.

In 2003-04, they proposed a slight increase to provide a little cushion.

The interfund charges have a slight increase of \$11,902.

COUNCILMEMBER HARDING asked all departments to provide Council with the slide presentations in advance for review prior to coming to the dais. Not having them puts pressure on Council to analyze things very quickly.

D) City Clerk's Department

CITY CLERK WAYNE explained that this presentation will highlight what the department hopes to accomplish within the next 2 years and to also provide a status report on the progress with the document imaging program.

To give Council an opportunity to hear from other staff members, different presenters will discuss the different programs. The presenters include: Holly Trobaugh, who has been with us for 12 years; John Guthrie, who has been with us for 11 years; Bob Gentles, a new staff member for 1 month; and Charles Hughes, who has been with the department for 17 years and is the budget coordinator.

The Mission Statement of the City Clerk Department is to serve as the City's source for informational, historical, legislative and election services for the community, the public and city agencies, and to provide these services in an efficient, effective and friendly manner.

The primary objectives for the department are to provide the City, its agencies and the citizens with efficient and accurate legislative services - with an emphasis on the word accurate; to preserve the history of the City through an effective records management system; to continue implementation of the document imaging program for the capture and retrieval system to allow computer access to City documents; and to administer all election and political reporting requirements.

The City Clerk Department does all this and more with 9 very hard-working full-time positions. All of these positions listed on the organization chart are now filled since the administrative analyst position was filled one month ago after being vacant for approximately 7 months. This information is part of the vacancy report mentioned earlier. The department also has 2 part-time positions in records management and document imaging.

Out of these 9 heavily loaded positions, we of necessity move and reallocate staff work hours to the greatest need. This means that we have divided and distributed portions of their work hours into the 4 program accounts. For example, since a general municipal election is coming up this November, we have reallocated more staff hours into that program in order to complete all aspects of the election process. We do this with the same amount of staff. Elections are handled without any additional staff, which is why it is necessary to reallocate hours. Then in the FY 2003-04 budget, those work hours are reallocated back into some of the other programs since the focus is off the elections.

Although it can be somewhat confusing, the City Clerk Department does this to provide a better cost accounting of what it takes in each program to get the work done. So, although no positions are listed in the election or document imaging programs, there are work hours in those programs. As you can imagine, this presents some ongoing workload challenges. The majority of our budget is in personnel costs since the programs are very labor intensive.

The primary programs are: Administration, which handles all the legislative services; Central Records/Archives, which handles records and archives management and the newer program of document imaging; and Elections/Filings, which not only includes aspects of the upcoming election, but also all of the Fair Political Practices Commission (FPPC) reporting requirements.

She asked Council to keep in mind that there are automatically applied budget increases such as in personnel costs, interfund costs for IT and building rental—those are automatically increased and affects the overall budget. We do understand that the State budget deficit causes the City to face many challenges. The City Manager has emphasized to all directors the need to keep costs down, which they have complied with by not requesting any additional staffing and by attempting to find tools, such as one-time purchases of software equipment, to assist staff in assisting others.

HOLLY TROBAUGH, Program Specialist, gave an overview of the Administration division which provides legislative services and includes processing minutes for the multiple agencies including Council, Manufactured Homes Fair Practices Commission and others. Since minutes processing is very labor intensive, staff will continue to explore alternative methods of processing.

We also process and track all legislative documents such as ordinances, resolutions, contracts and recorded documents produced by these agencies. We want to emphasize the absolute necessity for these documents to be accurate and complete which, along with how they are maintained in the central records center, determines their benefit to the City both financially and legally.

Another service provided by this program is the processing of all incoming and outgoing mail for all City departments. The funding for postage for the department is being increased due to both the higher volume of mail and the June postage rate increase to \$0.37. There is also another postage increase anticipated for January. However, the lease/purchase of the mail machine is now paid off, so the budget reflects a decrease in the annual payment amount of almost \$5,000.

Additionally, this program tracks the membership of the many committees, boards and commissions. Some of the notable costs include the ongoing costs for the annual Advisory Group Handbook update and related purchases and the Advisory Group Recognition Program. A new expense for FY 2003-04 is a one-time cost of \$18,000 for the development of membership tracking software. Currently, tracking the membership, applications and required filings through the staff-developed database is very time intensive. The new software will replace that system and hopefully provide staff with some automated options. Not shown is the major cost factor of labor in delivering this service, as well as the smaller, but related costs for newspaper advertising and postage, which costs about \$1,500 per year. Staff proposes a budget of \$471,156 for FY 2002-03 and \$521,041 for FY 2003-04 for this program.

JOHN GUTHRIE, Records Center Supervisor, stated the central records and archives facility is located in the City Operation Center. He showed a photograph of the central corridor in the general storage area, stating we currently hold approximately 12,000 boxes and over 15,000 drawings, plans and maps from all City departments.

Some of the services provided by the central records/archives program are the transfer of material from all City departments; recycling of purged documents; and research services. Additionally, we provide for the preservation and conservation of vital and historic documents for the City. The preservation of documents has been of considerable value to the City as noted in a letter received from one of the City's contract attorneys in support of the archives project. The letter states the value of the archival program: "The archives are a City treasure that have saved the City hundreds of thousands of dollars and I strongly encourage you to continue the preservation of the City's unparalleled archives."

For budget highlights, the implementation of the records management and barcoding software system [\$8,500], is the data conversion cost for consolidation and conversion of 2 existing programs used by the records center into one unified program. The current system uses one program to track inventory and indexes and the other program is used to track reference activity. Staff developed the current systems as they moved from a manual system to a computerized system. Next is the related labor costs for

the implementation of the records management and bar-coding software. Then we have the purchase of additional shelving and hardware for the records center and archives and collections rooms. There is the upgrade of existing shelving units to reflect current seismic recommendations. Also, the acquisition of baling equipment would allow staff to compress shredded paper for recycling. In summary, the proposed FY 2002-03 budget for the central records and archives program is \$273,249. The proposed FY 2003-04 budget is \$247,622.

MAYOR JOHNSON asked how the shredded paper is currently handled for recycling.

MR. GUTHRIE explained that they have 6 dumpsters outside the records center. A conveyor takes the shredded paper from the shredder and dumps it into the dumpsters. Then they haul the dumpsters out to the back of the building for the recycling company to pick up once a week. The task is very cumbersome. They can probably get 15-20 boxes of shredded material per dumpster. With a baler, they should be able to replace all 6 of those dumpsters and use one baler. They would still use a forklift to carry the material out, but it will be much more efficient and save space.

MAYOR JOHNSON recognized that it would also save labor.

MR. GUTHRIE agreed, adding that loading a dumpster requires staff to manually maneuver it, which increases safety concerns.

BOB GENTLES, Administrative Analyst, reviewed the Elections and FPPC reporting program. The City Clerk's Office is responsible for administering general and special elections, as well as monitoring the Statement of Economic Interests filed by over 250 designated employees, advisory group members and elected officials. We are also responsible for the management of the filing of all campaign statements required of Political Action Committees and elected officials. In the upcoming fiscal year, there will be an election to fill 2 City Council seats and to decide on 2 citywide ballot measures. The candidate nomination period will begin July 15, 2002, and the election will occur on November 5, 2002. The estimated cost for the election is \$56,000, which does not include personnel expenses. There are no elections or ballot issues scheduled for FY 2003-04. In summary, the budget requested is \$120,422 for FY 2002-03 and \$40,151 for FY 2003-04 since there are no scheduled elections.

MR. GUTHRIE discussed the document imaging program, which began as a pilot project in FY 2000-01. In the first year, staff researched the City's needs, created a request for proposal, formed a selection committee, conducted site visits, interviewed vendors and eventually selected the system and vendor. Beginning in late 2000-01 and continuing through the current fiscal year, the hardware, software and licenses were purchased and installed. Much has been accomplished on the document imaging program, including the installation of equipment and software; training staff; scanning over 170,000 pages of material; and acquiring additional licensing and equipment for expanding the system to include maps and drawings. Documents currently in the imaging system are ordinances and resolutions from 1989 to 2000; Minutes from 1989 to 1998; agenda summaries from 1999 to 2002; and agendas and staff reports from mid-1989 to 2001.

Document imaging began when our requested funds for equipment and software were placed in the Information Technologies (IT) budget. The pilot project was reorganized as a City Clerk program for FY 2002-03. The budget highlights for the upcoming budget cycle include: labor distribution charges; maintenance, upgrades and supplies; a part-time document imaging technician working 900 hours; and the conversion/scanning of City documents.

Mr. Guthrie provided Council with a brief computer tour of the Web-based version of the imaging software and how it works.

The summarized costs proposed for document imaging for FY 2002-03 is \$98,922.

DEPUTY MAYOR FELLER asked why anyone outside the City Clerk's Office would need to have access to this.

MR. GUTHRIE explained that other City departments would be able to conduct their own research and recover their documents to view. This system will allow City staff, and ultimately citizens through the web, to access various public items without having to contact the City Clerk's Office or other department and without having to come into the office.

COUNCILMEMBER SANCHEZ thought this was great and would cut down on the labor costs for the City Clerk staff from doing research and responding to research requests. Finally, this will allow the public to get information for those who cannot find the time during the day to do a research request. She asked when this would be available to Councilmembers.

MR. GUTHRIE replied that staff is in the process of getting the additional licensing. He did not have an actual date, but it should be in place by the end of this month.

MAYOR JOHNSON was reminded of a number of years ago when the City was going through the process of getting the City Website up and running. One of the main thrusts behind that was assurance that the public had access to everything that was considered public information. This is an enhancement to what the City has been doing.

CITY MANAGER JEPSEN added that although all the new documents will be on this system, it will take a tremendous amount of work to go back into some of the archives. Hopefully, someday all of this will be available electronically.

MR. GUTHRIE confirmed that would take some time. As noted in the budget, the department does not have a full-time person allotted to this in the budget, but they do have a part-time person. Staff will continue to input archive information as they can, and maintain current information as it is completed. The goal is to also work our way backwards to get more material in the system.

He continued that to summarize, the proposed costs for FY 2002-03 are \$98,922. For FY 2003-04, the proposed budget is \$101,308.

CHARLES HUGHES, Assistant City Clerk, presented the biennial budget summary for the City Clerk Department. For FY 2002-03, the proposed budget is \$963,749, which is an increase of 15% over the current budget. The most significant cost increase is for the upcoming election. In the expenditures by category section, personnel services are down by 2.4%, due largely to the cost for temporary help being moved from a personnel services account to a non-personnel/operating account. The increase in non-personnel/operating expenditures of 93% reflects the movement of these costs for temporary help and the election expenses. Interfund service charges are increasing by nearly 16%, with significant increases in information technology and building rental charges. Capital outlay expenditures for FY 2002-03 are decreasing by 32%.

A review of expenditures by program shows legislative services decreasing by 7% and the records/archives management program increasing by only 1%. These changes are due to the distribution of hours and labor costs to the elections/FPPC reporting program for the upcoming election. The elections cost increased by 92% to cover costs for the citywide municipal election with 2 open Council seats and 2 ballot measures. The document imaging budget for FY 2002-03 is \$98,922. Costs in this budget are split between distributed labor costs and non-personnel/operating expenditures. In the pilot project during the previous 2 years, staff did not track staff hours spent with imaging or the costs involved. In the coming year, non-personnel/operating costs for temporary help and other services and supplies are reduced by 18% over current funding levels.

The FY 2003-04 proposed budget for the department is \$910,122, which is a decrease of 5.6% due to several factors: there are no capital outlay expenditures in the

second year of the biennial budget; one-time costs incurred in FY 2002-03 will not carry forward into the second year of the budget; and there are no election costs budgeted for FY 2003-04.

E) City Attorney's Department

DUANE BENNETT, City Attorney, reported that the Attorney's budget is very simple. Our mission statement is provided to Council, and as municipal attorneys, it is our job and goal to deliver to Council and the citizens of Oceanside the best quality legal services possible, recognizing that we are held to higher ethical and integrity standards as municipal attorneys. It is not our job to make everything that the government does right or to win every case. It is our job to see that justice is served.

The primary objectives of the City Attorney Department are to provide legal direction for the City; give guidance to the City Council, Small Craft Harbor District, and Community Development Commission; to provide legal insight and direction to City departments and directors; serve to provide legal services and represent Council in any capacity; work hard with city staff and departments to ensure they have a full range of legal services; pursue justice through criminal and civil courts in a timely and professional manner; and provide professional supervision of outside retained attorneys and consultants

He displayed their organizational chart. Not much has changed except that there is currently a vacant Deputy City Attorney position, which has been vacant since July 2001. Although understaffed, staff has been working to continue to deliver quality legal services. They have made a conditional job offer to a Deputy City Attorney, Cynthia Morgan, out of the San Diego City Attorney's Office. She is purported to start on June 17, 2002. In that capacity, she will be providing assistance to the Police Department and Code Enforcement, handling public records requests, and handling bankruptcy work. Much of the Police Department's responsibilities are falling on City Attorney Bennett, and that has created a burden. So they are looking forward to her coming in as a Deputy City Attorney I.

To summarize their programs, Administration is the bulk of the costs with the personnel costs. We as lawyers sell only one thing, and that is our words, so we don't have a bunch of services that we deliver; we provide assistance. The current budget reflects in Administration an amount of \$1,212,878; in FY 2002-03 it is proposed to go to \$1,308,744, an increase of 7.9%. In FY 2003-04, it is proposed to go to \$1,372,830, which is a 4.9% increase.

The reason for these changes is that there is an increase in personnel due to scheduled or potential merit/salary increases and added fringe benefit burdens. The non-personnel/operating costs have a slight spike due to books, publications and subscriptions, as well as anticipated increases for travel and conference expenses for training. Actually, the increase for books is not an increase; we have just been underfunding that for awhile. Our books, supplies and subscriptions increase year to year because the law consistently changes and we have to stay current with the law. We are therefore asking for the books and subscriptions budget to be slightly increased. The interfund service charges reflect changes in the citywide allocations for IT purposes.

Carol Gould is also present to answer any questions.

MAYOR JOHNSON stated there were no questions. That concludes the presentations.

2. **Public Communication on City Council Matters (Off Agenda Items) --**
None

May 31, 2002 10:00 AM

Council Workshop Minutes

ADJOURNMENT

MAYOR JOHNSON adjourned this meeting of the Oceanside City Council at 11:24 AM, May 31, 2002, until the 2:00 PM Mayor and Council Workshop today.

ACCEPTED BY COUNCIL:

Barbara Riegel Wayne, CMC
City Clerk, City of Oceanside



California

CITY OF OCEANSIDE

MINUTES OF THE

CITY COUNCIL

WEDNESDAY, SEPTEMBER 26, 2007

**NOT OFFICIAL
UNTIL APPROVED AT SUBSEQUENT
MEETING BY CITY COUNCIL**

ADJOURNED MEETING 4:00 PM COUNCIL CHAMBERS

Mayor

Jim Wood

Deputy Mayor

Rocky Chavez

Councilmembers

Jerome Kern

Jack Feller

Esther Sanchez

City Clerk

Barbara Riegel Wayne

Treasurer

Rosemary Jones

The adjourned meeting of the Oceanside City Council was called to order by Mayor Wood at 4:00 PM, Wednesday, September 26, 2007.

PLEDGE OF ALLEGIANCE -- Led by David Manley

ROLL CALL

Present were Mayor Wood and Councilmembers Feller, Kern and Sanchez. Deputy Mayor Chavez was absent [ill]. Also present were City Clerk Wayne, City Manager Peter Weiss, and City Attorney John Mullen.

WORKSHOP ITEM:

1. **Overview of the City's Housing Element and Inclusionary Housing Policies and associated fees**

DAVID MANLEY, Neighborhood Services Division Manager, presented a quick overview, stating the Housing Element is one of the elements of the City's General Plan and is the one that the State requires the City to submit to them for review. It is updated every 5 years. The current period covers the years 2005-2010. The main goals of the Housing Element are to ensure that jurisdictions contribute to meeting overall State housing goals and participate in regional housing needs as established by the San Diego Association of Governments (SANDAG). The goal for Oceanside's fair share, as determined by SANDAG's Regional Housing Needs Statement, is 6,423 total new residential units during this 5-year period, with 2,496 of that number being affordable to low and very low-income households. As Council knows, we have finite resources and may not be able to meet that goal of constructing all of those new units. The State requires that the City do the best faith effort they can with the resources they have, as well as showing they have the capacity through various zoning capabilities or available land. We can do that through the Housing Element, showing that we meet that capacity through the land we have available and various zoning changes. Additionally, we have housing programs in place that assist in meeting the housing goals. Those programs include the following:

- Housing revenue bonds/low-income tax credits – These are used for new construction and acquisition/rehabilitation projects of rental properties. This is one funding source where we partner with a non-profit developer.

- Density Bonus – This is another tool available to the City. State law requires that they have this available to builders. It is included in the Zoning Ordinance (Section 3032) and allows a higher density if the developer provides a certain amount of affordable housing on site. The density can be raised a minimum of 25% if it calculates out, along with concessions regarding setbacks, height, etc. About 20 years ago, a couple of density bonus projects came through, but it has not been utilized lately.
- Inclusionary Housing program – This requires developers to build 10% of their projects as affordable units or pay an in-lieu fee (to be discussed later in the presentation).
- Redevelopment – 20% set-aside – 20% of the redevelopment tax increment goes into housing funds, which are used.

Other programs have been effective throughout the years as tools to meet the City's housing goals, including HUD Section 202, rental vouchers, home buyer assistance, etc. The State wanted a lot of detail on the potential residential site conversion/intensification program, which requires builders to build on-site. The State also wanted detail on the identified sites in the City that could yield the required number of units to meet our goal. The majority of sites included in the Housing Element were included in prior housing elements and carried forward to this one. The sites were also part of the Affordable Housing Strategy approved by Council as potential sites for development of affordable housing. For example, if you had a commercial piece of property that you wanted to convert to residential use and the property was on this list, you would be required to provide affordable units. If you went through discretionary approval, i.e. General Plan amendment, zone change, increasing density from low residential to high residential, or for mixed use, then you would have to build the units on site. On the other hand, if the developer builds commercial on a site zoned commercial, there would be no requirement for any inclusionary units on that site.

Addressing the Housing Element process, Mr. Manley reviewed that staff in late 2005 submitted the draft element to the Planning and Housing Commissions, as well as to the Council in order to receive authorization to submit it to the State for additional review. It has been a back-and-forth effort to respond to the State Housing and Community Development (HCD) office's request for a lot of detail. Ultimately, HCD gives a final determination that the element is in compliance with State law. Afterward, it comes back to Council for final approval and then becomes the City's Housing Element for the 2005-2010 period.

He pointed out that if the City did not have an approved Housing Element, they could lose out on grants. They have lost out on some workforce housing grants they could have applied for, some regional funding opportunities, etc. Therefore, it is imperative that they move this element forward.

Addressing the Inclusionary Housing Ordinance, he stated the ordinance was first adopted in 1991 and was amended in 2000. The overall goal is to produce affordable housing units to help meet the City's housing goals. There are 2 options available to the developers: do an on-site build of 10% of the units or pay an in-lieu fee. The current in-lieu fee is calculated by taking the difference of the average median price of a home for the previous quarter of the previous year. For example, in late 2006, that price was \$476,833. You then take what a family of 4 could afford for a 3-bedroom house, which is \$173,000. The difference between the 2 is the gap. You then take 10% of that gap amount to determine the in-lieu fee, which would be \$30,000. That is according to the formula in the present ordinance. However, the current inclusionary housing in-lieu fee has been frozen at 2002 levels, which is \$10,000. He gave an illustration of the cost differences between 2002 and now, noting the median price is definitely market driven.

Some alternative fee calculations have been mentioned recently and were included in the Affordable Housing Strategy report. The following are items for consideration:

- The fee could be phased in from the existing fee of \$10,000 up to the \$30,000 over a period of time, or the fee could be deferred until when the Certificate of Occupancy is issued, rather than collected up front when the building permit is

issued. That allows the developer to recoup some of those costs.

- The Affordable Housing Task Force discussed using the Consumer Price Index (CPI), trailing for 3 years average, and taking the frozen 2002 fee and using a cumulative CPI over a set period of time. In the last 4 years, it would be an 18% difference to bring it forward to the present. That would raise the fee from \$10,000 to \$12,000.
- A few cities use a square-footage basis to determine the fee. For example, a 1,200 square foot condo at \$10 per square foot would total a \$12,000 fee for that unit. For a lower square footage, it may result in a lower fee than we currently charge, but we may recoup some of the money with the higher square footage units. It may balance out.
- The City could also do a combination of all 3. For example, the fee could be based on square footage, with a CPI adjustment every year and the fee deferred. It would help maintain the stream of sources coming in. The fee would be raised every year, as is done with other services.

As a formality, any alternative methods considered by Council would require a change to Chapter 14C of the City Code. As background, the fee option has been used by almost all of the developers, except for a few who built a few units on site. Having the inclusionary housing fee fund has allowed us to build some remarkable projects over the last several years, most notably La Mision Village, which is a mixed-use project, and the Josepho property purchased last year, which will be a combined market rate and affordable development with up to 200 affordable housing units. Additionally, Libby Lake Village, in partnership with Habitat for Humanity, will have 20 single-family detached homes. For Cape Cod Village, they were able to preserve at-risk units for seniors that would otherwise have gone at market rate. The Country Club Apartments is distressed property, and the City is in negotiations to finalize that purchase to rehab that project. There is a pending senior project for 80 units. Therefore, the stream of funds we have had has been crucial to making these projects move forward.

COUNCILMEMBER FELLER noted that the Josepho property purchase was listed in the staff report at \$3,100,000. It then noted an additional subsidy. He asked if the other projects listed did not need additional subsidy. The City is getting 200 units for less money than 2 or 3 of the other projects.

MR. MANLEY explained that the \$3,100,000 was for the land purchase only. Since the project has not been finalized yet, it is unknown what the additional subsidy will be, only that a subsidy will be required. The money spent was used to land bank and purchase the property. Further responding to Councilmember Feller, he indicated it could be up to \$14,000,000 to subsidize those 200 units.

MAYOR WOOD asked the amount left in the fund, and **MR. MANLEY** responded there is about \$2,900,000. A majority, if not all, of that money will be recommended to the Lake Boulevard project, which will be before Council in a few months.

Further responding to Mayor Wood, Mr. Manley stated the \$900,000 increase for La Mision is included.

Public Input

ERNIE COWAN, 906 Sycamore Avenue #104, Vista, Vice-president of Government Affairs for the North San Diego County Association of Realtors, represents about 7,000 realty members trying to match the ability of people to get into homes. They are concerned about the inclusionary housing program, in general, and specifically the proposed draconian increase in fees. Everyone has the same goal to achieve home ownership, which is a positive thing. Some of the elements of home ownership are lower crime rates and higher property values. There are also higher school test scores and a higher level of philanthropy.

However, they differ in the method to achieve that goal. Even though the City has done some good things in the past few years with inclusionary housing, comparing it to what private enterprise could do if the City empowered them, the

program is a failure. Only now after more than 15 years are the units being built and at a cost exceeding per unit what the private sector could provide for those units. While noble in intent, the reality is that inclusionary housing is not housing people. In fact, it is more like warehousing people. Either rent control or equity control precludes people from accumulating value and moving up by letting their equity appreciate.

If the City is really intent on providing more housing, he urged them to create strong development standards, tight controls on maintenance and upkeep, and high-density zoning that would allow houses to be built at a per unit cost that is far more in line with the ability of people to afford. Private enterprise can solve this situation for the City. A number of his realtors and himself are willing to participate in any kind of task force to look at alternatives to see if they could provide the goal of more housing opportunities for the residents of this community.

OLLIE SPERAW, 519 Citrus Way, is a former State senator, past president of the Chamber of Commerce, and has served on the Redevelopment Advisory Committee, Project Area Committee and Utilities Commission. Additionally, he built homes for 9 years and has been a realtor for 35 years. While he is opposed to this disguised tax on a few homebuyers, he is not opposed to a general tax-back program that provides a reasonable assistance to those who have earned the right to public assistance. As a senator 27 years ago, he opposed the 1st legislature legalizing inclusionary housing. It was not because it is a social welfare program but because it is an end run around asking the public to vote for being willing to pay for taxes. Instead, they have an interpretation of the Constitution that authorizes the collection of fees from a selected group of homebuyers to be given to another group composed of those financially unable to purchase a home. The current program could not begin to provide for the hundreds who qualify, because inclusionary housing can only serve an infinitesimal percent of those who seek its benefits. Such a limited program was selected because too many of the lawmakers on all levels feared that the voters would not approve such a program because of the required taxes. Instead, they invented inclusionary housing to ease their conscience, feeling the end justifies the means. Therefore, they only burden new homeowners with this cost. Many of the Oceanside residents already own their own homes and have arrived at the point where they can afford something more modern or that better fits their families' needs. He asked why they should be penalized while the rest of Oceanside's citizens and homebuyers escape contributing to the program. It is reasonable to charge new home purchasers for the City's costs of providing the subdivisions' required infrastructure and a fair share of the capital costs that the City's utilities serve, such as water, sewer and safety.

He asked that Council not make this any worse by increasing the penalties for those able to purchase a new home. He asked that they find another way to raise the funds.

LOU LIGHTFOOT, 5450 Fleet Street, Carlsbad, President of The Lightfoot Planning Group, stated he personally is opposed to inclusionary housing fees. It is the only fee that cities collect on new housing that is not directly related to mitigating an impact caused by that house or to providing a service required by that house. His firm has written 7-8 housing elements over the years, and they got every one of those certified by HCD without including inclusionary housing fees in any of them.

The City needs to look at any new or increased fee in the context of all the fees paid for by new housing. He has a program to help calculate city fees. To put it into perspective, the North River Village condominium project that Council recently approved is paying \$31,541 per unit in City fees. The inclusionary housing fee is about 36% of their total fee load, which is \$3,343,429. That includes all of the processing fees, plan check and inspection fees, impact fees, etc. It does not include building permit fees. The Bella Terra, a small 15-unit condominium project in South Oceanside, is paying \$46,000 in City fees, and the inclusionary housing fee is 22% of that. A 44-unit single-family project in Jeffries Ranch pays \$63,386 per unit, with the inclusionary fee at 16%, and a small 8-unit single-family project on Vista Way pays \$51,961, with the inclusionary fee at 20%. The inclusionary fee as it is currently structured creates a disproportionate load. The smaller unit projects, which are actually more affordable to the buying public, are paying a heavier load on the inclusionary housing fee than the larger, single-family homes that are 3,500 or 4,000 square feet. He would encourage

Council to get in-depth information about all of the City's impact and processing fees before they adjust any given fee. The fees need to be looked at in the big picture.

SCOTT MOLLOY, 9201 Spectrum Center, Suite 110, San Diego, with the Building Industry Association (BIA), handed out an analysis of inclusionary housing that dispelled myths about it. The 1st myth is that the state requires us to have inclusionary housing; that is not true. In fact, 75% of the cities in California do not have inclusionary housing ordinances or fees. Myth 2 is that, without inclusionary housing, there is no way to build deed-restricted affordable housing units to comply with state law; this is also not true. There are numerous ways to build affordable housing units that do not demand fees or mandates on new construction. Myth 3 is that fees, including inclusionary housing fees, do not increase the price of housing. While prices fluctuate based on demand, no business produces anything for a loss. These fees, the cost of land, construction, labor and materials are all reflected in the price of the product. When the market can no longer bear that price, construction stops and waits until the market rises again. That is how the fees are reflected in the price of housing. Inclusionary housing and fees just lower the price of the land, thereby offsetting an increase in cost. Even if the land basis were zero, inclusionary housing does not make economic sense. You would have to give us the land for free and waive all of our development impact fees for us to potentially break even on the units. If the fees are ultimately reflected in the price of housing and if developers are required to build it on site, it drives up the price of housing. Inclusionary housing has a net negative effective on housing affordability.

Regarding the ways the City is spending this money, he noted that they are spending over \$300,000 per unit for one project. He understood that Council is going to be asked to approve a \$1,000,000 increase to that project. A family making 80% of the area median income (AMI), with a \$40,000 first time homebuyer loan and a \$20,000 silent second through the Cal FHA program, can afford a \$316,000 home. That information was provided to him by Community Housing Works. The beauty behind these loans is that they are paid back. When developers spend money on constructing inclusionary housing units, the money is gone. He asked if this is about building affordable housing or helping families into housing. BIA is ready and willing to look at better ways to do this with more broad-based funding services. An exorbitant tax on new construction is the absolute wrong approach to take. He strongly urged Council to reject any fee increase at this time and restructure their fees.

DORIS PAYNE-CAMP, 110 West C Street #1202, San Diego, Policy Director for the San Diego Housing Federation, stated their members develop affordable housing throughout San Diego County. They believe that inclusionary policies are most effective when they require that affordable housing actually be built in new developments to ensure opportunities to match jobs and rooftops. They would actually prefer that there be no in-lieu fee, and that the inclusionary affordable units be built. They also recognize that Oceanside makes a provision for a fair and equitable alternative to building affordable inclusionary units by allowing developers to pay an in-lieu fee. That fee should be sufficient to produce the units through some other arrangement if the developers are not going to do it themselves. It should not be a less expensive alternative that is an incentive for developers to skirt their responsibility from the City's Inclusionary Ordinance, nor should it result in fewer affordable units than the City's inclusionary policy intends.

Several North County cities, including Vista and Encinitas, have no in-lieu options in their inclusionary ordinances, and Solana Beach has repealed theirs. Carlsbad allows in-lieu fees only in small projects. In these jurisdictions, developers must meet their obligations by building the required units or ensuring that they get built. There is no uniform way that cities enact in-lieu fees. They vary from Oceanside's formula to Poway's formula, which couples square footage with the zone in which the housing is being built. If Council's goal is to provide affordable, for sale, or affordable alternatives for first time home buyers or other low-income families, the proposal before them, with its emphasis to matching its formula to for-sale housing sales prices, ensures that funds are available to do that. Some cities, including Oceanside, allow developers to build or partner to provide off-site rental housing rather than meeting inclusionary requirements to build on-site for-sale housing. This can be a lower cost option, and many developers prefer it. Many of the affordable housing developers participate in projects like this. They are skilled at accessing State

funds or federal tax credits to reduce the burden on their development partners.

If Council wants developers to produce the affordable units, a higher in-lieu fee is an incentive for them to do that. If they choose to meet the inclusionary requirements by paying a fee rather than building the units, then the fee needs to be sufficient to cover the costs instead of transferring that responsibility back to the City to subsidize.

PETER HASAPOPOULOS, 899 Grand Avenue, Suite D, Escondido, Executive Director for Congregations for Civic Action, stated this is a federation of 11 churches in North County and represents 23,000 families, including 5,000 families in Oceanside. There are countless studies to support either position. The City's housing consultant would argue that inclusionary housing does not pass the cost onto the home buyer. Some studies support that view, and other studies say it does. They could debate whether or not this is true; however, we do not live in a perfect world in which the market would naturally produce affordable housing. It is not working. We live in an imperfect world in which they have an inclusionary policy that is getting housing built. Our question is what the alternative is, if they do not have this policy. They have not seen evidence that the free market will produce affordable housing. Builders, as any business owner naturally would, wish to maximize their profits. There is nothing wrong with that. However, because of that factor, we have no evidence that the market will produce affordable housing. The families that the Federation represents are asking that the leaders not rest on philosophies but make hard decisions. This policy is one of the strongest tools they have to get this done. He asked that Council support and strengthen it.

KEVIN CANNING, 2714 Loke Avenue West #300, Carlsbad, with Brehm Communities, supported the speakers who pointed out the inefficiencies and inequities of an inclusionary housing provision within the Housing Element. There are more successful and more effective ways to produce affordable housing. Being a realist, he urged that, if the Council decides that an in-lieu fee is an option they wish to pursue, they defer payment to the Certificate of Occupancy. That would minimize the financing of the cost for the builder. Particularly in the current market where the sales are slow, it might mean significant savings for a developer. Given the lead time of the spending of the in-lieu fees, they could count on the fee use for other projects.

KAREN YOEEL, 10222 San Diego Mission Road, San Diego, with the San Diego Habitat for Humanity, stated they are one of the recipients of in-lieu fees and are going to be able to produce 20 single-family homes for working families in Oceanside thanks to those fees. They build simple, decent homes in partnership with low-income families, volunteers and their sponsors. A large percentage of their funding is provided through the private sector: companies, individuals and foundations that recognize that safe and affordable housing is a right for all people. Her understanding was that inclusionary housing was to encourage developers to create the affordable housing themselves. Instead, the companies are choosing not to develop that affordable housing; developers are choosing to pay the fee. For the Habitat for Humanity, land costs and permit fees drive home ownership out of their ability to fund raise. We partner with cities and use those funds to buy the land and to pay permits and fees. Low-income families who cannot afford a simple, safe and affordable place to live exist in Oceanside. They are living in substandard conditions. As homeowners they become further invested into the community and are able to rebuild their lives. Habitat for Humanity would love to be out of business; they would love it if there was sufficient affordable housing for all families. However, until the market creates these units, we are responsible to help the market create homes through in-lieu fees, CDBG funds, and through the effort of the citizens and government.

Public input concluded

COUNCILMEMBER SANCHEZ thanked everyone for assisting the City in trying to address a critical need within the City and region. Oceanside's regional share has been set by SANDAG in their Regional Housing Needs Statement at 6,423 new residential units for 2005-2010. Of these, 2,496 units are required for low- and very low-income housing. We have that goal; it is not a myth but has to be done. If it is not done, they would not receive the transportation funds that would be allocated to

Oceanside; other cities would get those. Other dramatic things would happen that would basically affect the economy of this City; things would stand still. These goals are real. Therefore, the only issues are who is going to build the affordable housing units that we need to build in Oceanside and how it is going to be funded. Other cities do this differently than Oceanside. For example, Carlsbad requires developers to build the housing; there is no alternative. The advantage to that approach is that there is an equitable disbursement of affordable housing throughout the city. Whenever we get an especially large affordable housing project before us, the residents who live nearby come in with concerns that perhaps the project will negatively affect their housing values. The community in whole wants to have their home values increase. On top of that is the expertise. Developers are able to build within budgets; they know what they are doing; and they know that coming within budget maximizes their profit. There must be disadvantages that the developers see, because most developers have decided it is not something they can do. Instead they have opted for the in-lieu fee.

She agrees the proposal is a draconian rise in the in-lieu fee amount. Council had an opportunity to adjust the fee 2-3 years ago. At the time, they were urged by the builders not to do that since we did have \$15,000,000-\$20,000,000 in the housing fund. The hope was that we would be able to build to hit our goal. Where we could have made an adjustment to be more in line with reasonable rises in the rates, they chose not to. At that time, the Council majority felt we could build as many units as necessary. That did not happen. Therefore, the "who" will either be the private sector or the government to build units. She asked at whose expense that would be. A general rule that they follow is to try to make their programs self sufficient where they can. Housing is a boom in southern California. No doubt there are profits to be made. The "who" has been that the private sector would either build the units themselves or pay this in-lieu fee; the City's general fund would not be used. There is no argument that the general fund should not pay it. The question then is how to partner with the private sector and residents to ensure the City has affordable housing. It is the right thing to do, and we have to as required by the State. She did not know if there was a way to meet that goal without increasing the rates. She would prefer to see the units built on site; it would be the most equitable thing to do. However, if they cannot do that, then someone could step in to do it. That means it has to be funded somehow. She did not think of this as an impact fee, which is separate from housing fees. She likes the suggestion to handle the proposed increase by deferring it until there is a Certificate of Occupancy. However, they still have to create the fund; someone is going to pay to have this housing built; and someone has to build it.

She hoped they could form some kind of partnership with the private sector and non-profits to continue to see the City meet its affordable housing goals. Our fund is now completely depleted; we have zero funds and still have units to build. If they are not going to get it from the general fund and are not going to raise taxes for this, then it will have to be raised by increasing the rates. The market is not addressing this and never will. The private sector is not addressing the issue; they cannot do it by themselves. Therefore, we have to do it together. The only logical solution to her is to raise the rates in a way that has the least impact. That would be to have the increase payable at the Certificate of Occupancy.

COUNCILMEMBER KERN stated this is not a fee; it is a tax. It is a hidden tax because people do not see it. While people say the developer is paying for it and not the end user, he stressed that the person buying the house pays this fee. It is added to the cost of housing. If they triple the fee, they are moving in the wrong direction; it is making things more unaffordable. We want to keep costs down. We are talking about condominiums at La Mision. We are now into those at \$325,000 per unit. In August, the median price of a condominium in the 92057 zip code was \$258,000. We could have given 80 families the \$258,000 to buy condominiums, and we would still have almost \$6,000,000 in the bank, plus own the land to sell. We are not doing this very well; government is not the one to build housing. It should be the free market. Now the market is coming down. People can afford a \$258,000 unit. He liked the idea of moving the in-lieu fee to the Certificate of Occupancy. He would also like to see it on the closing statement at escrow when people buy a unit, so that they understand that they are spending \$20,000 of their money for somebody else to buy a house. It is a struggle to buy a house, especially the first one. Before we even start building a house, we have \$3,500 in park fees; \$1,000 in drainage fees; \$2,000 in public facilities fees; \$5,200 in school fees; \$160 in traffic fees; \$2,500 in thoroughfare

fees; \$3,700 in water system buy-in fees; \$4,500 in wastewater buy-in fees; \$4,300 in San Diego County capacity fees; and \$10,000 in inclusionary housing fees. For a standard 2,000 square foot home on a 60' by 110' lot, that puts us at \$37,000 before you turn one shovel of dirt. The water system buy-in fee is going up another \$700, and the wastewater buy-in fee is going up by another \$1,400. We now want to triple the inclusionary housing tax. It will be \$60,000 before you turn one shovel of dirt. We are going in the wrong direction. We need to go back to the drawing board because this is not working. We are spending more to build units than what it costs to go out in the open market to buy them. I think people need to know that this is a hidden tax. It should be moved to the Certificate of Occupancy and put it on the closing statement of escrow so the buyers realize what they are paying for. He would not support tripling any tax. We need to get together with the industry, housing people and with non-profits to figure out a better way than this.

COUNCILMEMBER FELLER asked about the purpose and urgency of this.

MR. MANLEY clarified that, if the City wants to continue to try to meet its housing goals, they need to continue a revenue stream to do that. As the cost of construction increases, other funding sources dry up. As our inclusionary housing fund dries up, per the City Code, staff is to bring this forward to Council for their consideration regarding what the fee should be based on.

COUNCILMEMBER FELLER asked if this has urgency and what the City would miss out on.

CITY MANAGER WEISS stated that Council is dealing with 2 issues today: the Housing Element and the inclusionary fees. Based on what he has heard, there is not a lot of discussion or dispute on the Housing Element. That is a key issue that does have some urgency. In the absence of an adopted housing element, the City risks losing Transnet funds. Staff is scheduled to bring the Housing Element to Council for formal adoption in October. The information that is in the Housing Element appears to be reasonably adequate to address what we are trying to do regarding the fees.

Council has different options regarding the fees themselves. There is no urgency to changing those fees; staff is asking for direction on what Council would like to see. He heard from several people in the building industry that building smaller units should not be charged the same fee as building larger units. One of the options that Mr. Manley presented is a square foot-based fee. One of the things Council may want to consider is to not have the fee as an option that the developer chooses, based on the fact that several people commented on letting free market decide this and let builders provide the mechanisms for putting units on site. They may want to make it like the underground utility fee where the developer pays the fee only in the absence of any feasible alternative. In the proposed Housing Element, the City has the ability to provide increased density for the developers to build these units on site. Maybe they should work with the development community to allow them a 10-20% density increase for providing units on site, and only in the absence of a reasonable alternative would developers be allowed to pay the fee. That would let free market start to make those decisions.

The issue of the fee is not time sensitive, but the issue of the Housing Element is. Staff is asking for Council's direction on the fee, and they would be happy to work with the development community. Based on Council's direction, they would work to come back with some option that would be reasonable and feasible. We are not here to raise the fee 300%; however, if there is a fee option for developers, it does need to be reasonable in order to provide the units. There are some other options available that staff can prioritize.

CITY ATTORNEY MULLEN added that any of the options discussed would require an amendment to the Inclusionary Housing Ordinance should Council pursue them. That would have to be brought back to Council at a future public hearing.

COUNCILMEMBER FELLER felt that density would be the key on this issue. This Council will have to make hard decisions to change the zoning along the transit corridors; they will have to have more people living close together. Then there will be

the groups of people not wanting that near their 10,000 square foot homes. Council needs to keep that in mind. We have been doing this for 16 years, and he did not think it has worked. The list was about 400 units during that time. Maybe we should go back to the drawing board with a task force. He also does not think this is fair. He asked for the projection of new homes in the next 20 years, commenting that they are pretty close to build-out. He asked where the land would be if they needed 10,000 more homes. We need to utilize the home buyers assistance. Maybe it is time to rethink how we do this. We need to let the builders and developers show that they can build market rate housing for all levels. They know what our housing element is. If we allow them the density, maybe we do not need the fee at all.

Smart growth and transit-oriented development are needed. The City has 7 Sprinter stations and will have opportunities around most of them. The government is not the right landlord in any type of property ownership. We should not be in the business of providing homes. He is inclined to eliminate the inclusionary housing fee and come up with the new zoning to let the builders do what they say they can do. With the way the market is going, there is probably a lot of affordable housing right now. He would like to eliminate inclusionary housing and go to plan B.

MAYOR WOOD reviewed that years ago we called this an affordable housing crisis and supported inclusionary housing. He was proud of what the City has done for affordable housing. We have spent over \$18,000,000 over the last couple of years, bought land and now have a lot of projects going forward. He was saddened that this is not working. The City is providing things for only a few people. It comes out to 426 units, and a large portion of those are for seniors. That is not a lot for a city the size of Oceanside. It is not enough if looking for affordable housing. He was proud of staff who got the projects going and are doing something for Oceanside. However, he is also frustrated when at regional meetings he is told that they are supposed to put out 2,496 housing units in this period of time, when they were lucky to do 420 over the last 5 years.

The State and regional offices are forcing us on these unfunded mandates, such as housing, water runoff, habitat for the animals, etc. These are costing about \$100,000,000 that taxpayers are paying for. However, he is not going to give up on affordable housing. He has 3 daughters who will probably not be able to afford a house in southern California when they get out of college. We have a problem. He does not believe the development or real estate community has the right or obligation to fix this for us, but that is who we turn to because they are considered to have deep pockets. We are mandated by the State to fix affordable housing and can get fined if we don't. We are required to have a Housing Commission, etc. These unfunded mandates are crippling all of the cities because the State cannot balance their budget. We need to provide housing, and yet the City also has to fix the drainage and habitat issues. The buy-in for the habitat for 2008 is \$30,000,000 for Oceanside.

He is upset about the cost per unit. This is for the right reason and the right cause. Nobody gives more than Americans; here we are saying let's give our own people housing. However, the cost per unit is now getting outrageous. We had \$18,000,000 for affordable housing 18 months ago, and it is gone for only 400 units. The deferral of the fee until the Certificate of Occupancy is a smart idea. Unfortunately, that does not fix the problem for those people who want an affordable house. The City is spending a lot of money and not getting much for the dollar. Then the State is telling the City they have to create 2,500 houses in this 5-year period of time and then another 6,000, when the market is down. They do not have an answer except to increase the in-lieu fees, but he is leery of the market. He does not want to hurt those people who have projects in the stream; he does not want to hurt the economy with the current foreclosures. This is not the right time to do big increases. We cannot throw out the in-lieu fee right now because it is the only funding mechanism we have for affordable housing. While the term affordable or low-income housing is not liked, he pointed out that teachers, firemen and policeman cannot afford to live in the San Diego region. We have to approve a Housing Element for the State within their time limit. He would not want to lose State or County funding by not doing that. On the other hand, they need to go back to the drawing board to see if there is more they can do. He would not throw out the fees right now unless they came up with a better solution. He could support an increase in fees to some point but not to the \$30,000 range.

Maybe they need to create an ad hoc committee with the City Manager, Councilmembers and members of the building industry. However, the last ad hoc committee was not workable, with a lot of pressure applied to not increase the fees. So now we are at the point where we have to raise the fees, and it is too big of an increase. We need to sit and discuss this, with input from other communities. We spend more money on subsidizing rental rates, when people would rather own a house. When people own property, the community is better. This has to go back to staff or a workshop. While the building and rental industries are in the business to make money, he asked what they could do to help Oceanside not get penalized under State mandates. We are not meeting out mandates. High density should be looked at as an option, especially for transportation corridors like Oceanside Boulevard. This could be looked at as an option on strict zoning aspects. Maybe some of this has to be for rental rather than ownership. If it has to be a deferral or a combination, he is willing to listen to any expert. However, he stressed that he is not throwing out the in-lieu fee right now. It is one way to get money for their goals. Under mandated laws, the City has to do it. However, he thinks there are better ways to do this.

In response to the Mayor, **CITY MANAGER WEISS** stated that his direction so far is that the Council is accepting of the Housing Element. Staff will bring that back in October for Council's formal adoption. Even the current Housing Element does allow for developers to avoid paying the fee. The fee is only an option, and there are provisions to allow it. Based on Council's direction, staff will look at the fee to make it more fair and equitable. There is Council support that, if there is a fee, they defer it to the Certificate of Occupancy rather than have it paid at the time of the building permit. Staff will work with developers and recommend that they look at density increases to encourage the construction of the units, letting them do what they can do better than the City. They would have to look at the in-lieu fee as some type of approval process, rather than a simple option, so that there would be some decision process if a developer stated his project is too small. They would work with the BIA, development community and housing affiliates. Staff would put together a meeting or two to work out the issues. They would bring it back to Council within the next 90-120 days.

MAYOR WOOD added that they are open to suggestions/recommendations.

COUNCILMEMBER FELLER asked how often Council could update the Housing Element.

MR. MANLEY indicated Council could make a revision through the process. The Housing Element is required to be updated every 5 years and submitted to the State. It then becomes the master document.

COUNCILMEMBER FELLER stated the only thing he would change going forward with the Housing Element is the deferral of the in-lieu fee. If something comes forward based on a square foot basis, he would not approve it. Enough is enough at \$10,000 and the deferral to the Certificate of Occupancy.

MR. WEISS clarified that this issue is not part of the Housing Element; Council implements it by a separate ordinance. The Housing Element does not get into a discussion of how much or when the fee is collected. Therefore, Council could adopt the Housing Element.

MR. MANLEY further explained that, even though the inclusionary policy is included in the Housing Element, there is language to allow Council to make changes to the formula for the fee. They have that flexibility.

COUNCILMEMBER SANCHEZ, while agreeing to the deferral of paying the fee until the Certificate of Occupancy, did not agree that it should be included in the contract via a Mello Roos or City bond kind of thing. She only agreed to the timing.

[This was a discussion item only, with direction to staff.]

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2. **Public Communication on City Council Matters (off-agenda items)** -- None

ADJOURNMENT

MAYOR WOOD adjourned this Adjourned Meeting of the Oceanside City Council at 5:22 PM, September 26, 2007.

ACCEPTED BY COUNCIL:

Barbara Riegel Wayne
City Clerk, City of Oceanside