TRANSMITTAL

To: THE COUNCIL

Date: NOV 18 2015

From: THE MAYOR

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.

Ana Guerrero

ERIC GARCETTI
Mayor

Los Angeles
HOUSING+COMMUNITY
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The Honorable Eric Garcetti
Mayor, City of Los Angeles
200 N. Spring Street, Room 303
Los Angeles, CA 90012

Attn: Mandy Morales, Legislative Coordinator

REPORT BACK IDENTIFYING LOCAL, PERMANENT FUNDING SOURCE(S) FOR THE CITY'S AFFORDABLE HOUSING TRUST FUND (AHTF) AND REQUEST TO FUND A NEW AFFORDABLE HOUSING BENEFIT FEE STUDY.

SUMMARY

In response to the worsening housing affordability crisis in Los Angeles, six of Los Angeles' City Council members, Gilbert Cedillo, Mitch O'Farrell, Felipe Fuentes, Curren Price, Bob Blumenfield and Mike Bonin representing both high income and very low income areas of the City, put forth Motions requesting a report to analyze and identify potential local permanent funding sources for affordable housing financing, including a voter-approved bond measure, a fee on new development and earmarking a percent of the incremental annual property tax revenue among others. On October 8, 2014, the City Council's Housing Committee reconstituted the various Motions calling for the Los Angeles Housing and Community Investment Department (HCIDLA) to issue a report with a comprehensive set of recommendations that addresses all of the Motions (Council file numbers 14-0600-S123, 14-0361, 13-1389, and 13-1624).

After researching various local and non-local funding options for a local affordable housing fund, including a survey of tools used by other cities, HCIDLA through this report, presents a recommendation for a local permanent funding source through an Affordable Housing Benefit Fee program. The proposed

program would establish a one-time monetary charge levied on new developments to assist the City with financing affordable housing activities.

HCIDLA is recommending an Affordable Housing Benefit Fee over other potential tools described in this transmittal based on an extensive review of other cities throughout the country, which compared one-time versus long-term, sustainable revenue generating methods. Of the various methods reviewed, the utilization of an Affordable Housing Benefit Fee has been the most viable and consistent method of generating a permanent funding source. While other options may generate larger funding, such as a bond measure, these funds are short-term solutions with finite funding.

This recommendation aligns with the affordable housing goals of Mayor Garcetti, including his support for studying a new Affordable Housing Benefit Fee that would create a dedicated, local stream of funding for affordable housing activities.

HCIDLA recommends pursuing an Affordable Housing Benefit Fee while concurrently examining and/or implementing other large-scale affordable housing initiatives in the near future such as new preservation and rehabilitation loans, the creation of a new Housing Finance Agency, and the potential for supporting new Community Revitalization and Investment Authorities and/or Enhanced Infrastructure Finance Districts.

In 2011, the City's Affordable Housing Benefit Fee study found a close correlation between new development and housing demand. Since that study was published four years ago, HCIDLA recommends a new study that reflects the City's current economic environment. The new study should examine any potential fee in the context of other impact fees imposed on new development.

Based on the study results, a detailed framework for an Affordable Housing Benefit Fee Ordinance will be developed by the Department of City Planning, in close coordination with HCIDLA, for review by the Planning Commission, the City Council and the Mayor.

RECOMMENDATIONS

The General Manager of the Los Angeles Housing and Community Investment Department (HCIDLA) respectfully requests that:

I. Your office schedule this transmittal at the next meeting(s) of the appropriate City Council committee(s) and forward it to the City Council for review and approval immediately thereafter;

II. The City Council, subject to the approval of the Mayor, take the following actions:

   A. INSTRUCT the City Administrative Officer to identify the source of funding for up to \$500,000 for the Department of City Planning, in close coordination with the Los Angeles Housing and Community Investment Department, to execute a contract for the development of a new Affordable Housing Benefit Fee study and to effectuate the transfer of funds to the Department of City Planning in the next Financial Status Report.

   B. AUTHORIZE the General Manager, HCIDLA, or designee to prepare Controller instructions and make any necessary technical adjustments consistent with Council and

Mayor actions on this matter, subject to the approval of the City Administrative Officer, and authorize the Controller to implement these instructions.

BACKGROUND

A Transforming and Expensive City

The severe lack of affordable housing is a pervasive problem facing the majority of City residents. Today, working-class and middle-class Angelenos, both renters and owners, in Los Angeles face high housing costs. The significant urban renewal taking place in many of the city's traditional lower income and diverse neighborhoods is further exacerbating the high housing costs. Recently transformed neighborhoods like Venice Beach, Silver Lake and Echo Park have become expensive areas to live and out of reach for most Angelenos. Already new urban renewal pressures are being felt in long neglected, typically poor, areas of the east and south regions of the City such as the Figueroa Corridor, Leimert Park, Highland Park, Boyle Heights and Westlake among others. This ongoing transformation in many of Los Angeles' older established neighborhoods may be a positive change for commercial corridors and for homeowners whose increased property values are a welcomed asset. However, revitalization can also have a devastating impact for low-income renters who are least able to withstand increasing housing costs.

Much of this urban renewal comes on the heels of an unprecedented $40 billion government funded transportation expansion in the region and the added value has invited much needed investment, but also speculators to "fix and flip" properties that in turn contribute to increasing housing costs in the surrounding areas. The City is challenged to encourage revitalization and investment while simultaneously promoting neighborhood stability. It is a timely moment for the City to seize the opportunity and reap the benefits from this revitalization to help create a more equitable and sustainable housing market with more choices.

The State of Housing and Affordability Gaps

A contributing factor to the acute housing affordability problem is a mismatch between what is being built and what needs to be built. In 2013 (the most recent year for which full data are available), of the 1,605 units needed for low-income households in the City of Los Angeles only 593 were built. Los Angeles added 37 percent of the needed housing for low-income residents but nearly 150 percent (5,874 units) of the units needed by above moderate income earners. In spite of the economic recovery and accompanying increases in multifamily production, new apartment rents are not reachable by lower income families. An inability to supply enough housing for diverse income groups is contributing to eroding confidence in Los Angeles' potential to promote income and social mobility.

The average rent in Los Angeles is $2,031[1] while new apartments built in the preceding ten years rent for $2,609 and have a 12 percent vacancy rate[2]; a 5 percent vacancy rate indicates that supply and demand are in balance. At these rental rates, families must earn $81,240 to afford the average rent and $104,360 to afford a newly built apartment. In reality, the Los Angeles median income is only $50,544[3] and the current living wage of $15 per hour translates to $26,250[4] in annual wages; both wages leave a tremendous wage gap for workers seeking to rent in Los Angeles. The high vacancy rate for newer, more expensive housing exemplifies the disparity in the type of housing being built demonstrating that new, higher cost housing, is out of reach for many Angelenos.

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[1] Real Facts Online. City of Los Angeles, Average Asking Rent 2014
[2] Real Facts Online. City of Los Angeles, Market Overview Average Occupancy Rate 2014
[3] U.S. Census. American Community Survey 2014
[4] Flaming, D., Burns, P. Effects of a Fifteen Dollar an Hour Minimum Wage in the City of Los Angeles 2013

On the homeownership front, Los Angeles is the second-least affordable region in the country for middle-class people seeking to buy a home[5]. The median priced home of $560,000[6] in Los Angeles is more than two-and-a-half times the average national home price ($208,900)[7]. Such high home prices require a conventional monthly mortgage payment of $3,146 with corresponding annual earnings that are upwards of $125,000.

Across the board, rental and homeownership housing costs exceed what the median income or middle class can afford, in particular given the stagnation of incomes in the city since 2007 (see Attachment 1).

SOLUTIONS IN CITIES WITH SIMILAR HOUSING CHALLENGES

Cities with high housing costs are narrowing the affordable housing gap through local funding initiatives that help put housing within reach of low-income households. Staff compared Los Angeles to cities with similar affordable housing challenges. Commonalities among the select cities include an expensive real estate market, robust economic growth, a high rent burden, and a large renter population that exceeds the number of homeowners. The research revealed that five out of the six comparison cities recently adopted or updated a housing plan with local dollars dedicated to affordable housing financing and strategies to increase the future local funding commitment (see bar graph below). The blue bar illustrates the fiscal year 2014-2015 local commitments ranging from a high of over $800 million in New York City to a low of $20 million in the City of Boston. In fiscal year 2015-2016, Los Angeles' Mayor Garcetti made a $10 million contribution to the Affordable Housing Trust Fund; $5 million from the City's general fund, and another $5 million from a future hotel tax on short term rentals.

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[5] Harvard University's Joint Center for Housing Studies

[6] Data Quick California Home Sale Activity by City - 2014 City Chart

[7] United States Federal Reserve Bank. Median Sales Price of Existing Single-Family Homes. 2014

*New York City's bar graph size is not drawn to scale.

Los Angeles' reliance on diminishing federal resources will cause a dramatic decrease in housing production. At its height, in 2008, the Affordable Housing Trust Fund (AHTF) allocation was $108 million. Today, the total funding is approximately $27 million, all of which are federal funds and program income. The rising housing costs and shrinking public funds are prompting many cities to implement or reinvigorate their own local funding resources such as housing linkage fee programs or levies to help fund local trust funds and other affordable housing programs. The affordable housing challenge is universally shared by the cities highlighted above and all, but the City of Los Angeles, are responding with locally created solutions.

LOCAL AFFORDABLE HOUSING FUNDING OPTIONS

An improving economy with increasing investment provides the City an opportunity to expand housing options for families and children as well as improve housing stability in neighborhoods to get ahead of the inevitable market forces that threaten to displace long-time, often lower income residents. Based on the comparison of other cities with high housing costs, below are several options for new local programs and measures to help generate revenue to create and preserve affordable housing and thereby promote upward mobility and opportunity for all. At a glance, the funding options HCIDLA researched are as follows:

- **Affordable Housing Benefit Fee:** A linkage fee for all new development. This requires approval of the City Council and the Mayor to enact through a local ordinance.
- **Housing Bond Measure:** A bond measure to approve new property tax revenues for affordable housing. This requires a ballot measure with a two-thirds vote.
- **Housing Levy:** A citywide tax that authorizes additional regular property taxes to be used for affordable housing. This requires a ballot measure with a two-thirds vote.

- **Enhanced Infrastructure Financing District (EIFD):** A financing authority for cities to construct and rehabilitate infrastructure, including affordable housing, by capturing local property tax growth within a district's boundaries. New districts are adopted by resolution.
- **Community Revitalization and Investment Authority (Authority):** A financing authority for cities to construct and rehabilitate infrastructure by capturing local property tax growth within an authority's boundaries, it requires a 25 percent set-aside for affordable housing. New authorities are adopted by resolution
- **Former Tax Increment Set-Aside:** Permanently earmarking a percent of the former CRA tax revenue to the Affordable Housing Trust Fund. This requires approval of the City Council and the Mayor to enact a permanent allocation from the General Fund. However, this funding is currently absorbed in the General Fund and pays for a variety of City services.
- **Fees on Real Estate Recording Instruments:** Similar to Assemblymember Atkins' AB1335 bill, Los Angeles County could impose a new document recording fee on real estate transactions. Any potential effort to impose fees on real estate transactions at the local level should be considered in context with ongoing statewide initiatives.

Affordable Housing Benefit Fee

The Affordable Housing Benefit Fee program (alternatively referred to as a housing impact fee or linkage fee program) is a one-time monetary charge levied on new developments to assist a City with a percentage of the cost related to the additional housing needs of employees in said developments. The legal basis for the fee program is that a portion of the jobs created by new property developments are low paying. When wages are low, workers are unable to afford the market rate rent and therefore demand affordable housing. The difference between what households at various income levels can afford to pay, by only dedicating 30 percent of income toward rent, and the average market-rent is the income gap that is referred to as the "earned income deficit". The portion of low paying jobs in each new development differs depending on the development type. The City's first Affordable Housing Benefit Fee study was completed in 2011 and it found a close correlation between new industrial, commercial, and residential construction, and the demand for new affordable housing. The study meets the California Mitigation Fee Act (Gov. Code sections 66000 et seq) requirement that a fee be "roughly proportional" in nature and relate to the impact of the proposed development. This is important because it establishes a quantifiable justification for the fee.

The fee is typically charged on a square foot basis to new commercial and/or residential development and it is established through the adoption of a local ordinance with approval of the City Council and the Mayor. While linkage fees of this sort are criticized for potentially burdening the development community, the right policy can minimize the impact. This type of fee program helps the City provide reasonably priced housing for workers so that the City's overall economic health is unaffected and demand for goods and services persists.

Per this transmittal, HCIDLA seeks to initiate a new nexus study to reflect current economic and housing market conditions. The new study is critical for designing a linkage fee program that minimizes negative impacts to the development community while still providing significant resources to help the City finance affordable housing opportunities.

Bond Measure
A Citywide bond measure is another option for creating a local affordable housing fund. The recent past shows City residents strongly support a local bond to fund affordable housing. However despite this strong support, in 2006, during the housing bubble peak, the City's affordable housing bond, Measure H, failed to pass by a small margin with 63 percent voting in favor and 37 percent voting against the proposed housing bond. The $1 billion bond measure would have resulted in an average annual city debt service payment of approximately $58 million per year for 30 years.

Some challenges in creating a bond measure include an extensive and expensive campaign as well as added debt. This type of bond must be repaid by the City of Los Angeles from additional property tax revenues based upon the assessed value of all taxable property, creating more City debt and competition for other City services funded through a ballot measure. Additionally, a ballot measure of this sort requires a two-thirds vote of qualified electors in the City.

Housing Levy
Another option explored for establishing a local source of funding for affordable housing includes the implementation of a citywide tax levy that authorizes additional regular property taxes to be dedicated to affordable housing. A housing tax levy would require a ballot initiative with a majority- two-thirds- voter approval. The levy could be set for a limited time period and may be re-authorized by voters.

The City of Seattle, Washington, has had several housing levies since 1981. The latest levy, approved in November 2009, provides $145 million over seven years. The cost to a property owner is a percent of the assessed property value. The current Seattle Levy costs the owner of a median priced home ($475,000) $60 per year or $5 per month.

The tax levy approach is a way of spreading the responsibility to provide affordable housing opportunities across all property owners so that all share the burden in a uniform manner with minimum overall impact to individual property owners. Similar to a housing bond measure, a tax levy requires dedicated City resources for a ballot measure campaign. Unlike a bond measure, however, a levy does not require a debt service from the City, since it is paid through an additional property tax.

Enhanced Infrastructure Financing Districts (EIFD)
In 2014, the California legislature authorized the Enhanced Infrastructure Financing Districts (EIFD) as a new financing authority for cities to construct and rehabilitate infrastructure by capturing a portion of the growth in local property taxes within a targeted area. New districts are adopted by resolution. Those that issue tax increment bonds to attract private capital must obtain 55 percent of the popular vote within the district boundaries.

While specific affordable housing set-asides are not required of EIFDs, cities may identify affordable housing as a goal for an EIFD targeted area. EIFDs may invite other local taxing entities to join; limited participation may diminish the potential revenue sources. Where community opposition to an EIFD is strong there may be a tendency to push the location of a district out of core areas in the City where affordable housing is most needed.

Community Revitalization and Investment Authority (Authority)
In 2015, The Governor signed AB2 (Alejo) creating a Community Revitalization and Investment Authority that diverts tax increment (of consenting local agencies) to infrastructure projects in

disadvantaged communities, it requires a 25 percent set-aside for affordable housing. New authorities are adopted by resolution.

Community Revitalization and Investment Authorities may invite other local taxing entities to join except for the LA Unified School District; limited participation may diminish the potential revenue sources. Where community opposition to an Authority is strong there may be a tendency to push the location of the Authority out of core areas in the City where affordable housing is most needed.

Permanently Earmark a Portion of the City's Former Tax Increment to the AHTF
One of the original purposes of former tax increment funds was to create low- and moderate-income housing within redevelopment areas; with a minimum of 20 percent dedicated to very low-income. In keeping with this intended purpose, last year, HCIDLA made a recommendation to dedicate 25 percent of the former tax increment coming to the City of Los Angeles' General Fund to the Affordable Housing Trust Fund (AHTF) beginning in fiscal year 2014-2015. Alternatively, HCIDLA also proposed a phased-in approach to achieve a maximum annual dedication of 35 percent of the former tax increment dollars to the AHTF. Based on an annual projection of $49 million in unrestricted former tax increment dollars contributed to the City's General Fund, these proposals (Council File #14-0361) would provide between $12 million and $17 million annually to the Trust Fund.

Making a Trust Fund allocation means that a portion of the former redevelopment funds are not available for alternate uses. Currently, this revenue is funding a variety of other critical City services as part of the General Fund. The Mayor has recently committed to contributing $10 million from the General Fund to the Affordable Housing Trust Fund in future annual budgets, which is 60 to 80 percent of what the CF14-0361 motion would have achieved.

Fees on Real Estate Recording Instruments
Similar to Assemblymember Atkins AB1335 bill, Los Angeles County could impose a new document recording fee on real estate transactions but statewide legislation clarifying the county's authority to impose said fee may be necessary. The local county fee would also require a countywide ballot measure. The resulting funding would likely be administered and controlled by the county.

FEDERAL, STATE AND OTHER FUNDING SOURCES

New affordable housing funding streams from Sacramento and Washington D.C. epitomize the magnitude of the problem and the urgency to address this crisis. This new funding has limitations however. These sources are competitively awarded and the City of Los Angeles is not guaranteed a minimum funding level, and many require a local match. Further, without a local commitment, City projects are unable to leverage these outside sources competitively. Other funds are highly restrictive and may only be used for very specific populations, limiting the City's ability to use the dollars where the local need is greatest. Below is a snapshot of said funding streams. With the exception of the National Housing Trust Fund, expected to distribute funding in 2016, all other sources are available beginning in 2015.

Federal, State and Other Competitive Funds				
National Housing Trust Fund	**AHSC**	**Multifamily Housing Program**	**Prop 41**	**L.A. County**
$TBD* (annual allocation)	$400M** (FY 15/16 allocation)	$100M (one-time)	$545M*** (limited duration)	$75M**** (limited duration)

**Amount to be determined after the Federal Housing & Transportation budget is finalized.*
***Scheduled to end in 2020*
****$75 million awarded in 2015 with $545 million in total funds available over several years*
*****$15 million awarded annually with $75 million in total funds available through annual NOFAs ending in 2018*

These new state and federal funds are very timely, however they are significantly diminished resources. As an example, the California redevelopment agencies generated $1 billion annually meanwhile the new statewide source of funding for affordable housing is the Affordable Housing and Sustainable Community (AHSC) program currently funded at $400 million. This represents a very small portion of the funding amount that is needed. The Multifamily Housing Program has one-time funding and the remaining sources have sunset dates in the next 5 years.

Relying solely on these outside funds makes the City vulnerable to an annual appropriations process or competitive criteria that may not necessarily include the local long-term public policy priorities.

National Housing Trust Fund

The National Housing Trust Fund (NHTF) will provide communities with funds to build, preserve, and rehabilitate rental homes that are affordable for extremely- and very low-income households. The NHTF is targeted toward rental housing, at least 90 percent of the funds must be used for the production, preservation, rehabilitation, or operation of rental housing. At least 75 percent of the funds for rental housing must benefit extremely low-income households and all funds must benefit very low-income households. The National Housing Trust Fund, per 2010 interim adopted regulations, will provide block grants directly to the states.

Funding allocations are expected in 2016 and are based on Fannie Mae and Freddie Mac's future business. The amount of funding for 2016 is still being determined through the federal appropriations budget process and there are several attempts to eliminate the funding altogether. The final outcome of the NHTF is contingent upon the FY16 Federal Budget appropriations process. At this time, California's portion is still unknown.

Affordable Housing and Sustainable Community (AHSC)

AHSC, a new funding program under California's Cap and Trade program, places a "cap" on aggregate greenhouse gas (GHG) emissions from businesses responsible for state's GHG emissions. Businesses "trade" (buy and sell) carbon allowances on the open market. Proceeds from the sale of allowances are dedicated to projects that reduce GHG emissions that contribute to climate change.

A portion of the proceeds from cap-and-trade funds the newly created AHSC program that is tasked with reducing greenhouse gases by encouraging the development of affordable housing near transit to create fewer car trips and vehicle miles travelled. The AHSC program will receive 20 percent of the annual cap-and-trade auction revenues projected to be approximately $2.2 billion which translates to $400 million for the State's 2015-2016 fiscal year budget. The funding is competitive and requires a local financing commitment.

State of California Multifamily Housing Program (MHP)
The Multifamily Housing Program (MHP) at the California Department of Housing and Community Development received a one-time allocation of $100 million in the State's 2014-2015 budget. Half of this funding is designated for supportive housing development. This is the first State General Fund allocation for the MHP program in more than a decade. Competitive NOFAs are currently underway.

California's Veterans Housing and Homelessness Prevention (VHHP) Program (Proposition 41)
In 2008, California voters approved Proposition 12, the Veteran's Bond Act of 2008, authorizing $900 million in general obligation bonds intended to help veterans purchase homes through the CalVet Home Loan Program. As a result of the nation's economic crisis and the state's housing downturn, the CalVet Home Loan Program did not experience the demand that was originally projected before the downturn.

In 2013, AB 639 restructured the Veteran's Bond Act of 2008 authorizing $600 million in existing bond authority to fund acquisition, construction, rehabilitation and preservation of multifamily housing for veterans and their families. With the approval of Proposition 41 by California voters in 2014, the California Department of Housing and Community Development (HCD), in collaboration with CalHFA and CalVet, adopted and released its final program guidelines for the VHHP Program early this year. The second Notice of Funding Availability (NOFA) was issued by the state departments in October 2015, providing an additional $75 million to serve veterans (the initial VHHP NOFA was issued in March 2015 for $75 million).[8]

Los Angeles County
In Los Angeles County, in fiscal year 2013-2014, the Board of Supervisors made a five-year commitment of $75 million in former tax increment funding; $15 million per year. Annual NOFAs will be issued to award funds. A recent addition of $9.9 million to the upcoming Fall 2015 NOFA - initially funded at $15 million - sets the new total at nearly $25 million for this year in former redevelopment funds for affordable housing development.

METRO Motion
In the summer of 2015, the Los Angeles Metropolitan Transportation Authority (MTA) approved a Mayor Garcetti led Motion that directs the MTA to set a 35 percent affordable housing goal of all residential units developed on MTA-owned property. The Motion further directs the MTA to create a Transit-Oriented Affordable Housing Fund (TOAH) with an initial dedication of $2 million each year for five years for a $10 million maximum. However, other provisions include a price reduction on MTA-owned land for affordable housing projects as well as the establishment of a memorandum of understanding with local jurisdictions for joint development projects. Additionally, this TOAH fund will likely be acquisition financing that does not include the capital leveraging sources. This significant policy shift underscores the need to address the affordable housing crisis and to better serve a primarily low-income ridership.

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[8] "Veteran" means any person who served in the active military, naval or air service of the United States or as a member of the National guard who was called to and released from active duty or active services for a period of not less than 90 consecutive days or was discharged from service due to a service related disability. This includes veterans with other-than-honorable discharges.

Speaker Atkins' Housing Bills Package

Speaker Atkins' proposed bills (AB 1335, AB 35, AB 90, and AB 1056) were a comprehensive approach to increasing the availability of affordable housing statewide. The bills proposed to establish a permanent affordable housing funding source through a $75 fee on real estate transaction documents with a cap of $225 per parcel (AB 1335), increase the state's Low Income Housing Tax Credit by $300 million thereby enabling a $200 million leverage in 4 percent federal credits that are currently underutilized (AB35), create a framework for how California will spend the NHTF funds mentioned above (AB 90) and dedicate a portion of the Proposition 47 funds to reduce recidivism by investing in rapid rehousing and support systems for formerly incarcerated Californians (AB 1056). Governor Brown vetoed AB35 citing future financial uncertainties regarding the State's budget and signed both AB 90 and AB 1056. Meanwhile, the California State Legislature made AB 1335 a two-year bill that may be advanced in 2016.

DEPARTMENT RECOMMENDATION

Based on the review of possible local funding programs, new state resources and a survey of other cities with similar housing challenges, the HCIDLA recommends the Affordable Housing Benefit Fee as a local economic tool to serve as the City's first dedication of local and permanent affordable housing funding. HCIDLA further recommends to jointly work with the Department of City Planning on the administration of the new study.

HCIDLA is not recommending that the City pursue a housing bond and a tax levy since they would require an extensive public campaign with significant financial and staff resources without assurances of approval after the time and monetary investments are made. The supermajority voter approval required for a tax levy or bond is a very high threshold intended to not allow tax increases to happen easily. What's more, both are finite resources eventually leaving the City without a local permanent funding source. With an Affordable Housing Benefit Fee program, however, the City Council and the Mayor control the program design, including fee levels, exemptions and adjustments that may correspond with the City's overall economic wellbeing.

Is it the right time?

Los Angeles' improving economy presents a tremendous opportunity for the City to dedicate financial resources to this worsening problem and enable prudent long-term affordable housing plans in opportune areas and for the housing type most needed. Affordable housing construction is a significant economic engine in the City of Los Angeles generating jobs, taxes and income. The AHTF projects produced nearly 972 jobs in 2014 alone. The Affordable Housing Trust Fund awarded $28.1 million in calendar year 2014 leveraging $87.3 million in other financial resources to finance 367 affordable housing units representing a total development cost of $115.3 million.

The Affordable Housing Benefit Fee program is designed to offset a portion of the future impacts on the City's affordable housing and it is not considered an in-lieu fee or payment required in-lieu of building low-income housing units. Nexus studies quantify the maximum justifiable linkage fee a City may levy. However, jurisdictions do not typically adopt fees at the maximum level since they must strive to achieve a balance between a fee that is a significant contributor to new affordable housing and still promotes economic activity through continued development activity. Failure to pay the fee exacerbates the housing crisis and affects local businesses in the form of loss demand for goods and services.

Missed Opportunity

During the housing boom and the recent growth in overall construction activity, the City of Los Angeles missed a tremendous opportunity to increase the affordable housing stock through an Affordable Housing Benefit Fee program. If an affordable housing benefit fee, even at the lowest level studied in 2011, were implemented in 2011, the AHTF would have received an average of $37 million in annual revenue, enabling the City to finance 370 affordable housing units every year. At this rate, a linkage fee program would double the amount of affordable housing the City can finance from 367 with current federal funds to over 700 units annually with linkage fee proceeds included. The losses are magnified when we consider the leveraged dollars that are missed when the City does not invest in affordable housing.

Self-Sustaining City

An overdependence on short-term state and federal funds hampers the City's ability to create long-term, innovative housing policies. The Affordable Housing Benefit Fee grants the City the autonomy and flexibility to develop housing policy objectives and new financing tools that are based on a local understanding of the problem. With a benefit fee, the City would have the distinct opportunity to use funds in areas that do not qualify for other state and federal dollars because of strict regulations, such as locating housing within a one half mile of light or heavy rail. Similarly, the City could help middle income households who do not qualify for low-income housing assistance financed by federal resources but nevertheless struggle to find market rate rents they can afford. These households fall into what is known as the "donut hole" earning too much to qualify for existing program but not enough to afford market rate costs. These type of flexible uses only come with a locally generated funding stream.

California Cities with Housing Linkage and/or Impact Fees

In the last year alone, housing linkage and/or impact fees have made headlines in expensive, built-out cities. In light of severe funding cuts and strong real estate markets driven by high-end housing, many cities are actively enacting new housing impact fees or revising existing programs to increase local revenue and create affordable housing opportunity. In cities where the linkage fee proposal was controversial, both city officials and the development community made compromises; acceptable fee levels or fee increases as well as decisions about development types subject to the fees were achieved through consultations with all stakeholders. Some of the fastest growing cities listed below chose housing linkage fees as a necessary program to ensure that affordable housing is built.

- The *City of San Francisco* has one of the more progressive linkage fee programs in the state. Developers must pay $24.03 per square foot of office space, while retail and entertainment pays $22.42 per square foot, among other fees. The city uses the percent change in the Construction Cost Index to adjust the fees annually.
- The *City of West Hollywood* completed a study in 2015 recommending a fee increase on commercial development from $2.85 per square foot to $8 per square foot.
- *Daly City* adopted a housing impact fee in April 2014 that ranges between $14 and $25 per square foot of rental and for-sale units.
- The *City of San Diego*, after a protracted battle between City Council and the development community throughout 2014, the City approved doubling the existing fees by 2017; fees were unchanged since 1996. New office space paid $1.06 per square foot and under the new proposal the fee will be $2.12. Likewise, hotels and retail space paid 64 cents per square foot and will pay $1.28 per square foot.
- The *City of San Jose*, in November 2014, approved a new housing impact fee program that establishes a fee of $17 per square foot of new development on all new market-rate housing.

- The *City of Mountain View* more than doubled the existing impact fee program of $10.26 per square foot to $25 per square foot for office space and $17 per square foot for new apartment projects. These fee increases are well above the staff recommendation of $15 per square foot of apartment space and $20 per square foot of office space.
- In *San Mateo County*, thirteen cities partnered to explore the use of impact fees on new development to fund affordable housing. This multicity project will simultaneously produce nexus studies for several jurisdictions in the county; the results are expected in 2015.

Much like Los Angeles, these cities are experiencing an affordable housing crisis, however, at the same time they expect to continue attracting significant development in the future. They are taking proactive steps to spread the economic prosperity to all residents (see Attachment 2). The City of Los Angeles can join other forward thinking cities by implementing its own Affordable Housing Benefit Fee program.

Social Contract

An Affordable Housing Benefit Fee program calls for the development community to embrace the responsibility of financing a supply of affordable housing for the growing low-and moderate-income workforce that is employed. Given the high propensity for developers to profit from Los Angeles' popularity and standing as the third largest metropolitan economy in the world as well as the massive public investment in transportation infrastructure, the fee program is a fair and positive step toward equitable growth that spreads economic opportunity to working households.

An Affordable Housing Benefit Fee program relies entirely on the City's ability to continue attracting development and its ability to encourage expansion within the City so continued job growth is critical for the success of the program. If structured correctly, the fee program will help sustain job growth and will help pay for the much needed affordable housing of its workforce while promoting economic competitiveness. The slightly higher development costs expected from a housing linkage fee program are offset by higher rents and sales prices in a high demand market like Los Angeles.

CONCLUSION

While housing linkage fees are not a panacea for cities with an affordable housing crisis, they do generate millions of dollars and help leverage additional funds that together make a significant contribution to a local fund. Of the high cost cities surveyed as part of this report, San Francisco and Boston have implemented housing linkage fees for several years. Combined with other state, federal and private funds, the housing linkage fee programs share the costs of new affordable housing demand over several funders, not just developers. According to the prior 2011 Affordable Housing Benefit Fee study, in cities that implement this type of fee program, the linkage fees account for approximately 20 to 25 percent of the local housing budget.

Support and need for a City Affordable Housing Benefit Fee program has been long established in Los Angeles with Mayor Tom Bradley proposing the City's first linkage fee in 1990 with an adopted "notice to credit" ordinance notifying developers that they might be subject to an Affordable Housing Mitigation Fee that the City was considering. Nearly a decade later, in 2000, the City's Housing Crisis Task Force issued a set of recommendations through the *In Short Supply* report calling for a linkage fee as one of many City taxes to help finance affordable housing. Today, fifteen years later, the City faces a more pronounced and complex housing shortage that demands the City to consider the establishment of a local permanent, self-sustaining source of funding that gives the City flexibility to create new financing tools to address the affordability crisis.

FISCAL IMPACT
The department is requesting up to $500,000 to be transferred to the Department of City Planning for executing the contract for the new study.

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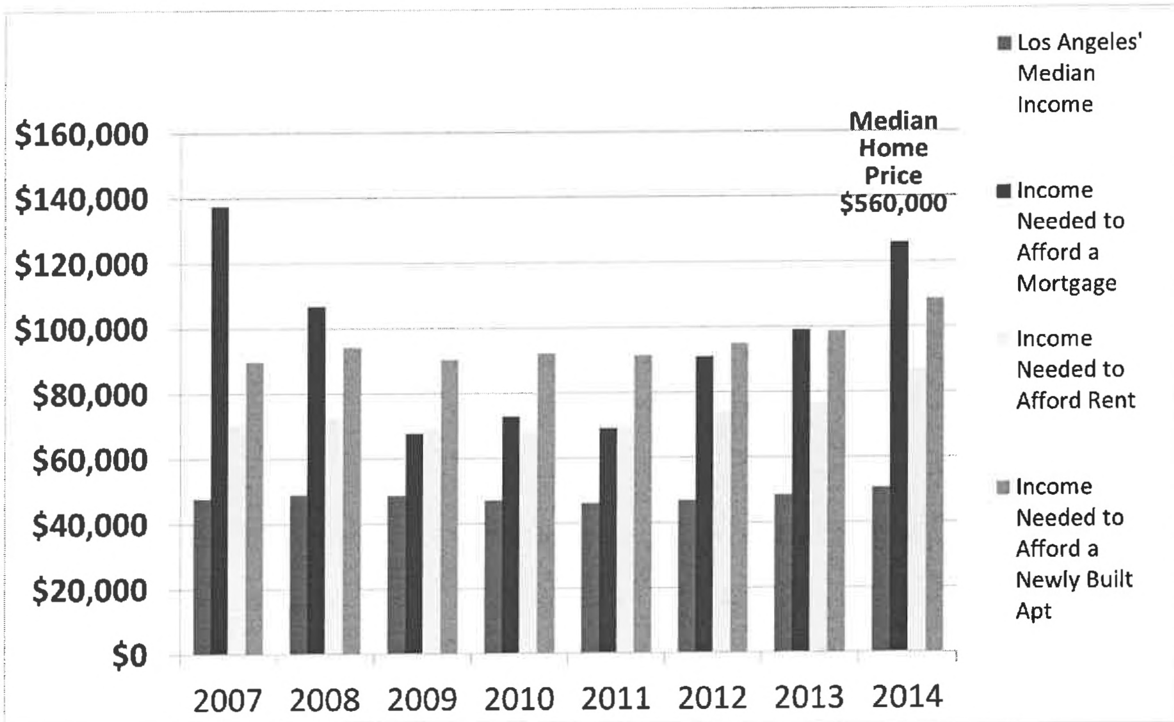
Attachment 1

Los Angeles' Rent and Mortgage Affordability Gaps



	Attachment 2 -Linkage Fees in Select California Cities (Per Square Foot)								
City	Hotels	R&D	Office	Warehouse/ Industrial	Retail/ Restaurant	Entertainment	Residential	Integrated PDR	Small Enterprise
Menlo Park (2014)			$15.19	$8.24					
Napa County (2015)	$9.00		$5.25	$3.60/$4.50	$7.50		$5.50		
Palo Alto (2014)	$18.89	$18.89	$18.89	$18.89	$18.89				
Marin (2013)	$1,745 per room	$7.19	$7.19	$1.94/$3.74	$5.40				
Mountain View (2014)			$25.00				$17.00		
San Francisco (2015)	$17.99	$16.01	$24.03		$22.42	$22.42		$18.89	$18.89
San Diego (2017)	$1.28	$0.80	$2.12		$1.28				
San Jose (2014)							$17.00		
Daly City (2014)							$25.00		