



Honorable Mayor and Members of the Hermosa Beach City Council

REPORT ON PLANNING COMMISSION'S REVIEW OF LAND VALUE RECAPTURE ORDINANCE, AND ADOPT A RESOLUTION AMENDING THE CITY MASTER FEE SCHEDULE TO AMEND FEES FOR THE LAND VALUE RECAPTURE PROGRAM FOR AFFORDABLE HOUSING

CEQA: The action is exempt from the California Environmental Quality Act (CEQA) pursuant to section 15378(b)(4) of the CEQA Guidelines the action is exempt from the California Environmental Quality Act (CEQA) pursuant to section 15378(b)(4). (Community Development Director Alison Becker)

Recommended Action:

Staff recommends City Council:

1. Find that the action is exempt from the California Environmental Quality Act (CEQA) pursuant to section 15378(b)(4) of the CEQA Guidelines; and
2. Adopt a resolution amending the City Master Fee Schedule to amend fees for the Land Value Recapture Program (**Attachment 1**); and
3. Direct staff to explore zoning regulations that encourage development of residential units on "small lots" on the Housing Inventory List and include as a part of the City's Zoning Code Update.

Executive Summary:

At the November 18, 2025, special meeting, the Planning Commission reviewed the LVR Ordinance. It is recommended that the City Council lower the fees for lots with a maximum density of four or fewer units.

Background:

Land Value Recapture (LVR) policies are founded on the principle that properties gain value from specific city actions, such as infrastructure improvements or rezoning. As a result, a portion of the increased value should be captured and used for public benefit. Land Value Recapture is one of the policy programs established in the City's 2021-2029 Housing Element to support the development of affordable housing (**Attachment 1**). The City Council adopted the corresponding Zoning Text Amendment (ZTA) Ordinance No. 24-1474 to implement the LVR program on January 23, 2024, and it went into effect on August 1, 2024, when the Housing Element was certified by the California Housing and Community Development (HCD) (**Attachment 2**). In its certification letter to the city, HCD emphasized the importance of the city's timely and effective implementation of all adopted

programs, including, but not limited to, LVR. Furthermore, HCD established an expectation that the LVR program would be evaluated biennially (every two years) **(Attachment 3)**.

At its March 25, 2025, meeting, City Council directed the Planning Commission to review the Land Value Recapture (LVR) Ordinance as it pertains to “small lots.” At its November 18, 2025 special meeting, the Planning Commission reviewed the LVR Program and discussed potential recommendations to the City Council.

Past Commission & Council Actions

Meeting Date	Description
November 16, 2021	Planning Commission Consideration of a comprehensive amendment to the HE for the 2021-20219 planning period, including Land Value Recapture
December 21, 2021	City Council conducted a public hearing, adopted the 2021-2029 Housing Element, and authorized submission to HCD
July 18, 2023	Planning Commission Study Session discussing Housing Element-related Zone Changes and Zone Text Amendments
August 8, 2023	City Council adopts Housing Element and associated changes to the Land Use Element of the General Plan
August 15, 2023	City Council Study Session discussing Housing Element-related Zone Changes and Zone Text Amendments
September 19, 2023	Planning Commission recommended approval of the General Plan Amendment, Map Changes, and Zone Text amendment, including Land Value Recapture
October 10, 2023	City Council Discussion of Land Value Recapture (LVR)
October 17, 2023	Planning Commission adopted a Resolution reflecting Zone Text Amendments to effectuate the Housing Element programs
October 24, 2023	City Council consideration of General Plan Amendment, Zone Changes, and Zone Text Amendments to effectuate programs of the 2021-2019 Housing Element
December 12, 2023	City Council consideration of Zone Text Amendment adding Land Value Recapture and amending criteria for affordable housing and Resolution establishing fees
January 23, 2024	City Council adoption of ZTA adding the LVR and amending the criteria for affordable housing
November 18, 2025	Planning Commission reviewed the LVR Ordinance and made a recommendation to City Council on potential amendments

Discussion:

The City’s Land Value Recapture Ordinance is structured to capture a portion of the land value created by adding residential development capacity to properties previously zoned for non-residential uses only. The LVR ordinance applies to properties on the Housing Element Inventory list that benefited from the rezoning of the property with the Housing Element Overlay (HE-) zone (**Attachment 4**). The HE overlay expanded the permitted uses on the rezoned parcels to include residential and mixed-use. However, the property is exempt from the fee if the proposed residential development includes 15 percent very-low-income, 15 percent low-income, or 25 percent moderate-income units. The City Council established a two-tiered fee structure aimed at providing a lower fee for “smaller lots” or lots that would accommodate a minimum density of four (4) or fewer residential units (Tier 1) and a higher fee for larger lots where a minimum density of five (5) or more residential units could be developed.

LVR Exemption Tiers	Fee
Tier 1 – Minimum Density 4 or fewer residential units	\$76/per square foot
Tier 2 – Minimum Density 5 or more residential units	\$104/per square foot

The LVR fee was calculated to be the equivalent cost of creating affordable residential units on-site, on non-residentially zoned properties that can now include residential development. Fees collected from Land Value Recapture would then be used to develop affordable housing locally. This could take the form of development subsidies for constructing affordable housing or funding for converting existing units into affordable housing. Additionally, funding could be used to support the South Bay Regional Housing Trust Fund. Contributing to the Housing Trust Fund is another strategy to create affordable housing and is incorporated into the Housing Element as Program 8.

The City’s Land Value Recapture regulations were structured to incentivize the construction of affordable housing rather than the payment of the exemption fee. For this reason, the City Council elected to study and ultimately impose a cost greater than originally proposed in the Land Value Recapture analysis prepared by Kosmont Companies (**Attachments 5 and 6**). In addition to evaluating the equivalent value, the market analysis assessed the market’s tolerance of the LVR fee. The pro forma for the small lot showed a return on investment of approximately 12.3 percent, which was deemed financially viable for a typical developer.

As of August 2025, the Housing Element has been certified for a year, and we are in the fifth year of implementation of the 6th Cycle (2021-2029) Housing Element. The city has continued to make progress in developing new housing units, although all new units remain at market rate. To date, no entitlement applications have been submitted on HE Overlay sites that include the development of affordable units or developments necessitating the payment of LVR fees.

The small-lot category accounts for 24.6 percent of the 558 residential units the city is responsible for planning in the 2021-2029 Housing Element.

RHNA and LVR TIER 1 (“Small Lots”)					
	Income Category				
	Very Low	Low	Moderate	Above Moderate	Total
RHNA (2021-2029)	232	127	106	93	558
LVR Tier 1 (“Small Lots”)	16	27	84	10	137

When the LVR Ordinance was adopted, the City Council and staff recognized the importance of periodically reevaluating it, as numerous factors impact housing production. The Planning Commission considered the LVR Ordinance and five possible amendments to the Ordinance. Following a robust discussion, the Planning Commission recommended City Council:

1. Amend the Master Fee Schedule to exempt smaller lots, with a minimum density of 1-2 units, from any LVR fee;
2. Direct staff to explore zoning regulations that encourage development of residential units on “small lots” on the Housing Inventory List; and
3. Amend the regulations to provide a temporary reduction in the LVR Fee for lots with a minimum density of three and four units, to \$40 dollars per square foot, for 24 months.

A resolution memorializing the recommended fee changes is included as **Attachment 1** for City Council’s consideration. In consideration of the planning division’s current work program and staffing, staff recommends that any zoning text amendments be incorporated into the broader code update rather than as a stand alone amendment.

Environmental Analysis:

The establishment of the Land Value Recapture fee is statutorily exempt pursuant to the California Environment Quality Act (CEQA) pursuant to CEQA Guidelines section 15378 (b)(4), which provides that CEQA does not apply to the creation of governmental funding mechanisms that do not involve a commitment to a particular project which may result in a significant impact to the environment. The fee does not identify or permit any specific future project or projects.

Fiscal Impact:

Any LVR fees collected would be reserved for future affordable housing projects and would not be available for General Fund revenue. To date, the Community Development project has not received any residential projects that trigger the fee. The exact impact of the LVR fee reduction is unknown.

Attachments:

1. Draft Resolution
2. Housing Element (HE) 2021-2029
3. Ordinance 24-1474
4. Housing Community Development Letter Dated August 1, 2024
5. HE Sites Inventory List and Map
6. Land Value Recapture Analysis dated October 2023
7. Land Value Recapture Analysis dated December 2023

Respectfully Submitted by: Alexis Oropeza, Planning Manager

Concur: Alison Becker, AICP, Community Development Director

Noted for Fiscal Impact: Brandon Walker, Administrative Services Director

Legal Review: Jason Baltimore, Interim City Attorney

Approved: Steve Napolitano, City Manager