CULVER CITY COMMERCIAL LINKAGE FEE STUDY

Virtual Town Hall Meeting
November 5th, 2020
TOWN HALL AGENDA

1. Introduction
2. What is a Commercial Linkage Fee?
3. Considerations and Recommendations for Establishing a Linkage Fee
4. Q&A
5. Next Steps
CONSULTANT TEAM

- EPS is a land use economics consulting firm with offices in Los Angeles, Oakland, Sacramento, and Denver, CO
- State leaders in affordable housing policies and programs
STUDY PROCESS CONTEXT

- The production and preservation of affordable housing is a priority for the City Council

- City staff is pursuing several affordable and homeless housing initiatives, ranging from new construction, building rehabilitation, rental assistance, and new code amendments
  - Linkage fee is one of these initiatives, focused on new commercial development

<table>
<thead>
<tr>
<th>April 2020</th>
<th>May-August 2020</th>
<th>September 2020</th>
<th>September-October 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS engaged by City</td>
<td>Completion of draft nexus study</td>
<td>Discussion with Economic Development Subcommittee</td>
<td>Stakeholder interviews</td>
</tr>
</tbody>
</table>
COMMERCIAL LINKAGE FEES
WHAT IS A COMMERCIAL LINKAGE FEE?

- A fee charged on new non-residential real estate development to help support affordable housing supply

- Impact fee allowed under California’s Mitigation Fee Act (AB 1600)

- Charged in dozens of cities and counties throughout state, including several in Los Angeles County

- Also called *affordable housing linkage fee or jobs-housing linkage fee*
HOW IS IT CALCULATED?

- Per Mitigation Fee Act, need to demonstrate the nexus between new commercial development and need for affordable housing

- Factors used to establish nexus:
  - Types of new jobs generated
  - Proportion of new jobs likely to earn lower-income wages
  - Est. new households formed by lower-income workers
  - Est. cost of developing housing affordable to lower-income households*

*Lower-income households in LA County include three-person households earning:
  - Up to $50,700 annually (Very Low Income); or
  - Up to $81,100 annually (Low Income)
HOW IS IT CALCULATED?

- Determine subsidy required to produce affordable housing units
  - Compare typical development costs for new housing units to the value of units when rented at levels affordable to lower-income households

Subsidy needed to develop affordable units:

- **Very Low Income** = ~$370,000 per unit
- **Low Income** = ~$165,000 per unit
## Sample Fee Calculation

### Estimated Number of New Workers

\[
\text{Estimated number of new workers} = \frac{100,000 \text{ square feet of new commercial space}}{2.5 \text{ workers per 1,000 square feet}} = 250 \text{ new workers}
\]

### Estimated Number of Lower-Income Workers

\[
\text{Estimated number of lower-income workers} = 250 \text{ new employees} \times 60\% \text{ earning lower-income wages} = 150 \text{ lower-income workers}
\]

### Estimated Number of Lower-Income Households

\[
\text{Estimated number of lower-income households} = \frac{150 \text{ lower-income workers}}{1.5 \text{ workers per household}} = 100 \text{ lower-income households}
\]

### Maximum Allowable Fee

\[
\text{Number of lower-income households} \times \text{Subsidy needed per affordable unit}
\]
CALCULATED MAXIMUM ALLOWABLE FEES

- Technical analysis calculated *maximum allowable fee* for six commercial land uses.
- City can charge any fee up to maximum – most cities charge below, taking into consideration nearby communities and the impact on development economics.

<table>
<thead>
<tr>
<th>Land Use</th>
<th>Workers Per 1,000 Sq. Ft.</th>
<th>% Lower Income Workers</th>
<th>Max Allowable Fee (per sq. ft.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail/Restaurant</td>
<td>1.8</td>
<td>93.7%</td>
<td>$249</td>
</tr>
<tr>
<td>Office</td>
<td>4.0</td>
<td>41.4%</td>
<td>$171</td>
</tr>
<tr>
<td>Warehouse/Industrial/Manufacturing</td>
<td>1.7</td>
<td>39.8%</td>
<td>$66</td>
</tr>
<tr>
<td>Media Studio and R&amp;D/Flex</td>
<td>1.5</td>
<td>11.0%</td>
<td>$30</td>
</tr>
<tr>
<td>Lodging</td>
<td>1.5</td>
<td>93.1%</td>
<td>$148</td>
</tr>
<tr>
<td>Assisted Living</td>
<td>1.0</td>
<td>83.2%</td>
<td>$141</td>
</tr>
</tbody>
</table>
LINKAGE FEE CONSIDERATIONS
### LINKAGE FEES IN COMPARABLE CITIES

- Linkage fee levels in LA County range from $3-$13 per square foot.
- Bay Area cities with similar companies to Culver City have linkage fees up to $37 per square foot.

<table>
<thead>
<tr>
<th>Cities</th>
<th>Office (per sq. ft.)</th>
<th>Retail (per sq. ft.)</th>
<th>Hotel (per sq. ft.)</th>
<th>Industrial (per sq. ft.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Los Angeles County</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Santa Monica</td>
<td>$7.65-$12.60</td>
<td>$10.96</td>
<td>$3.45</td>
<td>$8.47</td>
</tr>
<tr>
<td>West Hollywood</td>
<td>$8.92</td>
<td>$8.92</td>
<td>$8.92</td>
<td>$8.92</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>$3.00-$5.00</td>
<td>$3.00-$5.00</td>
<td>$3.00-$5.00</td>
<td>$3.00-$5.00</td>
</tr>
<tr>
<td>Glendale</td>
<td>$4.00</td>
<td>$4.00</td>
<td>$4.00</td>
<td>$4.00</td>
</tr>
<tr>
<td><strong>Santa Clara County</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mountain View</td>
<td>$28.25</td>
<td>$3.02</td>
<td>$3.02</td>
<td>$28.25</td>
</tr>
<tr>
<td>Santa Clara</td>
<td>$20.00</td>
<td>$5.00</td>
<td>$5.00</td>
<td>$10.00</td>
</tr>
<tr>
<td>Cupertino</td>
<td>$24.60</td>
<td>$12.30</td>
<td>$12.30</td>
<td>$24.60</td>
</tr>
<tr>
<td>Sunnyvale</td>
<td>$17.20</td>
<td>$8.60</td>
<td>$8.60</td>
<td>$17.20</td>
</tr>
<tr>
<td>Milpitas</td>
<td>$8.00</td>
<td>$8.00</td>
<td>$8.00</td>
<td>$4.00</td>
</tr>
</tbody>
</table>
IMPACTS ON DEVELOPMENT ECONOMICS

- Impact fees are additional cost on development projects, affecting overall feasibility
- Overall impact fees as a percent of project values (based on average rents) provide context for how significantly a new fee will impact development

Among neighboring cities, overall impact fee levels represent 1.4%-4.1% of local average project values

Culver City’s existing fees represent 2.6%-2.7% of average project values in the City.
FEE IMPLEMENTATION AND ADMINISTRATION

Implementation Considerations

- Phasing in of fee program
- Fee differentiation by use
- Exemptions based on size or use (i.e. mixed-use projects)

Administration Considerations

- Timing of fee collection
- Automatic indexed annual increase
INITIAL RECOMMENDATIONS

EPS has made the following preliminary recommendations to City:

- **$5 per square foot linkage fee**
  - Lower middle of range for LA County

- **Same fee for all non-residential uses**
  - Simpler to administer
  - Recognize that many commercial space can accommodate multiple use types

Implementation and administration issues in discussion:
- Impacts of pandemic and effect on timeline to implement fee program
- Size of development subject to fee – e.g. greater than 10,000 sq. ft.
- Timing of collection – e.g. at building permit or occupancy
- Would program apply to in-progress projects, or be phased in
NEXT STEPS
NEXT STEPS

November-December 2020
- Adjustments to recommendations based on stakeholder and community feedback

Early 2021
- City Council consideration of fee program

- Answers to Frequently Asked Questions and draft technical documents available on the City’s website:
  - Visit [https://www.culvercity.org/live/get-involved](https://www.culvercity.org/live/get-involved) and click on “Affordable Housing Linkage Fee”

- Comments can be sent to Todd Tipton, Economic Project Manager, at todd.tipton@culvercity.org
APPENDIX
## HOUSEHOLD INCOME LIMITS

### 2020 Household Income Limits for Los Angeles County

<table>
<thead>
<tr>
<th>Income Category</th>
<th>1-Person Household</th>
<th>2-Person Household</th>
<th>3-Person Household</th>
<th>4-Person Household</th>
<th>5-Person Household</th>
<th>6-Person Household</th>
<th>7-Person Household</th>
<th>8-Person Household</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely Low</td>
<td>$23,700</td>
<td>$27,050</td>
<td>$30,450</td>
<td>$33,800</td>
<td>$36,550</td>
<td>$39,250</td>
<td>$41,950</td>
<td>$44,650</td>
</tr>
<tr>
<td>Very Low</td>
<td>$39,450</td>
<td>$45,050</td>
<td>$50,700</td>
<td>$56,300</td>
<td>$60,850</td>
<td>$65,350</td>
<td>$69,850</td>
<td>$74,350</td>
</tr>
<tr>
<td>Low</td>
<td>$63,100</td>
<td>$72,100</td>
<td>$81,100</td>
<td>$90,100</td>
<td>$97,350</td>
<td>$104,550</td>
<td>$111,750</td>
<td>$118,950</td>
</tr>
<tr>
<td>Median</td>
<td>$54,100</td>
<td>$61,850</td>
<td>$69,550</td>
<td>$77,300</td>
<td>$83,500</td>
<td>$89,650</td>
<td>$95,850</td>
<td>$102,050</td>
</tr>
<tr>
<td>Moderate</td>
<td>$64,900</td>
<td>$74,200</td>
<td>$83,500</td>
<td>$92,750</td>
<td>$100,150</td>
<td>$107,600</td>
<td>$115,000</td>
<td>$122,450</td>
</tr>
</tbody>
</table>

Note: The “low” household income threshold is above the median household income for LA County, to reflect the relatively high cost of housing in the County.

*Source: California Department of Housing and Community Development*