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The Honorable Eric Garcetti  
Mayor, City of Los Angeles  
City Hall, Room 303  
Mail Stop 370

Honorable Members of the City Council  
c/o Office of the City Clerk  
City Hall, Room 395  
Mail Stop 160

**DEPARTMENT OF CITY PLANNING 2016 COMPREHENSIVE FEE STUDY AND  
RECOMMENDED FEE CHANGES**

The Department of City Planning (Department) has completed a comprehensive fee study with a goal of achieving full cost recovery for project planning services. Through the contracted services of NBS, a fee study and final report indicate the City is recovering approximately 74% of the estimated full cost of providing most fee related services, where the annual revenue collected is less than the estimated fully burdened costs of providing those services.

Based on the fee study findings, the Department recommends revising Los Angeles Municipal Code (LAMC) Section 19.01 through 19.10 to more accurately represent the cost of providing planning and land use services, subject to review and discussion of particular policy issues outlined in this report.

**Background**

The Fiscal Year 2014-15 adopted budget approved funding for a comprehensive fee study. While the study was initiated in early 2015, several revisions were required as a result of the Department's geographic restructuring of its case processing functions. Changes resulting from the restructuring needed to be incorporated into the time estimate process, and in some cases, new estimates were necessary. In addition, the Department received six new position authorities in the Fiscal Year 2016-17 budget without funding subject to completion of the fee study recommendations to achieve full cost recovery.

## Fee Study Results

NBS conducted its fee study using three distinct areas of analysis: Cost of Service Analysis, Cost Recovery, and Fee Establishment. The Cost of Service Analysis considers both direct and indirect costs which typically include: direct salaries and benefits, operating services and supplies, departmental and divisional overhead and Citywide overhead. Cost Recovery reviews existing fee revenues to determine the percentage of costs being collected. The Fee Establishment portion reviewed the fee structure to see if it met current industry standards and the needs of the Department's new operational structure, as well as documented the level of effort required for the services being charged.

In addition, NBS performed cross checks by collecting data on the estimated workload for each fee to confirm the validity of the analytical model. This method provided assurance that 100% of staff resources were accounted for and allocated to either a fee for service or non-fee service category to ensure that services provided are not modeled to exceed budgeted resource capacity. A more extensive explanation of the analysis methods may be found in the NBS Final Study dated November 14, 2016. (Attachment 1).

The total estimated cost of departmental programs studied by NBS is approximately \$73 million per year. As shown in the table below, costs are further broken down by activities eligible for recovery through fees or surcharges and those not eligible for recovery.

Program	Activities Recoverable from Case Processing Fees	Activities Recoverable from Surcharge Fees	Activities Requiring Non-fee Funding Sources	Total
Development Services	\$ 4,977,703	\$ 319,206	\$ 4,459,188	\$ 9,756,098
Geographic Project Planning	\$ 17,246,538	\$ 51,193	\$ 6,922,715	\$ 24,220,446
Major Projects and Project Plan Support	\$ 4,318,567	\$ -	\$ 667,866	\$ 4,986,433
Major Projects and Project Plan Support -Expedited	\$ 4,612,462	\$ -	\$ -	\$ 4,612,462
Historic Resources	\$ 386,119	\$ -	\$ 2,276,970	\$ 2,663,088
Citywide Planning	\$ -	\$ 2,324,837	\$ 2,929,693	\$ 5,254,530
Community Planning	\$ 205,950	\$ 10,040,995	\$ 910,161	\$ 11,157,105
Technology Support	\$ -	\$ 10,006,414	\$ 186,433	\$ 10,192,846
Department General Administration	<i>included above</i>		\$ 86,474	\$ 86,474
	<b>\$ 31,747,338</b>	<b>\$ 22,742,644</b>	<b>\$ 18,439,500</b>	<b>\$ 72,929,482</b>

Activities eligible for recovery in general case processing are approximately \$31.7 million, or 44% of total program costs. Roughly \$22.7 million, or 31%, is further eligible to be recovered by surcharges for technology support and advance planning services. Activities not eligible for fee recovery is approximately 25% or \$18 million.

## Comparative Fee Surveys

As part of the scope of work, NBS conducted a survey of both regional and national comparable cities and agencies. The regional comparisons were performed on the following cities and agencies: Los Angeles County, Burbank, Glendale, Long Beach,

Pasadena, and Santa Clarita. National cities compared were Dallas, Denver, Oakland, Portland, San Jose, San Francisco, and Seattle. While these comparisons can be useful, the different processes and procedures utilized among cities make direct comparisons somewhat challenging.

From the regional perspective, current Department fees range by category and are higher than other local jurisdictions in the categories of conditional uses, signage, density bonus, site plan review, zone changes, and condominium conversions. The Department's fees are generally lower in the areas of appeals, adult entertainment, and environmental services.

Nationally, Department fees are typically higher in most categories except for some historic preservation fees where San Jose and San Francisco charge higher fees. However, it should be noted that many fees were not directly comparable to these national cities and, therefore, comparisons are difficult to make. Comparison charts are included in the NBS Final Report as Appendix B and C.

### **Policy Considerations**

The City provides many types of general services to its constituents. While all services are beneficial to the community, some services can be classified as globally beneficial to all citizens, while others provide more of a direct benefit to a specific group or individual. In the latter, services should almost entirely be funded by user fee revenue.

The following are two central concepts regarding the establishment of user fees:

- Fees should be assessed according to the degree of individual or private benefit gained from services; and
- A profit making objective should not be included in the assessment of user fees.

Therefore, it is commonly accepted that user fees are established at a level that will recover up to, and not more than, the cost of providing a particular service. Undoubtedly, 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% are whether lower fees would:

- Overcome limits imposed by external agencies;
- Encourage desired behavior – for example, historic preservation, green building, etc.;
- Affect demand for a particular service;
- Enable participation of individuals or groups that typically cannot afford services; or
- Provide a benefit to both the individual and community at large.

The Department reviewed every fee from the fee study and is recommending that the following fees receive some level of subsidy:

- HPOZ Certificates of Appropriateness
- Mills Act Applications
- Minor and/or Single Family Project Permit Compliance cases
- Appeals (other than the applicant)
- Reasonable Accommodation Determinations

The specific fee recommendations can be found in Attachment 2. All other fees proposed provide for full cost recovery.

### **Expedited Processing and Billable Services**

The Department offers applicants an option to process cases using an expedited model. This alternative, which charges a higher rate, is limited to certain cases and generally provides that a case will proceed to hearing within 120 days. The billing process has been to bill actual time and include overhead rates. The Fee Study reviewed those processes and charges and determined a fully burdened flat rate could improve the internal administrative process for the Department. The billing includes tracking time toward the project and adding multiple rates to cover the full costs. Currently, an initial deposit is paid and a refund is required if not fully utilized. The recommendation is to go to a fully burdened flat rate of \$219 per hour, which helps when calculating costs.

Environmental cases also require a deposit and time is charged against the deposit. Once the draw down account has been depleted, applicants are billed by the hour based on the staff job rate with overhead charges. To simplify billing and processing and allow for rate predictability, the Department recommends charging a flat rate of \$192 per hour for all case processing services for all programs except Expedited Processing, which will use the higher hourly rate discussed above. The recommendation to go with this fully burdened flat rate will allow for rate fluctuations in job classifications, incremental step increases, and CAP rate changes in a two to three year time span.

### **Conclusions**

The final fee study report concludes that the City should try to recover as much of the cost of services as is feasible, but recognizes there are policy factors that often warrant adoption of fee levels at less than 100%. The recommendations and proposed fee structures in the fee study report are legally defensible and establish a nexus between costs of providing services and each specific user fee that is charged.

For the time period reviewed, the cost of case processing related services was approximately \$29.8 million while revenues from these services was \$22.1 million, resulting in a difference of \$7.7 million (or 74%). Based on these findings, the Department needs to increase fees by roughly 25% to achieve a greater amount of cost recovery. However, as indicated earlier, economic policy factors require that some fees be subsidized, such as appeals and historic clearances. The estimated value of the subsidies is roughly \$3 million, which will require an appropriation from the General Fund for case processing related services provided by the Department.

## Recommendations

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

- 1) Approve amending the Los Angeles Municipal Code (LAMC) Sections 19.01 through 19.10 to revise fees to 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.
- 2) Instruct the City Attorney to prepare an ordinance to amend the LAMC Sections 19.01 through 19.10 in accordance with the proposed fee changes.

## Fiscal Impact

The recommended changes to the Department of City Planning fee schedule have the potential to increase the City Planning Case Processing Special Fund revenues by \$6 to \$8 million annually depending on case volume. The Department's case processing functions will become more fully cost recoverable and reduce reliance on the General Fund for these activities.

If you have any questions, please feel free to contact Deputy Director of Planning Jan Zatorski at (213) 978-1271.

Sincerely,



VINCENT P. BERTONI, AICP  
Director of Planning

Attachments:           1 – NBS Final Report (Comparative Fee Tables – Appendix B & C)  
                              2 – Department Proposed Fee Changes

c:     Raymond Chan, Deputy Mayor  
       Sharon M. Tso, Chief Legislative Analyst  
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       Adrienne Khorasanee, Deputy City Attorney

VPB:JZ:clf