



Eric Garcetti, Mayor  
Ann Sewill, General Manager

**Regulatory Compliance & Code Bureau**

1200 West 7th Street, 8th Floor, Los Angeles, CA 90017  
tel 213.275.3493 | toll-free 866.557.7368  
hcidla.lacity.org

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Council Files: 20-0922, 17-0623  
Council Districts: Citywide  
Contact Person(s):  
Robert Galardi (213) 808-8502

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

Attention: Heleen Ramirez,  
Legislative Coordinator

Honorable Members of the City Council  
City of Los Angeles  
c/o City Clerk, City Hall  
200 N. Spring Street  
Los Angeles, CA 90012  
Attention: Keyonna Kidd,  
Legislative Assistant

**COUNCIL TRANSMITTAL: SUPPLEMENTAL REPORT ON THE 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**

The General Manager of the Los Angeles Housing + Community Investment Department (HCIDLA), respectfully requests that the Mayor and City Council approve the recommendations in this report, which proposes to amend Section 161.352 of the Los Angeles Municipal Code (LAMC) relative to the annual regulatory fee known as the Systematic Code Enforcement Program Fee assessed for routine inspections of multi-family rental housing (hereinafter, "SCEP Fee") (CF No. 20-0922). HCIDLA assesses annual fees per rental unit to property owners. 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 the SCEP. The current SCEP Fee is \$43.32 per unit per year, which was last adjusted in 2012. HCIDLA's operating costs have increased significantly since 2012 without any SCEP Fee adjustments.

After eight years of fixed fees and rising costs, HCIDLA proposed an adjusted annual SCEP fee of \$81.25 per unit on July 2, 2020, referenced in Council File No. 20-0922, representing a per unit annual increase of \$37.93 with the concurrence of the City Administrative Officer (CAO) in the CAO report dated September 14, 2020.

On September 23, 2020 the Housing Committee reviewed the proposal by HCIDLA and the CAO to increase the fee, and decided to defer action on it due to the COVID-19 pandemic and the resulting economic impacts on renters and landlords. HCIDLA was subsequently instructed to report back at a later date.

Following the Housing Committee meeting, staff reviewed the approach in light of recent budget developments and returns with a recommendation to increase the annual fee to \$68.17 per unit. This reduction was accomplished by utilizing SCEP's emergency reserve fund of \$7.5 million, as well as potential cost savings based on recently released budget guidelines, including vacancy mandates, the hiring freeze, and the Separation Incentive Program (SIP), which produce 18 percent in salary savings for the current fiscal year. Through this transmittal, HCIDLA seeks approval to amend LAMC Section 161.352 to adjust the annual fee from \$43.32 to \$68.17 effective this year with a mid-year fee adjustment of \$24.85 to be billed in June 2021.

## **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, take the following actions:
  - A. INSTRUCT the City Attorney, with the assistance of HCIDLA, to prepare and present a draft ordinance to amend Los Angeles Municipal Code Section 161.352 to adjust the annual Systematic Code Enforcement Program Fee to \$68.17 effective January 1, 2022 and to allow for the implementation of a mid-calendar year fee adjustment of \$24.85 in 2021;
  - B. INSTRUCT the City Attorney, with the assistance of HCIDLA, to prepare and present a draft ordinance to amend Los Angeles Municipal Code Section 151.05.1 to permit a landlord to collect 1/12<sup>th</sup> of 50 percent of the annual Systematic Code Enforcement fee per month from the tenant of a rental unit, effective January 2022;
  - C. Instruct HCIDLA to work with the Rent Adjustment Commission (RAC) to adopt and amend rules and regulations relative to the pass through of 50 percent of the SCEP fee to tenants;
  - D. AUTHORIZE the transfer of \$7,500,000 from the Cash /Restricted Account No. 1014 entitled Emergency Reserve Account in the Systematic Code Enforcement Trust Fund No. 41M to the unrestricted Cash Account No. 1010 in Code Enforcement Trust Fund 41M; and
  - E. AUTHORIZE the General Manager of HCIDLA or her 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**

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 750,000 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. If a systematic or complaint inspection reveals code violations, then housing inspectors issue orders to correct the violations. If the violations are not corrected, 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.

In addition, SCEP has a complaint response system 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 to ensure safety and habitability. Inspectors respond to approximately 10,000 complaints annually, with a 95 percent compliance rate. During the COVID-19 pandemic, inspection staff has been utilizing virtual inspections and photographic evidence when possible to accommodate social distancing, and to address the extreme threat level pursuant to the Mayor's Targeted Safer at Home Order. These virtual inspections allow inspection staff to address code violations at multi-family properties and within the rental units.

### **REVISED FEE STUDY**

As noted in its report dated July 2, 2020, HCIDLA requested bids and ultimately awarded a contract to BAE Urban Economics Inc. (BAE) to conduct the initial SCEP fee study which analyzed staffing and costs associated with administering the SCEP (CF No. 20-0303). HCIDLA utilized the existing contract with BAE to request a revised SCEP Fee Study analysis in light of recently released budget guidelines. HCIDLA staff provided BAE with updated revenue and expense projections for Fiscal Year 21 and Fiscal Year 22, accounting for budgetary changes related to the COVID-19 pandemic and recession. These updates amount to a nearly \$10 million (18.8 percent) reduction in FY21 expenses and a \$631,000 (15.4 percent) increase in FY21 non-fee revenues (e.g., administration fees and interest) relative to those in the Initial Fee Study.

BAE revisited the study, and the results are published in BAE's SCEP Fee Study Update Memorandum dated January 6, 2021 (Attachment 1). The SCEP Fee Study Update calculates the fee amounts that would be necessary to achieve full cost recovery for operating SCEP for the four-and-a-half-year period from July 1, 2020 through December 31, 2024.

### **Utilization of SCEP Emergency Reserve Fund**

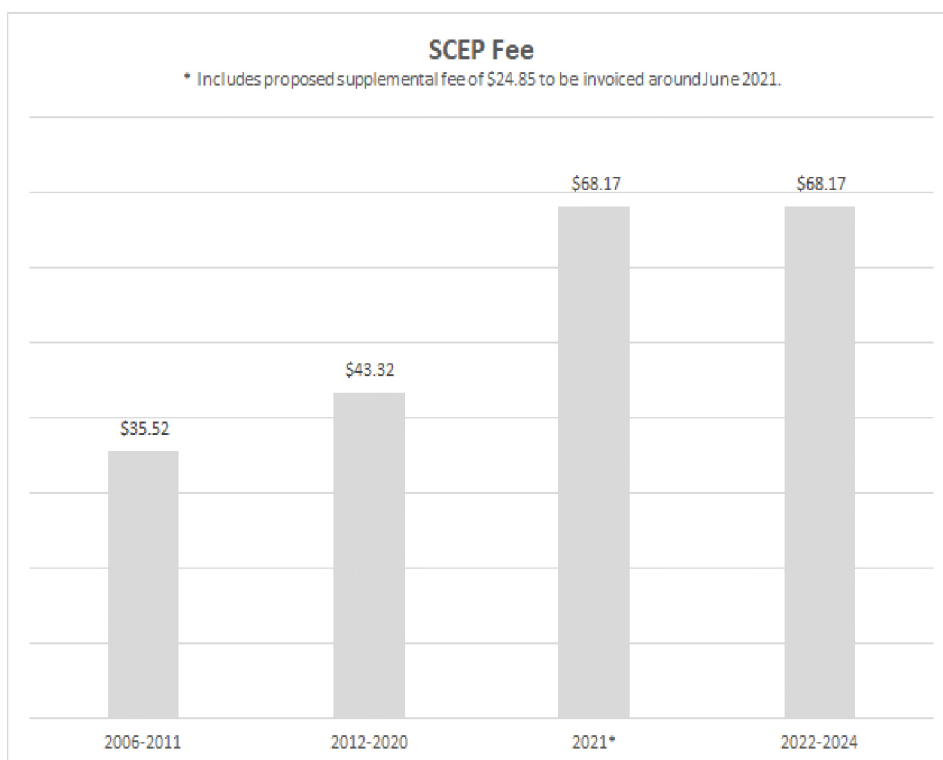
The revised fee proposal relies in part on the utilization of the \$7.5 million SCEP emergency reserve fund to help cover the expected \$26.5 million deficit by December 2021. The fund was established to enable the continuation of vital code enforcement services in the aftermath of a major local disaster (CF No. 17-0623). As a result of the global COVID-19 pandemic, the Mayor declared a Local Emergency in Los Angeles on March 4, 2020, citing conditions of disaster or of extreme peril to the safety of persons and property. The emergency continues to persist and utilization of the SCEP emergency reserve fund is appropriate to offset the financial burden of a higher annual fee impact on tenants/landlords during this emergency.

*Current and Proposed SCEP Fee*

HCIDLA invoiced the current SCEP Fee of \$43.32 in January 2021. Continuation of the current SCEP fee of \$43.32 without additional revenue in 2021 will create a projected deficit of approximately **\$19 million** by December 31, 2021. To offset this projected deficit, HCIDLA is proposing a supplemental SCEP Fee of \$24.85 to be invoiced mid-calendar year 2021. Beginning calendar year January 2022, the proposed SCEP fee will be \$68.17 to recover full operating costs through December 2024.

Period	Fee Amount
SCEP Fee invoiced in Jan 2021 (current)	\$ 43.32
Supplemental SCEP Fee to be invoiced in mid-calendar year 2021	\$ 24.85
SCEP Fee to be invoiced in Jan 2022, 2023, 2024	\$ 68.17





### Impact of No Supplemental SCEP Fee in 2021

If the status-quo is maintained until January 2022 (with no supplemental SCEP fee in 2021), even utilizing the SCEP Emergency Reserve Fund of \$7.5 million, the SCEP program will run into severe cash flow problems by December 2021 with a projected deficit of \$19 million, all of which would be required reimbursement to the General Fund.

### **IMPACT TO LANDLORDS AND TENANTS**

Currently, the LAMC allows a 100 percent pass through of the SCEP fee to tenants. Fee payments are required in February of each year, and landlords are able to pass through \$3.61 per month to each unit. Tenants will continue to pay the current \$3.61 monthly pass-through throughout 2021, while landlords will be responsible for the \$24.85 per unit mid-year assessment. In light of the current COVID-19 pandemic, the Mayor and Council may consider amending the LAMC to allow only 50 percent of the fee to be passed through to tenants. A 50/50 fee split beginning in 2022 would mean that landlords would pay \$ 2.84 per month per unit, while tenants would pay \$ 0.77 less per month per unit.

Landlord/Tenant Split 2022 Forward					
Stakeholder	SCEP Fee January 2021	Mid-Year Fee June 2021	SCEP Fee January 2022	2022 Monthly Increase/Decrease	2022 Annual Increase/Decrease
Landlord	\$0.00	\$24.85	\$34.08	\$2.84	\$34.08
Tenant	\$43.32	\$0.00	\$34.09	(\$0.77)	(\$9.23)

### **FISCAL IMPACT**

Without approval of the use of the \$7.5 million SCEP Emergency Reserve Fund and the supplemental fee for 2021, the deficit is projected to grow to approximately \$26.5 million by December 2021. As a result, HCIDLA will face severe cash flow problems as early as July 2021, resulting in a substantial delay in reimbursement to the General Fund.

### ATTACHMENT 1 –

Systematic Code Enforcement Program Fee Analysis by BAE Urban Economics, January 2021

Approved By:



ANN SEWILL  
General Manager  
Housing+Community Investment Department

ATTACHMENT:

Attachment 1 - Systematic Code Enforcement Program Fee Analysis by BAE Urban Economics,  
January 2021

## Memorandum

**Date:** January 19, 2021

**To:** Robert Galardi, Acting Director of Code Enforcement  
Hatim Fatehi, Acting Principal Inspector  
Systematic Code Enforcement Program, HCIDLA

**From:** Lisa Varon, Vice President  
Matt Kowta, Managing Principal  
Denim Ohmit, Senior Analyst

**Re:** SCEP Fee Study Update

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This SCEP Fee Study Update calculates the fee amounts that would be necessary to achieve full cost recovery for operating the City of Los Angeles Housing + Community Investment Department's (HCIDLA) Systematic Code Enforcement Program (SCEP) for the four-and-a-half year period ending December 31, 2024.

HCIDLA staff presented the Initial SCEP Fee Study to the Housing Committee along with a request to raise the fee on September 23, 2020. The initial Fee Study determined that a per unit fee of \$81.59 to \$84.38 would be needed to achieve full cost recovery for SCEP implementation for the three-and-a-half year period from July 1, 2020 through December 31, 2023. At that time, the Committee declined to raise SCEP fees due to the COVID-19 pandemic and the resulting economic impacts on renters and landlords. Therefore, the SCEP Fee will be collected at its current rate of \$43.32 per unit in January 2021. This particular fee rate has been in place since January 1, 2012 and, for several years, has been considerably lower than is necessary to fully recover SCEP operating costs. SCEP has been able to offset the resultant operating revenue deficits with Trust Fund reserves. However, these Trust Fund reserves are exhausted.

### Summary of Findings

For this study, BAE projected the SCEP operating budgets and deficits through FY24 (i.e., through June 30, 2024), developed SCEP budget scenarios with no supplemental fee, developed SCEP budget scenarios that incorporated a one-time supplemental fee, and devised a method to charge a level fee across FY21 through FY24 for HCIDLA's preferred scenario. To do so, BAE developed eight budget scenarios with varying revenue and expense factors and three supplemental fee options.

#### San Francisco

2560 9<sup>th</sup> St., Suite 211  
Berkeley, CA 94710  
510.547.9380

#### Sacramento

803 2<sup>nd</sup> St., Suite A  
Davis, CA 95616  
530.750.2195

#### Los Angeles

448 South Hill St., Suite 701  
Los Angeles, CA 90013  
213.471.2666

[www.bae1.com](http://www.bae1.com)

#### Washington DC

1140 3<sup>rd</sup> St. NE, 2<sup>nd</sup> Floor  
Washington, DC 20002  
202.588.8945

#### New York City

234 5<sup>th</sup> Ave.  
New York, NY 10001  
212.683.4486



### ***Operating Budget Assumptions and Projections***

Based on HCIDLA budgets for FY21 and FY22, and applying assumptions described later in this memorandum, and as shown in Table 1 below, BAE projects annual SCEP operating expenses to range from \$50.2 million to \$57.2 million from FY21 to FY24. Additionally, funding the FY24 Guideline Ending Balance of \$14.3 million would provide SCEP with funds to operate for the six-month lag period between the end of the fiscal year in June 2024 and the fee collection period of January 2025.

**Table 1: SCEP Projected Operating Expenses FY21 to FY24**

<b>Fiscal Year</b>	<b>Projected Operating Expenses</b>
FY21 (July 1, 2020 - June 30, 2021)	\$50,236,164
FY22 (July 1, 2021 - June 30, 2022)	\$55,051,452
FY23 (July 1, 2022 - June 30, 2023)	\$55,660,038
FY24 (July 1, 2023 - June 30, 2024)	\$57,240,334
FY24 Guideline Ending Balance (a)	\$14,310,083

Note:

(a) FY24 Guideline Ending Balance equals 25 percent of FY24 operating expenses.

Sources: HCIDLA, 2020; BAE, 2020.

Given that the fee will remain at the current rate for FY21, HCIDLA has reduced its expense budget considerably with strategies including the March 2020 citywide hiring freeze, a September 2020 Separation Incentive Program resulting in 28 HCIDLA staff retirements, leveling most external contracts over the next four years, and spending REAP administration fees. The budget adjustments amount to a nearly \$10 million (18.8 percent) reduction in FY21 expenses and a \$631,000 (15.4 percent) increase in FY21 non-fee revenues relative to those in the Initial Fee Study. Nonetheless, at the \$43.32 per unit fee rate, with a \$50.1 million budget, the SCEP Trust Fund is projected to end FY21 (June 2021) with a \$15 million deficit.

### ***Alternate Budget Scenarios and Fee Calculations***

Depending on whether SCEP utilizes Emergency Reserves in the amount of \$7.5 million, and/or CARES Act funding of up to \$10 million, and whether or not a FY24 Guideline Ending Balance is funded, SCEP fees that would achieve full cost recovery would be as follows:

- **Without a one-time supplemental fee**, the regular SCEP fee would range from \$65.76 per unit per year to \$79.50 per unit per year.
- **With a one-time supplemental fee to address the deficit at the end of FY21 (June 30, 2021)**, the base SCEP fee would range from \$65.76 per unit per year to \$73.02 per unit per year, and the accompanying one-time supplemental fee would range from \$6.64 to \$19.90 per unit.
- **With a one-time supplemental fee to address the deficit at the end of FY21 and support operations in the first half of FY22 (July-December 2021)**, the base SCEP fee

would range from \$61.88 per unit per year to \$68.06 per unit per year, and the accompanying one-time supplemental fee would range from \$11.92 to \$35.11 per unit.

#### ***Preferred Approach to the Fee Calculation***

HCIDLA's preferred approach to the SCEP fee calculations assumes that:

- \$7.5 million in SCEP Trust Fund Emergency Reserves will be utilized; and
- No CARES Act funding will be utilized; and
- A FY24 Guideline Ending Balance of \$14.3 million will be funded; and
- A one-time supplemental fee will be charged in June 2021 to address the FY21 year-end deficit and support operations through the first half of FY22, as SCEP reserves will be depleted; and
- A level SCEP fee over the four-year period from CY21 through CY24.

Accounting for these factors, for **FY21 fees include a SCEP Fee of \$43.32 (January 2021) plus a one-time supplemental fee of \$24.85 per unit** and, for **FY22 to FY24 the SCEP Fee equals \$68.17 per unit per year.**

#### **Approach**

BAE conducted this fee study by finalizing the FY21 and FY22 operating budget assumptions with HCIDLA staff, modeling eight budget scenarios, calculating three supplemental fee options, identifying the most appropriate fee scenario and accompanying supplemental fee option, and devising a method to create a level SCEP fee from FY21 through FY24.

HCIDLA's budget team provided the FY21 and FY22 SCEP **operating budget assumptions and projections** to BAE, and then BAE applied expense and revenue assumptions to project the FY23 and FY24 operating budgets. For SCEP to achieve full cost recovery, the SCEP Fee must be set at a level that will generate revenues sufficient to fill the gap between the non-fee sources of revenue and projected expenses. This gap is referred to hereafter as "SCEP Fee revenue need." For this update, BAE developed a budget model that determined the SCEP Fee revenue need for three-and-a-half years of program operations: FY21 through FY24, plus a calculated Guideline Ending Balance to support operations in the first half of FY25 (July through December 2024). The model determined a per-unit fee by dividing the total SCEP Fee revenue need by the number of units projected to pay the fee over three years of collections.

The eight **budget scenarios** modeled various combinations of assumptions:

- For revenues, including or excluding \$7.5 million in SCEP Trust Fund reserves for FY21 operations; and/or
- For revenues, including or excluding up to \$10 million in CARES Act funding for FY21 and FY22 operations; and/or
- For expenses, incorporating or not incorporating SCEP operational costs from July 1, 2024 to December 31, 2024 ("FY24 Guideline Ending Balance").

The three **supplemental fee options** calculated the regular fee and deficit implications for:

- No supplemental fee; or
- Set supplemental fee at a level that addresses the deficit at the end of FY21; or
- Set supplemental fee at a level that addresses the deficit at the end of FY21 plus the projected operating shortfall in the first half of FY22 given that SCEP reserves will be depleted.

When the **most appropriate budget scenario and supplemental fee option** were identified by HCIDLA staff, HCIDLA asked BAE to focus on a budget scenario that:

1. Utilizes all SCEP emergency reserves and non-fee revenue to reduce the FY21 revenue shortfall;
2. Assumes that CARES Act COVID relief funds are not available to fill the operating gap;
3. Charges a one-time supplemental fee in July of 2021 to address deficit at the end of FY21 plus the projected operating shortfall in the first half of FY22;
4. Includes the FY24 Guideline Ending Balance in the fee calculation to ensure the program has funds to support operations in the first half of FY25; and
5. Sets a consistent year-to-year fee amount over the fee period from July 1, 2020 through December 31, 2024, including the supplemental fee.

BAE then devised a method to charge **a level fee** over the four-year period, which involved carrying a small amount of the FY21 deficit into FY22.

## **Operating Budget Projections**

In December 2020, HCIDLA staff provided BAE with updated revenue and expense projections for FY21 and FY22. Many of these projections differ from those presented in the Initial Fee Study due to budgetary changes related to the COVID-19 pandemic and recession. These updates amount to a nearly \$10 million (18.8 percent) reduction in FY21 expenses and a \$631,000 (15.4 percent) increase in FY21 non-fee revenues made available to SCEP operations relative to those in the Initial Fee Study.

### **Revenues**

Based on the initial budgets provided by HCIDLA, and applying the revenue assumptions (provided in the Appendix), BAE projected SCEP Trust Fund Non-Fee Revenue on a year-to-year basis. Non-Fee Revenue is revenue collected aside from the base SCEP Fee, any Supplemental Fee, Emergency Reserves, CARES Act funds, or Trust Fund balances. Non-Fee Revenue is projected to decrease annually, and to range from \$4.7 million in FY21 to \$2.3 million in FY24, as shown in Table 2.

**Table 2: SCEP Trust Fund Non-Fee Revenue Projections, FY21 - FY24**

	Year 0 FY21	Year 1 FY22	Year 2 FY23	Year 3 FY24
Rent Escrow Account Program Administration Fees	\$1,612,699	\$1,548,191	\$1,486,263	\$1,426,813
Inspection and Enforcement Fees	\$2,000,000	\$1,920,000	\$1,843,200	\$1,769,472
Trust Fund Balance Interest	\$593,000	\$600,000	\$600,000	\$600,000
Other Receipts	\$523,000	\$502,080	\$481,997	\$462,717
<b>Total Non-Fee Revenues</b>	<b>\$4,728,699</b>	<b>\$4,570,271</b>	<b>\$4,411,460</b>	<b>\$4,259,002</b>

Note:

(a) Non-Fee Revenue is revenue collected aside from the base SCEP Fee, any Supplemental Fee, Emergency Reserves, Care Act funds, or Trust Fund balances.

Sources: HCIDLA, 2020; BAE, 2020.

### **Expenses**

Based on the initial budgets provided by HCIDLA, and applying the expense assumptions (provided in the Appendix), BAE projects annual SCEP operating expenses to range from \$50.2 million to \$57.2 million from FY21 to FY24. Additionally, the FY24 Guideline Ending Balance of \$14.3 million is calculated at 25 percent of FY24 operating expenses. Given cash flows and other factors, HCIDLA has determined that it can operate for the first six months of the year at this expense level knowing that revenues will be replenished with the normal January 2025 SCEP Fee collections.

**Table 3: SCEP Projected Operating Expenses FY21 to FY24**

<b>Fiscal Year</b>	<b>Projected Operating Expenses</b>
FY21 (July 1, 2020 - June 30, 2021)	\$50,236,164
FY22 (July 1, 2021 - June 30, 2022)	\$55,051,452
FY23 (July 1, 2022 - June 30, 2023)	\$55,660,038
FY24 (July 1, 2023 - June 30, 2024)	\$57,240,334
FY24 Guideline Ending Balance (a)	\$14,310,083

Note:

(a) FY24 Guideline Ending Balance equals 25 percent of FY24 operating expenses.

Sources: HCIDLA, 2020; BAE, 2020.

### **Total SCEP Units Anticipated to Pay the Fee**

This analysis assumes that 754,420 units will pay the SCEP Fee at its current rate of \$43.32 in January 2021 and, if applicable, the supplemental fee would be invoiced in July of 2021. The first collection of SCEP Fees at the new rate is to take place in January 2022 from approximately 763,000 units. By the third collection in January 2024, the number of paying units is expected to grow to 780,000 per year. In total 2.3 million units are anticipated to pay the new SCEP Fee across the three annual fee periods, as detailed in Table 4 below, and approximately 3.1 million units will pay the SCEP fee from January 2021 through January 2024.



**Table 4: Projected Number of Units to Pay SCEP and Supplemental Fees, January 2020-2024**

<b>Fiscal Year</b>	<b>Fee Payment Month</b>	<b># of Units Paying Fee in Previous Year</b>	<b>Additional Units (a)</b>	<b>Projected # of Units Paying Fee</b>
<b>Paying Current SCEP Fee Rate and Supplemental Fee (if applicable)</b>				
<b>FY21</b> (July 2020 - June 2021)	January 2021	745,961	8,459	<b>754,420</b>
<b>Paying New SCEP Fee</b>				
<b>FY22</b> (July 2021 - June 2022)	January 2022	754,420	8,555	762,975
<b>FY23</b> (July 2022 - June 2023)	January 2023	762,975	8,652	771,627
<b>FY24</b> (July 2023 - June 2024)	January 2024	771,627	8,750	780,377
<b>Total Units Projected to Pay New SCEP Fee</b>				<b>2,314,979</b>

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.

## Alternate Budget Scenarios

BAE developed eight budget scenarios, lettered A through H, which represent different combinations of revenue and expense assumptions with respect to SCEP emergency reserves, potential CARES Act funding, and funding a FY24 Guideline Ending Balance. These scenarios are presented in Table 5 below.

**Table 5: Budget Scenario Summary**

<b>Scenario</b>	<b>Revenue</b>		<b>Expenses</b>
	<b>Assume \$7.5 M in Emergency Reserves is Utilized in FY21</b>	<b>Assume \$10M in CARES Act Funding is Utilized in FY21</b>	<b>Include Guideline Ending Balance to Support First Half of FY26 Operations</b>
<b>A</b>	Yes	Yes	Yes
<b>B</b>	Yes	Yes	No
<b>C</b>	Yes	No	Yes
<b>D</b>	Yes	No	No
<b>E</b>	No	Yes	Yes
<b>F</b>	No	Yes	No
<b>G</b>	No	No	Yes
<b>H</b>	No	No	No

Source: BAE, 2020.

## Supplemental Fee Options

To address the projected deficit and lack of reserves moving forward, BAE developed three supplemental fee options that may be considered alongside the budget scenarios presented above. The size of the deficit, and the level of supplemental fee by extension, is contingent on the budget scenario considered.

A one-time supplemental fee would likely be invoiced in July of 2021, six months after the \$43.32 per unit SCEP Fee collection in January 2021, and be collected from approximately 754,000 units. Though addressing the deficit with a one-time fee may appear more burdensome to fee payers than spreading the same amount across three years of future SCEP Fee payments, it would provide SCEP with needed funds and greater operational flexibility in the immediate term, especially given that emergency reserves will likely be depleted from covering the FY21 deficit. Moreover, this approach would more accurately assign the burden of paying down the deficit to the universe of units in SCEP's service inventory at the time the deficit is incurred.

**Option 1 – No Supplemental Fee:** If SCEP chooses not to levy a one-time supplemental fee, the operating deficit from FY21 and the first half of FY22 would be absorbed into the SCEP Fee revenue need and paid down over three years of SCEP Fee collections.

**Option 2 – Set Supplemental Fee at a Level that Addresses Deficit at the End of FY21:** SCEP may choose to levy a one-time supplemental fee at a rate sufficient to eliminate the projected deficit on the last day of FY21 (June 30, 2020). The supplemental fee revenue would cover the operating deficits from FY20 and FY21, and the SCEP Trust Fund would begin FY22 with a zero balance. The program would operate at a deficit through the first half of FY22 (July through December 2021) until SCEP Fees are collected in January. The deficit incurred during that time would be absorbed into the SCEP Fee revenue need.

**Option 3 – Set Supplemental Fee at a Level that Addresses Deficit at the End of FY21 and Covers Operations in First Half of FY22:** SCEP may choose to levy a one-time supplemental fee at a rate sufficient to eliminate the deficit on the last day of FY21 *and* provide funds to cover operations in the first half of FY22 (July through December 2021). This analysis assumes that 25 percent of the program's annual operating expenses are incurred in the first half of the fiscal year, while 50 percent of its non-fee revenues are accrued over the same period. The supplemental fee revenue would fill the gap between expenses and non-fee revenues, such that the Trust Fund would enter the second half of FY22 without a deficit. The SCEP Fee revenue need would only include operations from the second half of FY22 onward.

## Fee Projections

This section reports the projected FY21 supplemental fees and the SCEP Fee rate projections for the subsequent years.

### Supplemental Fee

The supplemental fee per unit is calculated by dividing the projected FY21 year-end deficit and, for Option 3, the projected operating deficit in the first half of FY22 by the number of units expected to pay a supplemental fee invoiced in July of 2021 (approximately 754,000). The size of the deficit at the end of FY21, and the level of the supplemental fee required to eliminate that deficit, will be affected by the amount of additional revenues (e.g., emergency reserves, CARES Act funding) SCEP will be able to access. Thus, the choice of budget scenario affects the amount of the supplemental fee.

Comparatively, the fee calculations for each option would be as follows:

- Option 1 - This approach would result in a lower burden to fee payers in FY21 but a higher SCEP Fee during the three-year fee period, when all other expenses are held constant.
- Option 2 - All else held constant, Option 2 would result in a higher burden to fee payers in FY21 but a lower three-year SCEP Fee than Option 1.
- Option 3 - All else held constant, Option 3 would result in a highest supplemental fee but the lowest three-year SCEP Fee of the options.

Appendix Table A-3 details the supplemental fee basis calculations for each budget scenario and supplemental fee option, while Table 6, below, reports the resulting fee rates per unit. Depending on budget scenario, the supplemental fee ranges up to \$35.11 per unit

**Table 6: Supplemental Fee Projections by Budget Scenario and Supplemental Fee Option**

					Supplemental Fee Option		
					1	2	3
					No Supplemental Fee	Supplemental Fee to Address Deficit at End of FY21	Supplemental Fee to Address Deficit at End of FY21 and Support Operations in First Half of FY22
					Supplemental Fee per Unit		
Budget Scenario	A	Yes	Yes	Yes	\$0.00	\$0.00	\$11.92
	B	Yes	Yes	No	\$0.00	\$0.00	\$11.92
	C	Yes	No	Yes	\$0.00	\$9.96	\$25.17
	D	Yes	No	No	\$0.00	\$9.96	\$25.17
	E	No	Yes	Yes	\$0.00	\$6.64	\$21.86
	F	No	Yes	No	\$0.00	\$6.64	\$21.86
	G	No	No	Yes	\$0.00	\$19.90	\$35.11
	H	No	No	No	\$0.00	\$19.90	\$35.11

Sources: HCIDLA, 2020; BAE, 2020.

### **SCEP Fee**

The SCEP Fee revenue need is calculated as follows, with items in **red** indicating negative values:

*Projected Non-Fee Revenues, Second Half of FY22 through FY24*

**Less Expenses of:**

*Projected Deficit at the End of FY21 unless addressed by a supplemental fee*

*Projected Deficit Generated in First Half of FY22 unless addressed by a supplemental fee*

*Projected Expenses, Second Half of FY22 through FY24*

*Guideline Ending Balance Equal to 25 Percent of Projected FY24 Expenses as applicable*

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**= Total SCEP Fee Revenue Need Through December 2024**

The resulting SCEP Fee revenue need is divided by the number of units anticipated to pay the fee over three years of collections (2,314,979 units) to determine the proposed SCEP Fee per unit. The projected expenses and revenues from the second half of FY22 through FY24 are the same regardless of the budget scenario or supplemental fee option considered. Whether the SCEP Fee revenue need will include deficits from FY21 or the first half of FY22 and/or the Guideline Ending Balance depends on the budget scenario and supplemental fee option selected. The combination of a budget scenario that does not include the Guideline Ending Balance (Scenario B, D, F, or H) and a supplemental fee option that addresses the deficit through the first half of FY22 (Option 3) yields the lowest SCEP Fee revenue need (\$61.88 per unit). Conversely, a scenario that includes a Guideline Ending Balance (Scenario A, C, E, or G) and does not address any past deficits with a supplemental fee (Option 1) would yield the highest SCEP Fee revenue need (\$71.94 - \$79.50 per unit, depending on the budget scenario).

Appendix Table A-4 details the full SCEP Fee revenue need calculations for each budget scenario and supplemental fee option, while Table 7, below, reports the resulting fee rates per unit.



**Table 7: SCEP Fee Projections by Budget Scenario and Supplemental Fee Option**

					Supplemental Fee Option		
					1	2	3
					No Supplemental Fee	Supplemental Fee to Address Deficit at End of FY21	Supplemental Fee to Address Deficit at End of FY21 and Support Operations in First Half of FY22
					SCEP Fee per Unit		
Budget Scenario	A	Yes	Yes	Yes	\$71.94	\$71.94	\$68.06
	B	Yes	Yes	No	\$65.76	\$65.76	\$61.88
	C	Yes	No	Yes	\$76.26	\$73.02	\$68.06
	D	Yes	No	No	\$70.08	\$66.84	\$61.88
	E	No	Yes	Yes	\$75.18	\$73.02	\$68.06
	F	No	Yes	No	\$69.00	\$66.84	\$61.88
	G	No	No	Yes	\$79.50	\$73.02	\$68.06
	H	No	No	No	\$73.32	\$66.84	\$61.88

Sources: HCIDLA, 2020; BAE, 2020.

## Recommended Budget Scenario and Supplemental Fee Option

After reviewing the different combinations of budget scenarios and supplemental fee options, HCIDLA staff are recommending Budget Scenario C and Supplemental Fee Option 3.

Budget Scenario C assumes:

- Utilization of \$7.5 million in SCEP Trust Fund emergency reserves
- No CARES Act funding to support FY21 operations.
- A Guideline Ending Balance equal to 25 percent of FY24 expenses to support operations in the first half of FY25.

Supplemental Fee Option 3 assumes:

- The operating deficit through the first half of FY22 is addressed with a one-time supplemental fee.

Under Scenario C, the SCEP Trust Fund is expected to end FY21 with a deficit of \$7.5 million and the projected operating deficit in the first half of FY22 is projected to be approximately \$11.4 million. **For the supplemental fee to address both deficits—a total of about \$19.0 million—it would need to be set at a rate of \$25.17 per unit.**

Assuming the deficits are addressed with a supplemental fee, the SCEP Trust Fund would enter the second half of FY22 with a zero balance, anticipating revenues from the first SCEP Fee collection at the new rate. As with all other budget scenarios, SCEP's cumulative operating expenses from the second half of FY22 through the end of FY24 are projected to be \$154.2 million, which would be offset by an estimated \$11.0 million in non-Fee revenues. The

Guideline Ending Balance adds a projected \$14.3 million to the revenue need. **The total SCEPT Fee revenue need is \$157.5 million or \$68.06 per unit anticipated to pay the SCEPT Fee over three years of collections.**

### **Devising a Level Fee Across All Four Years**

If SCEPT were to adopt the Scenario C, Option 3 fee rates presented above, SCEPT Fee payers would pay the existing SCEPT Fee rate of \$43.32 per unit in January 2021, the \$25.17-per-unit supplemental fee invoiced in July of 2021, and the new SCEPT Fee rate of \$68.06 per unit in January 2022. It is notable that the per-unit fees paid in 2021 ( $\$43.32 + \$25.17 = \$68.49$ ) would exceed the new SCEPT Fee rate by \$0.43 per unit. This is partially a consequence of addressing multiple years of past deficit in a single supplemental fee payment and the increasing number of units that pay the fee on a year-to-year basis.

HCIDLA staff requested that BAE model an alternative to Scenario C, Option 3 that sets the fee levels such that the sum of the old SCEPT Fee and the supplemental fee equals the new SCEPT Fee. In effect, this alternative would have fee payers paying the new SCEPT Fee rate in 2021, but with the payment split between a \$43.32-per-unit payment in January and the remainder invoiced in a supplemental fee in July of 2021. This would require reducing the supplemental fee from the proposed level. However, reducing the supplemental fee would leave some of the past deficit to be absorbed into the SCEPT Fee revenue need, thereby increasing the SCEPT Fee. A single cent reduction in the supplemental fee rate would result in \$7,544 of deficit shifting into the SCEPT Fee revenue need. That shifted deficit burden would be shared by many more fee-paying units over three years of SCEPT Fee collections, so the increase in per-unit SCEPT Fee would be only be about one-third of a cent.

For the sum of the existing SCEPT Fee and the supplemental fee to equal the new SCEPT Fee, the supplemental fee would need to be reduced by \$0.32 per unit and the SCEPT Fee increased by \$0.11 per unit. **This would result in a supplemental fee of \$24.85 per unit and a new SCEPT Fee rate of \$68.17 per unit.**

### **Conclusion**

While a SCEPT Fee increase is necessary to fully recover costs associated with SCEPT activities, the COVID-19 economic circumstances have led the City of Los Angeles to delay any increases. This delay creates FY20 and FY21 operating deficits that will need to be recovered either through distributing the cost to future years, charging a supplemental fee at the end of the current fiscal year, or finding an outside source of supplemental funding. BAE's research in the Initial Fee Study indicates that these fee levels fall well below the fees charged per "inspected unit" for large metropolitan comparison cities that operate similar code enforcement programs.

## APPENDIX

### Revenue Assumptions

The following revenue assumptions are utilized across all budget scenarios and supplemental fee options. SCEP Fee revenues for FY21 are based on the current rate of \$43.32 per unit projected to be paid by 754,420 units in January 2021. SCEP Fee revenue participation rates were developed for the Initial Fee Study and do not include any discounts for unanticipated changes in SCEP Fee payment rates that may occur due to the current economic circumstances. Aside from the SCEP Fee and, if applicable, the supplemental fee, the SCEP Trust Fund is projected to accrue revenues from several Non-Fee sources which are listed below and detailed in Table 2.

- **Rent Escrow Account Program Administration Fees** were not included in the initial study, and are projected at \$1.6 million, decreasing at a four percent rate annually due to increasing program compliance rates.
- **Inspection and Enforcement Fees** are reduced from the Initial Fee Study, from \$2.9 million to \$2.0 million in FY21 due to current economic circumstances and increased compliance rates. This revenue also decreases at a rate of four percent annually due to increasing program compliance rates.
- **Other Receipts** are projected at \$523,000 in FY21 and decrease at a rate of four percent annually due to increasing program compliance rates.
- **Trust Fund Balance Interest** in this update is based on the Initial Fee Study projection provided by HCIDLA's budget team of \$600,000 per fiscal year. The only exception is in FY21 when interest is projected to be a slightly lower \$593,000. The interest revenue amounts do not account for the low or negative Trust Fund balances that would occur in FY21 and FY22 in the absence of a supplemental fee.

**Table A-1: SCEP Trust Fund Non-Fee Revenue Detail, FY21 - FY24**

	Year 0 FY21	Year 1 FY22	Year 2 FY23	Year 3 FY24
Rent Escrow Account Program Administration Fees	\$1,612,699	\$1,548,191	\$1,486,263	\$1,426,813
Inspection and Enforcement Fees	\$2,000,000	\$1,920,000	\$1,843,200	\$1,769,472
Trust Fund Balance Interest	\$593,000	\$600,000	\$600,000	\$600,000
Other Receipts	\$523,000	\$502,080	\$481,997	\$462,717
<b>Total Non-Fee Revenues</b>	<b>\$4,728,699</b>	<b>\$4,570,271</b>	<b>\$4,411,460</b>	<b>\$4,259,002</b>

Note:

(b) Non-Fee Revenue refers to revenue collected aside from the base SCEP Fee, any Supplemental Fee, Emergency Reserves, Care Act funds, or Trust Fund balances.

Sources: HCIDLA, 2020; BAE, 2020.

### ***Expense Assumptions***

This SCEP Fee Update utilized HCIDLA's current FY21 expenses projection of \$50.2 million and the proposed FY22 budget of \$55.1 million. From this baseline, BAE applied the following assumptions to project the FY23 and FY24 budgets:

- The SCEP personnel vacancy rate is assumed at current levels which incorporate hiring freezes and SIP retirements.
- Personnel support provided to SCEP by other departments assume varying staff vacancy rates which are City Attorney at 3.0 percent, Controller at 3.6 percent, ITA at 0.0 percent, and personnel at 6.0 percent.
- The annual cost of living adjustment (COLA) is estimated at 3.0 percent;
- Contractual services increase by 10.0 percent annually.
- Direct contracts are projected to be the same amount during the four-year period include Hearing Officer, Rent & Code Outreach Program, Code Enforcement Training, and Service Delivery.
- Direct contracts projected to decrease over the four-year period include Programming-Systems Upgrades and Translation.
- The only direct contract projected to increase over the four-year period is for Merchant Card Services Fees.
- An operating deficit of -\$2.2 million is carried over into FY21 from FY20;
- SCEP salaries are projected at \$24.6 million in FY21 and \$29.1 million in FY22 based on the SCEP team's analysis of salaries after SIP participation and the citywide hiring freeze; thereafter, salary expenses increase by COLA;
- Salary savings net of SIP payouts are estimated at positive \$350,400 in FY21 and positive \$1.4 million in FY22; these savings offset the salary expenses reported above;
- Lease escalation is calculated at 2.5 annually; and
- CAP 42 Related Costs is set at 74.9 percent of salaries.



**Table A-2: SCEP Budget Expense Detail, FY21 to FY24**

	Year 0 FY21	Year 1 FY22	Year 2 FY23	Year 3 FY24
<b>HCIDLA Expenses (Fund 100 Appropriations)</b>				
001010, Salaries General*	(\$24,575,936)	(\$29,136,934)	(\$27,317,550)	(\$28,137,076)
SIP Payouts & Salary Savings (Early Retirement)	\$350,433	\$1,389,559	\$0	\$0
001070, Salaries, As-Needed	(\$208,011)	(\$208,011)	(\$208,011)	(\$208,011)
001090, Salaries, Overtime	(\$54,449)	(\$54,449)	(\$54,449)	(\$54,449)
002120, Printing & Binding	(\$145,573)	(\$160,130)	(\$160,130)	(\$160,130)
002130, Travel	\$0	(\$5,797)	(\$5,797)	(\$5,797)
003040, Contractual Services	(\$583,188)	(\$548,188)	(\$603,007)	(\$663,307)
003340, Transportation	(\$285,466)	(\$314,013)	(\$314,013)	(\$314,013)
006010, Office & Administrative	(\$435,280)	(\$560,275)	(\$560,275)	(\$560,275)
006030, Lease	(\$1,516,356)	(\$1,516,356)	(\$1,516,356)	(\$1,516,356)
- Additional Lease need	(\$24,095)	(\$1,357,078)	(\$1,391,005)	(\$1,425,781)
<b>HCIDLA Subtotal</b>	<b>(\$27,477,921)</b>	<b>(\$32,471,672)</b>	<b>(\$32,130,593)</b>	<b>(\$33,045,195)</b>
<b>Appropriations/Other Department Support (Staff)</b>				
CAO	(\$136,412)	(\$70,471)	(\$72,585)	(\$74,763)
City Attorney	(\$402,248)	(\$290,923)	(\$299,651)	(\$308,640)
Controller	(\$51,106)	(\$16,464)	(\$16,958)	(\$17,467)
ITA	(\$70,206)	(\$77,944)	(\$80,283)	(\$82,691)
Personnel	(\$611,466)	(\$207,150)	(\$213,365)	(\$219,765)
<b>Other Departmental Support Subtotal</b>	<b>(\$1,271,438)</b>	<b>(\$662,952)</b>	<b>(\$682,841)</b>	<b>(\$703,326)</b>
<b>Appropriations/Related Costs (All Depts)</b>				
Housing + Community Investment	(\$18,003,804)	(\$19,437,861)	(\$20,447,186)	(\$21,060,602)
CAO	(\$133,717)	(\$64,903)	(\$66,850)	(\$68,856)
City Attorney	(\$227,771)	(\$151,076)	(\$155,608)	(\$160,277)
Controller	(\$130,628)	(\$38,701)	(\$39,862)	(\$41,058)
ITA	\$0	\$0	\$0	\$0
Personnel	(\$476,310)	(\$124,186)	(\$127,912)	(\$131,749)
<b>Related Costs Subtotal</b>	<b>(\$18,972,230)</b>	<b>(\$19,816,727)</b>	<b>(\$20,837,418)</b>	<b>(\$21,462,541)</b>
<b>Contracts Directly from Fund</b>				
Contract Programming - Systems Upgrades	(\$1,248,000)	(\$828,000)	(\$718,826)	(\$718,826)
Hearing Officer Contract	(\$245,000)	(\$245,000)	(\$245,000)	(\$245,000)
Rent & Code Outreach Program	(\$742,500)	(\$742,500)	(\$742,500)	(\$742,500)
Code Enforcement Training	(\$30,000)	(\$30,000)	(\$30,000)	(\$30,000)
Service Delivery	(\$37,500)	(\$37,500)	(\$37,500)	(\$37,500)
Translation	(\$45,575)	(\$34,500)	(\$34,500)	(\$34,500)
Merchant Card Services Fees	(\$166,000)	(\$182,600)	(\$200,860)	(\$220,946)
<b>Contracts Subtotal</b>	<b>(\$2,514,575)</b>	<b>(\$2,100,100)</b>	<b>(\$2,009,186)</b>	<b>(\$2,029,272)</b>
<b>Total Expenses</b>	<b>(\$50,236,164)</b>	<b>(\$55,051,452)</b>	<b>(\$55,660,038)</b>	<b>(\$57,240,334)</b>

Sources: HCIDLA, 2020; BAE, 2020.

**Table A-3: Supplemental Fee Basis Calculations by Budget Scenario and Supplemental Fee Option**

	Budget Scenarios			
	A	B	C	D
Assume Emergency Reserves are Utilized in FY21	Yes	Yes	Yes	Yes
Assume CARES Act Funding is Utilized in FY21	Yes	Yes	No	No
Include Guideline Ending Balance to Support First Half of FY25 Operations	Yes	No	Yes	No
<b>Projecting FY21 Year-End Deficit</b>				
Balance Available on July 1, 2020	(\$2,181,484)	(\$2,181,484)	(\$2,181,484)	(\$2,181,484)
Plus: FY21 SCEP Fee Revenues	\$32,681,482	\$32,681,482	\$32,681,482	\$32,681,482
Plus: FY21 Non-Fee Revenues	\$4,728,699	\$4,728,699	\$4,728,699	\$4,728,699
Plus: FY21 Expenses	(\$50,236,164)	(\$50,236,164)	(\$50,236,164)	(\$50,236,164)
Plus: Emergency Reserves	\$7,500,000	\$7,500,000	\$7,500,000	\$7,500,000
Plus: CARES Act Funds	\$10,000,000	\$10,000,000	\$0	\$0
<b>Equals: FY21 Ending Balance</b>	<b>\$2,492,533</b>	<b>\$2,492,533</b>	<b>(\$7,507,467)</b>	<b>(\$7,507,467)</b>
<b>(If negative) Equals: FY21 Year-End Deficit</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$7,507,467)</b>	<b>(\$7,507,467)</b>
<b>Projecting FY22 H1 Operating Deficit</b>				
(If positive) Carryover Balance to Support Operations	\$2,492,533	\$2,492,533	\$0	\$0
Plus: FY22 H1 Non-Fee Revenues	\$2,285,136	\$2,285,136	\$2,285,136	\$2,285,136
Plus: FY22 H1 Expenses	(\$13,762,863)	(\$13,762,863)	(\$13,762,863)	(\$13,762,863)
<b>Equals: FY22 H1 Projected Operating Deficit</b>	<b>(\$8,985,194)</b>	<b>(\$8,985,194)</b>	<b>(\$11,477,727)</b>	<b>(\$11,477,727)</b>
<b>Determining Supplemental Fee Basis for Each Option</b>				
<b>Option 1: No Supplemental Fee</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Option 2: Supplemental Fee to Address FY21 Year-End Deficit</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$7,507,467)</b>	<b>(\$7,507,467)</b>
<b>Option 3: Supplemental Fee to Address FY21 Year-End Deficit and Support FY22 H1 Ops.</b>	<b>(\$8,985,194)</b>	<b>(\$8,985,194)</b>	<b>(\$18,985,194)</b>	<b>(\$18,985,194)</b>
FY21 Year-End Deficit	\$0	\$0	(\$7,507,467)	(\$7,507,467)
Plus: FY22 H1 Projected Operating Deficit	(\$8,985,194)	(\$8,985,194)	(\$11,477,727)	(\$11,477,727)

Continued on the following page.

**Table A-3: Supplemental Fee Basis Calculations by Budget Scenario and Supplemental Fee Option (continued)**

	Budget Scenarios			
	E	F	G	H
<b>Assume Emergency Reserves are Utilized in FY21</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Assume CARES Act Funding is Utilized in FY21</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>No</b>
<b>Include Guideline Ending Balance to Support First Half of FY25 Operations</b>	<b>Yes</b>	<b>No</b>	<b>Yes</b>	<b>No</b>
<b>Projecting FY21 Year-End Deficit</b>				
Balance Available on July 1, 2020	(\$2,181,484)	(\$2,181,484)	(\$2,181,484)	(\$2,181,484)
Plus: FY21 SCEP Fee Revenues	\$32,681,482	\$32,681,482	\$32,681,482	\$32,681,482
Plus: FY21 Non-Fee Revenues	\$4,728,699	\$4,728,699	\$4,728,699	\$4,728,699
Plus: FY21 Expenses	(\$50,236,164)	(\$50,236,164)	(\$50,236,164)	(\$50,236,164)
Plus: Emergency Reserves	\$0	\$0	\$0	\$0
Plus: CARES Act Funds	\$10,000,000	\$10,000,000	\$0	\$0
<b>Equals: FY21 Ending Balance</b>	<b>(\$5,007,467)</b>	<b>(\$5,007,467)</b>	<b>(\$15,007,467)</b>	<b>(\$15,007,467)</b>
<b>(If negative) Equals: FY21 Year-End Deficit</b>	<b>(\$5,007,467)</b>	<b>(\$5,007,467)</b>	<b>(\$15,007,467)</b>	<b>(\$15,007,467)</b>
<b>Projecting FY22 H1 Operating Deficit</b>				
(If positive) Carryover Balance to Support Operations	\$0	\$0	\$0	\$0
Plus: FY22 H1 Non-Fee Revenues	\$2,285,136	\$2,285,136	\$2,285,136	\$2,285,136
Plus: FY22 H1 Expenses	(\$13,762,863)	(\$13,762,863)	(\$13,762,863)	(\$13,762,863)
<b>Equals: FY22 H1 Projected Operating Deficit</b>	<b>(\$11,477,727)</b>	<b>(\$11,477,727)</b>	<b>(\$11,477,727)</b>	<b>(\$11,477,727)</b>
<b>Determining Supplemental Fee Basis for Each Option</b>				
<b>Option 1: No Supplemental Fee</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Option 2: Supplemental Fee to Address FY21 Year-End Deficit</b>	<b>(\$5,007,467)</b>	<b>(\$5,007,467)</b>	<b>(\$15,007,467)</b>	<b>(\$15,007,467)</b>
<b>Option 3: Supplemental Fee to Address FY21 Year-End Deficit and Support FY22 H1 Ops.</b>	<b>(\$16,485,194)</b>	<b>(\$16,485,194)</b>	<b>(\$26,485,194)</b>	<b>(\$26,485,194)</b>
FY21 Year-End Deficit	(\$5,007,467)	(\$5,007,467)	(\$15,007,467)	(\$15,007,467)
Plus: FY22 H1 Projected Operating Deficit	(\$11,477,727)	(\$11,477,727)	(\$11,477,727)	(\$11,477,727)

Sources: HCIDLA, 2020; BAE, 2020.

**Table A-4: SCEP Fee Revenue Need by Budget Scenario and Supplemental Fee Option**

	Budget Scenarios			
	A	B	C	D
<b>Assume Emergency Reserves are Utilized in FY21</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Assume CARES Act Funding is Utilized in FY21</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>No</b>
<b>Include Guideline Ending Balance to Support First Half of FY25 Operations</b>	<b>Yes</b>	<b>No</b>	<b>Yes</b>	<b>No</b>
<b>Determining SCEP Fee Revenue Need Given Different Supplemental Fee Options to Address Deficits</b>				
<b>SCEP Fee Revenue Need Under Option 1 (All Deficit in SCEP Fee)</b>	<b>(\$166,628,640)</b>	<b>(\$162,218,557)</b>	<b>(\$176,628,640)</b>	<b>(\$162,218,557)</b>
FY21 Year-End Deficit	\$0	\$0	(\$7,507,467)	(\$7,507,467)
Plus: FY22 H1 Projected Operating Deficit	(\$8,985,194)	(\$8,985,194)	(\$11,477,727)	(\$11,477,727)
Plus: Projected Expenses (FY22 H2 - FY24)	(\$154,188,960)	(\$154,188,960)	(\$154,188,960)	(\$154,188,960)
Plus: Projected Non-Fee Revenues (FY22 H2 - FY24)	\$10,955,598	\$10,955,598	\$10,955,598	\$10,955,598
Plus: Guideline Ending Balance to Support FY25 H1 Operations	(\$14,310,083)	\$0	(\$14,310,083)	\$0
<b>SCEP Fee Revenue Need Under Option 2 (Only FY22 H1 Deficit in SCEP Fee)</b>	<b>(\$166,628,640)</b>	<b>(\$162,218,557)</b>	<b>(\$169,021,174)</b>	<b>(\$164,711,090)</b>
FY21 Year-End Deficit (Addressed by Supplemental Fee)	n.a.	n.a.	n.a.	n.a.
Plus: FY22 H1 Projected Operating Deficit	(\$8,985,194)	(\$8,985,194)	(\$11,477,727)	(\$11,477,727)
Plus: Projected Expenses (FY22 H2 - FY24)	(\$154,188,960)	(\$154,188,960)	(\$154,188,960)	(\$154,188,960)
Plus: Projected Non-Fee Revenues (FY22 H2 - FY24)	\$10,955,598	\$10,955,598	\$10,955,598	\$10,955,598
Plus: Guideline Ending Balance to Support FY25 H1 Operations	(\$14,310,083)	\$0	(\$14,310,083)	\$0
<b>SCEP Fee Revenue Need Under Option 3 (No Deficit in SCEP Fee)</b>	<b>(\$157,643,446)</b>	<b>(\$143,233,363)</b>	<b>(\$157,643,446)</b>	<b>(\$143,233,363)</b>
FY21 Year-End Deficit (Addressed by Supplemental Fee)	n.a.	n.a.	n.a.	n.a.
Plus: FY22 H1 Projected Operating Deficit (Addressed by Supplemental Fee)	n.a.	n.a.	n.a.	n.a.
Plus: Projected Expenses (FY22 H2 - FY24)	(\$154,188,960)	(\$154,188,960)	(\$154,188,960)	(\$154,188,960)
Plus: Projected Non-Fee Revenues (FY22 H2 - FY24)	\$10,955,598	\$10,955,598	\$10,955,598	\$10,955,598
Plus: Guideline Ending Balance to Support FY25 H1 Operations	(\$14,310,083)	\$0	(\$14,310,083)	\$0

Continued on the following page.

**Table A-4: SCEP Fee Revenue Need by Budget Scenario and Supplemental Fee Option (continued)**

	Budget Scenarios			
	E	F	G	H
<b>Assume Emergency Reserves are Utilized in FY21</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Assume CARES Act Funding is Utilized in FY21</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>No</b>
<b>Include Guideline Ending Balance to Support First Half of FY25 Operations</b>	<b>Yes</b>	<b>No</b>	<b>Yes</b>	<b>No</b>
<b>Determining SCEP Fee Revenue Need Given Different Supplemental Fee Options to Address Deficits</b>				
<b>SCEP Fee Revenue Need Under Option 1 (All Deficit in SCEP Fee)</b>	<b>(\$174,028,640)</b>	<b>(\$169,718,557)</b>	<b>(\$184,028,640)</b>	<b>(\$169,718,557)</b>
FY21 Year-End Deficit	(\$5,007,467)	(\$5,007,467)	(\$15,007,467)	(\$15,007,467)
Plus: FY22 H1 Projected Operating Deficit	(\$11,477,727)	(\$11,477,727)	(\$11,477,727)	(\$11,477,727)
Plus: Projected Expenses (FY22 H2 - FY24)	(\$154,188,960)	(\$154,188,960)	(\$154,188,960)	(\$154,188,960)
Plus: Projected Non-Fee Revenues (FY22 H2 - FY24)	\$10,955,598	\$10,955,598	\$10,955,598	\$10,955,598
Plus: Guideline Ending Balance to Support FY25 H1 Operations	(\$14,310,083)	\$0	(\$14,310,083)	\$0
<b>SCEP Fee Revenue Need Under Option 2 (Only FY22 H1 Deficit in SCEP Fee)</b>	<b>(\$169,021,174)</b>	<b>(\$154,711,090)</b>	<b>(\$169,021,174)</b>	<b>(\$154,711,090)</b>
FY21 Year-End Deficit (Addressed by Supplemental Fee)	n.a.	n.a.	n.a.	n.a.
Plus: FY22 H1 Projected Operating Deficit	(\$11,477,727)	(\$11,477,727)	(\$11,477,727)	(\$11,477,727)
Plus: Projected Expenses (FY22 H2 - FY24)	(\$154,188,960)	(\$154,188,960)	(\$154,188,960)	(\$154,188,960)
Plus: Projected Non-Fee Revenues (FY22 H2 - FY24)	\$10,955,598	\$10,955,598	\$10,955,598	\$10,955,598
Plus: Guideline Ending Balance to Support FY25 H1 Operations	(\$14,310,083)	\$0	(\$14,310,083)	\$0
<b>SCEP Fee Revenue Need Under Option 3 (No Deficit in SCEP Fee)</b>	<b>(\$157,543,446)</b>	<b>(\$143,233,363)</b>	<b>(\$157,543,446)</b>	<b>(\$143,233,363)</b>
FY21 Year-End Deficit (Addressed by Supplemental Fee)	n.a.	n.a.	n.a.	n.a.
Plus: FY22 H1 Projected Operating Deficit (Addressed by Supplemental Fee)	n.a.	n.a.	n.a.	n.a.
Plus: Projected Expenses (FY22 H2 - FY24)	(\$154,188,960)	(\$154,188,960)	(\$154,188,960)	(\$154,188,960)
Plus: Projected Non-Fee Revenues (FY22 H2 - FY24)	\$10,955,598	\$10,955,598	\$10,955,598	\$10,955,598
Plus: Guideline Ending Balance to Support FY25 H1 Operations	(\$14,310,083)	\$0	(\$14,310,083)	\$0

Sources: HCIDLA, 2020; BAE, 2020.