

## TRANSMITTAL

To: **THE COUNCIL**

Date: **07/24/20**

From: **THE MAYOR**

**TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.**

A handwritten signature in blue ink, appearing to be 'Eric Garcetti', is written over the printed name.

(Ana Guerrero) for

**ERIC GARCETTI**  
Mayor



Eric Garcetti, Mayor  
Rushmore D. Cervantes, General Manager

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July 2, 2020

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The Honorable Eric Garcetti  
Mayor, City of Los Angeles  
200 N. Spring Street, Room 303  
Los Angeles, CA 90012

Attention: Heleen Ramirez, Legislative Coordinator

**COUNCIL TRANSMITTAL: REQUEST FOR AUTHORITY TO AMEND SECTION 161.352 OF THE LOS ANGELES MUNICIPAL CODE FOR A FEE ADJUSTMENT TO THE SYSTEMATIC CODE ENFORCEMENT PROGRAM FEE**

**SUMMARY**

In accordance with Executive Directive No. 3, the General Manager of the Los Angeles Housing + Community Investment Department (HCIDLA) respectfully requests that your Office review and approve this transmittal and forward it to the City Council for further consideration. Through this transmittal, HCIDLA requests authority to amend Section 161.352 of the Los Angeles Municipal Code relative to the annual regulatory fee known as the Systematic Code Enforcement Program Fee imposed for inspections of multi-family rental housing under the Systematic Code Enforcement Program (SCEP) and consideration of a draft ordinance to adjust the SCEP fee from \$43.32 per unit per year to \$81.59 per unit per year. This fee increase is needed to fund HCIDLA's operational costs for administering and enforcing SCEP through the calendar year 2023.

HCIDLA assesses fees to landlords per rental unit per year, and after exemptions, the Department receives fee payments for approximately 750,000 multi-family rental units. Monies collected from fees are deposited into the SCEP Fee Trust Fund and, together with other revenue, cover 100% of the costs of administration and enforcement of SCEP.

HCIDLA recognizes that this is the worst time to ask for a fee adjustment. However, as will be shown below and in the attached SCEP Fee study conducted by an independent economic consultant, the revenues generated from SCEP Fee alone are not sufficient to cover SCEP costs. Analysis of the SCEP Trust Fund

indicates that over the past 8 years, HCIDLA was able to offset approximately \$77.8 million dollars (\$9.7 million per year) in SCEP operating costs not covered by the SCEP Fee with funds from other revenue sources. Now the other revenue sources (e.g., additional inspection fees, appeal fees, administrative investigation fees, late fees and penalties) are insufficient to cover costs not covered by the SCEP Fee and have declined at a rate of approximately four percent annually and may continue to decrease at this rate.

Without prompt approval of this fee adjustment before the preparation of the 2021 SCEP annual bill, HCIDLA will have a FY 2021 budget shortfall of approximately \$27 million. As a result, HCIDLA would need to implement significant staff and service cutbacks in SCEP and then the City's multi-family housing community will not have a robust code enforcement program.

Therefore, HCIDLA respectfully requests expeditious approval of this proposed fee adjustment to allow sufficient time for the ordinance amendments to be effective January 1, 2021, and the annual invoices to be finalized in November 2020.

## **RECOMMENDATIONS**

- I. That the Mayor review this transmittal and forward it to the City Council for further action.
- II. That the City Council, subject to the approval of the Mayor:
  - A. ADOPT the proposed ordinance amending LAMC Section 161.352 to adjust the annual Systematic Code Enforcement Program Fee effective January 1, 2021; and
  - B. AUTHORIZE the General Manager of HCIDLA or his designee, to prepare Controller's instructions and make any technical adjustments consistent with the Mayor and the City Council actions related to this matter, subject to the approval of the City Administrative Officer, and request the Controller to implement these instructions.

## **BACKGROUND**

### *Introduction*

HCIDLA administers and enforces Article 1, Chapter XVI of the Los Angeles Municipal Code, known as the Housing Code. Enacted on July 1, 1998, in response to the recommendations of the Blue Ribbon Citizens' Committee on Slum Housing, the Housing Code established mandatory code enforcement procedures to prevent the development or creation of dangerous, substandard or unsanitary and deficient multi-family rental properties.

HCIDLA administers the Housing Code through the implementation of the Systematic Code Enforcement Program (SCEP). SCEP is a regulatory program in which housing inspectors conduct regular periodic inspections (systematic inspections) of the City's multi-family rental properties once every four years, Census Tract by Census Tract. During systematic inspections housing inspectors identify deficiencies such as a lack of proper building maintenance, deteriorated interior and exterior walls and floors, defective life safety items, lack of required ventilation and lights, plumbing and water issues, and unapproved use, occupancy, or improvements made without permits. After all multi-family rental properties in all Census Tracts are inspected, the 4-year cycle of inspections begins again.

In addition, SCEP has a complaint response system in place that provides rapid response to tenant and owner-reported complaints about code violations that might occur between systematic inspections. This twofold process is a consistent and effective system, for example, if a systematic or complaint inspection reveals code violations, then housing inspectors issue orders to correct the violations. If the violator does not correct the violations, then under the Housing Code, HCIDLA conducts a General Manager's Hearing to decide the enforcement actions to take based on the set of circumstances at the property. The compliance rate with SCEP code enforcement averages 95 percent.

### Overview of SCEP Cycles

SCEP Cycle 1: Initially, during Cycle 1 (1998-2005), the SCEP program faced numerous challenges for the first years of the program: the program was understaffed and underfunded. The \$1 per month per unit fee was inadequate to support staffing and technological needs. Furthermore, HCIDLA inherited a backlog of 6,000 unresolved complaints from the Department of Building and Safety. Initially, there were obstacles to implementation and strong opposition from various stakeholders. The City successfully defended legal challenges to the program.

SCEP Cycle 2: Cycle 2 (2006-2009) focused primarily on productivity. Initially, SCEP relied on manual forms to document violations and word processing to create Notices to Comply. This process has evolved with the help of the UCLA School of Planning and Policy Development and industry experts into the development of a centralized, proprietary database where essential property data is stored and shared within HCIDLA. The creation of a shared database eliminated errors and duplication of data and improved accuracy by integrating with County Assessor's parcel information. Handheld computers facilitate the field Inspectors' ability to gather property data in the field and the seamless transfer of that data to the SCEP database for processing by clerical staff.

SCEP Cycle 3: Cycle 3 (2010-2014) focused on the quality and consistency of inspections. The program had measurable successes, including the decrease of substandard buildings in the City from 150,000 during Cycle 1 to 3,400 in Cycle 3. HCIDLA initiated certification training for Inspectors by the International Code Council and enhanced the Division Training program tremendously by creating a training curriculum, and providing weekly, web-based training to all field staff.

SCEP Cycle 4: Cycle 4 (2014-2018) top priority was an ongoing focus to provide outstanding customer service to our residents and multi-family property owners. The SCEP has a core customer base in the City of Los Angeles of more than 2 million constituents comprised of owners of multi-family residential rental properties and tenants who reside in these properties. The program provides outstanding customer service through timely complaint response. The Division launched a sustainability outreach program in conjunction with cycle 4, known as Gateway to Green project (G2G). HCIDLA developed an innovative and dynamic enhancement to our existing SCEP, promoting Mayor Eric Garcetti's vision of a greener Los Angeles. The G2G program identified and communicated conservation potential for all multi-family properties inspected by SCEP on both the building and unit level.

SCEP Cycle 5: Currently, SCEP is in Cycle 5, which is expected to continue until 2023. After four inspection cycles over the last 20+ years, HCIDLA data indicates that 95 percent of property owners are maintaining well-kept rental properties, and about 5 percent are not maintaining their properties. During this cycle, more attention and enforcement efforts will be focused on these non-compliant properties that are more likely to fall into persistent disrepair on a shorter inspection cycle. This focus will be done through Tiered Inspection Program (approved by the Council, CF 16-1190). Under the Tiered Inspection

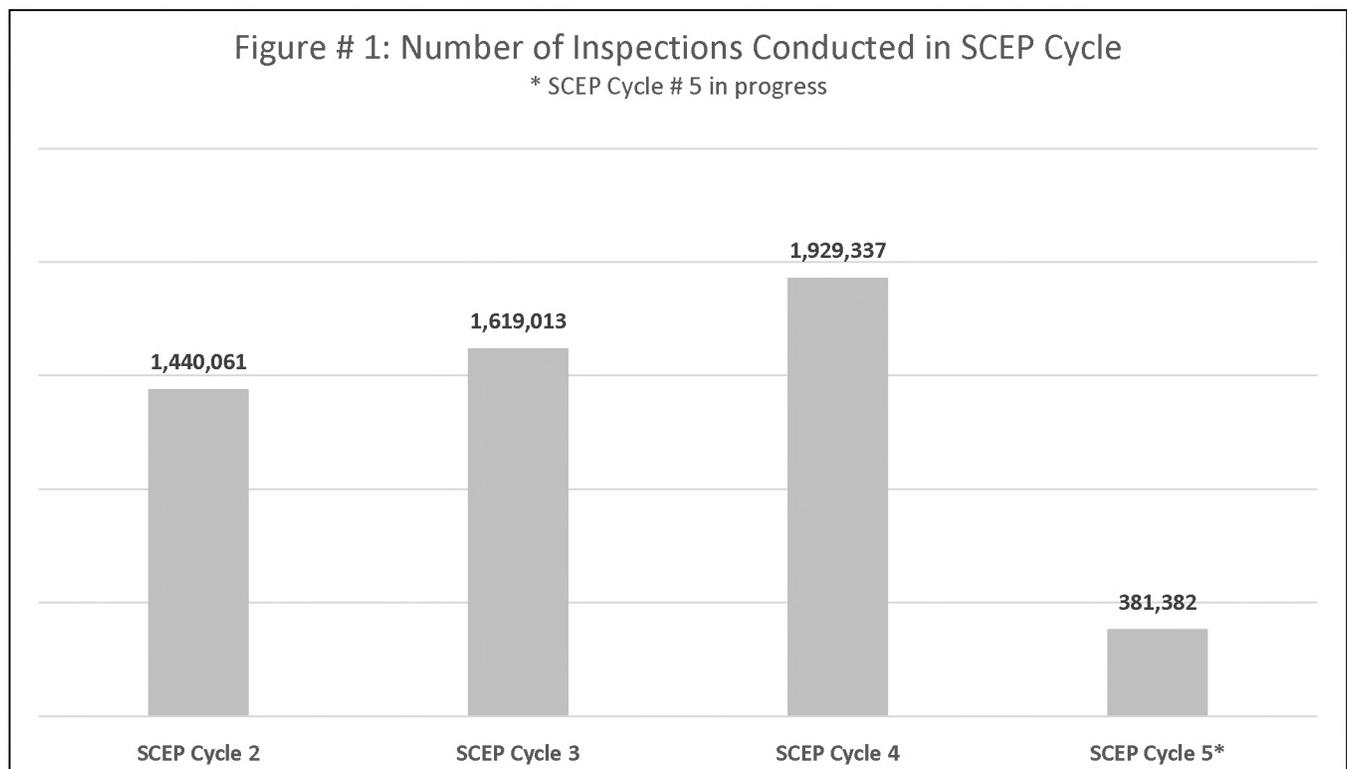
Program, non-compliant properties (5%, 5000 properties) will be inspected once every two years instead of once every four years.

Analysis of SCEP activities and performance data shows that SCEP is fulfilling the expressed purpose of the Housing Code. Therefore, SCEP is an essential service for more than 60 percent of Los Angeles residents who live in residential rental housing.

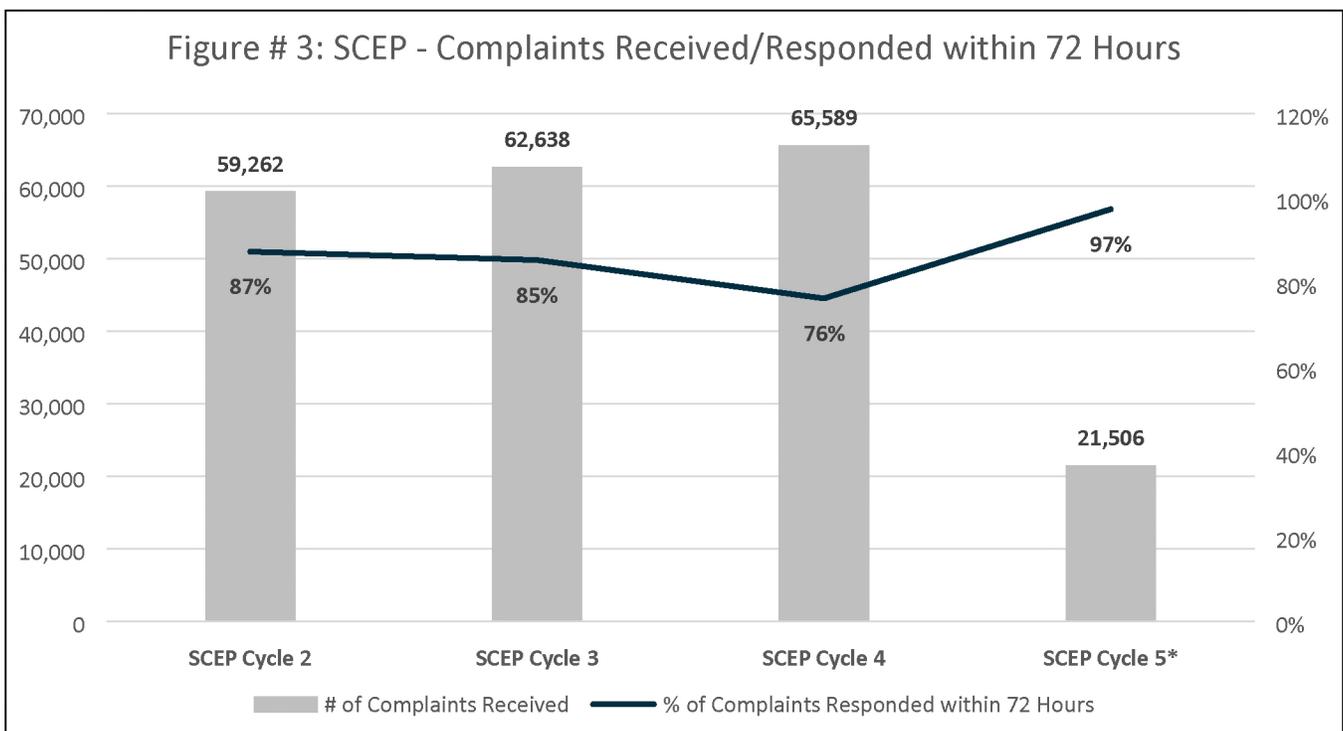
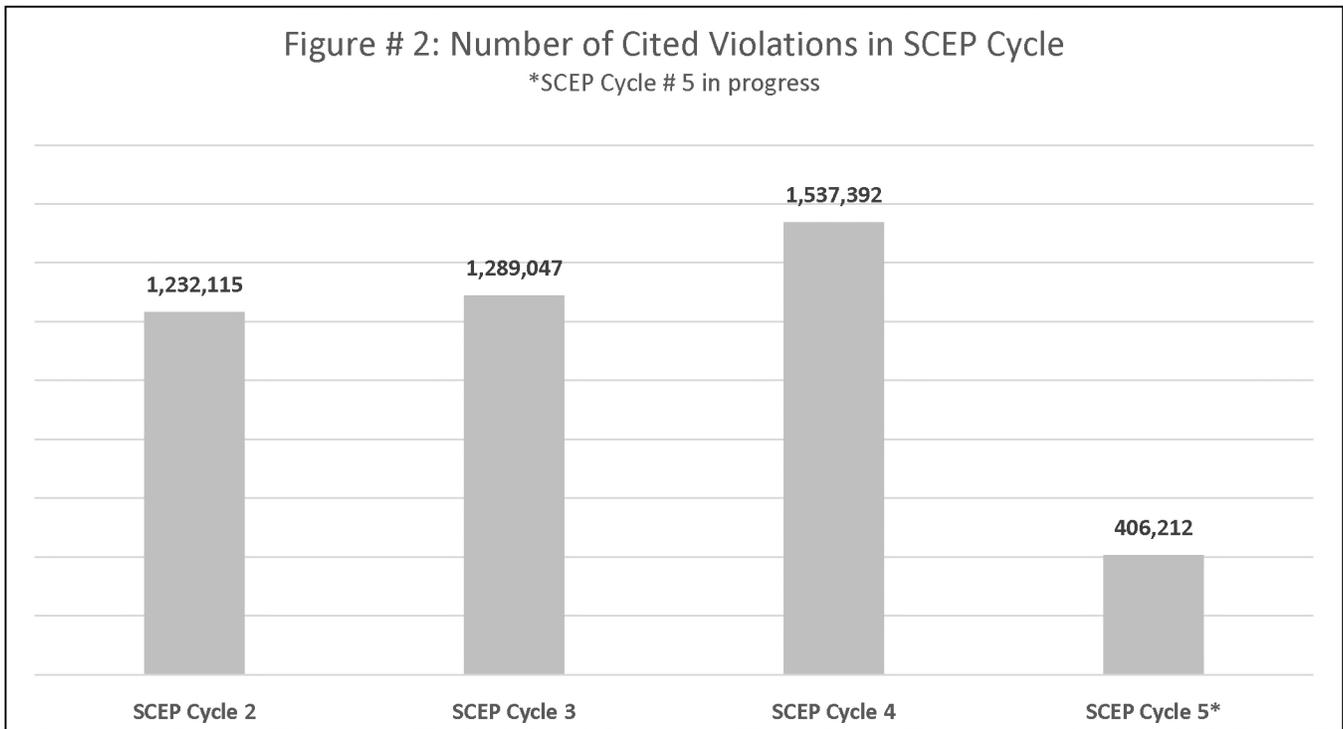
### SCEP by the Numbers

SCEP has two major components – periodic inspections and complaint-based inspections. HCIDLA makes every effort to conduct inspections once every four years. Periodic inspections are comprehensive in that the entire property, including all rental units, is scheduled for an inspection. Since 1998, periodic inspections have completed four cycles and is currently in its fifth cycle. The complaint-based inspections, which are issue-specific, are performed when a complaint is received and scheduled.

As shown in Figure # 1 below, SCEP was responsible for conducting approximately 1.93 million inspections (including re-inspections) during the most recent full cycle (Cycle 4), representing a 34.0 percent increase in total inspections since Cycle 2 and a 19.2 percent increase since Cycle 3.

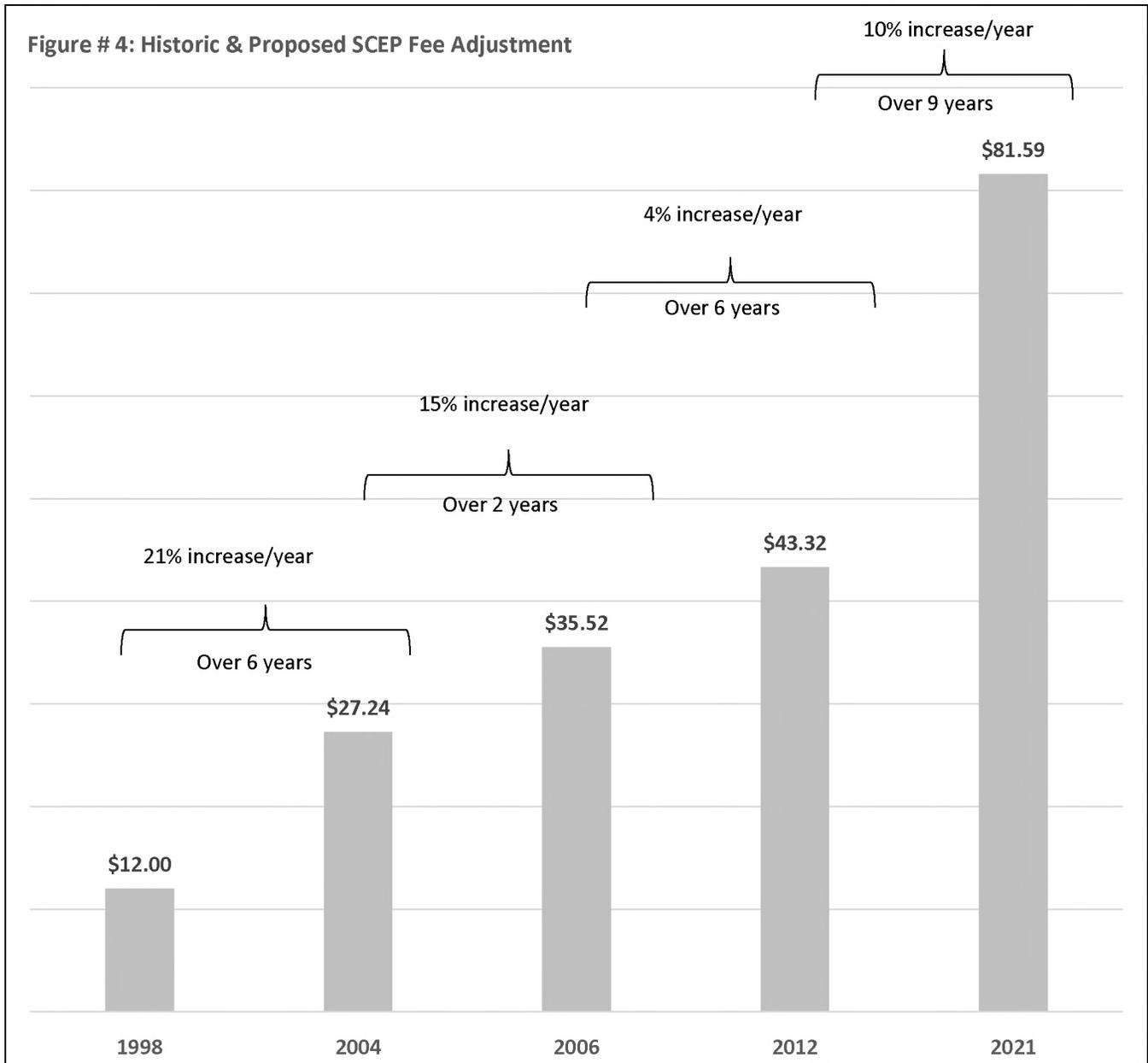


As shown in figures 2 and 3 below, SCEP issued approximately 1.54 million owner violations during the most recent full cycle (Cycle 4). This number of violations represents a 19.3 percent increase in total issuances since the most recent complete cycle. Also, the number of complaints – regarding the habitability of the premises - responded within 72 hours- has significantly improved.



Historic and Proposed SCEP Fee.

The proposed SCEP fee adjustment from the current \$43.32 to \$81.59 represents an 88% increase. However, this substantial increase is due to the Department not recommending a SCEP fee adjustment since 2012, nine (9) years ago. If this proposed increase is spread over nine years, the fee increase comes to approximately 10% per year. The following chart presents the historical and proposed SCEP fee.



**FUNDING**

To fund SCEP, the Housing Code requires landlords to pay a regulatory fee of \$43.32 per unit per year, which landlords may pass-through to tenants. The fee is known as the Systematic Code Enforcement Program Fee (SCEP Fee). Monies collected from SCEP Fees are deposited in the Systematic Code Enforcement Program Fee Trust Fund. According to the Los Angeles Administrative Code Section 22.617, the use of the revenue in the Trust Fund is restricted to purposes directly related to the administration and enforcement of SCEP. This restriction is intended to ensure that SCEP is self-funded and is not a burden on the City's General Fund.

HCIDLA conducts a fee analysis annually and monitors the need for fee adjustments. A review of the SCEP Fee and Trust Fund revenue in 2019 revealed that the \$43.32 SCEP Fee was not sufficient to fund the anticipated SCEP budget projections for 2020. Because of the significance of this

finding, HCIDLA decided that further review by an independent expert was justified. Therefore, on September 18, 2019, HCIDLA released a Request for Bids to consultants prequalified to perform economic analysis for the City. After a thorough review of the applicants, HCIDLA's Bid Review Team recommended awarding a contract to BAE Urban Economics Inc. (BAE) to do a SCEP Fee Study (CF 20-0303).

### **BAE SCEP FEE STUDY**

HCIDLA requested BAE to conduct a SCEP Fee Study that would analyze staffing and costs (e.g., direct, indirect, and overhead) associated with administering SCEP. Also, BAE was tasked with providing options and recommendations for a fee adjustment (if deemed necessary) that would be fair to the community and attain cost recovery for the City. BAE completed the SCEP Fee Study, and the results of the study are published in BAE's report dated June 30, 2020, titled Systematic Code Enforcement Program (SCEP) Fee Study (Attachment A).

BAE's key research findings are the following:

- SCEP is unique among the nation's major cities and provides regular, proactive inspections of the City of Los Angeles' rental units. SCEP is currently conducting inspections as part of its 5th, four-year, inspection cycle ("Cycle 5") which began on January 1, 2019, and will continue through June 30, 2023
- In the nine years since the last Fee increase, approximately 80,000 new units were added to SCEP's total inventory, increasing the SCEP workload significantly.
- During the same period, the actual operating cost to conduct SCEP inspection and enforcement activities increased from approximately \$35.6 million (FY 2012) to \$45.6 million (FY 2019) due to, among other factors, the following:
  - Increase in Related Costs (benefits, workers comp, central services)
  - Increase in Salaries (in the last year it was 10%, for all other years it ranges from 2-5% due to step increases and COLAs)
  - Continued expenditures in Systems Upgrades (ranges from \$1-\$4M a year)
  - Increase in Lease costs (2.5% increase a year + the office moves and buildout)
  - In the past, the high vacancy rates were granting us salary savings, which is no longer the case.
- The current SCEP fee of \$43.32 per unit per year will not generate enough revenue to fund this fiscal year's budgeted operational expenses and is projected for a FY 2021 budget shortfall of approximately \$27 million if the current fee is not increased.

To resolve a shortfall, BAE developed four budget scenarios for adjusting the SCEP fee. For the fiscal year starting July 1, 2020, and ending June 30, 2021 (FY 2021), the four adopted budget projections scenarios' range from approximately **\$55.9 million to \$ 59.7 million**. These adopted budget projections are higher than the past actual operating cost due to the same reasons mentioned above, including,

- Increase in Related Costs (benefits, workers comp, central services)
- Increase in Salaries
- Continued expenditures in Systems Upgrades
- Increase in Lease costs

The following are the recommended SCEP fee based on the adopted budget projections:

- **\$84.38** for the current program at a three percent staff vacancy level;
- **\$82.78** for the current program at a five percent staff vacancy level;
- **\$82.71** for the current program at a ten percent staff vacancy level in year one and three percent staff vacancy level in years two and three; and
- **\$81.59** for the current program at a ten percent staff vacancy level in year one and five percent staff vacancy level in years two and three.

When this SCEP fee study was initiated, the initial assessment of the proposed SCEP fee came to approximately \$99.00 per unit per year, an increase of 129 percent over the current fee. HCIDLA, being mindful of the adverse financial situation many landlords/tenants might be facing due to COVID-19 pandemic, went through multiple fiscal exercises to decrease the proposed SCEP as much as possible, including deferring technological upgrades and maintaining a higher vacancy rate. The following table represents the yearly percentage increase of the proposed SCEP fee over the nine (9) year period - since last SCEP fee adjustment.

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Proposed SCEP Fee:	\$ 84.38	\$ 82.78	\$ 82.71	\$ 81.59
Current SCEP Fee:	\$ 43.32	\$ 43.32	\$ 43.32	\$ 43.32
Difference - Proposed and Current:	\$ 41.06	\$ 39.46	\$ 39.39	\$ 38.27
# of Years - Last Adjustment to SCEP Fee	9	9	9	9
Yearly Amount Increase:	\$ 4.56	\$ 4.38	\$ 4.38	\$ 4.25
Yearly % Increase:	10.5%	10.1%	10.1%	9.8%

HCIDLA recommends implementing the fourth budget scenario and set the SCEP fee at **\$81.59** with a ten percent staff vacancy level in year one and five percent staff vacancy level in years two and three. Under this scenario, the new fee amount that owners may pass through to tenants would increase from the current fee, set in 2012 at \$43.32 per unit per year, by \$38.27 annually per tenant household, which equals an increase of \$3.18 per month per household or an overall cost of \$6.79 per month per household.

**IMPACT TO LANDLORDS AND TENANTS**

The following will be the impact of the proposed SCEP fee increase from \$43.32 to \$81.59.

	Current	Proposed
Yearly SCEP Fee	\$43.32	\$81.59
Monthly SCEP Fee	\$3.61	\$6.79
Daily SCEP Fee	\$0.12	\$0.22

With less than a quarter a day, constituents will have peace of mind that the City will inspect the premises in a timely manner. Currently, the SCEP fee is 100 percent pass-through to the tenants in accordance with the LAMC Section 151.05.1.D. If the Council deems it appropriate and splits the SCEP fee 50%-50% between landlords and tenants, the impact would be \$3.43 per month.

## **PROPOSED SCEP FEE COMPARED TO OTHER JURISDICTIONS**

BAE surveyed several cities across the country to analyze "proactive" rental inspection programs similar to SCEP, such as Seattle, Minneapolis, Washington, DC, and San Jose. The survey revealed that:

SCEP is the only program surveyed by BAE that commits to inspecting 100 percent of eligible units at a given property. Also, SCEP is the only program analyzed by BAE that strives to achieve a four-year inspection frequency for all properties and units — even for "Tier 1" properties with minimal risk for code violations. For similar properties in other jurisdictions, the inspection cycle is every six years in San Jose and every eight years in Minneapolis.

Moreover, BAE found that each City uses a unique approach to quantifying the fees associated with that City's proactive inspection program. Therefore, to look at the fees comparatively despite the variations in fee methodologies, BAE calculated the annual per-inspected-unit fee that would be required for a 20-unit building. The results are the following:

- Washington, DC's fee of \$130 per-inspected unit does not vary depending on the risk of the code violation.
- In Minneapolis, the fee per-inspected unit ranges from \$68 to \$144, depending on that property's risk category.
- In San Jose, the fee per-inspected unit rises even higher—ranging from \$247 to \$325 per inspected unit.

Thus, when examined on a "per inspected unit" basis, the recommended SCEP Fee of \$81.59 is well within the range of comparison cities.

## **CONCLUSION**

The Department recognizes that this is a worst time for asking any type of fee increase due to the impact of COVID-19 pandemic. However, as stated in the report, the Department has deferred the SCEP fee adjustment since the last adjustment 9 years ago in 2012. Even though, the operating cost in these past nine years have gone up 30 percent, the Department, through its sound fiscal policies, was able to defer adjustments of SCEP fee.

## **FISCAL IMPACT STATEMENT**

There is no impact to the General Fund as a result of the adjustment to the SCEP annual fee.

## **ATTACHMENTS:**

ATTACHMENT A – Systematic Code Enforcement Program Fee Analysis by BAE Urban Economics  
ATTACHMENT B – Ordinance to amend Section 161.352 of the Los Angeles Municipal Code

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Reviewed By:



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Reviewed By:



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Assistant General Manager

Reviewed By:



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Assistant General Manager

Approved By:



RUSHMORE D. CERVANTES  
General Manager

ATTACHMENTS:

Attachment A - Systematic Code Enforcement Program Fee Analysis by BAE Urban Economics  
Attachment B. Draft of ordinance amending LAMC Section 161.352

# bae urban economics

## Systematic Code Enforcement Program (SCEP) Fee Study

Prepared for the City of Los Angeles

FINAL REPORT

June 30, 2020



# bae urban economics

June 30, 2020

Daniel V. Gomez, Director  
Code Enforcement Division  
Housing and Community Investment Department  
City of Los Angeles  
1200 West 7th Street  
Los Angeles, CA 90017

Sent via email to [daniel.v.gomez@lacity.org](mailto:daniel.v.gomez@lacity.org)

Dear Dan:

Attached please find BAE's Final Draft of the Systematic Code Enforcement Program (SCEP) Fee Study. This study includes a budget analysis resulting in new fee level recommendations, SCEP performance metrics, and comparisons to other jurisdictions' fees.

Sincerely,



Matt Kowta, MCP  
Principal



Lisa Varon, MAUP  
Vice President

Cc: Benjamin Newman, Management Assistant, Code Enforcement Division, HCIDLA  
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# INTRODUCTION

## **Fee Study Purpose and Background**

The purpose of this Fee Study is to determine a three-year regulatory fee amount that will achieve full cost recovery for the Systematic Code Enforcement Program (SCEP) over the period from July 1, 2020 through December 31, 2023.

The Systematic Code Enforcement Program (SCEP) advances the Mayor and City Council's priority for creating safe, livable, and sustainable multifamily rental housing throughout the City of Los Angeles. Nearly 60 percent of Los Angeles residents live in rental units.<sup>1</sup> SCEP provides these residents with proactive and comprehensive home inspections to ensure that their dwelling units remain habitable and code compliant.

To fund SCEP, the City's Municipal Code requires rental housing providers to pay a regulatory fee known as the SCEP Fee ("Fee"), which they may pass-through to tenants. The Fee ensures that SCEP can continue providing services regardless of fiscal or economic circumstances that might be impacting the City's General Fund.

The City of Los Angeles Housing and Community Investment Department (HCIDLA) administers the SCEP. In 2011, HCIDLA comprehensively reviewed revenues and expenses associated with SCEP implementation and established a per-unit full cost recovery annual fee of \$43.32 beginning January 1, 2012.

Costs to operate the SCEP program have increased during the past nine years without a proportionate fee increase. In Fiscal Year (FY) 2012, operating expenses were approximately \$35.6 million, and rose to \$45.6 million by FY 2019 (the most recent period for which full year data are available).

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<sup>1</sup> American Community Survey (ACS), 2018.

## Report Overview

To determine the revenues and expenses associated with SCEP implementation, and to identify a Fee adjustment that will ensure the SCEP program remains self-sufficient, this Fee Study includes the following elements:

- A **Summary of SCEP Activities** that highlights the key programs and services provided by SCEP, along with the substantial increase in expenses associated with these activities since the last Fee adjustment.
- **Three-Year Budget and Fee Projections** that incorporate a common set of revenue and expense assumptions.
- A budget **analysis of fee revenue at the current rate** compared to projected FY 2021 expenses.
- **Four Budget Scenarios** that reflect four sets of staff vacancy assumptions.
- A **Comparison to Historic Fees** and a **Comparison to Other Jurisdiction Fees** that provide context to the fees proposed as a result of this study.

## Approach

To conduct this study, BAE documented changes in budget expenses and revenues since the last fee increase in 2012, established a common set of budget assumptions, and determined the annual fee income gap at the current fee level and for four budget scenarios over three fiscal years from July 1, 2020 to June 30, 2023. To determine the recommended fee for each of the four scenarios, the average three-year fee income gap was divided by the average number of units projected to pay the fee. This total was then added to the annual per unit cost of reaching a guideline ending balance as of June 30, 2023, an amount that would support SCEP until the next fee payment period beginning January 2024. BAE also reviewed the recommended fees from a variety of perspectives, including tracking the trend of historic SCEP fees, analyzing the impact of not raising the fee, and comparisons to peer jurisdictions' fees for similar programs.

## EXECUTIVE SUMMARY

This Executive Summary presents BAE's key research findings with respect to potential cost recovery Fee adjustments for SCEP including a high-level overview of the Fee's most recent adjustment, a summary of program activities, and an estimated range of Fee levels that would be required to ensure the program maintains full cost recovery.

### SCEP Fee Historical Context

The SCEP Fee ("Fee") was established under Los Angeles Municipal Code (LAMC), Section 161.352 in 1998. The Fee is expected to recover 100 percent of costs associated with SCEP implementation. Initially, the Fee was set at \$12 per unit per year. In 2006 the Fee was increased to \$35.52 per unit per year. The Fee was last updated in 2011, rising to \$43.32 per unit per year on January 1, 2012.

In the nine-years since the last Fee increase, over 80,000 new units were added to the program's total inventory, increasing the SCEP workload significantly. During the same period, the annual cost to conduct SCEP inspection and enforcement activities increased from approximately \$35.6 million (FY 2012) to \$45.6 million (FY 2019).

### SCEP Activities

The Systematic Code Enforcement Program (SCEP) is unique among the nation's major cities, and provides regular, proactive inspections of the City of Los Angeles' rental units. SCEP is currently conducting inspections as part of its fifth, four-year, inspection cycle ("Cycle 5") which began on January 1, 2019 and will be expected to continue through June 30, 2023.

**SCEP conducted 1.93 million inspections during Cycle 4, the most recently completed multi-year inspection cycle.** This figure includes initial inspections, as well as re-inspections, to ensure code violations have been addressed. During Cycle 4, SCEP also issued approximately 1.54 million owner violations.

### Budget and Fee Projections

The current SCEP Fee will not generate enough revenue to fund this fiscal year's budgeted operational expenses and is projected for a FY 2021 budget shortfall between \$22.8 million and \$26.6 million if the current fee of \$43.32 per unit per year is not increased.

For the fiscal year starting July 1, 2020 and ending June 30, 2021 (FY 2021) the four budget scenarios' expenses range from approximately **\$55.9 million to \$ 59.7 million.**

The recommended three-year Fees, which incorporate a Guideline FY 2023 Trust Fund Ending Balance that would fund SCEP operations until the next fee increase, are:

- **\$84.38** for current programs at a three percent staff vacancy level;

- **\$82.78** for current programs at a five percent staff vacancy level;
- **\$82.71** for current programs at a ten percent staff vacancy level in year one and three percent staff vacancy level in years two and three; and
- **\$81.59** for current programs at a ten percent staff vacancy level in year one and five percent staff vacancy level in years two and three.

The new fee amount that owners pass through to tenants would increase by \$38.27 to \$41.06 annually per tenant household.

### **Other Comparison Cities' Fees**

BAE surveyed a number of jurisdictions across the country to analyze “proactive” rental inspection programs similar to SCEP. These programs were operated by the cities of Seattle, Minneapolis, Washington, D.C., and San Jose.

Due to the wide variation in comparison jurisdiction guidelines with respect to program implementation, BAE compared fees on a “per-inspected unit” basis to account for HCID’s 100 percent inspection rate.

- When examined on a “per inspected unit” basis, the range of potential Fees calculated for the four scenarios would fall well within the range of comparison cities.
- SCEP is the only program surveyed by BAE that commits to inspecting 100 percent of eligible units at a given property. Programs in Seattle and Washington, D.C., for example, inspect a fraction of a building’s units during the inspection cycle (20 percent and 30 percent, respectively).
- In addition, SCEP is the only program surveyed by BAE that strives to achieve a four-year inspection cycle for all properties. For similar properties in other jurisdictions, the inspection cycle is every six years in San Jose and every eight years in Minneapolis.
- While some programs classify properties into risk “tiers” based on the likelihood of code violations, SCEP is the only surveyed program that does not charge a higher per-unit fee for properties in higher risk tiers. Instead, SCEP accelerates the standard inspection cycle from every four years to every two years for units in higher risk tiers.
- Jurisdictions such as Minneapolis also vary their fee by building size, charging a lower fee per unit for buildings with four units or greater.

## SUMMARY OF SCEP ENFORCEMENT ACTIVITIES

HCIDLA's Code Enforcement Division oversees the Systematic Code Enforcement Program (SCEP), which was adopted by the City of Los Angeles in 1998 to provide the City's rental housing inventory with routine, proactive, inspections and code enforcement.

Today, the SCEP program provides both routine and complaint-based inspections. SCEP measures program accomplishments on a calendar year basis, as well as by program cycle. SCEP has completed four inspection cycles since 1998 and is now in Cycle 5.

### Systematic Inspection and Enforcement

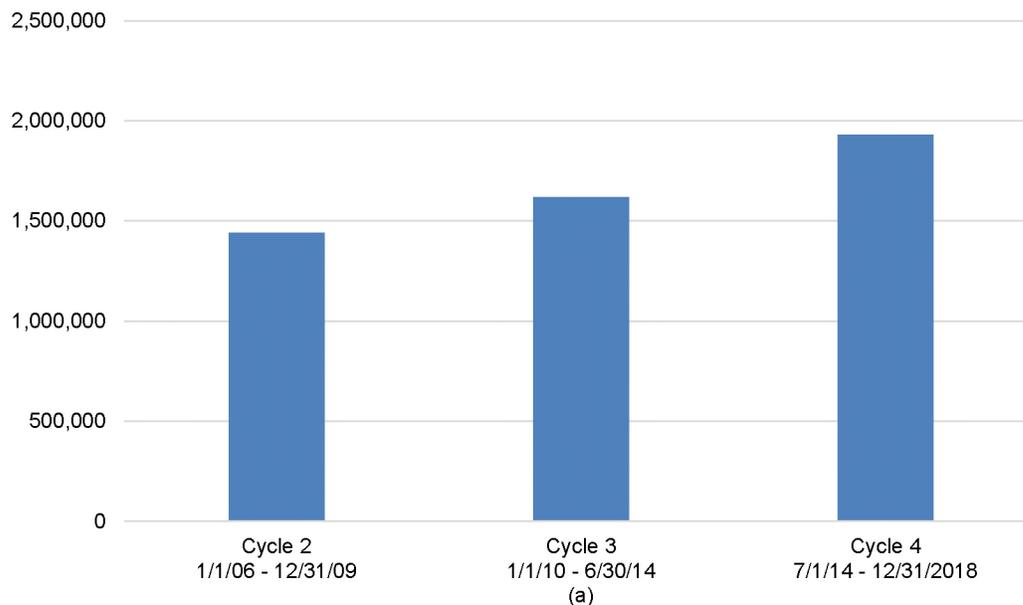
SCEP field inspectors identify deficiencies such as a lack of proper building maintenance, deteriorated interior and exterior walls and floors, defective life safety items, lack of required ventilation and lights, plumbing and water issues, and unapproved use, occupancy, or improvements made without permits.

As shown in Figure 1, SCEP was responsible for conducting approximately 1.93 million inspections (including re-inspections) during the most recent full cycle (Cycle 4). This represents a 34.0 percent increase in total inspections since Cycle 2, and a 19.2 percent increase since Cycle 3.

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**Figure 1: Total Inspections Conducted by SCEP Cycle**

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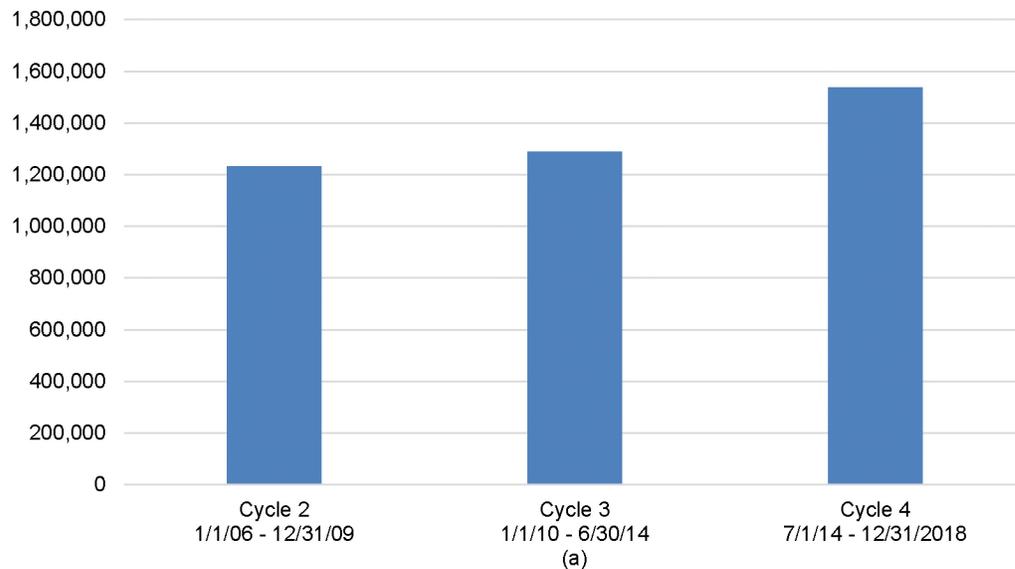
**Notes:**

(a) Effective January 2012, Los Angeles City Council approved SCEP fee adjustment of \$43.32 per unit.

Sources: HCIDLA, 2020; BAE, 2020.

Issuing orders to correct code violations is another critical SCEP activity that ensures code compliance. As shown in Figure 2, SCEP issued orders regarding approximately 1.54 million code violations during the most recent full cycle (Cycle 4). This number of violations represents a 19.3 percent increase in total issuances since the most recent full cycle.

**Figure 2: Total Number of Code Violations Cited by SCEP Cycle**



Notes:

(a) Effective January 2012, Los Angeles City Council approved SCEP fee adjustment of \$43.32 per unit.

Sources: HCIDLA, 2020; BAE, 2020.

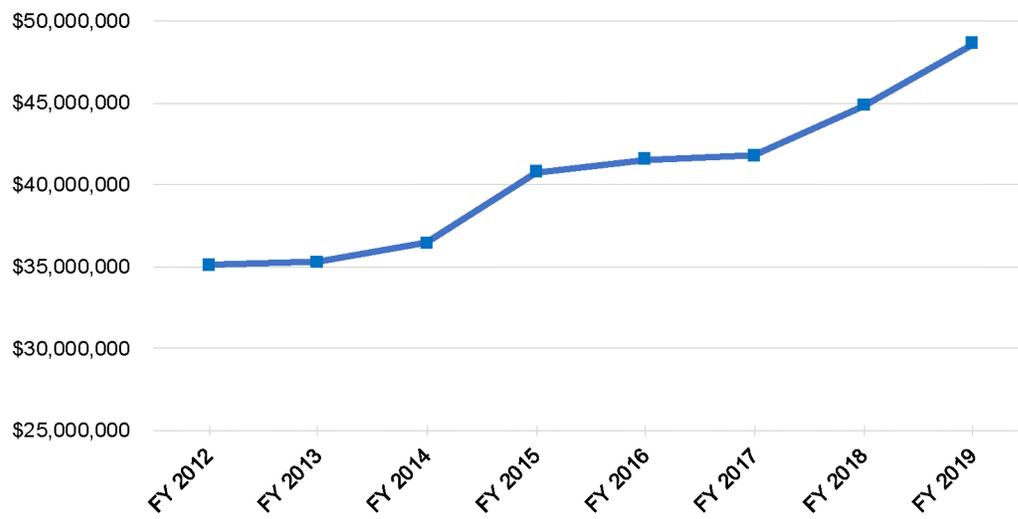
***Increase in Program Operating Costs***

The costs to operate SCEP have increased over the past nine years without a proportionate adjustment. In FY 2012, SCEP operating costs were approximately \$35.1 million, according to HCID data as shown in Figure 3. In the interim years, program operating costs have risen to approximately \$48.6 million in FY 2019 – the most recent period for which full year actual expenses are available.

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**Figure 3: Annual SCEP Operating Expenses, from FY 2012 through FY 2019**

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Sources: HCIDLA, 2020; BAE, 2020.

## BUDGET AND FEE PROJECTIONS

This section of the report provides all budget and fee assumptions and presents four budget and fee scenarios for the Code Enforcement Division over three-and-a-half fiscal years, beginning on July 1, 2020 and ending on December 31, 2023.

### Fiscal Years Analyzed

The fiscal years analyzed in this study are as follows:

- FY 2021 is from July 1, 2020 to June 30, 2021
- FY 2022 is from July 1, 2021 to June 30, 2022
- FY 2023 is from July 1, 2022 to June 30, 2023
- FY 2024, first half, is from July 1, 2023 to December 31, 2023

### Budget and Fee Scenarios Analyzed

For expense projections, HCIDLA staff requested that this fee study first assess whether revenues generated by the current fee amount can pay for FY 2021 budgeted expenses. Next, the fee study analyzes four program scenarios. The program designs are either current programs as approved in the FY 2021 budget, or current programs plus inspections of new ADU rentals, each with two staff vacancy assumptions. As a result, the four budget and new fee scenarios are:

- Scenario 1: Current programs at a three percent HCIDLA staff vacancy rate.
- Scenario 2: Current programs at a five percent HCIDLA staff vacancy rate.
- Scenario 3: Current programs at a ten percent HCIDLA vacancy rate the first year, and three percent staff vacancy in years two and three.
- Scenario 4: Current programs at a ten percent HCIDLA staff vacancy rate the first year, and a five percent staff vacancy rate in years two and three.

### Projected SCEP Fees Formula

The following is an explanation of the formula used to calculate the SCEP fee under the different program scenarios.

#### *Term of Fee*

The four budget scenarios and associated fee calculations assume that the same fee amount is charged for each scenario over the three-year period from July 1, 2020 to June 30, 2023.

#### *Annual Fee Cycle*

Revenue timing is a key consideration in this analysis. The Code Enforcement Fee is effective as of January 1 of each year, and mostly collected during January and February, while HCIDLA's fiscal year runs from July 1 through June 30.

### ***Systematic Code Enforcement Trust Fund Starting Balance for SCEP Operations***

SCEP fees are deposited into a dedicated account in the City of Los Angeles' Systematic Code Enforcement Trust Fund (Trust Fund). HCIDLA staff provided BAE with a negative projected FY 2021 Trust Fund Opening Balance of -\$3,706,899. This amount is HCIDLA's projected fund balance on June 30, 2020 and is inclusive of HCIDLA salary savings projections for FY 2020. In the following budget and fee projections, the Trust Fund Ending Balance is carried over from each fiscal year to the next as the Trust Fund Opening Balance. Throughout this study, the Trust Fund Opening Balance is treated as an expense (if negative) or revenue (if positive) applied toward operating expenses.

### ***Systematic Code Enforcement Trust Fund Guideline Ending Balance***

In order to predict SCEP revenue needs over the three-year period, the analysis considers how cash flows from one year to the next. Specifically, the Trust Fund revenue must finance SCEP operations expenses from July through December 2023, until a new fee amount is effective on January 1, 2024. This fee study is based on the HCIDLA guideline that the projected FY 2023 Trust Fund Ending Balance ("Guideline FY 2023 Trust Fund Ending Balance") should be equal to 25 percent, or three months of FY 2023 SCEP expenses. The purpose of this guideline is to ensure that the Trust Fund can finance a portion of SCEP operations from the end of FY 2023 until the establishment of a new fee in January 2024.

To calculate a single three-year fee for each of the four scenarios, the total three-year "fee revenue gap" is divided by the total three-year number of SCEP units anticipated to pay fees plus the annual per unit fee needed to fund the Guideline FY 2023 Trust Fund Ending Balance. Appendix A provides summaries of the fee calculations for each scenario.

## **Budget Assumptions**

The budget and fee scenarios and year-to-year budget changes in this study are based on a common set of assumptions for revenues and expenses, which BAE developed in consultation with HCIDLA and SCEP staff. This report section describes these budget assumptions, which are provided as Table 4 below.

### ***Total Units Projected to Pay Fees***

To project the total number of units that will pay fees in the three-year period, this study calculates an annual percent change and applies that factor to future years. While SCEP inspects and enforces habitability standards for a portfolio of over 800,000 rental units in the City of Los Angeles, the total number of units that are required to pay the fee, changes from year to year because of exemptions from fee payment. For example, HCIDLA may receive approximately 50,000 exemptions annually thus reducing the portfolio of rental units to 750,000.

**Table 1: Historic and Projected SCEP Units Invoiced and Collected After Exemptions**

<u>Calendar Year</u>	<u>SCEP Units Invoiced</u>	<u>SCEP Units Collected</u>
2014	699,340	697,161
2015	714,062	711,577
2016	718,932	716,112
2017	733,194	717,581
2018	745,201	730,530
2019	757,342	737,597
	<b>Projected Units Invoiced</b>	<b>Projected Units Collected</b>
<b>Projected</b>		
2020	768,263	745,961
2021	779,594	754,420
2022	792,329	762,975
2023	804,716	771,627

Sources: HCIDLA, 2020; BAE, 2020.

From 2014 to 2019, 697,161 to 737,597 units paid SCEP fees. For these five years, the annual percent change in the number units that paid fees ranged from 0.2 percent to 2.1 percent, resulting in an average annual increase factor of 1.13 percent, as shown in Table 2.

**Table 2: Historic Change in Total Units Paying Fees**

<u>Calendar Year</u>	<u>SCEP Units Collected</u>	<u>Absolute Change</u>	<u>% Change</u>
2014	697,161	n.a.	n.a.
2015	711,577	14,415	2.1%
2016	716,112	4,535	0.6%
2017	717,581	1,469	0.2%
2018	730,530	12,949	1.8%
2019	737,597	7,067	1.0%
<b>Average Change Per Year</b>		<b>8,087</b>	<b>1.13%</b>

Sources: HCIDLA, 2020; BAE, 2020.

Starting with the number of units that paid SCEP fees in 2019, the most recent complete year of fee payments, and applying the annual change factor of 1.13 percent, it is projected that 745,961 units will pay the fees in Calendar Year (CY) 2020, 754,420 units in CY 2021, 762,975 units in CY 2022 and 771,627 units in CY 2023, as demonstrated in Table 3 below. Table 2 projects the CY 2020 number of paid units because, as of the date of this study, the fiscal year fees are not fully collected.

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**Table 3: Projected Number of SCEP Units Anticipated to Pay Fee**

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<b>Calendar Year</b>	<b># of Units Paying Fee in Previous CY</b>	<b>Additional Units (a)</b>	<b>Projected # of Units Paying Fee</b>
2020	737,597	8,364	745,961
2021	745,961	8,459	754,420
2022	754,420	8,555	762,975
2023	762,975	8,652	771,627

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Note:

(a) Projected at an increase of 0.89 percent per year based on a five-year historic average increase.

Sources: HCIDLA, 2020; BAE, 2020.

### ***Revenues***

This section discusses the treatment of various revenues within the fee calculations.

#### ***Revenues Included***

Revenues collected from the implementation and administration of the Los Angeles Housing Code are deposited into the Systematic Code Enforcement Trust Fund. Revenues considered in this study include the following sources:

- **Systematic Code Enforcement Fees** revenue is projected based on the total number of SCEP units that are anticipated to pay the fees in any fiscal year.
- **Inspection and Enforcement Fees** are billed to owners and developers based on circumstances that cannot be predicted, such as late filings, violations, or other enforcement actions. The FY19 receipts for Inspection and Enforcement Fees totaled approximately \$3 million. Due to year-to-year improvements in compliance rates, Inspection and Enforcement Fees are projected to decrease in FY 2022 and FY 2023 by four percent annually.
- **Other Receipts** in FY19 totaled \$523,000. Due to year-to-year improvements in compliance rates, Other Receipts are projected to decrease in FY 2022 and FY 2023 by four percent annually. In addition to the annual regulatory SCEP fee, the Department is authorized to collect complaint inspection fees, additional inspection fees, appeal fees, administrative investigation fees, late fees and penalties, and administrative costs (hereinafter collectively referred to as "other revenue sources"). Since the past few years, funds collected through other revenue sources have declined at a rate of approximately four percent annually and are assumed to continue to decrease at this rate in the budget projections.
- **Trust Fund Balance Interest** revenues are projected at \$593,000 for FY 2021 and are anticipated to remain roughly the same for FY 2022 and FY 2023 at \$600,000.

#### ***Revenues Not Included***

This analysis does not include the following revenue source:

- **Rent Escrow Account Program (REAP)** encourages owners maintain safe and habitable conditions at residential properties by placing tenant rents in escrow accounts rather

than paid directly to the owner. These funds are typically dedicated to rehabilitating the property to habitable standards, tenant relocation, or tenant settlements, and are not used for SCEP operations. FY19 escrow account deposits totaled approximately \$1.6 million.

### ***Expenses***

The study uses the FY 2021 Mayor's proposed budget (released April 20, 2020) as the starting point for analysis. BAE developed the SCEP budget expense projections using a set of common assumptions, as follows.

#### ***Direct Costs***

##### **Salary Expenses**

Salaries are sourced from the FY 2021 Chief Administrative Officer Wages and Count – Employee Compensation Department Summary. BAE modeled four staffing scenarios: one at three percent staff vacancy, one at five percent staff vacancy, one at ten percent staff vacancy Year 1 then three percent staff vacancy, and one at ten percent staff vacancy Year 1 then five percent staff vacancy.

Salary line items (Salaries, General and Other Department Support) are assumed to increase at three percent annually for Cost of Living Adjustments (COLA), with the exception of as needed and overtime salaries which do not escalate. Depending on the scenario, staff vacancies are assumed at either three, five, or ten percent. As-needed and overtime salaries do not increase from year-to-year, and no escalation factor is applied.

##### **Non-Salary Expenses**

Annual changes to direct non-salary expenses vary throughout the operations budget.

The following direct non-salary expenses do not increase annually: Travel, Office and Administrative, Contracts for Hearing Officers, Rent and Code Outreach, Code Enforcement Training, Service Delivery, and Translation.

The following direct non-expenses increase at ten percent annually: Transportation and Merchant Card Services Fees.

The following direct non-salary expenses change at varied rates and amounts: Additional Lease (006030) charges increase at 2.5 percent annually, Printing and Binding (002120) increases \$20,000 in FY 2022 and does not change thereafter, Contractual Services (003040) increases \$100,000 in FY 2022 and does not change thereafter. One-time contractual services expenses are included for software systems in the amounts of \$1,523,352 in FY 2021, \$1,317,867 in FY 2022 and \$952,826 in FY 2023. These contracts will implement software systems enhancements to serve

constituents, track critical data, create emergency continuity by moving active infrastructure to the Cloud, provide essential equipment and computer updates in FY 2022, and continue baseline systems monitoring for FY 2023.

*Indirect Costs*

Indirect costs are calculated for the HCIDLA FY 2021 budget using City of Los Angeles' Related Costs Cost Allocation Plan (CAP-42) rate of 74.85 percent.

Table 4, below, provides the starting FY 2021 Operating Budget with the revenue and expense assumptions utilized for this study, which were provided by HCIDLA staff.

**Table 4: FY 2021 Operating Budget - Revenues and Expenses Assumptions**

<b>REVENUES</b>	<b>FY21 Budget</b>	<b>Revenues Assumptions</b>
Starting Trust Fund Balance	(\$3,706,899)	Projected Starting Trust Fund Balance per HCIDLA
Inspection and Enforcement Fees	\$2,982,000	4% Reduction in FY22 and FY23
Other Receipts	\$523,000	4% Reduction in FY22 and FY23
Trust Fund Balance Interest	\$593,000	Rounded up to \$600,000 for FY22 and FY23
<b>Total Revenues</b>	<b>\$391,101</b>	Sum of the above
<b>EXPENSES</b>		
<b>Fund 100 Appropriations</b>	<b>FY21 Budget</b>	<b>Expenses Assumptions</b>
001010, Salaries General*	\$28,820,126	Assumes 3% Vacancy; Increases by 3% COLA Annually
001070, Salaries, As-Needed	\$208,011	Assumes 0% Vacancy; No changes in FY22 and FY23
001090, Salaries, Overtime	\$54,449	Assumes 0% Vacancy; No changes in FY22 and FY23
002120, Printing & Binding (a)	\$130,034	Plus \$20K in FY22; Assumes FY22=FY23
002130, Travel	\$5,797	No changes in FY22 and FY23
003040, Contractual Services	\$448,188	Plus \$100K in FY22; Assumes FY22=FY23
003340, Transportation	\$285,466	Increases by 10% Annually
006010, Office & Administrative (b)	\$560,275	No changes in FY22 and FY23
006030, Lease (b)	\$1,516,356	No changes in FY22 and FY23
- <i>Additional Lease need</i>	\$1,323,979	Increases by 2.5% Annually
<b>Salaries, Expenses &amp; Lease</b>	<b>\$33,352,681</b>	Sum of the above
<b>Appropriations/Other Dept. Support</b>		
CAO	\$150,966	Assumes 5% Vacancy; Increases by 3% COLA Annually
City Attorney	\$433,259	Assumes 2% Vacancy; Increases by 3% COLA Annually
Controller	\$60,261	Assumes 3.6% Vacancy; Increases by 3% COLA Annually
ITA	\$75,674	Assumes 0% Vacancy; Increases by 3% COLA Annually
Personnel	\$703,989	Assumes 5% Vacancy; Increases by 3% COLA Annually
<b>Other Support Subtotal</b>	<b>\$1,424,149</b>	Sum of the above
<b>Appropriations/Related Costs (All Depts)</b>		
Related Costs (All Depts)		
Housing + Community Investment	\$20,971,970	Increases by COLA @ 3% Annually
CAO	\$179,075	Assumes 5% Vacancy; Increases by 3% COLA Annually
City Attorney	\$254,167	Assumes 2% Vacancy; Increases by 3% COLA Annually
Controller	\$209,586	Assumes 3.6% Vacancy; Increases by 3% COLA Annually
ITA	\$0	Assumes 0% Vacancy; Increases by 3% COLA Annually
Personnel	\$508,562	Assumes 5% Vacancy; Increases by 3% COLA Annually
<b>Related Costs (All Depts)</b>	<b>\$22,123,360</b>	Sum of the above
<b>Contracts Directly from Fund</b>		
Contract Programming - Systems Upgrades	\$1,523,352	FY22=\$1,317,867; FY23=\$952,826
Hearing Officer Contract	\$245,000	No changes in FY22 and FY23
Rent and Code Outreach Program	\$742,500	No changes in FY22 and FY23
Code Enforcement Training	\$30,000	No changes in FY22 and FY23
Service Delivery	\$37,500	No changes in FY22 and FY23
Translation	\$45,575	No changes in FY22 and FY23
Merchant Card Services Fees	\$140,000	Increases by 10% Annually
<b>Contracts Subtotal</b>	<b>\$2,763,927</b>	Sum of the above
<b>Total FY21 Budget</b>	<b>\$59,664,117</b>	
(at three percent vacancy)		
<b>Guideline Ending Balance</b>	<b>25 percent of FY23 total expenses</b>	

Notes:

(a) Printing & Binding includes a \$25,000 expense for additional code mailings.

(b) Office & Administration includes Postage and PPE purchases.

Sources: HCIDLA, 2020; BAE, 2020.

## Budget Scenarios Analysis

Following are discussions of the various budget scenarios and the fees necessary to recover projected SCEP program operating costs.

### *Current Fee Scenario*

The current SCEP fee of \$43.32 is inadequate to support the FY 2021 SCEP operations budget for any of the four budget scenarios, including the FY 2021 approved expenses budget. Table 5 below provides projected revenues at the current fee level for all three fiscal years.

**Table 5: Projected Revenues at the Current SCEP Fee**

Fiscal Year	Projected # of Paying Units	Current Fee	Projected Fee Revenue	Trust Fund Interest	Total Projected Revenue
FY21	754,420	\$43.32	\$32,681,482	\$593,000	\$33,274,482
FY22	762,975	\$43.32	\$33,052,086	\$600,000	\$33,652,086
FY23	771,627	\$43.32	\$33,426,893	\$600,000	\$34,026,893

Sources: HCIDLA, 2020; BAE, 2020.

As shown in Table 6, for FY 2021, total expenses \$55.9 million to \$59.7 million exceed projected revenues, resulting in revenue shortfalls of from \$22.8 million to \$26.6 million for all four scenarios. In the budget model, expenses increase each year. As a result, future year expenses would not be covered by the current fee either.

**Table 6: FY 2021 Budget with Projected Revenue at Current Fee Rate (Est. 2012)**

FY21 Budget	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Trust Fund Opening Balance FY21	(\$3,706,899)	(\$3,706,899)	(\$3,706,899)	(\$3,706,899)
Projected Revenue at 2012 Fee	\$32,681,482	\$32,681,482	\$32,681,482	\$32,681,482
Inspection and Enforcement Fees	\$2,982,000	\$2,982,000	\$2,982,000	\$2,982,000
Other Receipts	\$523,000	\$523,000	\$523,000	\$523,000
Trust Fund Balance Interest	\$593,000	\$593,000	\$593,000	\$593,000
Total Expenses	(\$59,688,987)	(\$58,608,729)	(\$55,908,085)	(\$55,908,085)
Trust Fund Ending Balance	(\$26,616,405)	(\$25,536,147)	(\$22,835,502)	(\$22,835,502)

Sources: HCIDLA, 2020; BAE, 2020.

**Scenario 1: Current programs with a three percent staff vacancy rate**

Scenario 1 assumes a three percent staff vacancy rate for FY 2021, FY 2022, and FY 2023 for all HCIDLA staff and for City staff from other departments that are budgeted as appropriations. On a year-to-year basis, a significant Ending Trust Fund Balance is necessary to accumulate fees to pay for SCEP operations during the first quarter of FY 2024.

As summarized in Table 7, below, the first year Scenario 1 budget projects \$63,336,517 total revenue (including the negative Opening Trust Fund Balance of -\$3,706,899) and \$59,688,987 in expenses with an Ending Trust Fund Balance of \$3,647,530 which is carried over into FY 2022 as the Opening Trust Fund Balance.

**Table 7: Scenario 1 Summary Budget**

<b>Scenario 1 Budget</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>
Opening Trust Fund Balance	(\$3,706,899)	\$3,647,530	\$10,020,617
SCEP Fee at \$84.38	\$62,945,416	\$63,659,211	\$64,381,099
Inspection and Enforcement Fees	\$2,982,000	\$2,862,720	\$2,748,211
Other Receipts	\$523,000	\$502,080	\$481,997
Trust Fund Balance Interest	\$593,000	\$600,000	\$600,000
Total Revenue	\$63,336,517	\$71,271,540	\$78,231,924
Total Expenses	\$59,688,987	\$61,250,924	\$62,585,539
Ending Trust Fund Balance	\$3,647,530	\$10,020,617	\$15,646,385
<i>Difference from Required OpEx Ending Balance</i>			\$0 (a)

Note:

(a) Required OpEx Ending Balance equals 25 percent of FY 2023 operating expenses.

Sources: HCIDLA, 2020; BAE, 2020.

The Scenario 1 three-year budget would fully recover SCEP operating costs with an annual fee of \$84.38 per unit, assuming an Opening Trust Fund Balance of -\$3,706,899 and a Guideline Ending Trust Fund Balance of approximately \$15.6 million. A detailed budget for this Scenario is provided in Appendix A.

**Scenario 2: Current programs with a five percent staff vacancy rate**

The first year Scenario 2 budget (FY 2021 column in Table 8) assumes the same expenses as Scenario 1, with the exception of staff vacancy rates. For Scenario 2, a five percent staff vacancy rate is assumed for all three fiscal years for all HCIDLA staff and for City staff from other departments that are budgeted as appropriations. All other budget assumptions remain as provided earlier in this report.

As summarized in Table 8, below, the first year Scenario 2 budget projects \$62,141,625 total revenue (including the negative Opening Trust Fund Balance of -\$3,706,899) and \$58,608,729 in expenses with an Ending Trust Fund Balance of \$3,532,896 which is carried over into FY 2022 as the Opening Trust Fund Balance.

**Table 8: Scenario 2 Summary Budget**

<b>Scenario 2 Budget</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>
Opening Trust Fund Balance	(\$3,706,899)	\$3,532,896	\$9,810,206
SCEP Fee at \$82.78	\$61,750,524	\$62,450,768	\$63,158,953
Inspection and Enforcement Fees	\$2,982,000	\$2,862,720	\$2,748,211
Other Receipts	\$523,000	\$502,080	\$481,997
Trust Fund Balance Interest	\$593,000	\$600,000	\$600,000
Total Revenue	\$62,141,625	\$69,948,464	\$76,799,367
Total Expenses	\$58,608,729	\$60,138,258	\$61,439,494
Ending Trust Fund Balance	\$3,532,896	\$9,810,206	\$15,359,873
<i>Difference from Required OpEx Ending Balance</i>			\$0 (a)

Note:

(a) Required OpEx Ending Balance equals 25 percent of FY 2023 operating expenses.

Sources: HCIDLA, 2020; BAE, 2020.

The Scenario 2 three-year budget would fully recover SCEP operating costs with an annual fee of \$82.78 per unit, assuming an Opening Trust Fund Balance of -\$3,706,899, and a Guideline Ending Trust Fund Balance of approximately \$15.4 million. A detailed budget for this scenario is provided in Appendix A.

***Scenario 3: Current programs with a ten percent vacancy rate in year one, followed by a three percent vacancy rate in years two and three.***

The first year Scenario 3 budget (FY 2021 column in Table 9) assumes the same expenses as Scenario 1, with the exception of staff vacancy rates. For Scenario 3, a ten percent staff vacancy rate is assumed in FY 2021 and a three percent staff vacancy rate for FY 2022 and FY 2023 for all HCIDLA staff and for City staff from other departments that are budgeted as appropriations. All other budget assumptions remain as provided earlier in this report.

As summarized in Table 9, below, the first year Scenario 3 budget projects \$62,090,401 total revenue (including the negative Opening Trust Fund Balance of -\$3,706,899) and \$55,908,085 in expenses with an Ending Trust Fund Balance of \$6,182,316 which is carried over into FY 2022 as the Opening Trust Fund Balance.

**Table 9: Scenario 3 Summary Budget**

<b>Scenario 3 Budget</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>
Opening Trust Fund Balance	(\$3,706,899)	\$6,182,316	\$11,295,155
SCEP Fee at \$82.71	\$61,699,300	\$62,398,963	\$63,106,561
Inspection and Enforcement Fees	\$2,982,000	\$2,862,720	\$2,748,211
Other Receipts	\$523,000	\$502,080	\$481,997
Trust Fund Balance Interest	\$593,000	\$600,000	\$600,000
Total Revenue	\$62,090,401	\$72,546,079	\$78,231,924
Total Expenses	\$55,908,085	\$61,250,924	\$62,585,539
Ending Trust Fund Balance	\$6,182,316	\$11,295,155	\$15,646,385
<i>Difference from Required OpEx Ending Balance</i>			\$0 (a)

Note:

(a) Required OpEx Ending Balance equals 25 percent of FY 2023 operating expenses.

Sources: HCIDLA, 2020; BAE, 2020.

The Scenario 3 three-year budget would fully recover SCEP operating costs with an annual fee of \$82.71 per unit, assuming an Opening Trust Fund Balance of -\$3,706,899, and a Guideline Ending Trust Fund Balance of approximately \$15.6 million. A detailed budget for this scenario is provided in Appendix A.

**Scenario 4: Current programs at a ten percent vacancy rate in year one and a five percent vacancy rate in years two and three.**

The first year Scenario 4 budget (FY 2021 column in Table 9) assumes the same expenses as Scenario 1, with the exception of staff vacancy rates. For Scenario 4, a ten percent staff vacancy rate is assumed in FY 2021 and a five percent staff vacancy rate for FY 2022 and FY 2023 for all HCIDLA staff and for City staff from other departments that are budgeted as appropriations. All other budget assumptions remain as provided earlier in this report.

As summarized in Table 10, below, the first year Scenario 4 budget projects \$61,251,542 total revenue (including the negative Opening Trust Fund Balance of -\$3,706,899) and \$55,908,085 in expenses with an Ending Trust Fund Balance of \$5,343,457 which is carried over into FY 2022 as the Opening Trust Fund Balance.

**Table 10: Scenario 4 Summary Budget**

<b>Scenario 4 Budget</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>
Opening Trust Fund Balance	(\$3,706,899)	\$5,343,457	\$10,720,590
SCEP Fee at \$81.59	\$60,860,441	\$61,550,592	\$62,248,569
Inspection and Enforcement Fees	\$2,982,000	\$2,862,720	\$2,748,211
Other Receipts	\$523,000	\$502,080	\$481,997
Trust Fund Balance Interest	\$593,000	\$600,000	\$600,000
Total Revenue	\$61,251,542	\$70,858,848	\$76,799,367
Total Expenses	\$55,908,085	\$60,138,258	\$61,439,494
Ending Trust Fund Balance	\$5,343,457	\$10,720,590	\$15,359,873
<i>Difference from Required OpEx Ending Balance</i>			\$0 (a)

Note:

(a) Required OpEx Ending Balance equals 25 percent of FY 2023 operating expenses.

Sources: HCIDLA, 2020; BAE, 2020.

The Scenario 4 three-year budget would fully recover SCEP operating costs with an annual fee of \$81.59 per unit, assuming an Opening Trust Fund Balance of -\$3,706,899, and a Guideline Ending Trust Fund Balance of approximately \$15.4 million. A detailed budget for this scenario is provided in Appendix A.

## RECOMMENDED FEES COMPARED TO HISTORIC FEES

Based on the projected revenues and expenses associated with the different scenarios analyzed in the preceding chapter, the recommended three-year fees are shown in Table 11.

**Table 11: Recommended Three-Year Fees by Scenario**

<u>Staffing Scenario</u>	<u>Projected Staff Vacancy Rate</u>	<u>Projected Fee</u>
Scenario 1	Three Percent	\$84.38
Scenario 2	Five Percent	\$82.78
Scenario 3	Ten to Three Percent	\$82.71
Scenario 4	Ten to Five Percent	\$81.59

Sources: HCIDLA, 2020; BAE, 2020.

As shown in Table 12, the potential new cost recovery fees range from \$81.59 to \$84.38, which is an 88.3 percent to 94.8 percent increase over the current fee of \$43.32. Accounting for the nine years between fee increases, the different fee scenarios represent increases of between \$38.27 to \$41.06 annually per tenant household. Viewed on a year-to-year increase basis, the potential new fee levels would represent increases of \$4.25 to \$4.56 per unit per year over the nine-year period since the last fee increase.

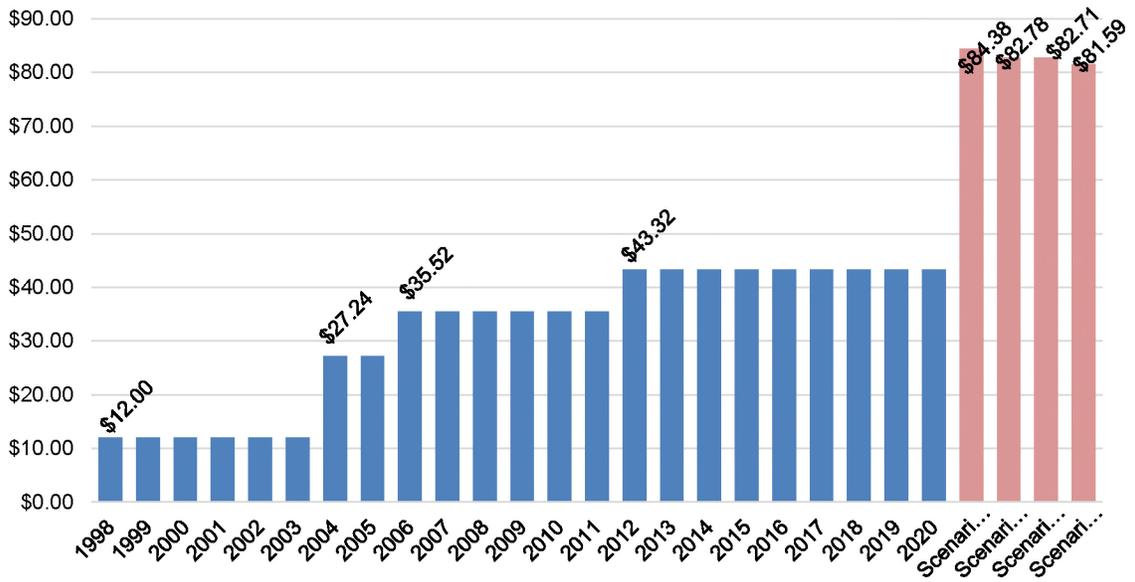
**Table 12: Historic and Recommended Fee Amounts by Year of Increase**

<u>Calendar Year</u>	<u>Fee</u>	<u>Years Since Last Increase</u>	<u>Net Increase</u>	<u>Net % Increase</u>	<u>Increase Per Year</u>	<u>% Increase Per Year</u>
1998	\$12.00	n.a.	n.a.	n.a.	n.a.	n.a.
2004	\$27.24	6	\$15.24	127.0%	\$2.54	14.6%
2006	\$35.52	2	\$8.28	30.4%	\$4.14	14.2%
2012	\$43.32	6	\$7.80	22.0%	\$1.30	3.4%
<i>Scenario 1</i>	<i>\$84.38</i>	<i>9</i>	<i>\$41.06</i>	<i>94.8%</i>	<i>\$4.56</i>	<i>7.7%</i>
<i>Scenario 2</i>	<i>\$82.78</i>	<i>9</i>	<i>\$39.46</i>	<i>91.1%</i>	<i>\$4.38</i>	<i>7.5%</i>
<i>Scenario 3</i>	<i>\$82.71</i>	<i>9</i>	<i>\$39.39</i>	<i>90.9%</i>	<i>\$4.38</i>	<i>7.5%</i>
<i>Scenario 4</i>	<i>\$81.59</i>	<i>9</i>	<i>\$38.27</i>	<i>88.3%</i>	<i>\$4.25</i>	<i>7.3%</i>

Sources: HCIDLA, 2020; BAE, 2020.

Figure 6, below, graphs the historic SCEP fee amounts alongside the recommended fees for the four budget scenarios.

**Figure 4: Historic and Recommended Fees**



Sources: HCIDLA, 2020; BAE, 2020.

## SCEP FEES COMPARED TO OTHER JURISDICTIONS

BAE surveyed a number of comparative jurisdictions across the country to analyze “proactive” rental inspection programs similar to SCEP. These programs were operated by the cities of Seattle, Minneapolis, Washington, D.C., and San Jose. Specifically, BAE analyzed metrics such as the program and/or inspection fee per unit, frequency of inspections, and the classification of properties according to risk, among other factors.

The SCEP program is unique on multiple accounts: SCEP is the only program surveyed by BAE that commits to inspecting 100 percent of eligible units at a given property. In addition, SCEP is the only program surveyed by BAE that strives to achieve a four-year inspection frequency for all properties and units – even for “Tier 1” properties with minimal risk for code violations. For similar properties in other jurisdictions, the inspection cycle is every six years in San Jose and every eight years in Minneapolis.

Each jurisdiction uses a unique approach to quantifying the fees associated with that city’s proactive inspection program.

- Two of the jurisdictions (e.g., San Jose and Minneapolis) charge higher fees per unit for properties deemed to have a greater risk of code violations. The City of Los Angeles, meanwhile, charges the same fee for such “Tier Two” properties, but accelerates the inspection cycle from every four years to every two years.
- Other jurisdictions such as Minneapolis vary their fee by building size, charging a lower fee per unit for buildings with four units or greater because greater economies of scale are achieved with systematic inspections of larger buildings.
- Programs in Seattle and San Jose proactively inspect a fraction of a building’s units during the inspection cycle (20 percent and 25 percent, respectively) rather than all units in the building.
- Four of the five jurisdictions include inspections as part of the overall program fee, while Seattle charges a program fee in addition to a separate inspection fee.

For the purpose of understanding the fees comparatively across all jurisdictions despite the variations in fee methodologies, BAE calculated the annual per-inspected-unit fee<sup>2</sup> that would be required for a 20-unit building.

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<sup>2</sup> Calculated fees also include any program or registration fee, if charged separately from inspection fee.

When examined on a “per inspected unit” basis, the range of potential Fees (e.g., \$81.59 to \$84.38 per unit) would fall well within the range of comparison cities.

- Similar to the City of Los Angeles, Washington, D.C.’s fee of \$130 per-inspected unit does not vary depending on the risk of code violation (Table 13).
- In Minneapolis, the fee per-inspected unit ranges from \$68 to \$144, depending on that property’s risk category.
- In San Jose, the fee per-inspected unit rises even higher—ranging from \$247 to \$325 per inspected unit.

**Table 13: Range of Annual Fees per “Inspected Unit” for a 20-unit Multifamily Building**

	<u>Los Angeles, CA</u>	<u>Washington, DC</u>	<u>San Jose, CA</u>	<u>Minneapolis, MN</u>	<u>Seattle, WA</u>
Annualized Fee per Inspected Unit	\$81.59 to \$84.38	\$130.00	\$247.00 to \$325.00	\$68.00 to \$144.00	\$65.38
Frequency of Inspection (years per cycle)	2 to 4	4.5	3 to 6	1 to 8	10
% units inspected (range by tier)	100%	30%	10% to 50%	20% to 50%	20%

Sources: HCID; District Dept. of Consumer and Regulatory Affairs (DCRA); San Jose Building, Planning, and Code Enforcement; Minneapolis Housing and Fire Inspections Dept; Seattle Dept. of Construction and Inspections; BAE, 2020.

## CONCLUSION

A SCEP Fee increase is necessary at this time in order for HCIDLA to provide proactive code enforcement that ensures habitability of rental units throughout City of Los Angeles.

The recommended fees for the four scenarios range from \$81.59 and \$84.38 per unit per year and fall well below the fees charged per “inspected unit” for large metropolitan comparison cities that operate similar code enforcement programs.

The current fee of \$43.32 per unit per year would provide insufficient revenues to fund even this fiscal year’s operating budget. If left at the same rate, the current fee will generate revenues of approximately \$32.7 million for the FY 2021 which, when combined with anticipated Trust Fund Interest, Inspection and Enforcement Fees, and Other Receipts does not generate enough revenue to fund the approved FY 2021 \$59.7 million budget. As a result, SCEP would need to implement significant staff and service cutbacks to work within such limited budget parameters.

## APPENDIX A: SUMMARY FEE CALCULATIONS

### Appendix A-1: Summary of Fee Calculations for Scenarios 1 and 2

	Total Units (a)	Scenario 1	Annual Fee	Scenario 2	Annual Fee
FY21 Projected Expenses After Revenue (b)	745,961	\$59,297,886	\$79.49	\$58,217,628	\$78.04
FY22 Projected Expenses After Revenue (b)	754,420	\$57,286,124	\$75.93	\$56,173,458	\$74.46
FY23 Projected Expenses After Revenue (b)	762,975	\$58,755,331	\$77.01	\$57,609,286	\$75.51
<b>Total Units/Total Expenses</b>	<b>2,263,356</b>	<b>\$175,339,341</b>		<b>\$172,000,372</b>	
Three-Year Averages	754,452	\$58,446,447	\$77.48	\$57,333,457	\$76.00
Guideline Ending Balance (c)	2,263,356	\$15,646,385	\$6.91	\$15,359,873	\$6.79
<b>Proposed Three-Year Fee</b>			<b>\$84.38</b>		<b>\$82.78</b>

Notes:

- (a) Number of units anticipated to pay the fee during the associated fiscal year.  
 (b) Assumes a negative \$3.7 million FY 2020 Ending Fund Balance applied to expenses.  
 (c) At 25 percent of FY 2023 operating expenses.

Sources: HCIDLA, 2020; BAE, 2020.

### Appendix A-2: Summary of Fee Calculations for Scenarios 3 and 4

	Total Units (a)	Scenario 3	Annual Fee	Scenario 4	Annual Fee
FY21 Projected Expenses After Revenue (b)	745,961	\$55,516,984	\$74.42	\$55,516,984	\$74.42
FY22 Projected Expenses After Revenue (b)	754,420	\$57,286,124	\$75.93	\$56,173,458	\$74.46
FY23 Projected Expenses After Revenue (b)	762,975	\$58,755,331	\$77.01	\$57,609,286	\$75.51
<b>Total Units/Total Expenses</b>	<b>2,263,356</b>	<b>\$171,558,439</b>		<b>\$169,299,728</b>	
Three-Year Averages	754,452	\$57,186,146	\$75.79	\$56,433,243	\$74.80
FY23 Expenses and Average Fee Per Unit (c)	2,263,356	\$15,646,385	\$6.91	\$15,359,873	\$6.79
<b>Proposed Three-Year Fee</b>			<b>\$82.71</b>		<b>\$81.59</b>

Notes:

- (a) Number of units, including new ADU rentals, anticipated to pay the fee during the associated fiscal year.  
 (b) Assumes a negative \$3.7 million FY 2020 Ending Fund Balance applied to expenses.  
 (c) At 25 percent of FY 2023 operating expenses.

Sources: HCIDLA, 2020; BAE, 2020.

## APPENDIX B: DETAILED SCENARIO BUDGETS

### Appendix B-1: SCEP Budget Three-Year Projections, Scenario 1

SCEP Budget Three-Year Projections	Scenario 1: Current Program Levels, Three Percent Vacancy Assumption		
	Year 1 FY21	Year 2 FY22	Year 3 FY23
	Current SCEP Programs Less 3% Vacancy + No COLA	Current SCEP Programs Less 3% Vacancy + 3% COLA	Current SCEP Programs Less 3% Vacancy + 3% COLA
<b>REVENUES</b>			
Recommended Fee	\$84,38		
Total SCEP Units Assumption	745,961	754,420	762,975
SCEP Fee Revenue	\$62,945,416	\$63,659,211	\$64,381,099
Inspection and Enforcement Fees	\$2,982,000	\$2,862,720	\$2,748,211
Other Receipts	\$523,000	\$502,080	\$481,997
Trust Fund Opening Balance	(\$3,706,899)	\$0	\$0
Trust Fund Balance Interest	\$593,000	\$600,000	\$600,000
<b>Total Revenue</b>	<b>\$63,336,517</b>	<b>\$67,624,011</b>	<b>\$68,211,307</b>
<b>EXPENSES</b>			
001010, Salaries General*	\$28,820,126	\$29,684,730	\$30,575,272
001070, Salaries, As-Needed	\$208,011	\$208,011	\$208,011
001090, Salaries, Overtime	\$54,449	\$54,449	\$54,449
002120, Printing & Binding	\$130,034	\$150,034	\$150,034
002130, Travel	\$5,797	\$5,797	\$5,797
003040, Contractual Services	\$448,188	\$548,188	\$548,188
003340, Transportation	\$285,466	\$314,013	\$345,414
006010, Office & Administrative	\$560,275	\$560,275	\$560,275
006030, Lease	\$1,516,356	\$1,516,356	\$1,516,356
- Additional Lease need	\$1,323,979	\$1,357,078	\$1,391,005
<b>HCIDLA Subtotal</b>	<b>\$33,352,681</b>	<b>\$34,398,931</b>	<b>\$35,354,801</b>
<b>Appropriations/Other Department Support (Staff)</b>			
CAO	\$154,144	\$158,769	\$163,532
City Attorney	\$428,838	\$441,703	\$454,954
Controller	\$60,636	\$62,455	\$64,329
ITA	\$73,404	\$75,606	\$77,874
Personnel	\$718,810	\$740,374	\$762,585
<b>Other Departmental Support Subtotal</b>	<b>\$1,435,832</b>	<b>\$1,478,907</b>	<b>\$1,523,274</b>
<b>Appropriations/Related Costs (All Depts)</b>			
Housing + Community Investment	\$20,971,970	\$21,601,129	\$22,249,163
CAO	\$182,845	\$188,330	\$193,980
City Attorney	\$251,573	\$259,121	\$266,894
Controller	\$210,890	\$217,217	\$223,734
ITA	\$0	\$0	\$0
Personnel	\$519,269	\$534,847	\$550,892
<b>Related Costs Subtotal</b>	<b>\$22,136,547</b>	<b>\$22,800,644</b>	<b>\$23,484,663</b>
<b>Contracts Directly from Fund</b>			
Contract Programming - Systems Upgrades	\$1,523,352	\$1,317,867	\$952,826
Hearing Officer Contract	\$245,000	\$245,000	\$245,000
Rent & Code Outreach Program	\$742,500	\$742,500	\$742,500
Code Enforcement Training	\$30,000	\$30,000	\$30,000
Service Delivery	\$37,500	\$37,500	\$37,500
Translation	\$45,575	\$45,575	\$45,575
Merchant Card Services Fees	\$140,000	\$154,000	\$169,400
<b>Contracts Subtotal</b>	<b>\$2,763,927</b>	<b>\$2,572,442</b>	<b>\$2,222,801</b>
<b>Total FY Obligations</b>	<b>\$59,688,987</b>	<b>\$61,250,924</b>	<b>\$62,585,539</b>
<b>Total Revenue (including Trust Balance) Less FY Expenses</b>	<b>\$3,647,530</b>	<b>\$6,373,087</b>	<b>\$5,625,768</b>
Three Year Total Revenue Less Expenses			\$15,646,385
25 Percent of OpEx FY23			\$15,646,385
<b>Balance</b>			<b>(\$0)</b>

Sources: HCIDLA, 2020; BAE, 2020.

## Appendix B-2: SCEP Budget Three-Year Projections, Scenario 2

SCEP Budget Three-Year Projections	Scenario 2: Current Program Levels, Five Percent Vacancy Assumption		
	Year 1 FY21	Year 2 FY22	Year 3 FY23
<b>REVENUES</b>	Current SCEP Programs Less 5% Vacancy + No COLA	Current SCEP Programs Less 5% Vacancy + 3% COLA	Current SCEP Programs Less 5% Vacancy + 3% COLA
Recommended Fee	\$82,78		
Total SCEP Units Assumption	745,961	754,420	762,975
SCEP Fee Revenue	\$61,750,524	\$62,450,768	\$63,158,953
Inspection and Enforcement Fees	\$2,982,000	\$2,862,720	\$2,748,211
Other Receipts	\$523,000	\$502,080	\$481,997
Trust Fund Opening Balance	(\$3,706,899)	\$0	\$0
Trust Fund Balance Interest	\$593,000	\$600,000	\$600,000
<b>Total Revenue</b>	<b>\$62,141,625</b>	<b>\$66,415,568</b>	<b>\$66,989,161</b>
<b>EXPENSES</b>			
001010, Salaries General*	\$28,225,897	\$29,072,674	\$29,944,854
001070, Salaries, As-Needed	\$208,011	\$208,011	\$208,011
001090, Salaries, Overtime	\$54,449	\$54,449	\$54,449
002120, Printing & Binding	\$130,034	\$150,034	\$150,034
002130, Travel	\$5,797	\$5,797	\$5,797
003040, Contractual Services	\$448,188	\$548,188	\$548,188
003340, Transportation	\$285,466	\$314,013	\$345,414
006010, Office & Administrative	\$560,275	\$560,275	\$560,275
006030, Lease	\$1,516,356	\$1,516,356	\$1,516,356
- Additional Lease need	\$1,323,979	\$1,357,078	\$1,391,005
<b>HCIDLA Subtotal</b>	<b>\$32,758,452</b>	<b>\$33,786,875</b>	<b>\$34,724,383</b>
<b>Appropriations/Other Department Support (Staff)</b>			
CAO	\$150,966	\$155,495	\$160,160
City Attorney	\$419,996	\$432,596	\$445,574
Controller	\$59,386	\$61,167	\$63,002
ITA	\$71,890	\$74,047	\$76,268
Personnel	\$703,989	\$725,109	\$746,862
<b>Other Departmental Support Subtotal</b>	<b>\$1,406,227</b>	<b>\$1,448,414</b>	<b>\$1,491,866</b>
<b>Appropriations/Related Costs (All Depts)</b>			
Housing + Community Investment	\$20,539,558	\$21,155,745	\$21,790,417
CAO	\$179,075	\$184,447	\$189,981
City Attorney	\$246,386	\$253,778	\$261,391
Controller	\$206,542	\$212,738	\$219,121
ITA	\$0	\$0	\$0
Personnel	\$508,562	\$523,819	\$539,533
<b>Related Costs Subtotal</b>	<b>\$21,680,124</b>	<b>\$22,330,527</b>	<b>\$23,000,443</b>
<b>Contracts Directly from Fund</b>			
Contract Programming - Systems Upgrades	\$1,523,352	\$1,317,867	\$952,826
Hearing Officer Contract	\$245,000	\$245,000	\$245,000
Rent & Code Outreach Program	\$742,500	\$742,500	\$742,500
Code Enforcement Training	\$30,000	\$30,000	\$30,000
Service Delivery	\$37,500	\$37,500	\$37,500
Translation	\$45,575	\$45,575	\$45,575
Merchant Card Services Fees	\$140,000	\$154,000	\$169,400
<b>Contracts Subtotal</b>	<b>\$2,763,927</b>	<b>\$2,572,442</b>	<b>\$2,222,801</b>
<b>Total FY Obligations</b>	<b>\$58,608,729</b>	<b>\$60,138,258</b>	<b>\$61,439,494</b>
<b>Total Revenue (including Trust Balance) Less FY Expenses</b>	<b>\$3,532,896</b>	<b>\$6,277,310</b>	<b>\$5,549,668</b>
Three Year Total Revenue Less Expenses			\$15,359,873
25 Percent of OpEx FY23			\$15,359,873
<b>Balance</b>			<b>\$0</b>

Sources: HCIDLA, 2020; BAE, 2020.

## Appendix B-3: SCEP Budget Three-Year Projections, Scenario 3

SCEP Budget Three-Year Projections	Scenario 3: Current Program Levels, Ten Percent to Three Percent Vacancy Assumption		
	Year 1 FY21	Year 2 FY22	Year 3 FY23
<b>REVENUES</b>	Current SCEP Programs Less 10% Vacancy + No COLA	Current SCEP Programs Less 3% Vacancy + 3% COLA	Current SCEP Programs Less 3% Vacancy + 3% COLA
Recommended Fee	\$82,71		
Total SCEP Units Assumption	745,961	754,420	762,975
SCEP Fee Revenue	\$61,699,300	\$62,398,963	\$63,106,561
Inspection and Enforcement Fees	\$2,982,000	\$2,862,720	\$2,748,211
Other Receipts	\$523,000	\$502,080	\$481,997
Trust Fund Opening Balance	(\$3,706,899)	\$0	\$0
Trust Fund Balance Interest	\$593,000	\$600,000	\$600,000
<b>Total Revenue</b>	<b>\$62,090,401</b>	<b>\$66,363,763</b>	<b>\$66,936,769</b>
<b>EXPENSES</b>			
001010, Salaries General*	\$26,740,323	\$29,684,730	\$30,575,272
001070, Salaries, As-Needed	\$208,011	\$208,011	\$208,011
001090, Salaries, Overtime	\$54,449	\$54,449	\$54,449
002120, Printing & Binding	\$130,034	\$150,034	\$150,034
002130, Travel	\$5,797	\$5,797	\$5,797
003040, Contractual Services	\$448,188	\$548,188	\$548,188
003340, Transportation	\$285,466	\$314,013	\$345,414
006010, Office & Administrative	\$560,275	\$560,275	\$560,275
006030, Lease	\$1,516,356	\$1,516,356	\$1,516,356
- Additional Lease need	\$1,323,979	\$1,357,078	\$1,391,005
<b>HCIDLA Subtotal</b>	<b>\$31,272,878</b>	<b>\$34,398,931</b>	<b>\$35,354,801</b>
<b>Appropriations/Other Department Support (Staff)</b>			
CAO	\$143,020	\$158,769	\$163,532
City Attorney	\$397,891	\$441,703	\$454,954
Controller	\$56,260	\$62,455	\$64,329
ITA	\$68,107	\$75,606	\$77,874
Personnel	\$666,937	\$740,374	\$762,585
<b>Other Departmental Support Subtotal</b>	<b>\$1,332,215</b>	<b>\$1,478,907</b>	<b>\$1,523,274</b>
<b>Appropriations/Related Costs (All Depts)</b>			
Housing + Community Investment	\$19,458,529	\$21,601,129	\$22,249,163
CAO	\$169,650	\$188,330	\$193,980
City Attorney	\$233,419	\$259,121	\$266,894
Controller	\$195,672	\$217,217	\$223,734
ITA	\$0	\$0	\$0
Personnel	\$481,796	\$534,847	\$550,892
<b>Related Costs Subtotal</b>	<b>\$20,539,064</b>	<b>\$22,800,644</b>	<b>\$23,484,663</b>
<b>Contracts Directly from Fund</b>			
Contract Programming - Systems Upgrades	\$1,523,352	\$1,317,867	\$952,826
Hearing Officer Contract	\$245,000	\$245,000	\$245,000
Rent & Code Outreach Program	\$742,500	\$742,500	\$742,500
Code Enforcement Training	\$30,000	\$30,000	\$30,000
Service Delivery	\$37,500	\$37,500	\$37,500
Translation	\$45,575	\$45,575	\$45,575
Merchant Card Services Fees	\$140,000	\$154,000	\$169,400
<b>Contracts Subtotal</b>	<b>\$2,763,927</b>	<b>\$2,572,442</b>	<b>\$2,222,801</b>
<b>Total FY Obligations</b>	<b>\$55,908,085</b>	<b>\$61,250,924</b>	<b>\$62,585,539</b>
<b>Total Revenue (including Trust Balance) Less FY Expenses</b>	<b>\$6,182,316</b>	<b>\$5,112,840</b>	<b>\$4,351,229</b>
Three Year Total Revenue Less Expenses			\$15,646,385
25 Percent of OpEx FY23			\$15,646,385
<b>Balance</b>			<b>\$0</b>

Sources: HCIDLA, 2020; BAE, 2020.

## Appendix B-4: SCEP Budget Three-Year Projections, Scenario 4

SCEP Budget Three-Year Projections	Scenario 4: Current Program Levels, Ten Percent to Five Percent Vacancy Assumption		
	Year 1 FY21	Year 2 FY22	Year 3 FY23
<b>REVENUES</b>	Current SCEP Programs @ 10% Vacancy + No COLA	Current SCEP Programs @ 5% Vacancy + 3% COLA	Current SCEP Programs @ 5% Vacancy + 3% COLA
Recommended Fee	\$81,59		
Total SCEP Units Assumption	745,961	754,420	762,975
SCEP Fee Revenue	\$60,860,441	\$61,550,592	\$62,248,569
Inspection and Enforcement Fees	\$2,982,000	\$2,862,720	\$2,748,211
Other Receipts	\$523,000	\$502,080	\$481,997
Trust Fund Opening Balance	(\$3,706,899)	\$0	\$0
Trust Fund Balance Interest	\$593,000	\$600,000	\$600,000
<b>Total Revenue</b>	<b>\$61,251,542</b>	<b>\$65,515,392</b>	<b>\$66,078,777</b>
<b>EXPENSES</b>			
001010, Salaries General*	\$26,740,323	\$29,072,674	\$29,944,854
001070, Salaries, As-Needed	\$208,011	\$208,011	\$208,011
001090, Salaries, Overtime	\$54,449	\$54,449	\$54,449
002120, Printing & Binding	\$130,034	\$150,034	\$150,034
002130, Travel	\$5,797	\$5,797	\$5,797
003040, Contractual Services	\$448,188	\$548,188	\$548,188
003340, Transportation	\$285,466	\$314,013	\$345,414
006010, Office & Administrative	\$560,275	\$560,275	\$560,275
006030, Lease	\$1,516,356	\$1,516,356	\$1,516,356
- Additional Lease need	\$1,323,979	\$1,357,078	\$1,391,005
<b>HCIDLA Subtotal</b>	<b>\$31,272,878</b>	<b>\$33,786,875</b>	<b>\$34,724,383</b>
<b>Appropriations/Other Department Support (Staff)</b>			
CAO	\$143,020	\$155,495	\$160,160
City Attorney	\$397,891	\$432,596	\$445,574
Controller	\$56,260	\$61,167	\$63,002
ITA	\$68,107	\$74,047	\$76,268
Personnel	\$666,937	\$725,109	\$746,862
<b>Other Departmental Support Subtotal</b>	<b>\$1,332,215</b>	<b>\$1,448,414</b>	<b>\$1,491,866</b>
<b>Appropriations/Related Costs (All Depts)</b>			
Housing + Community Investment	\$19,458,529	\$21,155,745	\$21,790,417
CAO	\$169,650	\$184,447	\$189,981
City Attorney	\$233,419	\$253,778	\$261,391
Controller	\$195,672	\$212,738	\$219,121
ITA	\$0	\$0	\$0
Personnel	\$481,796	\$523,819	\$539,533
<b>Related Costs Subtotal</b>	<b>\$20,539,064</b>	<b>\$22,330,527</b>	<b>\$23,000,443</b>
<b>Contracts Directly from Fund</b>			
Contract Programming - Systems Upgrades	\$1,523,352	\$1,317,867	\$952,826
Hearing Officer Contract	\$245,000	\$245,000	\$245,000
Rent & Code Outreach Program	\$742,500	\$742,500	\$742,500
Code Enforcement Training	\$30,000	\$30,000	\$30,000
Service Delivery	\$37,500	\$37,500	\$37,500
Translation	\$45,575	\$45,575	\$45,575
Merchant Card Services Fees	\$140,000	\$154,000	\$169,400
<b>Contracts Subtotal</b>	<b>\$2,763,927</b>	<b>\$2,572,442</b>	<b>\$2,222,801</b>
<b>Total FY Obligations</b>	<b>\$55,908,085</b>	<b>\$60,138,258</b>	<b>\$61,439,494</b>
<b>Total Revenue (including Trust Balance) Less FY Expenses</b>	<b>\$5,343,457</b>	<b>\$5,377,134</b>	<b>\$4,639,283</b>
Three Year Total Revenue Less Expenses			\$15,359,873
25 Percent of OpEx FY23			\$15,359,873
<b>Balance</b>			<b>\$0</b>

Sources: HCIDLA, 2020; BAE, 2020.

**ATTACHMENT B**

**Ordinance amending Section 161.352 of the LAMC**

**ORDINANCE NO.** \_\_\_\_\_

An ordinance amending Section 161.352 of the Los Angeles Municipal Code relating to fees under the Systematic Code Enforcement Program.

**THE PEOPLE OF THE CITY OF LOS ANGELES**

**DO ORDAIN AS FOLLOWS:**

Section 1. The first sentence of Section 161.352 of the Los Angeles Municipal Code is amended to read:

Owners of existing residential rental properties, buildings, units, and structures falling within the scope of this Article subject to inspection shall pay a regulatory fee of eighty-one dollars and fifty-nine cents (\$81.59) per unit per year.

Section 2. The provisions of this ordinance shall be operative as of January 1, 2021.