# *AFFORDABLE HOUSING LINKAGE FEE*

## ORDINANCE BACKGROUND
## & FREQUENTLY ASKED QUESTIONS – Updated May 31, 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. As a result, Los Angeles is the only large city in California without a permanent, dedicated source of local funding for affordable housing. In October 2015, Mayor Eric Garcetti launched an effort to study and implement an Affordable Housing Linkage Fee (AHLF). 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. According to recent census data, 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 address this problem by instituting a fee on new development to build affordable housing for lower-income residents.

To determine the appropriate fee levels, DCP 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 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. A fee of $1 per sq. ft. would apply to any small multi-family residential projects with five or fewer units. Any deductions or credits would be subtracted from the total AHLF amount.
- The fee would become effective six 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).

<u>Exemptions:</u> 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 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:

- New construction of or addition to a single-family detached home resulting in an increase of less than 1,500 square feet.
- Small non-residential developments with less than 15,000 square feet of new floor area.
- Residential projects which 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 a government entity or public institution for a governmental or community use.
- Accessory Dwelling Units (a.k.a. Second Dwelling Units).
- New grocery stores which are not located within 1/3 mile of an existing grocery store.
- Historic-Cultural Monuments.
- Projects located within the boundaries of the Central City West Specific Plan Area and otherwise subject to a linkage fee and replacement housing obligations.
- Residential portions of any project located in the Coastal Zone 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 aligns 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 which 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 15,000 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 when a building permit is issued. 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 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 when a building permit is issued.

**Does the fee take into consideration the recently-adopted Quimby Fee on a development and other impact fees?**
Yes, the update and expansion of the Quimby (parks) Fees and the update to Transportation Impact Assessment (TIA) Fees, which are 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 feasible even when factoring in the per-unit costs imposed by both Quimby 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 with 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. 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 much revenue is the City projected to collect?**
The AHLF ordinance has the potential to generate between $95 and $116 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 associated with the 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).

**NEXT STEPS**

The draft Affordable Housing Linkage Fee ordinance will be considered at an upcoming meeting of the Planning and Land Use Management (PLUM) Committee. Following Committee consideration, the ordinance will be referred to the full City Council for consideration.