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August 17, 2017

Los Angeles City Council
c/o Office of the City Clerk
City Hall, Room 395
Los Angeles, California 90012

Attention: PLUM Committee

Dear Honorable Members:

REPORT ON AFFORDABLE HOUSING LINKAGE FEE ORDINANCE; CF 17-0274

On June 6, 2017, your Committee instructed the Department of City Planning (DCP) and the Housing and Community Investment Department (HCIDLA) to report back on a number of items related to your consideration of the proposed Affordable Housing Linkage Fee (AHLF) Ordinance.

The DCP and HCIDLA have jointly prepared a report responding to the questions raised by Councilmembers. Both Departments appreciate the additional opportunity for discussion prompted by this proposal. Like all difficult policy choices, the decision to adopt the AHLF Ordinance should be based on a careful evaluation of potential opportunities and consequences.

The topics in this report are organized according to HCIDLA or DCP jurisdiction, with the HCIDLA related items presented first (Sections I-VII). The questions that were asked by Councilmembers at the June 6, 2017 PLUM meeting include:

- I. What is the framework for determining how potential Affordable Housing Linkage Fee (AHLF) revenues can be prioritized and expended?
- II. What is the definition of affordable housing versus market rate housing, including examples of professions that qualify for each?
- III. What is the overall funding need to address Los Angeles' housing crisis and total revenue needed to address those needs?
- IV. What is the potential effect of proposed Federal spending cuts to housing funding?
- V. What are other potential funding options and revenue streams?
- VI. How many affordability covenants are expiring?

- VII. What are potential strategies related to preservation, rehab and extending expiring covenants?
- VIII. What are the impacts of other policy trends, such as Measure JJJ, CEQA challenges and the Ellis Act, on housing?
- IX. What is the impact of current development fees on housing? How do they compare to other cities?
- X. What are the potential housing market impacts that could arise from imposing the AHLF?
- XI. Are there policy options to minimize the impacts by introducing geographic variability to the AHLF, including analyzing exemptions for lower rent market areas?

Summary of Report

Following is a brief summary of the Departments' responses to these questions. An in-depth analysis of each policy topic is provided in the remainder of this report.

- The final framework of how AHLF revenues would be allocated and spent is a policy decision the City Council and the Mayor would approve. This report provides a framework for understanding the trade-offs for funding various types of production and preservation programs.
- In one potential expenditure scenario presented in the report, the AHLF could fund the production of more than 1,500 new or preserved affordable housing opportunities every year.
- According to the Regional Housing Needs Assessment (RHNA), Los Angeles needs to produce annually about 4,107 units affordable for lower income households just to keep up with future projected housing needs, not including existing need.
- Subsidizing the needed 4,107 RHNA units annually at a cost of \$100,000 per unit for families and individuals at 80% of Area Median Income (AMI) or below would cost Los Angeles \$400 million annually. This figure assumes the availability of multiple funding sources from Los Angeles County, the Affordable Housing and Sustainable Communities Program (Cap-and-Trade), tax credits and other State and Federal resources to help fill the large financing gaps.
- The AHLF can help fund the extension of affordable housing covenants as well as purchase older non-subsidized multifamily housing stock through a naturally-occurring affordable housing program, which would preserve existing affordable housing stock. Without a sufficient financial incentive, owners of these buildings are less willing to consider extending affordability extensions or selling to mission driven organizations. The AHLF funds could help incentivize these programs.
- Los Angeles has historically had lower impact fees than many other cities. The AHLF is likely to put the City's total development fees more on par with other localities, but still below those charged in most comparable local and statewide cities.
- Measure JJJ projects are exempt from the Linkage Fee.
- While it is possible there may be an impact on some future development projects, particularly in the short-term, the expected impacts on production and housing prices appear to be very small, particularly in the context of normal housing price increases.

- The proposed fee was informed by careful study and a market analysis that used conservative financial assumptions to minimize its impact on economic development, housing, and job creation.
- The final section of the report provides some recommended options if the fee amount were differentiated for different market areas throughout the City.

Sincerely,



VINCENT P. BERTONI, AICP
Director of Planning
Department of City Planning

VPB:RDC:KJK:KB:CB:MG:ch



RUSHMORE D. CERVANTES
General Manager
Housing and Community Investment Department

I. Linkage Fee Production

The City is continuously facing a critical time with the threat of severe federal funding cuts and limited to non-existing local resources for affordable housing. The proposed Affordable Housing Linkage Fee (Linkage Fee) ordinance presents an opportunity for the City of Los Angeles to create a permanent and self-sustaining local resource that will create long-term and innovative housing funding programs. Over the next decade, the Affordable Housing Linkage Fee is projected to bring in \$1 billion to the city's affordable rental and homeownership housing programs.¹

The Linkage Fee as currently proposed would nearly double the annual affordable housing opportunities available to Angelenos. In 2016, the HCIDLA's many programs subsidize a total of 2,458 affordable units. A Linkage Fee would add approximately 1,500 units to the affordable housing stock every year for a grand total of approximately 4,000 units annually (Attachment 1). Linkage Fees would augment new affordable opportunities through a myriad of programs including preservation efforts, rehabilitation, homeownership down-payment assistance loans as well as new construction.

Some testimony has been received stating that the proposed Linkage Fee may potentially produce a range of merely 225 to 400 units in total per year. These figures are incorrect as they assume that all Linkage Fee proceeds are exclusively dedicated to new production and that HCIDLA finances 100% of the cost for each unit. HCIDLA has never fully financed any unit or development in whole, instead all affordable housing production is financed by a combination of sources that includes non-city funding subsidies from other public and private funding resources. Based on department production data, our current per unit estimates anticipate a subsidy of \$100,000 for new construction of Senior or Family affordable units, for example. This relatively small subsidy is made possible by equity contributions from a myriad of resources such as 4% Tax Credits, bond proceeds and other state and county funds to these developments. Since projects already rely on multiple funding sources, a policy decision to fund a wide variety of programs would allow the city to deliver a more meaningful number of affordable opportunities with Linkage Fee proceeds.

The Affordable Housing Linkage Fee offers the city the necessary autonomy and flexibility to develop housing policy objectives and new financing tools that address a variety of local needs; Linkage fees could go towards projects that do not qualify for other limited state and federal dollars due to strict regulations and requirements. Further, the Linkage Fee would enable the City to assist working poor households as well as middle income families who do not qualify for state and federally sponsored programs but nevertheless struggle to find market-rate rents they can afford. The sample expenditure plan (Attachment 1) shows that \$60 million in Linkage Fees could deliver 1,000 units for working poor families through new construction and small multifamily rehabilitation subsidies; existing resources do not currently support these critical programs.

Failure to implement the proposed Linkage Fee ordinance will exacerbate the housing crisis and affect local businesses in the form of loss demand for goods and services as well as the loss of talented and highly skilled workers. The Los Angeles Business Council commissioned a study of

¹ This figure assumes \$100 million in annual Linkage Fee revenues over 10 years.

employer perspectives and found that employers in the region find it challenging to recruit and retain workers due to the high housing costs (Bostic 2017). Of those surveyed, 75% of employers reported that their companies have lost employees due to the high cost of housing.

The City of Los Angeles needs to meaningfully address the outsized demand for affordable housing that is reducing our economic competitiveness. The City of Los Angeles already missed a tremendous opportunity for a robust Linkage Fee with the recent construction growth. Our estimate shows that \$276 million in funding would be leveraged annually for the local economy with an annual Linkage Fee revenue of \$100 million (Attachment 1). These resources bring renewed investment and jobs but more importantly they help address the growing housing crisis in a serious way through tools that activate new programs and expand existing ones such as the preservation of expiring affordable covenants. Preserving affordability is key to preventing displacement and enabling long-term tenants to take advantage of renewed community investments. For example, a \$10 million dollar investment in preservation can protect 417 units annually.

II. Definition of Affordable Housing

Affordable housing is defined as a household that should spend no more than 30 percent of its income on housing costs; this is a HUD affordability standard established in the 1980s and remains the prevailing definition for many housing programs. If more than 30 percent of a household's income is dedicated to the monthly rent, the earnings are considered insufficient to afford the average rent and the household is considered rent burdened. Today, 61 percent of renters in Los Angeles are rent-burdened².

To afford Los Angeles' average rent of \$2,923, a household must earn \$118,400, as reported in the Linkage Fee study. Meanwhile, the median household income in Los Angeles is only \$49,682. With 77 percent of households in Los Angeles earning \$100,000 or less, the great majority of Angelenos are unable to afford rent. These data do not include the overall cost of living such as medical costs, food and the annual \$8,315³ in transportation costs that Angelenos typically spend. The severe rent burden coupled with other living costs significantly limits quality of life for Los Angeles residents.

Although new jobs will continue to be added to the Los Angeles area, wages in Los Angeles continuously fall below the California and national average. According to a report earlier this year by the Los Angeles County Economic Development Corporation, Los Angeles' strongest job growth will be in the service industry, food preparation and other areas where wages tend to be low. As an example, fast food workers earn an average of \$25,419 per year. An affordable rent, at 30 percent of income, for this worker is \$635 per month. This rental rate is nearly non-existent in the City of Los Angeles. If available in the private market, it is typically a bedroom in a shared home or substandard housing that is likely overcrowded. Growth in low wage jobs will undoubtedly add pressure to an already severely undersupplied segment of the rental market (see Attachment 2).

² U.S. Census Bureau (2015). Select Housing Characteristics, 2015, American Community Survey 1-year estimates.

³ Bureau of Labor Statistics. Consumer Expenditures for the Los Angeles Area: 2013-14

III. What is the overall funding need to address Los Angeles’ housing crisis and total revenue needed to address those needs?

The Regional Housing Needs Assessment (RHNA) 2014-2021 indicates the City of Los Angeles needs to create 32,862 newly built additional units affordable to families earning 80% AMI or below (\$72,100 for a family of 4). The total cost to build these units amounts to \$13.5 billion with an HCIDLA contribution of \$3.2 billion dollars. Further, annually, over an eight year period, the City of Los Angeles would need \$410 million dollars to subsidize 4,107 units.

Figure 1. Overall Housing and Funding Need

RHNA 2014-2021				
	Very Low Income (≤ 50% AMI)	Low Income (51-80% AMI)	Moderate Income (81-120% AMI)	Above Moderate Income (> 120% AMI)
RHNA - Units Needed	20,427	12,435	13,728	35,412
Cost to Build All Units*	\$8.4 Billion	\$5.1 Billion	Limited Resources (primarily for homeownership)	Financed by the Market
HCIDLA Total Subsidy Needed**	\$2.0 Billion	\$1.2 Billion	Limited Resources (primarily for homeownership)	Financed by the Market
Projected 8-Year HUD Entitlement for the City of Los Angeles***	\$208 Million			

**This assumes a Total Development Cost of \$414,766 per unit for 4% tax credit projects for seniors and families.*

***The figures are based on the average HCIDLA subsidy of \$100,000 per unit.*

****This figure is a projection based on previous entitlements of \$26 million.*

IV. What is the potential effect of proposed Federal spending cuts to housing funding?

The Trump Administration’s FY18 budget proposes austere spending reductions to HUD that would result in a \$70 million funding cut to Los Angeles. The proposal would completely eliminate today’s CDBG (\$50 million) and HOME (\$20 million) fund for affordable housing production impacting working low-income families in the City of Los Angeles. Other cuts include \$43 million to the voucher program and \$3 million to public housing operating subsidies, among others.

These programs directly impact affordable housing resources for extremely low income seniors, people with disabilities, families with children, veterans and other populations. The cuts would increase rents for HUD assisted low-income families and individuals by an average of \$84 per month, considerably increasing the rent burden for some of the neediest households.

Congress is countering with its own funding proposal and the final plan and magnitude of the cuts are unclear. While the full House Appropriations Committee does not propose funding cuts as deep as President Trump's budget request, the reductions would greatly impact critical programs. The House bill cuts funding for the Community Development Block Grant (CDBG) and the HOME Investment Partnership Program (HOME), two programs that have already been dramatically reduced in recent years. The House bill provides less than what is needed to maintain program levels and cover inflationary costs. Some preliminary estimates eliminate 140,000 housing vouchers nationwide. Without these housing subsidies, working families in Los Angeles will be at greater risk of homelessness. On the Senate side, the Transportation-HUD (THUD) spending bill in the Appropriations Subcommittee proposes to increase funding from the FY17 enacted levels. This increase is tentative until Congress reaches a bipartisan deal to lift the spending caps and enable higher funding levels. As of this writing, the federal budget is perilously uncertain and we are months away from having a final federal budget.

V. What are other potential funding options and revenue streams?

Other cities with high housing costs are narrowing the affordable housing gap through a myriad of local funding initiatives that help put housing within reach of low- and middle-income households. Based on a 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 promote opportunity for all.

At the Local Level:

- **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 voter approval.
- **Enhanced Infrastructure Financing District (EIFD):** A financing authority for cities to construct and rehabilitate infrastructure by capturing local property tax growth within a district's boundaries. Overall there is less tax increment available today because school districts are exempt from contributing their share. An EIFD has no mandatory expenditure requirement for affordable housing; a housing component would have to be included on an ad hoc basis. New districts are adopted by resolution and the tax increment may take upwards of a decade to generate significant revenues.
- **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% set-aside for affordable housing. New authorities are adopted by resolution and similar to EIFDs, the tax increment may take upwards of a decade to generate significant revenues.
- **Former Redevelopment Tax Increment Set-Aside:** Permanently earmarking a percent of the former Community Redevelopment Agency (CRA) tax revenue to the Affordable

Housing Trust Fund (AHTF). This requires the City Council and the Mayor to approve a permanent allocation of the former tax increment dollars currently placed in the General Fund and used to pay for a variety of city services. In 2014, HCIDLA recommended for consideration (Council File: 14-0361). Beginning in fiscal year 2013-2014, Los Angeles County made a five year commitment to set-aside \$15 million of their former tax increment dollars for affordable housing through a countywide NOFA.

- **Fees on Real Estate Recording Instruments:** Similar to Senator Atkins' SB 2 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. Also, new fees on real estate transactions would trigger Proposition 218 which requires local voter approval prior to imposing a fee. Finally, since the fee is for a special purpose, a two-thirds voter approval would be required.
- **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. The residents of Los Angeles approved Measure HHH in November 2016 to help build housing and services for homeless individuals.
- **For-Sale Inclusionary Housing:** The unanimous decision in *California Building Industry Association v. City of San Jose (2015)* upheld San Jose's inclusionary housing ordinance requiring builders of more than 20 for-sale housing units to set aside 15 percent of the for-sale units as affordable housing to households earning no more than 120 percent of the area median income. The decision enables cities throughout California to use land regulations to increase mixed income for-sale housing, thereby effectively opening an opportunity to increase the supply of affordable homeownership and promote economic diversity in the City of Los Angeles (Council File: 15-0762).
- **Parcel Tax:** This type of tax is assessed based on a predetermined rate per square foot, rather than on the assessed value of the property. The funding generated is flexible, similar to General Fund revenues and requires a two-thirds voter approval. A Parcel Tax had been an alternative proposal to Measure HHH but the City Council chose a bond instead.

At the State Level:

For the very first time in his tenure, the Governor has signaled that a state housing bond measure is a viable option. In a joint statement, Governor Jerry Brown, the Speaker of the Assembly and the ProTem committed to fund affordable housing development saying, "The package of legislation we are all working on will help ensure Californians won't have to pay an arm and a leg to have a roof over their head. It will include a general obligation bond, a permanent funding source for affordable housing and regulatory reform". As of this writing, the final details on the housing related regulatory reforms to streamline housing development and an overall affordable housing funding amount are unknown. Some of the proposals that may be included in the package are:

- SB 2 (Atkins) - This is the permanent affordable housing funding source that imposes a \$75 fee on every real estate document beginning in 2018. Owner occupied homes are excluded from paying the fee. SB 2 caps the fee at \$225 per single transaction. The bill requires a geographically balanced distribution of funds. The bill needs to secure a two-thirds vote on the Assembly floor.
- AB 1505 (Bloom) – An appellate court decision - Palmer/Sixth Street Properties L.P. v. City of Los Angeles, 175 Cal. App. 4th 1396 (2009) – eliminated local government’s ability to implement inclusionary policies to rental housing. AB 1505 does not mandate inclusionary housing but gives local governments the option to adopt said policy. AB 1505 has been long sought by housing advocates to authorize to adopt new inclusionary housing ordinances or implement existing ones.

If the State Legislature and the Governor approve the housing measures above, the City of Los Angeles must position itself to successfully compete for all new statewide funding resources. Historically, state affordable housing funds require a local match with a hard commitment of locally generated dollars. Without a permanent local source in Los Angeles, projects from other cities with robust trust funds and housing impact fees, such as some Bay Area cities, Pasadena, San Diego, and others, will outperform Los Angeles in drawing down state funds. The Mayor and the City Council can help bolster local affordable housing developments with flexible Linkage Fee dollars so Los Angeles’ projects compete for and win new state dollars and secure a fair share of new state funding sources

Furthermore, while the \$1.2 billion in Measure HHH is a local fund, it is strictly designed for homeless populations in need of service enriched housing, including health services and mental health programs on-site. Housing the homeless is of utmost importance and the affordable housing pipeline is responding with projects exclusively for homeless populations in need of on-site supportive services. The state’s No Place Like Home (NPLH) \$1.8 billion dollar fund will also further leverage local HHH funded projects. Both HHH and NPLH, offer critical funding to target one population, more specifically the homeless and chronically homeless in need of supportive services. As the development community shifts its focus to serve a more narrow homeless population, the unintended consequence is that seniors, families and the working poor are disadvantaged when financing resources to affordably house these groups are unavailable. The irony of today’s HHH funding is that homelessness may increase among families and individuals that do not have a documented mental or emotional illness but nevertheless need lower cost affordable housing and are facing rising rents every year. On August 2, 2017, the Los Angeles Times reported that a study by Zillow using census figures and homeless counts for the largest metropolitan areas in the U.S. found that “a 5% [rent] increase would push 2,000 Angelenos into homelessness.”

VI. How many affordability covenants are expiring?

HCIDLA estimates that the City currently has an inventory of more than 69,000 affordable units, located in more than 1,900 affordable properties (CF #16-1443). In January 2017, HCIDLA estimated that the City currently has 11,771 housing units at-risk of losing rental subsidies or affordability restrictions in the next five years. More than half of the at-risk inventory (56%) is set to expire in the next two years.

VII. What are potential strategies related to preservation, rehab and extending expiring covenants?

HCIDLA has several strategies for preserving affordability that are hampered by not having sufficient resources to implement in a more comprehensive manner. Linkage fee proceeds could help bolster these current strategies. On June 21, 2017, HCIDLA reported to the Housing Committee on the department's efforts to integrate non-financial and policy efforts to preserve at-risk affordable housing (CF #16-1443). Strategies to preserve expiring covenants through an extension of the affordability period and/or rehabilitation funding include:

- **Financial Preservation Transactions** – If property owners indicate an interest in preserving affordability by extending the covenant on the property, HCIDLA can provide Tax Exempt Bond Financing or Low-Income Housing Tax Credits (LIHTC) to finance the extension of affordability restrictions.
- **Tracking and Enforcing State Notification Requirements** – When a property is nearing the expiration of an affordability covenant, property owners are required to comply with federal and state notification requirements to all tenants in the property. Occupancy and notification enforcement and tenant outreach initiatives by HCIDLA are an anti-displacement tool that provides residents time to seek alternative housing.
- **Proposed Notice of Intent Ordinance** – HCIDLA is working with the City Council (CF# 16-1443) to establish a local enforcement mechanism, similar to state law to strengthen affordable housing preservation efforts.
- **Tenant Outreach and Education** – Since 2004, HCIDLA provides outreach to monitor properties, prevent potential tenant displacement, coordinate efforts with owners and residents through the termination of affordability covenants, and stabilize rents that were adjusted to market rate after the covenant terminated/expired. A Request for Proposals (RFP) for At-Risk Affordable Housing Tenant outreach and Education Services was issued on May 9, 2017 to continue this work (CF# 17-0027).
- **Outreach to Identified Property Owners** – Beginning in 2016, HCIDLA has proactively identified and contacted owners of properties with expiring affordable housing restrictions to understand the owner's future plans for their properties. The outreach is done to determine if HCIDLA's buy-down of affordability, debt restructuring or other incentives could result in covenant extensions or rental subsidy renewals
- **Financing Strategies** – Financial strategies to incentivize property owners to extend the years of affordability are targeted to 1) properties with existing City debt, and 2) properties with no debt remaining.

VIII. What are the impacts of other policy trends, such as Measure JJJ, CEQA abuse and the Ellis Act, on housing?

Ellis Act

The California State Legislature has made several attempts to curb Ellis Act removals but none have been successful. In Los Angeles alone, since 2001, the city has lost 22,132 RSO units through the Ellis Act removal process. The Ellis Act gives cities the power to “mitigate any adverse impact” of displacement and as such, the City Council has recently enacted new protections and requirements to limit the negative impact on tenants displaced from Ellis Act evictions through (Council Files: 14-0268-S4, 14-0268-S5, 15-0600-S36, 15-0728):

- Applying Ellis Removal Procedures to Vacant Units: Landlord must notify HCIDLA of their intent to withdraw Rent Stabilized units irrespective of whether the unit(s) are occupied or vacant. Discourages constructive evictions and "cash for keys" by imposing Ellis compliance when vacant units are withdrawn. Additionally, the City adopted a "Cash for Keys" ordinance which became effective January 25, 2017 and partially addresses instances where landlords attempt to skirt the RSO Ellis protections for tenants.
- Re-rental of Withdrawn Units: Strengthens the RSO rules to require refiling of an Ellis application and restarting the "clock" when withdrawn units are re-rented;
- Application to properties which have been demolished after 9/29/2006: Imposing the application of the RSO to future construction of replacement units on properties found to have skirted the RSO;
- Relocation Services for All Tenants with at least a one year tenancy: Expands the group of tenants eligible for relocation services, if they have waived their relocation assistance;
- Annual Status Reports: Requires annual property status reports for seven years on withdrawn properties.
- Replacement of Units: When new rental units are built within five years of an RSO demolition, landlord may avoid putting the entire new building under the RSO if they replace all demolished RSO units with new affordable units or set-aside 20% of the newly built units as affordable – whichever number is higher.

CEQA Challenges

During the June 6 PLUM hearing, staff were asked to report on the impact that the California Environmental Quality Act (CEQA) has had on project development. While CEQA was adopted as a tool to mitigate the impacts that a project has on the environment, in the years since it was adopted, it has at times been used, especially in urban areas, to challenge infill development. This is of particular concern because infill development is generally considered better for the environment than suburban sprawl.

A recent study by Holland and Knight (Hernandez et al. 2015) showed that the vast majority of CEQA challenges are in response to projects that arguably advance California’s environmental policy objectives. Transit is the most frequently challenged type of infrastructure project, and

housing (especially higher-density housing) is the most frequently challenged type of private-sector project. Over the last 30 years in Los Angeles, there have been more than 20 major lawsuits filed against infill redevelopment projects.

Measure JJJ

Measure JJJ, passed by the voters in November 2016, requires residential projects with at least 10 units filing for a Zone Change, General Plan Amendment or and/or Height District Change that increases allowable density to include a percentage of affordable housing units. Due to the additional affordable housing and labor requirements that the Measure imposes on these projects, several of the Councilmembers inquired as to the impact that the Measure has had on housing development in general. Prior to the effective date of this Measure, the DCP received a number of entitlement applications that are currently moving through the DCP approval process with “vested” status and are exempt from the law. At this time it is too early to determine the number of non-vested projects that may or may not move forward as originally planned.

Since Measure JJJ became effective on December 13, 2016, the DCP has received 26 Zone Change/GPA case filings that would be subject to the measure. This represents a decrease over previous years, and again, it is still too early to discern to what extent the Measure will affect development activity over the long term.

The proposed AHLF accounts for the potential impacts of Measure JJJ on project feasibility by exempting those projects from the fee. Projects participating in the forthcoming Transit Oriented Communities (TOC) Affordable Housing Incentive Program, which was created by Measure JJJ, will also be exempted from the proposed fee. Projects which are subject to the Measure or are participating in the TOC Program are required to provide affordable housing and are therefore satisfying their affordable housing “obligation.”

IX. What is the impact of the City’s current total development fees on housing? How do they compare to other cities?

In general, there are two types of development fees imposed by the City: administrative service fees that fund direct services for processing the necessary permits for a project (such as fees for a zone change or variance, for building permits, and plan check), and development impact fees which are used to fund physical infrastructure improvements related to the impact of the development (such as sewerage facilities, schools, and parks). Developers often refer to both when discussing concerns that impact home building.

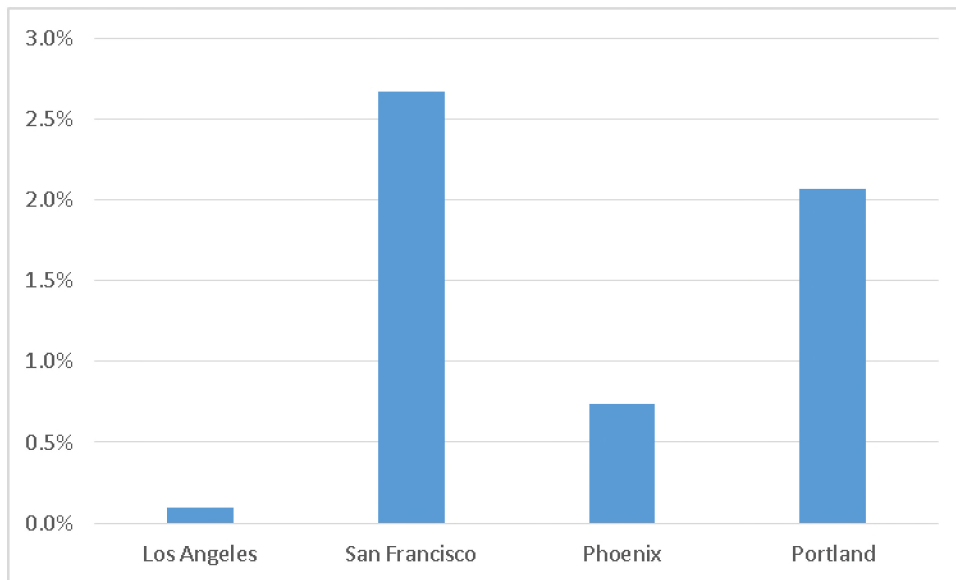
Administrative service fees for processing building permits and discretionary planning actions are created by ordinance and are intended to pay for staff time necessary to review and approve projects and conduct inspections. The cost of service fees is typically established by fee studies intended to ensure that the cost is fairly established, based on the City staff time necessary to process the permit or application. Major Department of Building and Safety (LADBS) permit fees are calculated by a formula based on project valuation determined by size and type. Planning fees vary based on the entitlement being requested. As such, there is no typical set of development fees for projects. Five different 10-unit buildings may have five different valuations,

or require five different entitlement review processes based on zoning, and will therefore pay five different total administrative fees.

The largest impact fees are currently assessed for parks, schools and transportation. Pursuant to the updated Parks Fee (Quimby Fee) adopted in September 2016, the City now assesses \$2,784 per unit that is not part of a subdivision project (apartments and single-family developments on existing lots) and \$8,382 per unit for projects that are part of a subdivision (condos and new single-family subdivisions). These fees are scheduled to increase in January 2018 to \$5,000 and \$10,000, respectively. For schools, residential projects are assessed approximately \$4.00 per square foot, which is collected on behalf of LAUSD to support the development of additional public school facilities. In certain Specific Plan areas with traffic challenges, transportation impact fees have been adopted pursuant to the California Mitigation Fee Act. For example, the DCP is currently in the process of updating the West Los Angeles Transportation Improvement and Mitigation Specific Plan and the Coastal Transportation Corridor Specific Plan, both of which assess transportation fees on new development within defined geographic areas to be spent on identified transportation projects within those boundaries.

In November 2015, the City Controller's Office issued a report looking solely at development impact fees subject to the CA Mitigation Fee Act and found that Los Angeles collects about \$5 million in impact fees out of \$5.3 billion in construction valuation. This is considerably lower than the comparative cities looked at in the study (see Figure 2 below).

Figure 2 – Total Impact Fees as a Percentage of Permitted Construction Costs (Selected Cities)



The most recent data comparing the comprehensive list of development fees across the region comes from a 2001 state HCD report (Department of Housing and Community Development 2001). The analysis showed that the City of Los Angeles had the lowest per unit residential fees

of any city in California except Sacramento (\$6,362). Since this time, fees in Los Angeles have increased due largely to the new Quimby Parks Fee.

DCP has collected up to date impact fee data from a limited number of other California cities and six nearby cities (see Attachment 3). These fees are assessed for a variety of purposes, including transportation, public art, affordable housing, school development, sewer/utility facilities, and water. Of the comparable cities (Glendale, Beverly Hills, Pasadena, Burbank, Santa Monica and West Hollywood), Los Angeles appears to have lower overall fees than most, even taking into consideration the proposed AHLF.

A recent study by HR&A consultants, at the direction of DCP, estimated the total cost of permits and fees today to be approximately \$14,700 per unit. As an example, a \$12 per square foot fee on residential development would equate to a linkage fee of approximately \$13,800 for a 1,150 square foot multiple-family unit constructed in the City.

While the AHLF represents a significant increase in total development fees in Los Angeles, as an affordable housing requirement, it is fairly moderate when compared to typical inclusionary housing and/or linkage fee policies throughout California. For example, the City of Sacramento has an inclusionary policy that requires 5% very low or 10% low income units in new multi-family development. To illustrate, for a 100 unit building, the full "cost" to the developer to fulfill Sacramento's inclusionary requirement is more than \$8.25 million, compared to the proposed AHLF which would reflect an estimated cost of \$1.38 million to the developer⁴. Cities like Santa Monica, West Hollywood, Pasadena, San Francisco and Oakland require comparably higher housing requirements than what is being proposed (see Figure 3 on the following page).

⁴ A 5% very low requirement means that instead of being able to charge \$3,200 a month for a two bedroom in medium markets (conservative assumption), a development is limited to a maximum rent of about \$700. To the developer, this equates to a cost per affordable unit of about \$30,000 a year. In a 100 unit building, the approximate cost to provide the five inclusionary units would be \$150,000 per year (5 * \$30k). The required affordability period is 55 years (55 * \$150,000 = \$8.25m).

Figure 3. Residential Affordable Housing Linkage Fee - Comparison to Other Cities (\$ per square foot)



In summary, Los Angeles has historically had lower total development fees than most of its neighbors (see Attachment 4). However the 2016 increase and expansion of the Parks Fee has brought development fees in Los Angeles to greater parity with the region. While comprehensive, up to date information on the total development fees across cities is not available, this report compiles the best available information to demonstrate that the proposed AHLF would likely put Los Angeles' total development fees more on par with, but still below those of many comparable local and statewide cities (i.e. Santa Monica, West Hollywood, Pasadena, Oakland, Sacramento, and San Francisco).

X. Potential Housing Market Impacts of Affordable Housing Linkage Fee (AHLF)

The aim of the AHLF is to promote housing affordability, particularly among lower-income residents. However, some have raised concerns about potential unintended consequences on the broader housing market. To the extent that the AHLF creates new costs for housing developers, a new fee may stifle housing production and result in an increase to the price of market-rate units in Los Angeles.

To help understand the potential impacts from a new fee on the housing market, staff reviewed academic studies and the experience of other comparable cities, and attempted to quantify the potential economic impacts. The review confirms that the fee will not result in a significant increase in housing prices.

Background

The adoption of new impact fees and/or inclusionary housing requirements is almost always controversial in cities where it is being proposed. Any cost intervention raises economic concerns that must be taken seriously and addressed with care. This section explains the economics of housing impact fees by addressing the most common questions about these policies:

- Will developers pass on the cost to tenants and homebuyers?
- Will new fees prevent development and make the housing problem worse?
- Can housing linkage fees work in every type of housing market?

The proposed ordinance is one tool to address housing affordability among a larger set of strategies. The AHLF is based on the nexus, or link, created between new development and the demand for affordable housing. It does not focus on all affordable housing needs in Los Angeles, but only those that are created as a result of new development.

Are Costs Passed Through to Renters/Homebuyers?

Generally, due to market forces, developers are unable to pass on the costs of new housing impact fees to tenants and homebuyers (Jacobus, 2015). This is because most developers are introducing a relatively small number of units into a community, where the price has already been set by the marketplace. Developers typically work backwards from an assumption of what price the market has set for new housing in a particular area. They gather this information from other new developments as well as from the going rents for market rate units in the area. They cannot charge more than the market will bear or the units will end up being vacant for long periods. Developers typically tend to charge the highest rents or sales prices that the market can bear, and are not always able to pass through added costs associated with housing impact fees.

Instead, the costs associated with housing impact fees are either absorbed into land prices or reductions in developer profits, or some combination of the two. Economic theory says that the costs of a new fee will be absorbed by the party most able to adjust their price (i.e. the concept of elasticity). Since developers are very limited in their ability to simply pass the cost of the new fee to the end buyer or renter, developers either accept lower profit (to a certain level) or reduce controllable costs at the outset of pursuing a new project that would be subject to the fee. Typically, the “cost” of fees gets factored in through lower land sales prices as developers may be unable to pay the same amount for land as they could before the fee. This is due to the concept known as residual land value, where the value of a property is calculated based on the value of the completed development minus the costs of development, including any fees and developer profit. Higher fees produce lower residual land value, and developers are therefore willing to pay less for land, which in turn results in lower land costs.

Where a developer cannot adjust profits or cut costs, or has already paid for the land, a project with thin margins could conceivably be put at risk. For that reason, the draft AHLF Ordinance includes an exemption for all new projects for which complete applications have been submitted to the City within 180 days after the effective date of the ordinance. This allows any projects that were unable to adequately plan for the fee to be exempted by submitting within that time window.

The AHLF Reflects Conservative Financial Assumptions

The Affordable Housing Linkage Fee (AHLF) proposal has been informed by careful study and market analysis to minimize its impact on economic development, housing, and job creation. The AHLF Nexus Study conducted by BAE Economics includes extensive analysis of real estate project feasibility to ensure that fees are set at levels that do not unduly constrain market rate projects.

The feasibility analysis in the Nexus Study was intentionally prepared using conservative assumptions to accommodate the wide variation in project economics across Los Angeles and account for a potential future downturn in the larger real estate market. Wherever possible, the lower end of the range of revenue-related variables and the higher end of the range of cost-related variables was used. For example:

- **Developer returns** were reported to be closer to 10-12%% but the Nexus Study assumed that economic “feasibility” required a return of 15%. Under this conservative approach, the Study suggests the vast majority of development in the city can afford significantly higher fees than are being proposed since many developers would expect lower financial returns than were modeled in the study.
- **Employment densities**, which is a base assumption used to determine the nexus between employment in new commercial development and the resulting affordable housing demand, were intentionally modeled in a conservative manner to avoid overestimating the number of employees per 100,000 square feet of office development. This assumption is conservative to avoid overstating the number of workers generated by new development, despite recent trends towards open office floor plans and higher employment densities in urban areas. The nexus study assumed 350 square feet per employee, even though many new commercial office developments may use denser floor plans that have 150 square feet per employee or less.
- **Hard Costs**, which include everything tangible about a construction project (land, building materials, construction costs, labor, etc.) were based on the industry standard RS Means data, then inflated 15% to be conservative and account for rising costs. Hard costs represent up to 70% of the total costs of on a development project.
- **Rent** assumptions were based on an analysis of CoStar data on rents for buildings built in past 10 years. This is a conservative assumption as brand new buildings command a premium over buildings built 5-10 years ago. In addition, the rent data was collected at the 25th, 50th and 75th percentile breakpoints depending on the market area which means that, for example, the high market areas’ rents do not represent the very top end, but rather the 75th percentile of market rents. The low market areas assume the 25th percentile rent for new buildings, despite accounting for about 38% of the total neighborhoods.
- **Feasibility Metrics** - Based on interviews with developers, it was decided that two types of metrics would be used to determine whether a project was considered financially feasible, or worth developing. Both metrics were used in all feasibility models, and projects needed to meet both thresholds to ensure that these two commonly used measures could be met across land uses and markets. Adequate thresholds for Return on Cost (ROC), which is a simple profit margin measure, and Yield on Cost (YOC), which evaluates rental income compared to total development cost, needed to be achieved to deem a project feasible with the total fees.

The proposed fees have been carefully tested through a third-party financial feasibility analysis conducted by BAE Economics in the Nexus Study. The Nexus study formulated pro-formas for 11 types of different commercial and residential land uses across three market conditions (low, medium and high). Relying on actual market data (to the extent possible) and the conservative assumptions above, the study was also vetted with a working group of housing developers.

The Nexus Study analysis includes recent changes to the parks fees as well as the update to the transportation impact (TIMP) fees being proposed in some Westside neighborhoods. It also accounts for the potential impacts of Measure JJJ on project feasibility by exempting those projects from the fee. Projects participating in the forthcoming Transit Oriented Communities (TOC) Affordable Housing Incentive Program and Value Capture ordinances will also be exempted from the linkage fee, inasmuch as these programs require the provision of on-site affordable housing similar to Measure JJJ.

Best Practices and Academic Research

Several comprehensive reviews have found little to no influence from impact fees (or similar requirements in inclusionary housing policies) on the amount or eventual price of new development, particularly when accounting for the offsetting benefits of the fee (more affordable units built). Highlights include:

- Researchers at the University of California, Los Angeles compared the data for 17 communities with and without inclusionary housing in Southern California (normally a more costly requirement than the proposed fee) and concluded that these policies had no discernable impact on the overall rate of production (Mukhija, et al. 2010).
- Researchers at the Furman Center at New York University (Schuetz, et al. 2009) studied inclusionary programs in the Boston and San Francisco areas and found no clear cut evidence of impacts to housing, as the result varied widely. They found that there are larger market and regulatory factors that influence the decision to build housing in a given locale than just the amount of one fee.
- A 2009 court decision effectively ended mandatory inclusionary zoning policies across much of the state of California. This provided a real-life experiment on the impact of housing requirements on housing markets. A 2015 analysis failed to find evidence that removing an inclusionary policy in those cities was associated with lower rental prices of high-cost housing units (Hollingshead 2015).
- A study recently completed by Keyser Marston Associates, on behalf of the California Community Foundation, looked at the three largest cities with housing impact fees in the area. These include Pasadena, Santa Monica and West Hollywood, which have much higher fees than are being proposed in Los Angeles (\$38, \$33 and \$20 per sq. ft. respectively - see Figure 3, above). The study found that housing production had increased in all three cities after the fee was imposed. The study suggests that the introduction of the AHLF in Los Angeles would not slow housing production, particularly given the fact that neighboring markets have imposed higher fees.

Nexus Study and Market Analysis

The DCP and HCIDLA commissioned an independent economic study (the Nexus Study) to determine specific fee amounts that developers could reasonably pay in real estate markets across the city. In most cases, the proposed fee is significantly lower than the amount deemed “feasible” by the City’s study. In some cases, the proposed fee is as much as 75% lower than the amount deemed feasible by the economic study, and it has been specifically set at an amount that will remain feasible during market swings and downturns in the economy.

If there are to be project-specific impacts, they may be concentrated among projects with marginal profit levels, including smaller projects and those located in areas with lower rents. Also, projects where land was purchased without taking the fee into account face an unexpected increase in costs. As described above, the proposed 180-day implementation delay is designed to provide a grace period for any projects which were unable to account for the cost of the fee at the time of land acquisition.

Development Incentives

The Affordable Housing Linkage Fee is an important component of a comprehensive housing strategy, particularly when coupled with meaningful incentives for the production of new housing supply and affordable units. DCP continues to expand incentives for producing and preserving affordable housing, particularly for transit-oriented development. This includes the forthcoming Transit Oriented Communities (TOC) Affordable Housing Incentive Program, a part of Measure JJJ, which offers additional density, height and parking reductions for projects that include set amounts of affordable housing (generally in excess of the Density Bonus program). The program includes development incentives to offset the increased expense of including affordable housing. If a project qualifies as a TOC project, it will be exempt from the AHLF.

In addition, the DCP and other city agencies such as the Department of Building and Safety (LADBS), have been advancing Mayor Garcetti and the City Council’s development reform agenda, which has resulted in improvements in the way development projects progress in the City. A list of major initiatives is included as Attachment 5 and summarized below:

- The DCP has completed guidelines to facilitate the use of the Class 32 Urban Infill Categorical Exemption for qualified projects, which allows many smaller infill projects to benefit from an exemption from CEQA, greatly streamlining the CEQA review process for many new housing developments
- The DCP has begun implementing the state CEQA streamlining strategies under SB 375, AB 226 and SB 74, enabling the City to take full advantage of applicable state CEQA incentives for infill residential projects.
- The DCP has refined the way traffic impacts are assessed for affordable housing units, including those within market rate projects, to better reflect their lower trip generation rates.
- The DCP is completing Specific Plans and Community Plans that allow for by-right development (through an Administrative Clearance) that conforms to locally tailored standards.

- In line with the Mayor's Executive Directive 13, the DCP has created the Priority Housing Project (PHP) Program to prioritize projects that contribute to the new construction or rehabilitation of housing developments of ten or more units that contain at least 20 affordable housing for rentals (30% for for-sale);
- The DCP has implemented recent state law on parking, which lowers parking requirements for transit-oriented projects that include the maximum amount of affordable housing in density bonus projects
- The DCP and LADBS are implementing the new state law regarding Accessory Dwelling Units (ADUs).
- The DCP launched the Expanded Counter Plan Check (ECPC) program in May 2015, which allows for the expansion of same-day, walk-in plan check services for small building projects, enhancing convenience and improving turnaround time for LADBS customers.
- LADBS has expanded the Parallel Design Permitting Process (PDPP), which reduces approval timelines 5-9 months by allowing construction to proceed concurrently with design for major development projects.

Potential Impacts of the Fee on Low-Market Areas

The Nexus Study identified low-market areas, which are typically characterized by slower development activity and lower overall rents and sales prices. These areas are primarily concentrated in South Los Angeles and parts of the San Fernando Valley. As evaluated in the Nexus Study, the biggest potential impacts of the fee on overall project feasibility would be on projects located in these areas of the City. To address this concern, the Department carefully structured the proposed Affordable Housing Linkage Fee ordinance to provide exemptions for the types of projects in these areas which would be the most negatively impacted by the fee.

The proposed ordinance includes several key exceptions as to type and scale. An analysis of building permit data in the low-market areas between 2011 and 2015 reveals that only 22% of all building activity takes place in these areas, yet this accounts for nearly a third of all projects in the city that would be exempt from the fee or subject to a fee credit or reduction based on the recommended exemptions (Attachment 6). Nearly 49% of new development in low-market areas would be exempt or subject to a reduced fee amount for smaller projects (compared to 34% citywide).

Of the overall residential development in low-market areas, 32.7% occurs in small multifamily buildings with 2-5 units. This accounts for half of all small multifamily projects that are built in the city. These projects, which often provide a more affordable housing typology, would be subject to a reduced \$1 per square foot linkage fee amount, and thus any potential impact of the Linkage Fee on these projects would also be minimal.

This information suggests that if baseline conditions continue, only approximately half of all new development in low-market areas would be subject to the full amount of the Affordable Housing Linkage fee, and any potential impacts to development patterns in these areas may be minimized by the exemptions and deductions recommended in the ordinance.

XI. Potential Policy Options for Geographic-Based Fee Variability

In recognition of the diversity of real estate submarkets located within the City of Los Angeles, the City Council directed the DCP to explore potential options to differentiate the linkage fee based on market variation. This approach would allow the City to enact a fee structure that is responsive to varying real estate markets throughout the City.

Defining Geographic Areas

If the City Council would like to differentiate the fee amount for different market areas throughout the City, this section provides some options for determining how those geographic boundaries should be defined, as well as some discussion of the potential trade-offs associated with each option. There are three basic geographic approaches, each of which can be applied to either the residential and commercial components of the linkage fee:

- A. Apply a citywide fee structure (method recommended by the City Planning Commission);
- B. Create market areas defined by the 114 LA Times Neighborhood boundaries (method used in the Nexus Study's Feasibility Analysis); or
- C. Create market areas defined by the City's 35 Community Plan Area boundaries.

These strategies lead to a series of potential policy options, summarized in the matrix provided in Figure 4.

If a geographic fee structure is ultimately employed, the Department recommends that the geographic boundaries receive regular updates, for example every five years, to reflect changes in real estate markets over time. These updates should be frequent enough to capture significant changes in local markets, but not so frequent as not to create greater uncertainty for the development community.

Figure 4. Summary Matrix of Potential Fee Structure Options and Associated Annual Revenue Estimates.

RESIDENTIAL FEE	OPTION A	OPTION B	OPTION C
Fee Structure	Citywide Fee	Create 3 Market Areas by Neighborhood Boundaries	Create 4 Market Areas by Community Plan Area
Fee Level	\$12 psf	Low: \$8 psf Med: \$10 psf High: \$12 psf	Low: \$8 psf Med: \$10 psf Med-High: \$12 psf High: \$15 psf
Annual Revenue Estimate - Residential	\$86.7m to \$105.9m	\$77.2m to \$94.3m	\$86.2m to \$105.3m
COMMERCIAL FEE	OPTION A	OPTION B	OPTION C
Fee Structure	Citywide Fee	Create 3 Market Areas by Neighborhood Boundaries	Create 3 Market Areas by Community Plan Area
Fee Level	\$5 psf	Low: \$3 psf Med: \$4 psf High: \$5 psf	Low: \$3 psf Med: \$4 psf High: \$5 psf
Annual Revenue Estimate - Commercial	\$8.5m to \$10.3m	\$7m to \$8.5m	\$7.4m to \$9m
TOTAL ANNUAL REVENUE ESTIMATE	\$95.2m to \$116.2m	\$84.2m to \$102.9m	\$93.7m to \$114.3m

Option A. Citywide Fee Structure

The option recommended by the City Planning Commission (CPC) would apply a simplified, flat fee structure to all market areas of the City. Intended to be simple to understand and predictable from year to year, this structure would apply one fee to all residential projects (\$12 per sq. ft.) and one fee to commercial projects (\$5 per sq. ft.), regardless of the location of the project.

This fee structure was initially recommended because of some of the potential challenges of implementing a geographic-based fee, namely that market conditions can fluctuate rapidly, and the boundaries of market areas may shift within a few years' time. Many in the development community have emphasized the importance of certainty and predictability in the development process, and a geographic-based fee could unintentionally lead to unanticipated changes throughout the development timeline. A potential drawback of the citywide fee is that it does not recognize differences in market areas, possibly leading to lost revenue potential in stronger market areas or negative impacts to development in cooler market areas.

Option B. Create three market areas defined by the LA Times Neighborhood boundaries

This option would memorialize the market approach developed in the Nexus Study. Low, medium and high markets were established according to a three-tier index, as shown in Figure 5 and Figure 7. The residential index is based on current average residential rents and average price per square foot for single family homes and condominiums, while the commercial index is based on current average rents per square foot for office and retail rents throughout the City. Based on

the results of each market index, neighborhoods were categorized into low, medium and high residential and commercial market areas. These market areas correspond to areas of varying market strength, and each market's corresponding ability to bear the cost of the linkage fee. The market index provides a tool to differentiate the linkage fee to ensure feasibility across all market areas.

As described in the Nexus Study, the Los Angeles Times neighborhood boundaries were used to develop the index because they offered the most refined geographic subarea classification. The LA Times neighborhoods provide a subarea that is small enough to show granularity in real estate market areas, without being too small to obscure larger market trends.

Using this geographic structure, there are a number of potential methods which could be used to vary the fee amount within each market area. The revenues resulting from the suggested fee is summarized in Figure 4 above. The fee proposal was intended to strike an appropriate balance between maximizing potential revenue that can be generated for affordable housing while remaining sensitive to individual submarkets.

Option C. Create market areas defined by Community Plan Area boundaries

A variation on the market index created in the Nexus Study would aggregate market areas into a larger geographic area, as defined by the Community Plan Area (CPA) boundaries shown in Figure 6 and Figure 8.

This approach would create greater geographic uniformity in market areas, helping to reduce developer uncertainty by utilizing more commonly-recognized geographic subareas. The advantage of this approach is that it results in a smaller number of more recognizable geographic subareas that are easier for a developer to identify on a map (i.e. 35 Community Plan Areas compared to 114 neighborhoods). It also results in greater consistency of fee levels across broad geographic areas of the City. A potential drawback of this approach is that it may obscure variations in local real estate markets and result in larger trade-offs when setting the fee amount, as market conditions may vary significantly within one CPA.

To establish this option, the Department recalculated the residential and commercial market indices by averaging rents and sales data within each CPA. This allowed the Department to create a range of market areas defined by CPA. In certain instances, where data limitations and inconsistencies created disparities between the index and known market behavior, the Department adjusted market categories for individual CPAs to acknowledge broader market trends.

In setting the geographic structure for this option, the Department aimed to recognize greater diversity in the City's local residential real estate markets by recalculating the residential market index into four geographic areas. This approach allows the fee to differentiate the City's highest residential market areas from other market areas within the City, and apply a higher per square foot residential fee that corresponds with the relative strength of those residential market areas while lowering the fee in other residential market areas.

Using this geographic structure, there are a number of potential methods which could be utilized to vary the fee amount within each market area. One suggested fee structure for this scenario is as follows:

- Residential Fee
 - Low Market: \$8 per square foot
 - Medium Market: \$10 per square foot
 - Medium-High Market: \$12 per square foot
 - High Market: \$15 per square foot
- Commercial Fee
 - Low Market: \$3 per square foot
 - Medium Market: \$4 per square foot
 - High Market: \$5 per square foot

As described above, this fee proposal was intended to strike an appropriate balance between maximizing potential revenue that can be generated for affordable housing while remaining sensitive to varying individual submarkets.

Figure 5. Three-Tier Residential Market Index by Neighborhood Boundaries

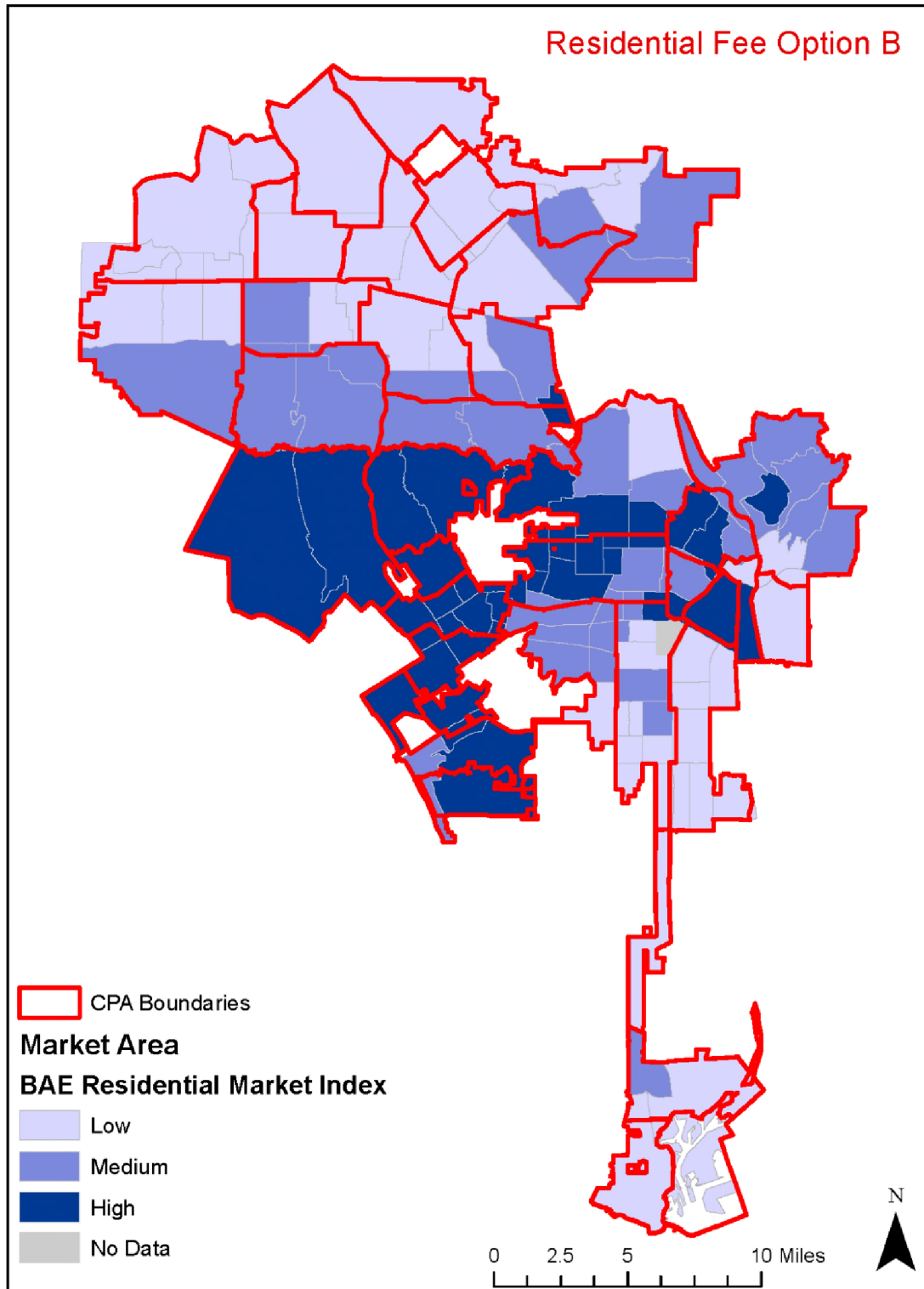


Figure 6. Four-Tier Residential Market Index by Community Plan Area Boundaries

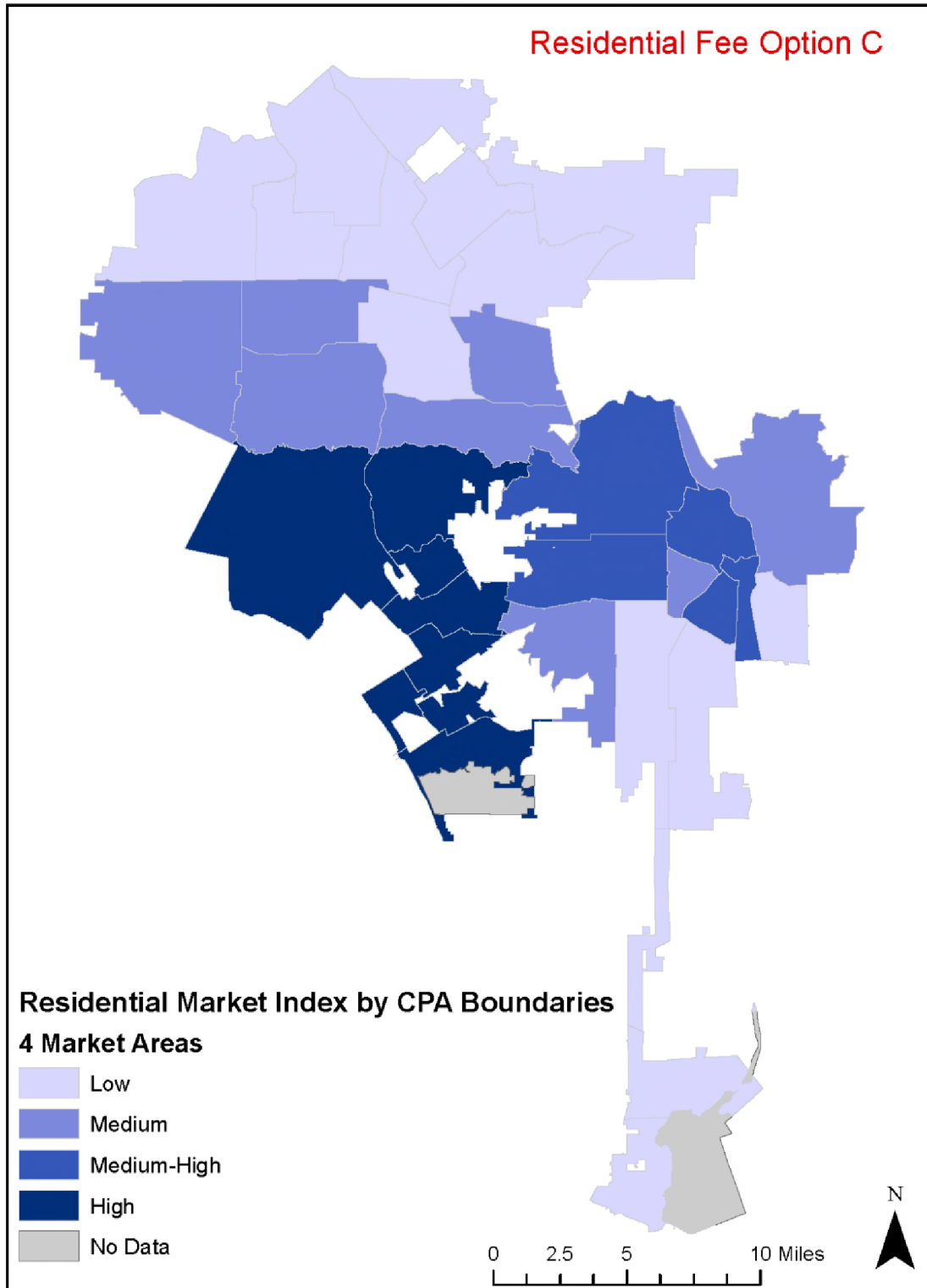


Figure 7. Three-Tier Commercial Market Index by Neighborhood Boundaries

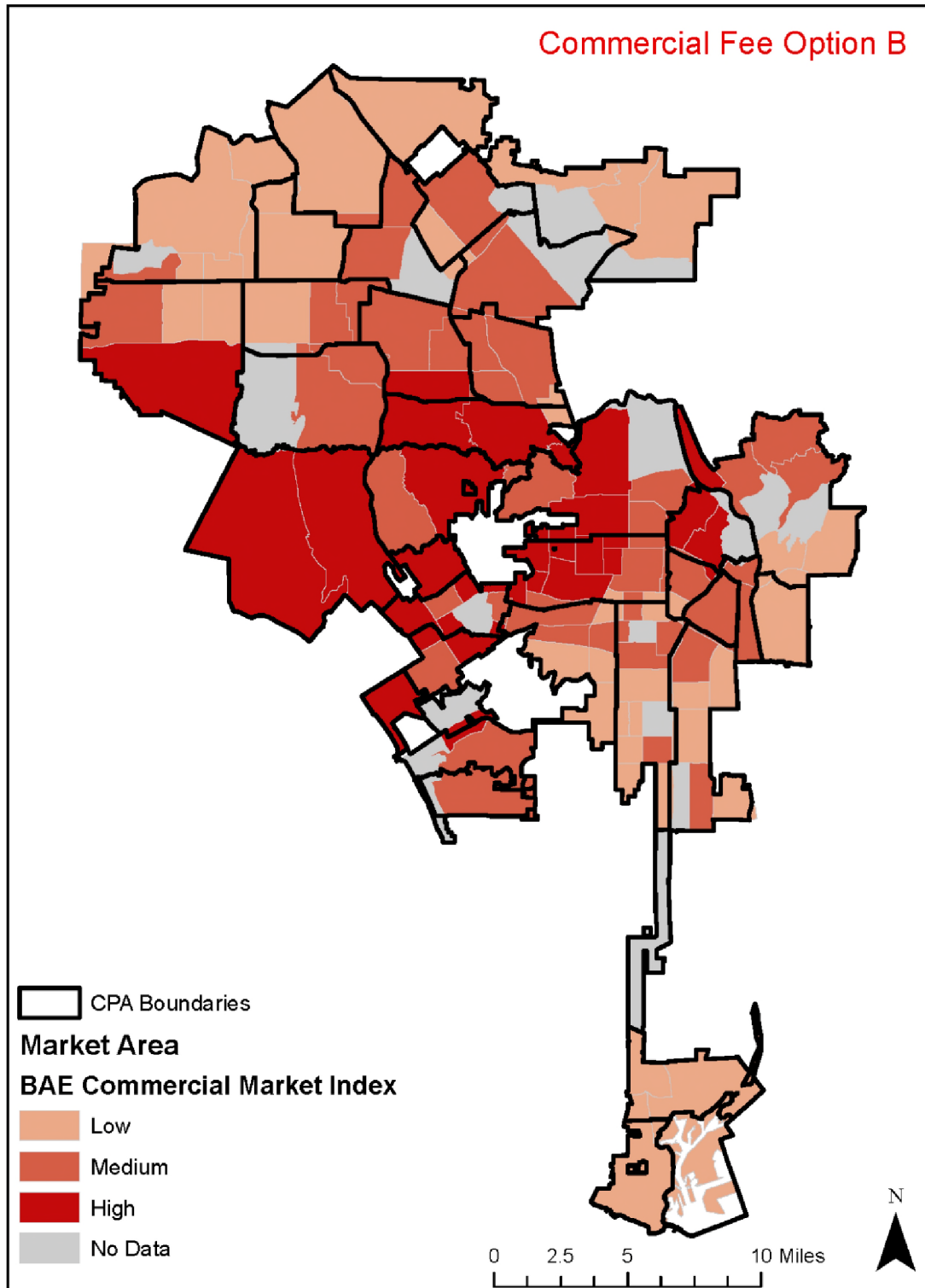
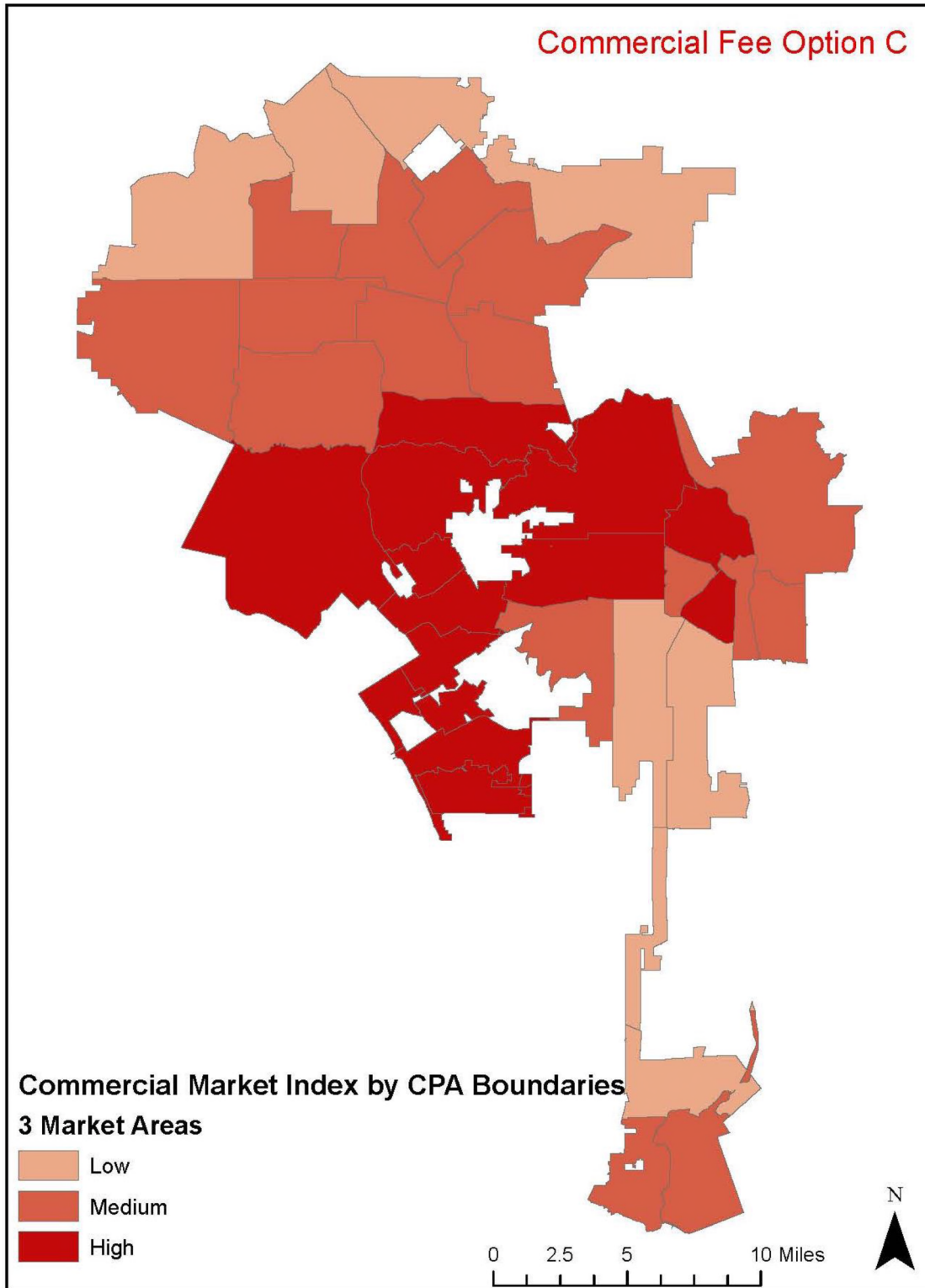


Figure 8. Three-Tier Commercial Market Index by Community Plan Area Boundaries



Additional Policy Considerations

There are a variety of other fee implementation options the Council may wish to consider. This could include phasing in the fee over a period of three years to allow markets time to adjust to the fee, in addition to the proposed six-month delay in fee implementation after adoption. Another strategy would be to direct other revenue sources, such as Transient Occupancy Taxes (TOT) or an affordable housing surcharge on short-term rentals, to the Housing Impact Trust Fund (HITF) to help the City meet its annual affordable housing revenue goals. Additionally, exemptions for various residential or commercial development subsectors could be explored.

Three-Year Phase-In Schedule

The City Council may opt to implement a phased-in fee schedule over a period of time, for example over a period of three years. This strategy could be applied to any of the geographic fee options explored above, but for the sake of simplicity is demonstrated here based on the citywide fee of \$12 per square foot for residential and \$5 per square foot for commercial development. Under this approach, the residential fee could be gradually implemented at a rate of \$5 per square foot in year one, \$10 per square foot in year two, and \$12 per square foot in year three. This approach is anticipated to generate a total annual revenue of approximately \$44.6 to \$54.4 million in year one, \$80.8 to \$98.5 million in year two, and \$95.2 to \$116.2 million in year three.

Dedicate Revenue Generated from Short-Term Rentals to the Housing Impact Trust Fund

Another option the Council may choose to consider would be to dedicate a portion of the revenue generated through TOT derived from short-term rentals or home sharing to the HITF. The City Administrative Officer has projected that the City will receive approximately \$25 million annually from this source, if the proposed Home Sharing Ordinance is adopted. Under this scenario, the Department has modeled how far the linkage fee amount could be reduced while still reaching the City's annual revenue goals from the two combined sources.

A citywide residential fee of \$12 per square foot is projected to generate approximately \$95 million to \$116 million. A residential fee of as low as \$9.25 per square foot would bring in the same amount if all additional TOT revenue from home sharing were directed to the HITF. If the targeted revenue raised for the HITF was reduced to \$80 million per year from the combined revenue sources, the Council could reduce the residential fee to as low as \$6.50 per square foot across all geographic market areas. A \$6.50 residential fee, together with \$25 million in Short-Term Rental TOT revenue, would generate an estimated \$80 million to \$92 million annually.

The Departments do not recommend either of these approaches, as they would not maximize revenue potential and would reduce funds available for other uses. Given that the City is currently experiencing an unprecedented housing crisis, there is a need to ensure that all possible strategies are maximized to address the housing shortage and maximize housing affordability at all income levels.

Expand Short-Term Rental TOT Revenue and Implement an Affordable Housing Surcharge on Short-Term Rentals

A third potential option would be to implement an affordable housing surcharge on short-term rentals. This would enable the City to create a new revenue source for affordable housing, while ensuring that revenues generated from TOT can be used for multiple uses. Under this approach, for example, a surcharge of \$4 per night could be levied on Short-Term Rentals, although it would require either an analysis demonstrating the connection between short-term rentals and the need for affordable housing, or voter approval to enact. Based on current average occupancy rates, this could generate approximately \$7.3 million per year that could be dedicated to affordable housing. This revenue could be supplemented by allocating a possible increase of \$10 million per year from the TOT to the HITF, based on short-term rental policy options that may allow for expanded home sharing. Combining these two revenue sources would generate approximately \$17.3 million per year for affordable housing. This would enable the City to reduce the AHLF fee amount either citywide, or only in low-market areas, while still meeting its annual revenue goals.

Option C suggested a residential fee amount of \$8 per square foot in low market areas, \$10 per square foot in medium market areas, \$12 per square foot in medium-high market areas, and \$15 per square foot in high market areas. Under this scenario, when combined with the \$17.3 million that could be generated from the surcharge and TOT, an overall revenue of \$96.4 million to \$113.9 million could be maintained if the residential fee were reduced to \$4 per square foot in low market areas and \$6 per square foot in medium market areas.

Create an exemption for new Manufacturing/Industrial Development

Given the importance of encouraging new manufacturing jobs within the City, an option exists to explore a potential exemption for manufacturing/industrial development. This subsector represents a modest portion of the overall nonresidential development currently taking place in the City (approximately 19.8% of the annual nonresidential square footage). An exemption for this subsector would result in a potential annual revenue loss of \$1.7 million to \$2.1 million as applied to the citywide fee.

XII. Conclusion

Both Departments appreciate the additional opportunity for discussion prompted by this proposal. The development of a complex, important policy such as the Linkage Fee merits careful deliberation. Like all difficult policy choices, the decision should be based on a careful evaluation of potential opportunities and consequences. This report aims to provide a review of the potential trade-offs, including the need to maximize revenue potential for affordable housing and ensuring that the fee is not so high as to impact development feasibility. The report concludes that the potential benefits of having a dedicated source of housing funding to significantly increase the number of dedicated affordable units outweighs potential risks to the broader housing market.

Attachment 1 - Sample HCIDLA Linkage Fee Expenditure Plan

Program Type	Income Category Targets	\$100M Annual Linkage Fee Revenue				No. of Units from Other Sources (2016)	Total Units
		Total Linkage Fee \$	Average Subsidy per Unit	Funding Leveraged	No. of Units		
Rental Housing: New Construction (Tax Credits)	Low-Income or below (≥ 80%AMI)	\$50m (50%)	\$100k ¹	\$200m	500 ²	406 ³	906
Rental Housing: Small Multifamily Rehab / NOAH		\$10m (10%)	\$20k	\$20m ⁴	500	0	500
Rental Housing: Preservation		\$10m (10%)	\$53k	\$0	472	765 ⁵	1,237
Rental Housing: Moderate	Moderate (120% AMI)	\$15m (15%)	\$377k ⁶	\$897k	39	0	39
Supportive Rental Housing: HHH Bond Financing	Extremely Low-Income (≤ 30%AMI) Very Low-Income (≤ 50%AMI)	\$0	\$140k ⁷	\$0	0	615 ⁸	615
Supportive Rental Housing: PSH Managed Pipeline Financing	Extremely Low-Income (≤ 30%AMI) to Very Low-Income (≤ 50%AMI)	\$0	\$0	\$0	0	226	226
Homeownership	Low (≥ 80%AMI)	\$5m (5%)	\$90K	\$12m	55	72	127
Homeownership	Moderate (81%AMI to 120% AMI)	\$10m (10%)	\$75k	\$43m	133	5	138
Land Use Market Rate	Extremely Low-Income (≤ 30%AMI) to Workforce (150% AMI)	\$0	\$0	\$0	0	369	369
TOTAL		\$100M		\$276M	1,699	2,458	4,157

See reverse for footnotes

¹ This subsidy assumes that at least 5 other funding sources are leveraged (e.g. LA County, VHHP, AHSC, 4% tax credits, HOME/CDBG etc).

² This level of production is achieved by dedicating \$50M in Linkage Fees exclusively to Senior and Family 4% Tax Credit projects.

³ This total figure only includes Family and Special Needs Projects in Calendar Year 2016.

⁴ The figure represents an additional \$40K subsidy per unit; \$20K from CalHFA per unit subsidy and \$20K per unit transaction costs and fees paid by the owner.

⁵ Includes 331 units preserved through nonfinancial mechanisms and 434 units with bond financing for a total of 765 units.

⁶ The City of Los Angeles' subsidy is high because there are no federal, state or local government subsidies funding rental housing for moderate income households. The HCIDLA would provide the only government subsidy.

⁷ This figure is high because it does not include subsidy funding from other sources (e.g. NPLH, AHSC).

⁸ This figure represents units approved through July 2017. This represents the HHH production expected in a typical year added to the overall performance for Calendar Year 2016.

Attachment 2

Affordable Housing, Wages and Professions

	Sample Job Types ¹	Sample Wage ²	Affordable Rental Rate	Affordable Sales Price <i>(2 Bedroom)</i>
30% AMI (ELI)	Housekeeper, Baker, Ambulance Driver, Fast Food Cooks	\$25,419	\$635	N/A
30-50% AMI (VLI)	Bookkeeper, Optician, Animal Trainer	\$44,650	\$1,116	N/A
50-80% (LI)	Web Developer, Fundraiser, Traffic Technician	\$71,160	\$1,779	\$237,000
80-120% (Moderate)	Fashion Designer, Epidemiologist, Cartographer	\$77,692	\$1,942	\$259,000

¹ Employment Development Department. Employment Statistics. Occupational Title. Los Angeles-Long Beach-Glendale Metro Division. Quarter 1 2016.

² Employment Development Department. Employment Statistics. Los Angeles-Long Beach-Glendale Metro Division. Quarter 1 2016.

Attachment 3

Comparison of Housing Development Fees Charged by Different Cities (6/13/2016)

	General Plan Maintenance	Transportation	Park	Art	Affordable Housing	School Development	Sewer/Utility Facility	Water Impact	Construction Tax	Residential Development Tax
Los Angeles	The greater of 5% surcharge or \$1 added to building permits and entitlement fees	Limited to certain Specific Plan Areas	\$2789-\$8044/DU by zones	N/A	N/A	\$3.32/sq.ft (LAUSD)	Varies by no. of bedrooms and types of development	N/A	\$200/DU	\$300/DU
Glendale	N/A	N/A	\$19795/SF unit; \$17006/MF unit	N/A	\$17/sq.ft. (limited to specific area)	N/A	Follows Interim Fee Schedule from the City of L.A.	N/A	N/A	N/A
Beverly Hills	\$1.51 per \$1000 of project value	N/A	\$7.10/sq.ft	N/A	N/A	\$3.2/sq.ft	\$27.8+\$1.5/sq.ft.	N/A	N/A	N/A
Pasadena	N/A	\$2747.20/unit	Fee varies by no of bedrooms	SF excluded, location and size specific for MF & mixed use projects	Inclusionary housing in-lieu fee: based on no. of units, location, sub-areas	\$2.24/sq.ft	\$6.38 x size x avg. daily flow	N/A	1.92% of project value	N/A
Burbank	N/A	N/A	\$1315/SF unit, \$974/MF unit		Inclusionary housing fee: based on no. of units, owner or rental	N/A	\$814 for SF, \$667 for MF	N/A	N/A	N/A
Santa Monica	N/A	\$8108-8321/SF unit; \$2774-3520/MF unit	\$7636/SF unit, \$4138-6665/MF unit		Apt: 31.25/sq.ft; Condo: \$36.51/sq.ft	1.93/sq.ft.	\$1982/unit	Based on expected use	N/A	N/A
West Hollywood	N/A	\$447.92/DU	\$5380/DU for SF&Condos<5 units (subdivision); \$3323/DU for condos>5 units; \$3165/DU for mobile homes (subdivision)	1% of new development value>\$200,000	Inclusionary housing in-lieu fee for development <=10 units: based on no. of units	N/A	N/A	N/A	N/A	N/A

Sources:

- http://qcode.us/codes/westhollywood/view.php?topic=19-19_4-19_64-19_64_020&frames=off
- <http://www.glendaleca.gov/home/showdocument?id=23084>
- <http://www.beverlyhills.org/cbhfiles/storage/files/929698669207314805/DevelopmentFeeSchedule.pdf>
- http://cityofpasadena.net/Planning/Fee_Schedules/
- <http://burbankca.gov/home/showdocument?id=20930>
- <http://www.smgov.net/uploadedFiles/Departments/PCD/Transportation/Developers/TIF%20Rates%20FY15.16.pdf>
- <http://www.smgov.net/departments/PCD/agendas/Planning-Commission/2014/20140514/s2014051406ab.pdf>

Acronyms

- DU Dwelling Unit
- SF Single Family
- MF Multi-Family

Attachment 4 - Comparison of Development Fees

An analysis of Typical 45 Unit Apartment from a 2001 State HCD report shows that the City of Los Angeles had the lowest per unit fees of any City surveyed except Sacramento (\$6,362).

Appendix B-4: 45-unit Apartment, Per Unit Fees by Jurisdiction, Sub-region, and Fee Type							
Jurisdiction	Per Unit Value	Per Unit Fees					Fees per \$ Valuation
		Planning Fees	Planning & Building Check Fees	Infrastructure & Impact Fees		Total Fees per Unit	
				Total	School Fees		
Butte County	56,600	201	1,538	9,228	3,860	10,967	0.19
Chico	71,140	50	968	5,690	1,072	6,708	0.09
Redding	62,320	167	1,496	7,023	1,930	8,686	0.14
Shasta Lake	50,800	122	1,257	8,314	1,930	9,693	0.19
Yuba City	64,070	87	1,519	5,972	1,930	7,578	0.12
NORTH STATE AVG	\$60,986	\$125	\$1,356	\$7,245	\$2,144	\$8,726	\$0.15
El Dorado Cnty	74,094	142	1,444	21,213	3,382	22,799	0.31
Grass Valley	74,000	2,577	2,412	0	0	0	0.00
Placerville	78,820	139	1,593	13,044	1,930	14,776	0.19
South Lake Tahoe	88,320	441	1,605	18,263	1,930	20,308	0.23
Truckee	66,870	264	1,481	10,415	1,930	12,159	0.18
SIERRA AVG	\$76,421	\$713	\$1,707	\$12,587	\$1,834	\$14,008	\$0.18
NORTH STATE & SIERRA AVG	\$68,703	\$419	\$1,531	\$9,916	\$1,989	\$11,367	\$0.16
Folsom	92,290	455	1,641	13,439	4,340	15,534	0.17
Lincoln	78,820	309	1,290	18,717	1,930	20,315	0.26
Rocklin	74,732	215	1,255	16,987	1,089	18,457	0.25
Roseville	81,402	31	675	22,748	4,476	23,455	0.29
Sacramento	66,374	548	1,948	5,781	1,840	5,781	0.09
Sacramento County	67,640	592	978	9,648	3,270	11,218	0.17
SACRAMENTO AVG	\$76,876	\$358	\$1,298	\$14,553	\$2,824	\$15,793	\$0.20
Chino	62,320	329	1,431	13,637	1,930	15,397	0.25
Corona	71,200	417	5,401	9,150	1,930	14,968	0.21
Moreno Valley	63,500	250	1,717	12,372	1,930	14,338	0.23
Norco	na	na	na	na	na	na	na
Ontario	78,820	353	2,407	8,821	1,930	11,580	0.15
Temecula	50,250	357	1,450	10,311	3,010	12,117	0.24
INLAND EMPIRE AVG	\$65,218	\$341	\$2,481	\$10,858	\$2,146	\$13,680	\$0.21
Arcadia	74,664	129	2,637	5,836	1,930	8,603	0.12
El Monte	64,000	160	2,636	5,918	1,930	8,714	0.14
Long Beach	90,000	265	2,476	8,191	1,930	10,931	0.12
Los Angeles	84,800	289	1,536	4,537	1,930	6,362	0.08
Los Angeles County	61,260	219	1,600	6,944	1,840	8,764	0.14
Pasadena	63,500	471	4,254	5,947	1,840	10,672	0.17
Santa Monica	84,900	440	1,399	11,328	1,930	13,167	0.16
CENTRAL LA AVG	\$74,732	\$282	\$2,363	\$6,957	\$1,904	\$9,602	\$0.13
Dana Point	69,760	410	2,032	13,694	1,930	16,136	0.23
Huntington Beach	80,800	494	3,272	8,213	1,930	11,979	0.15
Irvine	62,320	957	1,383	15,479	1,930	17,819	0.29
Orange County	53,460	89	1,467	11,654	1,930	13,210	0.25
Santa Ana-na	na	na	na	na	na	na	na
Tustin	93,720	70	1,787	17,745	1,930	19,602	0.21
ORANGE COUNTY AVG	\$72,012	\$404	\$1,988	\$13,357	\$1,930	\$15,749	\$0.22
Carlsbad	76,600	392	1,012	29,854	19,609	31,257	0.41
Chula Vista	68,200	523	303	16,456	1,930	17,282	0.25
San Diego	78,400	381	1,152	12,661	1,930	14,193	0.18
San Diego County	78,400	425	1,018	6,169	1,930	7,611	0.10
SAN DIEGO AVG	\$75,400	\$430	\$871	\$16,285	\$6,350	\$17,586	\$0.23
Moorpark	84,350	317	2,712	10,061	1,930	13,090	0.16
Santa Clarita	64,400	233	2,021	18,348	3,212	20,602	0.32
Simi Valley	80,400	346	2,709	10,780	1,580	13,835	0.17
Ventura	78,300	225	1,521	11,468	1,840	13,214	0.17
NORTH LA/VENTURA AVG	\$76,863	\$280	\$2,241	\$12,664	\$2,141	\$15,185	\$0.20
SOUTHERN CALIFORNIA AVG	\$72,845	\$347	\$1,989	\$12,024	\$2,894	\$14,360	\$0.20

Source: [Pay to Play: Residential Impact Fees in California Cities and Counties, 1999. Department of Housing and Community Development, 2001.](#)

Attachment 5. Summary of Other Housing Initiatives (DCP)

On November 15, 2015, the DCP and HCIDLA reported to the City Council on various strategies and policy options to increase the affordability of housing in Los Angeles (Council Files 13-1389, 13-1624 and 14-1325). The report recommended a comprehensive work program to address housing issues through robust planning efforts to identify new locations for housing, strategic code amendments, changes to existing programs, the *re:code LA* Zoning Code revision and other strategies. Many of these housing-related tools are addressed in the 2013-20121 Housing Element (part of the General Plan) and are already proceeding on one path or another. However, many of the more significant proposals will require more in-depth analysis, including individual staff reports and public hearings at a later date. Please see the report attached to the above Council Files for more details.

Recently Enacted Development Reform and Housing-related Land-Use Policies

1. Transit Oriented Communities (TOC) Affordable Housing Incentive Program
 - a. Allows for smaller, more affordable units near transit
 - b. Allows for reduced parking standards near transit
 - c. Increases housing units and affordable housing units near transit
2. Rent Stabilization Ordinance (RSO) Updates
3. Trip Credits (reflect lower trip counts with affordable housing)
4. Homeless Shelter Ordinances
5. Unpermitted Dwelling Unit (UDU) Ordinance
6. Rent Registry Ordinance (for RSO units)
7. Tenant Buyout Notification Program (Cash for Keys)
8. Allow for certain urban infill projects to qualify for Class 32 CEQA Infill Exemption

Major Development Reform and Housing-related Land-Use Policies Currently Underway

1. Affordable Housing Linkage Fee
2. Permanent Supportive Housing Ordinance
3. Community Planning and Transit Neighborhood Planning
4. Modified Parking Standards
5. Accessory Dwelling Units
6. Micro Units
7. CEQA Streamlining
8. Zoning/Entitlement Reform
9. Density Bonus Program
10. Downtown Affordable Housing Incentives
11. Transit Impact
12. Value Capture
13. Preservation and Housing Replacement Provisions
14. Redevelopment 2.0 (Community Revitalization Investment Authority (CRIA) and Enhanced Infrastructure Finance District (EIFD))
15. Clarification of Condo Conversion Rules
16. Mello Act Implementation
17. Home Sharing Ordinance (Short Term Rentals)
18. Transitional Height (*re:codeLA*)
19. Site Plan Review (*re:codeLA*)

- 20. Transfer of Floor Area Ratios (re:codeLA)
- 21. Adaptive Reuse (re:codeLA)

Attachment 6. Building Permits, New Construction, 2011 to 2015

Building Type	Total Citywide	Total Low Market Area	% of Total Building Type located in Low Market Area
Accessory Living Quarters	74	9	12.16%
Second Dwelling Units ^	16	4	25.00%
Apartment, 5 units or less ^	1,040	528	50.77%
Apartment, >5 units	481	75	15.59%
Apartment, Affordable ^	79	10	12.66%
Condominium	155	23	14.84%
Senior Independent Housing	15	1	6.67%
Single - family Attached	550	195	35.45%
Single-family Detached, New or Replacement <1,500 sq. ft. ^	1,273	250	19.64%
Single - family Detached, New or Replacement 1,500+ sq. ft.	3,700	519	14.03%
Mixed use, <15,000 sq. ft. ^	28	2	7.14%
Mixed use, 15,000+ sq. ft. ^	45	4	8.89%
Commercial, <15,000 sq. ft. ^	149	33	22.15%
Commercial, 15,000+ sq. ft.	186	58	31.18%
Commercial, non-profit or governmental ^	95	14	14.74%
Total Buildings	7,886	1,725	21.87%
Total Buildings – Exempt or Reduced Fee	2,725	845	31.01%
Percent of Buildings – Exempt or Reduced Fee	34.55%	48.99%	

Source: LA Permit Data.

^ category is exempt from AHLF or deduction applies

Attachment 7. Sources

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