

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: September 13, 2023

CAO File No. 0220-06091-0000

Council File No. 09-0969-S4

Council District: Citywide

To: The Council

From: *for* Matthew W. Szabo, City Administrative Officer 

Reference: Department of City Planning transmittal dated August 7, 2023; Received by the City Administrative Officer August 9, 2023; Additional information received through August 30, 2023.

Subject: **REPORT BACK ON THE FISCAL IMPACT OF THE THREE NEW FEES
APPROVED ON AUGUST 30, 2023**

RECOMMENDATION

That the City Council note and file this report.

SUMMARY

On August 30, 2023, the City Council directed the City Administrative Officer (CAO) to report back on the fiscal impact of three new planning and land use fees. The proposed three new fees will provide approximately \$84,420 in additional planning case processing revenue in Fiscal Year 2023-24. This will result in a positive impact to the General Fund. This report includes background information on the planning and land use fees, the methodology used to determine the proposed new and updated fees, and details the fiscal impact.

BACKGROUND

The Mayor and Council adopted the original planning and land use fees in February 2018. The Department of City Planning (DCP) and consultant, NBS Government Finance Group (NBS) prepared the original comprehensive fee study. In November 2020, the DCP and NBS completed an update to the comprehensive fee study to reflect increasing costs for services. This update increased the fully burdened hourly rate from \$192 per hour to \$199 per hour and maintained some fees below full cost recovery. On October 20, 2021, Council approved the most recent updated fees effective December 27, 2021 through Ordinance No. 187237 ([C.F. 09-0969-S3](#)).

On March 16, 2023, the DCP transmitted a request for a planning and land use fee update and annual inflation adjustment ([C.F. 09-0969-S4](#)) to replace the fees adopted in 2021 through

Ordinance 187237. The report included proposed updated fees as a result of new processes established through the Processes and Procedures Ordinance, an identified need for cost recovery related to Historic Resource Assessment Review, and adherence to established Ordinance 187237 to include an annual inflation adjustment. Subsequently, the City Attorney informed the DCP that under the existing Ordinance 187237, the department was able to implement the first annual inflation adjustment to be effective July 1, 2023 without seeking further Mayor and Council approval. The DCP and City Attorney informed the CAO that a report was no longer needed to effectuate the annual inflation adjustment. On July 7, 2023, Council adopted Ordinance 187930 extending the operative date of the Processes and Procedures Ordinance 187712 from July 22, 2023 to January 22, 2024 ([C.F. 12-0460-S4](#)). Since the proposed new fees are a result of the Processes and Procedures Ordinance, this extension allowed more time to prepare the report and Ordinance for the proposed new fees.

Most recently, the DCP transmitted a report dated August 7, 2023 recommending to: 1) incorporate the 2023 CPI adjusted fee amounts that went into effect on July 1, 2023, and 2) add the consideration of Ordinance 187930 in the instruction to the City Attorney in relation to the proposed three new fees. The updated fee schedule inclusive of the 4.9 percent annual inflation adjustment was provided to the Mayor, City Council, and public in advance of the July 1, 2023 effective date, in compliance with Los Angeles Municipal Code Section 19.00 E. The addition of Ordinance 187930 considers the new operative date for the three new fees effective January 22, 2024.

DISCUSSION

New Fees Proposed

The DCP report dated August 10, 2022 regarding the Processes and Procedures Ordinance Public Outreach and Implementation Plan ([C.F. 12-0460-S4](#)) stated the need for a fee study to develop appropriate user fees for the new entitlement processes. The new entitlement processes are Alternative Compliance and Modification of Entitlement.

Alternative Compliance

The Alternative Compliance process enables applicants to propose an alternative design for their project that still complies with the intent of the zoning standard. The fee study used the average of the time required for Site Plan Review and Project Permit Compliance and the fully burdened rate of \$199 per hour to determine the new fee. The proposed new Alternative Compliance fee is based on the prior fee study and is set at full cost recovery. Table 1 shows the proposed new fee.

Table 1: Alternative Compliance				
Fee No.	Fee Description	Hours	Full Burdened Hourly Rate	Proposed Fee
19.01 G	Commission or Director Approvals			
19	Alternative Compliance	35.50	\$ 199	\$ 7,060

Modification of Entitlement

The Modification of Entitlement process allows applicants to make slight changes to their original site design or conditions of approval for projects that have been approved by DCP, but are pending issuance of a Certificate of Occupancy by the Los Angeles Department of Building and Safety. The fee study determined that these fees need to be tiered according to criteria that impact the level of effort required for City Planning staff to review and approve the request. The tiered fees are based on the DCP staff estimated time to process applications, prepare staff reports, attend required commissions and/or City Council hearings, and prepare documentation. The fees are calculated using the estimated staff time and the fully burdened rate of \$199 per hour. The proposed Modification of Entitlement fees are based on the prior fee study and is set at full cost recovery. Table 2 shows the proposed tiered new fees.

Table 2: Modification of Entitlement				
Fee No.	Fee Description	Hours	Full Burdened Hourly Rate	Proposed Fee
19.01 L	Modification of Entitlement			
	Director Approval			
	First Entitlement	20.00	\$ 199	\$ 3,978
	Each Additional Entitlement	1.00	\$ 199	\$ 199
	ZA Approval			
	First Entitlement	24.00	\$ 199	\$ 4,773
	Each Additional Entitlement	1.00	\$ 199	\$ 199
	CPC/APC Approval			
	First Entitlement	30.00	\$ 199	\$ 5,966
	Each Additional Entitlement	2.00	\$ 199	\$ 398

Pre-Application Historic Assessment Review

The DCP identified a need to recover costs for staff time spent reviewing Historic Resource Assessment (HRA) reports that are not related to a proposed entitlement project or environmental case. The fee study used the estimated time staff spend reviewing HRA reports and the fully burdened rate of \$199 per hour to determine the new fee. The proposed Pre-Application Historic Assessment Review fee is based on the prior fee study and is set at full cost recovery. Table 3 shows the proposed new fee.

Table 3: Pre-Application Historic Assessment Review				
Fee No.	Fee Description	Hours	Full Burdened Hourly Rate	Proposed Fee
19.01 F	Fees for Historic Related Applications			
21	Historic Resource Assessment Review	5.25	\$ 199	\$ 1,044

Existing Fee Increases

On October 19, 2021, Council adopted the Ordinance 187237 amending Section 19.00 through

19.12 of the Los Angeles Municipal Code to update the DCP's fees for applications and appeals for planning approvals, inclusive of language to adjust the existing fees for inflation beginning July 1, 2023. The DCP report dated March 16, 2023 fee attachment includes a 4.9 percent CPI annual inflation adjustment increase to 175 existing planning and land use fees. As previously stated in this report, the updated fees went into effect on July 1, 2023.

Annual Inflation Adjustment

Pursuant to Ordinance No. 187237, the fees in Section 19.01 through 19.10, and Section 19.12 shall be automatically adjusted annually for inflation beginning on July 1, 2023, in accordance with the latest change in year-over-year CPI for Urban Consumers (CPI-U) in the Los Angeles area, as published by the United States Department of Labor, Bureau of Labor Statistics. The DCP and their consultant, NBS propose to use the year-over-year percent change in CPI-U for the Los Angeles area from December each year. The CPI is based on prices of food, clothing, shelter, and fuels, transportation fares, charges for doctors' and dentists' services, drugs, and the other goods and services that people buy for day-to-day living. The December 2022 year-over-year percent change in CPI-U is 4.9 percent. The City Attorney has advised that reliance on an automatic fee escalator is appropriate.

The DCP's recommended new and updated fees are based on the methodology that established the current fees. This Office concurs with the DCP's proposed new fees for Alternative Compliance, Modification of Entitlement, and Pre-Application Historic Assessment Review set at full cost recovery. The proposed adjustment for annual inflation is based off the Ordinance No. 187237 language. Approximately 25 percent of the proposed fees do not provide full cost recovery. This contributes to the General Fund subsidy for these fees. This Office advises to set all fees at full cost recovery to minimize impacts to the General Fund. However, this Office does recognize the Council's policy decision to set some fees below full cost recovery and concurs with the DCP's recommendations.

Revenue

The three new fees will provide approximately \$84,420 in total projected Fiscal Year 2023-24 revenue. Additional revenue from the CPI adjustment is not included in the total projected revenue and is not able to be determined at this time. The total is comprised of \$63,540 for Alternative Compliance and \$20,880 for Pre-Application Historic Resource Assessment Review. The DCP projects a single number of cases for Alternative Compliance. This Office used the \$7,060 proposed fee amount and nine cases to determine the \$63,540 estimate. The DCP projects about 20 Pre-Application Historic Resource Assessment Review cases in its first year. This Office used the \$1,044 proposed fee amount and 20 cases to determine the \$20,880. There is no anticipated revenue projected from the Modification of Entitlement fee because an existing fee offsets this revenue source. The proposed new fees will apply to Revenue Source Code 4047 Planning and Land Use Fees. The Planning and Land Use Fees are revenue included in the Planning Case Processing Special Fund, which currently has an estimated \$21.2 million General Fund subsidy in Fiscal Year 2023-24. Additional revenue incurred will support a reduction to the subsidy.

FISCAL IMPACT STATEMENT

There is a positive impact to the General Fund as a result of the recommendations in this report. The proposed new fees will provide approximately \$84,420 in additional planning case processing revenue in Fiscal Year 2023-24 as a result of amending the fees in LAMC Section 19.01 through 19.12. The revenue from the proposed three new fees are anticipated to increase in the following years.

FINANCIAL POLICIES STATEMENT

The recommendations in this report comply with the City's Financial Policies in that the proposed three new planning and land use fees for service are set at full cost recovery. In addition, the City's Financial Policies permits the Mayor and City Council to set the amount of fee for service below full cost recovery and must take action to appropriate the necessary funds to fully pay for the services. The Mayor and City Council previously determined to set the amount of some fees for service below the level required to recover the reasonable cost of providing the service and have complied with reporting through the budget process. The proposed updated fee schedule maintains these fees at or below full cost recovery based on inflation adjustments.