Affordable Housing Linkage Fees

Production

"How can Richmond create funds locally to build more housing for low-income residents?"

"When new businesses build in Richmond, don't they have a responsibility to contribute to the city as a whole?"

"Housing developers are creating homes for new residents, but aren't contributing to the housing supply for the working-class residents who made Richmond the place that it is. How can we make sure that the development benefits everyone?"

Linkage fees, also commonly referred to as "impact fees," are fees that cities charge on new development to account for the increased demand for governmental services, like affordable housing. A

Housing Policy and Belonging in Richmond

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commercial linkage fee applies to new commercial and industrial businesses, like a food production facility or a warehouse company. Residential linkage fees apply to new market-rate housing development. Both are designed to help fund governmental services that are needed as a result of development. In the case of Richmond, a fee is being proposed that would channel revenue towards building affordable housing for lower-income residents. This revenue would go into a city-run affordable housing trust fund that can only be used to develop new affordable housing for lower-income people.

Understanding the Policy

When new commercial development occurs, including warehouse, retail, office, etc., some of the jobs created do not pay employees high enough wages for the workers to afford market-rate housing. As a result, when businesses that move to, or get started in, Richmond create new jobs, they add to the demand for affordable housing. In fact, in the East Bay between 2009 and 2016, 100,000 new jobs were added in occupations that have a median wage of less than $15 per hour.[111] Furthermore, as Richmond grows and people are attracted by the prospect of new jobs, low-income residents are squeezed hardest by the gap between their income and the costs of housing. By charging a fee on new commercial developments and dedicating that money to affordable housing, linkage fees help to produce additional affordable housing. Many cities currently have these fees, including Los Angeles, Oakland, Sacramento, and San Diego. In each city, there must be a legally defensible argument that there is a "link" between new commercial developments and increased demand for affordable housing. Using this linkage argument (also called a

Ordinance

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- Expanding Transitional and Supportive Housing
- Community-Owned Development Enterprise
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"nexus study"), cities charge a per-square-foot fee on new developments.

Similarly, when new market-rate housing construction occurs, new tenants move in and spend their incomes on nearby goods and services, increasing the demand for workers in certain low-wage professions. A nexus study can also link the increased amount of money spent by these new residents to the increased need for lower-wage workers (who in turn need affordable housing), and cities can charge developers a per-square-foot fee on new residential developments accordingly. Linkage fees are an especially important source of funding now that state and federal funds for affordable housing have dwindled. A linkage fee policy would establish a permanent[112] local revenue stream for affordable housing in Richmond.

Additionally, a linkage fee could be tailored to serve the needs of groups who may be overlooked in federal and state housing programs, such as individuals returning from incarceration. The linkage fees would complement the existing funds that have been generated through in lieu fees, which as of March 2016 amounted to $776,513.[113]

Designing the Policy

In order to establish a linkage fee, cities must first conduct a nexus study. Nexus studies analyze the relationships between commercial development projects, the new employment generated, the new demand for workers and worker households, their income distributions, and an estimate of those new households that will need affordable housing. Nexus studies make the case that there is, or is not, a link between new commercial developments and increased demand for affordable housing. If a link is established, cities will set a per-square-foot fee on new commercial developments in the writing of an ordinance. The nexus study determines the maximum fee that can be legally levied on new development, but cities rarely opt to charge the legal maximum because a fee that is too high can slow (or altogether halt) new development. Cities therefore must strike a balance between levying a high enough fee to mitigate the impact of development on housing, without setting the fee so high that it impedes new investment.

In January 2016, the City of Richmond contracted with KMA to conduct an Affordable Housing Nexus study (the project is managed by the planning department and the contract with KMA expires December 30, 2017). The results of this are not yet public. After the Nexus Study is completed, the first step is to ensure that these findings are publicly shared and to understand if they support a linkage fee. Second, if the nexus is established, a council member must bring this item to the council as an ordinance. The council can then vote on this ordinance and establish the fee. Finally, proper implementation requires the collection of fees and the use of the revenue to develop units.

One disadvantage of linkage fees is that because the policy needs to be established as an ordinance, its passage could be complicated by opposition from pro-business and pro-development groups. Additionally, since the funds made available through a linkage fee would have to be administered by the city, having sufficient city administrative capacity to distribute the funds will be crucial for a linkage fee model to be successful. Moreover, because linkage fees must be established by a city ordinance, city staff and community stakeholders must be engaged to ensure that the ordinance's language specifies that affordable housing be prioritized for the groups most in need or vulnerable to housing insecurity and displacement. However, according to a Bay Area affordable housing expert, linkage fees rarely generate sufficient revenue to create housing for extremely low-income residents. Serving these populations would likely require additional coordination with a local housing authority to create project-based Section 8 vouchers that would be used in the developments created with linkage fee funding.[114]

Resources

- The Non-Profit Housing Association of Northern California created a detailed list of Bay Area cities with residential linkage fees (pages 1-3) and commercial linkage fees (pages 4-7). Note that this information was current as of November 2015 and there have likely been new policies passed that are not reflected in this document.
- Inclusionaryhousing.org published a primer on linkage fees specific to the Bay Area.
- ABAG has published summaries on commercial linkage fees and residential linkage fees that include links to Nexus studies and model ordinances from around the Bay Area. (Note that the references to the "Palmer decision" in the residential linkage fee are no longer relevant, as Gov. Brown signed a "Palmer fix" bill in the fall of 2017).

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111. "Occupational Employment Statistics (OES)," California

Employment Development Department, accessed November 10, 2017, https://data.edd.ca.gov/Wages/Occupational-Employment-Statistics-OES-/pw....

112. While a linkage fee could provide a permanent source of funding for affordable housing, it is important to note that the revenue generated from linkage fees fluctuates depending on whether the local economy is in decline or improving, since fees are only levied when new development occurs. Thus, it may be challenging to consistently predict how much money will be generated for affordable housing in advance.

113. The source for the March 2016 figure is a response letter from the City of Richmond to a Contra Costa Civil Grand Jury survey on affordable housing. In lieu fees are generated when market-rate developers construct new residential buildings with 10 units or more. As part of Richmond's inclusionary zoning policy, when new construction of 10 or more units occurs, developers are given the option to either set aside 10 percent of the units as affordable, or to pay in lieu fees into an affordable housing fund.

114. Source: Jeff Levin, East Bay Housing Organizations.

UPCOMING EVENTS

NOV 14 **#SayTheWord: The Politics of Language and Disability**

APR 08 **Othering & Belonging 2019 (April 8-10)**

MANY Voices, ONE Message to the Legislature:

Appropriate all the Housing Trust Funds for Housing.

What is the Sadowski Coalition and who are the Sadowski Coalition Affiliates?

- The Sadowski Coalition, a collaboration of diverse statewide organizations that urge the legislature to use all the housing trust funds for Florida's housing programs.
- The Sadowski Act passed in 1992, increasing the doc stamp tax paid on all real estate transaction and placing these monies in a dedicated state and local housing trust fund.
- Today the Sadowski Coalition is comprised of more than 30 diverse statewide organizations representing millions of Floridians.
- The Sadowski Affiliates are local and regional organizations in Florida that support the Sadowski Coalition's mission to ensure that all the state and local housing trust funds are used solely for housing.

How are florida's housing programs funded?

- 70% of monies go to the Local Government Housing Trust Fund for the State Housing Initiatives Partnership (SHIP) program which funds housing programs in all 67 counties and larger cities.
- 30% of monies go to the State Housing Trust Fund for Florida Housing Finance Corporation programs such as the State Apartment Incentive Loan (SAIL) program.

What do these programs do? Who do they serve?

- SHIP funds can be used for repair of existing housing stock to allow seniors to age in place or to provide retrofitting for persons with special needs;
- SHIP funds can be used to provide first time homeownership with down payment and closing cost assistance, as well as preservation of existing housing;
- SAIL funds can be used to rehabilitate existing apartments in dire need of repair or to build new units where needed; apartments that house Florida's most vulnerable populations, such as the frail elderly and persons with disabilities;
- SAIL and SHIP programs span from homelessness to the moderate income essential workforce;
- The beauty of both SHIP and SAIL is that they are flexible and can meet changing needs and priorities within the same program framework.

What is the need for these programs?

- More than 911,000 very low-income households in Florida pay more than 50% of their income on housing – they are one missed paycheck away from homelessness;
- Florida has the third largest homeless population in the nation.

What is the economic impact of Florida's housing programs?

- SHIP and SAIL are highly leveraged, with private sector loans and equity providing $4 to $6 for every one dollar of state funding—thus greatly increasing economic impact.
- The appropriation of the estimated $314.08* million in the state and local housing trust funds in Fiscal Year
- 2018-19 into Florida's housing programs will create **over 30,000 jobs and more than $4 BILLION in positive economic impact in Florida.***

What is our priority for the 2018 Session?

Together the Sadowski Coalition and the Sadowski Affiliates bring a cohesive message and urge the Florida Legislature to use all of Florida's housing trust fund monies for Florida's housing programs.

**$314.08 million based upon documentary stamp projection from August 2017 Revenue Estimating Conference for FY 18-19.*

For more information, please visit: www.SadowskiCoalition.com

Membership in the Sadowski Affiliates is free
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