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DRAFT

Los Angeles Affordable Housing Linkage Fee Nexus Study:

Supplemental Report

Prepared for City of Los Angeles

October 4, 2017

# bae urban economics

October 4, 2017

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Dear Mr. Bertoni and Mr. Cervantes:

We are pleased to submit this Supplemental Report to the Los Angeles Affordable Housing Linkage Fee Nexus Study (September, 2016). As you know, the 2016 Study analyzed the relationship between new development and affordable housing impacts for two kinds of fees: those that could be charged to new commercial development, and those that could be charged to new market-rate residential development.

Since publication of the 2016 Study, the City of Los Angeles has circulated a draft Linkage Fee Ordinance; the most recent draft of the ordinance, dated March 9, 2017, is included in this report as Appendix B.

This Supplemental Report analyzes the nexus (relationship) between several additional categories of land use proposed to be charged a linkage fee but not considered in the original 2016 Study. Details regarding the proposed fee structure for these categories of land use are described herein.

Please let us know if you have any comments or questions regarding this Supplemental Report.

Sincerely,



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# Introduction

In September 2016, the City of Los Angeles published the *City of Los Angeles Affordable Housing Linkage Fee Nexus Study*, which provided in-depth analysis of the relationship between new market rate residential and new commercial development projects and affordable housing impacts. Upon publication of the Study, the City also released a Draft Ordinance for the Affordable Housing Linkage Fee.

Since that time, the Planning, Land Use, and Management (PLUM) Committee of the Los Angeles City Council has convened several hearings and taken public testimony from hundreds of residents and organization representatives.

On March 9, 2017, a revised Draft Ordinance was published, which incorporated several modifications to the initial draft ordinance, as directed by the PLUM on February 23, 2017. Among these changes, Section 21.18.2(b) outlined several revised exemptions to the proposed law, including Item 4a, 4b, and 4c, which pertain to single family homes.

## Purpose of Supplemental Report

This Supplemental Report was commissioned by the City of Los Angeles to analyze the nexus between the categories of non-exempt residential development which were not specifically analyzed in the September 2016 Study.<sup>1</sup> These non-exempt types of development were not previously analyzed in terms of their nexus to a linkage fee because at the time the September 2016 Study was commissioned (in Spring 2016), the ordinance was not complete and the focus of the Study was on the nexus to a linkage fee anticipated to be charged on the net increase in housing units, not on net increases in square footage.

Subsequently, the Draft Linkage Fee Ordinance was revised to apply to all “development projects” with a few specific exceptions, thereby including demolition/replacement of single family homes with a net increase in square footage over a certain size as well as single family home additions over a certain size. These categories of previously un-analyzed residential development are analyzed in this Supplemental Report. It should be noted that other than the categories of land use analyzed in this Report, the previous September 2016 Study encompasses all necessary nexus analysis for the Draft Ordinance (e.g., new single family detached, new single family attached, new for-sale condominiums, and new multifamily rental housing).

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<sup>1</sup> The categories not specifically analyzed from a nexus standpoint in the September 2016 Study include net new house additions of 1,501 square feet or more (Item 4a in the Draft Ordinance), and net square footage of replacement housing of 1,501 square feet or more (Item 4c). Item 4b, newly constructed single family homes, was analyzed for their nexus to affordable housing in the September 2016 Study.

Specifically, this Report analyzes the nexus between new market-rate development projects and affordable housing impacts, for those development projects that are not excepted in the Draft Ordinance and also were not previously analyzed, including:

- a. **Single family home additions** of 1,501 square feet or more of new construction (the inverse of the exception cited in Item 4a of the Draft Ordinance)
- b. **Replacement of an existing single family home with new construction** resulting in a net increase of 1,501 or more square feet compared to the home that was previously on the property (the inverse of the exception cited in Item 4c of the Draft Ordinance)

It should be noted that Draft Ordinance Item 4b, regarding new construction of single family homes of 1,501 square feet or more (the inverse of the exception cited in Item 4b of the Draft Ordinance), was analyzed previously in the September 2016 Study with regard to its nexus and impacts; the revised Draft Ordinance size threshold for fee application would impact future potential revenue estimates but not the underlying previously prepared nexus analysis.

## About Residential Fees

### Overview of Residential Fees

Residential linkage fees for affordable housing apply to market rate units, and are based on the “nexus” or relationship between the occupants of a market-rate unit, these occupants’ spending in the economy, the portion of this spending that generates workers living in low income households needing new affordable units, and the cost to provide these units, as translated into a fee per unit or per square foot of new market rate housing.

This nexus analysis is important, because the California Mitigation Fee Act prohibits charging impact fees that exceed the nexus, or relationship, of the new development to the cost to mitigate its impact. The nexus analysis establishes the maximum amount of fee that is attributable to the development being charged.

The March 9, 2017 Draft Linkage Fee Ordinance envisioned a single fee of \$12 per square foot of new residential development; the September 2016 Study established maximum legal fees far greater than this proposed fee, for each type of land use that was analyzed. Subsequent discussions by the PLUM have considered alternative fee structures for new residential development (and single family home additions), including a fee schedule based on the project’s location. PLUM discussions have considered a proposed fee schedule with up to a \$15 per square foot fee in some very strong market locations. Thus, for this Supplemental Report, which analyzes the nexus for single family home additions and replacement units over a certain size, the maximum legal fee is calculated for these two previously un-analyzed categories of housing, and can be compared to any fee under consideration.

The following provides an outline of the methodology used for this Supplemental Report (which is similar to the September 2016 Study). It should be noted that all analysis contained in this Supplemental Report is based on the same data as previously used, meaning that home values are for the period spanning July 2015 through June 2016 (which was current at the time that the September 2016 Study was underway). This maintains consistency across the 2016 Study and this Supplemental Report, as well as providing for a conservative analysis, due to continuous home price increases since that time.

It is also important to note that even though the PLUM has considered (and City Council may adopt) a fee structure that would vary by the geographic location of the market rate project, the prior Nexus Study and this Supplemental Report both consider nexus from a citywide standpoint. Again, the law requires establishing a maximum legal fee per the nexus analysis; as long as any of the actual fees charged fall below this maximum legal fee amount, the “reasonableness” test has been met.

Finally, it should be noted that the September 2016 Study included additional analysis related to the financial feasibility of new housing projects, which is not required by law, but as a practical matter, is key to ensuring that linkage fees do not affect market rate housing production. Because the categories of land use analyzed in this Supplemental Report cover individual single family home additions or individual projects providing net new replacement space, and focus on the impacts of this increment of new construction only, a feasibility test is not conducted (nor is required by law). Individual house projects (additions or demolition/replacement activities) reflect a wide range of considerations echoing individual owner circumstances, ranging from no profit motivation to profit motivation in a specific way, and therefore the factors that affect feasibility will vary considerably on a project-by-project basis for the categories of land use analyzed in this Report.

## Overview of Methodology

The maximum residential fee calculation is based on the premise that new households in Los Angeles spend money within the local economy, thereby supporting employment for new workers, a portion of which will need affordable housing. The intent of the market-rate residential fee is to generate revenue that will support the construction of affordable housing that will be affordable to these new lower-income worker households.

This section provides an overview of the steps used to determine the maximum legal fee for market-rate residential units. Each step is discussed in more detail in the following sections.

### **Step 1: Define Housing Types**

For this Supplemental Report, the market rate housing subject to the Linkage Fee consists of the following:

- Single family additions of 1,501 square feet or more
- Replacement single family homes of 1,501 net new square feet or more

### **Step 2: Identify Value Difference Between Existing and Expanded Single Family House (New Construction Component Only)**

This step is slightly different than the prior Nexus Study, which focused on entirely new units. For the non-expected single family home expansions/replacements, the only portion of the change that can be attributed to an affordable housing impact is the newly-constructed component. Thus, this step analyzes recent home sales by size of house for the City of Los Angeles, in order to estimate the incremental increase in house value from a specific size of addition or net new replacement space (e.g., 1,501 square feet or more, in both cases).

### **Step 3: Estimate the Household Income Difference to Purchase the Existing vs. Expanded House**

Based on the sale prices by size identified in Step 2, this Supplemental Report estimates the household incomes of occupants needed to buy the existing and the expanded house, and identifies the difference in income needed, assuming that households spend 30 percent of gross household income on housing costs.

### **Step 4: Analyze Net Increased Spending by the “Expanded House Buyer”**

Based on the household income figures from Step 3, this Supplemental Report (similar to the prior Study) uses IMPLAN to estimate spending associated with the household with incomes supporting purchase of the expanded house’s value. The IMPLAN output estimates the number of new workers by industry.

### **Step 5: Estimate New Worker Households by Household Income**

The analysis uses a data set published by the U.S. Census (the Public Use Microdata Sample or PUMS) to estimate the household income distribution among the worker households derived from Step 4.

### **Step 6: Calculate Financing Gap per Affordable Unit**

The next step is to determine the per unit “financing gap” that affordable housing developers encounter when securing a permanent loan for their projects. The “financing gap” is the difference between the cost to develop an affordable unit and the amount the developer can borrow to build the unit, based on Net Operating Income flowing from rent paid by tenants per AMI income limits. Using cost data for recent affordable housing developments in the City of Los Angeles, the Nexus Study determined the average cost to build an affordable rental unit in the City. The supportable permanent loan amounts identified in Step 6 were deducted from the average per-unit development cost to determine the financing gap for units serving

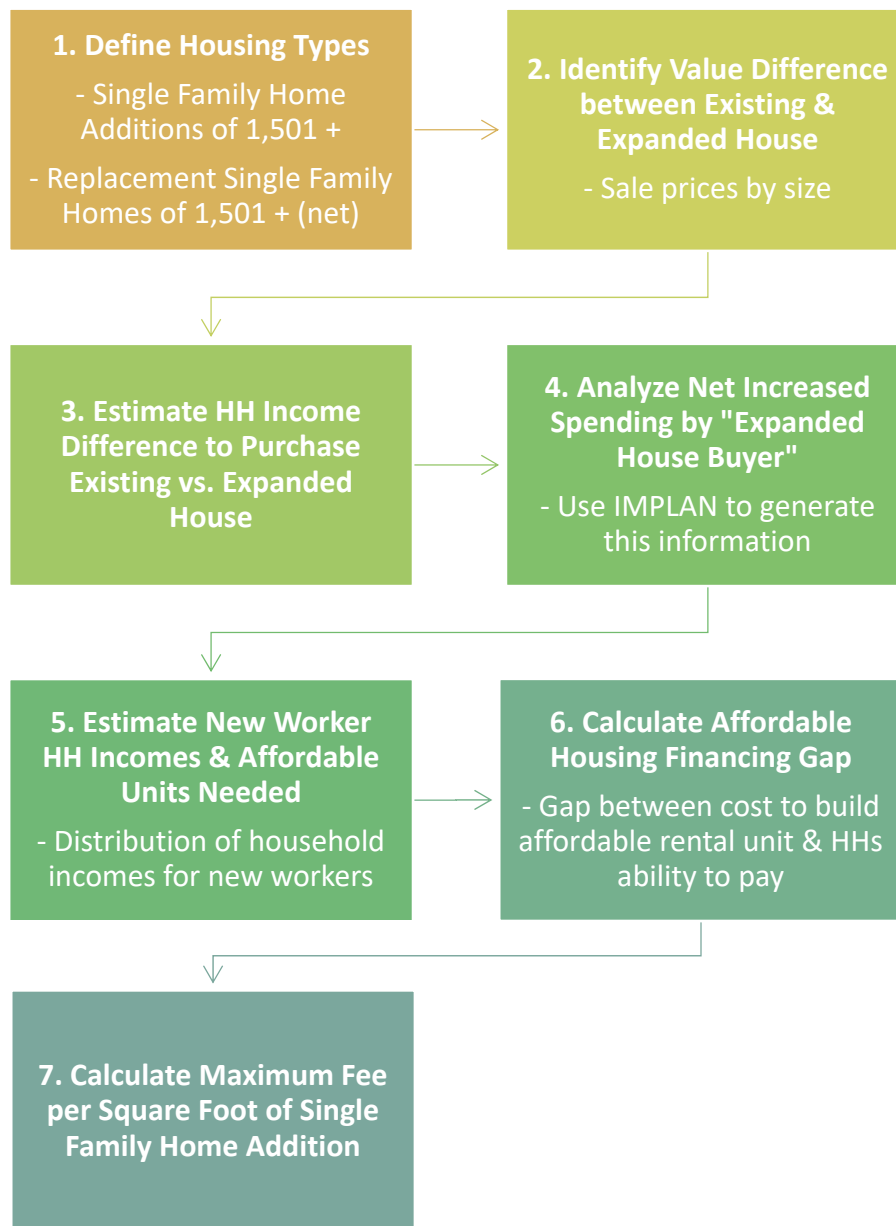
households at each income level up to 120 percent of AMI. The data and assumptions for this step are the same as those used in the prior September 2016 Study to remain consistent.

### Step 7: Calculate the Maximum Legal Fee Per Square Foot

The final step in calculating the maximum fee is to apply the financing gap per unit for each income level (from Step 6) to the total housing need by income level (from Step 5).

The process outlined above is illustrated in the flow chart below.

**FIGURE 1: SUMMARY OF MARKET-RATE HOUSING FEE METHODOLOGY (FOR SUPPLEMENTAL REPORT)**





# Nexus Analysis for Single Family Additions and Net New Replacements

## Detailed Analysis

### Step 1: Define Housing Types

As noted, this Supplemental Report analyzes the nexus between the following two categories of single family housing, both of which are less than whole, new units:

- Single Family additions of 1,501 square feet or more
- Replacement Single Family Homes with net new space of 1,501 square feet or more

### Step 2: Identify Housing Values for Existing vs. Expanded House

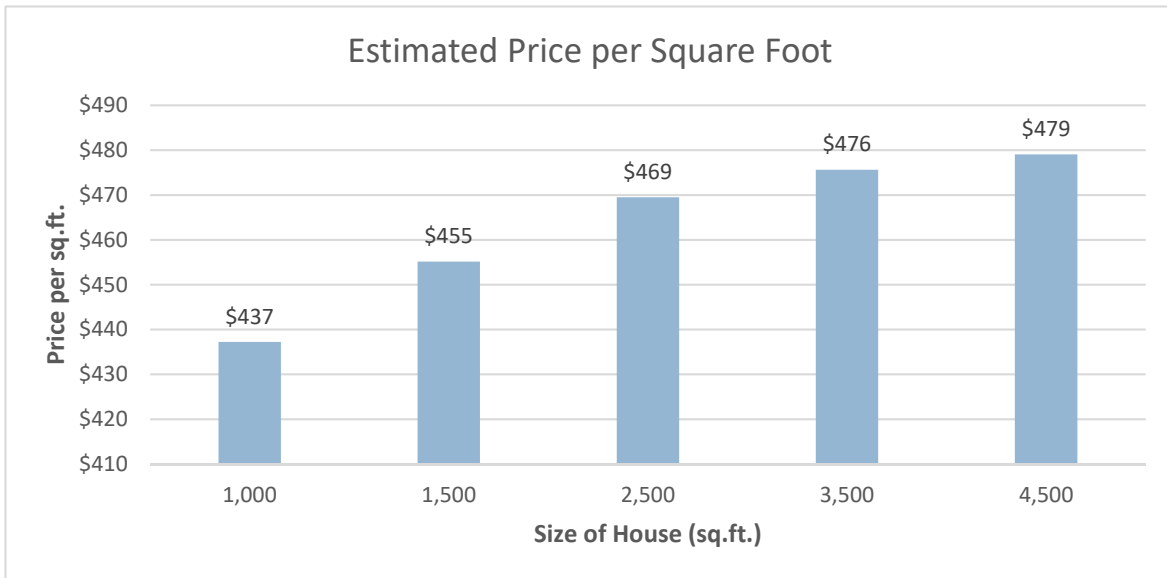
The first step in estimating the new worker affordable housing need that would be generated by single family additions and/or net new replacement house, is to determine the change in home values for these situations.

BAE obtained data from CoreLogic, a private data vendor that provides data on home sales from the County Assessor, in order to estimate single family house values at different sizes and to test the effect of expanding an existing house, on value. This analysis used data for all housing unit sales that occurred citywide between July 2015 and June 2016.

BAE conducted a detailed analysis of the data from CoreLogic for all sales coded as single family homes. Several sales of very expensive and/or very large houses (e.g. \$10M + in price, \$1,000+ per square foot, and/or 10,000+ square feet in size), were removed from the data set so that extreme “outliers” would not skew the results. The resulting data set analyzed as described below contains 2,661 sales of single family homes that occurred between July 1, 2015 and June 30, 2016. A graph of the data set is shown in Appendix A.

Next, the data set was analyzed using a simple bi-variate regression, which creates the “trend line” shown on the same graph in Appendix A. This statistical method allows for estimation of per square foot per size of house, based on the actual sales data. A summary of selected house sizes, and the estimated value per square foot, is shown on the next page.

**FIGURE 2: ESTIMATED VALUE PER SQUARE FOOT FOR LOS ANGELES SINGLE FAMILY HOUSES BY SIZE OF HOUSE**



Based on regression analysis of Los Angeles single family home sales data for July 2015 – June 2016. See Appendix A.

The table below shows the same house sizes and estimated per-square-foot values, converted to total house values.

**TABLE 1: ESTIMATED VALUE OF LOS ANGELES SINGLE FAMILY HOUSE BY SIZE OF HOUSE**

	Home Size (sq. ft.)				
	1,000	1,500	2,500	3,500	4,500
Imputed Price per Square Foot (a)	\$437	\$455	\$469	\$476	\$479
Imputed Sale Price per Unit (b)	\$437,240	\$682,735	\$1,173,725	\$1,664,715	\$2,155,705

Notes:

(a) Imputed sale price per sq. ft. divided by square footage.

(b) Based on distribution of sale price among homes sold in Los Angeles between 07/01/2015 and 06/30/2016. See text for a more detailed description of methodology.

Sources: CoreLogic, 2016; BAE, 2016 & 2017.

### Step 3: Estimate the Difference in Household Income to Purchase Existing vs. Expanded House

Based on the above analysis, the table below shows the annual household income required to afford an existing 1,000 square foot house, and an expanded 2,501 square foot house, reflecting the minimum additional square footage identified in the Draft Ordinance as triggering a linkage fee charge (e.g., above 1,500 square foot additions are not exempted from the charge).

It should be noted that the concept of existing vs. expanded market rate house (after an addition), does not mean that the household living in the existing house has moved out and sold the property. It does mean, however, that this outcome could occur, and may occur in many cases.

**TABLE 2: DIFFERENCE IN HOUSEHOLD INCOME TO PURCHASE, BY HOUSE SIZE**

	Home Size (sq. ft.)	
	1,000	2,501
Estimated Price per Square Foot (a)	\$437.24	\$469.50
Estimated Sale Price per Unit (b)	\$437,240	\$1,174,216
Monthly Housing Costs (c)	\$2,169	\$5,824
Annual Housing Costs	\$26,025	\$69,890
<b>Annual Household Income Required (c)</b>	<b>\$86,700</b>	<b>\$233,000</b>
<i>Difference in Household Income Required</i>		<i>\$146,300</i>

Notes:

(a) Imputed sale price per sq. ft. divided by square footage.

(b) Based on distribution of sale price among homes sold in Los Angeles between 07/01/2015 and 06/30/2016. See memorandum text for a more detailed description of methodology.

(c) Monthly homeownership costs are based on the following assumptions:

Annual Interest Rate (as of May 2016)	3.60%	Source: May 2016 Freddie Mac average
Term of Mortgage (years)	30	fixed interest rate
Percent of sales price as down payment	20%	
Initial property tax (annual)	1.19%	Los Angeles County Auditor-Controller
Mortgage Insurance as a percent of sale price	0.0%	CA Dept of Insurance website, based on \$100,000 worth of coverage
Annual homeowner's insurance rate as a percent of sale price	0.40%	
(c) Percent of household income available for housing costs:	30%	

Sources: CoreLogic, 2016; Freddie Mac, 2016; California Department of Insurance, 2016; Los Angeles County Auditor-Controller, 2016; BAE, 2016 & 2017.

**Step 4: Analyze Net Increased Spending by “Expanded House” Buyer**

New household spending within an economy supports jobs. As households spend money on retail goods, food, and health, personal, professional, and educational services, they support job growth in these and other sectors.

To estimate the effect of the existing vs. expanded homeowner spending (the income differential of \$146,300) on employment generation, this Report uses IMPLAN (“Impact analysis for Planning”), a widely-accepted software model. At the heart of the model is an input-output dollar flow table. For a specified region, the input-output table accounts for all dollar flows between different sectors of the economy. Using this information, IMPLAN models the way income injected into one sector is spent and re-spent in other sectors of the economy, generating waves of economic activity, or so-called “economic multiplier” effects.<sup>2</sup> A summary of the number of jobs by industry sector generated by the spending associated with a 1,000 square foot single family house and a 2,501 single family house are both shown in Appendix B-1.

**Step 5: Estimate New Worker Households Generated by Worker Household Income**

Similar to the September 2016 Study, this step converts the new workers (generated by the household income associated with expanded house’s increased value) into worker households and estimates the distribution of these new workers’ household incomes. The full methodology for this step is described in detail in the September 2016 Study. The detailed estimates are shown in Appendix A-2 and A-3, and summarized below for the two sizes of house under study.

**TABLE 3: SUMMARY OF NET WORKER HOUSEHOLDS GENERATED BY 1,501 SQ.FT. HOUSE ADDITION BY AMI LEVEL**

	Total Jobs (a)	Estimated Jobs by Percent of AMI (b)				
		Up to 30% AMI	30% to 50% AMI	50% to 80% AMI	80% to 120% AMI	Above 120% AMI
<b>For 2,501 Sq. Ft. House Size</b>						
Number of Worker Households per Market Rate Unit	0.462	0.067	0.066	0.087	0.028	0.213
<b>For 1,000 Sq. Ft. house Size</b>						
Number of Worker Households per Market Rate Unit	0.282	0.041	0.040	0.053	0.017	0.130
<b>Difference (Addition)</b>						
Number of Worker Households per Market Rate Unit	0.180	0.026	0.026	0.034	0.011	0.083

Source: BAE, 2017.

<sup>2</sup> The September 2016 Study contains a more detailed overview of IMPLAN (see Appendix G of the earlier Study).

### Step 6: Determine the Financing Gap for Affordable Units

The next step in the nexus analysis is to calculate the cost to house the extremely low-, very low-, low-, and moderate-income households calculated in Step 6 by determining the per unit “financing gap” that affordable housing developers encounter when securing a permanent loan for their projects. In other words, the cost to house a lower-income household is the difference between the cost to develop an affordable unit and the amount the developer can borrow to build the unit. Affordable housing developers are able to secure a permanent loan based on their net operating income (NOI) per unit. The September 2016 Study provided the NOI calculations by AMI level for Los Angeles County based on then-maximum AMI household income limits for a household of three persons. As shown in the prior study, supportable loan amounts for affordable housing in 2016 ranged from \$0 per unit for extremely low-income units (i.e., operating expenses exceed NOI, leaving no NOI to support debt payments) to \$152,301 for units serving moderate-income households.

The financing gap per affordable unit is equal to the total development cost less the supportable loan amount per unit. According to cost data provided between 2013 and 2015 on applications for low-income housing tax credit projects in the City of Los Angeles, the average development cost for affordable housing in the City averages approximately \$448,500 per unit, as shown in below.

**TABLE 4: DEVELOPMENT COSTS FOR AFFORDABLE HOUSING, CITY OF LOS ANGELES, 2013-2015**

<b>Housing Type</b>	<b>Avg. Development Cost (per unit) (a)</b>	<b>Number of Units</b>
Homeless & Special Needs	\$410,871	622
Large Family	\$502,946	676
Senior	\$382,977	205
Weighted Average - All Housing Types	\$448,479	1,503

Note:

(a) Weighted average cost as reported on tax credit applications between 2013 and 2015. All costs adjusted to 2016 costs based on the Turner Building Cost Index.

Sources: City of Los Angeles, 2016; BAE, 2016.

This study uses the average development cost across all affordable housing types despite the likelihood that most of the new worker households needing affordable units will be housed in large family developments, which in practice accommodate a range of household sizes and mostly serve lower-income worker households. Among units in the large family developments analyzed in this study, three percent were studios, 35 percent were one-bedroom units, 28 percent were two-bedroom units, 32 percent were three-bedroom units, and one percent were units with four or more bedrooms. In contrast, homeless, special needs, and senior developments, typically have a large number of occupants living on social security. However, by using the average across all affordable unit types, the Nexus Study is conservative in

estimating the financing gap associated with constructing new units because the average development costs for homeless, special needs and senior units tend to be lower than the development costs for large family units.

Based on the supportable loan amount calculated in Step 6, the financing gap per affordable unit ranges from \$448,500 for extremely low-income units to \$296,199 for moderate-income units, as shown below.

**TABLE 5: FINANCING GAP ANALYSIS, CITY OF LOS ANGELES, 2016**

	Income Group			
	Extremely Low	Very Low	Low	Moderate
Household Income Limit (a)	\$23,450	\$39,100	\$62,550	\$70,000
Maximum Affordable Monthly Rent per Unit (b)	\$544	\$936	\$1,522	\$1,708
Monthly Operating Expenses (c)	\$542	\$542	\$542	\$542
Vacancy (d)	5%	5%	5%	5%
Net Operating Income per Unit (e)	-\$25	\$347	\$904	\$1,081
Operating Subsidy from Other Sources (f)	\$25	\$0	\$0	\$0
Monthly Supportable Debt Service per Unit (g)	\$0	\$278	\$723	\$865
Loan Amount (h)	\$0	\$48,900	\$127,371	\$152,301
<b>Financing Gap per Affordable Unit (i)</b>	<b>\$448,500</b>	<b>\$399,600</b>	<b>\$321,129</b>	<b>\$296,199</b>

**Assumptions**

Total Affordable Unit Development Costs (j) \$448,500

Financing Terms

Debt Coverage Ratio 1.25  
Interest Rate 5.50%  
Term of Loan (years) 30

Notes:

- (a) Based on a 3-person household, CA Department of Housing & Community Development, 2016.
- (b) 30% of income to rent and utilities.
- (c) Data from funding applications for recent affordable housing projects in California.
- (d) Standard required assumption for financing applications.
- (e) Affordable Monthly Rent less Operating Expenses & Vacancy.
- (f) Operating subsidy is necessary for units with negative NOI.
- (g) Net Operating Income plus Operating Subsidy, divided by Debt Coverage Ratio.
- (h) Based on financing terms assumptions.
- (i) Total Development Costs less Loan Amount.
- (j) Average development costs among units in tax credit projects developed in the City of Los Angeles between 2013 and 2015. All figures adjusted to 2016 values based on the Turner Construction Cost Index. Sources: California HCD, 2016; City of Los Angeles, 2016; Turner Construction Cost Index, 2013-2016; BAE, 2016.

## Maximum Legal Fee for Non-Exempt Single Family Additions

### Step 7: Calculate the Maximum Legal Fee

The final step in calculating the impact fee is to apply the financing gap per unit for each income level (from Step 7) to the total housing need by income level generated by the house addition of 1,501 (the 1,000 square foot existing home to the 2,501 expanded home). As shown below, the maximum impact fee for home additions is \$24 per square foot.

It should be noted that the simple regression analysis conducted for all single family home sales summarized in Table 1 of this Report, indicated an increasing per-square-foot value the larger the house size. The goal of this section of the Report is to identify the maximum legal fee for the most conservative case; the analysis of a 1,000 square foot house increasing to 2,501 square feet (addition of 1,501 square feet) matches that most conservative case. Additions larger than 1,501 square feet would serve to increase this maximum legal fee to a higher level.

**TABLE 6: MAXIMUM AFFORDABLE HOUSING FEE CALCULATION FOR ADDITIONS OF 1,501+ SQ.FT**

<b>Employee Households in City by Income Level</b>	<b>Home Size (sq. ft.)</b>		<b>Net Change</b>
	<b>1,000</b>	<b>2,501</b>	
Extremely Low Income (up to 30% AMI)	0.041	0.067	0.026
Very Low Income (31-50% AMI)	0.040	0.066	0.026
Low Income (51-80% AMI)	0.053	0.087	0.034
Moderate Income (81-120% AMI)	<u>0.017</u>	<u>0.028</u>	<u>0.011</u>
<b>Subtotal - Affordable Housing Need (Units)</b>	<b>0.152</b>	<b>0.248</b>	<b>0.097</b>
Above Moderate Income (over 120% AMI)	0.130	0.213	0.083
<b>Total Housing Need</b>	<b>0.282</b>	<b>0.462</b>	<b>0.180</b>
<b>Financing Gap (a)</b>			
Extremely Low Income Units			\$11,807
Very Low Income Units			\$10,262
Low Income Units			\$10,855
Moderate Income Units			<u>\$3,284</u>
<b>Total Net Financing Gap</b>			<b>\$36,207</b>
<b>Maximum Impact Fee per Sq. Ft.</b>			<b>\$24</b>
<b>Assumptions</b>			
Increase in Square Footage			1,501

Note:

(a) The financing gap is calculated by multiplying the number of employee households at each income level by the financing gap per unit at each affordability level.

Source: BAE, 2017.

## Maximum Legal Fee for Non-Exempt Portions of Replacement Single Family Homes

The September 2016 Study provided a full nexus analysis for new single family homes in Los Angeles (both attached and detached product types). That prior analysis followed the methodology of considering the whole unit's impact on affordable housing in Los Angeles, not an incremental impact such as the house addition outlined above. Corresponding to the "new" quality of the single family products analyzed previously, the pricing and nexus analysis of household income, employment generation, etc. was all based on metrics and assumptions for entirely new units.

The case of demolition and replacement of existing single family homes, subject to a fee if the net new space of the project is 1,501 square feet or more, could be considered from two perspectives in terms of nexus and impacts. This net new space could be considered similar to the home addition (e.g., aspects of the former existing house may remain such as foundation footprint, landscaping, and/or neighborhood amenities), and subject to the maximum legal fee of \$24 per square foot, related to the estimated marginal value increase in house size as described in the previous section of this report. Alternatively, the net new amount of space in the replacement house could be considered similar to the entirely new single family detached units analyzed in the September 2016 Study. In this context, the maximum legal fee established in the September 2016 Study was \$48.63 per square foot for a single family detached unit.<sup>3</sup>

The highest proposed fee under consideration currently is \$15 per square foot for this case of development type, well below the maximum legal fee specified through either method.

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<sup>3</sup> See Table 26 on page 75, *City of Los Angeles Nexus Study for Affordable Linkage Fee*, BAE 2016.



# Additional Policy Considerations For Single Family Homes Subject to Linkage Fee

Discussions regarding the structure of the Draft Ordinance with regard to individual single family homes have included debates about whether placing linkage fee charges on these types of projects is fair to the individual homeowner, who may not be adding to his / her home for economic gain, but rather may simply need or desire more living space.

Beyond the maximum legal fee analysis provided herein, it should be noted that both actions - adding space to an existing house or demolishing/replacing space creating a larger house, - add value to the subject property, typically in excess of the cost to complete the project. However, many homeowners subject to this fee will be existing occupants, and will remain as occupants after “project” completion, not realizing their value increase until years later when the house is sold. Other owners will not be occupants, and will be adding or replacing to sell the project after completion for a return on their development investment.

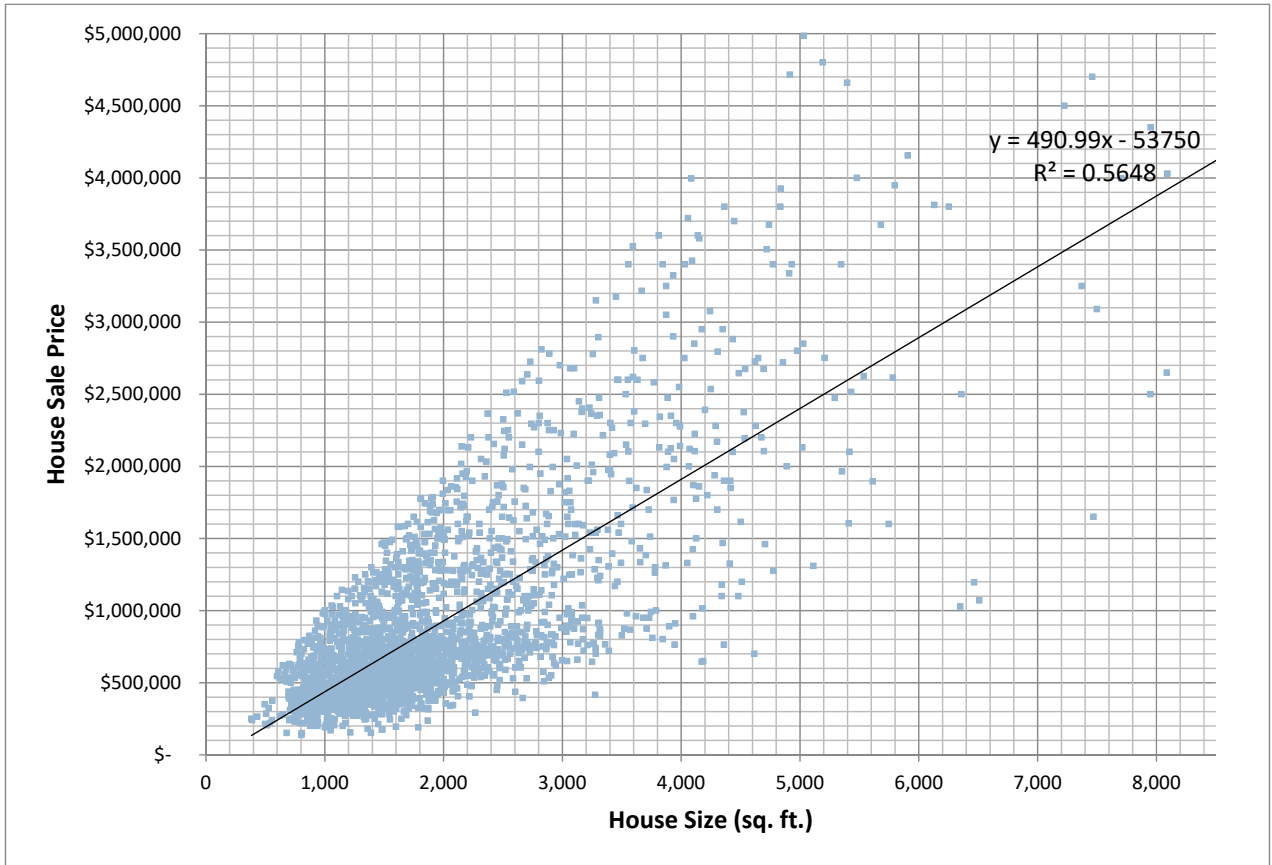
Few cities in California charge a fee on these types of single family home projects, but few cities experience the same kind of market demand for expanded older houses in strong-market neighborhoods as Los Angeles has seen. One city, Sacramento, does charge a fee on additions, but exempts the project if it is owner-occupant and if he/she attests to living in the house for two years after the expansion or replacement permit, or meets other criteria designed to exempt the owner/occupant remaining in place.

To mitigate the effects of the linkage fee charge to owner-occupants in these situations, the City could modify its Linkage Fee ordinance in one of the following ways:

- For owner occupants, allow the permit applicant to sign a statement attesting to plans to remain in the house for at least two years following the building permit issuance
- Shift collection of the fee for single family additions and/or replacements (net new only) to the point of subsequent sale rather than at the point of building permit issuance.

# Appendix A: Supporting Data

## APPENDIX A-1: SINGLE FAMILY HOME SALES BY SIZE OF HOUSE (JULY 2015 – JUNE 2016)



N = 2,661 single family sale records for period from July 1, 2015 through June 30, 2016 for City of Los Angeles.

Source: CoreLogic 2016; BAE Urban Economics, 2017.

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**APPENDIX A-2: EMPLOYMENT GENERATION BY INDUSTRY (PER 100 HOMES)**

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NAICS Code	Industry	Number of Jobs per 100 Homes (a)	
		1,000 SF	2,501 SF
11, 21	Agriculture and Natural Resources	0.05	0.07
23	Construction	0.43	0.67
31-33	Manufacturing	0.41	0.63
42	Wholesale Trade	1.20	2.11
44-45	Retail Trade	6.53	11.78
48-49, 22	Transportation, Warehousing, and Utilities	1.49	2.80
51	Information	0.87	1.27
52	Finance & Insurance	3.18	5.57
53	Real Estate & Rental & Leasing	2.62	3.42
54-55	Professional & Technical Services; Management of Companies & Enterprises	2.35	3.86
56	Administrative & Waste Services	3.06	4.79
61	Educational Services	1.71	4.91
62	Health Care & Social Assistance	11.89	17.29
71-72	Arts, Entertainment & Recreation; Accommodation & Food Services	8.38	13.04
81	Other Services, except Public Administration	5.31	8.80
	Government	0.29	0.49
	<b>Total Jobs</b>	<b>49.76</b>	<b>81.48</b>

Notes:

(a) Job generation is output of the IMPLAN model, and shows direct, indirect, and induced employment generated by household spending.

Sources: IMPLAN; BAE, 2017.

**APPENDIX A-3: EMPLOYMENT GENERATED BY HOUSEHOLD INCOME FOR 1,000 SQ. FT. HOUSE  
(EXPRESSED FOR 100 HOMES)**

NAICS Code	Industry	Total Jobs (a)	Estimated Jobs by Percent of AMI (b)				
			Up to 30% AMI	30% to 50% AMI	50% to 80% AMI	80% to 120% AMI	Above 120% AMI
<b>Private Sector</b>							
11, 21	Agriculture and Natural Resources	0.05	0.01	0.01	0.01	0.00	0.01
23	Construction	0.43	0.09	0.08	0.09	0.03	0.14
31-33	Manufacturing	0.41	0.05	0.07	0.09	0.03	0.18
42	Wholesale Trade	1.20	0.15	0.17	0.25	0.08	0.55
44-45	Retail Trade	6.53	1.10	1.08	1.35	0.44	2.56
48-49, 22	Transportation, Warehousing, and Utilities	1.49	0.19	0.23	0.31	0.10	0.67
51	Information	0.87	0.06	0.06	0.12	0.04	0.59
52-53	Finance, Insurance, and Real Estate	5.80	0.45	0.51	0.89	0.37	3.58
54-55	Professional, Scientific, & Technical Services, & Mgmt of Companies	2.35	0.17	0.16	0.27	0.11	1.64
56	Administrative and Support and Waste Management Services	3.06	0.66	0.61	0.63	0.19	0.97
61	Educational Services	1.71	0.22	0.18	0.27	0.10	0.94
62	Health Care and Social Assistance	11.89	1.35	1.38	2.11	0.73	6.31
71-72	Leisure and Hospitality	8.38	1.53	1.53	1.82	0.51	2.99
81	Other Services Except Public Administration	5.31	1.16	1.00	1.13	0.31	1.71
<b>All Government Employment</b>		0.29	0.03	0.03	0.04	0.02	0.18
<b>Total Jobs Generated</b>		<b>49.76</b>	<b>7.21</b>	<b>7.10</b>	<b>9.38</b>	<b>3.06</b>	<b>23.01</b>
<b>Number of Worker Households per 100 Units (a)</b>		<b>28.19</b>	<b>4.08</b>	<b>4.02</b>	<b>5.31</b>	<b>1.74</b>	<b>13.04</b>
<b>Number of Worker Households per Market Rate Unit</b>		<b>0.282</b>	<b>0.041</b>	<b>0.040</b>	<b>0.053</b>	<b>0.017</b>	<b>0.130</b>

Notes:

(a) Total Jobs is output of IMPLAN model, and shows employment generated by household spending. Columns to right may not sum to Total Jobs due to independent rounding.

(b) Based on 2014 HCD Income Limits.

(c) Average number of workers per worker household calculated for Los Angeles County based on American Community Community Survey data, 2010-2014.

Total Workers	1,849,845
Total Households with Workers	1,047,928
Avg. Workers per Household	1.765

Sources: American Community Survey, 2010-2014, including the Public User Microdata Sample; CA Department of Housing and Community Development, 2014; BAE, 2017.

**APPENDIX A-4: EMPLOYMENT GENERATION BY HOUSEHOLD INCOME FOR 2,501 SQ. FT HOUSE  
(EXPRESSED FOR 100 HOMES)**

NAICS Code	Industry	Total Jobs (a)	Estimated Jobs by Percent of AMI (b)				
			Up to 30% AMI	30% to 50% AMI	50% to 80% AMI	80% to 120% AMI	Above 120% AMI
<b>Private Sector</b>							
11, 21	Agriculture and Natural Resources	0.07	0.01	0.01	0.01	0.00	0.02
23	Construction	0.67	0.14	0.12	0.14	0.04	0.22
31-33	Manufacturing	0.63	0.08	0.10	0.13	0.04	0.28
42	Wholesale Trade	2.11	0.26	0.30	0.44	0.14	0.96
44-45	Retail Trade	11.78	1.98	1.96	2.44	0.79	4.61
48-49, 22	Transportation, Warehousing, and Utilities	2.80	0.35	0.43	0.58	0.19	1.26
51	Information	1.27	0.09	0.09	0.17	0.06	0.85
52-53	Finance, Insurance, and Real Estate	8.99	0.70	0.80	1.37	0.57	5.55
54-55	Professional, Scientific, & Technical Services, & Mgmt of Companies	3.86	0.28	0.26	0.45	0.18	2.69
56	Administrative and Support and Waste Management Services	4.79	1.03	0.95	0.99	0.31	1.52
61	Educational Services	4.91	0.63	0.52	0.77	0.29	2.70
62	Health Care and Social Assistance	17.29	1.97	2.01	3.07	1.07	9.17
71-72	Leisure and Hospitality	13.04	2.38	2.39	2.84	0.80	4.65
81	Other Services Except Public Administration	8.80	1.92	1.66	1.87	0.52	2.83
<b>All Government Employment</b>		0.49	0.05	0.05	0.07	0.03	0.30
<b>Total Jobs Generated</b>		<b>81.48</b>	<b>11.85</b>	<b>11.63</b>	<b>15.35</b>	<b>5.02</b>	<b>37.63</b>
<b>Number of Worker Households per 100 Units (a)</b>		<b>46.16</b>	<b>6.71</b>	<b>6.59</b>	<b>8.69</b>	<b>2.84</b>	<b>21.32</b>
<b>Number of Worker Households per Market Rate Unit</b>		<b>0.462</b>	<b>0.067</b>	<b>0.066</b>	<b>0.087</b>	<b>0.028</b>	<b>0.213</b>

Notes:

(a) Total Jobs is output of IMPLAN model, and shows employment generated by household spending. Columns to right may not sum to Total Jobs due to independent rounding.

(b) Based on 2014 HCD Income Limits.

(c) Average number of workers per worker household calculated for Los Angeles County based on American Community Community Survey data, 2010-2014.

Total Workers	1,849,845
Total Households with Workers	1,047,928
<i>Avg. Workers per Household</i>	1.765

Sources: American Community Survey, 2010-2014, including the Public User Microdata Sample; CA Department of Housing and Community Development, 2014; BAE, 2017.

# Appendix B: Draft Linkage Fee Ordinance

**ORDINANCE NO. \_\_\_\_\_**

An ordinance adding Section 21.18 and amending Section 16.02 of the Los Angeles Municipal Code, as well as adding Section 5.578 of Chapter 172 of the Administrative Code, establishing an Affordable Housing Linkage Fee, and directing Linkage Fees derived from Development Projects to the Housing Impact Trust Fund.

**THE PEOPLE OF THE CITY OF LOS ANGELES  
DO ORDAIN AS FOLLOWS:**

**Section 1.** Chapter II of the Los Angeles Municipal Code is amended to add:

**ARTICLE 1.18  
AFFORDABLE HOUSING LINKAGE FEE**

**SEC. 21.18.1. DEFINITIONS**

Terms have the meaning ascribed in Section 12.03 or 12.22 of the Los Angeles Municipal Code, or if not defined, have the following meanings:

- (a) "Additional Housing Units" means the number of dwelling units or guest rooms to be added on a parcel of real property by issuance of a building permit, less the number of dwelling units or guest rooms legally removed, or authorized to be removed, from the same parcel of real property.
- (b) "Additional Nonresidential Floor Area" means the amount of floor area, as defined in Section 12.03 of this code, to be added on a parcel of real property by issuance of a building permit, less the amount of floor area legally removed, or authorized to be removed, from the same parcel of real property.
- (c) "Applicant" means any individual, person, firm, partnership, association, joint venture, corporation, limited liability company, entity, combination of entities or authorized representative thereof, who undertakes, proposes or applies to the City for a Development Project.
- (d) "Complete Building Permit Application" means a complete application for a building permit a building or structure that is submitted along with architectural and structural plans sufficient for a complete plan check that is accepted by the Department of Building and Safety.
- (e) "Development Project" means any activity involving or requiring the issuance of a building permit that results in Additional Housing Units, Additional Nonresidential Floor Area, or a change of use from commercial or industrial to residential.

- (f) "Linkage Fee" means that housing Linkage fee imposed under Article 1.18 of the Los Angeles Municipal Code on applicants for certain Development Projects.

#### **SEC. 21.18.2. APPLICABILITY**

The following provisions apply to any Development Project otherwise covered by these regulations for which a building permit is approved by the City. The Applicant for any Development Project, unless exempt from this chapter, as a condition of the building permit, must pay to the City the required Linkage Fee. The provisions of this Section are subject to the requirements set forth in California Government Code Section 66000 et seq.

(a) **Effective Date.**

Any Applicant for a Development Project for which a Complete Building Permit Application or Department of City Planning entitlement application is submitted, whichever is first, on or after \_\_\_\_\_, 2017 (*180 days after adoption*), must pay the Linkage Fee in effect at the time of building permit issuance. For these purposes, a Department of City Planning entitlement application is an application that has been accepted by City Planning and the application fees have been paid. If a project had submitted a building permit application or application sufficient for a planning or zoning entitlement for the Development Project prior to this date, the project shall not be subject to a fee.

- (b) **Exemptions.** The Department of Building and Safety shall determine which of the following exemptions apply to any Development Project based on documentation submitted by the applicant prior to the issuance of the building permit. The fee imposed by this article shall not apply to construction which includes the following:

1. Less than 15,000 square feet of Additional Nonresidential Floor Area in any nonresidential building, as determined by the Department of Building and Safety.
2. Any for-sale or rental housing development containing restricted affordable units where at least 40% of the total units or guest rooms are dedicated for moderate income households, or at least 20% of the total units or guest rooms are dedicated for low income households, or at least 11% of the total units or guest rooms are dedicated for very low income households, for at least 55 years, where a covenant has been made with the Housing and Community Investment Department. Such a covenant shall also ensure that projects using this exemption are subject to the replacement policy found in Government Code Section 65915(c)(3). For the purposes of this section, total units includes units added by a density bonus or other land use incentive.
3. Any Development Project being constructed by a government or public institution such as a hospital, school, museum, homeless shelter or other similar projects that



are intended for community use, or any private Elementary and High School which does not discriminate, as determined by the Director of Planning.

4. A single-family detached home meeting one or more of the following conditions:
  - a. Any addition of up to 1,500 square feet to an existing single-family detached home located in a single-family or multiple-family zone.
  - b. New construction of any single-family detached home located in a single-family zone that is less than 1,500 square feet.
  - c. Any replacement of a single-family detached home resulting in a net increase of less than 1,500 square feet from the prior home that existed on the property.
5. A Second Dwelling Unit as defined by Section 12.03 of this code, or an Accessory Dwelling Unit as defined by California Government Code Section 65852.2.
6. Any project located within the boundaries of the Central City West Specific Plan Area, as defined in Ordinance No. 163,094, if the Applicant by covenant and agreement or development agreement to abide by the Linkage fee and replacement housing obligations set forth in the Specific Plan for the Central City West Area.
7. If a residential project is subject to a greater affordable housing fee requirement pursuant to the Mello Act to satisfy a project's inclusionary housing Mello obligations, or is required to provide one or more physical housing units to satisfy inclusionary housing Mello obligations, the residential component of the project shall be exempt from the linkage fee and will be subject to Mello requirements. Commercial portions of mixed-use Coastal Zone projects shall be analyzed separately from residential portions of mixed-use projects for the purposes of the linkage fee. Commercial portions of such projects shall be subject to the linkage fee ordinance. The provision of housing units or in-lieu fees to satisfy replacement housing obligations under the Mello Act (as opposed to inclusionary housing obligations) shall not exempt a project from the linkage fee ordinance.
8. If a residential or mixed-use Development Project is subject to affordable housing requirements pursuant to any land use policy or ordinance or development agreement that exceeds the Linkage Fee requirements in either fee amount or on-site affordable housing, that project shall be exempt from the linkage fee.
9. If a residential or mixed-use Development Project is subject to affordable housing and labor requirements pursuant to LAMC 11.5.11 (Measure JJJ), that project shall be exempt from the linkage fee.
10. Any Grocery Store, provided there is no existing Grocery Store within one-third (1/3) mile radius of the project site. For the purposes of this Section, a Grocery Store shall be defined as a Retail Use of which greater than one half of the floor area is devoted

to the sale of food items intended for consumption or use off the premises, excluding alcoholic beverages.

11. Any Adaptive Reuse Project that is a designated Historic-Cultural Monument and is being converted to a residential use.

**(c) Deductions or Credits.**

1. **Change of Use.** If the Development Project is the result of a change of use from commercial or industrial to residential, the Linkage Fee to be paid is the result of subtracting the equivalent fee amount that either was paid or would have been paid based on the pre-existing use from the fee requirement amounts below.
2. **Affordable Housing Units.** Any Restricted Affordable Units as defined in 12.22 A.25 may be subtracted from the total number of dwelling units or guest rooms in a building in determining the required Linkage Fee.
3. **Mixed Use.** The first 25,000 square feet of nonresidential use in a mixed-use building shall be excluded from the calculation of floor area.
4. **Land Dedication.** If the Department of Housing and Community Investment Department accepts, on behalf of the City, an offer to dedicate for the purpose of building affordable housing, the value of the land, as demonstrated as the average of two independent appraisals funded by the applicant, may be deducted from the Fee amount.

**SEC. 21.18.3 FEE REQUIREMENTS**

The regulations, requirements and provisions of this chapter shall apply to any Development Project. The applicant for any such project, as a condition of its building permit, must pay to the City those Linkage Fees necessary to mitigate the increased demand for affordable housing which are anticipated to be generated by or attributable to such development project, as set forth in this chapter.

The Linkage Fee shall be calculated for each development project as the amount of new or added Floor Area as defined in Section 12.03 of this Code, in the Development Project devoted to the following uses, as determined by the Department of Building and Safety, multiplied by the amount of the applicable fee, as found below or in the most recent Linkage Fee Schedule, at the time of a Complete Building Permit Application, minus any deductions or credits.

Type of Use	Fee Per Square Foot
Nonresidential Uses including Hotels	\$5

Residential Uses (6 or more units in a Development Project)	\$12
Residential Uses (5 or less units in a Development Project)	\$1

- (a) **Annual Adjustments.** The Linkage Fee amount in the Linkage Fee Schedule shall be adjusted for inflation annually beginning on July 1, 2018, by the Director in accordance with the latest change in year-over-year Consumer Price Index for Urban Consumers (CPI-U) for the Los Angeles-Riverside-Orange County area, or if such index ceases to be published, by an equivalent index chosen by the Director.
- (b) **Payment of Linkage Fee.** The Linkage Fee is due and payable by the Applicant prior to the issuance of a building permit. No additional fee shall be required for projects seeking extension of expired building permits.
- (c) **Refunds of Linkage Fee.** Any fee paid under the provisions of this article may be refunded to the Applicant if the application for the building permit has expired and was not utilized to begin construction of the project.

**Section 2.** Section 16.02 in Article 6 of Chapter 1 of the Los Angeles Municipal Code is amended to read:

**SEC. 16.02. SPECIAL PROVISIONS FOR OTHER LAND USE PROCEEDINGS.**

Notwithstanding any provision of Articles 1 through 9 of Chapter I of this Code or any other ordinance to the contrary, with respect to those uses, buildings and sites destroyed or damaged in connection with a declared emergency, and in the area covered by the declaration of emergency, the following exceptions shall apply:

- C. Payment of the Linkage Fee pursuant to Article 1.18.

**Section 3.** Chapter 172 of the Administrative Code is added to read:

**CHAPTER 172  
HOUSING IMPACT TRUST FUND**

**Sec. 5.578. Creation and Administration of the Housing Impact Trust Fund**

- (a) There is hereby created and established within the Treasury of the City of Los Angeles a special fund to be known as the **City of Los Angeles Housing Impact Trust Fund** (the “**Fund**”) for the purposes of complying with the California Mitigation Fee Act to maintain separate accounting for impact fees. The total Affordable Housing Linkage Fee revenues received by the City pursuant to Article 1.18, shall be

- placed in the Housing Impact Trust Fund. The Mayor and City Council may establish additional revenue sources and appropriate funds for deposit in the Fund from time to time. The Fund shall be administered by the Housing and Community Investment Department (“HCID”).
- (b) The money from the Fund shall only be expended within the boundaries of the City of Los Angeles to address the evolving and varied affordable housing needs of the City, pursuant to guidelines (the “**Guidelines**”) promulgated for this purpose by HCID. The Guidelines and any amendments thereto shall be approved by the City Council.
  - (c) The Housing Impact Trust Fund, including accrued interest, shall be subject to reporting requirements for purposes of accounting and expenditure of the Fund to increase the supply of affordable housing in the City of Los Angeles. Annually, HCID shall prepare for City Council consideration a report detailing the amount and source of all Fund revenues generated and funds disbursed as a result of the Affordable Housing Linkage Fee ordinance.
  - (d) In compliance with the California Mitigation Fee Act, for the fifth fiscal year following the first deposit into the Fund, and every five years thereafter, and only if any unexpended funds remain in the Housing Impact Trust Fund, whether committed or uncommitted, HCID shall make the following additional findings:
    - (1) Identify the purpose of imposing the fee;
    - (2) Demonstrate a reasonable relationship between the fee and the purpose for which is it charged;
    - (3) Identify all the sources and funding amounts anticipated to complete financing of affordable housing projects;
    - (4) Designate the approximate dates HCID expects the funding for uncompleted or unfunded affordable housing projects to be deposited in the Fund;
    - (5) Failure to make the five-year findings requires HCID refund the monies on a prorated basis to the owner of record of the project sites originally contributing to the Fund.
  - (e) All monies loaned from the Fund shall be repaid to the Fund in accordance with the terms of the loan. The repaid principal and interest shall be placed in the Fund.
  - (f) Any gifts, contributions or other money received for the stated purposes of the Fund shall be placed in the Fund. All interest earnings accruing on money in the Fund shall become part of the Fund. Money in the Fund shall not revert to the Reserve Fund of the City.
  - (g) The General Manager of HCID or his or her designee shall make recommendations to the City Council for expenditures from the Fund. No expenditure may be made

from the Fund without the prior approval of the Mayor and City Council, unless otherwise authorized by the Guidelines.