



MEMORANDUM

CSFRA, Community Development Department

DATE: May 13, 2019

TO: Rental Housing Committee

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

SUBJECT: Rental Housing Committee Fiscal Year 2019-20 Proposed Budget

RECOMMENDATION

To review and provide feedback on the Fiscal Year 2019-20 Proposed Budget for the administration of the Community Stabilization and Fair Rent Act. The Fiscal Year 2019-20 Budget is scheduled for adoption at a meeting of the Rental Housing Committee (RHC) on June 3, 2019. 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 18, 2018, the RHC adopted its second CSFRA budget for Fiscal Year 2018-19 and set a Rental Housing Fee of \$124 per unit.

ANALYSIS

Fiscal Year 2018-19 is the second 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 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 2019-20 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 anticipated developments, such as a possible soft-story retrofit program. 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>2018-19 Adopted</u>	<u>2018-19 Estimated</u>	<u>2019-20 Proposed</u>	<u>Variance Proposed to Adopted</u>
Revenues:				
Interest Earnings	\$ 2	\$ 11	\$ 2	\$ -0-
Rental Housing Fees	<u>1,897</u>	<u>1,872</u>	<u>1,545</u>	<u>(352)</u>
Total Revenues	1,899	1,883	1,547	(352)
Operating Expenditures	<u>1,917</u>	<u>1,414</u>	<u>1,740</u>	<u>177</u>
Operating Balance	(18)	469	(193)	(175)
Misc. Limited Period	(17)	-0-	-0-	17
Litigation	(200)	(60)	(150)	50
IT System	<u>(175)</u>	<u>(29)</u>	<u>(146)</u>	<u>29</u>
Excess (Deficiency) of Revenues	(410)	380	(489)	(79)
Beginning Balance	766	766	1,146	380
Reserve/Rebudgets	<u>(287)</u>	<u>(794)</u>	<u>(384)</u>	<u>(97)</u>
Ending Balance	<u>\$ 69</u>	<u>\$ 352</u>	<u>\$ 273</u>	<u>\$ 204</u>

Fiscal Year 2018-19

For Fiscal Year 2018-19, revenues are estimated at \$1.9 million, essentially on target with the adopted. Total expenditures are estimated at \$1.5 million, \$806,000 less than adopted, resulting from the vacant position, less than anticipated need for hearing officers and facilitation services, short-term need for lease of office space, and phased use of the limited-period funding for software development.

Fiscal Year 2019-20 Proposed Budget

Both revenues and expenditures are proposed to be less than the current fiscal year Adopted Budget. In total, proposed expenditures are \$273,500 less than the current fiscal year. The components of the expenditures in the Fiscal Year 2019-20 Proposed Budget are as follows:

Staffing – \$684,200

Administration

The Fiscal Year 2018-19 Adopted 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 this fiscal year, but starting May 28, 2019 a new OAI will join the CSFRA staff, to bring the group to full staffing as budgeted.

Legal

In addition to the administrative staff, the City Attorney's Office has provided legal services to the RHC since its inception. The City Attorney's Office continues to spend time on CSFRA and RHC matters. The City Attorney's 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. The City Attorney's Office 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 the regulations.

General Operating – \$204,000

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; translation services, including Spanish and Mandarin, for outreach materials and simultaneous translation services; and staff training. During this fiscal year, CSFRA program staff was temporarily housed off-site but is now occupying City premises.

All of these costs are similar to the previous Adopted Budget, with the exception of off-site office space and limited-period funding for furniture/equipment, both of which are

no longer needed, and the addition of funding for outreach and advertising. From December until March, CSFRA staff was housed in off-site office space at 800 West El Camino Real, but since then moved into City-owned property at 298 Escuela Avenue.

Third-Party Professional/Technical Services – \$704,000

The Fiscal Year 2019-20 Proposed Budget includes the following contract cost projections for these third-party professional/technical services:

Outside Legal Services (\$200,000). 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 a similar average amount of 55 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 two to three petition hearings per month.

Hearing Officer Services (\$200,000). To provide petition hearing services in accordance with adopted rules and regulations. The Proposed Budget includes a projection of 50 Tenant petitions at an average of \$1,000 per case and 25 Landlord petitions at an average of \$6,000 per case.

Litigation (\$150,000). Currently, the CSFRA is 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. 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 \$60,000, the Fiscal Year 2019-20 Proposed Budget includes \$150,000 for litigation and would be used to pay legal expenses related to lawsuits. In prior fiscal years, litigation services have been funded with limited-period funding. Staff recommends changing this to an annual operating cost with the Fiscal Year 2019-20 Proposed Budget.

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 (\$15,000). To provide prehearing settlement facilitation services, potentially reducing demands for formal hearings. The Proposed Budget includes funding for approximately 38 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.

Translation Services (\$4,000). Translation services to translate materials based on 50 hours at \$80 per hour. Services may be provided by City staff.

The costs comparisons are (dollars in thousands):

	<u>2018-19 Adopted</u>	<u>2018-19 Estimated</u>	<u>2019-20 Proposed</u>	Variance Proposed to <u>Adopted</u>
Professional Services:				
Legal	\$200	\$250	\$200	\$ -0-
Hearing Officers	250	60	200	(50)
Litigation	200	60	150	(50)
Helpline	125	120	125	-0-
Prehearing	20	4	15	(5)
Relocation	10	4	5	(5)
Translation Services	8	4	4	(4)
Facilitation	<u>5</u>	<u>0</u>	<u>5</u>	<u>-0-</u>
 Total	 <u>\$818</u>	 <u>\$502</u>	 <u>\$704</u>	 <u>\$(114)</u>

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

The Fiscal Year 2019-20 Proposed Budget for Information Technology software development consists of a rebudget of the estimated remainder of the Fiscal Year 2018-19 budget for the database system amounting to \$146,400. The implementation of the database system is progressing, with Phase I and Phase II launched, but subsequent phases will not be completed prior to the end of the current fiscal year. Therefore, the remainder of the \$175,000 original budget is proposed to be rebudgeted for Fiscal Year 2019-20, and will not impact the fee calculated for Fiscal Year 2019-20. The current fiscal year Adopted Budget also allowed for \$65,000 for software licenses. This ongoing expense is proposed to be lowered to \$39,000 to account for annual software license for the database (\$35,000) plus the CSFRA’s share of annual license fee for access to the CoStar database (\$4,000).

City Resources/Administrative Support – \$259,100

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 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

Last year, 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 2019-20. One reason for such petition fee would be to deter frivolous filing of petitions. To date in Fiscal Year 2018-19, 47 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.

Reserve

As previously mentioned, a rebudget of \$146,400 is proposed for software 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 2019-20 budget.

Last year, the RHC established a reserve balance of approximately 20 percent of operating expenditures to be phased in over two fiscal years, and approved a contribution of \$195,000 for the current fiscal year. Based on the Fiscal Year 2019-20 proposed expenditures, the second fiscal year contribution is \$189,000, resulting in a reserve balance of \$384,000, 20 percent of the Fiscal Year 2019-20 proposed operating

expenditures. 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 2019-20 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 (15,300). Based on the above, the fee would be \$101 per unit for Fiscal Year 2019-20. For comparison, in Fiscal Year 2017-18, the RHC adopted a Rental Housing Fee of \$155 per unit and in Fiscal Year 2018-19, a Rental Housing Fee of \$124 was adopted.

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 2019-20. Staff requests any additional feedback to the Proposed Budget. Staff will be presenting the RHC budget for adoption at its next meeting on June 3, 2019.

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/AK/3/CDD/RHC
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- Attachments: 1. Statement of Revenues, Expenditures, and Balances
2. CSFRA Fiscal Year 2019-20 Proposed Budget