


REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: September 14, 2020

CAO File No. 0220-00540-1481
Council File No. 20-0922
Council District: Citywide

To: The Mayor
The Council

From: Richard H. Llewellyn, Jr., City Administrative Officer 

Reference: Housing and Community Investment Department Transmittal dated July 2, 2020; Received by the City Administrative Officer on July 27, 2020; Additional Information Received through September 1, 2020

Subject: **REQUEST FOR AUTHORITY TO AMEND SECTION 161.352 OF THE LOS ANGELES MUNICIPAL CODE (LAMC) FOR A FEE ADJUSTMENT TO THE SYSTEMATIC CODE ENFORCEMENT PROGRAM FEE**

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor, approve one of the following two options:

Option A:

1. Authorize the increase of the Systematic Code Enforcement Program Fee to an amount of up to \$81.25 per unit annually, effective in the 2021 billing cycle and with corresponding revenues to be reflected in the 2021-22 Budget; and,
2. Request the City Attorney to prepare and present an Ordinance to amend Section 161.352 of the Los Angeles Municipal Code to adjust the Systematic Code Enforcement Program Fee to an amount of up to \$81.25.

Option B:

3. Authorize the increase of the Systematic Code Enforcement Program Fee to an amount of up to \$81.25 per unit annually, effective in the 2021 billing cycle and with corresponding revenues to be reflected in the 2021-22 Budget;
4. Authorize the monthly pass through of 1/12th of 50 percent of the Systematic Code Enforcement Program Fee to tenants; and,
5. Request the City Attorney to prepare and present Ordinances to:

- a. Amend Section 161.352 of the Los Angeles Municipal Code (LAMC) to adjust the Systematic Code Enforcement Program Fee to an amount of up to \$81.25; and,
- b. Amend Section 151.05.1 of the LAMC to allow a monthly pass through of 1/12th of 50 percent of the Systematic Code Enforcement Program Fee to tenants instead of a monthly pass through of 100 percent of the Fee.

SUMMARY

The Housing and Community Investment Department (HCID) requests authority to amend Section 161.352 of the Los Angeles Municipal Code (LAMC) to increase the annual Systematic Code Enforcement Program Fee for inspections of multi-family rental housing under the Systematic Code Enforcement Program (SCEP) from \$43.32 to \$81.59 per rental unit, an increase of \$38.27 or 88 percent. The Department requests the fee increase to be effective January 1, 2021 to meet its operational costs for administering the Systematic Code Enforcement Program (SCEP) through calendar year 2023.

This Office recommends a proposed fee of \$81.25, an increase of \$37.93 or 88 percent, to support current-level services, including full reimbursement of related costs associated with staffing for SCEP. This proposed fee assumes a staff vacancy rate of ten percent in Fiscal Year 2020-21, a five percent vacancy rate in the following years, and allows for an ending 2022-23 fund balance that could support the Department through the next fee study and potential increase in January of 2024. The fee was last changed in 2012 and is discussed further in this report. This Office concurs with HCID's budgetary assumptions for their fee analysis, with the exception of the Department's estimated salaries, printing and binding expenditures. Using the Mayor's proposed 2020-21 budget for HCID, this Office determined that HCID's salaries expenditures should be higher, and the printing and binding expenditures should be slightly lower than HCID first assumed for the fee analysis. Subsequent to the release of their transmittal dated July 2, 2020 (Report), the HCID identified additional savings to reduce the estimated negative cash balance for the Code Enforcement Trust Fund as of July 1, 2020. This Office concurred with the revised cash balance estimate and determined a revised fee proposal. The HCID concurs with the alternative fee proposal of \$81.25.

Subsequent to the HCID consultant's fee study and the release of the Mayor's proposed budget, various factors could result in additional Departmental savings that could potentially reduce the fee needed to recover HCID's costs for the Program over the next three years. The impact of savings from a hiring freeze, Separation Incentive Program, and potential furloughs to offset a reduction in General Fund revenues as a result of the current pandemic, could not be estimated as of the writing of this report as a result their current ongoing status.

Section 151.05.1 of the LAMC allows a monthly pass through of 100 percent of the SCEP Fee to tenants. In light of the current pandemic, the Mayor and Council may consider amending the LAMC to allow 1/12th of 50 percent of the SCEP Fee to be passed through to tenants instead.

This Office concurs with the Department's recommendations, as amended to propose a reduced

fee increase that reflects additional savings HCID identified subsequent to the release of their Report. These recommendations are reflected in Option A. The HCID Report does not include a recommendation reducing the allowable pass through of the SCEP Fee to tenants. Should the Council choose to reduce the allowable pass through from 100 percent to 50 percent, this Office recommends approving the recommendations in Option B.

Fee Increase Justification

A fee increase is required to maintain current-level services beyond June 2021. The HCID executed a contract with BAE Urban Economics (BAE) to conduct a fee study analysis of the Systematic Code Enforcement Program (SCEP). Based on their analysis of HCID's projected expenditures and revenue, BAE concluded that HCID would not generate enough fee revenue in the January 2021 billing cycle to support the current fiscal year's budgeted operational expenditures. BAE's study proposes four separate fee increases based on various assumptions on vacancy rates. Additional information on the four proposed rates, assumptions, and analysis is included in HCID's Report and BAE's fee study attached to the Report.

This Office reviewed the fee study and conducted an alternative analysis based on HCID's projected 2020-21 expenditures and an assumption that HCID will obtain a ten percent vacancy rate in the current year, and a five percent vacancy rate for the following two years. The CAO analysis concurs with BAE's analysis that HCID will have insufficient revenue, collected from January through March of 2021 at the current fee of \$43.32, to support the current fiscal year's projected operational expenditures. Additionally, the CAO analysis assumes a different starting cash balance for 2020-21 based on savings identified by HCID subsequent to the release of their Report. The HCID concurs with the alternative proposed rate of \$81.25, which is \$37.93 more than the current fee of \$43.32 and represents an 88 percent increase. The Department indicates that without a fee increase, the HCID would have to implement significant staff and service cutbacks for SCEP.

As noted above, Departmental savings from a hiring freeze, a proposed Separation Incentive Program, and potential furloughs to offset a reduction in General Fund revenues because of the current pandemic, could potentially reduce the fee needed to recover HCID's costs for SCEP through 2023. As of the writing of this report, our Office could not estimate the potential savings from cost containment measures that are still pending Mayor and Council approval.

Previous Fee Increase

The HCID reports that the SCEP Fee has not been raised since 2012, when it was increased from \$35.52 to \$43.32 per unit annually. The current fee of \$43.32 was intended to cover the Department's needs through 2014. The Department reports that the fee has not increased in eight years because funds from other revenue sources (additional inspection fees, appeal fees, administrative investigation fees, late fees and penalties) were able to support SCEP operating costs not covered by the SCEP Fee. The HCID indicates that revenue from the other sources are now insufficient to cover costs not covered by the SCEP Fee.

Fiscal Year 2022-23 Code Enforcement Trust Fund Ending Balance

The fee study is based on the Department's guideline to the consultant that the projected 2022-23 Code Enforcement Trust Fund ending balance should be equal to 25 percent of twelve months of 2022-23 SCEP operating expenses, which includes funding for SCEP staff, Department administrative support staff, positions in other departments that support HCID, and related costs. The Department reports that the purpose of the guideline is to ensure that the Code Enforcement Trust Fund can finance the SCEP from July 2023 through December 2023 before the establishment of a new fee in January 2024. The HCID anticipates conducting another fee study in 2023 to determine the need for a fee increase starting in January 2024 which, if necessary, would also address any unanticipated expenses for July 2023 through December 2023 that are not included in the current study.

Impact to Landlords and Tenants

The proposed fee of \$81.25 would result in a proposed annual cost increase of \$37.93 Details relative to the impact of the proposed fee are in the Table below.

Table 1: Impact of Proposed Fee Increase to Landlords and Tenants

Current Fee	\$43.32
Proposed Fee	\$81.25
Annual Increase	\$37.93
Monthly Increase	\$3.16

Allowable Pass Through to Tenants

In accordance with the LAMC, landlords may recover the full annual SCEP Fee from their tenants in the form of a monthly pass through. In contrast, the LAMC was recently amended to allow 1/12th of the tenants' portion of 50 percent of the annual registration fee for the Rent Stabilization Ordinance to be passed through to tenants on a monthly basis. The Mayor and Council may consider amending Section 151.05.1 of the LAMC to allow a reduction in the monthly pass through to tenants to mitigate the impact of an increased fee on tenants.

FISCAL IMPACT STATEMENT

There is no net impact to the General Fund if Council approves a proposed Systematic Code Enforcement Program Fee of \$81.25. The fee is intended to recover the full costs of the Systematic Code Enforcement Program including all operating direct and indirect costs.

FINANCIAL POLICIES STATEMENT

The recommendations in this report comply with the City's Financial Policies.