



Jeff Levine, AICP
Director, Planning & Urban Development Department

Memorandum

To: Housing Committee
From: Jeff Levine, Director
Date: June 21, 2018
Re: Hotel Linkage – Revised Nexus Study and Draft Ordinance

As per your direction at your June 5, 2018, meeting, we have worked with the Greater Portland Council of Governments to revise their nexus study and also drafted a proposed ordinance based on that study. Both are attached.

The nexus study revisions were based on three major comments, which are repeated with their responses and staff comments below:

- *Income needed to afford rent seems low.* GPCOG used Maine Housing data in the initial memo. To address the concern of the subcommittee they added language about the limitations of the Maine Housing data.
- *Static Affordability Gap.* The methodology used to address the affordability gap only covers a single year because it is using annual salary as the basis for the calculation. To research the answer to this question, GPCOG staff reached out to Karl Seidman, a consultant who has completed several of these studies throughout the country, to ask how he would approach this issue. He said the methodology is rational and perhaps we could use a financing guideline to determine a duration of time. They also contacted both Maine Housing and Avesta but were unable to find any relevant guideline to assign a duration of time. Karl suggested it's likely the City would simply need to make a decision about how many years it wanted to use in the calculation. Given that using even one year's impact results in a range of per-room fees up to \$5,165, staff does not recommend going above that level at this time.
- *Revise to Linkage Fee Terminology-* They edited the memo accordingly. Staff recommends using the term "Hotel Linkage Fee" rather than "Housing Impact Fee" in order to avoid confusion about this proposed ordinance and the Impact Fee study and proposed ordinance under development for transportation, stormwater/sewer and parks/open space.
- *Jobs per Household Data-* GPCOG's methodology used Cumberland County data for jobs created per household. They changed this data to reflect Portland's geography.

Sec.14-484. Purpose.

It is in the public interest to promote an adequate supply of affordable housing for the city's residents. The purpose of this division therefore is to offer incentives to developers to include units of affordable housing within development projects or based on demonstrated need caused by creation of new lower-income jobs, thereby mitigating the impact of market rate housing construction on the limited supply of available land for suitable housing, and helping to meet the housing needs of all economic groups within the city. The city believes that this division will assist in meeting the city's comprehensive goals for affordable housing, in the prevention of overcrowding and deterioration of the limited supply of affordable housing, and by doing so promote the health, safety and welfare of its citizens.

Sec. 14-485. Definitions.

...

Hotel Project is any hotel, inn or motel, as defined in this ordinance, consisting of 10 or more rooms for rent. Any such development that expands by 10 or more rooms within any 5 year period will also be considered a Hotel Project.

14-489 Hotel Linkage Fee

- (a) Purpose: This section is based on City analysis, most specifically documented in the Greater Portland Council of Government study "Proposed Methodology for Hotel Linkage Fees" dated 6/15/18, that finds that new hospitality developments create a need for new affordable housing. This need is the result of the fact that these uses create a number of jobs that do not pay sufficiently to afford housing provided in the market.
- (b) Applicability: This section applies to all Hotel Projects as defined in 14-485 that are not complete as of the effective date of this section.
- (c) Hotel Linkage Fee: All Hotel Projects shall pay a linkage fee as shown in the table below, which would address one year's impact from development of that hotel room on the housing market. This amount shall be paid into the City's Housing Trust and used for the purposes set forth in the ordinance and regulations applicable to that trust:

<u>Hotel Projects with Building Permits but without Certificates of Occupancy as of the Applicable Date of this Ordinance</u>	<u>\$2,500 per room</u>
<u>Hotel Projects without Building Permits as of the Applicable Date of this Ordinance</u>	<u>\$5,000 per room</u>

(d) **Annual Adjustments:** These amounts shall be adjusted annually in the same way as the fee under Division 29 for Housing Replacement.

(e) **Regulations:** The Planning Board may promulgate implementing regulations based on this ordinance.

Sec. 14-489490. Housing trust fund.

To: Jeff Levine, Planning & Urban Development Director
From: Stephanie Carver, GPCOG Planning Director
Date: 6/15/18
RE: Proposed Methodology for Hotel Linkage fees

Introduction

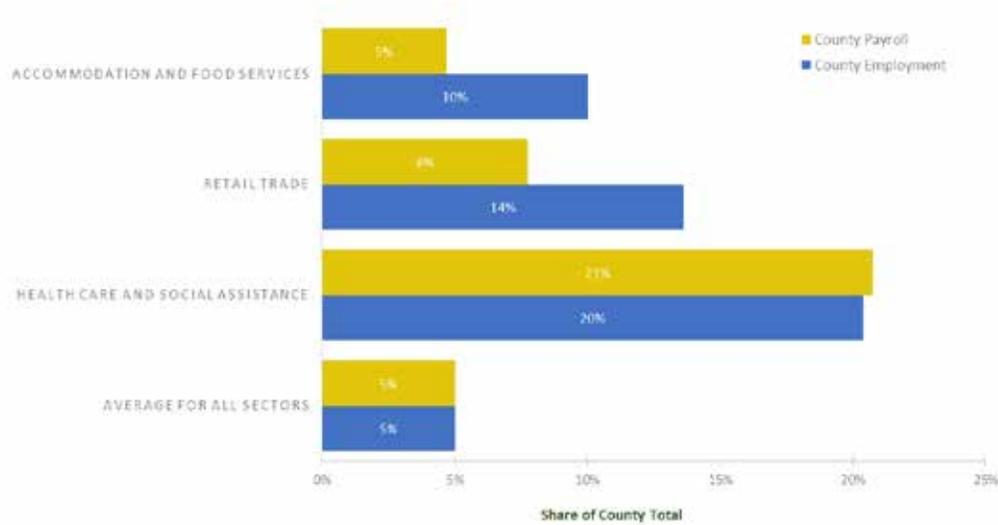
The City of Portland's Department of Planning & Urban Development is examining the feasibility of a proposal for assessing hotel linkage fees. The purpose of this memo is to provide information to the City regarding the use of linkage fees for this purpose and outline a potential methodology for the calculation of a fee.

Background

Linkage fees are fees that cities may choose to implement to help mitigate the effects of new commercial development on the demand and availability of affordable housing. Prior to implementing a fee policy, communities often conduct a study to identify the connection, or “nexus” between new commercial development and the need for additional affordable housing. It is assumed that new commercial development contributes additional workers to a city's workforce and adds new worker households. In many industries, a percentage of these households do not make enough to live and work in the same city. Looking outside the city to find affordable housing often results in longer commute times and higher transportation costs. If implemented, a linkage fee is typically charged to a developer as a condition of approval and it is assessed based on total square footage or number of units in the development.

The City's Comprehensive Plan identifies the increasing demand for affordable housing as an emerging issue and sets a goal of pursuing “policies to enable people who work in Portland to have the option to live in Portland.” To be considered affordable, housing should consume no more than 30% of a household's income including rent, mortgage, utilities and other household related costs. Of the 1,130 housing units that were permitted and/or built in Portland between 2010 to 2014, including apartments, condominiums and single-family homes, just 29% were offered at a rent or sales price affordable to a household earning the median income¹.

CUMBERLAND COUNTY EMPLOYMENT 2016



Source: US Census County Business Patterns, 2016

The Maine office of Tourism estimates over 36 million tourists visited Portland in 2017. Hotel development is steadily increasing, with 1,811,050 square feet of hotel development representing 2,647 units currently in operation throughout the Cityⁱⁱ. According to the US Census, the accommodation and food service sector is the third largest share of employment in Cumberland County, representing 10% of the County’s workforce but only 5% of the County’s payroll. In fact, the median employee in this sector earns \$312 a week or \$16,227 per year, nearly half of the median wage in Cumberland County of \$696 per week or \$36,187 per yearⁱⁱⁱ. A worker employed at the County median wage earns 85% of the household income needed to afford the median rent in Portland, while the average accommodation and food service worker earns a median wage that is 37% of the household income needed to afford the median rent in Portland.^{iv} This affordability gap may force accommodation workers employed in Portland to seek housing outside of Portland.

COMPARISON OF MEDIAN WEEKLY WAGE BY INDUSTRY 2016

	Portland	Cumberland County	Maine
Accommodation and Food Service	\$353	\$312	\$290
Retail Trade	\$418	\$466	\$410
Health Care and Social Assistance	\$685	\$699	\$611
Total - All Industries	\$616	\$696	\$611

Source: US Census American Community Survey 2016 5-year sample

According to the Maine State Housing Authority the average rent (including utilities) for a two-bedroom apartment in Portland is \$1,053 per month and the household income needed to afford the average rent in Portland is \$42,111 per year. However, this is the average rent paid by existing renters in Portland and new households moving to Portland will pay the current market rate, which is generally higher than the average rent. As of June 15, 2018, there are roughly 60 two-bedroom apartments listed for rent in Portland on Zillow, with monthly rents ranging between \$1,300-\$3,500. One third of those apartments are listed with rents between \$1,500 and \$2,000, and another third of those apartments are listed for more than \$2,000 per month. Therefore, a new household moving to Portland will expect to pay between 120%-330% of the average rent to live in the City.

Methodology

Methodologies used to calculate linkage fees vary, but in most cases the analysis begins with an estimation of the number of new employees associated with a typical development, in this case a hotel. In this methodology, a formula is used to calculate the affordability gap between what workers can afford to pay for housing and the average cost of market rate housing.

In Portland's case, a link is established between the creation of new jobs in the hotel sector and the increased demand for affordable housing through the following steps:

- **New Jobs.** Industry data was used to estimate the number of direct jobs that will be created by the new hotel with 180 units. According to the Urban Land Institute the typical hotel employs between 0.5-0.8 employees per hotel room. Using an average value of 0.65 employees per hotel room it is estimated that a hotel with 180 rooms will employ 117 people. The current ratio of jobs per household was used to estimate how many households will be created by this new employment.
- **Households.** Currently there are 37,737 employed civilians aged 16 and over living in the 30,211 total households in Portland. This means that on average there are 1.2 jobs per every household in Portland. Based on this ratio it was estimated that the 117 additional jobs created by a new hotel will create 94 new households in Portland. However, it is assumed employment in these households will be split up between different occupations, such as management, sales, service, and maintenance. Depending on the occupation the wages for each occupation may be higher or lower than the median wage for the hotel industry. Therefore, industry occupation employment and wage data examined from the ACS was used to estimate how many new households will be low income.

EMPLOYED POPULATION PER HOUSEHOLD 2016

	Portland	Cumberland County	Maine
Employed Civilian Population 16+	37,737	155,014	652,638
Total Households	30,211	117,871	551,109
Jobs/Household	1.2	1.3	1.2

Source: American Community Survey 2016 5-year estimate

- Jobs by Occupation.** Based on industry and occupation employment data from the ACS 64% of jobs in the hotel industry are service occupations, 19% of hotel jobs are management occupations, 13% of hotel jobs are sales and office occupations, and the remainder are maintenance and transportation occupations. The total number of jobs and households that will be created in each occupation was calculated by multiplying the share of hotel employment by occupation by the total number of new hotel jobs created.

NEW JOBS AND HOUSEHOLDS BY OCCUPATION CREATED BY NEW HOTEL EMPLOYMENT

	Share of Hotel Employment	Number of New Jobs	Number of New Households
Service	64%	74	60
Sales and Office	13%	15	12
Transportation	4%	4	3
Maintenance	1%	1	1
Management	19%	22	18
Total - All Occupations	100%	117	94

Source: American Community Survey 2016 5-year estimate;
GPCOG Analysis

- Household Income.** To calculate the household income for each household in each occupation category the median wage by occupation data for Cumberland County from the ACS was used. This calculation assumes 1 person in each new household works full time in the hotel industry and any additional workers in the household earn the area median income.

NEW HOUSEHOLDS AND HOUSEHOLD INCOME BY OCCUPATION

	Number of New Households	Median Wage for Hotel Income Earner	Median Wage for Second Income Earner	Total Household Income
Service	60	\$18,109	\$9,015	\$27,124
Sales and Office	12	\$30,444	\$9,015	\$39,459
Transportation	3	\$31,695	\$9,015	\$40,710
Maintenance	1	\$33,421	\$9,015	\$42,436
Management	18	\$52,910	\$9,015	\$61,925

Source: GPCOG Analysis and American Community Survey 2016 5-year estimates

- Affordability Gap.** These estimates for household income by occupation were compared to affordability data from the Maine State Housing Authority to show the difference between what the new households created by hotel employment earn and the minimum income needed to afford a two-bedroom apartment in Portland. These results show that households with Service or Sales and Office occupations have a household income that is lower than the minimum income needed to afford rental housing in Portland. This household affordability gap is largest (\$14,987) for households with Service occupations, which also represent nearly 2/3 of households created by the new hotel employment.

AFFORDABILITY GAP

	Number of New Households	Total Household Income	Income Needed to Afford Rent in Portland	Household Affordability Gap	Total Affordability Gap
Service	60	\$27,124	\$42,111	\$14,987	\$892,820
Sales and Office	12	\$39,459	\$42,111	\$2,652	\$32,048
Transportation	3	\$40,710	\$42,111	\$1,401	\$4,856
Maintenance	1	\$42,436	\$42,111	NA	\$0
Management	18	\$61,925	\$42,111	NA	\$0
Total					\$929,724

Rental Affordability Source: Maine State Housing Authority, 2017

- Aggregate Affordability Gap.** Next, the household affordability gap for each occupation was multiplied by the number of households with employment in each occupation to arrive at a total affordability gap of \$929,724 per year. This number represents the difference between these households' ability to pay for their housing and the market cost of their housing based on the median monthly rent. In reality these households will face much higher rental housing costs since the current shortage of rental housing in Portland means that rents for new units are significantly higher than the median rent.
- Final Calculation.** When we divide the affordability gap of \$929,724 by the number of new hotel rooms, we get an average affordability gap per room of \$5,165, or \$7.70 per square foot. Therefore, a fee of just under \$8 per square foot would cover a minimum justified

housing affordability gap for the 94 new households created by a new 180 unit hotel employment for one year.

This example estimate represents the full cost of the affordability gap for employment in one hotel for one year based on available data. Multiple industries could potentially affect the demand for affordable housing and the city may determine a higher or lower percentage of this fee based on these variables. Furthermore, this fee could be re-evaluated periodically as circumstances such as inflation, rents, and rental housing supply change.

ⁱ Portland 2030 Housing Demand, GPCOG 2015

ⁱⁱ Data from City of Portland, Department of Planning & Urban Development.

ⁱⁱⁱ 2016 median wage data from the US Census American Community Survey (ACS)

^{iv} (Source: US Census County Business Patterns, 2016).