Los Angeles
HOUSING+COMMUNITY
Investment Department

Eric Garcetti, Mayor
Ann Sewill, General Manager

INTER-DEPARTMENTAL MEMORANDUM

TO: AFFORDABLE HOUSING LINKAGE FEE OVERSIGHT COMMITTEE

FROM: ANN SEWILL, GENERAL MANAGER

DATE: MAY 20, 2021

REGARDING: **APPROVAL OF EXPENDITURE PLAN AND PROGRAM GUIDELINES FOR FY 2020-21 AFFORDABLE HOUSING LINKAGE FEE**

On December 13, 2017, the Los Angeles City Council adopted the Affordable Housing Linkage Fee (AHLF) Ordinance (C.F. No. 17-0274), which amends Chapter II of the Los Angeles Municipal Code. The Ordinance places a fee on new residential development ranging from $1.04 to $18.69 per square foot, depending on the market area, and new non-residential developments ranging from $3.11 to $5.19 per square foot, depending on market area, to mitigate housing market impacts of new projects and generate local funding for affordable housing production and preservation for the City. The Ordinance also stipulates various exemptions and deductions based on project characteristics.

This report includes the recommendation to appropriate the Housing Impact Trust Fund (Fund 59T) receipts collected from July 1, 2019 through March 31, 2021, in the amount of $32,568,044.89. The tiered allocation system previously approved by Oversight Committee, Council and Mayor is intended to distribute AHLF funding allocations to support Rental New Construction, Rental Preservation, Homeownership for both Moderate Income (MIPA) and Low Income (LIPA) households, and Innovation Programs categories.

RECOMMENDATIONS

The General Manager of the Los Angeles Housing + Community Investment Department (HCIDLA) respectfully requests that the AHLF Oversight Committee (OC) recommend that the Council, subject to approval by the Mayor, take the following actions:

I. ADOPT the AHLF Resolution, which includes a technical correction to the previously approved funding allocation tier system, the Expenditure Plan, and the Program Guidelines.

II. APPROVE the Affordable Housing Linkage Fee (AHLF) Expenditure Plan for FY 2020-21.

AHLF Funding Tiers	AHLF Funding Tier Amount Level	AHLF Funds to Be Allocated	City Admin.	Rental - New Construction	Rental - Preservation	Home Ownership (MIPA)	Home Ownership (LIPA)	Innovative Housing Demo
Tier I	Percentage Allocation for Tier 1		15.0%	60.0%	20.0%	5.0%	0.0%	0.0%
	Revenue up to $10M / Year x 2 Years	$ 20,000,000.00	$ 3,000,000.00	$ 12,000,000.00	$ 4,000,000.00	$ 1,000,000.00	$ -	$ -
Tier 2	Percentage Allocation for Tier 2		15.0%	50.6%	14.3%	12.5%	5.1%	2.5%
	Revenue above $10M, up to $50M / Year	$ 12,631,602.90	$ 1,894,740.44	$ 6,391,591.07	$ 1,806,319.21	$ 1,578,950.36	$ 644,211.75	$ 315,790.07
	Total Tier Allocations:	**$ 32,631,602.90**	**$ 4,894,740.44**	**$ 18,391,591.07**	**$ 5,806,319.21**	**$ 2,578,950.36**	**$ 644,211.75**	**$ 315,790.07**

III. AUTHORIZE the City Controller to:

A. Establish new accounts and appropriate funds within Fund 59T as follows:

Account No.	Account Name	Amount
43S723	Rental New Construction	$ 18,391,591.07
43S724	Rental Preservation	5,806,319.21
43S725	Homeownership MIPA	2,578,950.36
43T726 (new)	Homeownership LIPA	644,211.75
43R727	Innovative Housing Demo- Other	315,790.07
City Admin (15% Cap)		
43T112 (new)	City Attorney	93,600.00
43T143	HCID	366,509.02
43T299	Related Costs	48,107.06
43S792	HIMS Replacement	300,000.00
43TA44 (new)	Inclusionary Zoning Study	100,000.00
43T904 (new)	Admin Reserve Account	3,986,524.36
Subtotal City Admin		4,894,740.44
Total Tier Allocations		$ 32,631,602.90

B. Increase (Decrease) appropriations within Fund 59T as follows:

Account No.	Account Name	Amount
43T143	HCID	$ 92,731.03
43T299	Related Costs	59,827.85
43S143	HCID	(92,731.03)
43S299	Related Costs	(59,827.85)

C. Increase appropriations within HCIDLA Fund 100/43 as follows: Salaries General Account 001010 - $382,802.91; and Leasing Account 006030 - $76,437.14.

D. Increase appropriation within City Attorney Fund 100/12, Salaries General Account 001010 - $93,600.00.

IV. AUTHORIZE the HCIDLA General Manager, or designee, to prepare Controller instructions and make any necessary technical adjustments consistent with the Mayor and City Council actions, subject to the approval of the City Administrative Officer (CAO), and authorize the Controller to implement these instructions.

BACKGROUND

AHLF Resolutions and Guidelines

The attached Resolution to be adopted by the Council and approved by the Mayor adopts a corrected allocation system that corrects a .1% rounding misprint in the earlier version. It also clarifies that up to 15% of the annual linkage fee amount may be used for eligible administrative costs in all relevant departments including HCIDLA, the office of the City Attorney, the office of the City Administrative Officer, and others.

The Resolution also approves the AHLF allocation for the past and current fiscal year and the Program Guidelines, which identify and supplement the Council-approved guidelines for the Rental New Construction, Rental Preservation, Homeownership - Moderate Income Purchase Assistance and Homeownership – Low Income Purchase Assistance programs.

AHLF Revenue Analysis

To date, the AHLF has generated $38.5 million in revenue for building permits issued. The data revenue table and citywide map in the appendix provides a detailed overview of the revenue by building type, council district, market type, and time period. Highlights include:

The majority of the AHLF revenue collected is attributed to building permits for new one or two family dwellings in Low and Medium Market areas. Overall, one or two family dwellings constitute more than 90% of all projects subject to the Linkage Fee, and around 75% of all revenue collected, between its implementation in June 2018 until February 9, 2021.

Multifamily developments currently consist of a much smaller inventory of the total number of Linkage Fee projects. Only 5% of the total projects (141) are multifamily residential developments. Furthermore, HCIDLA's research continues to illustrate that commercial projects make up the lowest amount of the total Linkage Fee with 4% of the projects subject to the Linkage Fee. We conclude that of all three project types, commercial projects were the only category in which a plurality were located in a High Market Area (42%).

HCIDLA's analysis also included an examination of specific Linkage Fee implementation and revenue activity by Council District:

- Council Districts 5 and 11 have generated the largest AHLF revenue amount in the city, predominantly located in High and Medium-High Residential Market Areas, and representing around 54% of the total AHLF revenue amount. The revenue generated by one or two family dwellings in these two Council Districts account for almost half of the total revenue (46%) collected as of the analysis date. Council Districts 7, 14, and 15 generated the lowest amount of AHLF revenue overall.

- In the Low and Medium Market Areas (i.e., CDs 8, 9, and 10), a significant amount of one or two family home construction is also occurring, but a smaller contribution goes toward the Linkage Fee revenue in these market areas since the impact fee is lower, $8.31 and $10.38 per square foot, respectively.
- Linkage fees from multifamily developments in Council Districts 5 and 11 comprised 6.6% of the total fees paid by multifamily projects, 6.6% of total revenue. These districts also have a significant number of TOC projects, which provide affordable housing on site and therefore are exempt from paying fees.
- The less active areas of the city such as Council Districts 3, 6, 7, and 12 in the San Fernando Valley constitute less than 10% of all projects subject to the Linkage Fee since June 2018.

It should be noted that the Transit Oriented Communities (TOC) program which provides enhanced incentives to multifamily developments near transit if they include on-site affordable units with covenanted rents ranging from Extremely Low Income to Low Income levels, has received applications for 10,407 affordable units to date. If these units were not included on site and the projects were instead to pay the AHLF we can estimate that we'd receive linkage fee revenue of $353,756,700 in lieu of the 10,407 units. At our average $140,000 per unit subsidy that an affordable unit would need we'd be able to generate 2,527 units, less than a third of the on-site units provided by the linkage fee. The units would also require other leveraged funding from state and federal sources. So although linkage fee income is reduced due to the success of the TOC program, the provision of on-site fully funded affordable units is a significant benefit.

HCIDLA will complete a more detailed AHLF revenue analysis in the next annual report which may reflect market changes post-pandemic.

AHLF Program Guidelines

The AHLF is proposed to be allocated primarily to expand housing production and preservation programs that have already been approved by City Council as detailed in the attached Program Guidelines. The use of AHLF in each program will add a requirement for the use of Project Labor Agreements for those projects with 65 units or more that utilize AHLF, and will allow more flexibility in affordable rent limits up to 120%, of Area Median Income, where applicable. In the Rental New Construction Program, for example, none of the projects seeking an allocation of Low Income Housing Tax Credits would need the flexibility to set rents up to 120%, but may wish to use the rent averaging provisions approved last year to set some rents at 80% rather than 60% of Area Median Income. In the Homeownership Program this flexibility allows the City to serve residents earning up to 120% of area median income.

In the Rental Preservation and Innovation program areas there are opportunities to use AHLF within the existing Managed Pipeline or Home Ownership programs. In addition, staff are working with consultants to draft additional guidelines that take advantage of the greater flexibility of the AHLF. We will return to the Oversight Committee, City Council and Mayor with those guidelines within four months.

The guidelines for each program, with the exception of the Homeownership – Moderate Income Purchase Assistance and Low Income Purchase Assistance programs, require that each project be submitted for approval by Council and Mayor.

In FY 2018-19, City Council approved an allocation of $1.1M for the Accessory Dwelling Unit (ADU) program operated by the Mayor's Office Innovation Team to pilot a shallow operating subsidy with a tenant matching program to house extremely low-income seniors in an ADU for five years or less while assisting them to secure permanent housing. Operating subsidies are not an eligible use of AHLF. Therefore, HCIDLA recommends utilizing the unallocated balance of $1.1M in the Innovation category for other ADU programs that may apply for capital funding.

Use of Administrative Allocation

The AHLF resolution allows up to 15% of the AHLF receipts to be used to cover eligible administrative costs as approved within the City's budget. This report includes recommendations to re-appropriate prior year unused funds, appropriate funds to support this fiscal year's expenses related to staff and contracts, and appropriate the balance of the administrative allocation in a holding account to support the FY 2021-22 administrative costs as approved within the City budget.

AHLF Expenditures to Date

In addition to the $32.6 million to be allocated in this set of actions, the Council and Mayor have previously allocated $6.8 million in AHLF in the following categories:

Rental New Construction	$3,208,781
Rental Preservation	$1,169,688
Homeownership MIPA	$ 432,622
Innovation / ADU	$1,176,471
Administration	$ 830,432

None of the Rental New Construction, Rental Preservation, or Innovation funds have been spent to date as the Managed Pipeline NOFA was approved this Spring for the first time in two years and projects have just applied. The Homeownership MIPA program spent $235,198 to assist a total of four homebuyers. $479,877 in administration costs was spent to support staff and consultants who prepared the AHLF revenue analysis.

ATTACHMENTS:

Attachment A: Resolution - AHLF Expenditure Plan and Program Guidelines for FY 2020-21

Appendices - Data Revenue Table & Map

RESOLUTION

WHEREAS, the City Council ("Council") implemented an Affordable Housing Linkage Fee ("AHLF") as a new source of revenue to address the varying housing needs of its diverse communities (C.F. 17-0274); and

WHEREAS, on December 13, 2017, Council approved Linkage Fee Ordinances No. 185341 and 185342 to implement the fee and establish the Housing Impact Trust Fund for receipt of the Linkage Fee revenue; and

WHEREAS, Ordinance No. 185341 requires that Linkage Fee revenue "address the evolving and varied affordable housing needs of the City, pursuant to guidelines promulgated for this purpose by the Housing and Community and Investment Department ('Guidelines');" and

WHEREAS, pursuant to Ordinance No. 185341 as the administrator of the Housing Impact Trust Fund (Fund), the Housing and Community Investment Department (HCID) shall create and maintain the annual administrative allocation and recommend the proposed use of such funds to the Council; and

WHEREAS, pursuant to Ordinance No. 185341, HCID is tasked with promulgating guidelines for expenditures of the Fund, which, in addition to any amendments thereto, are subject to Council approval by Resolution; and

WHEREAS, on October 8, 2019, Council approved the AHLF Allocation Guidelines to appropriate Linkage Fee revenues based on three funding tier levels;

WHEREAS, the AHLF Allocation Guidelines require technical corrections to (1) correct a rounding error so that 100% of revenue can be allocated each year; and (2) clarify that up to 15% of the AHLF can be spent on City administrative costs necessary to administer, monitor, and update the program including by not limited to costs incurred by HCIDLA, City Attorney, and City Administrative Officer to be allocated through the City's budget process.

AHLF Funding Tiers	AHLF Funding Tier Amount Level	City Administration	Rental - New Construction	Rental - Preservation	Home Ownership (MIPA)	Home Ownership (LIPA)	Innovative Housing Demo	Innovative Housing Demo ADU
Tier I	Percentage Allocation for Tier 1	15.0%	60.0%	20.0%	5.0%	0.0%	0.0%	0.0%
	Revenue up to $10M							
Tier 2	Percentage Allocation for Tier 2	15.0%	50.6%	14.3%	12.5%	5.1%	2.5%	0.0%
	Revenue above $10M, up to $50M							
Tier 3	Percentage Allocation for Tier 3	15.0%	51.0%	15.0%	10.0%	5.0%	2.0%	2.0%
	Revenue above $50M							

THEREFORE, BE IT RESOLVED that City Council adopt the amended AHLF Allocation Plan as set forth above, the attached Expenditure Plan for Fiscal Years 2019-2020 and 2020-2021; and the attached AHLF Program Guidelines.

Attachment A: Proposed Expenditure Plan for Combined FY2019-20 and FY2020-2021

AHLF Funding Tiers	AHLF Funding Tier Amount Level	AHLF Funds to Be Allocated	City Admin.	Rental - New Construction	Rental - Preservation	Home Ownership (MIPA)	Home Ownership (LIPA)	Innovative Housing Demo
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Attachment B: Affordable Housing Linkage Fee Program Guidelines

The Affordable Housing Linkage Fee (AHLF)allocations that are approved by the Council and Mayor shall be expended according to the guidelines approved by the Mayor and Council for each program as summarized below:

Rental New Construction: Affordable Housing Managed Pipeline

The Affordable Housing Managed Pipeline(AHMP) is HCIDLA's new construction rental housing program. One to two funding rounds are held each calendar year, with projects competing for funds that are used to leverage Low Income Housing Tax Credits (LIHTC) or funding from other State or Federal housing programs. The AHMP program has approved program guidelines approved by City Council and the Mayor in April 2021 (Council File: 21-0305).

HCIDLA to issue a semi-annual Notice of Funding Availability (NOFA) to enable open competition of new projects to be admitted into the Pipeline on an ongoing basis (C.F. No. 13-0824). The purpose of the NOFA is to solicit, evaluate, and finance multifamily projects for households at or below 60% AMI, with some exceptions when rent level averaging is used to serve lower income households balanced by higher income households. Eligible projects include those serving seniors, families, people with special needs, and supportive housing. Applications will be evaluated and selected projects will be recommended for approval by City Council and Mayor. When approved a funding commitment letter will be issued which will provide the developer the opportunity to seek additional state, county and federal funding while securing entitlements and permits.

All projects funded as part of the Managed Pipeline must pay prevailing wage as required by the HOME Trust Fund regulations issued by HUD. In addition, those projects funded by linkage fee that have 65 units or more must have Project Labor Agreements consistent with the HHH requirements.

Rental Preservation

Projects proposing to extend covenants and undertake necessary rehabilitation work that apply under the Managed Pipeline Program as described above may be funded in full or in part with AHLF. Projects funded with AHLF will comply with the Project Labor Agreement requirements for projects with 65 units or more, and with the rental restrictions of the AHLF. Each project will require approval by the Council and Mayor, as set forth in the Managed Pipeline regulations.

Additional program guidelines for the Rental Preservation Program will be developed within four months for preservation projects that are not seeking Low Income Housing Tax Credits or Managed Pipeline funding, but that are seeking to extend affordability covenants and prevent displacement, and that may use AHLF or other funding. These guidelines will be submitted for Council and Mayor approval under separate cover.

Home Ownership– Moderate Income Purchase Assistance Program

The Moderate Income Purchase Assistance (MIPA) Program helps first-time, moderate -income homebuyers purchase homes in the City of Los Angeles by providing subordinate loans to cover the down payment, closing costs, and acquisition. MIPA provides purchase assistance of up to $60,000 for households earning between 81%-120% of Area Median Income (AMI), and up to $35,000 for households earning between 121%-150% of AMI. Income eligibility requirements are updated annually by the Department of Housing and Urban Development (HUD).

MIPA loans have a zero percent interest rate and are due upon sale, title transfer, first mortgage repayment, or in 30 years as a balloon payment. The loan contains a shared appreciation provision based on a ratio of the loan amount to the purchase price.i Borrowers are required to pay the principal and the percentage share upon MIPA loan repayment. The purchased property must be located in the City of Los Angeles and pass HCIDLA property inspection. Eligible dwelling types include 1-unit, single-family homes, condominiums and townhouses. There is no purchase price limit. Properties cannot be tenant-occupied, unless the tenant is the prospective homebuyer. MIPA guidelines were approved in June 2018 (Council File: 12-0647-S10).

Homebuyer Eligibility:

- First-time homebuyers who have not had ownership interest in any real property in the past three years
- U.S. Citizens, Lawful Permanent Residents, or other Qualified Aliens
- Minimum 1% down payment from borrower's own funds
- Homebuyer must occupy home as their Primary Residence
- Completion of 8 hours of a homebuyer education course and housing counseling
- Household income must be within program limits
- Meet income limits, adjusted annually per HUD guidelines

2021 Maximum Income Limits
(effective June 1, 2021, and adjusted annually per HUD limits)

Household Size	1 person	4 people
Mod 120 (81%-120% AMI)	$66,251 - $99,300	$94,601 - $141,850
Mod 150 (121%-150% AMI)	$99,301 - $124,200	$141,851 - $177,400

<u>Home Ownership– Low Income Purchase Assistance Program</u>

The Low Income Purchase Assistance (LIPA) Program helps first-time, low-income homebuyers purchase homes in the City of Los Angeles by providing loans to cover the down payment, closing costs, and acquisition. LIPA provides purchase assistance of up to $90,000 for households earning up to 80% Area Median Income (AMI). LIPA's program guidelines were approved by City Council in November 2018 (Council File: 17-1352).

LIPA loans have a zero percent interest rate and are deferred – requiring no monthly payment. Loan amount is due upon sale, title transfer, first mortgage repayment, or in 30 years as a balloon payment. The loan contains a shared appreciation provision based on a ratio of the loan amount to the purchase price. Borrowers are required to pay the principal and the percentage share of appreciation upon LIPA loan repayment. Properties must be located in the City of Los Angeles and pass HCIDLA property inspection. Eligible dwelling types include 1-unit, single-family homes, condominiums and townhouses. Properties cannot be tenant-occupied, unless the tenant is the prospective homebuyer. Home purchase price must be within current program limits (adjusted annually per HUD rules):

- Single Family Homes: $745,750
- Condominiums and Townhomes: $513,000

Homebuyer Eligibility:

- First-time homebuyers who have not had an ownership interest in any real property in the past three years
- U.S. Citizens, Lawful Permanent Residents, or other Qualified Aliens
- Minimum 1% down payment from borrower's own funds
- Homebuyer must occupy home as primary residence
- Completion of 8 hours of a homebuyer education course and housing counseling

2021 Maximum Income Limits
(effective June 1, 2021, and adjusted annually per HUD limits)

Household Size	**1 person**	**4 people**
Annual Household Income Limit	$66,250 or less	$94,600 or less

Innovation Projects

AHLF may be used to fund projects submitted in the Managed Pipeline that have specific innovation features such as use of alternative construction methods, financing or other changes that will reduce costs and streamline production. The income limits and Project Labor Agreement requirements described in the Rental New Construction section would apply. Other innovation projects may be submitted to the Council and Mayor for approval as opportunities arise if funding is available.

[i] In lieu of interest, the LIPA and MIPA Program loans contain a shared appreciation provision which is based on the ratio of the City loan amount to the purchase price of the home. HCIDLA's percentage share of appreciation is expressed as a percentage and computed by dividing the City loan amount by the purchase price of the property. Example: $60,000 (City loan amount) ÷ $415,000 (property purchase price) = 14.46% (HCIDLA percentage share of appreciation). The share appreciation amount due to HCIDLA is adjusted by subtracting the Borrower's initial down payment, the closing costs associated with selling the property in the future, and the documented costs of any eligible home capital improvements.

Appendices: Data Revenue Table & Map

Appendix A: Data Revenue Table

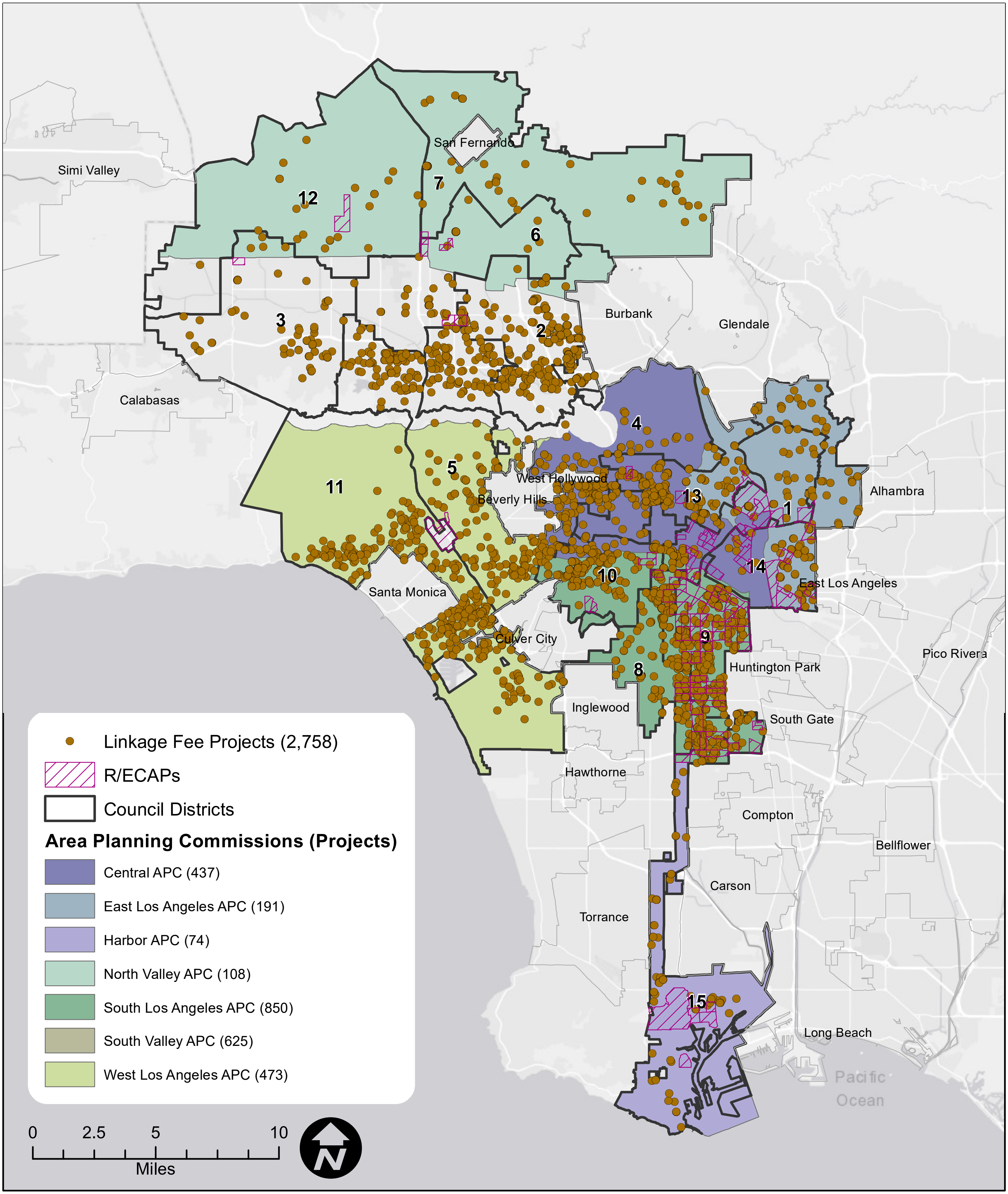
Table 1: Summary of Project Types Subject to the Linkage Fee

(Permits Submitted Between 6/18/18 and 2/9/21)

Project Type	Number of Total Projects	% of Total Projects	Total Revenue	% of Total Revenue	Average Revenue	Total Area (SF)	% of Total Area	Average Area (SF)
1 or 2 Family Dwellings	2,508	91%	$28,831,493	75%	$11,495	7,206,416	75%	2,875
Multifamily	141	5%	$5,351,251	11 %	$37,952	1,056,966	11%	7,496
Commercial	109	4%	$4,336,834	14%	$39,787	1,346,557	14%	12,354
Total	2,758	100%	$38,519,578	100%	$89,234	9,609,939	100%	22,725

Appendix B: Map 1

Linkage Fee Projects by Area Planning Commission



HCIDLA Public Policy & Research Unit [DS] Sources: ESRI, LA City GIS Repository, LADBS, LADCP, HUD.
Data as of March 2, 2021.