

**REPORT OF THE
CHIEF LEGISLATIVE ANALYST**

DATE: September 11, 2018

TO: Honorable Members of the Rules, Elections & Intergovernmental Relations Committee

FROM: Sharon M. Tso
Chief Legislative Analyst

Council File No: 18-0002-S98
Assignment No: 18-08-0795

SUBJECT: Resolution to Support Proposition 10

CLA RECOMMENDATION: Adopt Resolution (Bonin – Harris-Dawson) to include in the City’s 2017-2018 State Legislative Program, SUPPORT for Proposition 10 which would repeal the Costa-Hawkins Rental Housing Act to allow cities and counties to have more flexibility in governing the affordable housing needs specific to their communities.

SUMMARY

The Resolution (Wesson - Cedillo), introduced August 1, 2018, advises that Los Angeles is in the midst of a severe housing affordability crisis in which the median rent for a two bedroom apartment is unaffordable to a resident making the median household income. The Costa-Hawkins Rental Housing Act (Costa-Hawkins) was signed into law by Governor Pete Wilson in 1995 and limits the ability of California cities to implement rent control for single family homes, condominiums, and any residential rental units issued a certificate of occupancy after February 1995. Costa-Hawkins has prevented the City of Los Angeles from expanding its own rent control law to units constructed after 1978. The Resolution further advises that Costa-Hawkins prevents cities from implementing “vacancy control” which enables landlords to raise rental rates without restriction after a unit is vacated.

Proposition 10 is an initiative on the November 6, 2018 statewide ballot known as the Affordable Housing Act, which would repeal the Costa-Hawkins Rental Housing Act. The repeal of Costa-Hawkins would provide cities and counties with the option to adopt rent and vacancy control ordinances. Proposition 10 would provide the tools necessary to local governments to make the greatest impact in solving the housing affordability crisis.

The Resolution recommends that the City support Proposition 10 which would repeal the Costa-Hawkins Rental Housing Act to allow cities and counties to have more flexibility in governing the affordable housing needs specific to their communities.

BACKGROUND

Proposition 10, also known as the Affordable Housing Act, is an initiative placed on the November State ballot to repeal the Costa Hawkins Rental Housing Act (Costa-Hawkins).

Costa-Hawkins was signed into law in 1995, following the adoption of rent control laws throughout California in the 1970s and 1980s. It allows an owner of residential property to establish initial and all subsequent rental rates for a unit which:

- Has a certificate of occupancy issued after February 1, 1995; or
- Was already exempt from rent control prior to February 1, 1995; or
- Is a single-family home or condominium which tenancy began after January 1, 1996.

Costa-Hawkins also allows an owner to establish the initial rental rate of a unit which has had the previous tenancy terminated by the owner or upon a change in terms of the tenancy. This law preempts local rent control laws and prevents the expansion of rent control to newly constructed rental units. If approved, Proposition 10 would repeal Costa-Hawkins and give cities and counties the option to enact or expand rent control laws, but would not require them to do so. Proposition 10 would also codify a landlord's right to a fair rate of return, which is currently established by case law. Further, the repeal of Costa-Hawkins would allow for regulations on rental rate increases following the vacancy of a unit.


According to the State's Legislative Analyst's Office (LAO), passage of Proposition 10 could affect local tax revenues. The precise effects, including whether the effect will be an increase or decrease in overall tax revenues, are largely unknown and will be dependent on local actions in response to the potential approval of Proposition 10. Rent control could potentially lower property values of both the properties which are brought under rent control and surrounding properties. Lower property values would result in lower property tax revenue, collection of which is based on property value. Establishing rent control policies could also allow for lower rental rates and therefore allow renters to purchase more taxable goods, potentially increasing sales tax revenue. According to the LAO, the enforcement of newly enacted rent control laws would likely result in an increase in administrative costs for local governments.

The City of Los Angeles was one of the 14 cities to enact rent control ordinances prior to the passage of Costa-Hawkins. The Rent Stabilization Ordinance (RSO), adopted in 1978, places a restriction on rent by making it unlawful for a landlord to demand, accept, or retain more than the maximum adjusted rent pursuant to the RSO. The maximum adjusted rent as defined by the RSO is the highest legal monthly rental rate during April 1979 plus an allowable annual increase. The allowable annual increase, based on the Consumer Price Index, is determined and provided by Housing and Community Investment Department. The RSO also provides for control of initial rental rates following the vacancy of a unit under certain conditions as outlined in the RSO. The passage of Proposition 10 would allow the City to expand or otherwise amend the Rent Stabilization Ordinance.

Support for Proposition 10 is consistent with past City efforts to provide the expansion of the current stock of affordable housing and to allow communities to have flexibility in determining appropriate affordability requirements for housing, including support for actions to repeal Costa-Hawkins.

DEPARTMENTS NOTIFIED

Housing and Community Investment Department of Los Angeles


Andy Galan
Analyst

Attachments: 1. Resolution (Bonin – Harris Dawson)

RESOLUTION

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations or policies proposed to or pending before a local, state or federal governmental body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, like many other jurisdictions in California, Los Angeles is in the midst of a severe housing affordability crisis, where the current median rent for a two bedroom is \$3,200 a month, while the median household income is only \$51,538; and

WHEREAS, the Costa-Hawkins Rental Housing Act signed into law by Governor Pete Wilson in 1995 places significant limits on the ability of cities in California to implement rent control for any single family home or condominium, and any apartment constructed after February 1995; and

WHEREAS, Costa-Hawkins prohibits cities that established rent control laws prior to the Act's passage in 1995 from expanding rent control, and consequently, the City of Los Angeles cannot place rent control on apartments built after 1978; and

WHEREAS, Costa-Hawkins also prohibits cities from implementing "strict" rent control, known as "vacancy control," which enables landlords to raise the rental price to any amount following a tenant vacating a unit; and

WHEREAS, Proposition 10 is an initiative on the November 6, 2018 statewide ballot known as the Affordable Housing Act, which would repeal the Costa-Hawkins Rental Housing Act and enable a return to local control by allowing cities and counties to have more flexibility in governing the affordable housing needs specific to their communities; and

WHEREAS, Proposition 10 would provide cities and counties with the option to adopt reasonable rent control and vacancy control ordinances; specifically tailored towards the unique housing needs of their local jurisdiction; and

WHEREAS, local governments throughout the California have the greatest amount of influence in solving the housing affordability crisis, and Proposition 10 provides the tools necessary to make the greatest impact;

NOW, THEREFORE, BE IT RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles hereby includes in its 2017-2018 State Legislative Program SUPPORT for Proposition 10, the Affordable Housing Act, which would, if approved, repeal the Costa-Hawkins Rental Housing Act to allow cities and counties to have more flexibility in governing the affordable housing needs specific to their communities.

PRESENTED BY:

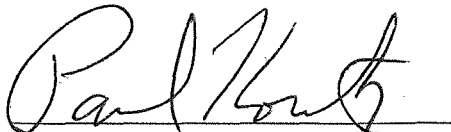


MIKE BONIN
Councilmember, 11th District



MARQUEECE HARRIS-DAWSON
Councilmember, 8th District

SECONDED BY:



AUG 01 2018