

# REPORT OF THE CHIEF LEGISLATIVE ANALYST

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DATE: January 17, 2019

TO: Honorable Members of the Economic Development Committee

FROM: Sharon M. Tso <sup>KEY</sup>  
Chief Legislative Analyst

Council File No.: 17-0274  
Assignment No. : 18-06-0575

SUBJECT: Linkage Fee Revenue Expenditure Guidelines

## SUMMARY

In December 2017, a Linkage Fee as a source of revenue to fund affordable housing was authorized by Council and the Mayor. Approximately \$2 million in Linkage Fee revenue has been collected to date. Any expenditure of said revenue is subject to an Expenditure Plan that is approved by Council and the Mayor. The Housing and Community Investment Department (HCID) has drafted an Expenditure Plan that proposes to fund mostly new programs, which have not yet been developed, for an indefinite period of time. Given the limited amount of funds collected to date and the uncertainty around the proposed programs, this Office recommends that the Expenditure Plan for Fiscal Year (FY) 2018-19 be limited to funding 1.5 positions to allow HCID to fully develop new Linkage Fee-funded programs. This would allow adequate time for the Linkage Fee Oversight Committee to review a detailed Expenditure Plan for FY 2019-20, including fully-developed, comprehensive programs. This Office also recommends that HCID be granted the requested position authority and administrative funding to facilitate the development of the proposed Linkage Fee programs and other duties associated with the fee.

## RECOMMENDATIONS

That the City Council and Mayor:

1. Authorize the Controller to establish a new account "43R680 – HCID Administration" within the City of Los Angeles Housing Impact Trust Fund No. 59T and appropriate \$138,558 to this account;
2. Authorize resolution position authority for one (1) Management Analyst class code 9184, within Housing and Community Investment Department (HCID) Housing Development Bureau, to be funded with Linkage Fee revenue for Fiscal Year (FY) 2018-19;
3. Authorize one existing vacant Housing, Planning and Economic Analyst, within Housing and Community Investment Department (HCID) Housing Development Bureau, to be funded at 50 percent of the position's salary with Linkage Fee revenue for FY 2018-19;
4. Authorize HCID to issue a Request for Proposals for an amount up to \$75,000 to be funded by Linkage Fee revenue, if needed, to procure data analysis necessary to expedite the development of innovative programs;
5. Instruct HCID to convene the Linkage Fee Oversight Committee (Oversight Committee);

6. Instruct HCID, the Department of City Planning and the Department of Building and Safety, and request the City Attorney, to report to the Oversight Committee with a comprehensive staffing plan to administer Linkage Fee programs for FY 2019-20 within 60 days;
7. Instruct HCID to report to the Oversight Committee with a draft Expenditure Plan for FY 2019-20, including a recommended funding amount for each sub-category within the Rental New Construction, Rental Preservation, Homeownership, and Innovations/New Programs categories for its review within 60 days;
8. Instruct the Chief Legislative Analyst to prepare a Resolution to adopt the Linkage Fee Guidelines to fund administrative costs for FY 2018-19, upon Council approval; and
9. Authorize the General Manager of HCID, or designee, to prepare Controller Instructions and make any necessary technical adjustments consistent with the Mayor and City actions, subject to the approval of the City Administrative Officer, and authorize the Controller to implement these instructions.

## **BACKGROUND**

On December 17, 2017, the Council and Mayor approved Ordinances No. 185342 and 185341 relative to the implementation of an Affordable Housing Linkage Fee (Linkage Fee). In accordance with Ordinance No. 185342, a Linkage Fee shall be paid for specified projects as a condition of a building permit in order to mitigate the need for affordable housing that is generated or attributed to such projects. As of June 2018, the fee is being incrementally phased in and the full fee amount will be effective as of June 2019.

Ordinance No. 185341 authorized the establishment of the Housing Impact Trust Fund for the receipt and use of Linkage Fee revenue. This ordinance requires that the expenditure of Linkage Fee revenue be subject to guidelines approved by the City Council via Resolution. Annual reporting to an Oversight Committee comprised of designees from HCID, Office of the Chief Legislative Analyst, Office of the City Administrative Officer (CAO), the Department of City Planning (DCP), and the Mayor's Office is also required.

In its report dated October 10, 2018, HCID seeks authorization to adopt the expenditure guidelines (Expenditure Plan), approve resolution position authority, establish new accounts within the Los Angeles Housing Impact Trust Fund, and appropriate revenues as outlined in the proposed Expenditure Plan (C.F. 17-0274). HCID estimates approximately \$52 million in revenue in FY 2019-20, and \$104 million in annual revenue beginning in FY 2020-21.

In a report dated November 19, 2018, the CAO concurs with the recommendations related to establishing accounts and appropriating revenue as proposed by HCID. However, the CAO does not recommend approval of position authority at this time. The CAO amends HCID's proposed 15 percent set-aside for administration to allow for an alternative allocation of up to 15 percent for the administrative needs of all departments that will be impacted by the Linkage Fee, such as the Department of City Planning, Building and Safety, and the Office of the City Attorney, to be determined through the annual budget process. The CAO further recommends that HCID report to Council with the Oversight Committee's feedback prior to FY 2019-20 and more programmatic details for use of the funds.

### Project Funding Priority

Given the magnitude and complexity of the multiple programs being proposed, this Office recommends that Council instruct HCID to prepare a more detailed description of the Expenditure Plan, including a breakdown of percentages allocated to each sub-category in the Plan, comprehensive program proposals, and a breakdown of resources needed to implement these programs. Of the twelve (12) programs proposed

by HCID for funding, only three are currently in operation as permanent programs. Some are pilot programs, and most do not have established program guidelines. While HCID has completed stakeholder outreach to draft the preliminary plan, this Office recommends that the Oversight Committee have the opportunity to review a plan with more defined programs and, to the extent possible, program guidelines.

Inasmuch as only an estimated \$2 million has been collected to date, this Office does not recommend funding specific programs, especially for programs that do not yet have approved policies and guidelines. Should Council wish to expend programmatic funds at this point, this Office suggests that it consider funding an existing HCID program rather than a proposed program, which would take time to develop. The three existing programs in HCID's report that Council could consider include: Rental New Construction – Managed Pipeline, the Low Income Purchase Assistance (LIPA) Program, and the Moderate Income Purchase Assistance (MIPA) Program.

#### Program Development and Staff Capacity

Only three (3) of the twelve (12) programs identified in HCID's proposed Expenditure Plan are existing permanent programs. Nine (9) new programs are proposed, yet remain to be developed, or are pilot programs. HCID has indicated the need to hire staff to carry out a number of duties related to the expenditure of these funds, including program design and implementation. Further, since HCID released its report, the Governor has proposed two new housing programs with State funding to assist the construction of low and moderate income housing. The Linkage Fee may be an effective tool to successfully leverage these new State funds.

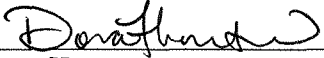
This Office recommends that HCID be authorized Resolution Position Authority for one (1) Management Analyst (MA), and the use of one vacant Housing, Planning and Economic Analyst (HPEA), to be funded with Linkage Fee revenue. The MA, among other duties, would facilitate the development of the proposed new programs, which will be forwarded to the Oversight Committee for review, then subsequently to Council for approval. HCID notes that the HPEA position would help support various policy-related and fund management tasks, including required reporting.

It is critical that a staffing plan be in place by HCID and other departments that will be administering Linkage Fee revenue as soon as possible. This Office recommends that HCID, the Department of City Planning, Bureau of Engineering, and City Attorney prepare a staffing plan needed to implement Linkage Fee programs to be proposed by HCID, with staffing and budget requests considered through the City's annual budget process. Any HCID required positions beyond those recommended in this report should go through the annual City Budget process.

In addition, this Office recommends that HCID engage, if necessary, a consultant to carry out an analysis of the City's current housing programs and program development of those proposed by HCID, as well as data analysis that supports recommendations for developing innovative programs to expedite program development.

#### Oversight Committee

This Office recommends that the Oversight Committee convene to review HCID's proposed Linkage Fee Expenditure Plan, programs, and policies. HCID would report to the Oversight Committee with the proposed allocations for the Expenditure Plan, including sub-categories, and the Oversight Committee would make recommendations to Council. Upon Council approval, HCID would further define the new programs and report to the Oversight Committee with a more comprehensive Linkage Fee Expenditure Plan.

  
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Dora Huerta  
Analyst