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L.A. Controller: City Failing to Charge, Spend Developer Fees for Infrastructure

L.A. Lags Behind Other Major Cities; Loses Out on Tens of Millions Each Year

Link to audit: http://controller.lacity.org/Audits_and_Reports/index.htm

Los Angeles – City Controller Ron Galperin issued an audit that found the City of Los Angeles is failing to exercise its power to charge citywide development impact fees, which State law says can be collected from developers to mitigate their projects' impacts on neighborhoods and defray the costs of public facilities and infrastructure, such as roads, bridges, libraries, parks and police stations.

In preparing their report, auditors in Galperin's office compared Los Angeles with other western cities. In FY 2013-14, San Francisco had $3.6 billion in permitted construction and collected $96 million in impact fees. Portland had $1.5 billion in permitted construction and collected $31 million. **Meanwhile, Los Angeles had $5.3 billion in permitted construction but collected less than $5 million in impact fees. Based on these numbers, auditors said Los Angeles had the potential to collect tens of millions of dollars more in fees.**

Also, when auditors looked at the fees the City had collected, they identified $54 million sitting in eight special funds whose balances had grown or remained stable over three years--which suggested the City was failing to spend the money it collected. Auditors cautioned that some unspent fees could be subject to challenges and/or refunds. Most of the fees the City charges are for neighborhood-specific purposes. In fact, the only citywide fees the City charges are for public art and fire hydrants.

"Development impact fees are some of the most important tools the State has given us to make the infrastructure improvements our City so desperately needs," said Controller Galperin. "These fees should be applied fairly and consistently, and should be spent wisely in the public interest."

The 1987 California Mitigation Fee Act allows cities to charge residential, commercial and industrial developers fees to pay for public facilities new developments necessitate. The fees can be used for many purposes, such as increasing fire and police protection, traffic mitigation, and the construction of libraries, parks, public art, child care facilities, and affordable housing.

Developers who spoke with the Controller's office said their primary concern wasn't having to pay mitigation fees, but the glacial pace of project approval--even when their projects generate jobs and revenues for the City--revenues that include impact fees.

"The key takeaway here is predictability," said Clifford Goldstein, managing partner of GPI Companies, a real estate development and investment firm in Los Angeles. "Controller Galperin's proposals address the development community's need for predictability with regard to fees and our expectation that the fees we pay will be spent wisely."

In his report, Galperin called for the City to establish a comprehensive impact fee program and designate one Department to take responsibility for making sure the funds are properly and efficiently used.

"The City's haphazard application of the fees today is unfair to communities and to developers. Both have every expectation that the City will apply fees consistently and spend them to mitigate the impacts of development on our neighborhoods," said Galperin.

Sherman Oaks Homeowners Association President Richard Close concurred. "In high development neighborhoods like mine, we have a great need for new infrastructure, but City officials often tell us they don't have the money," said Close. "I applaud Controller Galperin for finding a way to fund the infrastructure necessary to mitigate the effects of development on our communities."

"The City's current approach has produced a cycle of failure," said David Barenholtz, who recently moved his American Tea Room from Beverly Hills to downtown Los Angeles, where he employs 43 people. "As a Los Angeles homeowner and business owner, I welcome Controller Galperin's audit and thank him for shining a light on this important issue. These impact fees could be used to build infrastructure, spruce up the City's curb appeal, and attract more businesses to Los Angeles, making it a more viable place for everyone to live and work."

In preparing their report, auditors examined a three-year period ending in FY 2013-14. They identified seventeen funds established to hold development impact fee revenues. The balance of those funds at the end of the period was $68 million.

More information about the funds where impact fees are deposited, as well as the other 900+ City special funds, including fund contact information, can be found at controlpanel.la.

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