

TRANSMITTAL

SEP 17 2010

To:

THE COUNCIL

Date:

From:

THE MAYOR

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.

Brett Messing

ANTONIO R. VILLARAIGOSA
Mayor



RENT STABILIZATION DIVISION
Los Angeles Housing Department
LAHD

1200 West 7th Street, 8th Floor, Los Angeles, CA 90017
rent hotline 866.557.7368 | fax 213.808.8818
lahd.lacity.org



Antonio R. Villaraigosa, Mayor
Douglas Guthrie, General Manager

September 1, 2010

Honorable Antonio R. Villaraigosa
Mayor, City of Los Angeles
200 North Spring Street, Room 303
Los Angeles, CA 90012

Attention: Pamela A. Finley, Legislative Coordinator

SUPPLEMENTAL REPORT ON AMENDMENTS TO THE RENT STABILIZATION ORDINANCE (RSO) PURSUANT TO THE RECOMMENDATIONS OF THE ECONOMIC STUDY OF THE RSO AND THE LOCAL HOUSING MARKET (COUNCIL FILE 04-0777, COUNCIL FILE 07-0883, COUNCIL FILE 08-2381)

SUMMARY

The City Council adopted the Rent Stabilization Ordinance in May 1979 to safeguard tenants from excessive rent increases while providing landlords with just and reasonable returns from their rental units. On June 13, 2007, pursuant to Council instructions, the Los Angeles Housing Department (LAHD) executed a contract with the Economic Roundtable, a non-profit, public benefit corporation, selected through a competitive process to complete an economic study of the RSO and the local housing market (the Rent Study). On June 25, 2009, LAHD submitted a transmittal setting forth the major findings of the Rent Study, together with LAHD's recommendations based on its review of the Study and the consultant's recommendations, including proposed amendments and changes in the administration of the RSO. On September 22, 2009, LAHD submitted a separate report for changes to the Tenant Habitability Program, the Primary Renovation Program and the Capital Improvement Program based in large part on the findings and recommendations of the Rent Study.

RECOMMENDATIONS

The General Manager of LAHD respectfully requests that:

- I. Your office schedule this report back at the next available meeting(s) of the appropriate City Council committee(s) and forward it to City Council for review and approval immediately thereafter.

Council File No. 04-0777
Council File No. 07-0883
Council File No. 08-2381
Council District Citywide
Contact Persons:
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II. The City Council request that LAHD work with the City Attorney to amend the Los Angeles Municipal Code pursuant to the recommendations contained in this report and summarized below:

- Reduce the floor for the RSO annual rent adjustment from 3% to 2% and increase the ceiling from 8% to 9%
- Eliminate the 1-2% utility surcharge for master metered properties
- Establish a Utility Adjustment Surcharge to be added to the CPI for determination of the annual adjustment, including a specific Utility Adjustment Surcharge for master metered properties
- Revise the Just and Reasonable (J&R) application process to facilitate its use by eligible landlords; amend the RSO to make the J&R appeals process consistent with the appeals process for other allowable rent passthroughs
- Round the annual RSO rent adjustment to a tenth of a percentage
- Limit cost recovery for Primary Renovation Work to the Primary Renovation program
- Improve landlord cost recovery under the Primary Renovation program
- Enhance tenant protections under the Primary Renovation program
- Streamline the Tenant Habitability Plan process for landlords while enhancing protections for affected tenants
- Improve landlord cost recovery under the Capital Improvement program
- Provide landlords greater flexibility in the pass through of the RSO fees
- Update the Luxury Exemption provisions of the RSO
- Increase the annual RSO fees by \$1.29 to hire a limited number of additional staff
- Enact the administrative fees for the Tenant Habitability Program and the appeals hearings for Just and Reasonable, Capital Improvement, Primary Renovation and Luxury Exemption applications

III. The Mayor concur with the action of the City Council.

BACKGROUND

The City Council adopted the RSO in May 1979 to safeguard tenants from excessive rent increases while providing landlords with just and reasonable returns from their rental units. Over 630,000 Los Angeles residential units are subject to the RSO. Pursuant to Council instructions, on June 13, 2007, LAHD executed a contract with the Economic Roundtable, a non-profit, public benefit corporation, selected through a competitive process, to complete an economic study of the RSO and the local housing market. On June 25, 2009, LAHD submitted a transmittal setting forth the major findings of the Rent Study, together with LAHD's recommendations based on its review of the Study and the

consultant's recommendations, including proposed amendments and changes to the administration of the RSO. On September 22, 2009, LAHD submitted a separate report for changes to the Tenant Habitability Program, the Primary Renovation Program and the Capital Improvement Program, based in large part on the findings and recommendations of the Rent Study.

RECOMMENDATIONS

I. Fair and Reasonable Annual Rent Adjustment

A. CPI based Annual RSO Rent Adjustment with an Appropriate Floor and Ceiling to Protect Landlords and Tenants

The RSO's purpose is to safeguard tenants from excessive rent increases while providing landlords with a just and reasonable return from their rental units. When Los Angeles adopted the RSO, it adopted rent stabilization in lieu of rent control. This allowed landlords to raise rents to market rate when a tenant voluntarily moved out. The Council also adopted a floor and a ceiling for the CPI-based annual adjustments to moderate the fluctuations in the CPI. The Council set a floor of 3% and a ceiling of 8%. Since the RSO's adoption, the CPI has fluctuated from 0% to 16%, with the CPI below the 3% floor in 8 years (including this year) and above the ceiling in 3 years. The current CPI rate for the 2010 rent adjustment is 0%.

Percentage Increase Over Prior Year - CPI All Items							
Year		Year		Year		Year	
1979	9%	1987	4%	1995	2%	2003	3%
1980	16%	1988	5%	1996	2%	2004	3%
1981	11%	1989	5%	1997	2%	2005	4%
1982	8%	1990	6%	1998	2%	2006	5%
1983	2%	1991	5%	1999	2%	2007	3%
1984	4%	1992	4%	2000	3%	2008	4%
1985	5%	1993	3%	2001	4%	2009	0%
1986	4%	1994	2%	2002	3%		

The Study finds the CPI to be the best objective measure of the increase in costs. Nearly all other California rent control jurisdictions, including the larger municipalities of Oakland and San Francisco, base their annual rent adjustment on the CPI. Some of these jurisdictions base their annual adjustment on a percentage of the CPI (usually 65-75%) based on historical and political considerations at the time of these cities' adoption of their rent control ordinances. LAHD fails to find an appropriate policy basis for expansion of the discounted CPI to the Los Angeles RSO. Accordingly, LAHD concurs with the findings of the Rent Study that the use of the full CPI is the best economic benchmark for setting rent increases, and the means by which the annual adjustment should continue to be determined in order to protect tenants from excessive rent increase while providing landlords with a fair rate of return on their investments. Since the RSO moderates the impact of fluctuations in the CPI through a floor and a ceiling, LAHD also recommends modification of the RSO's floor and ceiling from 3% and 8%, respectively, to 2% and 9%. The modified floor and ceiling more accurately capture the fluctuations of the CPI as they have occurred in the 30 years of the RSO. Had the proposed change been in effect during the course of the RSO, there would have only been three outlier years: two years of high inflation thirty years ago and the unprecedented deflation in prices which occurred as a result of the current recession last year.

B. Utility Adjustment Surcharge

At the public hearings convened for consideration of the Rent Study, many landlords testified that a CPI based adjustment, without the 3% floor, does not accurately reflect the rate of inflation for utility expenses incurred by landlords in the City of Los Angeles. They specifically referenced recent increases in the rates of the Department of Water and Power, and the likelihood of future increases as utilities shift to cleaner sources of energy and adopt more stringent requirements on the use of water. Accordingly, LAHD proposes adoption of a Utility Adjustment Surcharge (UAS) to be automatically added annually, when applicable, to the CPI for the determination of the annual adjustment. The UAS shall be based on the rate of inflation above the CPI for electricity, gas, water and sewer, and trash. The UAS shall consist of the utility rate of inflation in excess of the CPI multiplied by the measure of the utilities as a component of apartment building expenses, as indicated in the annual findings of the Institute of Real Estate Management (IREM). Attachment 1 provides a sample calculation of the Utility Adjustment Surcharge. Attachment 2 provides the calculation for the corresponding annual adjustment comprised of the CPI and the UAS with a 2% minimum floor.

Consistent with the findings of the Rent Study, LAHD recommends elimination of the RSO's current 1-2% utility surcharge for master-metered buildings where landlords pay for tenants' gas and electricity bills. The Rent Study urged the elimination of this surcharge because it did not accurately reflect the increased costs incurred by landlords who paid for the master-metered utilities. The 1-2% surcharge provides an annual rent increase essentially predicated on the notion that utilities constituted 100% of the expenses for a property, a finding significantly at odds with IREM's industry data. The existing surcharge provides those landlords with an inaccurate rent adjustment. LAHD, therefore, concurs with the Study consultants in recommending its elimination. Instead, LAHD recommends a separate UAS for master-metered properties based on the actual rate of inflation for utilities in excess of the CPI multiplied by the measure of the utilities as a component of master-metered apartment building expenses, as indicated in IREM's annual findings. Attachment 3 provides a sample calculation of the Utility Adjustment Surcharge for master-metered properties. Attachment 4 provides the calculation for the corresponding annual adjustment comprised of the CPI and the UAS for master-metered properties with a 2% minimum floor.

C. Just and Reasonable Rent Adjustments

In order to ensure landlords a fair return on their investments, the RSO provides for a Just and Reasonable (J&R) increase in rent when the landlord can show that the RSO's annual adjustments have resulted in a net decrease in revenue adjusted for inflation. Typically, J&R applicants are heirs who inherit RSO properties where the prior landlord did not increase the rent for a significant number of years notwithstanding increased expenses. They also consist of newer property owners who purchased a property where a spike in expenses, including property taxes, results in a net loss of revenue. Unlike utility inflation, increases in insurance, maintenance costs or property taxes are specific to the circumstances of an individual property.

Currently, very few landlords take advantage of the process. During the public hearings, certain landlord advocates testified that many landlords were not familiar with the process, or found it unduly cumbersome. The Rent Study itself recommended that LAHD publicize the process to landlords who would qualify for a J&R increase.

LAHD concurs with the Rent Study recommendations. LAHD will revise the existing J&R application process to facilitate its use by eligible landlords who have suffered a net loss of revenue as a result of a

spike in expenses, such as property taxes or insurance. LAHD will also publicize the J&R process through its landlord tenant outreach program, and in other communication to landlords. As a result, landlords who incur a net loss of revenue despite the annual adjustments may apply for an increase in rent based on the J&R process.

LAHD recommends modification of the J&R appeals process to make it consistent with that of the Capital Improvement Program by having LAHD issue a determination based on the evidence submitted. Parties who object may then appeal LAHD's determination to a hearing officer who will issue the final administrative decision. LAHD recommends adoption of an administrative fee for the appeals hearings in the amount of \$450 (Attachment 5). The fee shall be waived for low income appellants pursuant to Los Angeles Municipal Code (LAMC) Section 151.14.C.

D. Round the Annual Adjustment to a Tenth of a Percentage

In order to more accurately reflect the increase in the CPI and utility inflation, LAHD recommends amendment of the RSO to provide that the annual adjustment be calculated in terms of a tenth of a percentage, instead of rounding to whole numbers under the current provisions.

II. Enhanced Cost Recovery for Landlords and Protections for Tenants for Improvements to RSO Properties

In order to encourage landlord investment in the City's rental housing stock, the RSO provides for increases in rent, beyond the CPI based annual adjustments, for improvements to the property. The Council has amended the rent increase provisions for improvements on multiple occasions, most recently in 2005 when it adopted a new Primary Renovation Ordinance and a Tenant Habitability Ordinance. Currently, the law provides landlords with two different cost recovery programs: Capital Improvement and Primary Renovation. The law also seeks to protect tenants from the habitability impacts of renovation and constructive eviction through the Tenant Habitability Program. In its September 22, 2009 transmittal, LAHD submitted a set of recommendations to improve these programs in order to enhance cost recovery for landlords and protections for tenants. The recommendations were in alignment with those of the Economic Roundtable's Rent Study. After consideration of testimony and proposals in the subsequent public hearings, LAHD submits the following modified recommendations for amendments to these programs.

A. Clearly Defined Distinct Programs

Pursuant to its recommendations in its September 22, 2009 report, LAHD recommends modification of the Primary Renovation and Capital Improvement Programs to make them clearly defined programs distinguished based on the scope of the proposed work. Primary Renovation was intended for systematic improvements to a building, or for abatement of hazardous materials. The scope of work for primary renovation often results in significant habitability impacts to tenants which the landlord can mitigate through a Tenant Habitability Plan. Since primary renovation involves large scale renovations that modernize the building's systems, the program should also allow for greater percentage of recovery by landlords to enable the financing of the improvements. The Capital Improvement provisions, on the other hand, apply to any improvements to a building or unit that have a useful life of five or more years. By distinguishing Capital Improvements as all non-systematic improvements (such as painting or appliances), cost recovery need not require compliance with a Tenant Habitability Plan. LAHD, therefore, recommends amendment of the RSO to provide for exclusive cost recovery for primary renovation work through the Primary Renovation program. LAHD further recommends amendment of the RSO to define capital improvements as any improvement that has a useful life of five years or more which does not constitute primary renovation work.

B. Improve Landlord Cost Recovery for Primary Renovation Work

LAHD's September 22, 2009 transmittal indicated that few landlords have availed themselves of the Primary Renovation program. The Study recommended modification of amortization and cost recovery rates to incentivize systematic improvements to the City's rental stock. LAHD concurs with the recommendations for improved cost recovery for primary renovation work (Attachment 6), specified as follows:

- i. Decrease the amortization period from 15 years to 10 years;
- ii. Allow for full recovery of eligible costs within 10 years instead of 15;
- iii. Remove the bar on multiple primary renovation applications in a five year period to encourage systematic improvements to the rental housing stock;
- iv. Provide a clearly defined numerical cap of \$110, instead of the current 10% cap based on varying rents of individual tenants, in order to allow for easier planning and financing of the project;
- v. Increase the cap annually based on the increase in the CPI; the cap in any given year shall apply to all projects approved in that year through the full term of cost recovery for the given project;
- vi. The surcharge period of 10 years may be extended until the allowable primary renovation expenses are fully recovered if the surcharge exceeds the numerical cap which applies in the year of the surcharge's approval.

LAHD recommends adoption of an administrative fee for appeals hearings in the amount of \$450. The fee shall be waived for low income appellants pursuant to Los Angeles Municipal Code (LAMC) Section 151.14.C. LAHD further recommends development of a program for a pre-application review and consultation with LAHD staff to assist landlords in planning property improvements, estimating cash flow and obtaining financing. LAHD also recommends establishment of an on-line application process to facilitate the use of the program by landlords.

C. Enhance Tenant Protections for Primary Renovation Work

The scale and scope of primary renovation work often results in habitability impacts for tenants of a subject building. The Council adopted the Tenant Habitability Program to mitigate these impacts and to protect tenants from constructive eviction. LAHD's recommendation to restrict cost recovery for systematic improvements and hazard abatement to the primary renovation program protects tenants by conditioning cost recovery upon compliance with the Tenant Habitability Program.

In accordance with the Rent Study's recommendations, LAHD proposes amendment of the cost recovery provisions of the Primary Renovation Program to incentivize landlord investments in the building systems of the City's RSO housing stock and to abate hazardous materials such as asbestos and lead. LAHD's proposal for an improved cost recovery scheme, however, does not impose an undue burden on tenants. As indicated in the attached table, the monthly rent burden for primary renovation under the proposed scheme is no higher than the burden tenants currently face under the current Capital Improvement provisions.

LAHD further recommends modification of the primary renovation rent adjustment to a surcharge that terminates upon full cost recovery in 10 years in order to make the program consistent with the provisions of the Capital Improvement Program. LAHD also recommends maintaining a cap for primary renovation work, including a lifetime cap for low income tenants, modified to a dollar cost, \$110, in order to simplify the primary renovation application process, while continuing to protect tenants from unaffordable rent surcharges.

D. Streamline Tenant Habitability process for Landlords

The Council adopted the Tenant Habitability Program in 2005 to mitigate the habitability impacts of primary renovation work on tenants and to prevent constructive evictions. Based on its five year review of the program and the testimony and proposals submitted by landlord advocates in the Rent Study hearings and meetings, LAHD submits the recommendations below to streamline the Tenant Habitability Program:

- i. Shorten the waiting period for commencement of improvements from the current 60 days to 30 days, or sooner if LAHD determines that a delay poses a substantial health or safety risk to the occupants of a subject building;
- ii. Ensure communication between parties as part of the approval process in order to avoid subsequent delays by:
 - Requiring landlord's submission of applicable forms for review and approval by affected tenants;
 - Providing for LAHD review of the adequacy of the landlord's proposed measures if the parties fail to reach agreement;
 - Maintaining the parties' right to appeal LAHD's determination to accept a Plan to a Hearing Officer;
 - Establishing an administrative fee of \$227 for submission of THP's.
- iii. Maintain the current prohibition on cost recovery under Primary Renovation for properties that are placed in REAP, or where the landlord is convicted of misdemeanor code violations.

E. Enhance Tenant Protections in Tenant Habitability Plans

Based on its review of the Tenant Habitability Program, and the testimony and proposals submitted by tenant advocates, LAHD submits the recommendations below to enhance tenant protections in the Tenant Habitability Program:

- i. Preclude cost recovery under the Primary Renovation Program where the landlord has failed to comply with the Tenant Habitability Program;
- ii. Clarify that LAHD may deny rent adjustment under the Primary Renovation Program when the landlord, absent extenuating circumstances, commences primary renovation work prior to LAHD's acceptance of a Tenant Habitability Plan;
- iii. Provide tenants with the option to elect permanent relocation assistance whenever the primary renovation work impacts the habitability of their rental unit for 30 days or more;
- iv. Establish an administrative fee of \$61 for a monitoring program for implementation of an accepted Plan to ensure compliance.

F. Improve Landlord Cost Recovery for Capital Improvements without Imposing an Undue Burden on Tenants

In addition to improvements in landlords' cost recovery for primary renovation work, the Economic Roundtable recommended improvements to the cost recovery provisions of the Capital Improvement Program. Based on the recommendations of the Rent Study, and the testimony and proposals submitted by landlords and tenants in public hearings and meetings, LAHD proposes the following amendments to the RSO's Capital Improvement Program:

- i. Increase the percentage of cost recovery from 60% to 75%;

- ii. Increase the \$55 cap annually based on the CPI; the cap in any given year shall apply to all of the projects approved in that year for the full term of cost recovery for the given project;
- iii. Increase the amortization period from 5 years to 10 years to make it consistent with the proposed change in the Primary Renovation Program as well as offset the rent burden on tenants;
- iv. Allow for cost recovery over a 10 year period, instead of the current 6 years, to allow for the fact that long term tenants shall avail themselves of the improvements during the entire amortization period (Attachment 6).

LAHD recommends adoption of an administrative fee for appeals hearings in the amount of \$450. The fee shall be waived for low income appellants pursuant to Los Angeles Municipal Code (LAMC) Section 151.14.C. LAHD further recommends development of a program for a pre-application review and consultation with LAHD staff to assist landlords in planning property improvements, estimating cash flow and obtaining financing. LAHD also recommends establishment of an on-line application process to facilitate the use of the program by landlords.

III. Improvements to the RSO's Administration

The Rent Study, as well as landlord and tenant advocates, proposed additional recommendations to improve the administration of the RSO. After reviewing the proposals, LAHD submits the following assessments for the Council's consideration:

A. Flexible RSO Fee Passthrough Provisions for Landlords

LAHD recommends amendment of the RSO to provide landlords with greater flexibility in the pass through to tenants of their portion of the RSO fee. Landlords may pass 50% of the annual RSO fees to tenants. However, current law requires landlords to charge tenants their portion of the fees in the month of June or lose their right to the pass through. LAHD recommends that landlords be allowed to pass through the tenants' share of the RSO fees on a pro-rated basis monthly throughout the year.

B. Forgo a Costly and Burdensome Rent Registration System

The Rent Study recommended establishment of a rent registration system to deter unlawful rent increases on tenants in RSO properties. Accordingly, tenant advocates have strongly supported this recommendation. LAHD, however, opposes this recommendation as a costly regulation whose benefits do not warrant its imposition.

When California municipalities adopted rent control laws in the 1970s, smaller jurisdictions such as Berkeley, Santa Monica, and later West Hollywood, adopted vacancy control measures which set the price of rent based on the initial rent of a unit at the time of the adoption of the rent control law. Accordingly, these cities established a system for the registration of rent to ensure compliance with the stringent vacancy control rent limits. Los Angeles, however, along with the other larger rent control jurisdictions, San Francisco and Oakland, never adopted vacancy control. In these cities, rents were always reset to market rates when a tenant voluntarily vacated a unit. Accordingly, none of these cities adopted a rent registration system. Eventually, the state legislature prohibited vacancy control through the passage of the Costa Hawkins Bill in 1995. The smaller rent control jurisdictions no longer have vacancy control but still maintain their rent registration systems.

Despite the absence of vacancy control in Los Angeles, the Rent Study urges the Council's adoption of a rent registration system 30 years after the enactment of the RSO, and in a City with 30 times more units. By comparison, Santa Monica has approximately 28,000 rental units and West Hollywood has 15,000. The proposed system would require Los Angeles landlords to register the initial rents, and subsequent rents, for over 600,000 rental units. LAHD estimates that adoption of such a system would take at least a year for development of systems and staffing. It would also require a minimum of 22 additional LAHD staff positions at a cost of over \$2,000,000 at a time when the City is eliminating vital services delivered by other City agencies to balance the budget and trim pension costs. The start up costs of the system is estimated at an additional \$900,000. The economy of scale in a city the size of Los Angeles allows for a greater sharing of the cost of the system. Nevertheless, the estimated costs would also require an increase in the annual registration fee by a minimum \$3.19 per unit.

The Rent Study urges adoption of the rent registration system to deter unlawful rent increases. Los Angeles, however, already has developed a corps of rent investigators to investigate any alleged violation of the RSO in collaboration with the City Attorney. Currently, Los Angeles is unique in employing 20 full time Rent Investigators whose classification was adjusted by the Council to ensure their legal training. During 2009, approximately 2,000 RSO violations cases filed were based on unlawful rent increase; this represents only 0.3% of all RSO units. Based on its review of the merits and costs of this proposal, LAHD urges the Council to reject the recommendation for a rent registration system for Los Angeles.

C. Forgo a Proposal to Permit Banking of Rent Increases

The Rent Study recommended amendment of the RSO to permit banking of rent increases by landlords. The proposal would allow landlords to defer the annual adjustment for one or more years and impose it in a subsequent year. The Rent Study recommended banking conditioned on the establishment of a rent registration system. Since LAHD opposes establishment of a rent registration system, LAHD also opposes the adoption of rent banking provisions for the RSO. Tracking and enforcement of banking provisions could not occur without a rent registration system, and even then would complicate the investigation and verification of the actual lawful rent for a unit.

Banking is also not sound public policy. The Rent Study indicates that the majority of RSO tenants are rent-burdened and expend a large percentage of their income on rent. One of the principal benefits of the RSO is that it moderates rent increases during inflationary periods. Allowing landlords to impose banked increases at one time exposes tenants to unanticipated and steeper rent increases than the rent levels they already have difficulty managing. This burden will most adversely impact families with children, and seniors and the disabled on fixed incomes.

D. Forgo an Impractical Proposal to Base the RSO on Means Testing

LAHD also opposes another amendment proposed by landlord advocates, to condition RSO protections on means testing of the tenants. Means testing can only be considered in a practical sense if the City established the rent registration system opposed by LAHD. However, the administrative complexity of means testing will constitute an administrative burden even more onerous than that of a rent registration system. LAHD simply lacks the capacity to verify and monitor incomes of tenants and their families in over 600,000 RSO units. The establishment of such a system would require an even greater expenditure in staffing and costs than those associated with the rent registration system. Means testing would also involve legal complexities, including requiring tenants to divulge confidential income information to landlords and government agencies merely to exercise their rights under the RSO.

Means testing is also not sound public policy. Establishment of a threshold income test would incentivize market discrimination against middle class residents. Tenants immediately below any threshold may be disfavored and subject to discrimination simply based on their income. Accordingly, no other California jurisdiction has ever adopted means testing as a condition of rent control eligibility. Instead of the discriminatory and administratively onerous complexity of means testing, LAHD recommends that the Council update the luxury exemption provisions of the RSO.

E. Update the RSO's Luxury Unit Exemption Rents

When the Council adopted the RSO in 1979, luxury units renting at specified levels on a date prior to the enactment of the Ordinance were exempted. The RSO authorized the Rent Adjustment Commission (RAC) to set the rents for the luxury exemption. LAHD recommends amendment of the RSO luxury exemption provisions to update the applicable date for qualification for an exemption. By adjusting the existing luxury exemption rents for housing inflation, the threshold rents today would be as follows:

- \$1,676 for a studio
- \$2,331 for a one bedroom
- \$3,263 for a two bedroom
- \$4,196 for a three bedroom
- \$4,568 for four or more bedrooms

Landlords could apply for luxury exemption of units which rented at the above amounts as of May 31, 2010. LAHD recommends adoption of an administrative fee for appeals hearings in the amount of \$450. The fee shall be waived for low income appellants pursuant to Los Angeles Municipal Code (LAMC) Section 151.14.C.

E. Limited Number of Additional Personnel to Improve Services

In order to improve services to landlords and tenants and meet the additional demand that will be generated by the proposed changes, LAHD recommends an increase in the annual RSO fee by \$1.29 to hire a limited number of additional staff as follows:

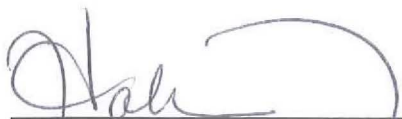
- 3 Management Analysts to process the increased volume of Luxury Exemption, Just and Reasonable, Capital Improvement and Primary Renovation applications due to the proposed changes in the RSO within mandated timeframes and to conduct outreach and trainings to landlords regarding these programs
- 2 Customer Information Representatives to respond to the increased volume of landlord and tenant inquiries to LAHD as a result of the proposed changes to the RSO and the outreach to landlords and tenants
- 2 Housing Investigators to respond to the increased volume of tenant complaints as a result of the proposed changes to the RSO and the outreach to landlords and tenants

FISCAL IMPACT

There is no impact on the General Fund.

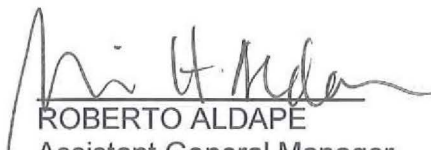
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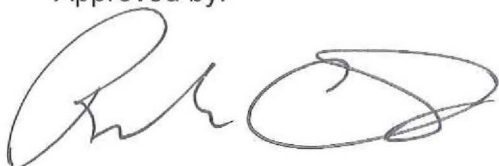
HAKHAMANESH MORTEZAIE
Chief General Manager's Hearing Officer
Regulatory Compliance & Code Bureau

Reviewed by:



ROBERTO ALDAPE
Assistant General Manager
Regulatory Compliance & Code Bureau

Approved by:



RUSHMORE CERVANTES
Executive Officer

Approved by:



DOUGLAS GUTHRIE
General Manager

Utility Adjustment Surcharge - INDIVIDUALLY METERED BUILDINGS					
Utility	2009 IREM - Operating Expense Ratio to Gross Rent (A)	Percent Change in Utility Costs⁴ (B)	Percent Change in the CPI 2010 (C)	Difference Between the Change in the CPI and the Change in Utility Costs (B) - (C) = (D)	Proposed Utility Adjustment Surcharge (A)X(D)=(E)
Trash	0.0231 ⁽¹⁾	24.45% ⁽⁵⁾	-0.62%	25.07%	0.58%
Electricity	0.00802 ⁽²⁾	9.41%	-0.62%	10.03%	0.08%
Water & Sewer	0.02402 ⁽³⁾	13.02%	-0.62%	13.64%	0.33%
Gas	0.01502 ⁽²⁾	-40.29%	-0.62%	-39.67%	-0.60%
TOTAL					0.4%

1. City of Santa Monica, *Annual General Adjustment 2010 Apartment Operatin Cost Increases (March 2009 - March 2010)* May 17, 2010, Table A, p. 13.

2. IREM 2009 Metropolitan Area Report, Los Angeles, CA, Garden Type Buildings, MED Percent of Gross Possible Income for common areas only, p. 77.

3. IREM 2009 Metropolitan Area Report, Los Angeles, CA, Garden Type Buildings, MED Percent of Gross Possible Income for common areas and apartment units, p. 77.

4. Changes in utility costs are based on 2008 and 2009 calendar year data obtained from the Southern California Gas Company, the City of Los Angeles' Department of Water and Power and the City of Los Angeles' Bureau of Sanitation.

5. The cost includes refuse, recycling and green waste services.

Rent Scenarios - 2% Floor - Individually Metered										
Rental Rate	Current System			Proposed System						
	Current RSO Floor	RSO Rent with the Current 3% Floor (H)		Proposed Utility Adjustment Surcharge - Individually Metered 2010 (E)	Percentage Change in the CPI 2010 (C)	Total Change in Utility and Rent Costs for 2010 (E) + (C)	Proposed RSO Rent and Utility Adjustment Floor - 2% (F)	TOTAL LAHD Utility and Rent Adjustment Passthrough with a 2% Floor	New RSO Rent Under the Proposed System (G)	Economic Impact (H) - (G)
\$1,000	3%	\$1,030		0.4%	-0.62%	-0.22%	2.0%	2.0%	\$1,020.00	-\$10.00
\$1,500	3%	\$1,545		0.4%	-0.62%	-0.22%	2.0%	2.0%	\$1,530.00	-\$15.00
\$2,000	3%	\$2,060		0.4%	-0.62%	-0.22%	2.0%	2.0%	\$2,040.00	-\$20.00

Utility Adjustment Surcharge - MASTER METERED BUILDINGS					
Utility	2009 IREM - Operating Expense Ratio to Gross Rent (A)	Percent Change in Utility Costs ³ (B)	Percent Change in the CPI 2010 (C)	Difference Between the Change in the CPI and the Change in Utility Costs (B) - (C) = (D)	Proposed Utility Adjustment Surcharge (A)X(D)=(E)
Trash	0.0231 ⁽¹⁾	24.45% ⁽⁴⁾	-0.62%	25.07%	0.58%
Electricity	0.01100 ⁽²⁾	9.41%	-0.62%	10.03%	0.11%
Water & Sewer	0.02402 ⁽²⁾	13.02%	-0.62%	13.64%	0.33%
Gas	0.01700 ⁽²⁾	-40.29%	-0.62%	-39.67%	-0.67%
TOTAL					0.3%

1. City of Santa Monica, *Annual General Adjustment 2010 Apartment Operatin Cost Increases (March 2009 - March 2010)* May 17, 2010, Table A, p. 13.

2. IREM 2009 Metropolitan Area Report, Los Angeles, CA, Garden Type Buildings, MED Percent of Gross Possible Income for common areas and apartment units, p. 77.

3. Changes in utility costs are based on 2008 and 2009 calendar year data obtained from the Southern California Gas Company, the City of Los Angeles' Department of Water and Power and the City of Los Angeles' Bureau of Sanitation.

4. The cost includes refuse, recycling and green waste services

Rent Scenarios - 2% Floor - Master Metered										
Current System			Proposed System							
Rental Rate	Current RSO Floor	RSO Rent with the Current 3% Floor (H)		Proposed Utility Adjustment Surcharge - Master Metered 2010 (E)	Percentage Change in the CPI 2010 (C)	Total Change in Utility and Rent Costs for 2010 (E) + (C)	Proposed RSO Rent and Utility Adjustment Floor - 2% (F)	TOTAL LAHD Utility and Rent Adjustment Passthrough with a 2% Floor	New RSO Rent Under the Proposed System (G)	Economic Impact (H) - (G)
\$1,000	3%	\$1,030		0.3%	-0.62%	-0.32%	2.0%	2.0%	\$1,020.00	-\$10.00
\$1,500	3%	\$1,545		0.3%	-0.62%	-0.32%	2.0%	2.0%	\$1,530.00	-\$15.00
\$2,000	3%	\$2,060		0.3%	-0.62%	-0.32%	2.0%	2.0%	\$2,040.00	-\$20.00

Attachment 5

APPEALS COST

HEARING OFFICER				
	Hearing Fee*	\$200		
	Written Report Fee*	\$200		
Total Hearing Officer Fee				\$400
LAHD STAFF		Salary/hr.		
LAHD Staff Analyst – Management Analyst I	1 hr	\$33.86	\$34	
LAHD Clerical Support – Clerk Typist	20 min.	\$22.10	\$7	
Sr. Review – Sr. Management Analyst I	15 min.	\$47.55	\$12	
Total LAHD Staff Cost				\$53
TOTAL DIRECT COST PER HEARING				\$453

* Note: Appeals Hearings are heard by independent contractors whose fees are set by contract.

50% of eligible costs / 60 mos.; \$55 cap; 72 month cost recovery

Table II

75% of eligible costs / 120 mo.; \$55 cap

Table III

100% 180 mo.; Increase part of Maximum Adjusted Rent; presumes 3% annual RSO Increase

Table IV

100% 120 mo.

													\$/RSO Unit