AFFORDABLE HOUSING LINKAGE FEE

ORDINANCE BACKGROUND & FREQUENTLY ASKED QUESTIONS - Sept. 20, 2016

BACKGROUND

Affordable housing is one of the biggest issues facing the City of Los Angeles. Los Angeles is one of the few major US cities with a housing affordability crisis that does not currently have either a permanent source of local funding for affordable housing or an inclusionary housing policy. As a result, the City devotes less per capita in affordable housing funding than most other major cities.

A November 2015 report by the City Controller found that the City collects less development impact fees than other comparable West Coast cities. Many cities have instituted fees on commercial and market-rate residential development that are used solely to help build affordable housing for lower-income residents. These cities include San Diego, Oakland, Sacramento, Boston, and others. The fees are justified due to the link, or nexus, between new developments and the demand for affordable housing they create through added low-wage workers.

Recent census data shows that Los Angeles remains the region with the least housing affordability in the country. To address this issue, in October 2015, Mayor Eric Garcetti launched an effort to study and implement an affordable housing linkage fee to establish a new dedicated stream of funding for affordable housing. In response, the Department of City Planning, in partnership with the Housing + Community Investment Department (HCIDLA), began preparation of an Affordable Housing Linkage Fee program (AHLF).

To assist in the development of this draft ordinance, the City contracted with BAE Urban Economics to prepare a Nexus Study to assess the feasibility of implementing such a program. The study was completed in September 2016. The study included research on best practices regarding other jurisdictions' affordable housing impact fees as well as economic and statistical research to assess the effects of different types of development on the demand for affordable housing in the City. The study also evaluated the economic feasibility criteria in different geographic locations as well as different development types. The study demonstrates the relationships that exist between the new development and the demand for new housing. The consultant developed various fee scenarios and evaluated different structures and sizes of an affordable housing impact fee based on the nexus analysis. The draft AHLF ordinance is the result of these efforts.

FREQUENTLY ASKED QUESTIONS

What is the purpose of the Affordable Housing Linkage Fee ordinance?
The goal of the AHLF Ordinance is to create a permanent source of local funding for the development of affordable housing. The ordinance would establish a fee on identified types of market rate development, which would be used to fund the creation of affordable housing across the City. This would help address the impacts of new development on the demand for affordable housing.

What is the need for the Affordable Housing Linkage Fee ordinance?
Due to strong demand for housing leading to substantial price and rent increases, a growing number of middle and lower income households have been priced out of the City. Many workers cannot afford to live near their jobs, which contributes to worsening traffic and air quality. Today, almost 56% of renters pay more than 30% of their income on rent. In 2014, a household earning the median income ($54,440) could afford to purchase a home for $179,000, well below the median home sale price of $560,000. Due to the dissolution of redevelopment (CRA/LA), as well as significant cuts in federal housing funds much of the City's affordable housing funding has been lost, shrinking from $100 million in 2010 to $26 million in 2014. Currently, Los Angeles is the only large city in California without a permanent source of local funding for affordable housing.

How did the Affordable Housing Linkage Fee ordinance develop?
In October 2015, Mayor Eric Garcetti announced that the City would develop a Linkage Fee program to help raise funds to subsidize the production of affordable housing. Under the direction of HCIDLA and the Department of City Planning, economic consultants BAE Urban Economics conducted a Nexus Study to evaluate the impact of new development on the demand for affordable housing in the City. The purpose of the Nexus Study is to conduct a legally defensible analysis of the relationships between commercial and market-rate housing development projects, the new employment generated, the new demand for workers and worker households, their income distributions, and an estimate of those new households that will need affordable housing.

What type of development would the Affordable Housing Linkage Fee apply to?
Most residential or commercial development that requires a building permit and creates additional housing units or nonresidential floor area will be subject to the AHLF. However several exemptions apply, including small multifamily projects of five or fewer units, additions and replacement of many single family homes, nonresidential developments with 10,000 square feet or less of new floor area and institutional uses. The fee would also not apply to residential projects that include a certain percentage of affordable housing units out of the total number of units (11% very low-income, 20% low-income or 40% moderate income), or second dwelling units (accessory dwelling units). For mixed-use projects, the first 10,000 square feet of nonresidential use would be excluded from the fee calculation. Common areas such as gyms or community rooms in multi-family buildings would also be excluded. Finally, projects that have already been submitted for plan check or zoning entitlements will be exempt from paying the new fee.

How will the Affordable Housing Linkage Fee be structured?
The amount of the Linkage Fee will differ based on building use. The Linkage Fee will be calculated for each development project as the amount of floor area dedicated to each use type, multiplied by the fee level for

that use type. The draft schedule is $5 per square foot for commercial use, and $12 per square foot for residential use. Any deductions or credits would be subtracted from the total AHLF. The current draft anticipates that the fee would become effective two months after ordinance adoption.

How Were the Linkage Fee Levels Selected?
The Nexus Study established a framework for understanding the maximum feasible level of fees that are considered supportable by ten different development types across three geographic sub-markets in the City. The draft fee structure simplifies these various feasible fee amounts into a single fee for commercial ($5 per sq. ft.) and residential ($12 per sq. ft.) development that would apply citywide. Because the fees would apply citywide, including lower market areas, the draft fee levels are generally lower than what is considered to be supportable in medium and high market areas. The draft fees were also lowered below the levels supported by the study's feasibility analysis because these calculations were made during a period of relatively high rents and sale prices, and the fee should be supportable during all market cycles. Please see Table 1 for a comparison of the proposed fee structure to linkage fees in other cities.

What are the potential revenues the Affordable Housing Linkage Fee will generate for affordable housing in the City?
The AHLF ordinance has the potential to generate an estimated revenue range between $90 and $130 million per year to fund the development of affordable housing at the proposed fee levels. This estimate accounts for some fluctuation in development trends and the exemptions and credits offered in the ordinance.

What will the fees be used for?
Fees generated through the AHLF would be directed to the City's Affordable Housing Trust Fund (AHTF), and the distribution would be managed by HCIDLA. Revenue shall be used to fund the construction of new units, or for the rehabilitation and preservation of existing affordable units. Additionally, fees can be used for down payment assistance for affordable ownership housing.

How will the City make adjustments to the Affordable Housing Linkage Fee amount?
An annual adjustment for inflation will be made beginning on July 1, 2018, according to the change in the Consumer Price Index (CPI-U).

How can I find out more information or make comments?
Comments and questions are encouraged and should be directed to Matthew Glesne, City Planner, at matthew.glesne@lacity.org, or (213) 978-2666. The draft ordinance, Nexus Study, and other information is posted online at http://planning.lacity.org/ordinances/ProposedOrdinances.htm. A Public Hearing is scheduled for October 19, 2016 at 2:00 pm at the Deaton Auditorium in downtown Los Angeles, located at 100 N. 1st Street, 90012.

Table 1. Summary comparison of draft ordinance to linkage fees in other cities (full details are available in the Affordable Housing Linkage Fee Nexus Study)

<table>
<tr><th></th><th>Los Angeles (Draft)</th><th>San Francisco **</th><th>Oakland</th><th>Sacramento</th><th>Boston **</th><th>San Diego</th><th>Santa Ana</th><th>Pasadena **</th><th>Santa Monica</th><th>West Hollywood</th></tr>
<tr><td>Commercial</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Retail</td><td rowspan="5">$5</td><td>$22.42</td><td>N/A</td><td>$2.00</td><td rowspan="5">$8.34[1]</td><td>$1.28</td><td rowspan="5">N/A</td><td rowspan="5">N/A</td><td rowspan="5">N/A</td><td rowspan="5">$8.00</td></tr>
<tr><td>Office</td><td>$24.03</td><td>$5.44</td><td>$2.50</td><td>$2.12</td></tr>
<tr><td>Hotel</td><td>$17.99</td><td>N/A</td><td>$2.38</td><td>$1.28</td></tr>
<tr><td>Warehouse/construction</td><td rowspan="2">$0 - 22[2]</td><td>$5.44</td><td>$0.68 - 0.91</td><td rowspan="2">$0.80</td></tr>
<tr><td>Industrial/Manufacturing</td><td>N/A</td><td>$1.57 - 2.00</td></tr>
<tr><td>Residential</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>In-Lieu</td><td></td><td></td></tr>
<tr><td>Multi-Family Rental</td><td rowspan="4">$12</td><td rowspan="3">$53 - 97*[3]</td><td>$10 - 19*[4]</td><td rowspan="4">$0 - 2.58[5]</td><td rowspan="3">$26 – 59*[6]</td><td rowspan="3">$2 - 9[7]</td><td rowspan="3">$5 - 15[8]</td><td>$20 - 49[9]</td><td>$31.25</td><td rowspan="3">$13 - 27[10]</td></tr>
<tr><td>Condos</td><td>$10 -19*</td><td rowspan="2">$19 - 65</td><td rowspan="2">$36.51</td></tr>
<tr><td>Townhomes</td><td>$7 -17*</td></tr>
<tr><td>Single-Family</td><td>N/A</td><td>$3 - 8*</td><td>N/A</td><td>N/A</td><td>N/A</td><td>N/A</td><td>N/A</td><td>N/A</td></tr>
</table>

*Fee charged per unit (not per sf). Per unit figures are converted as follows:

Studio = 750 sf, 1br = 1000 sf, 2br = 1250 sf, 3br = 1500, 4br = 2,000;
MF Rental = 1,150 sf, Condo = 1,485 sf, SF Attached = 1,650 sf, SF Detached = 3,000;
Avg Unit Size = 1150

**The residential fees for these cities are technically an in-lieu fee option related to their inclusionary housing program

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[1] Applies only on projects of 100,000 square feet or more, also requiring a zone change
[2] Varies by additional development typologies
[3] Varies by number of bedrooms
[4] Varies by geographic zone (3)
[5] Varies by density (> or < 20 DU/acre)
[6] Varies by zoning categories
[7] Varies by number of units (2-10+)
[8] Varies by number of units (5-20+)
[9] Varies by number of units (10-50+), geographic zone (4), and tenure
[10] Varies by number of units (2-10+)