



City of Culver City

Staff Report

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Item #: A-3.

CC - (1) Discussion of an Affordable Housing Linkage Fee; and (2) Provide Direction to the City Manager as Deemed Appropriate.

Meeting Date: March 15, 2021

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Fiscal Impact: Yes No

General Fund: Yes No

Public Hearing: **Action Item:** **Attachments:**

Commission Action Required: Yes No **Date:**

Public Notification: (E-Mail) Meetings and Agendas - City Council, (03/11/2021); Committee on Homelessness (03/11/2021); Finance Advisory Committee (03/11/2021); Landlord Tenant Mediation Board (03/11/21); Chamber of Commerce (03/11/2021);

Department Approval: Sol Blumenfeld, Community Development Director (02/22/2021)

RECOMMENDATION

Staff recommends the City Council (1) discuss an affordable housing linkage fee; and (2) provide direction to the City Manager as deemed appropriate.

BACKGROUND

The City Council has expressed interest in facilitating the production of low, moderate and workforce housing in the City in order to address the problem of housing affordability¹ and satisfying state and regional affordable housing mandates. To date, the City Council adopted Rent Control and Tenant Protection Ordinances and recently adopted a Mixed Use Inclusionary Ordinance to preserve existing affordable units and expand opportunities for new affordable unit development.

The City Council also expressed interest in pursuing Linkage Fees. With the wind down of redevelopment agencies in 2012, most cities have struggled with facilitating affordable housing

production and have turned to mandatory inclusionary housing requirements and affordable housing development impact fees, also called “Linkage Fees” to create new affordable housing. A proposed Linkage Fee was recommended for City Council consideration in the 2019 Housing Division workplan.

As a development impact fee, a Linkage Fee may only be established when there is a nexus (reasonable relationship) between the fee and the developments impacts such as, in this case, the unmet housing need and employment growth in a community. In order to study the housing demand issues created by new Culver City employment, the City retained Economic & Planning Systems, Inc. (EPS) to prepare a linkage fee nexus study (Study) and conduct public outreach to gather input from community members and stakeholders. As set forth in the Study, the conceptual underpinning of the fee is that new non-residential development creates new jobs, with many paying wages below what is required for a worker to afford a market-rate housing unit in the City.

DISCUSSION

EPS completed the Study (Attachment 1) and performed community outreach, which included eight meetings with stakeholders from the residential, business and development community, a community meeting, a meeting with the Finance Advisory Committee, meetings with the Economic Development Advisory Committee and a City webpage where all documents were available and the community could provide input.

The major considerations for establishment of a “Linkage Fee” include:

- Determining a reasonable relationship exists:
 - between the demand for affordable housing and the type of development on which the fee will be imposed.
 - between the amount of the fee and the cost of the public benefit attributable to the development (also known as the “affordability gap”) on which the fee will be imposed.
 - between the fee’s use and the type of development project on which the fee will be imposed.
- Identifying the amount/purpose of the fee; and
- Identifying how the fee is to be used.

EPS examined what employees earn (in retail/restaurant, office, warehouse/industrial manufacturing, media studio and research and development (R&D), lodging and assisted living sectors) and what it costs to create rental units in Culver City they can afford. The difference is defined as an affordability gap for a given housing unit.

The affordability gap is divided by the number of industry employees requiring assistance affording homes in order to establish the maximum nexus-supportable linkage fees. The Nexus Study determined the maximum nexus-supported fees in Culver City range from \$249.22 per square foot for retail/restaurant employees (an industry with many lower-income workers) to \$29.58 per square foot for media and R&D employees, most of whom tend to earn much higher salaries.

EPS then assessed what fee the Culver City development market could support. It is important the fee is not too high as it may represent an additional cost that cannot be absorbed by new development. Additionally, if the fee amount in the City is significantly higher than the fee amount in neighboring jurisdictions, developers may be incentivized to build in those jurisdictions as opposed to Culver City in order to reduce their costs. Both scenarios may have the effect of discouraging new development in the City, which in turn will reduce overall impact fee revenues available to support affordable housing production.

Cities with linkage fees commonly establish them at an amount below the maximum justifiable level as a matter of policy in order to remain competitive in their marketplace (including cities elsewhere in California that are home to the same or similar companies as those located in Culver City). EPS examined fees of neighboring jurisdictions and cities in California with similar business compositions in terms of fee amounts and the fees' relative cost burden on new non-residential development and recommends Culver City adopt a fee of \$5.00 per square foot.

If the City Council is interested in pursuing an affordable housing linkage fee, the following policy issues should be addressed:

1. What fee amount does the City Council support?

A fee amount of \$5 per square foot applied to new non-residential development is at the lower-middle end of the range of linkage fees charged in other Los Angeles County jurisdictions. It also represents a modest increase in the City's overall impact fees as a percent of development value - less than one percentage point. At this fee level, Culver City's overall impact fees as a percent of development value would be in line with neighboring jurisdictions for retail and office uses and above neighboring jurisdictions for industrial uses, although that percentage would still be within one percentage point of the next highest fee burden.

2. Should the same fee be charged for all new non-residential development or should the fee vary by land use?

Charging the same fee across all uses allows for a simpler fee program and is common in other cities, including Los Angeles, Glendale, and West Hollywood. Further, a single fee eliminates any question as to the land use definition of a non-residential project, particularly as many commercial buildings and spaces have the potential to serve multiple tenant types.

3. Should all new non-residential development be charged the fee, or should certain land uses be exempted?

Jurisdictions sometimes exempt land uses such as hotels, auto dealers and community

uses that serve the public. Further, jurisdictions sometimes exempt buildings requiring reconstruction due to fire, flood, earthquake, or other act of nature (so long as the square footage does not exceed the square footage that existed prior to the loss).

4. Should the fee be implemented immediately?

The fee could be phased in gradually over time, could be implemented in the future at a specific date or tied to a performance metric (i.e., vacancy rate at or below pre-pandemic levels) to address financial impacts created by the pandemic.

5. Should pending projects in the City's development review process be exempt from the fee?

When creating a new fee program, many communities allow exemptions for projects that are already at a certain step in the approval process. Applying the fee to development that has completed the City's Preliminary Project Review process could negatively impact the financial feasibility of the project, as it will represent an additional cost not accounted for in the developer's financial pro forma model. Projects that have yet to complete the Preliminary Project Review process will have ample time to incorporate the new fee into their financial calculations and make any related adjustments to their financial projections.

6. Should development of a certain size be exempt from the fee?

Applying the fee to development less than 10,000 square feet in gross floor area could result in the development becoming financially infeasible due to reduced margins and reduced economies of scale. Also, the City currently offers administrative approval for projects up to 10,000 square feet, so this threshold would be consistent with an already existing incentive for smaller projects.

7. Should a fee be applied to both the non-residential and housing components of a mixed-use development?

The housing portion of most mixed-use developments will likely be subject to the City's recently adopted affordable housing inclusionary requirements, and therefore will already be contributing towards the City's affordable housing goals. Exempting the commercial portion of a mixed-use project otherwise meeting the City's inclusionary requirements may incentivize mixed-use development by reducing a cost that single-use commercial projects would bear. However, that would mean that the commercial component in a mixed-use project would not be contributing to the City's affordable housing goals to the same degree that a stand-alone commercial use would.

8. Should the fee include an annual escalator?

The fee could increase annually by a fixed amount or in an amount equal to the Consumer Price Index or Construction Cost Index to address increasing construction and administrative costs over time.

9. Should the fee amount be reviewed at a future date?

Municipalities with affordable housing linkage fees typically review them every five years to ensure the fee level and associated requirements are still appropriate and accurate.

Next Steps

If the City Council directs the City Manager to implement an affordable housing linkage fee, staff will return with a proposed ordinance for City Council's consideration at a future meeting.

FISCAL ANALYSIS

There is no fiscal impact associated with the discussion of this item. If an Ordinance is eventually adopted, an affordable housing linkage fee of \$5 per square foot applied to non-residential development could generate approximately \$1.15 million annually for the construction of affordable housing to be deposited in the Housing Authority's Low/Moderate Income Housing Asset Fund.

ATTACHMENTS

1. Affordable Housing Linkage Fee Nexus Study.
2. Memorandum re: Background and Context for Affordable Housing Linkage Fee.
3. Affordable Housing Linkage Fee Frequently Asked Questions.

MOTION

That the City Council:

1. Discuss an affordable housing linkage fee; and
2. Provide direction to the City Manager as deemed appropriate.

NOTES

1. An analysis of the Culver City rental market compiled by BAE Urban Economics for the recently adopted Permanent Rent Control and Tenant Protection Ordinances, found the average asking rent in Culver City is currently at \$2,580 per month. This is a stark contrast to affordable rent limits defined by the State Housing and Community Development Department (HCD) which are:
 - \$1,043 for a two-bedroom low-income household [80% of Area Median Income (AMI)]
 - \$1,913 for a two-bedroom moderate-income household (120% AMI); and
 - \$2,170 for a two-bedroom workforce household (129% AMI).
 - High housing costs coupled with the City's Regional Housing Needs Assessment (RHNA) obligation to create 2,267 affordable units (which increases to 3,333 with the inclusion of the market rate income category) requires the City to employ various strategies in order to address its affordable housing obligations.

