



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Lee Wilcox
Kim Welsh
Jacky Morales-Ferrand

**SUBJECT: COMMERCIAL LINKAGE FEE
STATUS UPDATE**

DATE: June 11, 2020

Approved

Date

6/11/2020

INFORMATION

The purpose of this memorandum is to provide an update on the status of the Commercial Linkage Fee project.

In March of 2019, the City Council directed staff to conduct nexus and feasibility studies for a Commercial Linkage Fee. A Commercial Linkage Fee is a fee assessed on new commercial development for the purpose of offsetting the need for affordable housing generated by that development. Funding was included in the Fiscal Year 2019-2020 budget and a competitive procurement was launched in June 2019 to secure a consultant to conduct the two studies. Staff procured the consultant, Keyser Marston Associates, and they began work in September 2019. Prior to the COVID-19 pandemic, Keyser Marston had prepared draft nexus and feasibility studies for this project. Staff had planned to bring the proposed Commercial Linkage Fee before the Council in April 2020, but the advent of the COVID-19 emergency delayed Council consideration of the matter because it necessitated re-assigning all project staff to emergency operations and required evaluation of the impacts of the emergency on non-residential development in the studies.

Staff plans to bring the Commercial Linkage Fee forward for Council consideration on August 25, 2020. Although Keyser Marston had prepared draft studies prior to the emergency, those studies are now being revised in light of the economic downturn caused by the COVID-19 pandemic. Given the fluidity of the current economic situation and the uncertain course of both the pandemic and the economic recovery, the consultant will not attempt a comprehensive revision of the nexus and feasibility analysis based on current economic conditions. Rather, the consultant will supplement the already-prepared analysis with an assessment of the implications of COVID-19 for commercial real estate development. The revised report may also include options for implementation of the fee over time as the economy improves. A detailed list of planned modifications to the nexus and feasibility studies is provided below.

Nexus Study Modifications

- a. Research third party sources addressing potential effects of COVID-19 on employment densities.
- b. Provide a narrative discussion of COVID-19 and potential effects on employment densities and the resulting Nexus Study maximum fee level findings.
- c. Update the nexus analysis and report to reflect updated 2020 income limits and affordable rents that were released since the draft study was prepared.

Feasibility Study Modifications

- a. Update developer outreach and insert description of input received in the feasibility study.
- b. Research third party sources addressing economic effects of COVID-19 on commercial real estate.
- c. Provide a discussion of COVID-19 and potential implications for project feasibility.
- d. Revise fee level recommendations as may be appropriate.
- e. Provide a discussion regarding options for implementation of a new fee that takes into consideration findings of the above tasks.

Keyser Marston is currently working to update the studies. Based on the time needed to do this work, staff has developed the following revised project schedule.

| Milestone | Timeframe |
|--|-------------------------------|
| Receive revised Nexus Study from KMA | June 26, 2020 |
| Receive revised feasibility study from KMA | July 10, 2020 |
| Release Nexus and Feasibility Studies | July 17, 2020 |
| Conduct Public Outreach | Weeks of July 20 and 27, 2020 |
| Staff Recommendation Released | August 14, 2020 |
| City Council Meeting | August 25, 2020 |
| Effective Date of Ordinance | October 15, 2020 |
| Effective Date of Fee Resolution | November 14, 2020 |

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Public outreach will include focus group meetings with stakeholders and a public meeting. The item will go before the City Council for action on August 25, 2020. To enact a fee, the Council will be asked to consider approving both an ordinance and a fee resolution. The ordinance would establish the fee while the resolution would set the fee amount.

/s/

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