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December 2, 2020

Los Angeles City Council
c/o Office of the City Clerk
City Hall, Room 395
Los Angeles, California 90012

Attention: PLUM Committee

Dear Honorable Members:

COMPREHENSIVE FEE UPDATE (CF 09-0969-S3)

The Department of City Planning is proposing an update of fees to more accurately reflect the cost of project planning services based on new trends and data collected since the fee ordinance was last updated in February 2018 (Ordinance No. 185432). The City currently recovers approximately 63% percent of the estimated full cost of providing project planning services, whereas the annual revenue collected is less than the estimated costs of providing those services by approximately \$14 million (Fee Deficit). This subsidy is further magnified by the significant financial impacts from the COVID-19 pandemic, which has negatively impacted current revenues by close to 50%.

City Planning has completed an update to the prior 2016 Fee Study (Attachment 1) which was adopted in 2018. The purpose of this update (2020 Update, Attachment 2) was to analyze recent trends in case filings and practices, as well as increased staffing costs. Based on the 2020 Fee Update and associated policy recommendations on cost recovery, the proposed fee increase will achieve 84% cost recovery and reduce the General Fund subsidy to \$6.1 million.

The level of cost recovery prior to the COVID-19 pandemic was not sustainable for the current staffing needed to deal with the volume of applications. The COVID-19 pandemic has further magnified the issue as revenues have been impacted by more than 50%. However, this fee update is not intended to respond to revenue loss. The setting of each application fee is based on a true cost of service per activity in that it looks specifically at the time and costs of completing the work associated with a specific application type. In other words, the nexus between the fee amount and the cost of service is appropriately calculated whether the volume of applications is at pre- or post-pandemic levels. Therefore, this update will provide a more sustainable revenue collection that will come closer to recovering the costs of City Planning's Project Planning functions. Overall, this will allow City Planning to better maintain current levels of staffing for its

Project Planning functions in the midst of the COVID-19 pandemic, and will also provide long-term fiscal stability when application volume recovers.

Therefore, the proposed ordinances for consideration include an update of all fees as described in Los Angeles Municipal Code (LAMC) Sections 19.00 through 19.12.

RECOMMENDATIONS

That the City Council, subject to approval by the Mayor:

1. CONCUR with the Department of City Planning's policy recommendations to charge less than full cost recovery on various planning and land use services fees, as outlined in the attached fee schedule (Attachment 2);
2. APPROVE an amendment to Los Angeles Municipal Code (LAMC) Sections 19.00 through 19.12 to update fees and more accurately represent the cost of providing planning and land use services to achieve full cost recovery where applicable, as outlined in the attached fee schedule (Attachment 2);
3. INSTRUCT the Office of the City Attorney to prepare and present an ordinance to amend LAMC Sections 19.00 through 19.12 in accordance with the proposed fee changes described in Recommendation 2.

BACKGROUND

City Planning's operating budget relies primarily on three different funding sources: 1) Planning Case Processing Special Fund, made up of planning and land use application fees for project planning services; 2) Planning Long Range Planning Special Fund, made up of funds collected from a surcharge (GPMS) to support long-range policy planning work; and 3) Planning Systems Development Special Fund, made up of funds collected from a surcharge for technology support services. In the Fiscal Year (FY) 2020-21 Adopted Budget for City Planning, these three sources of funds accounted for 74 percent of the department's \$52.9 million operating budget. An additional 4 percent was funded through other Special Funds, and only 21.6 percent was provided by the General Fund. It should be noted that the General Fund also subsidized about 62 percent of the Related Costs in the Case Processing Special Fund (\$13.5 million).

Comprehensive Fee Update - Project Planning Services

In April 2013, City Planning engaged a consultant to prepare a comprehensive fee study for the processing of planning and land use applications and entitlements, i.e. project planning services. The work concluded in December 2016.

In February 2018, the City Council approved updates to the fees, as proposed by the consultant for full cost recovery, with modified recommendations from City Planning based on various other policy considerations. With the new fees in place for a portion of FY 2017-18 and all of FY 2018-19 and 2019-20, City Planning had an opportunity to evaluate actual cost recovery and trends in types of case filings.

Current Fee Recovery

In FY 2019-20, based on the volume and type of applications filed, the total cost of providing those services was \$37.4 million. However, City Planning only collected \$23.4 million in planning and land use fee revenue. Therefore, the current cost recovery is roughly 63 percent, and the remaining Fee Deficit of \$14 million is subsidized by the General Fund.

The cost of service analysis that informed the current fee structure occurred about four years ago. Industry standard dictates that fees should be updated every three to five years, while interim updates should occur if there are significant organizational or structural differences in the approach to providing services that would necessitate more frequent updates to fees.

Fee Update

In July 2018, City Planning re-engaged the consultant to prepare a fee update based on a revised cost of service analysis that would more accurately reflect time spent on various types of project planning services. This was due in large part to a shift in the types of applications being filed as a result of Measure JJJ, which disincentivized certain types of case filings. In November 2016, City of Los Angeles voters approved Measure JJJ, which added provisions to the municipal code to require developers requesting certain entitlements for residential projects to either provide affordable units or pay an in-lieu fee. In many cases, the result was a reallocation of the hours being spent from one fee type to another, and a significant increase in administrative case types.

Also, the implementation of new streamlined processes for transit priority projects, under the State CEQA Statute, requires the establishment of new fees and processes for proposed projects that were eligible for CEQA streamlining, such as the Sustainable Communities Environmental Assessment (SCEA) and Sustainable Communities Project CEQA Exemption (SCPE).

Furthermore, with the adoption of Senate Bill 330, City Planning processes have changed dramatically as of January 2, 2020 for the review and processing of housing development projects. Senate Bill 330 establishes a new "preliminary application" process for entitlements, under Government Code Section 65941.1. As a result, the project review process is much more intensive on the front end, leading to the need for updated cost-recovery fees.

It should be noted that although the proposed fee update will include a new section related to Home-Sharing registration fees, those registration fees were not analyzed as part of this Fee Study. Those fees were developed and adopted based on an analysis as part of the development of the Home-Sharing Ordinance (C.F. 14-1635-S2).

In light of these State and local legislative changes, City Planning, in conjunction with its consultant, analyzed the work performed in FY 2019-20 to develop more accurate estimates for each type of fee activity.

Finally, over the course of the last four years, staffing hourly costs have increased and are now incorporated into the updated fees. The consultant utilized a cost-based analytical approach in calculating the full cost of providing case processing services, which follows best management practices to ensure fees are fair, equitable, and represent the current estimates and reasonable costs of services. It incorporates direct salaries and benefits, operating services and supplies, department and divisional overhead, and Citywide overhead costs. Overall, this approach captures current estimates of time being spent on a particular activity.

Proposed Model

City Planning provides several types of services to constituents, but two guiding principles are carried over from the prior fee study in recommending either full cost recovery or a subsidized fee amount. First, it is commonly accepted that user fees are established at a level that will recover up to, but not more than, the cost of providing a particular service. Therefore, a profit-making objective is never included nor is it appropriate in the assessment of user fees.

Secondly, while all services provided are beneficial to the community, some services can be classified as globally beneficial to all residents, while others provide more of a direct benefit to a specific group or individual. Therefore, fees should be assessed according to the degree of individual versus private benefit gained from services.

In cases where there is a higher degree of individual or private benefit, it is reasonable to expect full cost recovery through the assessment of user fees. These include legislative actions to either change or adopt new rules and policies (zone change, General Plan amendment for a particular parcel) and quasi-judicial actions, requiring conditions to ensure compatibility such as Conditional Use Permits or Site Plan Review, for a particular project. The full list of fees where full cost recovery is recommended is further detailed in Attachment 2.

In contrast to that, there are programs, circumstances, and services that may justify a subsidy from the General Fund. Some of the factors to consider in setting fees at less than 100% cost recovery are whether lower fees would:

- Encourage participation in community-driven regulatory processes – for example, historic preservation, design review, etc.;
- Enable participation of individuals or groups that typically cannot afford services – for example, non-applicant initiated appeals; or
- Provide a benefit to both the individual and community at large – for example, child care or farmer's markets.

City Planning reviewed each fee and is recommending that the following fees be charged at a percentage of the full cost recovery amount as indicated below.

- Mills Act application and processing - 75%, 85%, or 100%
- Cases involving single-family homes - 75%
- Uses that contribute to the vibrancy of the community, such as small scale commercial, farmer's markets, CUBs for small format restaurants - 75%
- Community-based services - 50%
- Minor Project Permit Compliance - 50%
- Single-family Project Permit Compliance - 50%
- Categorical Exemptions - 50%
- Historic Resources & certificates of appropriateness or other compliance with plan - 30%
- Non-applicant initiated Appeals - 1%

One of the most heavily subsidized areas is the non-applicant-initiated appeal fee. The current appeal fee is \$89, and City Planning has proposed an increase to \$158, which is pegged to 1% of the total cost of appeal processing of about \$15,811. This results in an overall General Fund subsidy of roughly \$3.3 million annually. All other fees are recommended at 100 percent full cost recovery. Additional details on specific fee recommendations can be found in Attachment 2.

Full Cost Recovery Billing

The prior fee study calculated a fully burdened hourly rate of \$192 per hour for all case processing services, including environmental cases. The updated fee study revises that rate to \$199 per hour, an increase of \$7 per hour, or 3.6 percent. The Expedited Processing Services Section has a calculated hourly rate of \$219 per hour. The updated fee study revises that rate to \$229 per hour, an increase of \$10 per hour, or 4.6 percent.

The fee update also proposes to apply the existing full cost recovery billing model for Environmental Impact Reports (EIRs) to the review of SCEAs and SCPEs. Similar to EIRs, this establishes an initial deposit amount of \$10,000 that applicants would pay up front, with the requirement that the hourly rates described shall be paid for the actual costs associated with the review of the environmental, as well as processing of applications for all discretionary approvals associated with the SCEA or SCPE. This will also include full cost recovery, billed to the applicant for these case types, for the review and processing of appeals. This cost will be billed to the applicant and will not impact the cost of a community member appeal on a project.

Revenue and Project Planning Impact

Based on the average annual volume and types of applications being filed, the anticipated full cost of providing project planning services annually is \$37.4 million. When applying the proposed update of fees and accompanying model described above, City Planning anticipates collecting roughly \$31.3 million in planning and land use fees annually. This would achieve 84% cost recovery, compared to 63% previously. This approach would still, however, require a General Fund subsidy of roughly \$6.1 million.

	Current Fee	Proposed Fee
Total Cost of Service	\$37.4 million	\$37.4 million
Revenue	\$23.4 million	\$31.3 million
% Cost Recovery	63%	84%
General Fund Subsidy	\$14.0 million	\$6.1 million

The projected dollar increase in revenue is based on an assumption of the types of case filings and volume in FY 2019-20. However, if revenue (or volume) increases or decreases, the total cost of service will change proportionally. Therefore, the percentage of cost recovery would remain about the same. Based on current numbers, implementation of the proposed fee update is projected to increase revenue by \$7.9 million annually, from \$23.4 million to \$31.3 million.

While the purpose of the proposed fee update is to increase cost recovery, this will assist City Planning in maintaining staffing and will provide the minimum needed to continue providing services.

Long Term Fiscal Stability Through Implementation of an Annual Inflation Adjustment

The proposed fee update is based on hourly rates calculations, which includes the number of hours of staff time needed to process each application and appeal type. Considering the length of time needed to conduct a comprehensive fee study, and to properly adjust for inflation, the proposed fee ordinance includes an annual inflation adjustment that will be assessed on an annual basis, similar to the provisions established in the recent adoption of the Affordable Housing Linkage Fee ordinance. This would help maintain current levels of service in the time period between significant structural or organizational changes requiring a comprehensive fee update. The proposed fees would be adjusted annually for inflation in accordance with the year-over-year Consumer Price Index for Urban Consumers. An updated fee schedule shall be maintained by the Department of City Planning, which shall provide a copy of the adjusted schedule to the Mayor and City Council each year.

If you have any questions, please contact Raoul Mendoza, Chief Management Analyst, at Raoul.Mendoza@lacity.org.

Sincerely,



VINCENT P. BERTONI, AICP
Director of Planning

Attachments: 1 – NBS Fee Study dated November 14, 2016
 2 – Case Processing Fee Schedule Update, dated November 2020

VPB:KK:RM/II/ly

cc: William Chun, Deputy Mayor, Mayor's Office of Economic Development (MOED)
 Nicholas Maricich, Director of Planning Policy and Development, MOED
 Jeanne Holm, Deputy Mayor, Mayor's Office of Budget and Innovation (MOBI)
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