



City Council Meeting: August 27, 2013

Agenda Item: 3-C

To: Mayor and City Council
From: Andy Agle, Director of Housing and Economic Development
Subject: Affordable Housing Production Program Fee Resolutions

Recommended Action

Staff recommends that the City Council adopt the attached Resolutions that would automatically adjust the Affordable Housing Unit Base Fee for new market-rate apartments and condominiums and the Affordable Housing Unit Development Cost.

Executive Summary

The proposed adjustments to the Affordable Housing Unit Base Fee and Affordable Housing Unit Development Cost reflect changes in land and construction costs. On June 13, 2006, the City Council approved the methodology for ascertaining changes in these costs and thereby, calculating the adjustment. The attached resolutions have been prepared in accordance with the approved methodology. The Affordable Housing Unit Base Fee and the Affordable Housing Unit Development Cost would be 0.8 percent higher than the existing amounts and would become effective November 1, 2013, if approved.

Background

The Affordable Housing Production Program (AHPP), Chapter 9.56 of the City's Municipal Code, implements Proposition R, which establishes that not less than 30 percent of all newly constructed multi-family housing in the City annually must be affordable to low- and moderate-income households for at least 55 years. The AHPP was adopted by the City Council on July 21, 1998 and has been periodically amended, as necessary. The AHPP requires developers of new market-rate, multi-family housing to contribute to affordable housing goals by dedicating a portion of a development's total residences as affordable housing, constructing affordable housing off site, dedicating land for affordable housing development, or paying the Affordable Housing Unit Base Fee.

This fee is updated annually based upon changes in land and construction costs. When a

developer chooses to dedicate a portion of a project's total residences as affordable housing, the number of affordable residences that must be provided is based on the number of market-rate units in the development. Oftentimes, the calculation of required affordable residences results in a fraction. In that instance, when the fraction is 0.75 or more, the number is rounded-up to a whole number. However, any fraction less than 0.75 can be satisfied by payment of a fee. The amount of the fee is based upon the Affordable Housing Unit Development Cost, which is also automatically adjusted annually based upon changes in land and construction costs. For example, if a developer is required to provide 4.7 units of affordable housing within a development, the developer would be required to dedicate four affordable units and pay 0.7 times the Affordable Housing Unit Development Cost to satisfy the requirement associated with the fraction.

Discussion

Annual Fee Adjustments

Section 9.56.070 of the City's AHPP provides that the Affordable Housing Unit Base Fee and the Affordable Housing Unit Development Cost shall be adjusted annually by City Council resolution based on changes in construction and land costs. The fee adjustment methodology is detailed in Section 2 of the AHPP Administrative Guidelines and reflects the methodology approved by the City Council in 2006. The fees are adjusted based on two factors: 1) changes in construction costs as measured by the Engineering News Records Construction Cost Index, and 2) changes in land costs measured by using the proxy of change in median condominium sales prices. The previous annual adjustment, adopted by Council on September 11, 2012, increased the fees by 0.8 percent (\$0.22 per square foot for apartments and \$0.36 per square foot for condominiums).

The table below summarizes this year's proposed adjustment to the fees, which would be increased by 0.8 percent again based on this year's changes in land and construction costs.

Fee Description	2012 Amount	2013 Amount	% Change
Affordable Housing Unit Base Fee – Apartments (per square foot)	\$27.57	\$27.79	+0.8%
Affordable Housing Unit Base Fee – Condominiums (per square foot)	\$32.20	\$32.46	+0.8%
Affordable Housing Unit Development Cost	\$289,299	\$291,613	+0.8%

The proposed Resolutions, Attachments A and B, would adjust the fees accordingly, effective November 1, 2013. Details of the calculations prepared by HR&A Advisors for the Affordable Housing Unit Base Fee and the Affordable Housing Unit Development Cost are provided in Attachments C and D. The revenue implications are minimal as the proposed fees represent an increase of less than one percent and the average annual fee revenue in recent years has been

approximately \$500,000.

On August 16, 2013, the City published notice in the Santa Monica Daily Press of this hearing and the availability of the HR&A Advisors' analyses. The City republished this notice on August 21, 2013. Copies of these analyses have been available in the City Clerk's Office for public review since August 16, 2013.

Financial Impacts & Budget Actions

The proposed rate change in the Affordable Housing Production Program (AHPP) fee will increase annual revenues by an estimated one percent or \$6,000 at account 04264.404400. Revenues have been included in the FY 2013-14 adopted budget.

Prepared by: Jim Kemper, Housing Administrator

Approved:

Andy Agle, Director
Housing and Economic Development

Forwarded to Council:

Rod Gould
City Manager

Attachments:

- A. Resolution Automatically Adjusting the Affordable Housing Unit Base Fee - S.M.M.C. 9.56.070(b)
- B. Resolution Automatically Adjusting the Affordable Housing Unit Development Cost - S.M.M.C. 9.56.070(c)
- C. HR&A Analysis: Proposed FY 2013-14 Annual Automatic Adjustment for the Affordable Housing Unit Base Fee
- D. HR&A Analysis: Proposed FY 2013-14 Annual Automatic Adjustment for the Affordable Housing Unit Development Cost