



MEMORANDUM

Rent Stabilization Program, Community Development Department
Financial & Administrative Services Department

DATE: May 17, 2021

TO: Rental Housing Committee

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

SUBJECT: CSFRA Fiscal Year 2021-22 Recommended Budget

RECOMMENDATION

To review and provide feedback on the Fiscal Year 2021-22 recommended budget (Recommended Budget) for the administration of the Community Stabilization and Fair Rent Act. The Fiscal Year 2021-22 Budget is scheduled for adoption at a meeting of the Rental Housing Committee (RHC) on June 14, 2021. The recommended annual Rental Housing Fee is calculated based on the Recommended Budget and will be established by the RHC.

INTRODUCTION AND BACKGROUND

On November 8, 2016, the Community Stabilization and Fair Rent Act (CSFRA) was passed by the voters. The purpose of the CSFRA is “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 creates a rent stabilization 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 1, 2020, the RHC adopted its

fourth CSFRA budget for Fiscal Year 2020-21 and set a Rental Housing Fee of \$85 per unit.

ANALYSIS

Fiscal Year 2021-22 will be the fifth fiscal year of operations, and the RHC and staff continue to evaluate and assess the appropriate level and most effective and efficient methods to implement the CSFRA. The financial impact due to the COVID-19 epidemic will continue and is evident in our community. Several measures have been enacted to mitigate against economic impacts that residents and landlords in our rent stabilized community are facing, such as rent relief programs. However, it is anticipated that the ending of the statewide eviction moratorium expected on June 30, 2021, will result in unknown economic and judicial impacts on the residents and the rental housing market. Although the economic impact of COVID-19 might last even after the pandemic is over, the CSFRA program is not able to sustain the low level of the FY 2020-21 budget and fees. With the recent adoption of a Capital Improvement Petition Process and a pilot Eviction Prevention and Defense Program, staff deem the Recommended Budget for FY2021-22 appropriate in order to ensure critical services to aid in the stability 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 2021-22 Recommended Budget is staff's best estimate of the costs for the program, taking into consideration experience of the past and current fiscal years. The majority of costs are ongoing program expenses.

The following table provides a comparison of the current year adopted and estimated actuals, and the upcoming fiscal year Recommended Budget (dollars in thousands):

Table 1: Comparisons FY20-21 adopted/estimated with FY21-22 Recommended Budget

	Adopted Budget 2020-21	Estimated Actuals 2020-21	Recommended Budget 2021-22	Variance Recom. To Adopted
Revenues:				
Interest Earnings	\$ 8	\$ 21	\$ 18	\$ 10
Rental Housing Fee	<u>1,271</u>	<u>1,115</u>	<u>1,629</u>	<u>358</u>
Total Revenues	<u>1,279</u>	<u>1,136</u>	<u>1,647</u>	<u>368</u>
Operating Expenditures	<u>1,662</u>	<u>1,053</u>	<u>1,895</u>	<u>233</u>
Operating Balance	(383)	83	(248)	135
City Administration	(228)	(227)	(266)	(38)
Self-Insurance	(13)	(13)	(18)	(5)
Comp Absences Reserve	(4)	(4)	(8)	(4)
Equipment Repl. Reserve	<u>(4)</u>	<u>(4)</u>	<u>(3)</u>	<u>1</u>
Excess (Deficiency) of Revenue	(632)	(165)	(543)	89
Beginning Balance	1,536	1,536	1,372	(164)
Reserve/Rebudget	<u>(450)</u>	<u>(541)</u>	<u>(452)</u>	<u>(2)</u>
Ending Balance	454	831	377	(77)

Fiscal Year 2020-21 Estimated Actuals

For Fiscal Year 2020-21, revenues are estimated at \$1.14 million, about 11% lower than the adopted budget at \$ 1.28 million. Total operating expenditures are estimated at \$1.05 million, \$609,000 less than adopted. This is a result from a vacant position, less than anticipated need for hearing officers and facilitation services, staff time charged to the Housing and Neighborhood Services Division of the Community Development Department for non-CSFRA tasks performed, lower than anticipated costs for litigation services, and database system costs not completely spent.

Fiscal Year 2021-22 Proposed Budget

Both revenues and expenditures are recommended to be increased compared to the current fiscal year adopted budget. In total, recommended expenditures are \$233,000

more than the current fiscal year. The components of the expenditures in the Fiscal Year 2021-22 Recommended Budget are as follows:

Staffing – \$ 991,000

The Fiscal Year 2021-22 Recommended Budget includes the recently adopted staffing plan with one added position of a Senior Management Analyst and a reclassification of the Office Assistant to Secretary for a total of 5.0 FTEs: 1.0 Program Manager, 1.0 Senior Management Analyst, 2.0 Administrative Analysts, and 1.0 Secretary.

General Operating – \$176,000

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; and training costs. These costs are similar to the costs in the previous Adopted Budget.

Third-Party Professional Services – \$569,000

The Recommended Budget includes the following contract cost projections for third-party professional 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 petitions; 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 and review of staff reports, and drafting of RHC decisions on appeal petitions), legal advice on implementation and administration of the CSFRA, drafting or revising of regulations, and petition hearing oversight.

Mountain View Rental Housing Helpline (\$125,000). Project Sentinel continues to provide first point of contact services for all stakeholders regarding CSFRA inquiries through dedicated phone line/ e-mail/online access as well as dedicated drop in office hours with services in English, Spanish, and other languages upon request. These services also provide counseling and education regarding rights and responsibilities under the CSFRA and eviction prevention assistance, as well as conciliatory services between tenants and landlords. The Recommended Budget includes funding for 40 hours per week at \$60 per hour.

Hearing Officer Services (\$100,000). The Hearing Officers continue to provide petition hearing services in accordance with adopted rules and regulations. The Recommended Budget maintains the same level as the previous year, although less petitions were filed than anticipated. However, introduction of the Capital Improvement Petition Process may increase the demand for petitions, compared to the current year.

Litigation (\$100,000). The CSFRA is still the subject of one lawsuit regarding the application of the CSFRA (*Redwood Villa, Inc. vs. 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 \$43,000, the Recommended Budget includes \$100,000 for litigation and would be used to pay legal expenses related to lawsuits.

Eviction Prevention and Defense Program (\$45,000). This recently adopted program provides eviction prevention and defense services for low-income tenants (up to 120% AMI) in need of assistance confronted with eviction procedures for non-payment of rent due to COVID-19. The Recommended Budget includes \$45,000 to introduce a pilot program for legal eviction services.

Prehearing Settlement Conference Services (\$5,000). Settlement Conferences provide prehearing settlement facilitation services, potentially reducing demands for formal hearings. The Recommended Budget includes funding for 12 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 Recommended 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 Recommended Budget includes funding for 25 hours at \$200 per hour.

Translation Services (\$5,000). Translation services are utilized for Spanish and Chinese translations of all outreach materials, webpages, educational videos and workshops. The Recommended Budget includes funding for 62.5 hours at \$80 per hour.

KMVT (\$4,000). KMVT broadcasts RHC meetings, which can be accessed online on the City's website through Legistar.

Table 2: Cost comparisons for professional services over the years (dollars in thousands):

Professional Services:	2018-19 <u>Adopted</u>	2019-20 <u>Adopted</u>	2020-21 <u>Adopted</u>	2021-22 <u>Recommend Budget</u>	<u>Variance</u> FY2020-21 versus FY 2021-22
Legal	\$ 200	\$ 200	\$ 175	\$175	\$ -0-
Helpline	125	125	125	125	-0-
Litigation	200	150	125	100	(25)
Hearing Officers	250	200	100	100	-0-
Eviction Services	-0-	-0-	-0-	45	45
Prehearing	20	15	10	5	(5)
Relocation	10	5	5	5	-0-
Facilitation	5	5	5	5	-0-
Translation	8	4	-0-	5	5
KMTV	-0-	-0-	4	4	-0-
Data Services	-0-	-0-	6	-0-	(6)
Total	\$ <u>818</u>	\$ <u>704</u>	\$ <u>555</u>	\$ <u>569</u>	\$ 14

Information Technology – \$159,200 (\$120,200 rebudget)

The Recommended Budget for Information Technology software development consists of a rebudget of the estimated remainder of the Fiscal Year 2020-21 budget for the database system amounting to \$120,200. 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 recommended to be rebudgeted for Fiscal Year 2021-22, and will not impact the fee calculated for Fiscal Year 2021-22. The recommended ongoing expenses of \$39,000 covers the annual software license for the database as well as a license for the CoStar subscription.

City Resources/Administrative Support – \$295,280

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 – 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.
- 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 Recommended Budget for Fiscal Year 2021-22. One reason for such petition fee would be to deter frivolous filing of petitions. To date in Fiscal Year 2020-21, 20 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 \$120,200 is recommended 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 2021-22 budget.

Starting in FY 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 recommended operating expenditures, no additional contribution was 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. Taking into account the recommended budget's net expenses, and providing the RHC would like to maintain a 20 percent reserve, an additional \$31,000 is recommended to be added to the reserve for a total reserve of \$415,000.

The reserve 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. To date the CSFRA Program has not used the reserves.

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 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) for FY 2021-22 has been estimated to stay the same as for FY 2020-21, namely 14,950. Based on the above, the fee would be \$109 per unit for Fiscal Year 2021-22. For comparison, in Fiscal Year 2017-18, the RHC adopted a Rental Housing Fee of \$155 per unit; in FY 2018-19, a fee of \$124 was established; in FY 2019-20, the fee amounted to \$101; and for FY 2020-21 \$85.

The Rental Housing Fee is invoiced 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 Recommended Budget based on staff's best estimate for administration of the CSFRA program for Fiscal Year 2021-22, taking into account an increased level of service due to new programs such as the Capital Improvement Petition Process and the Eviction Prevention and Defense Program and related personnel changes. Staff requests feedback to the Recommended Budget. Staff will be presenting the RHC budget for adoption at its next meeting on June 14, 2021.

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.

- Attachments:
1. Statement of Revenues, Expenditures, and Balances
 2. CSFRA Fiscal Year 2021-22 Recommended Budget