

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

0160-01563-0000

Date: October 21, 2014

To: The Council
The MayorFrom: Miguel A. Santana, City Administrative Officer *MAS*
Sharon M. Tso, Chief Legislative Analyst *SMT*Subject: **PROPOSED PROACTIVE FORECLOSURE REGISTRY PROGRAM
INSPECTION FEE (C.F. 12-0674-S1)****SUMMARY**

On June 5, 2013, the Council adopted recommendations by the former Housing, Community and Economic Development Committee relative to proactive enforcement of the Los Angeles Foreclosure Registry (C.F. 12-0647-S1). The recommendations included the addition of proactive inspections by the Los Angeles Department of Building and Safety (LADBS) and the Housing and Community Investment Department (HCID), formerly the Los Angeles Housing Department, to ensure that foreclosed homes do not add blight to the City of Los Angeles.

The Housing Committee received an update on July 24, 2013 about the implementation of the Registry Program from LADBS, HCID and the City Attorney. The Committee continued the item for 30 days so that our Offices could analyze and report on the proposed LADBS inspection fee and the feasibility of full cost recovery, and to allow the City Attorney to prepare Ordinances related to the proposed Proactive Foreclosure Registry Inspection Program and associated fees (C.F. 12-0647-S1, 12-0647-S2 and 12-0647-S4). This joint report responds to the Housing Committee's requests for analysis of the Foreclosure Registry Program and the proposed Proactive Inspection fee of \$356. The City Attorney will present the Ordinances separately.

BACKGROUND

The Foreclosure Registry Program was adopted by Council in 2010 (C.F. 09-0365). The purpose of the Program is to prevent blight by ensuring that lenders maintain foreclosed properties in the City of Los Angeles. The Program requires lenders to register residential properties with HCID within 30 days of filing a Notice of Default (NOD). The HCID envisioned that the information contained in the Registry would be used to contact the appropriate parties should homes become blighted during the foreclosure process. The City of Los Angeles Foreclosure Registry Program Ordinance No. 181185 was approved in June 2010. Two years after implementation, it became apparent that the Registry Program needed to be revised to be more effective at addressing blight related to foreclosures.

On June 13, 2012, the City Council adopted a Motion (Garcetti–Alarcón, C.F. 12-0647-S1, Item No. 12-A) to amend the Foreclosure Registry Ordinance to include an enforcement fee to fund proactive inspections of Registry properties by City Code Enforcement staff. The Office of the Chief Legislative Analyst (CLA) organized a working group and convened meetings to discuss the Program, and on May 17, 2013, the CLA presented a report to Council with recommendations to revise the Foreclosure Registry Program including the addition of a proactive inspection component.

Definitions

Under Ordinance No. 181185, the responsible parties are defined as:

- Any beneficiary or trustee, who holds, or has an interest in, a deed of trust on a residential property in foreclosure located within the City of Los Angeles; and
- A beneficiary of a deed of trust who has gained title to residential property located within the City of Los Angeles due to foreclosure sale or deed in lieu of foreclosure/sale.

Generally, Real Estate Owned, or REO, refers to bank-owned properties.

An NOD is a recorded notice that a default has occurred under a deed of trust.

Proactive Foreclosure Registry Inspection Program

The Proactive Inspection Program includes two major components which are described in the following sections.

Registration of Properties

Under the current Foreclosure Registry Program, within 30 days of filing an NOD, the responsible party is required to register the property with HCID and pay an existing \$155 registration fee. The filing of the NOD notifies the borrower(s) that he/she/they have failed to uphold the terms of the mortgage and that the foreclosure process has begun. The responsible party is required to keep the data in the registry up to date, including information on the vacancy of NOD properties. This registration process would continue under the proposed Proactive Inspection Program.

Inspection of Properties

We recommend that only REO (bank-owned) properties be subject to the Proactive Inspection component of the City's Foreclosure Registry. The REO properties have no ambiguity regarding ownership. As property owners, lenders have the responsibility to maintain their properties according to law. Therefore, REO properties would be inspected by the Department of Building and Safety under this proposed program. When a property becomes an REO, the lender will be prompted to pay the Proactive Inspection fee. The inspection performed by LADBS will examine the exterior of the property, and violations of the City's Building Code will

be reported to the lender listed as the owner of the property. The owner would be primarily responsible for the cost to address any violations and pay any penalties.

Fee for Proactive Inspections

In accordance with the Los Angeles Municipal Code (LAMC) Sections 91.108 and 91.1704, LADBS is authorized to inspect all construction for which a permit is required. The Department also enforces the building, electrical, mechanical, plumbing and zoning codes and other elements of the LAMC as they apply to the construction or alteration of buildings and structures. Therefore, LADBS would be authorized to conduct the proposed Proactive Inspections.

On October 8, 2014, LADBS submitted a fee proposal titled Full Cost Recovery for the LADBS Proactive Foreclosure Registry Inspection Program Fiscal Year 2014-15. The proposal is included in Attachment A to this report. The study shows that the cost to perform one annual exterior inspection of one property in the Registry is \$356 based on 2014-15 salary costs.

The LADBS fee recommendation is based on interviews with the Department's Code Enforcement and Finance and Accounting staff. For many years the Department has tracked, measured and evaluated the time and resources required to conduct external building inspections, and consequently, has the skills and expertise necessary to identify the classifications needed to perform and administer the inspections. The amount of time, expressed in percentages of one hour, was multiplied by the position's hour salary rate, which was obtained from the 2014-15 Wages and Count. The Wages and Count averages the gross salaries of all employees within the same classification in a given department to account for the different salary levels created by salary steps and bonuses. To calculate the indirect costs, such as fringe benefits, the direct salary costs were multiplied by the rates established in the 2014-15 Cost Allocation Plan (CAP) 35 prepared by the Controller. The total CAP 35 rate for LADBS is 85.02 percent.

The LADBS concluded that existing positions could perform the necessary Foreclosure Registry inspections on overtime. The estimated cost of these positions is included in the proposed fee. The total amount for staff time would be \$335.85. Ordinance No. 17833 authorizes LADBS to apply the Building and Safety Systems Development Surcharge to fees included in LAMC Chapter IX, Building Regulations, to finance ongoing systems maintenance. Therefore, the Department determined that the six percent surcharge on the proposed proactive inspection fee would be \$20.15. The total proposed inspection fee is \$356.

Our Offices have reviewed the LADBS fee and recommend that it be approved for implementation. The proposed fee complies with City Financial Policies requiring full cost recovery for special services. The funds will be used to pay for existing LADBS staff to perform and support the proactive inspections on an overtime basis. It is anticipated that the departments can begin the Proactive Foreclosure Registry Inspection Program within two months of Mayor and Council approval.

Fund for Foreclosure Registry and Inspection Fees

The HCID will collect the proposed fee and reimburse LADBS for the proactive inspections as LADBS submits invoices to HCID. Currently funds collected for the Foreclosure Registry are deposited in the HCID Code Enforcement Trust Fund No. 41M, which is not related to the Foreclosure Registry program. To provide transparency for the Foreclosure Registry fees, our Offices and HCID recommend the creation of a new fund called the Foreclosure Registry Program Fund. All monies received pursuant to Ordinance No. 181185 and from the proposed LADBS fee for proactive inspections will be deposited in the new Fund. The Fund shall be interest bearing. All interest or other earnings attributable to money in the Fund shall be credited to the Fund and devoted to the purposes of the Fund. The Fund shall be used to: a) purchase or pay for expenses, equipment, materials, and services; and, b) reimburse salary, overtime, and related costs as appropriate, in support of the City's Foreclosure Registry program related functions. Appropriations will be established through Council action subject to the approval of the Mayor. The Fund shall be administered by HCID and upon creation of the new Fund, the unexpended funds of the Foreclosure Registry Program currently deposited in Fund No. 41M will be transferred to the new Fund.

Full Cost Recovery for the Foreclosure Registry Program

As part of the June 5, 2013 Council action that approved the revised proactive Foreclosure Registry Program, our Offices were directed to work with the Los Angeles Police Department (LAPD), Los Angeles Fire Department (LAFD), and the City Attorney to determine if any additional City costs associated with addressing foreclosure blight could be captured. Analysis to date indicates that it would not be feasible to charge fees to recover costs incurred by LAPD and LAFD while responding to an incident related to a property included the Foreclosure Registry. Based on discussions with sworn and civilian City staff, our Offices concur that it would not be feasible to separate out the costs attributed to foreclosures when providing public safety services. Additionally, unlike the proactive inspections in the Foreclosure Registry Program which follow a consistent set of criteria, both LAPD and LAFD react to emergencies which require responses and resources that are unique for each event. Furthermore, the LAPD and LAFD Adopted Budgets already provide funding for public safety services for all buildings located within the City, including properties listed in the Foreclosure Registry. Therefore, fees for LAFD and LAPD to support Registry properties would not be necessary.

An additional attorney might be required in the City Attorney's Office to: 1) support the proposed Foreclosure Registry Inspection Program; 2) to enforce the Foreclosure Ordinances; and, 3) to prosecute responsible parties who fail to adhere to the terms of the Registry. Once the Program has started and the specific workload and staff requirements are identified, the City Attorney costs will be evaluated. Our Offices can report on the viability of establishing a separate fee for full cost recovery of City Attorney costs at six and twelve months after the Program begins.

Information Systems

Both HCID and LADBS state that enhancements to current departmental information systems are necessary for the successful implementation of the proposed Proactive Foreclosure

Registry Inspection Program. The HCID identified specific changes that would be made to the Foreclosure Information Management System (FIMS) and related systems such as the Billing Information Management System, the Property database and the Geographic Information Management System. The estimated cost will be \$350,000. Details for the HCID systems enhancements are provided in Attachment B. The CLA and the CAO will coordinate intra-departmental meetings to facilitate the FIMS 2.0 Phase II development.

In LADBS, the new Inspection Program would affect the Online Payments System, the Code Enforcement and Inspection System (CEIS), mobile CEIS, the Cashiering System and the Financial Services System. The estimated Phase I systems costs for LADBS will be \$382,803. The updates would be made so that the systems in HCID and LADBS related to the Foreclosure Registry and inspections can interface with each other.

The total start-up systems costs for HCID and LADBS will be approximately \$732,803. Funding for these one-time changes will be provided by the Code Enforcement Trust Fund No. 41M. The systems updates will be performed by existing LADBS and HCID employees as well as contractors and will take up to six months to be fully operational. In the interim, the Departments will follow procedures to track, maintain and share the new Foreclosure Registry, inspection and cashiering data until all of the systems enhancements are finished. Ongoing maintenance of the systems will be paid for through existing system development fees.

Staffing for LADBS

After reviewing the number of properties identified in the current Foreclosure Registry database, LADBS states that the inspections for those properties may be completed with existing staff during overtime hours. A typical proactive inspection will include the participation of Building Mechanical Inspectors, a Senior Building Mechanical Inspector, a Principal Inspector, Clerk Typist(s), an Accountant, and an Accounting Records Supervisor. The Department will work with the CAO to address peak workloads for the Program.

Summary of Fees

The following chart identifies the current and proposed Foreclosure Registry Fees:

Title	Fee Amount	Date Approved	Authority
HCID Foreclosure Registry Program Fee	\$155 annual fee per property	June 2010	Ordinance No. 181185
LADBS Proactive Foreclosure Registry Inspection Program Fee	\$356 fee per inspection	Pending Mayor and Council approval	TBD

The following chart lists the proposed expenditure of funds from the Foreclosure Registry Program for systems upgrades related to the implementation of the Proactive Foreclosure Registry Inspection Program:

Department	Amount
HCID	\$350,000
LADBS	382,803
Total	\$732,803

RECOMMENDATIONS

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

1. Request the City Attorney to:
 - a. Draft the appropriate Ordinances to effectuate the Proactive Foreclosure Registry Inspection Program fee of \$356 contained in the report from the Los Angeles Department of Building and Safety (LADBS) included in Attachment A of this report;
 - b. Draft the appropriate Ordinances to create a fund called the Foreclosure Registry Program Fund to receive all monies pursuant to Ordinance No. 181185 and from the proposed Proactive Foreclosure Registry Inspection Program fee;
 - c. Draft the appropriate Ordinances to effectuate the proactive exterior inspection of Real Estate Owned (REO) properties including vacant or occupied, single-family or multi-family;
2. Direct LADBS and the Housing and Community Investment Department (HCID) to update their respective information systems to support and manage the proposed Foreclosure Registry Inspection Program with funding in the amount of \$350,000 for HCID and \$382,803 for LADBS for a total of \$732,803 provided from the HCID Code Enforcement Trust Fund No. 41M. Appropriations of the funds to the correct fund and accounts will be included in a future Financial Status Report;
3. Request the City Attorney, with the assistance of the City Administrative Officer and the Chief Legislative Analyst, to report in six months with an evaluation of workload and staffing needs for establishing a fee for full cost recovery of City Attorney costs related to the Proactive Foreclosure Registry Inspection Program; and,
4. Authorize the General Manager, LADBS, or designee, to prepare Controller instructions for any necessary technical adjustments consistent with the Mayor and Council actions on this matter, subject to the approval of the City Administrative Officer, and authorize the Controller to implement those instructions.

FISCAL IMPACT STATEMENT

There is no impact to the General Fund. The proposed Proactive Foreclosure Registry Inspection Program fee is estimated to generate sufficient fees to the City which will pay for the staff and services in the Los Angeles Department of Building and Safety needed to perform and support the Proactive Inspection Program. The recommendations in this report comply with City Financial Policies in that the proposed fee is fair and recovers the full cost of providing inspection services.

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Attachments

Attachment A

**Los Angeles Department of Building and Safety
Full Cost Recovery for the LADBS Foreclosure Registry Inspection Program
Fiscal Year 2014-15**

The following provides information on various tasks and classifications involved in formulating a full cost recovery fee to operate the Foreclosure Registry Inspection Program. The implementation of the Foreclosure Registry Inspection Program will affect the following systems in the Department of Building and Safety: Online Payments System, Code Enforcement and Inspection System (CEIS), mobile CEIS, Cashiering System and Financial Services System. In addition to the required enhancements to these current systems, interface programming with HCIDLA's systems is required to allow both systems to automate communication between the two systems. The programming efforts are estimated to be completed in six months and will require 1 DBA, 2 Systems Programmer II's, 1 Systems Analyst II and 1 Business Expert (Sr. Building Mechanical Inspector).

Foreclosure Registry Tasks Per Case	Average Annual Site Trips (A)	No. Hours Per Task Annually (B)	Average Total Time Spent Per Task (hrs.) (A*B)=C	Average Time Spent Annually	No. of Staff Needed per Class	Classification Performing Task (D)	Hourly Rate Based on 2080 hrs. Annually ^{1,2,3} (E)	Total Hourly Fee (C)*(E)=(F)
Existing Operations Staff								
Inspector Case Processing/Research	1	1.00	1.00	214	0.11	Building Mechanical Inspector	\$ 84.45	\$ 84.45
Travel Time to Job Site	1	0.48	0.48	103	0.05	Building Mechanical Inspector	\$ 84.45	\$ 40.54
Conduct Field Inspections	1	0.50	0.50	107	0.05	Building Mechanical Inspector	\$ 84.45	\$ 42.22
Generate Reports and Billing	1	0.42	0.42	90	0.04	Building Mechanical Inspector	\$ 84.45	\$ 35.47
Supervisory Oversight of Inspector's Work	1	0.80	0.80	171	0.09	Sr. Building Mechanical Inspector	\$ 94.19	\$ 75.35
Clerical Case Processing	1	0.50	0.50	107	0.05	Clerk Typist	\$ 48.25	\$ 24.13
In Office Customer Service (Phones)	1	0.30	0.30	64	0.03	Clerk Typist	\$ 48.25	\$ 14.48
Existing Systems and Support Staff					0.43	Total Proposed Operations Staff		
Financial Processing and Reconciliation	1	0.10	0.10	21	0.01	Accountant II	\$ 61.84	\$ 6.18
Cash Receipt Accounting	1	0.05	0.05	11	0.01	Accounting Records Supervisor II	\$ 73.04	\$ 3.65
Respond to Financial Questions	1	0.10	0.10	21	0.01	Clerk Typist-Does not include CTO	\$ 42.74	\$ 4.27
Program Management	1	0.05	0.05	11	0.01	Principal Inspector	\$ 102.02	\$ 5.10
Application and Server Maintenance	1	0.05	0.05	11	0.01	Systems Programmer II	Systems Development Surcharge (6%) ⁵	
Estimated Time Per Property			4.35				Subtotal	\$ 335.85
							Systems Development Surcharge (6%) ⁵	\$ 20.15
							Total Fee Per Property	\$ 356.00
							First Year Start Up Costs⁴	\$ 382,803

¹ Fiscal Year 2014-15 Wages and Count.

² CAP 35 includes Department Administration 15.06%, Fringe Benefits 39.33%, Central Services 9.01% and Compensated Time Off 21.62% = 85.02%; posns full time to the Program receive CTO.

³ Expenses include mileage (Inspectors), Printing and Binding, Contractual Services, Office and Admin, Operating Supplies, and Equipment.

⁴ First year start up costs will be from the Foreclosure Registry Account; HCIDLA's Fund and Revenue Source is 41M/43/422G00.

⁵ Ordinance 17883 provides authority to apply the Building and Safety Systems Development Surcharge to fees included in LAMC Chapter IX, Building Regulations, in order to finance ongoing systems maintenance.

Attachment B

Foreclosure Registry Systems Updates - Housing and Community Investment Department

Foreclosure Registry Information System (FIMS) Enhancements

The following FIMS enhancements are in process. The total cost estimate for enhancements is \$350,000 through 3/30/2015. The amount will pay for the contract programmers to add a number of new functions to the current system. In addition, it will also pay for Phase I of a significant upgrade to FIMS. The upgrade, called FIMS 2.0, will provide many major functionality missing in the current FIMS. Upon the completion of Phase I, HCID will be able to provide the cost estimate of Phase II to complete the FIMS 2.0 development.

1) Enhancements to the current FIMS – Cost: 160,000

Item	Description	Est Completion Date
i	Ability to generate Foreclosure Registry bills and notices to lenders and implement invoices in the Billing Information Management System (BIMS)	12/31/2014
ii	Develop web services to share foreclosure registry data with LADBS and other HCID systems	12/31/2014
iii	Add billing and other management report on the Foreclosure Registry data	12/31/2014
iv	Additional features in BIMS and FIMS to allow easier management of Foreclosure Registry invoices and properties in Foreclosure Registry	3/30/2015

2) FIMS 2.0 – FIMS 2.0 involves a significant upgrade to the existing FIMS.

Phase I Cost: \$190,000

Phase II Cost: TBD

Below is a list of proposed features in FIMS 2.0

- 1) GIS-enabled – provide a GIS user interface to allow easier and more efficient manipulation of foreclosure registry property data
- 2) Include automated workflow to collaborate among other City Departments
- 3) Develop workflow to address proactive enforcement needs.
- 4) Incorporate multiple data sources to provide better research capabilities on foreclosure data.
- 5) Provide mobile applications for inspectors and property management companies to submit inspection data and to update the status of the properties.

Attachment B

Foreclosure Registry Systems Updates - Housing and Community Investment Department

- 6) Develop business intelligence capability to provide better data visualization and analysis

The project is currently in Phase I which includes the development of the detailed requirement, wireframe, workflow and user experience design. Phase I involves the collaboration among many City Departments. The estimated completion date is in February 2015. Upon completion of Phase I, HCID will then be able to determine the cost and time estimate of Phase II to actually develop the system.

Phase	Description	Est Completion Date
I	Requirement, Wireframe and User Experience Development	2/4/2015
II	System Development and Implementation	TBD