



Eric Garcetti, Mayor
Rushmore D. Cervantes, General Manager

TRANSMITTAL		
TO: The City Council	DATE: June 25, 2020	COUNCIL FILE NO. : 17-0274
FROM: The Affordable Housing Linkage Fee Oversight Committee		COUNCIL DISTRICT: ALL

At its May 28, 2020 meeting, the Los Angeles Housing + Community Investment Department (HCIDLA) presented the following updates to the Affordable Housing Linkage Fee Oversight Committee (“AHLF OC”):

- Status report on the adopted FY 2019-20 Affordable Housing Linkage Fee (AHLF) Expenditure Plan
- Revenue update estimate from the AHLF consultant, BAE Urban Economics, Inc. (BAE)
- AHLF revenue activity analysis report (Revenue collected as of April 2, 2020)

The May 28, 2020 meeting report was the department’s annual update to the AHLF OC. No action of approval was taken by the committee on the agenda items, and therefore, the report is recommended as a receive and file.


Rushmore D. Cervantes
General Manager, HCIDLA
Chair, Affordable Housing Linkage Fee Oversight Committee

ATTACHMENT:

HCIDLA’s annual report to the AHLF OC

INTER-DEPARTMENTAL MEMORANDUM

TO: AFFORDABLE HOUSING LINKAGE FEE (AHLF) OVERSIGHT COMMITTEE

FROM: RUSHMORE D. CERVANTES, GENERAL MANAGER 

DATE: MAY 26, 2020

REGARDING: **ANNUAL REPORT: FY 2019-20 AHLF EXPENDITURE PLAN STATUS UPDATE, REVENUE UPDATE ESTIMATE STUDY RESULT, AND AHLF REVENUE ACTIVITY ANALYSIS REPORT (COUNCIL FILE: 17-0274)**

At its July 24, 2019 meeting, the Affordable Housing Linkage Fee Oversight Committee (“AHLF OC”) amended the recommendations from the Los Angeles Housing + Community Investment Department’s (HCIDLA) report relative to the Affordable Housing Linkage Fee FY 2019-20 Expenditure Plan, and adopted HCIDLA’s recommendations as amended. Subsequently, in October 2019, the City Council and Mayor adopted the AHLF OC’s recommendations, which include the Affordable Housing Linkage Fee FY 2019-20 Expenditure Plan.

As required by the Affordable Housing Linkage Fee Ordinance, an annual report including the status of program and revenue activity is to be reported on an annual basis to the AHLF OC. As part of the AHLF revenue update, HCIDLA secured the services of BAE Urban Economics, Inc. (BAE) to conduct a detailed analysis evaluating whether the 2017 revenue estimates, which were completed for the Linkage Fee Nexus Study, continue to provide a reasonable projection of long-term annual average AHLF revenue collection. In addition, the BAE analysis examines the AHLF revenue collection based on different trends and economic conditions. HCIDLA’s staff also studied the AHLF revenue activity by mapping and analyzing AHLF revenue data that spans almost a two-year time period (June 18, 2018 to April 2, 2020), as well as researching building permit and AHLF exemption data from City department sources.

Furthermore, HCIDLA’s annual report also provides the status of AHLF program expenditures, including staffing updates, approved for the current fiscal year (FY 2019-20).

SUMMARY OF PREVIOUS HCIDLA RECOMMENDATIONS & ADOPTIONS

In October 2019, the City Council and Mayor adopted the Tier AHLF Expenditure Plan, as well as the FY 2019-20 AHLF Expenditure Plan Budget. The following reflects the adopted FY 2019-20 AHLF Expenditure Plan Budget for various Linkage Fee programs in Tier 1:

Funding Tiers	Funding Tier Amount Level	Revenue Amount for FY 2019-20 (As of June 30, 2019)	HCIDLA Admin. Expenditure	Rental - New Construction Expenditure	Rental - Preservation Expenditure	Home Ownership (MIPA) Expenditure	Home Ownership (LIPA) Expenditure	Innovative Housing Demo - ADU Expenditure	Innovative Housing Demo Expenditure
Tier 1	Revenue up to \$10M	\$5,347,967.89	\$802,195	\$3,208,781	\$1,069,594	\$267,398	\$0	\$0	\$0
	Percentage Allocation for Tier 1		15%	60%	20%	5%	0%	0%	0%
	Recommended Tier 1 Budget for FY '19-'20		\$536,837	\$3,208,781	\$1,169,688	\$432,662	\$0	\$0	\$0
	Recommended Tier 1 Percentages for FY '19-'20		8%	60%	22%	8%	0%	0%	0%
	Balance (Admin. reallocated to programs)		-\$265,358	\$0	\$100,094	\$165,264	\$0	\$0	\$0
Tier 2	Additional Revenue (Above \$10M, up to \$50M)	\$0.00	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Percentage Allocation for Tier 2		15%	50.5%	14.3%	12.5%	5.1%	0%	2.5%
Tier 3	Revenue Above \$50M	\$0.00	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Percentage Allocation for Tier 3		15%	51%	15%	10%	5%	2%	2%
	TOTAL REVENUE FOR FY 2019-20	\$5,347,967.89							

Furthermore, as requested, the City Council and Mayor adopted the continuation of the approved FY 2018-19 funding amount for the initial administrative costs for FY 2019-20, which include a set-aside up to 15% for administrative costs.

As of April 30, 2020, the City's FY 2019-20 financial accounting report for the Linkage Fee funds reflect a total of \$15,803,073 in AHLF receipts. Based on the current amount of collected Linkage Fee funds, which exceed \$10M (Tier 1 cap for the AHLF Expenditure Plan), HCIDLA will prepare and propose an AHLF revenue allocation for FY 2020-21 based on the adopted Tier 2 AHLF Expenditure Plan for the next fiscal year. The City's AHLF revenue is expected to be impacted in the coming months as a result of the COVID-19 pandemic.

LINKAGE FEE PROGRAM EXPENDITURES (AS OF APRIL 2020)

As of April 30, 2020, the following illustrates the financial commitments for all related programs and administrative needs:

Programs/Administrative Needs	FY2019-20 Expenditures	Remaining Expenditure Balance
Administrative*	\$123,188.39	\$413,648.61
Rental- New Construction	\$0	\$3,208,781
Rental - Preservation	\$0	\$1,169,688
Home Ownership (MIPA)	\$55,198	\$377,424
Accessory Dwelling Unit (ADU) Program	\$0	\$1,176,471
AHLF Consultant	\$8,370	\$66,630

*Includes \$120,000 funding allocation to cover a portion of initial upfront costs for the replacement of HCIDLA's HIMS database.

Thus far, as of April 30, 2020, the AHLF cash balance for FY 2019-20 is **\$15,803,072.85**, as outlined by the AHLF expenditures above and the program activities detailed below.

CURRENT PROGRAM AND ACTIVITY STATUS UPDATES (AS OF APRIL 2020)

As adopted by the City Council and Mayor, HCIDLA allocated AHLF program revenue (\$5.3M) in accordance with the Tier 1 level of the Affordable Housing Linkage Fee FY 2019-20 Expenditure Plan. The following reflects the expenditure status of these earmarked allocations (Note: administrative expenditures do not include any related costs or other non-labor costs):

Administrative and Program Expenditures

Staffing

All of the three requested staff positions, one (1) full-time Management Analyst (MA) effective Sept. 29, 2019; one (1) Housing, Planning & Economic Analyst (HPEA), funded up to 50% of the position's salary, effective March 16, 2020; and one (1) Finance Development Officer (FDO), funded up to 50% of the position's salary, effective December 9, 2019, have been filled at the requested pay percentages charging the Housing Impact Trust Fund 59T.

- The MA is currently assigned to HCIDLA's Housing and Development Bureau (HDB) and contributes to the Affordable Housing Linkage Fee Program design, implementation and administrative resource needs, including reporting for final approvals from the Affordable Housing Linkage Fee Oversight Committee (AHLF OC), City Council and Mayor.
 - After selecting a qualified MA from the City's promotional list of eligible candidates under the MA classification, HCIDLA filled the existing, vacant position in the department's Housing Development Bureau. The candidate was selected on September 17, 2019, and the first date of employment was September 29, 2019. After approximately six months, HCIDLA expended \$39,484 as of April 11, 2020 for this position. This represents 45% of the total position allocation for FY 2019-20.
- The FDO is currently assigned to the HDB and leads the department's Preservation Program objectives. The FDO maintains HCIDLA's internal database of existing affordable housing stock to provide citywide affordable housing project data expiring through year-end 2024. This staff person works on education and outreach initiatives, working with community-based organizations to enforce State laws as it relates to noticing. Furthermore, the FDO is responsible for analyzing legislative strategies that identify, prioritize and pursue preservation, while assessing opportunities to preserve individual affordable housing projects by identifying costs and funding sources, where possible.
 - After selecting a qualified FDO from the City's eligible list, HCIDLA filled the existing, vacant position in the department's Housing Development Bureau. The candidate was selected on October 30, 2019, and the first date of employment was December 9, 2019. Given the recent start date of the new FDO, HCIDLA has expended \$30,384 as of April 11, 2020 for this position. This represents 49% of the total position allocation for FY 2019-20.
- The HPEA is currently assigned to the department's Public Policy & Research Unit and is responsible for policy and program development. The HPEA leads the management of the AHLF OC, coordinates annual reporting as stipulated by the Housing Impact Trust Fund (HITF) Ordinance; manages program implementation by working with the MA assigned to the AHLF Program, required to work closely with Accounting staff and other key staff to track the AHLF revenue collection; performs analyses of AHLF receipt trends; works closely with the City's AHLF study analysis contractor and monitors the contract; conducts research of related legislative impacts, as well as presents policy recommendations to staff when necessary.
 - After selecting a qualified HPEA candidate from the City's eligible list, HCIDLA filled the existing, vacant position in the department's Public Policy & Research Unit. The candidate was selected in February 2020, and the first date of employment was March 16, 2020. Given the recent start date of the new HPEA, HCIDLA has expended \$6,459 as of April 30, 2020 for this position. This represents 12% of the total position allocation for FY 2019-20.

Rental - New Construction: Managed Pipeline Program

The City Council and Mayor also approved 60% of the FY 2019-20 AHLF budget for the Rental New Construction Program. In an effort to expend this budget allocation, HCIDLA intends to issue a bi-annual Notice of Funding Availability (NOFA) by late Summer 2020 through the City's Affordable Housing Managed Pipeline (AHMP). The purpose of the NOFA is to solicit, evaluate and fund projects with Linkage Fee and HOME dollars. Affordable housing projects selected will then compete for additional funding from the California State Tax Credit Allocation Committee (CTCAC) and the California Department of Housing and Community Development (HCD) to finance construction of multi-family rental housing.

In 2018, HCIDLA admitted 13 projects into its Managed Pipeline Program, totaling 1,056 new affordable housing units. The Managed Pipeline Program accepts projects every two years based on projected sources - HOME funding and Low Income Housing Tax Credits. Once a project is admitted into the AHMP, if an outside source requires a full funding commitment before committing its funds, then the AHMP underwrites the project and HCIDLA submits a transmittal to request a commitment of funds. It was estimated that the Managed Pipeline projects would require \$53.3 million in City funding and would be able to leverage an estimated \$232 million in tax credit equity. However, construction and land costs have considerably increased since then due largely to market forces. Based on current market conditions, it is estimated that the available balance of \$3.2 million could be used to help finance 36 new affordable housing units.

Furthermore, the COVID-19 crisis has caused extreme challenges for the affordable housing development community. As a result, none of the AHMP projects are in a position to move forward at this time due to their inability to secure their total development costs. The new construction Linkage Fee budget allocation of \$3.2 million for FY 2019-20 is intended for the upcoming NOFA, in addition to assisting projects that need an early commitment to qualify for outside sources, which will be determined in 2021.

Rental - Preservation

As adopted, HCIDLA's Preservation Unit is currently completing various tasks utilizing 22% of the FY 2019-20 AHLF budget allocation. Staff is in the process of updating the Affordable Housing Database, which catalogues the current at-risk affordable housing stock and tracks the expiration of affordability restrictions. This information will be presented to the City Council under a separate cover.

In addition, HCIDLA is in the process of circulating its transmittal to report back to the City Council slated for June 2020 on recommendations for preserving properties with expiring affordable housing covenants, outreach and support for residents at risk of displacement due to expiring covenants, resources needed to implement these recommendations and re-establishing the preservation program with an identified funding source. The department's report will include research and recommendations on financial and non-financial strategies that identify, prioritize and pursue preservation opportunities, a report of citywide affordable housing expiring covenants through 2024, and the identification of costs and funding sources to preserve the at-risk affordable housing projects.

HCIDLA is also developing an internal tracking database of State notices as received from the California Department of Housing and Community Development (HCD) to enforce requirements that apply to housing with pending expiration/termination of affordability restrictions.

Homeownership (MIPA)

The City Council and Mayor also approved 8% of the adopted FY 2019-20 AHLF budget for the City's Moderate-Income Purchase Assistance (MIPA) Program. The MIPA Program provides purchase assistance to moderate-income, first-time homebuyers to purchase homes in the City of Los Angeles. The program provides assistance in the form of a subordinate, deferred-payment "soft second" loan to cover down payment, closing costs, and acquisition. Currently, the MIPA Program lends up to \$60,000 for

moderate-income households earning between 81%-120% of AMI, and up to \$35,000 for households earning between 121%-150% of AMI.

The 2019 MIPA Program Income Limits are as follows:

Household Size	1 person	2 people	3 people	4 people	5 people	6 people	7 people	8 people
Mod 120 (81%-120% AMI)	\$58,451 - \$87,700	\$66,801 - \$100,200	\$75,151 - \$112,750	\$83,501 - \$125,300	\$90,201 - \$135,300	\$96,901 - \$145,300	\$103,551 - \$155,350	\$110,251 - \$165,350
Mod 150 (121%-150% AMI)	\$87,701 - \$109,600	\$100,201 - \$125,300	\$112,751 - \$140,950	\$125,301 - \$156,600	\$135,301 - \$169,150	\$145,301 - \$181,650	\$155,351 - \$194,200	\$165,351 - \$206,700

Historically, the MIPA program attracts more eligible applicants than the program has the budget to serve. To offer a larger round and serve more households, the MIPA Program closed for the summer of 2019 and worked on securing more resources for the program. HCIDLA successfully secured \$1,087,221 from the Foreclosure Registry Program (FRP) penalty fees, which was approved by the City Council and Mayor on April 20, 2020. HCIDLA will combine the \$1,087,221 in FRP penalty fees with the approved \$432,622 of FY 2019-20 MIPA Linkage Fee funds. Of the \$432,622 of MIPA Program FY 2019-20 Linkage Fees, one (1) MIPA loan was funded on February 20, 2020, in the amount of \$55,198, leaving a remaining balance of \$377,424 of FY 2019-20 Linkage Fees for the MIPA Program. The homeownership loan that was funded was for a condominium in Council District 6 with a purchase price of \$346,500. As a result, the combined \$1,087,221 of Foreclosure Registry Program penalty fees and the remaining \$377,424 of the FY 2019-20 Linkage Fees for the MIPA Program totaling \$1,464,645 will enable HCIDLA to assist 24 moderate-income families to purchase homes in the City.

Furthermore, the City is anticipating receiving additional affordable housing funds from the California Department of Housing and Community Development's (HCD) Permanent Local Housing Allocation (PLHA) program, which resulted from Senate Bill 2 (SB 2). As an entitlement city, Los Angeles' funding allocation is \$26.2 million based on the Entitlement Local Government Formula. If the City is successful in responding to the Notice of Funding Availability for PLHA funds, HCIDLA estimates that approximately 19.9% of the awarded funds will be allocated to the MIPA Program over the course of the proposed five-year plan, upon City Council approval. This percentage translates to approximately \$5.7 million that will enable HCIDLA to assist approximately 80 moderate-income first-time homebuyers in purchasing homes. The PLHA funds are estimated to be available to the City in December 2020. As such, HCIDLA is planning to reopen the MIPA Program after the FY 2020-21 Linkage Fee budget is adopted.

Accessory Dwelling Unit (ADU) Program

As part of the Linkage Fee funds approved for various programs, \$1,176,471 was allocated towards the Accessory Dwelling Unit (ADU) Program to facilitate the development of ADUs in Los Angeles. In 2019, HCIDLA in partnership with the Mayor's Office of Budget and Innovation (MOBI) began evaluating the potential for using ADUs as affordable housing for individuals at risk of becoming homeless. During the past five years, the State of California and the City of Los Angeles have enacted legislation to incentivize homeowners to build ADUs on their properties. These land-use incentives have

been highly successful in increasing the number of ADUs permitted in Los Angeles. Since 2017, the City of Los Angeles issued 5,462 Certificates of Occupancy for ADUs which now comprise 20% of the new housing stock in the City; thus, making it increasingly clear that this housing typology has the potential to increase the total number of housing units in the City of Los Angeles. However, it is less clear whether increasing ADU construction will help alleviate the City's affordable housing and homeless crisis.

Despite the rapid growth of development of ADUs in the City, the City is not able to track who is occupying these new dwelling units. In an effort to more directly link the growth of ADUs to housing for homeless individuals, the MOBI sought a grant from Bloomberg Philanthropies to develop a pilot program aimed at increasing access to ADUs for individuals at risk of becoming homeless. After receiving the \$1 million grant distributed over three years, MOBI and HCIDLA have worked together to develop a scalable and replicable program.

This three-year pilot, called the Los Angeles ADU Accelerator Program (LAADUAP) provides incentives to ADU homeowners to make their properties available to low-income seniors at risk of homelessness at a reasonable rent. In addition, the program offers low-income seniors ongoing assistance through a non-profit service provider that will connect them to supportive services within their communities. The pilot program is built on the concept of a tenant matching model, which is aimed at fostering positive relationships between homeowners with extra space and lower-income seniors that are seeking stable housing. This program model has been successfully implemented in home-sharing programs in Cities such as Boston, but is not widely available in Los Angeles. Bloomberg Philanthropies funded the first phase of this pilot program to test this idea with a small cohort of homeowners to determine how to scale this model across the City. Through this grant, MOBI opened the first round of homeowner applications in October 2019 and selected its initial cohort in January of 2020.

The LAADUAP program has decided to take a different direction with this program and recognizes that the tenant matching program is not an eligible use of Linkage Fee dollars, and subsequently, none of the \$1.1 million allocation has been spent. MOBI and HCIDLA are working to identify an alternative, eligible source to launch the next phase of this program. HCIDLA will present a plan to reprogram the \$1.1 million allocation at the subsequent Affordable Housing Linkage Fee Oversight Committee Meeting which is to take place sometime in June/July 2020.

Status of Other AHLF Programs/Expenditures

Housing Information Management System (HIMS) Replacement

As the City continues to increase its source of revenue for affordable housing production through Linkage Fees, there is a need to improve HCIDLA's database to track housing units by modernizing the existing Housing Information Management System ("HIMS"). HCIDLA estimated approximately \$420,000 implementation cost for a new to-be-determined housing management software to replace HIMS. The HIMS replacement will improve the department's processing times of core functions by integrating cutting technology and industry-wide best practices amongst pre-development, construction and ongoing operations. It will enhance, manage, and streamline the execution and administration of the housing development process for all federal, state, and local loan, grant, and tax credit funding resources and regulated units. This new technology will allow the City to better integrate performance measurement systems with day-to-day activities, generate the information needed for planning and financial forecasting, track and monitor the existing housing stock and implement tracking of the sixth cycle Regional Housing Needs Allocation (RHNA) - compliant with the State's Housing Element.

The total cost for implementing the housing software program was estimated at approximately \$420,000 for FY 2019-20. As per City Council and Mayor adoption on October 15, 2019, \$120,000 (representing a portion of the FY 2019-20 AHLF administrative cost allocation) was approved for the initial upfront software program implementation costs with the condition that these funds will not be drawn from the

AHLF until HCIDLA identifies the other funding sources needed to cover the remaining \$300,000 cost to rollout the new software. HCIDLA is currently in the process of seeking other funding sources that the City can apply for such as the State of California's Local Early Action Planning (LEAP) Grants to leverage the AHLF dollars for the new software program and cover the remaining \$300,000 amount. The LEAP Grants provide funding for jurisdictions to update planning documents and implement processes that accelerate housing production. The City of Los Angeles is eligible to apply for up to \$1.5 million.

Furthermore, as part of HCIDLA's new software program implementation efforts, a request for Charter Section 1164 Authorization has been approved in March 2020 and HCIDLA anticipates engaging in a contract for services to carry out the proposed scope of work. The selected contractor will facilitate internal stakeholder meetings, develop the scope of work, establish a budget, and advise management on the best path for procuring a housing-management software solution. HCIDLA will then prepare a transmittal for full Council, seeking authority to release a Request for Proposals (RFP) for the Affordable Housing Development Software. Contracting with the selected vendor is estimated to occur sometime in Summer 2021.

According to seven vendors who responded to HCIDLA's Request for Information (RFI) in May 2019, the estimated upfront implementation cost is approximately \$500,000, which includes the migration of existing data from HIMS. The City Council previously approved \$120,000 from the FY 2019-20 Linkage Fee expenditure budget, with the conditions stated above, and the Innovation and Performance Commission approved \$180,000, for a combined total of \$300,000 to fund the new software implementation. The department has identified an additional \$80,000 to \$100,000 needed for the first year implementation costs which includes, but is not limited to, on-going technical training, customization and configuration and staff training. No additional staff will need to be hired for implementation of the new software and training will be provided by the software vendor.

AHLF UPDATED REVENUE ESTIMATES STUDY - BAE URBAN ECONOMICS, INC.

The City Council and Mayor also previously approved a \$75,000 allocation in support of procuring AHLF data analysis services to expedite the development of innovative programs, as well as for revenue projection updates for FY 2018-19 for re-appropriation for FY 2019-20. In accordance with this funding approval, HCIDLA has secured the contract services of BAE Urban Economics, Inc. (BAE) to initially carry out the AHLF revenue study for a six-month contract period beginning on September 4, 2019. Later, the contract was extended for a nine-month contract term, the total BAE contract amount is currently \$18,180 and has a contract expiration date of December 4, 2020. To date, the City has a remaining balance of \$65,200 in the approved fund for consultant services for the AHLF Program.

AHLF Revenue Estimates Study Contract

As part of the City's implementation of the Affordable Housing Linkage Fee Program, the City is required to conduct special studies in support of new programs and ongoing analysis of the Linkage Fee. With the help of the City's AHLF data sources consisting of construction and planning data, and AHLF projects and revenue details, BAE completed its Linkage Fee revenue estimates study. The consultant evaluated whether the previous December 2017 AHLF revenue estimate, which was conducted as part of the Linkage Fee Nexus Study, continues to provide a reasonable estimate of annual average AHLF revenues, given construction trends since the adoption of the AHLF Ordinance and various other changes.

BAE's high-level analysis consisted of both long-term annual average AHLF revenue findings, as well as near-term AHLF revenue findings. As for the long-term annual average findings, the report includes an adjustment to the previous 2017 construction activity revenue estimates to reflect the impacts of the AHLF exemption for which data are now available. Their analysis indicates that the AHLF may generate approximately \$102.4 million in revenues on an annual average basis over the long-term implementation

of the AHLF Ordinance – under typical economic circumstances over a typical five- to ten-year timeframe. However, the BAE report cautions this finding due to the unlikelihood of construction trends reflecting longer-term trends, and therefore provide only preliminary insight on potential AHLF revenues over time.

In regards to near-term revenue findings, the BAE analysis indicates that near-term estimates may be substantially lower than the long-term annual average AHLF revenue projection due to two primary factors: One factor is the AHLF Ordinance provided an exemption for projects for which a complete planning entitlement or building permit application was submitted prior to June 18, 2018, as well as fee reductions for projects submitted during the following year. The second and most concerning factor is attributed to the current economic related to COVID-19 crisis which is anticipated to have a downward impact on AHLF revenues in the near term. (See Attachment A for BAE's Revenue Estimate Update)

AHLF REVENUE ACTIVITY OVERVIEW & ANALYSIS AS OF APRIL 2020

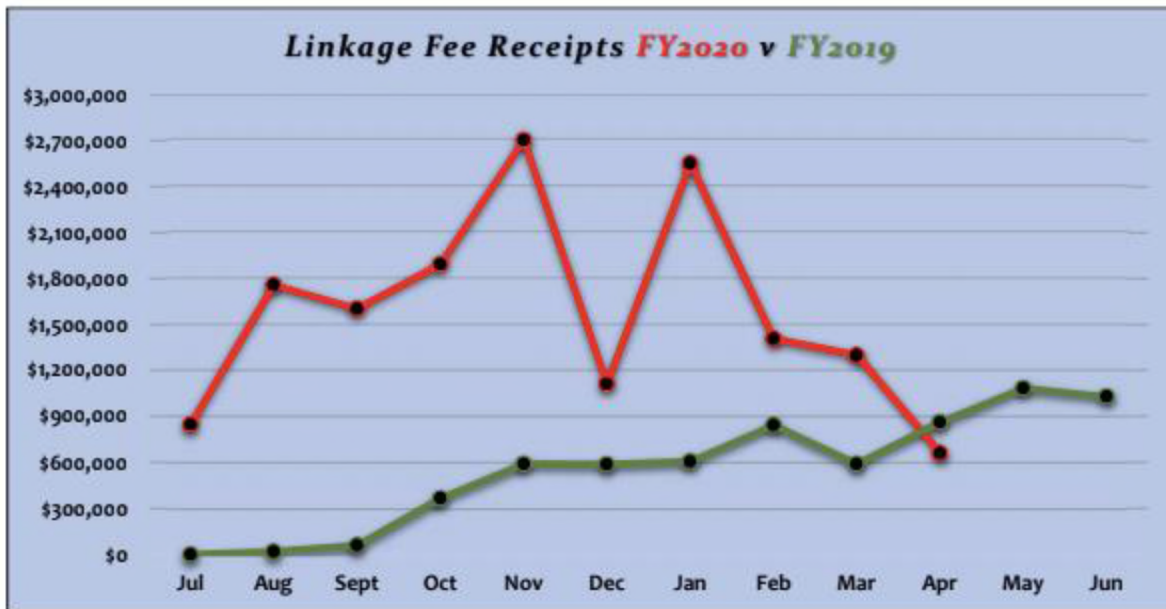
HCIDLA's Public Policy + Research Unit has also closely monitored the AHLF revenue activity since the onset of the program in June 2018. HCIDLA thoroughly cleaned, mapped, and analyzed AHLF revenue data (time period: June 18, 2018 to April 2, 2020) and building permit data from the Los Angeles Department of Building & Safety (DBS). All of these datasets were shared with the City's AHLF study consultant, BAE, to complete their economic analysis and finalize the AHLF revenue estimates study.

AHLF Revenue Overview

From June 18, 2018 to April 2, 2020, the City collected a total of \$22,986,486 from 1,924 single family, duplex, multifamily, and commercial developments. The City initially experienced a minimal collection of revenue at the onset of the AHLF Program, however, in subsequent quarters the revenue collection began to significantly increase, specifically beginning in October 2018 and further increased the following month in November 2019. The monthly Linkage Fee revenue hit its highest peak of more than \$2M in both November 2019 and January 2020. However, as the City's latest cash balance report indicates, the AHLF revenue has decreased to its lowest FY 2019-20 level during the month of April 2020. We can assume that the Linkage Fee revenue may continue to decline in the months ahead as our economy is further impacted by the current COVID-19 pandemic, as well as the residual outcomes on the City's finance and construction industries. (See Figure 1)

Since the implementation of the AHLF Program, the City has issued building permits to properties of various construction types, including new buildings, building additions, and building alterations/repairs that are subject to the AHLF. In addition, Linkage Fee revenue has been collected from properties located in the following four market areas throughout the City: Low Market, Medium Market, Medium-High Market, and High Market, which determine the per square foot fee amount to be collected for both residential and commercial developments.

Figure 1 -Affordable Housing Linkage Fee Receipts



AHLF Exemptions

The AHLF Ordinance allows for a number of exemptions as outlined below and were therefore excluded from the AHLF revenue data analysis:

- Nonresidential projects which are less than 1,500 square feet;
- Single-family residential projects that result in a net increase of up to 1,500 square feet;
- Accessory Dwelling Units (ADUs);
- Projects that meet specified affordable housing requirements;
- Projects located in the Central City West Specific Plan Area;
- Projects in the Coastal Zone;
- Adaptive re-use projects;
- Projects that utilize the Transit Oriented Communities (TOC) incentive;
- Grocery stores;
- Projects in the South LA Transit Empowerment Zone (SLATE-Z) area; and
- Projects that obtained floor area under the Transfer of Floor Area Rights (TFAR) Program

AHLF Revenue Activity and Analysis

HCIDLA analyzed DBS building permit data for three project types subject to the Affordable Housing Linkage Fee: 1 or 2 family dwellings, multifamily, and commercial properties. Tables 1 and 2 below illustrate HCIDLA's findings, demonstrating AHLF revenue was generated from a total of 1,924 projects receiving building permits between June 18, 2019 and April 2, 2020. These projects are located throughout the city in four different market areas, which determine the square footage cost and housing impact fee, with the majority of projects subject to the AHLF located within the Low and Medium Market areas.

**Table 1: Summary of Project Types Subject to the Linkage Fee
(Permits Submitted Between 6/18/18 and 4/2/20)**

Project Type	Number of Total Projects	% of Total Projects	Total Revenue	% of Total Revenue	Average Revenue	Total Area (SF)	% of Total Area	Average Area (SF)
1 or 2 Family Dwellings	1,762	92%	\$19,082,942	83%	\$10,830	5,044,402	78%	2,863
Multifamily	93	5%	\$2,075,511	9%	\$22,317	644,165	10%	6,927
Commercial	69	4%	\$1,828,033	8%	\$26,493	747,032	12%	10,827
Total	1,924	100%	\$22,986,486	100%	\$11,947	6,435,599	100%	3,345

**Table 2: Projects Subject to the Linkage Fee by Market Area & Type
(Permits Submitted Between 6/18/18 and 4/2/20)**

Market Area	<u>1 or 2 Family Dwellings</u>		<u>Multifamily</u>		<u>Commercial</u>	
	Number of Projects	% of 1 or 2 Family Dwellings	Number of Projects	% of Multifamily	Number of Projects	% of Commercial
Low Market	664	38%	29	31%	16	23%
Medium Market	504	29%	28	30%	24	35%
Medium-High Market	261	15%	23	25%	-	-
High Market	333	19%	13	14%	29	42%
Total	1,762	100%	93	100%	69	100%

Summary of Findings by Project Type & Market Area

1 or 2 Family Dwellings

After analyzing data sources, HCIDLA's findings indicate that currently the majority of the City's AHLF revenue collected is attributed to building permits for new 1 or 2 family dwellings in Low and Medium Market areas. Of the total 1,924 Linkage Fee projects, 1,762 (92%) projects are 1 or 2 family dwelling project types. Overall, 1 or 2 family dwellings constitute more than 90% of all projects subject to the

Linkage Fee, and more than 80% of all revenue collected, between its implementation in June 2018 until April 2, 2020. More than a third (38%) of the 1 or 2 family dwellings were sited in Low Residential Market areas, and approximately two-thirds (67%) of all 1 or 2 family dwellings were in either Low or Medium Residential Market Areas. (See Attachment B for the 1 or 2 Family Dwellings Revenue Map)

Multifamily Developments

HCIDLA's analysis also indicates that multifamily developments currently consist of a much smaller inventory of the total number of Linkage Fee projects. Only 5% of the total projects (93) are multifamily residential developments. This is likely due to the phase-in of the AHLF fee factors. Similar to the 1 or 2 family dwellings activity, nearly two-thirds (64%) of all residential multifamily projects are located in Low or Medium Residential Market areas; fewer than one in five apartment projects subject to the fee were located in High Residential Market Areas. (See Attachment C for the Multifamily Residential Revenue Map)

Commercial Developments

HCIDLA's research outcomes illustrate that currently commercial projects make up the lowest amount of the total Linkage Fee. Only 4% of the projects subject to the Linkage Fee (69) are commercial projects. Further, these projects generated the least amount of AHLF revenue due to the lower Linkage Fee amount required for commercial projects and overall commercial development activity subject to the AHLF. Of all three project types, commercial projects were the only category in which a plurality were located in a High Market Area. Of the 69 total commercial projects, 29 of these properties (42%) exist in a High Market Area. The 29 commercial properties in the High Market Areas represent almost 9% of the total High Market Area AHLF activity and only 1.5% of overall projects subject to the AHLF. (See Attachment D for the Commercial Revenue Map)

Summary of Findings by Project Type, Permit Group & Market Area

HCIDLA's analysis of AHLF activity also included an assessment of trends based on various project types, permit groups, and market areas. The following represents AHLF revenue activity by permit group, which describes the type of construction permit being sought. Permit groups include new building construction, building modifications (e.g., room additions), and building conversions (e.g., room or other property conversions). These are classified as new buildings, building additions, and building alterations/repairs, respectively in Tables 3 and 4 below.

1 or 2 Family Dwellings Subject to AHLF

Table 3: 1 or 2 Family Dwelling Projects Subject to the Linkage Fee by Permit Group and Market Area (Permits Submitted Between 6/18/18 and 4/2/20)				
Market Area	Bldg-New	Bldg-Addition	Bldg-Alter/Repair	Total
Low Market	593	67	4	664
Medium Market	428	67	9	504
Medium-High Market	206	52	3	261
High Market	194	136	3	333
Total	1,421	322	19	1,762

As Table 3 illustrates, the 1 or 2 family dwelling Linkage Fee projects were overwhelmingly new construction, constituting over 80% of all permits submitted for this dwelling type. These new projects were sited primarily in Low and Medium Residential Market. More than 40% of all new 1 or 2 family dwellings were located in Low Residential Market Areas. Combined, nearly 75% of all new 1 or 2 family dwellings were in either Low or Medium Residential Market Areas

Multifamily Developments Subject to AHLF

Table 4: Multifamily Projects Subject to the Linkage Fee by Permit Group and Market Area (Permits Submitted Between 6/18/18 and 4/2/20)				
Market Area	Bldg-New	Bldg-Addition	Bldg-Alter/Repair	Total
Low Market	13	12	4	29
Medium Market	16	7	5	28
Medium-High Market	10	9	4	23
High Market	6	6	1	13
Total	45	34	14	93

Table 4 illustrates that most multifamily developments subject to the Linkage Fee are being built or improved in Medium and Low Market Areas relative to the City's higher market areas. This finding is consistent with the development patterns of 1 or 2 Family Dwelling projects, as described above.

Commercial Buildings Subject to AHLF

Table 5: Commercial Projects Subject to the Linkage Fee by Permit Group and Market Area (Permits Submitted Between 6/18/18 and 4/2/20)				
Market Area	Bldg-New	Bldg-Addition	Bldg-Alter/Repair	Total
Low Market	11	4	1	16
Medium Market	17	5	2	24
High Market	9	12	8	29
Total	37	21	11	69

In contrast to the residential findings, the largest share of commercial projects were in High Market Areas as shown in Table 5. However, most new commercial projects were sited in Medium Nonresidential Market areas, while building additions and alterations occurred in High Market Areas.

Summary of Phase Factor Findings by Market Area

HCIDLA also evaluated the impact of the implementation of the various AHLF phase factors (1/3 fee effective from June 18, 2018 to December 19, 2018; 2/3 fee effective from December 20, 2019 to June 16, 2019; and full fee effective on June 18, 2019) on the total Linkage Fee revenue collected by the City.

Table 6: Projects Subject to the Linkage Fee by Market Area and Phase Factor Implementation (Permits Submitted Between 6/18/18 and 4/2/20)				
Market Area	1/3	2/3	Full	Total
Low Market	327	209	173	709
Medium Market	262	181	113	556
Medium-High Market	129	88	67	284
High Market	169	113	93	375
Total	887	591	446	1,924

In Table 6, data results demonstrate a decrease in projects over the course of phase factor implementation. However, as discussed in BAE's detailed revenue analysis study, these results may be the product of the phased in implementation of the Linkage Fee, which may have prompted the race to file permit building applications before the effective date of the AHLF and subsequent phase factors as outlined above.

Revenue by Council District - Phase Factor and Project Type Findings

HCIDLA's analysis also included an examination of the Linkage Fee phase factor implementation by each Council District as shown in Table 7, as well as how the AHLF revenue and project types are distributed across the city by Council Districts. The data reflects large revenue amounts in certain areas of the city as outlined in Table 8.

**Table 7: Projects Subject to the Linkage Fee
 by Phase Factor Implementation and Council District
 (Permits Submitted Between 6/18/18 and 4/2/20)**

Council District	1/3 Fee	2/3 Fee	Full	Total
1	21	13	26	60
2	89	52	46	187
3	38	11	4	53
4	86	42	34	162
5	119	76	48	243
6	29	4	10	43
7	33	11	2	46
8	71	73	39	183
9	88	72	63	223
10	56	53	36	145
11	118	77	71	266
12	7	6	1	14
13	48	48	31	127
14	43	29	20	92
15	41	24	15	80
Total	887	591	446	1,924

HCIDLA studied the effect of the Linkage Fee's phase factor implementation on the AHLF revenue collection to help determine what impact, if any, did the full Linkage Fee implementation have on overall AHLF project development and revenue creation.

As Table 7 reflects, that the majority of the total permits submitted for AHLF projects (46% of the total number of projects) were during the initial phase factor, 1/3 fee amount, which was effective from June 18, 2018 to December 19, 2018. Specifically, Council District 5 experienced the most activity during the 1/3 fee phase implementation, while Council District 12 experienced the least activity in the number of projects during this time.

HCIDLA's analysis also indicates that the smallest number of building permits submitted for AHLF projects (23% of the total number of projects) occurred during the point of full fee implementation which became effective on June 18, 2019 (the full fee amount has been in effect for eleven months). Since the full fee became effective, Council District 11 has recorded the most activity, while Council District 12 has recorded the least project activity.

Although it is still too early to draw any substantial conclusions until the AHLF Program is carried out for a longer period of time, HCIDLA is able to demonstrate that the majority of projects subject to the AHLF occurred during the 1/3 fee phase factor period.

**Table 8: Linkage Fee Revenue by Project Type and Council District
 (Permits Submitted Between 6/18/18 and 4/2/20)**

Council District	1 or 2 Family Dwellings	Multifamily	Commercial	Total
1	\$220,615	\$5,297	\$619,211	\$845,124
2	\$1,165,337	\$41,868	\$10,469	\$1,217,674
3	\$558,791	\$0	\$4,780	\$563,571
4	\$1,792,563	\$216,702	\$24,681	\$2,033,946
5	\$5,138,463	\$332,397	\$7,328	\$5,478,188
6	\$135,347	\$12,461	\$33,707	\$181,515
7	\$238,579	\$53,117	\$21,627	\$313,324
8	\$568,426	\$273,696	\$10,108	\$852,230
9	\$587,985	\$8,170	\$7,048	\$603,203
10	\$732,195	\$64,080	\$191,442	\$987,717
11	\$6,767,700	\$958,334	\$174,019	\$7,900,053
12	\$78,240	\$0	\$216,896	\$295,136
13	\$501,309	\$94,558	\$225,072	\$820,939
14	\$337,125	\$10,605	\$101,734	\$449,464
15	\$260,267	\$4,226	\$179,909	\$444,402
Total	\$19,082,942	\$2,075,511	\$1,828,033	\$22,986,486

As Table 8 indicates, the AHLF Program has generated approximately \$23 million in revenue for building permits issued as of April 2, 2020. Council District 11 AHLF activity has generated the largest revenue amount in the city, representing 34% of the total AHLF revenue amount, while Council District 6 generated the lowest amount of AHLF revenue overall.

In Table 8, four City Council Districts - 2, 4, 5, and 11 - cumulatively generated over \$16.6 million in revenue since the implementation of the Linkage Fee. Collectively, these four districts accounted for nearly three-quarters (72%) of the total revenue generated since June 2018.

**Table 9: Projects Subject to Linkage Fee by Type and Council District
 (Permits Submitted Between 6/18/18 and 4/2/20)**

Council District	1 or 2 Family Dwellings	Multifamily	Commercial	Total
1	46	4	10	60
2	168	16	3	187
3	52	0	1	53
4	151	7	4	162
5	233	5	5	243
6	36	3	4	43
7	40	3	3	46
8	174	8	1	183
9	213	6	4	223
10	128	12	5	145
11	245	11	10	266
12	9	0	5	14
13	112	10	5	127
14	83	4	5	92
15	72	4	4	80
Total	1,762	93	69	1,924

Notably, CDs 5 and 11 are predominantly located in High and Medium-High Residential Market Areas. These two Council Districts constitute more than half (58%) of the total Linkage Fee revenue generated to date, or about \$13.3 million. In fact, the revenue generated by 1 or 2 family dwellings in these two Council Districts account for more than half of the total revenue collected to date. This substantial amount of revenue can be attributed to both the number of 1 or 2 family projects in these districts - 233 projects in CD 5 and 245 in CD 11 - as well as the higher impact fee, \$18 per square foot, charged to such projects

in High Market Areas. In contrast, in the Low and Medium Market Areas (i.e., CDs 8, 9, and 10), a significant amount of 1 or 2 family home construction is also occurring, but a smaller contribution goes toward the Linkage Fee revenue in these market areas since the impact fee is lower, \$8 and \$10 per square foot, respectively.

Multifamily developments in Council Districts 5 and 11 represented more than 60% of the total revenue generated for this project type, this suggests that developers of multifamily projects in High Residential Market Areas are still opting to pay the Linkage Fee rather than produce affordable units in these communities.

HCIDLA's analysis further demonstrated that 1 or 2 family dwellings generated the largest portion of AHLF revenue citywide. Although CD 5 and CD 11 had the greatest number of non-exempt 1 and 2 unit building permits, CD 8, 9, and 10 also had a large number of single-family and duplex projects that were subject to the Linkage Fee (as shown in Table 9). Combined, these CDs consist of almost 30% of the City's total 1 or 2 family dwellings.

Table 9 also illustrates the less active or "cooler" areas of the City such as Council Districts 3, 6, 7, and 12 in the San Fernando Valley where there were fewer non-exempt permits. Collectively, projects in these areas constitute less than 10% of all projects subject to the Linkage Fee since June 2018. (See Attachment E for the Linkage Fee Projects by Area Planning Commission Map (APC)).

Initial Analysis of AHLF TOC Exemption: TOC Incentive Projects by Market Area

Housing development projects that utilize the Transit Oriented Communities (TOC) incentives include the same or greater proportion of required affordable housing units as Affordable Housing Linkage Fee exempt projects. As a result, all Tier 1 through Tier 4 TOC projects are exempt from paying the Affordable Housing Linkage Fee. In order for a project to qualify for the TOC incentive program, projects must be located within a one-half mile radius around a major transit stop and meet the program affordability requirements.

TOC projects are exempt from the AHLF and eligible for significant density increases which has incentivized the utilization of the TOC program. While the 2017 AHLF projections predicted a shift away from the Density Bonus program and towards TOC, the number of TOC projects and the total multifamily square footage receiving the affordability exemption exceeds the initial estimates. For example, based on the updated revenue analysis prepared by BAE, the estimated multifamily residential construction has increased by 22% from 2017 to 2019 while the amount of multifamily construction eligible for affordability exemptions has increased by an estimated 25% during the same time period. The analysis indicates that a total of 3.7 million square feet of multifamily residential construction received an affordability exemption in 2019 which is 742,000 square feet more than previously anticipated in 2019. These initial findings warrant a deeper analysis and data over a prolonged period of time to determine the true effects of the TOC on AHLF revenue and potential increases in more mixed-income housing projects in the City.

TOC is still in its infancy and it is still unclear what impact the incentive program will have on the Affordable Housing Linkage Fee and the broader policy goal of promoting onsite affordable housing units. HCIDLA will work closely with City Planning and DBS to continue to monitor trends in the affordable housing exemptions and the impact on Linkage Fee revenue collection. As referenced in the updated revenue analysis prepared by BAE, the data used for 2019 represent only one full year of activity to date in which Measure JJJ, the TOC program and the AHLF program have been in effect. This fact as well as the limitations of available data for this report, do not reflect long-term trends, and therefore only provide a preliminary insight on whether these programs in place align with the 2017 AHLF revenue projections.

SUMMARY OF KEY AHLF ACTIVITY ANALYSIS FINDINGS

After conducting an in-depth analysis of various project types generating the City's Affordable Housing Linkage Fee revenue from June 18, 2018 to April 2, 2020 in different market areas, we conclude with interesting preliminary findings. We discover that the majority of the AHLF projects are 1 or 2 family dwellings. The 1 or 2 family dwellings in South Los Angeles comprise nearly a third of the City's total 1 or 2 family dwelling count. The development of these new residential property types in particular neighborhoods of CDs 8, 9, and 10 will likely help inform the impact of current gentrification trends, as well as the major changes that are expected to occur in the near future.

Our analysis also indicates key AHLF revenue activity in other parts of the City. Of the City's fifteen Council Districts, CDs 2, 4, 5, and 11 generated an overwhelming amount of Linkage Fee dollars contributing to the City's revenue source. These four CDs cumulatively generated over \$16.6 million in revenue since the implementation of the Linkage Fee. Also, in total, these four districts accounted for nearly three-quarters (72%) of the total revenue generated since June 2018. Two of the four CDs, CDs 5 and 11 represent high impact fee areas - High and Medium-High Residential Market Areas which supports the outcome of a large revenue generation. For example, the 1 or 2 family dwelling revenue in these two Council Districts accounted for more than half (52%) of all Linkage Fee revenue collected since its implementation.

In addition, Council Districts 5 and 11 demonstrate significant results as it relates to multifamily project activity and its impact on the Linkage Fee. Multifamily developments in CDs 5 and 11 represented more than 60% of the total revenue generated for this project type. This is a large portion of multifamily property activity contributing to the City's Linkage Fee revenue that derives from Council Districts in higher market areas.

Furthermore, as we analyzed the revenue trends based on the Linkage Fee phase factors, we found that the majority of projects subject to the AHLF contributed to the total revenue amount during the 1/3 fee phase factor term. Projects that applied during the 1/3 fee phase (June 18, 2018 to December 19, 2018) represent 46% of the total Linkage Fee projects. The largest amount contributed towards this 1/3 fee implementation period were from projects in Council District 5.

Although HCIDLA examined almost two complete years of Linkage Fee revenue data, further research is needed as the Linkage Fee Program continues to evolve and revenue trends dictate economic stories over the next few months and years, especially given the overall impact of the COVID-19 crisis on the economy. As we consider the financial and building changes which are occurring, as well as the different market areas of the City, we will gain a stronger understanding of how the Affordable Housing Linkage Fee is actually impacting the generation of revenue funds in the Housing Impact Trust Fund and assisting to create additional affordable units, preserve affordable at-risk units, and create homeownership opportunities to help meet the City's dire affordable housing needs.

FY 2020-21 LINKAGE FEE EXPENDITURE PLAN – TIER 2 PROJECTION

The AHLF data compiled by HCIDLA since the final adoption of the Affordable Housing Linkage Fee demonstrates that Linkage Fee projects had increasingly generated a consistent amount of revenue for Los Angeles, hitting its highest peak of more than \$2M in both November 2019 and January 2020, and continuing through March 2020. As the City begins to strongly rely upon the Linkage Fee to fund new programs and enhance existing programs to create affordable housing opportunities for residents, we must continue to plan ahead by studying the activity of the AHLF revenue generated as time proceeds.

As of April 30, 2020, the City's FY 2019-20 financial accounting report for Linkage Fee funds reflect a total of \$15,803,073 in AHLF receipts. Based on the current amount of collected Linkage Fee funds,

which exceed \$10M (Tier 1 cap for the AHLF Expenditure Plan), HCIDLA will prepare and propose an AHLF revenue allocation for FY 2020-21 based on the adopted Tier 2 AHLF Expenditure Plan for the next fiscal year. The City's AHLF revenue as of the writing of this report, is expected to be impacted in the coming months as a result of the COVID-19 crisis. Thus, as we prepare for the next fiscal year, HCIDLA's FY 2020-21 Linkage Fee Expenditure Plan recommendations will factor in the potential pandemic's economic setbacks. Lastly, as per the provisions of the adopted Housing Impact Trust Fund (HITF) Ordinance, HCIDLA will report back at the next AHLF Oversight Committee meeting in July 2020 to present the department's FY 2020-21 Linkage Fee Expenditure Plan recommendations.

ATTACHMENTS

Attachment A: BAE's Revenue Estimate Update

Attachment B: 1 or 2 Family Dwellings Revenue Map

Attachment C: Multifamily Residential Revenue Map

Attachment D: Commercial Revenue Map

Attachment E: Linkage Fee Projects by Area Planning Commission Map



bae urban economics

Los Angeles Affordable Housing Linkage Fee

Revenue Estimate Update

Prepared for City of Los Angeles

May 22, 2020

bae urban economics

May 22, 2020

Claudia Monterrosa
Nancy Twum-Akwaboah
Los Angeles Housing + Community Investment Department
1200 West 7th Street
Los Angeles, CA 90017

Dear Ms. Monterrosa and Ms. Twum-Akwaboah:

BAE is pleased to submit this Affordable Housing Linkage Fee (AHLF) Revenue Estimate Update Report. As you know, the last AHLF revenue estimates were prepared in 2017, shortly before the City adopted the AHLF Ordinance. Using data on construction trends in the City of Los Angeles since the adoption of the AHLF ordinance, the following report evaluates whether the 2017 revenue estimates continue to provide a reasonable projection of long-term annual average AHLF revenue collection. The report also provides analysis on potential AHLF revenue collection during the current and upcoming year based on AHLF collection trends to date and current economic conditions.

We have enjoyed working with you and your staff to prepare this analysis, and we hope that it is helpful for planning the City's future AHLF expenditures. Please let us know if you have any questions or comments.

Sincerely,



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EXECUTIVE SUMMARY

This study analyzes the December 2017 revenue estimates for the City of Los Angeles Affordable Housing Linkage Fee (AHLF) to determine whether the estimates continue to provide a reasonable projection of long-term AHLF revenue collection. The analysis finds that the 2017 revenue estimates generally provide a reasonable projection of long-term annual average AHLF revenues, though revenues in the near term will be substantially lower due to factors that are discussed in detail in the following report.

Long-Term Annual Average AHLF Revenue Findings

The analysis presented in this report finds that the annual average construction estimates presented in the 2017 AHLF revenue estimate report are consistent with trends since the adoption of the AHLF ordinance. Since the adoption of the AHLF ordinance, the City of Los Angeles has experienced robust single-family, multifamily, and nonresidential construction activity, exceeding the annual average construction activity estimated in the 2017 report. This reflects a strong real estate market in Los Angeles between 2017 and 2019, with higher construction activity than is typical. The data reflected in the 2017 revenue estimate report reflect a wider range of economic conditions and therefore this analysis generally recommends continuing to use the 2017 estimates to avoid overstating future revenues.

While the average construction activity estimates from the 2017 report are reasonable overall, the following analysis includes an adjustment to the 2017 revenue estimates to reflect the impacts of one AHLF exemption for which data are now available. Specifically, data regarding projects that have received AHLF exemptions indicate that a substantial number of single-family home development projects have received exemptions because the property owner has committed to retain ownership of the property for three years following building permit issuance. These exemption data were used to adjust the 2017 revenue estimates to account for the impact of this exemption.

After accounting for the impact of this exemption and other minor adjustments, the following analysis finds that the AHLF may generate approximately \$102.4 million in revenues on an annual average basis over the long-term implementation of the AHLF Ordinance. This figure represents estimated annual average AHLF revenues over a typical five- to ten-year timeframe. However, the City should anticipate substantially lower revenues in 2020, and likely into 2021 and 2022, as discussed below.

Future Refinements to Long-Term Annual Average Estimates

This report recommends that the City continue to reassess and refine the long-term annual average AHLF revenue estimate provided above as the City collects data on AHLF revenues and exemptions over time. The findings presented in this report are based on a high-level analysis of whether the 2017 revenue estimates are reasonable given construction trends since

adoption of the AHLF ordinance. However, construction trends during this time are unlikely to reflect longer-term trends, and therefore provide only preliminary insight on potential AHLF revenues over time. In part, data on trends since adoption of the AHLF are likely inconsistent with longer-term trends because real estate market demand was particularly strong from 2017 through 2019, supporting high levels of construction activity. More importantly, the data evaluated in this study encompass a period during which both the AHLF ordinance and the Transit Oriented Communities (TOC) program were in the early phases of implementation, and many projects that were permitted during this time were planned or proposed prior to the full implementation of these programs. As a result, the data that inform this study are unlikely to fully reflect the cumulative effect that these new policies will have on AHLF revenues. As the City continues to collect data on AHLF revenue collection and exemptions over time, these data may demonstrate patterns in development activity that are not yet apparent from available data, which could include a shift toward more TOC projects and other changes in the extent to which new proposed projects are eligible for AHLF exemptions. More typical data on AHLF revenues over time are unlikely to become available until the City begins to recover from the current economic crisis related to COVID-19.

Near-Term AHLF Revenue Findings

AHLF revenue collection in the near term will be lower than the long-term annual average AHLF revenue projection due primarily to two factors. First, the AHLF Ordinance provided an exemption for projects for which a complete planning entitlement or building permit application was submitted prior to June 18, 2018, as well as fee reductions for projects submitted during the following year. Most larger projects that did not meet these deadlines are still in the approvals process, and therefore have not been issued building permits. Because the AHLF is payable at building permit issuance, these projects will not generate AHLF revenue until approved and issued building permits. Although the City has issued building permits for a significant number of relatively large projects since adoption of the AHLF, most of these larger projects have been exempt from the AHLF because project applicants submitted applications prior to this deadline. Second, the current economic crisis related to COVID-19 can be anticipated to have a significant impact on AHLF revenues in the near term. Prior to the onset of the COVID-19 crisis, AHLF revenues were steadily increasing as the effect of exemptions and adjustments based on application submittal dates decreased over time.

The following report provides a high-level sensitivity analysis to demonstrate the potential near-term effects of the COVID-19 crisis on AHLF revenues, relative to a hypothetical baseline scenario with no impacts from the COVID-19 crisis. The analysis models a 15 percent, 35 percent, and 55 percent reduction in the AHLF revenues due to the impacts of the COVID-19 crisis, relative to the revenues in the baseline scenario. In each scenario, the reduction in overall construction activity is partially offset by increases in AHLF payments from projects that are issued building permits, assuming that the proportion of permitted projects that are eligible for exemptions and fee adjustments based on application submittal date continues to decrease over time. This sensitivity analysis finds that AHLF revenues may range from approximately \$27

million to \$46 million in 2020, depending on the impact that COVID-19 and the economic crisis has on construction activity. In 2021, the analysis estimates that AHLF revenues may range from \$46 million to \$87 million, depending on the severity of the impact. If the current crisis impacts construction activity to a greater extent than anticipated in any of the scenarios modeled in this analysis, AHLF revenues will be lower than the bottom end of these ranges. Revenues at the top end of these ranges reflect an optimistic but unlikely scenario in which the impacts are relatively minor and short-lived.

INTRODUCTION

This study evaluates whether the most recent revenue estimates for the City of Los Angeles AHLF, which were prepared in December 2017, continue to provide a reasonable estimate of annual average AHLF revenues. The analysis presented in this report evaluates the December 2017 revenue estimates in the context of construction trends since adoption of the AHLF Ordinance and subsequent changes in other City programs and policies. The following report also provides an analysis of AHLF revenue collection to date and evaluates the extent to which past AHLF revenue collection is indicative of the level of revenue collection that the City should anticipate in the future.

Affordable Housing Linkage Fee Overview

This section provides an overview of the adopted AHLF, including the adopted fee structure, annual adjustments to the fee, the timeline over which the City phased-in the fee, and fee exemptions and credits.

Fee Structure

The fee rates in the adopted AHLF Ordinance vary by land use and Market Area, as shown in Table 1 below. Under the AHLF Ordinance, each of the City’s Community Plan Areas (CPAs) are categorized based on market conditions, with a total of four residential market conditions and three nonresidential market conditions. The market areas generally correspond to the strength of the real estate market in each CPA, with higher fees applying in markets with stronger real estate markets and lower fees in markets where real estate market conditions are less strong. The fees shown in Table 1 are adjusted annually for inflation, starting on July 1, 2019, based on the Consumer Price Index. AHLF payments are due and payable prior to the issuance of a building permit for a Development Project, not including demolition or grading permits.

Table 1: AHLF Fee Schedule as of June 29, 2018

Type of Development Project	Fee Per Square Foot			
	Low Market Area	Medium Market Area	Medium-High Market Area	High Market Area
Residential Uses - Single-family home or multifamily with 6+ units	\$8	\$10	\$12	\$18
Residential Uses - Multifamily with 2-5 units	\$1	\$1	\$1	\$18
Nonresidential Uses (incl. hotels)	\$3	\$4	N/A	\$5
Additional Charge for Net Loss of Dwelling Units (added to any other applicable fees)	\$3	\$3	\$3	\$3

Note: Fees do not reflect fee reductions pursuant to the phase-in schedule discussed in the following subsection of this report. Starting July 1, 2019, all fee rates are adjusted annually for inflation based on the Consumer Price Index.

Source: City of Los Angeles Department of City Planning, Memorandum re: Affordable Housing Linkage Fee Ordinance and Updated Fee Schedule, July 16, 2018.

The City phased in the fees shown in Table 1 based on the date by which a building permit application or complete planning entitlement application was submitted, whichever application was submitted first, according to the schedule shown in Table 2.

Table 2: AHLF Phase-In Timeline

Plan Submittal Date (a)	Applicable Fee Rate
Before June 18, 2018	None
June 18, 2018 - December 19, 2018	1/3 of rates shown in Table 1
December 20, 2019 - June 16, 2019	2/3 of rates shown in Table 1
After June 17, 2019	Full rates shown in Table 1

Fees updated annually for inflation starting July 19, 2020

Note:

(a) The plan submittal date refers to the date by which a building permit application or complete planning entitlement application was submitted, whichever was submitted first.

Sources: City of Los Angeles Department of City Planning, Memorandum re: Affordable Housing Linkage Fee Ordinance and Updated Fee Schedule, July 16, 2018; BAE, 2020.

Exemptions and Credits

The AHLF Ordinance provides fee exemptions for a variety of projects, while other projects are eligible for fee credits due to project characteristics. Exempt projects include, but are not limited to:

- Nonresidential projects consisting of less than 15,000 square feet
- Projects that meet specified affordable housing requirements
- Single-family residential projects resulting in a net increase of up to 1,500 square feet
- Accessory dwelling units
- Nonresidential floor area located in the South LA Transit Empowerment Zone
- Projects that are subject to affordable housing and labor requirements pursuant to LAMC 11.5.11 (as implemented by the approval of Measure JJJ)

In addition, in any non-exempt projects the square footage of any affordable units is exempt from the AHLF.

Distinction Between the AHLF Ordinance and an Inclusionary Ordinance

The City of Los Angeles AHLF Ordinance, like all linkage fees, differs from an inclusionary housing requirement. A linkage fee ordinance requires that developers of new projects pay a fee to the City, and the City then uses the revenue from developers' fee payments to support separate affordable housing projects in the City, typically by helping to finance 100 percent affordable housing developments. Like the City of Los Angeles AHLF Ordinance, many linkage fee ordinances provide an option for developers to provide affordable units within their projects instead of paying a fee, though the fee payment constitutes the baseline requirement.

In contrast, an inclusionary housing ordinance requires that developers of market-rate residential projects make some portion of units in new developments affordable to lower-income households. Many jurisdictions with inclusionary ordinances provide an option for developers to pay an in-lieu fee or provide other types of affordable housing contributions rather than provide affordable units within their projects. However, under an inclusionary ordinance, providing affordable units within each project constitutes the baseline requirement, and requests to meet the requirement through an alternative means of compliance may be subject to discretionary approvals. Many jurisdictions with inclusionary requirements also have linkage fees that apply to nonresidential development, requiring that residential developments provide affordable units and that nonresidential developments pay a fee to support the production of affordable housing.

December 2017 Revenue Estimate

In December 2017, BAE prepared an Updated Revenue Estimate Report as a supplement to the AHLF Nexus Study that the City published in 2016. The December 2017 report provided revenue estimates based on the Draft AHLF Ordinance and a detailed per-market-area analysis of past building permit patterns. The December 2017 estimates essentially calculated the fee revenue that the AHLF would generate to the City of Los Angeles on an annual average basis, using annual average construction activity during the prior six years as a baseline for projecting future annual average construction activity that would be subject to the AHLF.

More specifically, the December 2017 revenue estimates were based on an analysis of City of Los Angeles building permit data for construction projects comprised of relevant uses that were permitted from 2011 through 2016. The six years of building permit data used in this analysis represent construction activity across a range of real estate market conditions, including years in which Los Angeles was recovering from the Great Recession as well as years with relatively strong economic activity, to identify long-term trends on an annual average basis. The building permit data were geo-coded by Community Plan Area (CPA) and aggregated into each of the three non-residential market condition categories and four residential market condition categories to determine the applicable fee rates. Because the Draft Ordinance applies to “net new” space for some use categories if adding to or replacing an existing structure (e.g., net of existing space demolished as part of the construction process), the estimate of gross square footage of new space subject to the fee also required matching new construction permits with demolition permits to calculate “net new” space for those cases. The revenue estimates were adjusted to account for the AHLF exemptions and credits provided in the draft ordinance.

The revenue estimates were also adjusted to estimate the extent to which future development patterns might differ from those demonstrated by the 2011 to 2016 building permit data due to City policies that were not in place during the period covered by the data set. In part, these adjustments estimated impacts related to the AHLF Ordinance itself, which might encourage some developers to provide more affordable units in mixed-income projects (e.g., projects that receive a State density bonus) to qualify for an AHLF exemption. These adjustments also

estimated the impacts that Measure JJJ might have on new development, as any impacts due to the provisions of the Measure would not be captured in the 2011-2016 data used in the 2017 analysis. The City of Los Angeles electorate approved Measure JJJ in November 2016, thereby adding affordable housing requirements and construction labor standards for new residential development projects with ten units or more seeking specific discretionary approvals, along with other provisions. Measure JJJ also required the Department of City Planning to create a program to further incentivize affordable housing near transit, which resulted in the creation of the Transit Oriented Communities (TOC) Affordable Housing Incentive Program in 2017. The program encourages affordable housing within a half mile of major transit stops by providing additional density, reduced parking, and other incentives for projects that include covenanted affordable units.

December 2017 Revenue Estimate Findings

The December 2017 Updated Revenue Estimate report estimated that the AHLF will generate approximately \$96.9 million per year from residential construction and \$7.6 million per year from non-residential construction, after accounting for annual average construction activity and AHLF exemptions. These estimates reflect projected annual averages at a point in time when the AHLF is fully implemented, meaning at a point at which projects that are receiving building permits are no longer eligible for fee exemptions or reductions pursuant to the phase-in timeline shown in Table 2. These estimates are intended to represent estimated annual averages rather than estimated revenues in any given year; because AHLF payments are based on construction activity, revenue collection from this source will vary substantially between years in accordance with real estate market cycles.

ACTUAL AHLF REVENUE COLLECTION TO DATE

Between the start of AHLF revenue collection on June 18, 2018 and the beginning of April 2020, the City of Los Angeles collected almost \$23 million in AHLF revenues. This total reflects the City's adjustments to the AHLF fee rates pursuant to the phase-in schedule shown in Table 2 (referred to in this report as "phase factor adjustments"). At the full AHLF fee rates, or the rates that would have applied without the phase factor adjustments, the projects that generated AHLF revenue during this period would have generated a total of \$43.5 million, or almost twice the amount actually collected. The phase factor adjustments continue to impact AHLF revenue collection in 2020, as some projects that submitted applications before the full fee rates went into effect on July 17, 2019 are now being issued building permits and are eligible for the phase-factor adjusted rates. The revenues that would have been collected if not for the phase factor adjustments are more informative than the actual (i.e., phase-factor adjusted) revenues for evaluating potential AHLF revenues over the long term now that the City is no longer adjusting AHLF payments pursuant to the phase-in period.

Ongoing Impact of Phase-In Exemptions and Adjustments

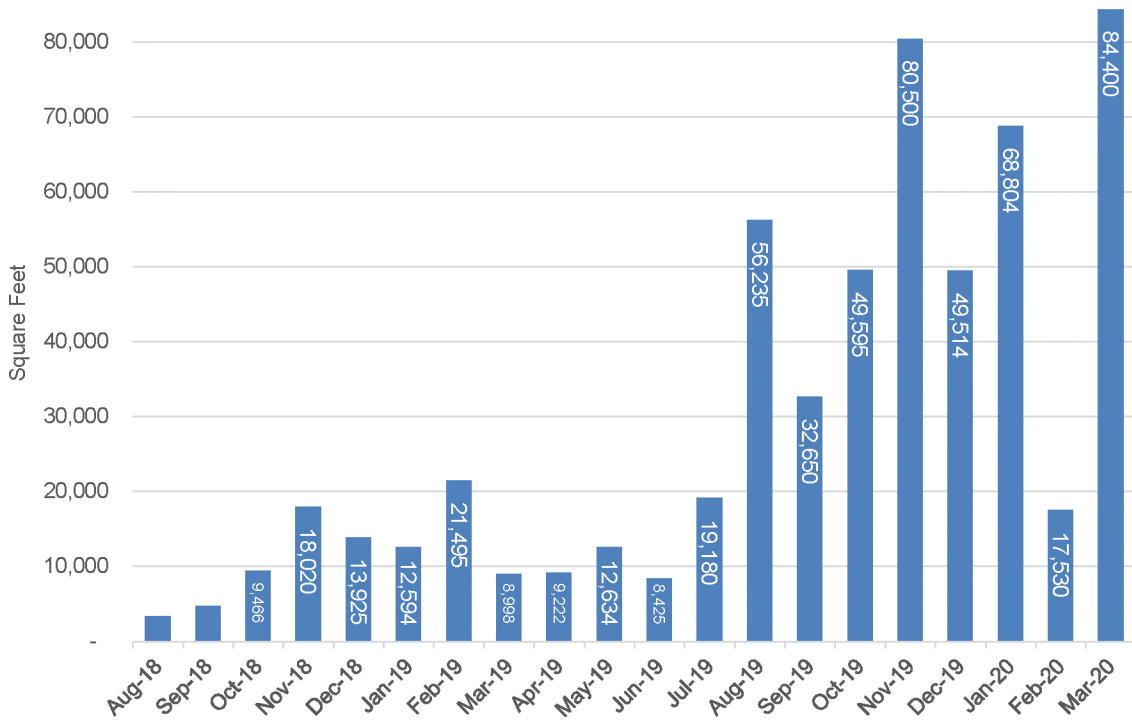
In addition to the effect of the phase factor adjustments, there is a continued impact on AHLF fee collection through December 2019 due to the AHLF exemption for projects that submitted a complete application prior to June 18, 2018. As stated above, the AHLF is due when a building permit is pulled for a Development Project, which is often significantly later than the date on which a project applicant submits a complete building permit or planning entitlement application. The City generally allows an 18-month plan check period between the date that a plan check fee is paid and the date that project applicants obtain a building permit, though the Department of Building and Safety (LADBS) may grant extensions. For projects that require planning approvals, the time between submittal of a complete planning application and issuance of a building permit can range from six months to years, according to information provided by LADBS. Some projects for which applicants submit applications for building permits or planning approvals do not ever reach building permit issuance. The City is continuing to work through the pipeline of projects that are exempt from the AHLF as a result of having submitted a complete planning entitlement application prior to June 18, 2018, but for which building permits have not yet been pulled. In other words, the only projects that have paid the AHLF are those for which the applicant submitted a complete building permit or planning entitlement application after June 18, 2018 and has already pulled a building permit. The number of projects that submitted an application before June 2018 and have not yet pulled building permits may be larger than would be typical due to project applicants submitting applications earlier than they otherwise would have in order to be eligible for the AHLF exemption.

The exemption for projects that were submitted before the deadline has meant that larger projects that have pulled building permits since the AHLF was adopted have mostly been exempt from the fee. In general, there is a correlation between the size of a development project and

the time between plan submittal and building permit issuance, as larger projects tend to be more complex and require more complex review processes. Figure 1 underscores this point, demonstrating a steady increase in the size of projects that have generated AHLF payments during the implementation period as larger projects for which applications were submitted after the deadline move through the entitlement process. Prior to August 2019, projects that generated AHLF payments generally consisted of projects measuring approximately 20,000 square feet or less. In subsequent months, the City has experienced an overall increase in the range of project sizes that are generating AHLF payments. In March 2020, the largest project that generated AHLF revenue measured 84,400 square feet and was the largest project to have paid the AHLF to date. This project is significantly larger than the largest project that generated AHLF revenue in most prior months, yet is nonetheless smaller than many larger-scale development projects. The 84,400 square foot project that generated AHLF revenue was eligible for a phase-factor adjustment that resulted in a fee payment equal to one-third of the full fee amount, demonstrating that the phase factor adjustments continue to affect actual revenue collection, particularly for larger projects.

The City's development pipeline includes substantially larger projects that will be subject to the AHLF once approved, but which have not yet reached building permit issuance. Nonresidential projects proposed in 2019 that would be subject to the AHLF ranged in size up to 700,000 square feet, demonstrating that developers are pursuing large projects that will generate AHLF revenue at the building permit stage. If approved and issued a building permit, the proposed 700,000 square foot project would generate over \$3.5 million in AHLF revenues, approximately 12 times the largest AHLF payment for any project to date. Residential projects proposed in 2019 range in size up to over 1,500 units, which would likely comprise well over one million square feet. Many of the larger residential projects proposed in 2019 are TOC projects that are eligible for AHLF exemptions, and therefore will not generate AHLF revenue when issued building permits. However, the City's development pipeline also includes some residential projects that would not be exempt from the AHLF and would likely have a much larger square footage than the largest project that has made an AHLF payment to date. Because larger projects are responsible for larger AHLF payments, the shortage of large projects that have generated AHLF payments to date has an outsized effect on total AHLF revenues to date.

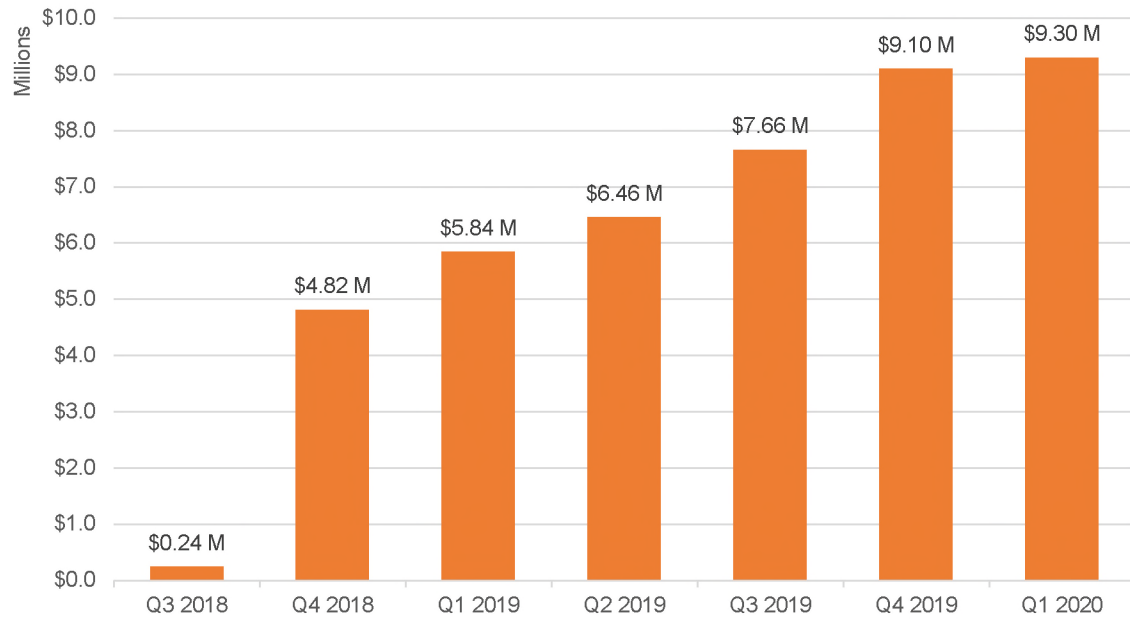
Figure 1: Size of Largest Project that Generated AHLF Revenue in each Month, through December 2019



Sources: City of Los Angeles, 2020; BAE, 2020.

As the City continues to issue building permits for increasingly large projects for which plans were submitted after June 18, 2018, revenue from the AHLF can be expected to increase over time. Figure 2 shows total AHLF revenue in each quarter through the first quarter of 2020, adjusted to show the amount that the AHLF would have been generated if each project had paid the full AHLF amount rather than the phase factor adjusted amount. As shown, the City experienced a steady increase in AHLF payments through the end of 2019, even after adjusting for the effect of the phase factor. Payments increased slightly in the first quarter of 2020, but at a much slower rate than during the preceding quarters, reflecting the initial impacts of the COVID-19 crisis as well as emerging challenges that were potentially beginning to affect construction activity prior to the COVID-19 crisis. Despite the smaller increase in revenues in the first quarter of 2020, these data indicate that AHLF payments have generally increased as the City continues to work through the pipeline of approved projects that are exempt from the AHLF and a growing share of permitted projects are not exempt.

Figure 2: Revenues that the AHLF Would Have Generated through the Fourth Quarter of 2019 without Phase Factor Adjustment



Sources: City of Los Angeles, 2020; BAE, 2020.

ANALYSIS OF 2017 AHLF REVENUE ESTIMATES

This section analyzes the 2017 AHLF Revenue Estimates to evaluate whether these estimates should be adjusted based on newly-available data. This analysis includes a comparison between recent construction trends and the construction square footage estimates that underlie the 2017 revenue estimates. This analysis also includes reviewing data related to projects that are eligible for AHLF exemptions, with a focus on those for which data were not available when the 2017 revenue estimates were prepared, such as data on affordable unit production pursuant to the TOC program.

However, it should be noted that the 2017 square footage estimates will vary somewhat from actual construction activity in any given year. The data analyzed in the 2017 revenue estimates cover several years and multiple stages of the real estate market cycle. In contrast, data from more recent years cover a shorter time period during which real estate market conditions remained relatively strong. Accordingly, construction activity during the past few years has generally been more robust than estimated in the annual average construction square footage estimates used for the 2017 analysis. To the extent that the 2017 report provides a more conservative estimate of typical construction activity than the levels of activity that the City has experienced more recently, this analysis recommends continuing to use the 2017 estimates to avoid overestimating future revenues.

However, this analysis does not consist of a wholesale replication of the analysis of building permit data that the 2017 estimates are based on using newer data. Instead, this analysis consists of a review of the 2017 estimates using available data to identify any major deviations from the 2017 estimates due to changes in the development context since the adoption of the AHLF Ordinance, and to make adjustments to the 2017 revenue estimates as appropriate.

Analysis of AHLF Revenue from Single-Family Construction Projects

Compared to many other types of development projects, single-family home construction projects tend to have a shorter timeframe between submittal of applications to the building or planning department and issuance of a building permit. Consequently, this analysis uses data on the square footage of single-family development projects that have generated AHLF payments as well as data on single-family development projects that have received AHLF exemptions to evaluate potential adjustments to the 2017 revenue estimates related to single-family homes.

2017 Estimates

The 2017 revenue estimate report estimated that single-family home construction square footage in Los Angeles averages approximately 2.9 million square feet per year among projects comprised of at least 1,500 net new square feet, including new construction and additions. Of this total, the 2017 report estimated that slightly more than 400,000 square feet would be

eligible for AHLF exemptions or adjustments, resulting in 2.4 million square feet of single-family construction that would generate AHLF revenue. The estimated single-family home exemptions provided in the 2017 report did not include an adjustment for single-family home development projects for which the property owner intends to retain ownership of the property for at least three years following building permit issuance and signs a covenant to that effect. While data were not available in 2017 to make this adjustment, City data regarding projects that have received AHLF exemptions now indicate that a substantial number of single-family home development projects have received exemptions for this reason.

Comparison to Recent Construction Activity

Data from HCID on AHLF collection to date provide information on “1 or 2 Family Dwellings” that have generated AHLF payments, consistent with the classifications in the City’s building permit database. BAE used these data to calculate the total built square footage in 1 or 2 Family Dwellings that generated AHLF payments in 2019. In all markets except high market areas, two-to five-unit residential projects have a base fee rate of \$1 per square foot, before applying any phase-factor adjustments or the July 1, 2019 adjustment for inflation. Therefore, BAE used the base AHLF fee rate to isolate the square footage of one-family dwellings from that of two-family dwellings in all markets except high market areas to develop a more accurate estimate of single-family construction square footage that has generated AHLF revenue. This resulted in an estimated 1.82 million square feet of single-family home construction square footage that generated AHLF revenue in 2019. This number may slightly overestimate actual single-family home construction to the extent that it includes two-family dwellings in high market areas. However, this overestimate may be partially or wholly offset by single-family home construction projects that were exempt due to submittal of a complete application prior to June 18, 2018 and therefore are not captured in the data on AHLF collection during 2019.

Comparison to Data on AHLF Exemptions

This analysis used Single Family Exemption data for single-family home construction projects that received an AHLF exemption in 2019 because the property owner agreed not to sell the home for at least three years. Based on an analysis of these data, approximately 800,000 square feet of single-family home construction projects were exempt from the AHLF in 2019 due to owners’ commitments to retain ownership of the home. This analysis therefore adjusts the 2017 single-family home construction estimates by netting out approximately 800,000 square feet to account for exemptions due to property owner commitments to retain ownership. This adjustment results in a preliminary updated average annual net single-family construction square footage estimate of approximately 1.6 million square feet, as shown in Table 3. This estimate is slightly lower than the estimated 1.8 million square feet of single-family construction activity in 2019, as described above. This is consistent with the strong market conditions in 2019. This suggests that the single-family construction square footage estimates provided in the 2017 report provide a reasonable indication of long-term trends, after adjusting for the exemption for projects with owners that agree not to sell for three years.

This should be interpreted as a preliminary estimate, subject to further adjustment as the City continues to collect data on AHLF exemptions over time. Unlike the data underlying the 2017 revenue estimates, the data on exemptions cover a one-year period, and therefore are unlikely to represent long-term trends.¹ In addition, it is possible that some of the projects that received an exemption for this reason will ultimately end up generating AHLF revenue, as any property owners that receive this exemption must pay the AHLF in the future if they later decide to sell within the three-year period. These trends will become more apparent over the long term as the City continues implementing the AHLF Ordinance.

Summary of Updated Revenue Estimate

Table 3 summarizes the calculations described above and applies the baseline (i.e., before the July 1, 2019 inflation adjustment) fee rates to the adjusted square footage. In addition to applying the adjustment described above, Table 3 adjusts the estimate from the 2017 report by applying the current AHLF fee rates with the inflation adjustment that became effective on July 1, 2019. These calculations result in a revised estimate that the AHLF will generate approximately \$20.1 million per year from single-family residential development projects.

Table 3: Updated Annual AHLF Revenue Estimate, Single-Family Home Construction Projects

	Market Area				Total
	Low	Medium	High	High	
Gross Annual Avg. SFD Construction Sq. Ft., per 2017 Report (a)	569,273	731,568	468,043	1,108,091	2,876,974
Less: Exempt SFD Construction Sq. Ft., per 2017 Report (b)	(59,064)	(73,157)	(46,804)	(248,788)	(427,813)
Less: Prelim. Est. Exempt SFD Sq. Ft. Due to Resale Covenant (c)	(103,364)	(162,039)	(70,596)	(466,278)	(802,277)
Net Estimated Annual Average SFD Construction Sq. Ft.	406,845	496,372	350,642	393,025	1,646,884
Annual Average AHLF Revenue from SFD Development	\$3,356,471	\$5,117,600	\$4,337,443	\$7,294,541	\$20,106,055
AHLF Fee Rates (per residential square foot)					
Category 1 - SFR Detached	\$8.25	\$10.31	\$12.37	\$18.56	
Category 2 - Residential (2-5 Units)	\$1.03	\$1.03	\$1.03	\$18.56	
Category 3 - Residential (6+ Units)	\$8.25	\$10.31	\$12.37	\$18.56	

Notes:

(a) Per Table 1 of 2017 Updated Revenue Estimate Report. Reflects estimated gross square footage of single-family home development projects resulting in a net increase of 1,500 square feet or more, including new construction and additions.

(b) Per Table 3 of 2017 Updated Revenue Estimate Report.

(c) Preliminary estimate of typical single-family home construction square footage that is exempt from the AHLF because the property owner plans to retain ownership for at least three years following building permit issuance and records a covenant to that effect. This estimate is preliminary because it is based on one year of data and therefore does not necessarily reflect long-term trends.

Sources: City of Los Angeles, 2017 & 2020; BAE, 2017 & 2020.

¹ While the full set of exemption data cover a longer period beginning in June 2018 this analysis uses exemption data from 2019 only because many projects that were permitted in 2018 would be omitted from the exemption data because the applicant submitted an application prior to the deadline for receiving a full AHLF exemption.

Analysis of AHLF Revenue from Multifamily Construction Projects

Compared to single-family home construction projects, new multifamily development projects often require more lengthy review and approvals processes. As a result, it is likely that most large-scale multifamily development projects for which an application was submitted after the deadline for AHLF exemptions have not yet received building permits, and therefore are not yet in the City's databases related to AHLF payments or exemptions. The Department of City Planning's Housing Progress Dashboard shows a sharp increase in applications for residential units prior to the deadline for the AHLF exemption, followed by an equally sharp but temporary decline and a subsequent and sustained rebound.² This development proposal activity, coupled with information provided above in this report, suggests that many projects in the City's development pipeline that were submitted after the exemption deadline are still under review. Consequently, the analysis below uses other data sources to evaluate multifamily construction activity and potential adjustments to the AHLF revenue estimates for multifamily projects.

2017 Estimates

The 2017 report estimated that, between 2011 and 2016 (the years covered by the building permit data used in the analysis), multifamily residential construction activity in Los Angeles averaged 10.3 million square feet per year. Of this total, the 2017 analysis estimated that 1.2 million square feet would be exempt from the AHLF due to the characteristics of the projects in the building permit database. Most of this exempt square footage was comprised of 100 percent affordable housing projects and affordable units in density bonus projects that did not meet the affordability thresholds necessary for an AHLF exemption. Collectively, these two types of affordable units accounted for approximately 750,000 square feet of exempt square footage.

Because the projects that were analyzed for the 2017 revenue estimates were permitted before the adoption of the AHLF Ordinance as well as the TOC program, the 2017 analysis also projected that future multifamily rental projects would differ somewhat from those represented in the building permit data. The analysis estimated that some developers would respond to the AHLF Ordinance, the TOC program, and the affordability requirements implemented by Measure JJJ by providing more affordable units in mixed-income projects. Therefore, the analysis assumed that some density bonus projects would provide more affordable units than was typical among projects reflected in the 2011 to 2016 building permit data, thereby qualifying for AHLF exemptions. The analysis also assumed that many future multifamily rental projects would be TOC projects that would qualify for AHLF exemptions, and adjusted the total estimated exempt multifamily residential square footage estimates accordingly. The analysis also assumed a ten percent decrease in the remaining non-exempt square footage due to decreases in applications for projects requesting a zoning change.

² <https://planning.lacity.org/resources/housing-reports>

Net of all exemptions and adjustments, the 2017 report estimated that multifamily residential projects that would generate AHLF revenue would total 6.5 million square feet on an average annual basis. The following subsections of this report evaluate this estimate based on recent multifamily residential construction activity in Los Angeles.

Comparison to Recent Construction Activity

Data on multifamily residential construction activity in Los Angeles indicate that recent construction activity has surpassed the annual averages estimated in the 2017 AHLF revenue estimate report. This is consistent with strong demand for multifamily rental development in Los Angeles in recent years, leading to higher levels of residential construction activity than was typical in many prior years. According to data from the California Department of Finance (DOF), as of January 1st, 2020 the multifamily inventory of existing units in the City of Los Angeles totaled approximately 858,000 units. This total reflects a net increase of 18,000 units over the one-year period between January 1st, 2019 and January 1st, 2020, as shown in Table 4. During the two prior years, the City’s multifamily inventory increased by over 12,000 units per year. Assuming an average of 870 square feet per multifamily unit, these figures suggest an annual average of 12.5 million square feet of multifamily rental construction between 2017 and 2019, 22 percent more square footage than was captured in the 2017 estimates.³ Using the same assumption of 870 square feet per residential unit, the figures from DOF suggest a total of 16.0 million square feet of multifamily rental construction in 2019, 56 percent more than was captured in the 2017 estimates. The vast majority of existing units and those constructed in recent years are market-rate units. It should be noted that the construction activity that these data reflect pre-dates the effects of the COVID-19 crisis. Construction activity is anticipated to be significantly less robust in 2020 due to the ongoing crisis.

Table 4: Multifamily Housing Inventory, City of Los Angeles, 2017-2020

	2017	2018	2019	2020
Total Multifamily Units in Los Angeles on Jan. 1st	815,225	827,713	839,930	858,315
Net Increase in Multifamily Units	12,488	12,217	18,385	N/A

Sources: California Department of Finance, 2020; BAE, 2020.

Comparison to Data on AHLF Exemptions and Credits

This analysis uses more detailed data on residential projects that the City of Los Angeles permitted in 2019 to evaluate the 2017 estimates, including adjustments for exemptions and credits. The 2019 data are used for this analysis because these data represent the only full year of activity to date during which Measure JJJ, the TOC program, and the AHLF Ordinance

³ Among properties tracked by CoStar, the average unit size in multifamily rental projects built in Los Angeles between 2017 and 2019 was 869 square feet. This likely underestimates the average unit size among all multifamily developments because condominiums tend to be larger than single-family homes. To the extent that the actual average unit size was larger than 870 square feet per unit, actual new multifamily construction square footage would be higher than the estimates provided in this study.

have been effective. However, as with the other one-year data sources used in this analysis, these data do not necessarily reflect long-term trends, and therefore provide only preliminary insight on whether longer-term trends with these programs in place will align with the 2017 AHLF revenue projections.

Table 5 below shows the annual average multifamily construction square footage estimates from the 2017 report as well as an estimate of multifamily construction square footage permitted in 2019. The 2019 estimated square footage is based on the number of units reported in the City's Annual Progress Report (APR) for the Housing Element, converted to square footage estimates based on the average unit sizes among multifamily developments recently constructed in Los Angeles. The table also shows the adjustments and exemptions that were incorporated into the 2017 estimates and the corresponding adjustments and credits that would apply to multifamily projects permitted in 2019, including exemptions for TOC projects and other projects that would receive full or partial AHLF exemptions in exchange for providing affordable units. As shown, the volume of multifamily construction activity recorded in the City's 2019 APR exceeds the annual average estimates from the 2017 report. This suggests that the annual average multifamily construction square footage estimates provided in the 2017 report provide a reasonable estimate of typical annual average construction activity.

While the figures in Table 5 below incorporate exemptions that would apply to projects that were permitted in 2019, these figures may not reflect long-term trends related to exemptions for projects that provide affordable units, particularly for TOC projects. The figures in Table 5 demonstrate that projects permitted in 2019 included enough units that would typically generate AHLF revenue to exceed the 2017 annual average revenue estimate for multifamily projects. However, many of these projects did not actually generate AHLF revenue because of exemptions for projects for which complete applications were submitted prior to the exemption deadline. Furthermore, some of these projects may have been initiated before the adoption of the TOC program. While the 2019 data indicate that the 2017 estimates are generally consistent with more recent trends, these trends could continue to shift over time in response to the AHLF ordinance, TOC program, and other changes in the overall development context. If developers respond to these changes by proposing fewer projects that would generate AHLF payments in favor of TOC projects and other projects that are exempt from the AHLF, the square footage of multifamily residential projects that will generate AHLF revenue will decrease over time.

Table 5: Multifamily Construction Square Footage Estimate from 2017 AHLF Revenue Estimate Report and 2019 Construction Activity, with AHLF Exemptions

	Projects with 2 to 5 Units	Projects with 6+ Units	All Multifamily Projects
Estimates from 2017 Revenue Estimate Report			
Gross Annual Avg. MFR Construction Sq. Ft. (a)	1,120,936	9,162,825	10,283,761
Less: Exempt Affordable Housing Projects (b)	(37,778)	(2,888,626)	(2,926,404)
TFAR Exemption (b)	0	(190,862)	(190,862)
Less: Adjustment for Decrease in Zoning Change Proposals (b)	(108,223)	(535,813)	(644,036)
Net Multifamily Construction Square Feet	974,935	5,547,523	6,522,459
Units Permitted in 2019 (c)			
Gross MFR Construction Sq. Ft. (Estimate)	2,336,750	10,208,889	12,545,639
Less: Exempt Affordable Housing Projects (Est.)	(34,512)	(3,670,245)	(3,704,757)
TFAR Exemption (Est.) (b)	0	(190,862)	(190,862)
Less: Adjustment for Decrease in Zoning Change Proposals (d)	N/A	N/A	N/A
Net Multifamily Construction Square Fee (Estimated)	2,302,238	6,347,782	8,650,020

Notes:

(a) Per Table 1 of 2017 Updated Revenue Estimate Report.

(b) Per Table 3 of 2017 Updated Revenue Estimate Report. 2017 estimate is not updated in this analysis.

(c) Data based on an analysis of the City's 2019 Annual Progress Report (APR) on the Housing Element. The APR provides information on total number of units but does not provide square footage information. This analysis converts the number of units reported in the APR to a square footage estimate by assuming an average unit size of 1,438 square feet per unit in two-to five-unit buildings and 837 square feet per unit in buildings with six or more units. Average unit sizes reflect the average among buildings in each size class that were constructed in Los Angeles between 2017 and 2019, according to data from CoStar.

(d) This analysis does not incorporate an estimated decrease in zone change proposals because any decrease is already reflected in the gross square footage constructed.

Sources: City of Los Angeles, 2017 & 2020; CoStar, 2020; BAE, 2017 & 2020.

Summary of Updated Revenue Estimate

Table 6 below summarizes the average annual construction square footage estimates from the 2017 report, including exemptions and credits, and calculates the resulting annual average estimated AHLF revenue from multifamily construction. As in Table 3, the calculations in Table 6 apply the current adopted fee rates that became effective on July 1, 2019. These calculations result in a revised estimate that the AHLF will generate approximately \$74.2 million per year from multifamily residential development projects. This figure is substantially higher than the AHLF revenue that multifamily residential projects generated in 2019, likely because many of the multifamily projects that were permitted in 2019 were eligible for AHLF exemptions and fee reductions pursuant to the phase-in process for the AHLF. If none of projects that were permitted in 2019 had been eligible for exemptions and fee reductions related to the AHLF phase in process, AHLF revenue from multifamily projects would likely have exceeded this estimate in 2019.

While the data that are currently available indicate that this provides a reasonable estimate of annual average AHLF revenues from multifamily development projects, the City should continue to monitor multifamily construction trends over time to identify changes that will impact AHLF revenues. In particular, shifts in future construction trends that favor TOC projects over other

types of multifamily development would decrease AHLF revenue from multifamily development, as discussed above.

Table 6: Updated Annual AHLF Revenue Estimate, Multifamily Construction Projects

	Market Area				Total
	Low	Medium	Medium-High	High	
2 to 5 Unit Projects					
Gross Annual Avg. Multifamily Construction Sq. Ft. (a)	674,394	121,969	98,714	225,859	1,120,936
Less: Exemptions & Adjustments to Multifamily Sq. Ft. (b)	<u>(72,824)</u>	<u>(13,628)</u>	<u>(9,871)</u>	<u>(49,677)</u>	<u>(146,001)</u>
Net Est. Annual Average Multifamily Construction Sq. Ft.	601,570	108,340	88,842	176,183	974,935
6+ Unit Projects					
Gross Annual Avg. Multifamily Construction Sq. Ft. (a)	1,580,086	1,553,281	4,447,385	1,582,073	9,162,825
Less: Exemptions & Adjustments to Multifamily Sq. Ft. (b)	<u>(732,811)</u>	<u>(778,607)</u>	<u>(1,578,689)</u>	<u>(525,194)</u>	<u>(3,615,301)</u>
Net Est. Annual Average Multifamily Construction Sq. Ft.	847,275	774,674	2,868,695	1,056,880	5,547,523
All Multifamily Projects					
Gross Annual Avg. Multifamily Construction Sq. Ft. (a)	2,254,481	1,675,249	4,546,098	1,807,933	10,283,761
Less: Exemptions & Adjustments to Multifamily Sq. Ft. (b)	<u>(805,635)</u>	<u>(792,235)</u>	<u>(1,588,561)</u>	<u>(574,870)</u>	<u>(3,761,302)</u>
Net Est. Annual Average Multifamily Construction Sq. Ft.	1,448,845	883,014	2,957,537	1,233,062	6,522,459
Annual Avg. AHLF Revenue from MFR Development	\$7,609,638	\$8,098,476	\$35,577,266	\$22,885,634	\$74,171,013
AHLF Fee Rates (per residential square foot)					
Category 1 - SFR Detached	\$8.25	\$10.31	\$12.37	\$18.56	
Category 2 - Residential (2-5 Units)	\$1.03	\$1.03	\$1.03	\$18.56	
Category 3 - Residential (6+ Units)	\$8.25	\$10.31	\$12.37	\$18.56	

Notes:

(a) Per Table 1 of 2017 Updated Revenue Estimate Report.

(b) Per Table 3 of 2017 Updated Revenue Estimate Report.

Sources: City of Los Angeles, 2017 & 2020; BAE, 2017 & 2020.

Analysis of AHLF Revenue from Nonresidential Construction Projects

Similar to multifamily construction projects, many nonresidential development projects require lengthy review and approvals processes, particularly for larger projects. As a result, many larger nonresidential projects for which applications were submitted after the exemption deadline have not yet received building permits and therefore are not yet in the AHLF databases. Therefore, like the above analysis of revenue from multifamily construction projects, the analysis below uses data from sources other than the AHLF databases to evaluate nonresidential construction activity.

2017 Estimates

The 2017 report estimated that new nonresidential construction projects total approximately 1.7 million square feet per year in Los Angeles on an average annual basis. This estimate does not include many of the types of projects that are exempt from the AHLF, such as those measuring less than 15,000 square feet, schools, hospitals, and government buildings. This estimate also accounts for an adjustment of approximately 100,000 square feet to reflect exemptions for projects in the Central City West Specific Plan Area and the South LA Transit

Empowerment Zone as well as for the first 15,000 square feet of commercial space in mixed-use projects.

Comparison to Recent Construction Activity

Among properties tracked by CoStar, construction of new offices (including medical offices), retail, industrial, hospitality, and entertainment space in Los Angeles totaled 1.9 million square feet in 2019, not including projects measuring less than 15,000 square feet. This figure almost certainly underestimates total construction activity in these categories, in part because CoStar mainly tracks investment properties and typically omits owner-occupied developments. This square footage estimate suggests that in 2019, nonresidential construction activity of the type that would generate linkage fees was more robust than the annual average construction activity estimates used for the 2017 AHLF revenue estimates. Given the strong real estate market conditions in 2019, these data indicate that the 2017 estimate for AHLF revenue from nonresidential projects generally provides a reasonable estimate of annual average nonresidential construction activity.

Comparison to Data on AHLF Exemptions

This analysis did not include a detailed review of data on exemptions that would apply to nonresidential projects. The 2017 analysis indicated that exemptions have a relatively small impact on AHLF revenues from non-residential projects. While the data on AHLF exemptions to date do not provide a full picture of long-term trends related to nonresidential exemptions, as discussed above, the data that are currently available indicate that the magnitude of the exemption estimates provided in the 2017 report is generally reasonable.

Summary of Updated Revenue Estimate

The analysis presented above indicates that the square footage estimates underlying the 2017 revenues are generally consistent with other data on more recent trends for the uses to which the AHLF applies. Therefore, the only adjustment that this analysis makes to the nonresidential AHLF revenue estimates provided in the 2017 report is to update the nonresidential fee rates to the current fee rates that became effective on July 1, 2019.

UPDATED AHLF REVENUE ESTIMATES

This section provides two different AHLF revenue estimates. First, this section presents an updated estimate of annual average AHLF revenues, which represent projected revenues over the long-term implementation of the AHLF. Second, this section presents an estimate of near-term AHLF revenue collection which reflects the current phase of the City's implementation of the AHLF Ordinance as well as current economic conditions.

Updated Long-Term Annual Average AHLF Revenues

Table 7 below provides an updated estimate of annual average AHLF revenues over the long-term implementation of the AHLF Ordinance, based on the analysis of the 2017 revenue estimates and associated adjustments described in this report. As shown, the updated estimates project that the AHLF may generate approximately \$102.4 million in revenues on an annual average basis over the long-term implementation of the AHLF Ordinance. The City should not anticipate reaching this level of AHLF revenue collection in the current year or even as early as 2021. Rather, this estimate provides a projection of annual average AHLF revenues over a typical five- to ten-year timeframe once the City's development pipeline no longer includes projects that submitted applications early enough to meet the exemption deadline or the deadlines for reduced fee rates. In any given year, actual revenue collection will likely vary from the figures provided below due to changes in the real estate market and overall economy.

In addition to the impact related to exemptions and fee reductions for some projects that will receive building permits over the near term, revenue collection is likely to remain below the levels shown in Table 7 until the economy begins to recover from the effects of the current economic crisis related to COVID-19. These impacts are likely to worsen before improving, and therefore the City should anticipate that some time will pass before the revenues shown in Table 7 materialize. However, over the long term, years with robust construction activity will generally counterbalance those with more modest construction activity. Due to the preliminary nature of some of the adjustments described above, these estimates may be subject to further refinement as the City continues implementation of the AHLF Ordinance and assembles data on AHLF outcomes over a longer time frame and wider range of projects.

Table 7: Summary of Updated Estimate of Long-Term Annual Average AHLF Revenues

Note: Figures in table reflect long-term annual average AHLF revenue estimates over a typical five- to ten-year period. Revenues will be lower until the City is no longer issuing building permits for projects for which complete applications were submitted prior to the deadline for an AHLF exemption or phase factor adjustment. Revenues will also remain low in the near term due to the ongoing economic crisis.

	Market Area				Total
	Low	Medium	High	High	
Revenue from Single-Family Construction	\$3,356,471	\$5,117,600	\$4,337,443	\$7,294,541	\$20,106,055
Revenue from Multifamily Construction	\$7,609,638	\$8,098,476	\$35,577,266	\$22,885,634	\$74,171,013
Revenue from Nonresidential Construction	<u>\$1,413,962</u>	<u>\$2,281,924</u>	N/A	<u>\$4,404,793</u>	<u>\$8,100,679</u>
Total	\$12,380,071	\$15,498,000	\$39,914,709	\$34,584,968	\$102,377,748

Source: BAE, 2020.

Near-Term AHLF Revenues

This section provides an estimate of near-term AHLF revenues, which can be expected to be somewhat lower than long-term annual averages. As discussed above, one major factor impacting near-term AHLF revenues relates to the current phase of implementation for the AHLF. The data presented in this report suggest that, among those projects for which the applicant submitted a complete application after the deadline for an AHLF exemption, many are still under review and yet to receive building permits, and are therefore yet to make an AHLF payment. This is likely particularly common for larger projects that would make accordingly large AHLF payments because larger projects tend to require a longer approvals process. As a result, AHLF revenue collection will remain lower than long-term future annual averages until implementation of the AHLF enters a phase in which the City begins issuing building permits for a significant number of large projects for which applications were submitted after the exemption deadline.

In addition, two major changes impacting the construction industry and overall economy have impacted AHLF revenue collection in the near term. The first change relates to steady increases in construction costs over approximately the past two years, which have been anticipated to lead to a slowdown in construction activity in Los Angeles as well as in many cities throughout California. Industry experts cite high construction labor costs and a shortage of construction labor as primary factors leading to these increasing costs, though increases in the cost of construction materials have also had an impact. The second change relates to the economic impacts of the COVID-19 crisis. The effects of the COVID-19 crisis have likely eclipsed most other trends affecting the construction industry and are likely to cause major shifts in the factors that affect construction activity, outweighing the effects of any trends that were impacting the construction industry prior to the crisis. Because the COVID-19 crisis is so drastically shifting the development landscape, this analysis evaluates potential near-term AHLF revenue collection with a focus on the potential effects of the COVID-19 crisis rather than on other factors that pre-date the crisis.

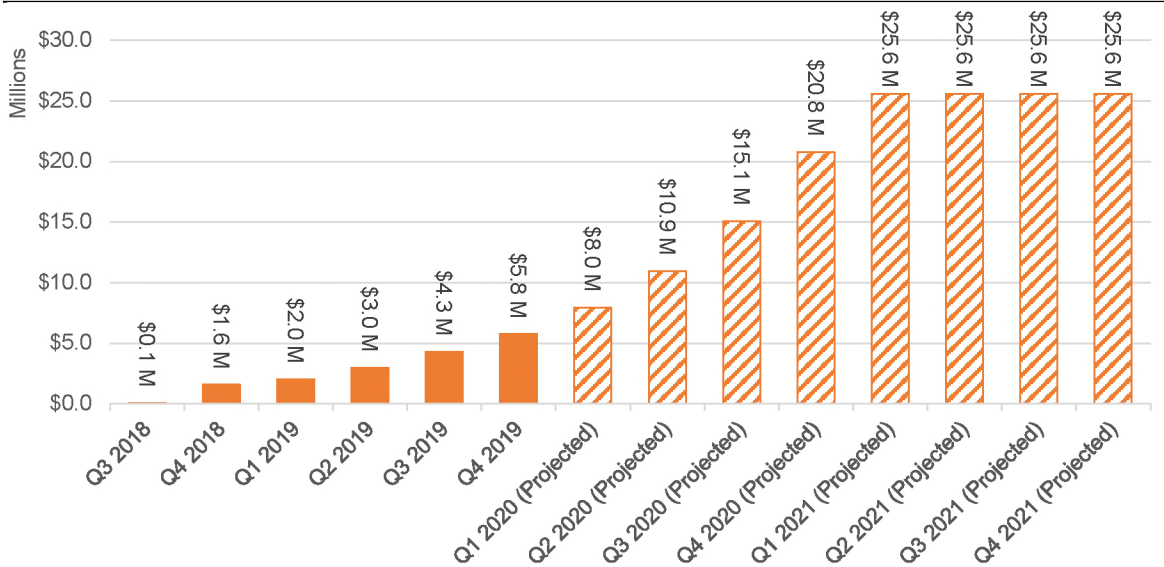
Potential Effects of the COVID-19 Crisis on AHLF Revenues

The current economic crisis related to COVID-19 can be anticipated to have a significant impact on AHLF revenues in the near term. Stay at home orders initiated in March 2020 are having a marked effect throughout the economy and these impacts are expected to worsen in coming months. Even as stay at home orders are reduced or lifted, much of this impact is expected to persist because many individuals will continue to limit at least some outings due to concerns about risk of exposure and social distancing guidelines for construction worksites will impact construction activity. While the most significant effects have been on the retail, travel, and hospitality sectors, the economic impacts of the crisis have also begun to impact most other sectors of the economy, to varying degrees. These impacts will likely lead to vacancies in retail, office, industrial, and other nonresidential space, which in turn may decrease demand for new nonresidential construction that would generate AHLF revenues. Residential construction activity is also likely to be impacted, thereby impacting AHLF revenues from residential projects. The ongoing crisis could lead to an overall decrease in demand for new market-rate multifamily rental units as household incomes are impacted by job losses. However, among some segments of the population, demand for multifamily rental units could increase as households that own their homes face foreclosure and move into the rental market while others delay purchasing a home and remain in rental units.

At present, there are no reliable estimates regarding the extent to which the current crisis will impact construction activity in Los Angeles, the extent of impacts on various types of construction, or how long these impacts will last. However, this section provides a high-level sensitivity analysis to demonstrate the potential near-term effects of the crisis on AHLF revenues.

Figure 3 below shows a projection of AHLF revenues through the end of 2021, without accounting for the potential effects of the COVID-19 crisis. The figure shows actual quarterly AHLF revenues from the third quarter of 2018 through the fourth quarter of 2019. In contrast to the revenues shown in Figure 2, Figure 3 shows actual revenues collected, after accounting for all phase factor adjustments. Between the fourth quarter of 2018 and fourth quarter of 2019, revenues increased by an average of 37.7 percent per quarter, as the number and size of projects generating AHLF payments have increased over time and the number of projects eligible for phase factor adjustments have decreased. Figure 3 extends this average quarterly growth rate through the fourth quarter of 2020, then assumes a flattening of revenue in 2021 to align the total 2021 revenue estimate with the average annual long-term estimates shown in Table 7. The projected revenue shown for the first quarter of 2020 represents a hypothetical revenue estimate for that quarter if trends from the preceding five quarters had continued, reflecting a gradual increase in the share of building permits issued for projects submitted after the AHLF exemption deadline. As discussed above, actual AHLF revenue generation in the first quarter of 2020 was somewhat lower than this amount due to the impacts of the COVID-19 crisis, other broad impacts within the construction industry, and exemptions for individual projects based on application submittal dates.

Figure 3: Near-Term AHLF Revenue Growth Projections without COVID-19 Impacts



Source: BAE, 2020.

Table 8 below shows potential annual near-term AHLF revenues in various scenarios, depending on the impact that the COVID-19 crisis has on the construction industry. The baseline scenario reflects the projections shown in Figure 3, while the other scenarios model a 15 percent, 35 percent, and 55 percent reduction in AHLF revenues due to the impacts of the COVID-19 crisis, relative to the revenues in the baseline scenario. The 15 percent reduction scenario models the approximate impact of a 15 percent decrease in residential construction and a 33 percent reduction in nonresidential construction. The 35 percent reduction scenario models the approximate impact of a 33 percent decrease in residential construction and a 50 percent reduction in nonresidential construction. The 55 percent reduction scenario models the approximate impact of a fifty percent decrease in residential construction and a complete halt in nonresidential construction. Each of these scenarios show an increase in revenues through 2021, despite an assumed decrease in construction activity. This is because the analysis assumes that the share of permitted projects that generate AHLF revenues will increase over time as the City continues to issue a growing share of building permits for projects for which applications were submitted after the exemption deadline. However, the pace of the increase in AHLF revenue depends on the extent to which the COVID-19 crisis impacts construction activity in each scenario. If the current crisis impacts construction activity to a greater extent than anticipated in any of the scenarios in Table 8, AHLF revenues will be lower than shown in the table. Conversely, if the crisis has a relatively small impact or is relatively short-lived, revenues could be higher than shown in the table, particularly by 2021.

Table 8: Potential Near-Term AHLF Revenue Scenarios, Depending on Impact of COVID-19 Crisis on Construction Activity

Scenario	2019 (a)	2020 (b)	2021 (c)
Baseline, No Impact from COVID-19	\$15,100,000	\$54,700,000	\$102,400,000
15% Decrease in Construction due to COVID-19	\$15,100,000	\$45,900,000	\$87,000,000
35% Decrease in Construction due to COVID-19	\$15,100,000	\$36,600,000	\$66,500,000
55% Decrease in Construction due to COVID-19	\$15,100,000	\$27,200,000	\$46,100,000

Notes:

(a) 2019 figures reflect actual AHLF revenues generated in 2019.

(b) For the baseline (no impact from COVID-19) scenario, 2020 figures assume that AHLF revenues increase by 37.7 percent between Q4 2019 and Q1 2020, consistent with average quarterly growth through 2019. For all scenarios other than the baseline scenario, revenues in Q1 2020 reflect actual AHLF revenue in Q1 2020, while revenues in Q2 through Q4 are reduced from the baseline scenario based on the assumed reduction for that scenario.

(c) Baseline scenario assumes that AHLF revenue increases will flatten out in 2021, bringing 2021 revenues in line with the annual average revenue projections shown in Table 7. Revenues in all other scenarios are equal to the revenues in the baseline scenario multiplied by the assumed reduction in each scenario.

Source: BAE, 2020.

SUMMARY OF FINDINGS

The analysis presented in this report indicates that the City of Los Angeles AHLF may generate approximately \$102.4 million in annual average revenues over the long-term implementation of the AHLF Ordinance, though the City should anticipate significantly less revenue through at least 2021. The annual average of \$102.4 million represents an estimated annual average over a typical five- to ten-year period, though actual revenues in any individual year will be subject to changes in the real estate market cycle. This estimate is based in part on data from a relatively short time period that provides preliminary insight on AHLF exemptions for single-family homes as well as the extent to which the TOC program might impact AHLF revenues. Because the available data on the collective impact of the AHLF ordinance and the TOC program cover a relatively short time period, these data may not reflect long-term trends. Therefore, this annual average AHLF revenue estimate may be subject to further refinement as the City continues to collect data on AHLF outcomes over a longer time frame.

Over the next couple of years, AHLF revenues are likely to be significantly lower than this figure due to two factors. First, many projects that are currently receiving building permits are eligible for AHLF exemptions and reductions because applications were submitted for these projects before the City had phased in the full AHLF. Over time, a growing share of permitted projects will be required to pay the full AHLF, and AHLF revenues can be anticipated to increase gradually as a result. Second, AHLF revenues will be impacted in the near term due to the widespread economic effects of the ongoing COVID-19 crisis, including economic effects that impact construction activity. The sensitivity analysis presented above demonstrates that AHLF revenues may range from approximately \$27 million to \$46 million in 2020 and from \$46 million to \$87 million in 2021, depending on the severity of the impact from COVID-19. However, AHLF revenues could be lower than these figures indicate if the current crisis impacts construction activity to a greater extent than anticipated in any of the scenarios modeled in the sensitivity analysis. Revenues at the top end of these ranges reflect an optimistic but unlikely scenario in which the impacts are relatively minor and short-lived.

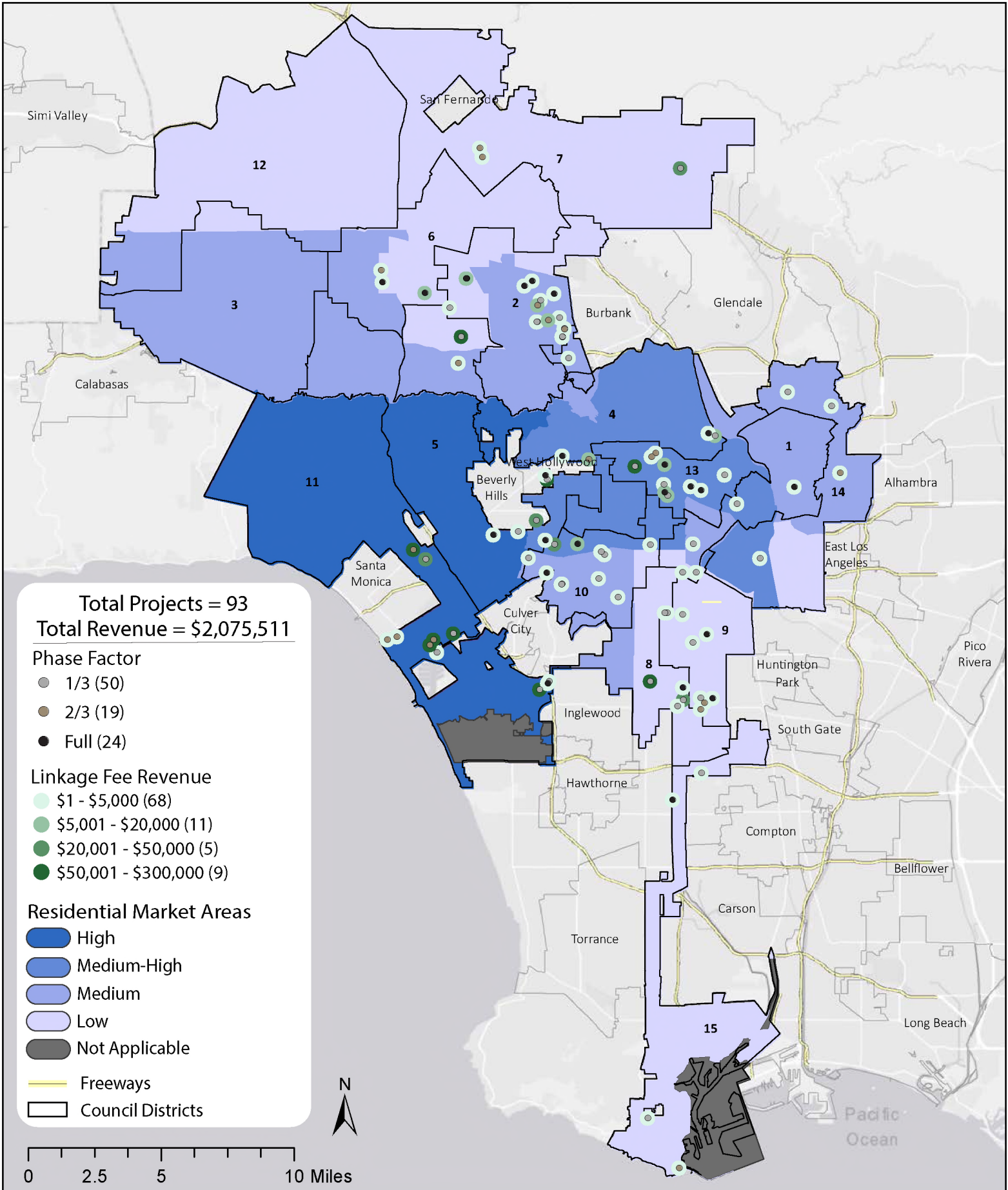
APPENDIX A: LINKAGE FEE REVENUE ESTIMATE HISTORY

In December 2017, the Los Angeles City Council adopted the Affordable Housing Linkage Fee (AHLF) Ordinance, which implemented fees on most new non-residential and residential development projects in the City to generate revenue for affordable housing. Prior to adoption of the AHLF Ordinance, BAE Urban Economics (BAE) prepared the City of Los Angeles Affordable Housing Linkage Fee Nexus Study, which the City published in September 2016. The Linkage Fee Nexus Study provided in-depth analysis of the relationship between new market rate residential and new commercial development projects and affordable housing impacts. The Linkage Fee Nexus Study also included estimates of the revenue that the AHLF would generate following adoption, based on various potential fee structures.

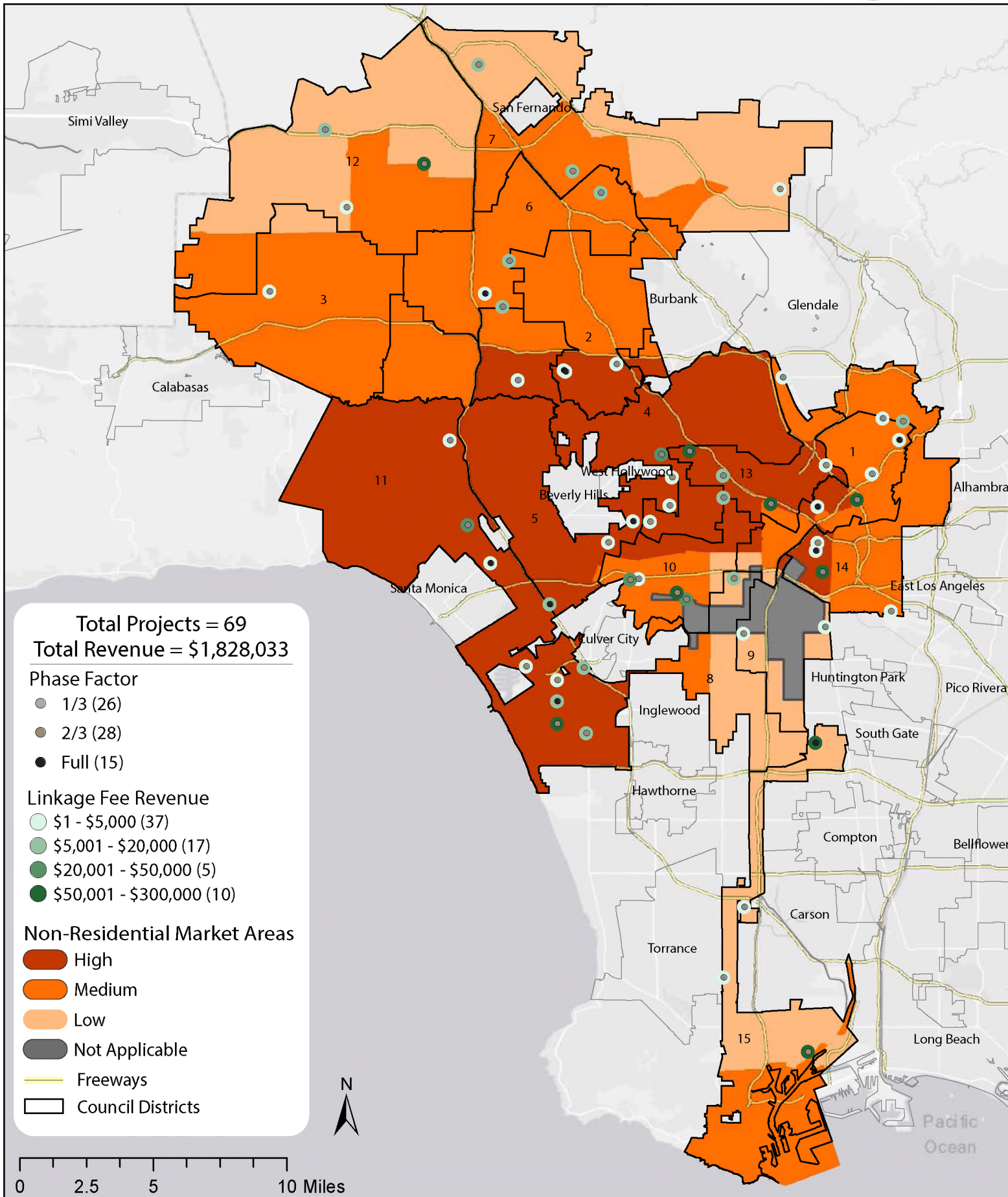
Following publication of the Linkage Fee Nexus Study, the Planning, Land Use, and Management (PLUM) Committee of the Los Angeles City Council convened several hearings and took public testimony from hundreds of residents and organization representatives on the Draft AHLF Ordinance. The City amended the Draft AHLF Ordinance several times during this process, resulting in a fee structure that differed from those evaluated in the Linkage Fee Nexus Study report. In December 2017, BAE prepared updated revenue estimates based on the fee structure in the draft ordinance. The analysis presented in this report evaluates the December 2017 revenue estimates based on data that has become available during the time that the City has implemented the initial stages for the AHLF Ordinance.



Affordable Housing Linkage Fee: Multifamily Residential Revenue



Affordable Housing Linkage Fee: Commercial Revenue



Linkage Fee Projects by Area Planning Commission

