



Grover Hollingsworth and Associates, Inc.

August 4, 2010

Los Angeles City Council
Planning and Land Use Management (PLUM) Committee
Room 350
200 North Spring Street
Los Angeles, California 90012

Subject: Proposed City of Los Angeles Baseline Hillside Ordinance.
Council File No. 10-1001
Item No. 9, August 4, 2010, Council Agenda

Honorable Council Members:

Our firm is a medium-size geotechnical company that primarily practices in the city of Los Angeles. Our firm employs 20 people and paid \$6,925 in City of Los Angeles business tax last year. The jobs at our company are good quality positions paying \$14 to \$26 per hour for support staff and \$30,000 to \$100,000 per year for non-principal, geologists and engineers.

We are seriously concerned about the economic implications of certain aspects of the proposed Baseline Hillside Ordinance and their impact on hillside development within the City of Los Angeles. The primary aspect of the proposed ordinance that concerns our firm is the severe limits to grading on individual properties, especially grading that does not result in import or export of earth and consequent truck traffic on city streets.

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The proposed grading limits will result in a substantial reduction of single family residential construction in hillside areas, including areas where “mcmansions” are not present and areas where existing homes will become nonconforming. The proposed grading limits, and when combined with the other restrictive aspects of the proposed ordinance, will further severely and adversely affect the already devastated construction industry in Los Angeles and result in a significant loss of revenue for the City of Los Angeles.

Our firm is currently providing geotechnical services for the planned development of ten (10) residential projects on large lots in Bel Air. Each property is in excess of an acre and will be developed with a single-family residence, pool and related improvements. The residences will have significant basements. Each property will incorporate two, 10-foot-high retaining walls and will involve 6,000 to 15,000 cubic yards of on-site grading. The walls and grading will be used to increase the level pads.

These 10 properties were purchased over the past few years for \$10 to \$15 million each. These properties were all purchased with the intent to tear down the existing house and build the project discussed above. The buyers have indicated that they would not have proceeded with the purchase if they could not build a home comparable to the modern homes on surrounding properties.

The purchase and future redevelopment of these properties will generate significant tax revenue for the City of Los Angeles, permit fees and school fees for LAUSD. These projects will also generate hundreds of good-paying construction jobs and will support good-paying consulting jobs (architects, engineers, geologists, etc.).

The purchase of these properties for approximately \$120 million has already resulted in a significant increase in property tax revenue. The pre-purchase tax base of these sites was

probably \$50 to \$70 million as several were purchased from long-time owners. Therefore, the purchase represents an annual increase of \$600,000 to \$840,000 in property tax receipts. The future development of these sites is anticipated to approximately double the property values resulting in an additional annual \$1,400,000 increase in property taxes.

Permit and plan check fees for this type of project generally range from \$30,000 to \$60,000 per site. Total plan check and permit fees for these projects is therefore \$300,000 to \$600,000.

The construction estimates, including site work, grading, retaining walls, pools, tennis courts, and residential structures conservatively range from \$8 to \$12 million per property. Generally, approximately 40 percent of construction costs are for labor and consultants, while 60 percent is for materials. The contractors pay City business tax of two-tenth (0.2) percent on their fees. The materials are subject to sales tax at a rate of 9.25 percent. Assuming \$100 million in total construction costs, just these 10 projects will generate \$80,000 in City business tax receipts and \$5,550,000 in sale tax receipts over the ± 2 year construction schedule.

Therefore, these 10 projects along will generate \$3.2 to 3.5 million in additional tax dollars and fees per year, while they are under construction and \$1.4 million per year thereafter.

There are certainly many more large and small projects that will be eliminated by the proposed ordinance. It is difficult to understand why the City of Los Angeles is considering proceeding with this business and tax-killing ordinance in its current form.

The current version establishes arbitrary caps on the amount of grading allowed on a property, as well as on export and import, without taking into account the relative size of an individual property. These restrictions are blanket and cover many varied different types and sizes of property, and are not based on proportionality. The effect will be to delay, and in many cases prevent, any new construction, thereby devaluing thousands of hillside properties and putting many in the construction industry and associated professions out of work.

The adverse impact on many future larger projects can be mitigated by increasing the on-site grading limits as well as the import export limits to more reasonable levels (at least double or triple the proposed limits on large acre+ properties).

We are not aware that any financial studies have been performed by the City to evaluate and understand the adverse impact of this proposed ordinance on the City's budget (lost sales tax, lost business tax, lost property tax revenue,), and its economy (more unemployed).

Respectfully submitted,



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President/E.G. 1095



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