

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: April 14, 2021

CAO File No. 0220-00540-1531

Council File No. 20-0922

Council District: Citywide

To: The Mayor
The Council

From: *Uplanda Chavez*
for Richard H. Llewellyn, Jr., City Administrative Officer

Reference: Housing and Community Investment Department (HCID) Transmittal dated July 2, 2020; City Administrative Officer (CAO) Report dated September 14, 2020; HCID Supplemental Transmittal dated February 16, 2021; Received by the CAO on February 18, 2021; Additional Information Received through April 13, 2021

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

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor:

1. Note and file the Housing and Community Investment Department (HCID) transmittal dated July 2, 2020, City Administrative Officer Report dated September 14, 2020, and HCID Supplemental Transmittal dated February 16, 2021 relative to a request to amend Section 161.352 of the Los Angeles Municipal Code (LAMC) to adjust the Systematic Code Enforcement Program Fee;
2. Authorize the increase of the Systematic Code Enforcement Program Fee to an amount of up to \$67.94 per unit annually, effective January 1, 2022 and a mid-calendar year fee adjustment of \$24.62 per unit in 2021 with corresponding revenues to be reflected in the 2021-22 Budget;
3. Authorize the monthly pass through of 1/12th of 50 percent of the Systematic Code Enforcement Program Fee to tenants effective January 2022;
4. Request the City Attorney to prepare and present Ordinances to:
 - a. Amend Section 161.352 of the Los Angeles Municipal Code (LAMC) to adjust the Systematic Code Enforcement Program Fee to an amount of up to \$67.94 effective January 1, 2022 and a mid-calendar year fee adjustment of \$24.62 per unit in 2021;

- b. Amend Section 151.05.1 of the LAMC to allow a monthly pass through of 1/12th of 50 percent of the Systematic Code Enforcement Program Fee to tenants instead of a monthly pass through of 100 percent of the Fee;
5. Instruct HCID to work with the Rent Adjustment Commission to adopt and amend rules and regulations relative to the pass through of 50 percent of the SCEP fee to tenants;
6. Authorize the transfer of \$7,500,000 from the Systematic Code Enforcement Trust Fund No. 41M/43, Cash/Restricted Account No. 1014 entitled Emergency Reserve Account to the Systematic Code Enforcement Trust Fund No. 41M unrestricted Cash Account No. 1010; and,
7. Authorize the General Manager of the HCID, or designee, to prepare Controller instructions and make any necessary technical adjustments consistent with the Mayor and Council action on this matter, subject to the approval of the City Administrative Officer, and request the Controller to implement the instructions.

SUMMARY

On September 23, 2020, the Housing Committee considered a proposal to increase the annual Systematic Code Enforcement Program Fee for inspections of multi-family rental housing under the Systematic Code Enforcement Program (SCEP) from \$43.32 to \$81.25 per rental unit (2020 Fee Proposal), an increase of \$37.93 or 88 percent, and instructed the Housing and Community Investment Department (HCID) to report back on a later date in light of the COVID-19 pandemic and its economic impact on renters and landlords. In a Supplemental Transmittal (Supplemental Report) dated February 16, 2021, the HCID requests authority to amend Section 161.352 of the Los Angeles Municipal Code (LAMC) to increase the annual SCEP Fee from \$43.32 to \$68.17 per rental unit (2021 Fee Proposal), an increase of \$24.85 or 57 percent. The Department requests the fee increase to be effective January 1, 2022 to meet its operational costs for administering the SCEP through calendar year 2024. The HCID additionally requests authority to implement a one-time, mid-calendar year supplemental fee of \$24.85 in 2021 and to transfer \$7.5 million in restricted cash to an unrestricted cash account to address cash flow issues and a projected negative fund balance as of July 1, 2021. Finally, the HCID requests to amend Section 151.05.1 of the LAMC to allow a monthly pass through of 1/12th of 50 percent of the Systematic Code Enforcement Program Fee to tenants instead of a monthly pass through of 100 percent of the Fee.

This Office recommends a proposed fee of \$67.94 with a one-time supplemental fee of \$24.62 to support current-level services, including full reimbursement of related costs associated with staffing, for SCEP. Similar to HCID's 2021 Fee Proposal, the CAO's proposed alternative fee takes into consideration salary savings from the Separation Incentive Program and allows for an ending 2023-24 fund balance that could support the Department through the next fee study and potential increase in January of 2025. Additional information on the justification for a fee increase, the last fee increase in 2012, and the request to have a sufficient trust fund balance is included in the City Administrative Officer report dated September 14, 2020. Subsequent to HCID's completing its

supplemental analysis for its 2021 Fee Proposal, the Mayor and Council approved labor agreements that defer compensation adjustments and cancelled remaining furloughs for Fiscal Year 2020-21. This Office concurs with the Department’s recommendations, as amended, to propose a reduced fee increase that reflects recently approved labor agreements. The HCID concurs with the alternative fee proposal of \$67.94 with a one-time supplemental fee of \$24.62.

Transfer of Restricted Cash

In June of 2017, the Mayor and Council approved the transfer of \$7.5 million within the Systematic Code Enforcement Trust Fund into a restricted account as an emergency reserve. The reserve was intended to address the potential impact of a natural disaster, including revenue loss from damaged buildings, habitability inspections, and delays in reimbursement from the state and federal government. The HCID reports that the global COVID-19 pandemic and the Mayor’s declaration of a Local Emergency in Los Angeles on March 4, 2020 is an emergency that continues to persist and utilization of the \$7.5 million is appropriate to offset the financial burden of a higher annual fee impact on tenants and landlords during the emergency.

Impact to Landlords and Tenants

In accordance with the LAMC, landlords may recover the full annual SCEP Fee from their tenants in the form of a monthly pass through of \$3.61 per month to each unit. Through HCID’s proposal, tenants will continue to pay the current \$3.61 monthly pass through throughout 2021, while landlords will be responsible for the \$24.62 per unit mid-year supplemental fee.

In contrast to the SCEP Fee, the LAMC was recently amended to allow 1/12th of the tenants’ portion of 50 percent of the annual registration fee for the Rent Stabilization Ordinance to be passed through to tenants on a monthly basis. The HCID is requesting to amend Section 151.05.1 of the LAMC to allow a reduction in the monthly pass through to tenants to mitigate the impact of an increased fee on tenants, effective January 2022.

The proposed fee of \$67.94 would result in a proposed annual cost increase of \$24.62. Details relative to the impact of the proposed fee and change in the allowable pass through to tenants are reflected in the Table below.

Table 1: Impact of Proposed Fee Increase and 50/50 Split to Landlords and Tenants

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	\$24.62	\$33.97	\$2.83	\$33.97
Tenant	43.32	0.00	33.97	(\$0.78)	(\$9.35)
Total	\$24.62	\$24.62	\$67.94	N/A	N/A

Impact of Not Approving a Fee Increase

Prior to this fiscal year, the Systematic Code Enforcement Trust Fund has not required a General Fund allocation to support operational costs. The Department reports that the fee has not increased in eight years because funds from other revenue sources (additional inspection fees, appeal fees, administrative investigation fees, late fees and penalties) were able to support SCEP operating costs not covered by the SCEP Fee. The HCID indicates that revenue from the other sources are now insufficient to cover costs not covered by the SCEP Fee.

This Office estimates that if HCID is allowed to transfer \$7.5 million in restricted cash to an unrestricted cash account, but a fee increase is not approved, the HCID will have insufficient funds to reimburse the General Fund \$3.4 million in 2020-21 and \$15.8 million in 2021-22 for related costs associated with SCEP staff. The unfunded related costs may be considered by the Council and Mayor to be potentially funded with a General Fund allocation that will increase each year the fee is not adjusted or the HCID does not significantly reduce services.

FISCAL IMPACT STATEMENT

There is no net impact to the General Fund if Council approves a proposed Systematic Code Enforcement Program Fee of \$67.94 effective January 2022, one-time, mid-calendar year fee of \$24.62 in 2021, and transfer of \$7.5 million in restricted cash within the Systematic Code Enforcement Trust Fund. The proposed fee is intended to recover the full costs of the Systematic Code Enforcement Program including all operating direct and indirect costs. Deferral of a fee increase would result in HCID having insufficient funds to reimburse the General Fund \$3.4 million in 2020-21 and \$15.8 million in 2021-22 for related costs associated with SCEP staff. The unfunded related costs may be considered by the Council and Mayor to be potentially funded with a General Fund allocation that will increase each year the fee is not adjusted or the HCID does not significantly reduce services.

FINANCIAL POLICIES STATEMENT

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

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