COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

September 19, 2013

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **REVIEW OF SENATE BILL 62 FRAUD NOTIFICATION FEES (Board Agenda September 24, 2013, Agenda Items 21 and 29)**

Items 21 and 29 on your Board's agenda for September 24, 2013 recommend implementing various provisions of Senate Bill 62 (SB 62). If approved, a public hearing would be set for October 22, 2013 to consider an increase of $3.00 to the fraud notification fee for the recording of deeds, quitclaim deeds, or deeds of trust. Approval of the $3.00 increase would change the fee from its current level of $4.00 to $7.00. A new $7.00 fee for the recording of notices of default or sale would also become effective. The SB 62 program ("program") consists of Registrar-Recorder/County Clerk (RR/CC) fraud notification costs and Department of Consumer Affairs' (DCA) costs of providing information, counseling, or assistance to recipients.

Review Summary

We reviewed cost information provided by the RR/CC and DCA to support the increased fees and determined that the proposed costs support the new and increased fees. **However, there are key estimates and assumptions that require monitoring by RR/CC and DCA in order to ensure that the fees are aligned with the County's costs of providing the services.** The number of annual recordings subject to the fees is estimated at 830,000 and would generate total annual revenues of $5.81 million. Of this amount, new fees and fee increases are projected at $2.68 million. The total revenues of $5.81 million would pay for estimated costs of $3.35 million and $2.46 million for RR/CC and DCA, respectively. There are no projected net County costs associated with operating the proposed new program.

Analysis of Key Assumptions

Provisions of SB 62 which authorize the fee increases and enhanced services are only valid until January 1, 2015. Therefore, we focused our review on anticipated collections and expenditures for calendar year 2014.

Revenues

For 2014, the RR/CC and DCA are projecting 830,000 annual recordings, which are categorized as follows:

- Deeds, quitclaim deeds, and deeds of trust 782,000
- Notices of default or sale 48,000

We reviewed historical trend information for each of the two categories. The various deed recordings are trending upward and this is expected to continue into 2014. The notices of default or sale, which were in excess of 100,000 in 2011, have since declined and are expected to continue at the current annual level of 48,000. Each of the projected categories appears reasonable. However, as the real estate market continues to evolve during this post-recession environment, the projected recordings should be closely monitored.

Costs of Operating the Program

RR/CC is responsible for notifying all relevant parties of recorded deeds and notices of default or sale. This function is primarily handled by an outside contractor and RR/CC staff provides administrative support. The per-document cost associated with these functions is $4.04 and supported by the fixed contract price of $3.39 per document and RR/CC staffing costs of $0.65 per document.

For DCA, the new program responsibilities will require a significant staffing increase. There are currently five (5) full-time equivalent positions that are dedicated to handling workload associated with notices of deed recordings. DCA estimates that 15 additional positions are required to handle the increased and new workload for SB 62 related responsibilities. DCA intends to redeploy existing staff, fill vacancies and seek new positions to achieve the necessary staffing levels for the projected program workload.

We reviewed historical statistics for the current DCA program and the new projected workload that would be generated by the notices of default or sale. Although DCA has carefully analyzed the number of clients to be served and the amount of DCA staff time per client, this is essentially a new program and has the most exposure to estimation error. It is necessary for DCA to achieve the staffing level assumed for the SB 62 fees and that detailed client statistics and timekeeping records be maintained and monitored for this program. The DCA estimated cost per document is $2.96.

Once implemented, both RR/CC and DCA are expecting full cost recovery for this program.

Other Issues

DCA will need to work expeditiously with the Chief Executive Office and Department of Human Resources to achieve the staffing levels necessary to support the fee increases and program workload. Adding to this challenge is the pending SB 62 sunset date of January 1, 2015 and the effect this will have in recruiting permanent vs. temporary staff.

If SB 62 fees are approved, we will work with RR/CC and DCA to establish a new account to deposit the fees and create a mechanism for each department to receive reimbursement for its share of eligible costs. If the State extends the authority for this program beyond 2014 and the County elects to continue the program, we recommend that the current fee assumptions be reviewed in conjunction with actual statistics prior to January 1, 2015.

If you have any questions, please contact me, or your staff may contact John Naimo at (213) 974-8484.

WLW:JN:CY:RV

c: William T Fujioka, Chief Executive Officer
Sachi A. Hamai, Executive Officer, Board of Supervisors
John F. Krattli, County Counsel
Brian J. Stiger, Director, Consumer Affairs
Dean C. Logan, Registrar-Recorder/County Clerk