REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: June 17, 2026

CAO File No. 0220-06410-0001
Council File No. 26-0489
Council District: All

To: The City Council

From: Matthew W. Szabo, City Administrative Officer

Subject: **FINANCIAL IMPACT OF POTENTIAL CHANGES TO THE RECREATION AND PARKS CHARTER MANDATED APPROPRIATION - FOUR, FIVE, AND SIX YEAR PHASE-IN AND FULL COST RECOVERY**

RECOMMENDATIONS

If the Council intends to increase the annual appropriation to the Department of Recreation and Parks (RAP) by approximately 50 percent through a Charter Amendment, it is recommended that the Council:

1) Select one of the following implementation options to phase-in the cost impact of the proposed Amendment:
    a) Four-year implementation - Increase the Charter mandated percentage from 0.0325 percent to 0.048136 percent over four years, beginning with the 2027-28 Budget and ending with the 2030-31 Budget, for an incremental appropriation increase of $175 million over the four-year term;
    b) Five-year implementation - Increase the Charter mandated percentage from 0.0325 percent to 0.048136 percent over five years, beginning with the 2027-28 Budget and ending with the 2031-32 Budget, for an incremental appropriation increase of $185.5 million over the five-year term; or
    c) Six-year implementation - Increase the Charter mandated percentage from 0.0325 percent to 0.048136 percent over six years, beginning with the 2027-28 Budget and ending with the 2032-33 Budget, for an incremental appropriation increase of $195.1 million over the six-year term.

2) Incorporate language in the proposed Charter Amendment that requires RAP to pay full related costs by the end of the phase-in term and authorizes up to 30 percent of the Charter mandated funding may be withheld, if the City declares a fiscal emergency; and,

3) Instruct the City Administrative Officer and RAP to initiate a cost recovery study to ensure that RAP fully funds all related costs and services, including those currently funded in other City departments, to mitigate the General Fund impact of the proposed Charter Amendment.

SUMMARY

At the June 15, 2026 meeting of the Rules, Elections and Intergovernmental Relations (Rules) Committee, the Committee approved a proposal for a Charter amendment to increase the RAP Charter mandated appropriation by $175 million through an increase to the percentage of assessed value of all property as assessed for City taxes annually. The Committee further directed that the proposed Charter amendment include a provision that up to the 30 percent of the total funding allocation to RAP be able to be withheld in the event of a fiscal emergency. The Committee directed this Office to report the costs if this proposal were to be phased-in over a term of four fiscal years, as well as the costs for alternative five and six year phase-in terms.

Pursuant to Charter Section 593, currently each year RAP receives an appropriation equivalent to 0.0325 percent of assessed value of all property as assessed for City taxes annually. This allocation provides baseline funding for RAP's operating budget and is also used to support RAP's indirect costs. While the percentage discussed in Rules Committee was 0.0485, a $175 million increase to RAP phased in over four years would result in an increase to the Charter mandated appropriation from 0.0325 percent to 0.048136 percent, as shown in the following chart:

FOUR YEAR PHASED INCREASE TO RAP CHARTER PERCENTAGE, FROM 0.0325% to 0.048136%, BASED ON GROSS TOTAL OF PROPERTY ASSESSED VALUATION

Fiscal Year	RAP Charter Appropriation Total Percentage	Current Estimated RAP Charter Appropriation (0.0325%)	Proposed Additional RAP Incremental Appropriation	Estimated RAP Charter Appropriation with Four-Year Phased Increase to 0.048136%
2026-27	0.032500%	$ 303,003,368		$ 303,003,368
2027-28	0.037016%	$ 314,820,499	$ 43,750,000	$ 358,570,499
2028-29	0.041169%	$ 328,042,960	$ 43,750,000	$ 415,542,960
2029-30	0.044884%	$ 344,445,108	$ 43,750,000	$ 475,695,108
2030-31	0.048136%	$ 363,734,035	$ 43,750,000	$ 538,734,035
		Total	**$ 175,000,000**	

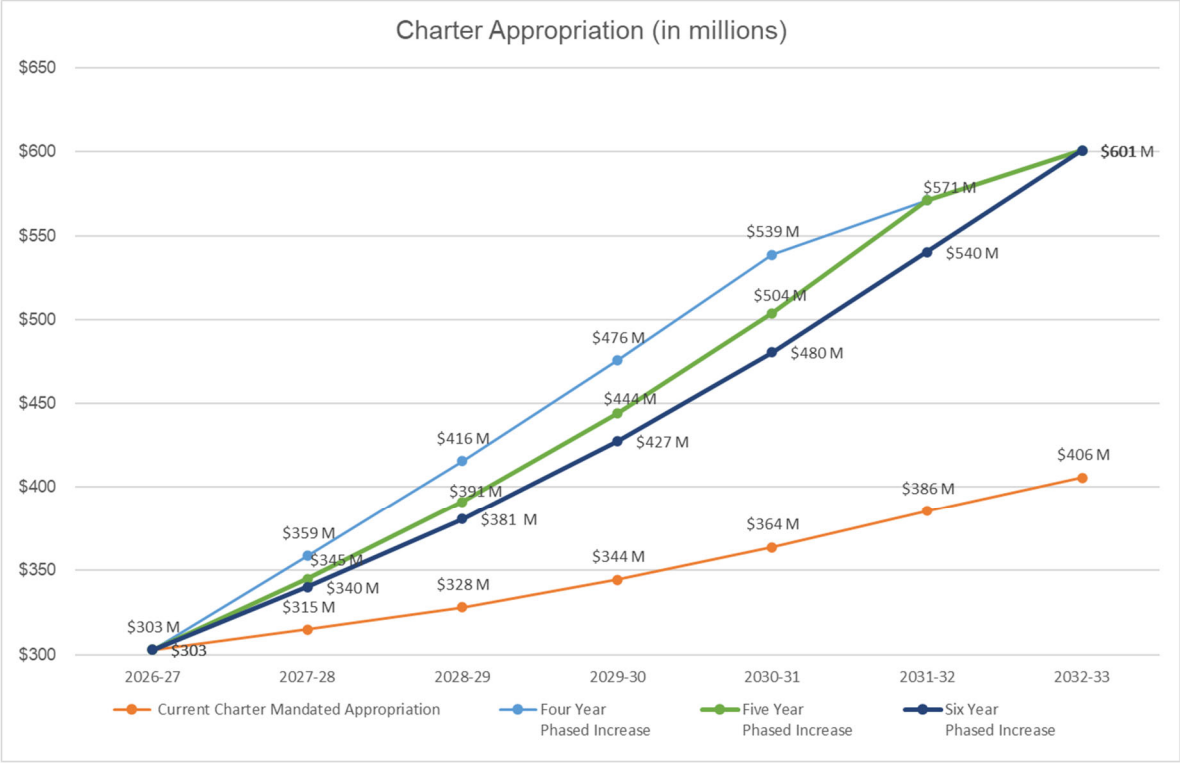
The Rules' Committee's original direction assumed a phase-in of four years to achieve the $175 million, which results in the proposed percentage of 0.048136. The cost to achieve the same percentage, 0.048136, of assessed value of all property as assessed for City taxes annually, but applying the phase-in over five years or six years is provided in the following tables:

FIVE YEAR PHASED INCREASE TO RAP CHARTER PERCENTAGE, FROM 0.0325% to 0.048136%, BASED ON GROSS TOTAL OF PROPERTY ASSESSED VALUATION				
Fiscal Year	**RAP Charter Appropriation Total Percentage**	**Current Estimated RAP Charter Appropriation (0.0325%)**	**Proposed Additional RAP Incremental Appropriation**	**Estimated RAP Charter Appropriation with Five-Year Phased Increase to 0.048136%**
2026-27	0.032500%	$ 303,003,368		$ 303,003,368
2027-28	0.035627%	$ 314,820,499	$ 30,293,336	$ 345,113,836
2028-29	0.038755%	$ 328,042,960	$ 32,837,977	$ 391,174,274
2029-30	0.041882%	$ 344,445,108	$ 36,300,505	$ 443,876,927
2030-31	0.045009%	$ 363,734,035	$ 40,568,182	$ 503,734,035
2031-32	0.048136%	$ 385,558,077	$ 45,500,000	$ 571,058,077
		Total	**$ 185,500,000**	

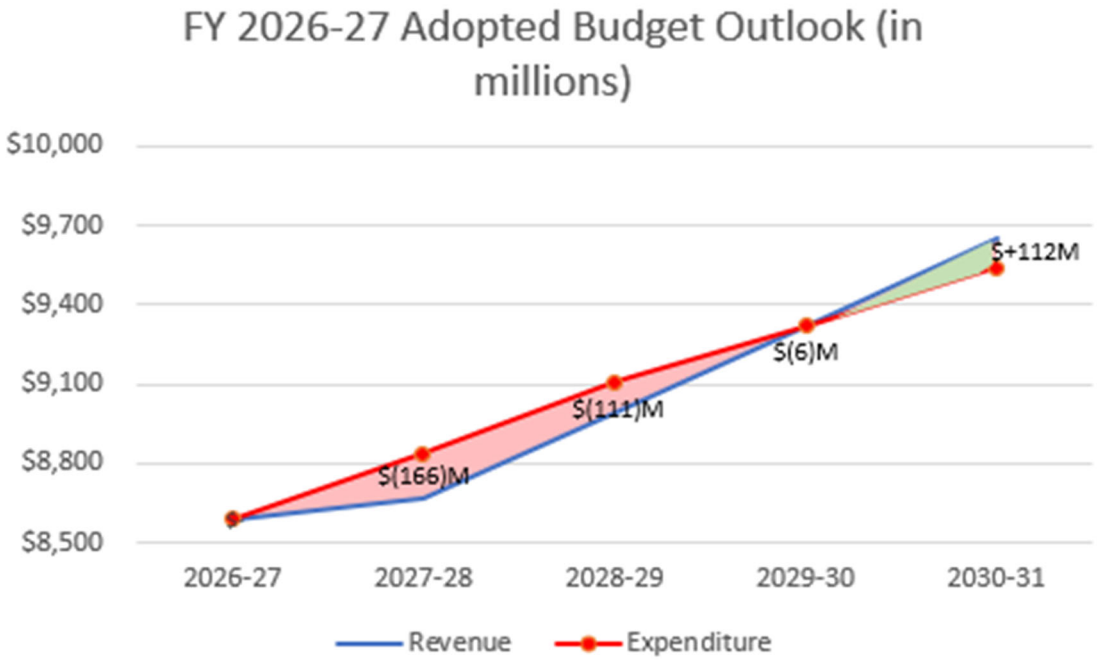
SIX YEAR PHASED INCREASE TO RAP CHARTER PERCENTAGE, FROM 0.0325% to 0.048136%, BASED ON GROSS TOTAL OF PROPERTY ASSESSED VALUATION				
Fiscal Year	**RAP Charter Appropriation Total Percentage**	**Current Estimated RAP Charter Appropriation (0.0325%)**	**Proposed Additional RAP Incremental Appropriation**	**Estimated RAP Charter Appropriation with Six-Year Phased Increase to 0.048136%**
2026-27	0.032500%	$ 303,003,368		$ 303,003,368
2027-28	0.035106%	$ 314,820,499	$ 25,244,447	$ 340,064,946
2028-29	0.037712%	$ 328,042,960	$ 27,364,981	$ 380,652,388
2029-30	0.040318%	$ 344,445,108	$ 30,250,421	$ 427,304,957
2030-31	0.042924%	$ 363,734,035	$ 33,806,818	$ 480,400,701
2031-32	0.045530%	$ 385,558,077	$ 37,916,667	$ 540,141,410
2032-33	0.048136%	$ 405,607,097	$ 40,562,667	$ 600,753,097
		Total	**$ 195,146,000**	

Note that when maintaining an increase of 0.048136 over a different phase-in term, while the amount of the incremental increase is lower each year, the total amount of the proposed additional incremental appropriation over the phase-in term is higher than the $175 million approved by the Council. This is because the calculation compounds the estimated projected annual increase in assessed value, which ranges from 3.9 to 6 percent. However, under all scenarios, the total appropriation in 2032-33, after all phase-in scenarios would be complete and the Charter mandated

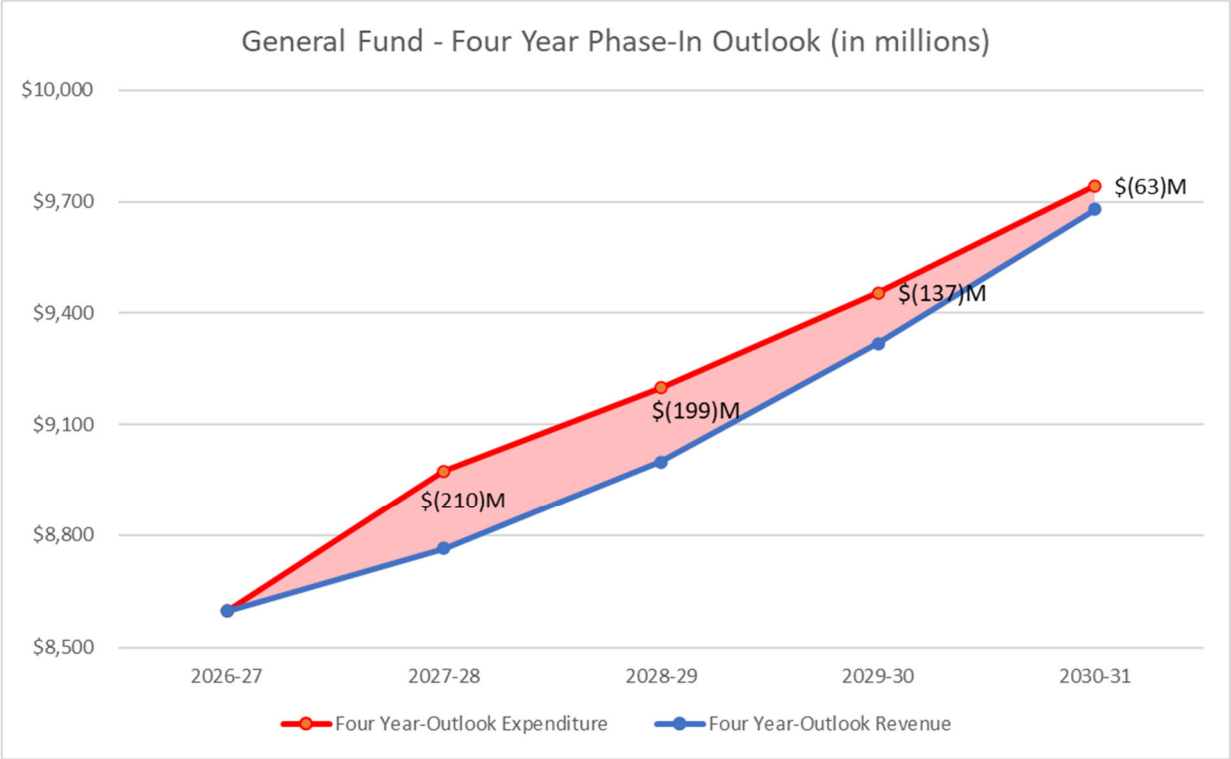
percentage would be 0.048136 in all scenarios, will be approximately $601 million. The following chart compares the current Charter mandated appropriation and these phase-in options:

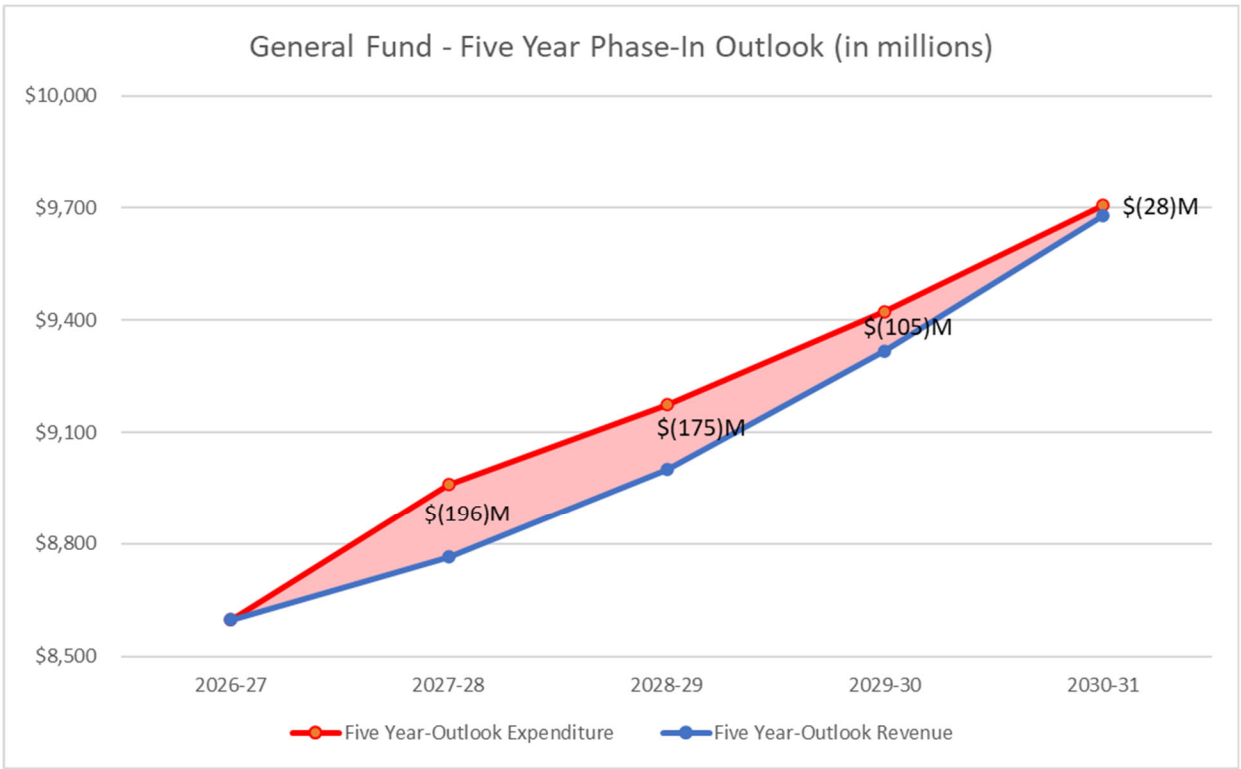


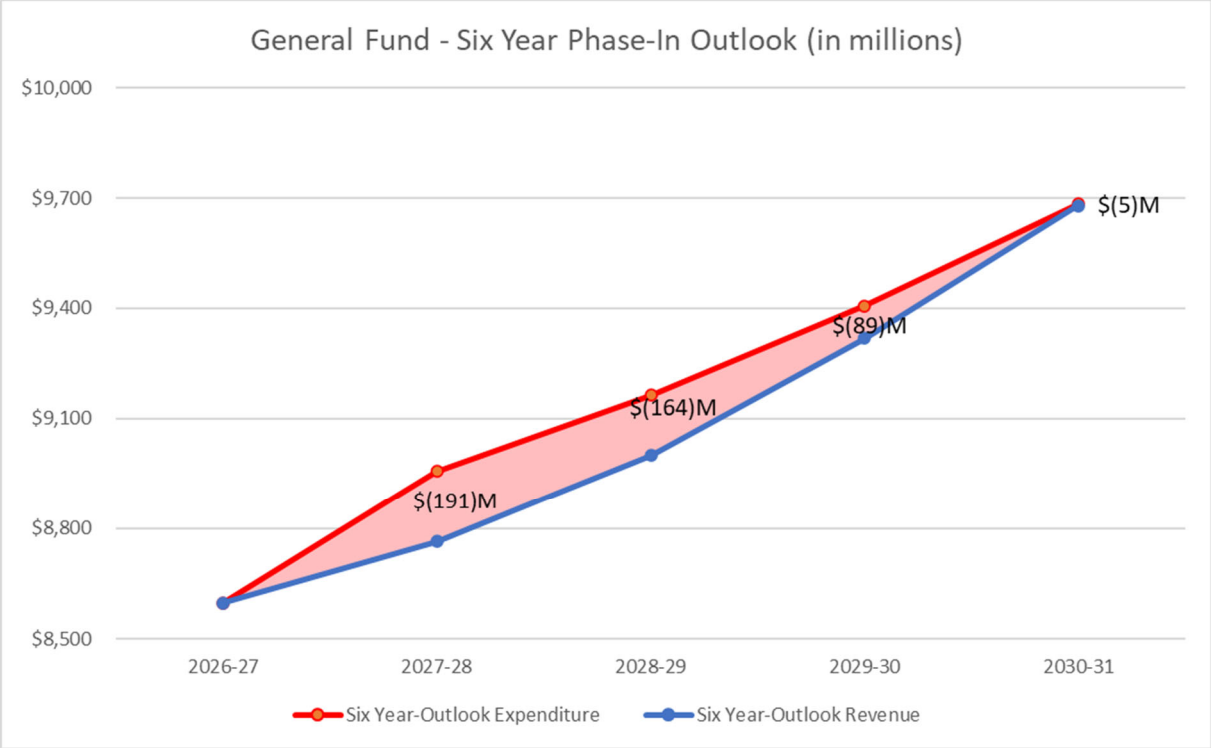
The current 2026-27 Adopted Four-Year General Fund Budget Outlook, assuming the current 0.0325 percent formula for RAP, projects deficits in 2027-28 through 2029-30, with a surplus of $112 million reached in 2030-31, as shown below:



The following charts show the impact to the Four-Year General Fund Budget Outlook, and the City's structural deficit, with the four-, five-, and six-year phase-in options:







Full Cost Recovery

It is the recommendation of this Office that any proposed Charter amendment to increase the RAP Charter mandated funding also incorporate a requirement that RAP pay full related costs by the end of the phase-in term. Additionally, it is recommended that the Council direct this Office, in coordination with RAP, to initiate a cost recovery study to ensure that RAP fully funds all related costs and services, including those currently funded in other City departments, to mitigate the General Fund impact of the proposed Charter Amendment.

During the discussion in Rules Committee, the Committee requested information regarding what costs currently budgeted in other City departments could be funded by the proposed additional funding allocation to RAP. For full cost recovery departments, City support and central services costs are funded in two primary ways: a) direct billing, in which the department directly pays for services rendered, and b) cost recovery through the Cost Allocation Plan (CAP) rate. The CAP is a federally approved Plan prepared annually by the Controller's Office, which distributes the costs of City services to be used for billing purposes, including for federal grants. In the common situation where an item that is directly billed is also included in the CAP rate, this Office, in coordination with the Controller's Office and the relevant department, conducts analysis on whether use of a modified CAP rate is appropriate, to ensure the department is not double-billed for these same items, and to determine whether the resources used by the Department exceeded what was billed.

In 2025-26, RAP paid its full related costs in accordance with the CAP rate, including retirement, fringe benefit, and central service costs. In 2026-27, the General Fund subsidy for RAP's related costs is $5.4 million. Therefore, at minimum, it is anticipated at least $5.4 million in additional funding for related costs must be funded by RAP before the Department can be considered full cost recovery. Currently, some items such as utility and refuse collection costs are directly billed to RAP.

However, additional items that may be able to be directly billed include, but are not limited to, services provided by the General Services Department such as custodial services, parking services, mail services, building maintenance, and fleet maintenance; costs for commodities such as fuel; security services provided by LAPD; credit card fees and surcharges; and support for capital project delivery such as staffing in the Bureau of Engineering. However, to the extent that some of these costs are already incorporated in the CAP rate, it would require further analysis to determine what additional cost recovery can be facilitated through direct billing.

FISCAL IMPACT STATEMENT

Should the Council not proceed with increasing the RAP Charter mandated appropriation, there will be no additional impact on the General Fund. However, should the Council approve the Charter amendment to increase the Charter mandated percentage from 0.0325 percent to 0.048136 percent with a four-year phase-in, and the measure is approved by City voters, there will be annual impacts as follows over the phase-in period: $43.75 million (2027-28), $87.5 million (2028-29), $131.25 million (2029-30) and $175 million (2030-31). Other phase-in periods, such as five or six years, will have different annual cost impacts as listed in this report. Inasmuch as this funding increase for RAP will reduce available funding for other City services, the City will need to identify reductions in other City services, absent additional revenue streams.

FINANCIAL POLICIES STATEMENT

Increasing the RAP Charter appropriation conflicts with the City's Financial Policies, specifically Fiscal Policy No. 20 which states that "unrestricted General Fund revenue streams shall not be designated as restricted or special funds." This in no way precludes the City from making appropriations from unrestricted revenues to achieve specific policy goals either as part of the budget process or during the fiscal year.

MWS:AIJ:08260085c