



MEMORANDUM

CSFRA, Community Development Department
Finance and Administrative Services Department

DATE: May 4, 2020

TO: Rental Housing Committee

FROM: Jesse Takahashi, Finance and Administrative Services Director
Anky van Deursen, Program Manager

SUBJECT: CSFRA Fiscal Year 2020-21 Proposed Budget

RECOMMENDATION

To review and provide feedback on the Fiscal Year 2020-21 Proposed Budget for the administration of the Community Stabilization and Fair Rent Act. The Fiscal Year 2020-21 Budget is scheduled for adoption at a meeting of the Rental Housing Committee (RHC) on June 1, 2020. The proposed annual Rental Housing Fee is calculated based on the Proposed Budget and will be established by the RHC.

INTRODUCTION AND BACKGROUND

On November 8, 2016, Measure V, otherwise known as the Community Stabilization and Fair Rent Act (CSFRA), was passed by the voters. The stated purposes of the CSFRA are “to promote neighborhood and community stability, healthy housing, and affordability for renters in the City of Mountain View by controlling excessive rent increases and arbitrary evictions to the greatest extent allowable under California law, while ensuring Landlords a fair and reasonable return on their investment and guaranteeing fair protections for renters, homeowners, and businesses” (Section 1700).

The CSFRA created a new program in the City of Mountain View, and requires dedicated resources for its development, implementation, and administration. Section 1709(d) of the CSFRA empowers the RHC to establish a budget for the reasonable and necessary implementation of the provisions of the CSFRA, and Section 1709(j) requires the RHC to finance its reasonable and necessary expenses, including, without limitation, engaging any staff as necessary to ensure implementation of the CSFRA, by charging landlords an annual Rental Housing Fee. On June 4, 2019, the RHC adopted its third CSFRA budget for Fiscal Year 2019-20 and set a Rental Housing Fee of \$101 per unit.

ANALYSIS

Fiscal Year 2020-21 is the third full fiscal year of operations, and the RHC and staff continue to evaluate and gather information to assess the appropriate level and most effective and efficient methods to implement the CSFRA. The mounting financial impact resulting from the life-threatening COVID-19 epidemic is evident in our community and will continue long after the pandemic itself has faded. While several measures have been enacted already to mitigate against economic impacts that many residents in our rent-stabilized community are facing due to work closures and job loss, landlords are also facing financial insecurity as some tenants are unable to pay their rent. It is unclear in the coming months how deep and widespread the economic impacts will be on the rental housing market. Presenting a pared-down CSFRA budget with resulting lower fees for landlords is another critical opportunity to ease the financial burden, while at the same time ensuring critical services are being maintained under the CSFRA. The CSFRA program might not be able to maintain the level of this year's proposed budget in following years, but staff deems the lower budget appropriate for the upcoming year, to aid in the recovery of our community.

The key expenditures of the CSFRA include, but are not limited to:

1. Staffing for the development, implementation, and administration of the CSFRA;
2. General operating costs, including RHC meetings and office expenses, as well as costs associated with education, outreach, and communications;
3. Third-party professional services; and
4. City resources/administrative support.

The RHC adopts a budget annually, and the Fiscal Year 2020-21 Proposed Budget is staff's best estimate of the costs for the program, taking into consideration experience of the past and current fiscal years as well as recent developments, such as the COVID-19 pandemic. The majority of the costs are ongoing program expenses. Future budgets and corresponding fees will be modified to reflect any updates to the program.

A comparison of the current year adopted and estimated, and the upcoming fiscal year Proposed Budget, follows (dollars in thousands):

	<u>2019-20</u> <u>Adopted</u>	<u>2019-20</u> <u>Estimated</u>	<u>2020-21</u> <u>Proposed</u>	Variance Proposed to <u>Adopted</u>
Revenues:				
Interest Earnings	\$ 2	\$ 14	\$ 8	\$ 6
Rental Housing Fees	1,545	1,453	1,256	(289)
Other Revenues	<u>0</u>	<u>18</u>	<u>0</u>	<u>0</u>
Total Revenues	1,547	1,485	1,264	(283)
Operating Expenditures	<u>1,754</u>	<u>892</u>	<u>1,650</u>	<u>(104)</u>
Operating Balance	(207)	593	(386)	(179)
General Fund Admin.	244	244	226	(18)
Self Insurance	11	11	13	2
Transfer to Comp Absences Reserve	-0-	-0-	4	4
Transfer to Equipment Replacement Reserve	<u>4</u>	<u>4</u>	<u>4</u>	<u>-0-</u>
Excess (Deficiency) of Revenues	(466)	334	(633)	(167)
Beginning Balance	1,158	1,158	1,492	334
Reserve/Rebudgets	<u>(384)</u>	<u>(402)</u>	<u>(450)</u>	<u>(66)</u>
Ending Balance	\$ <u>308</u>	\$ <u>1,090</u>	\$ <u>409</u>	\$ <u>101</u>

Fiscal Year 2019-20 Estimated Actuals

For Fiscal Year 2019-20, revenues are estimated at \$1.48 million, close to target with the adopted budget at \$1.55 million. Total expenditures are estimated at \$1.15 million, \$862,000 less than adopted, resulting from a temporary vacant position, less than anticipated need for hearing officers and facilitation services, tasks performed for and charged to the Housing and Neighborhood Services Division of the Community Development Department, lower than budgeted costs associated with petition hearings, lower than anticipated costs for litigation and IT system costs not completely spent, and \$146,000 is proposed to be carried over to next fiscal year.

Fiscal Year 2020-21 Proposed Budget

Both revenues and expenditures are proposed to be less than the current fiscal year Adopted Budget. In total, proposed expenditures are \$117,000 less than the current fiscal year. The components of the expenditures in the Fiscal Year 2020-21 Proposed Budget are as follows:

Staffing – \$736,000

Administration

The Fiscal Year 2020/21 proposed budget includes 4.0 FTEs: 1.0 Program Manager, 2.0 Administrative Analysts, and 1.0 Office Assistant (OA) II. The OAI position has been vacant part of this fiscal year, and recruitment for this position is currently pending.

Legal

In addition to the administrative staff, the City Attorney's Office has provided legal services to the RHC since its inception for CSFRA and RHC matters. This Office participates on an as-needed basis and assists in the preparation of the agenda; drafts and reviews agenda reports; oversees litigation matters; and responds to inquiries of landlords and tenants regarding the CSFRA. It also assists in public record requests. As discussed later in this report, outside legal services are also retained to provide subject matter expertise and assist in the drafting of needed regulations.

Translations

The City Manager's Office has provided translation services to the CSFRA program since its inception. These services include simultaneous translations in meetings and workshops, as well as translation of brochures, forms, flyers, and other outreach materials in both Spanish and Mandarin. Since these translations are being performed by City staff, the cost of these services has been moved under staffing (previously Professional Services).

General Operating – \$173,500

General Operating Expenses include program expenditures related to office operations, communications, outreach efforts, and cost of materials for RHC meetings. Examples of such cost items include development, printing, mailing, and postage of outreach materials such as newsletters, postcards, flyers, and resource guides; RHC agenda packets and materials; office equipment and office supplies; noticing for meetings; education and workshops; outreach materials; and training costs.

These costs are about \$30,000 less than the previous Adopted Budget, due to work already performed in previous years, developing outreach materials, templates, and forms.

Third-Party Professional/Technical Services – \$555,000

The Fiscal Year 2020-21 Proposed Budget includes the following contract cost projections for these third-party professional/technical services:

Outside Legal Services (\$175,000). The law firm of Goldfarb and Lipman continues to provide expert legal services to the RHC. These services include drafting and reviewing agendas and staff memos for the RHC meetings, drafting, and updating rules and regulations to implement the CSFRA, regular presentations to the RHC regarding agenda items; reviewing materials related to the CSFRA, including forms and petitions; providing legal advice; compliance and enforcement; Hearing Officer training; drafting RHC decisions on appeal and researching and analyzing Best Practices in other California rent-stabilized cities and utilizing the findings to inform the development and implementation of an effective CSFRA.

It is anticipated that an average amount of 49 hours is needed each month to cover RHC meetings (attendance at meetings, agenda review, drafting of staff reports, and review of staff reports), legal advice on implementation and administration of the CSFRA, drafting or revising of regulations, and petition hearing oversight.

Hearing Officer Services (\$100,000). The Hearing Officers continue to provide petition hearing services in accordance with adopted rules and regulations. The Proposed Budget includes a projection of 40 Tenant petitions at an average of \$1,000 per case and 10 Landlord petitions at an average of \$6,000 per case.

Litigation (\$125,000). The CSFRA is still the subject of two lawsuits regarding the application of the CSFRA (*Mariel Bolhouse and Tim Larson v. Rental Housing Committee and City of Mountain View, et al.*, Santa Clara County Superior Court Case 18CV325875, and *Redwood Villa, Inc. v. City of Mountain View, Rental Housing Committee and Does 1 through 20 inclusive*, Santa Clara Superior Court Case 18CV322991). Although actual litigation costs for the current fiscal year are expected to be no more than \$45,000, the Fiscal Year 2020-21 Proposed Budget includes \$125,000 for litigation and would be used to pay legal expenses related to lawsuits.

Mountain View Rental Housing Helpline (\$125,000). To provide first point of contact services for all stakeholders regarding CSFRA inquiries through dedicated phone line/

e-mail/online access as well as walk-in office hours with services in English and Spanish. These services also provide counseling and education regarding rights and responsibilities under the CSFRA, and conciliatory services between tenants and landlords. The Proposed Budget includes funding for 40 hours per week at \$60 per hour.

Prehearing Settlement Conference Services (\$10,000). To provide prehearing settlement facilitation services, potentially reducing demands for formal hearings. The Proposed Budget includes funding for approximately 25 cases at \$400 per case.

Tenant Relocation Services (\$5,000). To provide counseling and process services as well as neutral third-party income eligibility determination for tenant relocation assistance under the CSFRA and Tenant Relocation Assistance Ordinance (TRAO). The Proposed Budget includes funding for approximately 17 cases at \$300 per case.

Facilitation Services (\$5,000). Facilitation services are utilized for ongoing educational workshops as well as for input gathering at stakeholder meetings for landlords, tenants, and other stakeholders. The Proposed Budget includes funding for 25 hours at \$200 per hour.

Data Services (\$6,000). CSFRA staff uses a data service (Costar) to track various data points throughout the year and shares half the cost of a contract with another Community Development Division.

KMVT (\$4,000). KMVT broadcasts RHC meetings, which can also be viewed through Legistar.

The costs comparisons are (dollars in thousands):

	<u>2018-19</u> <u>Adopted</u>	<u>2019-20</u> <u>Adopted</u>	<u>2020-2021</u> <u>Proposed</u>	Variance <u>Proposed to</u> <u>Adopted</u>
Professional Services:				
Legal	\$200	\$200	\$175	\$ (25)
Hearing Officers	250	200	100	(100)
Litigation	200	150	125	(25)
Helpline	125	125	125	-0-
Prehearing	20	15	10	(5)
Relocation	10	5	5	-0-
Facilitation	5	5	5	-0-
Data Services	<u>0</u>	<u>0</u>	<u>6</u>	<u>6</u>
 Total	 <u>\$818</u>	 <u>\$704</u>	 <u>\$555</u>	 <u>\$(149)</u>

Information Technology – \$185,400 (\$146,400 rebudget)

The Fiscal Year 2020-21 Proposed Budget for Information Technology software development consists of a rebudget of the estimated remainder of the Fiscal Year 2019-20 budget for the database system amounting to \$146,400. The implementation of the database system is progressing, with several phases launched, but subsequent phases will not be completed prior to the end of the current fiscal year. Therefore, the remainder is proposed to be rebudgeted for Fiscal Year 2020-21 and will not impact the fee calculated for Fiscal Year 2020-21. The proposed ongoing expense of \$39,000 covers the annual software license for the database.

City Resources/ Administrative Support – \$246,300

Many of the items recommended for the CSFRA budget are direct costs associated with the implementation and operations of the program. However, indirect costs are also incurred for the support of the program. Indirect costs would include, but are not limited to, the following:

- Finance and Administrative Services:
 - Budget – the development of an annual budget and fee.

- Accounts Receivable—for the annual billing and collection of the Rental Housing Fee.
 - Accounts Payable—the staff time necessary to make payments for the obligations of the CSFRA. Examples would be the payment of consultants, legal services, mediator services, tenant relocation services, etc.
 - Payroll/HR—for the current personnel on a biweekly basis. This would include the processing, tax reporting, and benefit payments.
 - Document Processing—the processing of documents, including agendas, agenda reports, and minutes for the RHC.
 - Purchasing/Contracts—for the purchase of certain goods and services, as well as the processing of contracts for services.
- Legal Services/City Attorney’s Office—generally legal services are considered part of indirect costs; however, considering the significant use of legal resources, staff proposes the time of the City Attorney’s Office be considered a direct cost.
 - Human Resources—provides for the administration of benefits and recruitment of personnel.
 - Information Technology—provides for cost and maintenance of the telephone system, computers, printers, website, etc.
 - Administration and Management—provides for administration and management of the staff and the program from the Community Development Department, Finance and Administrative Services Department, Information Technology Department, City Attorney’s Office, City Clerk’s Office, and City Manager’s Office.
 - Other costs identified include general liability, compensated absences, and equipment replacement.

Other costs typically included in administrative overhead would be facilities for the allocation of office space and maintenance, telephone services, copier services, etc. Currently, staff administering the CSFRA and staffing the RHC are functioning in facilities provided by the City.

It is currently unknown whether the implementation of the CSFRA and, more specifically, the petition process, will impact the existing Multi-Family Housing

Inspection Program as the majority of the rental units covered by the CSFRA are included in this program. The Multi-Family Housing Inspection Program is funded through an annual program fee. To date, several petition applications have been referred to the Multi-Family Housing Inspection Program, and staff has been able to incorporate the inspections required in their current workload. Staff will continue to monitor the impacts of the implementation of the CSFRA on the Multi-Family Housing Program.

To truly identify and calculate the cost of these services, the City proposes to include the CSFRA in its next cost allocation plan update. However, until that time, the City is proposing a 15 percent allocation of the CSFRA budget to cover all the indirect costs identified. This is a standard allocation percentage the City charges for the administration of contracts and some other programs that are generally less intensive than the CSFRA, and it is possible that once a cost allocation plan can be performed, the costs could be higher.

Petition Fee

In previous years, the RHC decided to not include a nominal petition fee for submitting petitions. Consequently, staff has not included such fee in the Proposed Budget for Fiscal Year 2020-21. One reason for such petition fee would be to deter frivolous filing of petitions. To date in Fiscal Year 2019-20, 12 petitions have been filed. If the RHC is interested in a petition fee, staff requests the RHC provide direction to review and propose such a petition fee in tonight's meeting.

Rebudgets and Reserve

As previously mentioned, a rebudget of \$146,400 is proposed for database development. Rebudgets are items that were budgeted as capital outlay or limited-period expenditures, but have not been expended to date. The funds are still needed for the purpose originally identified and, therefore, requested to be carried over into the Fiscal Year 2020-21 budget.

Starting in Fiscal Year 2018-19, the RHC established a reserve balance of approximately 20 percent of operating expenditures to be phased in over two fiscal years, and approved a total contribution of \$384,000 for the past two fiscal years. Based on the Fiscal Year 2020-21 proposed operating expenditures, the current reserve balance is approximately 22 percent and no additional contribution is needed. A reserve of 20 percent of operating expenditures would be similar to the level of other City fund reserves that are generally between 20 percent and 25 percent.

The reserve balance provides a balance to be used for expenditures that are not appropriated during the annual budget process and to cover expenditures if revenues

fall short of budget. If additional costs are incurred or unanticipated expenditures are required midyear, the reserve would provide funding for these expenditures until the budget and fee can be established for the following fiscal year.

Annual Rental Housing Fee

To ensure full funding of the CSFRA program, the Rental Housing Fee is calculated by dividing the total amount of the Fiscal Year 2020-21 Budget as approved by the RHC, less the prior fiscal year ending balance and the limited-period funding for the database system, by the total amount of rental units covered by the CSFRA. The number of rental units covered by the CSFRA (both fully and partially covered) currently amounts to 14,950. The reduction from the previous number of 15,300 is due to CSFRA-covered rental units taken off the rental market. Based on the above, the fee would be \$84 per unit for Fiscal Year 2020-21. For comparison, in Fiscal Year 2017-18, the RHC adopted a Rental Housing Fee of \$155 per unit; in Fiscal Year 2018-19, a fee of \$124 was established; and in Fiscal Year 2019-20, the fee amounted to \$101.

The Rental Housing Fee is billed together with the Multi-Housing Inspection Fee in January of each fiscal year. Billing these two fees together provides for efficiencies.

REQUESTED ACTION

Staff has prepared the Proposed Budget based on staff's best estimate for administration of the CSFRA program for Fiscal Year 2020-21, taking into account a budget reduction for services in light of the financial impacts due to the COVID-19 pandemic. Staff requests any additional feedback to the Proposed Budget. Staff will be presenting the RHC budget for adoption at its next meeting on June 1, 2020.

FISCAL IMPACT

There is no fiscal impact to the discussion of the budget. However, when the RHC adopts a budget, and the applicable Rental Housing Fee, the fee will need to be sufficient to fund the costs of the program.

PUBLIC NOTICING – Agenda posting.

JT-AVD/TG/6/CDD/RHC/812-05-04-20M-1

- Attachments: 1. Statement of Revenues, Expenditures, and Balances
2. CSFRA Fiscal Year 2020-21 Proposed Budget