Survey of Linkage Programs in Other U.S. Cities

with Comparisons to Boston

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Summary and Conclusions

This report surveys linkage programs across the United States. Data were collected on linkage efforts and the resulting funds raised for increasing the supply of housing in most major cities with significant linkage programs. These data permit a general comparison of linkage across political and economic environments.

The results indicate that Boston's linkage program is best in the nation for raising funds for housing creation while encouraging continued economic growth and development.

Few cities in the U.S. have official linkage programs, likely due to fear of the program's impact on economic growth, an existing market for housing creation, and/or a lack of political will. However, many cities unofficially request public benefits, including housing funds or direct creation, in exchange for zoning approval for downtown development projects. We studied only those municipalities with statutory linkage requirements.[1]

In addition to Boston, the study closely examined Cambridge (MA), San Diego (CA), San Francisco (CA), Sacramento (CA), Berkeley (CA), and Seattle (WA). Also reviewed were programs in Cherry Hill (NJ), Hartford (CT), Jersey City (NJ), and Princeton (NJ), where, after contacting the relevant municipal governments, it appeared that these programs are either not producing at a noteworthy amount, are no longer in effect, or are no longer enforced.

As a result of these comparisons, it is clear that Boston's housing linkage program has produced more funds for affordable housing creation than has any other program in the country.

This strong performance is due to Boston's powerful combination of:

- **higher fees than most cities;**
- **full-city coverage;**
- **broad coverage of development types; and**
- **flexibility to reduce disincentives of development.**

[1] Numerous factors affect the success of linkage including market growth, available land, and cost of development. In addition, there are idiosyncrasies within each city, such as different agencies and departments involved in and overseeing the linkage program, other revenue sources combined with linkage funds, and other contextual factors that limit direct comparisons with other cities and increase the difficulty of determining exact linkage dollars and outcomes for every city.

Boston's Linkage Program

In Boston, more than $45 million in linkage funds have been allocated for the construction of nearly 5,000 housing units since 1986. Boston's linkage program requires that developers of large-scale commercial, retail, hotel, or institutional structures seeking zoning relief pay an exaction to construct affordable housing off-site. These fees are paid on either a 7-year (downtown) or 12-year (neighborhood) schedule, usually beginning at issuance of a building permit. Mayor Thomas M. Menino has proposed raising the current fee – $5.00/s.f. plus a $1.00/s.f. jobs payment – to $7.18/s.f. and $1.44/s.f.

Boston's linkage program is distinguished by having the breadth of coverage that cities like Sacramento and Cambridge employ and the high contribution requirement of a city like San Francisco. These are major reasons why Boston has been able to collect more than $45 million over a period that produced just $10 million in San Francisco (1986 – 2000). San Francisco is now considering revising their linkage system to Boston's broader coverage.

Boston's extended payment period also adds an element of flexibility that has facilitated the progress of development in difficult circumstances. Deferred payments on the 7- to 12-year schedule allow developers to pay linkage fees out of operating revenues from the project rather than from "up front" equity investment, reducing the financing necessary to begin construction. However, this deferral does diminish the Net Present Value (NPV) of the $5.00 fee to $3.83 (7 years) and $2.58 (12 years).[2] Due to the 100,000 s.f. exemption, the effective NPV for the average size office building (700,000 s.f.) is even lower at $3.28 (7 years) and $2.21 (12 years). Mayor Menino's proposal would result in higher NPVs ($5.49/7 year and $3.71/12 year) and higher effective NPVs ($4.71/7 year and $3.18/12 year).

More financially secure developments have often been encouraged to present value their contributions at an earlier date. Projects that have "cashed out" at prescribed present values include Rowes Wharf, Buildings 149, 33, and 38 in the Charlestown Navy Yard, and several institutional developments. Most recently, the developers of One Lincoln Street agreed to cashing out their linkage obligation at issuance of building permit.

The advantage of present valuing is the higher financial value that is obtained for housing by calculating the present value at the low discount rate prescribed by Boston's linkage ordinance. The rule requires that a cash out discount rate shall be the average of the city's rate (currently the 4.1% yield on city bonds) and the private developer's rate (in recent instances about 8.55%). The average of the above would be 6.325%. A development cashing out its entire linkage obligation at this discount rate would contribute an NPV of $4.19/s.f. Although still less than the nominal $5.00 fee, this is greater than the $3.83 that the payment contract would bring if sold on the open market at a 10% discount rate. In this way, Boston's payment schedule allows for an upward flexibility that may be negotiated with able and willing developers.

Scheduled payments have also helped assure a steady inflow of funds to the Neighborhood Housing Trust, even over periods of low development activity such as the past recession. The Trust has collected contributions in every single year since it was created.

[2] Assuming a discount rate of 10% and valued to the date of building permit issuance. Net Present Value (NPV) is a financial concept that recognizes the time value of money. The value of a future payment is reduced in proportion to an interest rate or "discount rate".

Findings from Other Cities

San Francisco, California

San Francisco's current linkage program, adopted in 1981, requires new or expanded commercial office space throughout the city to contribute $7.05/square foot (as of December 1994), with a 25,000 s.f. exemption, paid on issuance of building permit. No other uses are covered, although discussion is now underway to expand the program. The City Planning Commission initiated a revised ordinance on March 18, 1999 that would extend mitigation payment requirements to include hotel, retail, and entertainment uses.

The proposed extension of San Francisco linkage to cover hotel, retail, and entertainment uses has been stalled in large part by another proposal to raise the base fee and include additional uses. This extension would establish a $9.00/s.f. fee for "research and development technology" or "multimedia" space, while exempting such uses from the current 950,000 s.f. annual office space growth cap, which was enacted in 1986 as "Proposition M." Growth control advocates oppose the lifting of the growth cap for these uses. Until this is settled, the linkage extension issue appears on hold.

Although San Francisco's current office linkage fee exceeds the NPV of both Boston's current $5.00 nominal fee ($3.83) and Boston's proposed $7.18 fee ($5.49), all other uses pay more in Boston. The proposed San Francisco fees for hotel ($4.25/s.f. with 25,000 s.f. exemption), retail ($5.29/s.f. with 100,000 s.f. exemption), and entertainment ($5.29/s.f. with 50,000 s.f. exemption) uses are all less than the NPV of the proposed $7.18/s.f. Boston fee. Even if/when San Francisco broadens its fee base, it still will not cover the institutional uses that have made substantial Boston contributions.

A key influence of San Francisco's willingness to require high fees on developers is the low 1.164% ($11.64 per thousand dollars) commercial tax rate, as compared to Boston's 3.421% ($34.21 per thousand dollars). New office space in San Francisco must pay about $3.50/s.f. per year property taxes, while the tax in Boston may exceed $10/s.f. A major influence on the results of the San Francisco linkage program is the impact of growth control measures that have effectively neutralized the ability of high fee levels to contribute to housing programs. From 1980 to 1985, the housing linkage fee yielded $28.1 million; from 1986 to 1992, the linkage fee yielded $7.2 million; and from 1992 to 1998 the linkage fee yielded $0. During the years 1999-2000, San Francisco made agreements for $2.7 million in new linkage payments. In comparison, during this same period Boston made agreements totaling over $15 million with approximately $3.7 million to be paid in 2000.

Sacramento, California

Sacramento's linkage program, begun in 1989, bases linkage fees according to use, assuming that different uses create employment at different intensities. There is no exemption, and fees are paid prior to building permit. The current fees are:

- Office $0.99/s.f.
- Hotel $0.94/s.f.
- R&D $0.84/s.f.
- Commercial $0.79/s.f.
- Manufacturing $0.62/s.f.
- Warehouse/Office $0.36/s.f.
- Warehouse $0.27/s.f.

As an alternative, developers may directly build affordable housing to meet 80% of their obligation, but they must pay at least 20% of the fee to the city's housing fund. The Sacramento linkage fee covers new construction, expansion, and renovation that increase density of employment. It exempts retail for financial hardship reasons, and allows exemption of projects that result in minimal employment increases. The Sacramento fee program raised only $2 million as of 1998.

Berkeley, California

Berkeley's linkage ordinance was adopted in April of 1993 to assure that commercial development projects mitigate or compensate for increased demands for affordable housing and child care. Office, retail, industrial, and other commercial uses exceeding a threshold size of 7,500 s.f. are covered. The current fee level remains unchanged from the schedule established in 1993. Office and retail uses pay $4.00/s.f. to the City Housing Trust Fund and $1.00/s.f. to the City Child Care Operating Subsidy Fund. Industrial uses pay one-half this rate, or $2.00/s.f. and $0.50/s.f. respectively. Payments are calculated on the total gross square feet of the project, with no exemption. New construction, change-of-use, and re-use of vacant (for at least three years) buildings are all covered, except that industrial change-of-use projects are exempt. Payments are made in three installments: the first is due before issuance of a building permit, the second before issuance of an occupancy permit, and the final payment is due one year after occupancy.

A notable feature of Berkeley's linkage program is that the fee schedule is defined as a ceiling from which a reduction may be negotiated on the grounds of reduced impact or hardship (financial feasibility) coupled with "overriding benefits for the City". Berkeley has received pledges of $1.93 million for housing and $840,000 for child care since guidelines were first established in 1988, although not all of this has been realized as some projects were not completed.

San Diego, California

San Diego initiated its linkage program in 1990, but reduced its fee schedule in 1996 by half. Debate now revolves around alternatives of raising the fees back to their original level or eliminating them altogether. The majority of City Council candidates favor elimination, according to news sources. Currently, the fee, due prior to issuance of building permit, is:

- Office $1.06/s.f.
- Hotel $0.60/s.f.
- R&D $0.75/s.f.

- Retail $0.60/s.f.
- Manufacturing $0.60/s.f.
- Warehouse $0.26/s.f.

San Diego has raised nearly $30 million to date, including earned interest.

Seattle, Washington

Seattle maintains a voluntary linkage payment or "Bonus Program" which allows developers of commercial properties to purchase extra floor-area ratio (FAR) by providing amenities, historic preservation, child care, or affordable housing. Alternatively, a developer can choose to buy the bonus FAR at $20/s.f. ($13 in the secondary office market districts). The cash out figure is purposefully high, as the city prefers the developer actually builds affordable housing or directly subsidizes its construction via a non-profit developer. Most of the developers will go with the performance option because it is usually less expensive, and the goodwill generated often helps the developer with future projects. Housing units constructed through the production option must be maintained affordable for 20 years, but after 10 years the developer can remove the affordability restrictions by building comparable housing elsewhere or contributing cash equal to the value of comparable units.

The results of the Bonus Program are modest. From 1989 to the end of 1999, 166 housing units were created through the production option and $5 million was raised via cash contributions.

Seattle has recently concluded that the process is cumbersome and that the number of units produced or preserved is relatively low. The city has begun a process of revamping its linkage program using Boston and San Francisco as models.

Cambridge, Massachusetts

The City of Cambridge has a citywide linkage program that affects commercial, hotel, retail, and institutional development. The linkage fee in Cambridge is $3.00/s.f., raised from $2.00/s.f. in September 1997. Payment is due by first occupancy, allowing the NPV to vary depending on length of initial vacancy. Cambridge has a 30,000 s.f. threshold, but allows only a 2,500 s.f. exemption.

Since the start of the program in 1988, Cambridge has collected $750,000 and has $2.5 million in the pipeline.

Future Steps

Additional options are being examined for improving the existing Boston linkage program beyond the recent announcement of a raise in the housing linkage fee to $7.18 (plus $1.44 jobs linkage). These options include lowering the exemption from 100,000 s.f., extending the downtown 7-year payment schedule to the neighborhoods, and decreasing the downtown payment schedule. While Boston's linkage program has proven extremely successful in the past, and recent changes promise even greater success in the near future, proposed changes must consider the legal and economic framework of linkage. The justification for linkage is mitigation for rising housing prices caused by economic and job growth. Any approach to modifying the linkage program must remain focused on this primary justification in order to limit the possibility of a legal threat. Additionally, while Boston's economy is currently booming, too large an increase in linkage, coupled with additional public benefits required of developers by both the City and the impacted neighborhoods, could dissuade developers and thus diminish the actual construction necessary to generate linkage dollars.