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May 21, 2018

Council File: 17-0274-S1
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Honorable Members of the City Council
City of Los Angeles
c/o City Clerk, City Hall
200 N. Spring Street
Los Angeles, CA 90012

Attention: Adam R. Lid, Legislative Assistant

COUNCIL TRANSMITTAL: REPORT BY THE LOS ANGELES HOUSING + COMMUNITY INVESTMENT DEPARTMENT (HCIDLA) REGARDING AN AFFORDABLE HOUSING LINKAGE FEE (AHLF) EXEMPTION FOR MIDDLE-INCOME HOMEOWNERSHIP UNITS PER COUNCIL FILE 17-0274-S1

SUMMARY

Through this transmittal, the General Manager of the Los Angeles Housing + Community Investment Department (HCIDLA) HCIDLA responds to a motion (Cedillo- C.F. 17-0274) which outlines how a proposed exemption from the Affordable Housing Linkage Fee for new, for-sale construction units sold to middle-income, first-time homebuyers on a unit by unit basis could be administered.

On December 13, 2017, the Mayor and City Council adopted the Affordable Housing Linkage Fee Ordinance No. 185342, which became effective on February 17, 2018 (C.F. 17-0274). The Ordinance places a fee on new residential and non-residential developments to help mitigate the impacts of new development and generate a permanent local funding source for affordable housing production and preservation. On December 8, 2017 Councilmember Cedillo issued a motion directing HCIDLA to propose legislative changes to the Affordable Housing Linkage Fee Ordinance in order to incentivize the production of homeownership units for middle-income buyers. This transmittal provides potential guidelines and language for an Affordable Housing Linkage Fee exemption for middle-income homeownership units should the Council wish to adopt such an exemption

RECOMMENDATION

The General Manager of HCIDLA respectfully requests that the Mayor and City Council receive and file this report back.

BACKGROUND OF THE REQUESTED REPORT

Access to homeownership allows families and individuals to acquire wealth and achieve greater financial stability. Encouraging homeownership can also stimulate long-term neighborhood investment and increase resident engagement and community involvement. As of 2016, Los Angeles had one of the lowest homeownership rates in the nation with just 36% of residents owning their own home (American Community Survey – 2016 One-Year Estimates). The low homeownership rate is due in large part to the city’s increasingly high cost of housing. The median home value in the city is now \$674,140 – a price only affordable to households earning over \$130,000 (Zillow data as of April 2018). Because of the high price of housing, homeownership has become increasingly out of reach for even middle-income families.

Although the City currently operates several incentive and subsidy programs to encourage homeownership, the low rate of new construction and the high price of housing has limited the City’s ability to adequately meet the growing need. For example, the Moderate Income Purchase Assistance (MIPA) Program which provides support for moderate-income families to purchase a home, is currently oversubscribed and has only been able to assist 44 homeowners since October 2017.

In order to increase homeownership opportunities to middle-income first-time homebuyers, 1st District Councilmember Gilbert Cedillo requested that newly constructed units made available to first-time middle-income buyers receive an exemption from the Affordable Housing Linkage Fee. In a motion filed on December 8, 2017, Councilmember Cedillo requested HCIDLA, the Planning Department, and the City Attorney’s office to propose draft language and regulations to amend the existing ordinance and include this exemption.

The existing Affordable Housing Linkage Fee (AHLF) Ordinance (#185342), adopted on December 13, 2017, places a fee on certain residential and commercial developments in order to generate local funding for affordable housing production and preservation. Under the existing ordinance, rental and homeownership housing developments that include a certain percentage of moderate, low, very low or extremely low-income units are exempt from the fee. Newly constructed single-family detached homes that are less than 1,500 square feet are also exempt. Upon Councilmember Cedillo’s request, the language proposed in this transmittal would create a new exemption to include condominium units, townhouses, or single-family homes larger than 1,500 square feet that are built and sold to middle-income households. Under the proposed exemption, middle-income households are defined as individuals or families earning up to 150 percent of area median income (AMI) – an affordability threshold higher than moderate income (80-120% AMI), low-income (50-80%), very low (30-50% AMI), and extremely low-income (less than 30% AMI). The 2017 150% AMI income limits are shown below:

Household Size	1 person	2 people	3 people	4 people	5 people	6 people	7 people	8 people
150% AMI	\$94,650	\$108,150	\$121,650	\$135,150	\$146,100	\$156,900	\$167,700	\$178,500

ADMINISTRATIVE GUIDELINES FOR A POTENTIAL MIDDLE-INCOME FIRST-TIME HOMEOWNERSHIP EXEMPTION PROGRAM

If the Ordinance is amended, developers seeking a linkage fee exemption for middle-income homeownership units would need to seek approval from HCIDLA on a unit by unit basis. The following outlines the proposed process to qualify for this exemption.

- The unit must be priced below the Maximum Purchase Price as defined under the City's Mortgage Credit Certificate (MCC) Program's Non-Targeted Areas High Cost Area Calculation, which is currently \$585,714.
- The unit must have a covenant that restricts the sale of the unit to income-eligible households (up to 150% AMI) who meet the department's definition of a first-time homebuyer. This covenant must be recorded before a building permit is issued in order to qualify for the AHLF exemption.
- After HCIDLA has approved the purchase price and confirmed the existence of the affordability covenant, the developer must submit an affirmative marketing plan that demonstrates compliance with state and federal fair housing law.
- The developer will refer any potential first-time home-buyers to HCIDLA for verification of eligibility.
- Once HCIDLA has approved the potential buyer, the sale price, and the terms of the loan, the sale can move forward into escrow.

During escrow, HCIDLA will require the buyer to execute a regulatory agreement which mandates the buyer to pay the City the initial subsidy amount and a proportionate share of the home's appreciation when the buyer elects to resell, refinance, or transfer the title of the restricted unit. An "initial subsidy" is defined as the fair market value of the restricted unit at the time of initial sale minus the initial sale price to the buyer. If upon resale the market value is lower than the initial market value, then the value at the time of resale shall be used as the initial market value. Proportionate share of appreciation shall be equal to the ratio of the City's initial subsidy to the fair market value of the restricted unit at the time of initial sale. The regulatory agreement shall only be terminated upon the resale of the unit and the full payment required by said agreement. Once the payment is received, the City will lift the affordability covenant on the property and the buyer may resell the home to any new buyer regardless of the new buyers' income level.

For an example of how the initial subsidy and the proportionate share of appreciation will be calculated see Attachment B and Attachment C.

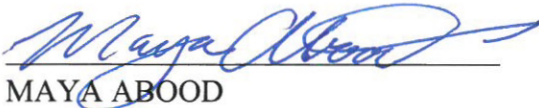
CONCLUSIONS

HCIDLA has carefully evaluated a myriad of options in crafting the proposed new AHLF Middle-Income Homeownership exemption. If the Council chooses to exempt middle-income homeownership units sold to first-time homebuyers from paying the Affordable Housing Linkage Fee, HCIDLA suggests adopting the outlined process and adding the language provided in Attachment A to Section 19.18.B.2 of the Municipal Code (*Affordable Housing Linkage Fee: Applicability: Exemptions*).

FISCAL IMPACT STATEMENT

There is no impact to the City's General Fund. However, allowing for this additional exemption will likely decrease the revenue generated by the Affordable Housing Linkage Fee and may reduce the City's ability to fund additional affordable housing units. HCIDLA is currently preparing the AHLF Expenditure Plan based on the current projected AHLF revenue. The following is an estimate of AHLF revenue reduction based on new units that may be accessible to middle-income first homebuyers. From 2011 to 2016, there were 2,501 building permits issued for market-rate condominiums, artist-in-residence lofts, single-family attached homes, and modest single-family detached homes over 1,500 square feet and less than 2,500 square feet – all of which are currently required to pay the linkage fee. If all of these projects filed for this new AHLF exemption at the maximum current \$15 per square foot fee, the City could lose an estimated \$17 million per year in lost AHLF revenue into the Housing Impact Trust Fund.

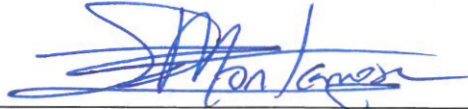
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General Manager

cc: Honorable Eric Garcetti, Mayor
City of Los Angeles
c/o Mandy Morales, Legislative Coordinator

ATTACHMENTS:

Attachment A: Draft Language for Section 19.18.B.2 (*Affordable Housing Linkage Fee Applicability: Exemptions*) of the Municipal Code

Attachment B: Linkage Fee Shared Appreciation Example #1

Attachment C: Linkage Fee Shared Appreciation Example #2

Attachment A

Draft Language for Section 19.18.B.2 (*Affordable Housing Linkage Fee: Applicability: Exemptions*) of the Municipal Code

Affordable Housing Linkage Fee – Middle-Income Homeownership Housing Opportunities Exemption Program Proposal - *Exemption to apply to each restricted Middle-Income homeownership unit only.*

2. Exemptions

- c) Any single for-sale housing unit that:
- a. is restricted to and dedicated for first-time homebuyers,
 - b. is owner-occupied by the first-time homebuyers
 - c. is affordable to middle-income first-time homebuyers earning up to 150% of Area Median Income (AMI), adjusted per household size, and sold at a price not to exceed the current maximum home purchase price limits established under the City’s Mortgage Credit Certificate (MCC) Program utilizing the Non-Targeted Areas High Cost Area Calculation (Maximum Purchase Price). The Maximum Purchase Price limits will be updated annually and posted on the Los Angeles Housing + Community Investment’s (HCIDLA) [website](#).

If the applicant (developer) sells a restricted for-sale housing unit at a price which exceeds the Maximum Purchase Price, the applicable Linkage Fee must be paid in full. Maximum qualifying income levels for potential homebuyers shall be based upon the “Maximum Annual Income Limits” table published annually by HCIDLA. A covenant agreement running with the land, including the equity sharing provisions required by California Government Code 65915, shall be recorded against each restricted for-sale housing unit prior to the issuance of a building permit. Upon the resale of a restricted for sale-housing unit from the initially qualified homebuyer and the reseller’s payment to the City of its initial subsidy and proportionate share of appreciation as defined by California Government Code 65915, the covenant may be terminated. The applicant shall pay any applicable covenant preparation, monitoring and termination fees required by LAMC Section 19.14. Payments and proceeds per this section, shall be deposited to the Housing Impact Trust Fund (Ord. 185341).

Attachment B

Linkage Fee Shared Appreciation Example #1

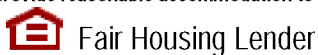


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Linkage Fee Shared Appreciation Example
Selling the home above original fair market value

Original Fair Market Value of Unit	\$500,000
Less: Original Home Purchase Price	(\$400,000)
City Initial Subsidy (market value - original purchase price)	\$100,000
City Percentage Share of Appreciation (Initial Subsidy ÷ Original Fair Market Value)	20.00%
Future Sales Price or Appraised Value	\$600,000
Less: Original Fair Market Value	<u>(\$500,000)</u>
Appreciation	\$100,000
Share Appreciation due to City (Appreciation x City Percentage Share)	\$20,000
TOTAL DUE CITY:	
City Initial Subsidy Amount	\$100,000
City Share of Appreciation Amount	\$20,000
TOTAL AMOUNT DUE TO CITY	\$120,000

As a covered entity under Title II of the Americans with Disabilities Act, the City of Los Angeles does not discriminate on the basis of disability and, upon request, will provide reasonable accommodation to ensure equal access to its programs, services and activities.



Attachment C Linkage Fee Shared Appreciation Example #2



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Linkage Fee Shared Appreciation Example Selling the home below original fair market value

Original Fair Market Value of Unit	\$500,000
Less: Original Home Purchase Price	(\$400,000)
City Initial Subsidy (market value - original purchase price)	\$100,000
City Percentage Share of Appreciation (Initial Subsidy ÷ Original Fair Market Value)	20.00%
Future Sales Price or Appraised Value	\$450,000
Less: Original Home Purchase Price	(\$400,000)
City Initial Subsidy Recalculation	\$50,000
City Percentage Share of Appreciation Recalculation	11.11%
Share Appreciation due to City (Appreciation x City Percentage Share)	\$5,556
TOTAL DUE CITY:	
City Initial Subsidy Amount	\$50,000
City Share of Appreciation Amount	\$5,556
TOTAL AMOUNT DUE TO CITY	\$55,556

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