AFFORDABLE HOUSING LINKAGE FEE

ORDINANCE BACKGROUND

& FREQUENTLY ASKED QUESTIONS – Updated February 16, 2017

SUMMARY

With the dissolution of the Community Redevelopment Agency (CRA/LA) and significant cuts in federal housing dollars, Los Angeles has lost most of its funding for affordable housing. Despite this, Los Angeles is the only large city in California without a permanent, dedicated source of local funding for affordable housing. To address this issue, Mayor Eric Garcetti launched an effort to study and implement an Affordable Housing Linkage Fee (AHLF) in October 2015. If adopted, it would institute fees on new commercial and market-rate residential development to help the City meet its goals for affordable housing production.

BACKGROUND

Affordable housing is one of the most critical issues facing the City of Los Angeles. Recent census data shows that Los Angeles' housing market remains the least affordable in the country. Today, almost 56% of renters pay more than 30% of their income on rent. Yet Los Angeles devotes less per capita in affordable housing funding than most other major U.S. cities. The proposed AHLF ordinance would help solve this problem by instituting a fee on new development to be used to help build affordable housing for lower-income residents. The Department of City Planning is therefore recommending a fee structure of $5 per square foot for commercial and $12 per square foot for residential development.

To determine the appropriate fee levels, the Department of City Planning enlisted the assistance of economic consultants at BAE Urban Economics. Working alongside the City's Housing & Community Investment Department (HCID), the team prepared a Nexus Study to evaluate the impact of new development on the demand for affordable housing in the City. The Nexus Study analyzed the relationship between commercial and market-rate housing development and the new employment it generates. The fees reflect the demand for affordable housing created as a result of the need for additional low-wage workers.

The Nexus Study established a framework for understanding the maximum feasible level of fees that are supportable by ten different development types across three geographic sub-markets in the City. The draft fee structure simplifies these various feasible fee amounts into a single, citywide fee. Because the fees would apply in lower market areas, the proposed levels are generally lower than what may be supportable in medium and high market areas. The fee structure was also reduced to ensure that it would be economically feasible during the highs and lows of a given market cycle.

KEY PROVISIONS

The Department's proposed ordinance includes the following recommendations:

<u>Fee Structure:</u>

- The fee schedule is $5 per sq. ft. for commercial (non-residential) use and $12 per sq. ft. for residential use. Any deductions or credits would be subtracted from the total AHLF amount.
- The fee would become effective three months upon adoption of the ordinance. It will be adjusted annually according to the change in the Consumer Price Index for all Urban Consumers (CPI-U).

Exemptions: The draft ordinance provides for targeted waivers and exemptions to accommodate categories of projects where the fee may have unintended negative consequences. Additional exemptions are designed to ensure that individual projects are not subject to multiple competing policies, all of which aim to accomplish the same objective of providing affordable housing.

The proposed fee would not apply to any of the following types of development:

- Small multi-family projects with five or fewer units.
- New construction of or addition to a single-family detached home resulting in an increase of less than 2,000 square feet.
- Small non-residential developments with less than 25,000 square feet of new floor area.
- Non-residential floor area required by City Policy.
- Residential projects that include a certain percentage of affordable units (40% moderate, 20% low-income or 11% very low-income). These projects would be subject to a "No Net Loss" provision consistent with State density bonus law.
- Projects developed by an institutional or government entity for a governmental or community use.
- Accessory Dwelling Units (a.k.a. Second Dwelling Units).
- Grocery Stores.
- Historic-Cultural Monuments.
- Projects located within the boundaries of the Central City West Specific Plan Area and otherwise subject to linkage fee and replacement housing obligations.
- Residential portions of any project located in the Coastal Zone that is subject to greater inclusionary affordable housing obligations pursuant to the Mello Act.
- Any residential or mixed-use project subject to greater affordable housing requirements as a result of any superseding land use policy or zoning ordinance, including Measure JJJ.

Deductions or Credits: The draft ordinance also provides targeted deductions or credits to ensure the fee is in alignment with other City policy priorities.

Deductions or credits to the fee will be provided in the following instances:

- Change of Use: When a development project is a change of use from commercial or industrial to residential, the applicant will be able to subtract the equivalent fee amount that would have been paid based on the pre-existing use and corresponding fee requirements.
- Affordable Housing Units: Any restricted affordable units will not be subject to the fee. The total fee obligation would be calculated based on the number of market rate dwelling units or guest rooms.
- Mixed-Use: The first 25,000 sq. ft. of non-residential floor area will be excluded from the fee.

FREQUENTLY ASKED QUESTIONS

How is a Linkage Fee different than Inclusionary Zoning?
Inclusionary Zoning places mandatory on-site affordable housing requirements on new development. The City of Los Angeles does not have an Inclusionary Zoning policy. An affordable housing linkage fee is a type of development impact fee assessed on new construction to mitigate the impact of the additional demand for affordable housing caused by such activity. Linkage fees are a one-time payment, usually made at the time of building permit issuance. The fees are used to subsidize construction of affordable housing.

How will the fees be used and what types of projects will be built?
Fees generated through the AHLF would be directed to the City's new Housing Impact Trust Fund (HITF), and the distribution would be managed by HCID. The revenue will be used to fund the construction of new units or for the rehabilitation and preservation of existing affordable units. Additionally, fees can be used for down payment assistance for affordable ownership housing.

When would the fees be paid?
Fees would be paid at the time of building permit issuance.

Does the fee take into consideration the recently-adopted Quimby Fee on development and other impact fees?
Yes, the update and expansion of the Quimby (parks) Fees and the update to Transportation Impact Assessment (TIA) Fees currently applicable to only two Westside specific plans (West Los Angeles and the Coastal Transportation Corridor) were incorporated in the Nexus Study analysis. The linkage fee is shown to still be feasible even when factoring in the per-unit costs imposed by both the Quimby Fee and TIA Fees.

What types of projects will be impacted by this new fee?
Most residential or commercial development that requires a building permit and creates additional housing units or nonresidential floor area will be subject to the Affordable Housing Linkage Fee. This would include several types of market-rate housing, including multi-family rentals and condominiums with more than five units, as well as single-family homes. However, the majority of everyday building permits would be exempt, including: renovations, smaller projects involving additions or new construction and change of use. Exemptions, deductions and credits will also apply, as described under "Key Provisions" above.

How does Los Angeles compare to other cities with similar fees?
Several other cities across California and throughout the region have similar fees on development to fund affordable housing. The proposed fee levels for Los Angeles fall somewhere in the middle of these fee levels. More locally, the proposed fees are lower on a per square foot basis than the fees in neighboring cities like Pasadena, Santa Monica and West Hollywood.

How did the City arrive at the proposed fee levels for commercial and residential?
The Nexus Study established a framework for understanding the maximum feasible level of fees that are considered supportable by ten different development types across three geographic sub-markets in the City. The draft fee structure simplifies these various feasible fee amounts into a single citywide fee for commercial ($5 per sq. ft.) and residential ($12 per sq. ft.) development. Because the fees would apply citywide,

including lower market areas, the draft fee levels are generally lower than what is considered to be supportable in medium and high market areas. The draft fees were also lowered below the levels supported by the study's feasibility analysis because these calculations were made during a period of relatively high rents and sale prices, and the fee should be supportable during all market cycles.

How much revenue is the City projected to collect?

The AHLF ordinance has the potential to generate between $75 and $92 million per year to fund the development of affordable housing, based on the proposed fees and set of deductions, exemptions and credits. This estimate also accounts for some fluctuation in development trends and the anticipated development impacts associate with passage of Measure JJJ.

How does this fee work with the adoption of Measure JJJ?

The proposed fee ordinance anticipated the potential passage of Measure JJJ. If a project is subject to Measure JJJ, it will be completely exempt from paying the linkage fee because it will have met the on-site affordable housing alternative under the JJJ provisions (20% low-income or 11% very low-income).

How can I find out more information or make comments?

Comments and questions are encouraged and should be directed to Matthew Glesne, City Planner, at matthew.glesne@lacity.org, or (213) 978-2666. The draft ordinance, Nexus Study, and other information is posted online at http://planning.lacity.org/ordinances/ProposedOrdinances.htm. The ordinance is scheduled to be heard at City Planning Commission on February 23, 2017 after 10:00 a.m. at Van Nuys City Hall, Council Chamber, 2nd Floor, 14410 Sylvan Street, Van Nuys, California 91401.