FINDINGS

As adopted by the City Planning Commission on February 23, 2017.

The following findings, in support of the Affordable Housing Linkage Fee Ordinance, are presented for City Council adoption.

GENERAL PLAN/CHARTER FINDINGS

Charter Findings

Pursuant to City Charter sections 556 and 558, as described below, the proposed ordinance is in substantial conformance with the purpose, intent and provisions of the General Plan, as well as in conformance with public necessity, convenience, general welfare and good zoning practice. Specifically, the action addresses each of the following goals, objectives and policies of the General Plan as outlined below.

General Plan Findings

<u>Framework Element</u>

Goal 4A. An equitable distribution of housing opportunities by type and cost accessible to all residents of the City.

Goal 7G. A range of housing opportunities in the City.

<u>Housing Element</u>

Objective 1.1 Produce an adequate supply of rental and ownership housing in order to meet current and projected needs.

> *Policy 1.1.1* Expand affordable homeownership opportunities and support current homeowners in retaining their homeowner status.
>
> *Policy 1.1.2* Expand affordable rental housing for all income groups that need assistance.
>
> *Policy 1.1.3* Facilitate new construction and preservation of a range of different housing types that addresses the particular needs of the city's households.
>
> *Policy 1.1.5* Develop financial resources for new construction of affordable housing.
>
> *Policy 1.1.7* Strengthen the capacity of the development community to develop affordable housing.

Objective 1.2 Preserve quality rental and ownership housing for households of all income levels and special needs.

> *Policy 1.2.4* Develop financial resources for the long-term affordability of publicly assisted rental and ownership housing.

Policy 1.2.7 Strengthen the capacity of the development community to preserve and manage affordable housing.

Objective 2.2 Promote sustainable neighborhoods that have mixed-income housing, jobs, amenities, services and transit.

Policy 2.2.3 Promote and facilitate a jobs/housing balance at a citywide level.

Objective 2.5 Promote a more equitable distribution of affordable housing opportunities throughout the City.

Policy 2.5.2 Foster the development of new affordable housing units citywide and within each Community Plan Area.

As made evident by the list of General Plan goals, objectives and policies provided above, the proposed ordinance is in conformance with a range of General Plan goals related to affordable housing production and preservation. The City's General Plan clearly recognizes the need for programs which identify local sources of funding for affordable housing which benefit the public good and further these citywide policy objectives. Establishing a permanent local funding source that could be used for a variety of uses related to the construction or preservation of affordable housing in locations throughout the City will greatly assist the City in meeting its growing affordable housing needs.

The ordinance also directly addresses a specific implementation program in the Housing Element of the General Plan (Program 16 - New Programs to Increase the Production of Affordable Housing). The program called for exploring the development of a local, permanent source of funding to provide funding for new affordable housing construction. Potential strategies outlined in the Program included establishing a fee on new development, which is accomplished in the proposed ordinance.

CEQA FINDINGS

The proposed ordinance is not a "project" under CEQA pursuant to CEQA Guidelines section 15378 (b)(4), which provides that CEQA does not apply to the creation of governmental funding mechanisms that do not involve a commitment to a particular project which may result in a significant impact to the environment. The ordinance does not identify any specific future project or projects which can be singled out as resulting in an environmental impact. Therefore, the Affordable Housing Linkage Fee is not considered a "project", and thus not subject to CEQA.

Further, the proposed ordinance qualifies under the "common sense" CEQA exemption pursuant to CEQA Guidelines Section 15061(b)(3), which provides that, where it can be seen with certainty that there is no possibility that a project may have a significant effect on the environment, the project is not subject to CEQA. CEQA only applies to projects that have the potential to cause a significant effect on the environment – either through a direct impact or reasonably foreseeable indirect impact. The proposed ordinance does not have that possibility.

As further demonstrated in Exhibit B, because the ordinance does not commit funds directly to any specific future development project, it will not cause any direct impact on the environment. At this point in time it would be speculative to evaluate the impacts of any such project which would be subject to payment of the linkage fee, or which would receive project funding as a result of this ordinance. Further, any potential indirect impact of the ordinance on the environment will be minor as the Linkage Fee is not anticipated to alter existing development patterns. As such, the ordinance is unlikely to create any foreseeable direct or indirect physical impact on the environment. However, in case there is a challenge to this project and a court disagrees, the City has prepared a Negative Declaration for this project (Exhibit B.2).

CALIFORNIA MITIGATION FEE ACT FINDINGS
The California Mitigation Fee Act (California Government Code Section 66000-66025) requires that following findings be made:

- Identify the purpose of the fee.
- Identify the use to which the fee is to be put. If the use is financing public facilities, the facilities shall be identified.
- Determine how there is a reasonable relationship between the fee's use and the type of development project on which the fee is imposed.
- Determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed.

The *Los Angeles Affordable Housing Linkage Fee Nexus Study* (Exhibit C) serves to make these findings, which must be adopted by the Los Angeles City Council.

Commercial Fee

Purpose of the Fee
The fee program proposed by draft ordinance and described in the *Nexus Study* will offset the impact of new commercial development on the City of Los Angeles housing market by funding the production, acquisition, rehabilitation and/or preservation of affordable housing in the City of Los Angeles.

The *Nexus Study* outlines the serious affordable housing crisis currently facing the City of Los Angeles, and notes that Los Angeles is the only major California city without a permanent source of affordable housing funding.

Use of the Fee
The proposed fee program would impose linkage fees on new commercial development of most types including office, hotel, retail, and industrial uses. Fees would be collected by the City of Los Angeles and deposited into the Housing Impact Trust Fund. This fund is used to finance the

production, acquisition, rehabilitation and/or preservation of affordable housing in the City of Los Angeles through grants and loans to qualified projects.

Relationship between Use of Fee and Type of Development

The development of commercial space will generate new employment in Los Angeles. A portion of the new employees will live in households that fall below the 120 percent Area Median Income (AMI) income threshold, and will not be able to find housing that is affordable to them. Statistics included in the *Nexus Study* indicated that this is particularly daunting for households earning below 50 percent of AMI.

The Nexus Study contains a detailed 10-step methodology, with Steps 1-8 forming the nexus (relationship) analysis. The Study estimates the likely mix of new commercial development by type of land use, based on a detailed analysis of permitted commercial space by type for the past 10 years. The Study then estimates new employees in the new space by type, combines these new workers into households, and estimates these new worker-based households' incomes based on wages for the jobs forecasted. This distribution of new worker households is then segmented by income band, resulting in the estimated affordable housing need up to 120 percent AMI (or "impact"). Next, the methodology estimates the cost to provide this affordable housing, assuming it is all rental housing, and assuming that the occupants can afford to contribute no more than 30 percent of their household income to rent. The balance is the "affordability gap," which is then converted into a development financing gap, and then converted into the "maximum legal fee" fee per square foot of new commercial development by use type, to generate the funds necessary to fund this development financing gap.

The Nexus Study includes subsequent analysis beyond that required by the Mitigation Fee Act, to test the financial feasibility of charging this maximum fee on several types of new commercial development across three categories of market condition ("low," "medium," and "high" market conditions). The Study concludes that the maximum legal fee levels are not financially feasible and could impinge on new commercial development. The Study then recommends lower fees in all cases than the maximum legal fee, based on the financial feasibility conclusions. These lower-than-legal-maximum fee recommendations would mean that if the fee were imposed at the recommended levels, not all of the funds needed to produce new affordable housing from the impact of new commercial projects would be generated.

Residential Fee

Purpose of the Fee

The fee program proposed by draft ordinance and described in the *Nexus Study* will offset the impact of new, market-rate housing development on the City of Los Angeles housing market by funding the production, acquisition, rehabilitation and/or preservation of affordable housing in the City of Los Angeles.

The *Nexus Study* outlines the serious affordable housing crisis currently facing the City of Los Angeles, and notes that Los Angeles is the only major California city without a permanent source of affordable housing funding.

Use of the Fee

The proposed fee program would impose linkage fees on new, market-rate housing development projects as specified in the draft Ordinance, which would be collected by the City of Los Angeles and deposited into the Housing Impact Trust Fund. This fund is used to finance the production, acquisition, rehabilitation and/or preservation of affordable housing in the City of Los Angeles through grants and loans to qualified projects.

Relationship between Use of Fee and Type of Development

The development of new, market-rate residential projects will accommodate growth in households in the City. These new households will spend their income for goods and services, which will in turn generate new businesses and jobs. A portion of the new employees serving these new market-rate households, will live in households that fall below the 120 percent Area Median Income (AMI) income threshold, and will not be able to find housing that is affordable to them. Statistics included in the *Nexus Study* indicated that this is particularly daunting for households earning below 50 percent of AMI.

The Nexus Study contains a detailed 10-step methodology, with Steps 1-8 forming the nexus (relationship) analysis. The Study estimates likely household incomes for new market-rate residential projects in Los Angeles, based on sale prices/rental rates of recently development projects, including a detailed analysis by sub-area. The Study then estimates household spending from these new market-rate units, and projects the mix of jobs to be generated for a 100-unit new residential project. This new employment, in turn is combined into new households, and incomes are estimated based on the new jobs' wages and the number of estimated workers per household. This distribution of new worker households is then segmented by income band, resulting in the estimated affordable housing need up to 120 percent AMI (or "impact"). Next, the methodology estimates the cost to provide this affordable housing, assuming it is all rental housing, and assuming that the occupants can afford to contribute no more than 30 percent of their household income to rent. The balance is the "affordability gap," which is then converted into a development financing gap, and then converted into the "maximum legal fee" fee per square foot of market-rate housing to generate the funds necessary to fund this development financing gap.

The Nexus Study includes subsequent analysis beyond that required by the Mitigation Fee Act, to test the financial feasibility of charging this maximum fee on several types of new, market-rate housing development projects across three categories of market condition ("low," "medium," and "high" market conditions). The Study concludes that the maximum legal fee levels are not financially feasible and could impinge on market-rate housing production. The Study then recommends lower fees in all cases than the maximum legal fee, based on the financial feasibility conclusions. These lower-than-legal-maximum fee recommendations would mean that if the fee were imposed at the recommended levels, not all of the funds needed to produce new affordable housing from the impact of new market-rate projects would be generated.