



CITY COUNCIL AGENDA REPORT

Meeting Date: March 2, 2023

From: John Swiecki, Community Development Director

Subject: Updated Commercial Linkage Fee Nexus and Feasibility Study

Community Goal/Result

Fiscally Prudent - Brisbane's fiscal vitality will reflect sound decisions which also speak to the values of the community

Purpose

Update the 2015 Commercial Linkage Fee Nexus and Feasibility Study to support future consideration of commercial linkage fees to generate local funds the City can program to preserve, rehabilitate, and construct new housing developments affordable to low-income households in Brisbane.

Recommendation

Authorize the City Manager to extend the scope of the City's current professional services agreement with ECONorthwest to include update of the 2015 commercial linkage fee nexus and feasibility study and authorize a one-time not to exceed amendment to the contract of \$55,000.

Background

Until their dissolution in 2012 by the State, Redevelopment Agencies were the primary financial tools cities had to develop affordable housing in their communities. Brisbane's Redevelopment Agency specifically funded development of 14 rental senior units (Bridge Housing) and eight for-sale homes (Habitat for Humanity). The loss of Redevelopment funds left the City with no dedicated source of ongoing funding for affordable housing development.

In the post-Redevelopment world, the primary financial tool available to cities for financing affordable housing development are nexus fees charged to new commercial development, based on a study that shows the "nexus" or connection between new development and an increased demand for affordable housing. Nexus fee studies are required by the California Government Code to support imposing a fee on new development.

In 2015, the City participated in a "Grand Nexus Study" convened by San Mateo County's 21 Elements collaborative prepared by economic consultants Strategic Economics and Vernazza Wolfe Associates. The resulting report for Brisbane analyzed the nexus between new commercial development and the resulting demand for affordable housing development, analyzed the maximum possible fee that could be legally supported, and analyzed the most feasible fee that could be levied without making development unaffordable. The nexus study was reviewed by a City Council

subcommittee in 2016 but no action was taken. The commercial nexus fee feasibility study was updated in 2020, at the beginning of the COVID –19 pandemic economic shutdown.

Discussion

The City has committed to adopting commercial nexus fees in its 2023-2031 Housing Element, a key strategy to collect local funds to develop new affordable housing. To support fee adoption in 2023, the original nexus study must be updated and a new feasibility analysis using current economic data and trends is required.

The City’s consultant for the Affordable Housing Strategic Plan, ECONorthwest, is uniquely qualified to prepare such an update considering their existing scope of work evaluating the City’s current affordable housing funds and viable ongoing sources of affordable housing funding through the AHSP. ECONorthwest has submitted a proposal to complete this work via an amendment of \$55,000 to their existing contract.

Fiscal Impact

The proposal would increase the City’s contract with ECONorthwest from \$125,390 by \$55,000, or to \$180,390, paid from the low/moderate income housing fund balance (currently exceeding \$3 million).

Measure of Success

Adoption of a commercial nexus fee that will leverage anticipated commercial development to generate funds to build affordable housing.

Attachments

1. Draft scope of work and budget proposal from ECONorthwest



John Swiecki, Community Development Director



Clay Holstine, City Manager

DATE: January 29, 2023
 TO: Julia Ayres; City of Brisbane
 FROM: Chris Blakney, Katherine Buck; ECONorthwest
 SUBJECT: City of Brisbane Commercial Linkage Fee Nexus Study – Scope of Work

ECONorthwest is pleased to provide the City of Brisbane with this scope of work to lead a commercial linkage fee study. This study is based on the recommendations of the Affordable Housing Strategic Plan that highlighted the possibility that a commercial linkage fee could be a feasible tool for Brisbane to increase funding to support affordable housing production in the city. As part of a countywide effort, the City completed a feasibility study for a commercial linkage fee and housing impact fee in 2015 and this proposal is to complete an update to the previous study.

Scope of Work:

The updated Commercial Linkage Fee Nexus Study would establish the connection between new commercial development and an increase in need for affordable housing and would calculate an appropriate fee to be levied on the commercial development. This study will review the feasibility and risks of a linkage fee, establish the nexus, and propose a range of linkage fees per square foot of new commercial development in the city. The City has identified that they want to study a commercial linkage fee for the following specific commercial uses:

- Hotel
- Traditional office,
- Life sciences and research & development space,
- Industrial space.

The scope of work will be completed in three tasks, as described below.

Task 1 - Explore Market Feasibility & Risk Assessment

As part of the Affordable Housing Strategic Plan, ECONorthwest evaluated some of the considerations for a commercial linkage fee. The first task of this study will be to dive deeper into these considerations to highlight the feasibility of a linkage fee and address the potential benefits and risks of a new fee. We will determine if there is substantial market demand for new development in the city and will review case studies of other cities that have implemented commercial linkage fees to have a comprehensive understanding of the impacts of a linkage fee policy. We will create a comparative linkage fee matrix that includes the linkage fee rates in other cities in San Mateo County and for neighboring counties in the region. We will highlight any political or financial risks or barriers to implementation.

Funding Source	Ease of Implementation	Political Palatability	Revenue Potential	Flexibility	Adverse Impact Risk
Com Linkage	Moderate	Low Barrier	Potentially High	Mixed	High

Source: Potential Funding Streams for the City of Brisbane, ECONorthwest (July 14, 2022)

Task 2 - Establish the Nexus & Determine the Fee

In Task 2, we will research and establish the nexus between new commercial development and its impact on the demand for affordable housing in the community. We will employ the following steps to establish the nexus:

1. Determine the four land use categories that will be included as part of the study: hotels, traditional office, life sciences and research & development space, and industrial. We will assume a standard square footage of 100,000 SF across the four land use categories to complete the analysis.
2. Use the employment density per commercial use (based on current industry standards) to estimate the number of employees that will be supported by new development per category.
3. Identify the industry sectors and associated NAICS codes for each commercial use and use Bureau of Labor Statistics and Employment Development Department data to estimate the wages of these employees.
4. Use Census data to calculate the average workers per household ratio and use the ratio to translate the employee wage into a household income. The households' incomes will then be compared to local Area Median Income (AMI) to see the number of households that are categorized as very low income ($\leq 50\%$ AMI), Low Income (51-80% AMI), and Moderate Income (81-120% AMI) categories.
5. Estimate the affordability gap based on what these households can afford to pay for housing (assuming no more than 30% of household income is spent on housing) and the development cost of a new housing unit in Brisbane. Calculate the aggregate affordability gap created by each commercial use to establish whether the new development will increase the need for affordable housing options.
6. Divide the affordability gap by the 100,000 SF assumption per commercial use to calculate the per square foot maximum fee.

Task 3 - Refine the Fee Range

In the previous task, we will demonstrate if there is a nexus and the maximum commercial linkage fee by commercial use and in Task 3, we will refine the fee and determine a feasible linkage fee range by commercial use. The range will serve as the guardrails for the fee to ensure that it contributes to the affordable housing fund without discouraging new development. To identify the fee range, we will take a three-step approach:

1. We will create three scenarios and adjust the scenario inputs, including employment densities, income, and/or household assumptions, to test sensitivities related to the data assumptions. We will rerun the analysis in Task 2 to test the scenarios and calculate the per square footage fee needed to offset the affordability gap for each of the three scenarios, to create the baseline linkage fee range per commercial use.
2. Next, we will compare the calculated commercial linkage fee rates to the comparative linkage fee matrix created in Task 1 to ensure the range for Brisbane is competitive and within a reasonable range of its neighboring jurisdictions. We will calibrate the Brisbane

range so that it does not have the highest linkage fee rates in the region, or else it could disincentivize developers to build in Brisbane.

3. After right-sizing the fee range based on the regional context, we will create a pro forma and conduct sensitivity analysis to ensure the fee range will still allow for new commercial projects to pencil in each of the land use categories. Based on the pro forma analysis, we will recommend a fee range that balances the opportunities for revenue creation with impact of commercial development. We strongly recommend that the City selects a fee rate that is well below the maximum supportable rate to minimize the risk of market disruption.

We will also evaluate whether the City should consider a phasing schedule or any exemptions to the policy for specific development types.

Deliverable: Fee Analysis Memo including a feasible range for a commercial linkage fee by land use category; supporting data tables will be included in the Appendix.

Fee: Time and materials based on the attached rate schedule, with a not to exceed of \$55,000.

Schedule: February 2023 – May 2023

We look forward to supporting the City of Brisbane with this important study. Please let us know if you have any questions or would like to discuss the scope further.

Sincerely,

Chris Blakney, Project Director

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