



**MEMORANDUM**

CSFRA, Community Development Department

**DATE:** March 26, 2018

**TO:** Members of the Rental Housing Committee

**FROM:** Karen M. Tiedemann, Special Counsel to the Rental Housing Committee  
Justin D. Bigelow, Special Counsel to the Rental Housing Committee  
Anky van Deursen, Associate Planner

**SUBJECT:** CPI Indices and the CSFRA

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**RECOMMENDATION**

Adopt a resolution identifying replacement indices for purposes of future Annual General Adjustments and maintenance of net operating income calculations in the Petition for Upward Adjustment of rent (fair return) contexts.

**BACKGROUND**

The text of the CSFRA and its implementing regulations use two indices for the San Francisco Bay Area that are published by the United States Department of Labor, Bureau of Labor Statistics (BLS). In January 2018, BLS revised the geographic areas for which it produces indices. The San Francisco Bay Area indices formerly covered 10 counties and now include only five counties: Santa Clara County is one of the five counties excluded from the San Francisco Bay Area indices (see Attachment 2).

BLS no longer publishes monthly or bi-monthly CPI data specific to Santa Clara County. Rather, Santa Clara and San Jose have been categorized as a Size Class B/C area in the West region. An index has been created identifying the CPI for all Size Class B/C areas in the West region, as discussed in the analysis section of this memo.

Because the indices referenced in the CSFRA and implementing regulations are no longer published, the RHC should identify appropriate replacement indices. The Analysis section identifies the text, use, and potential replacement indices for consideration by the RHC.

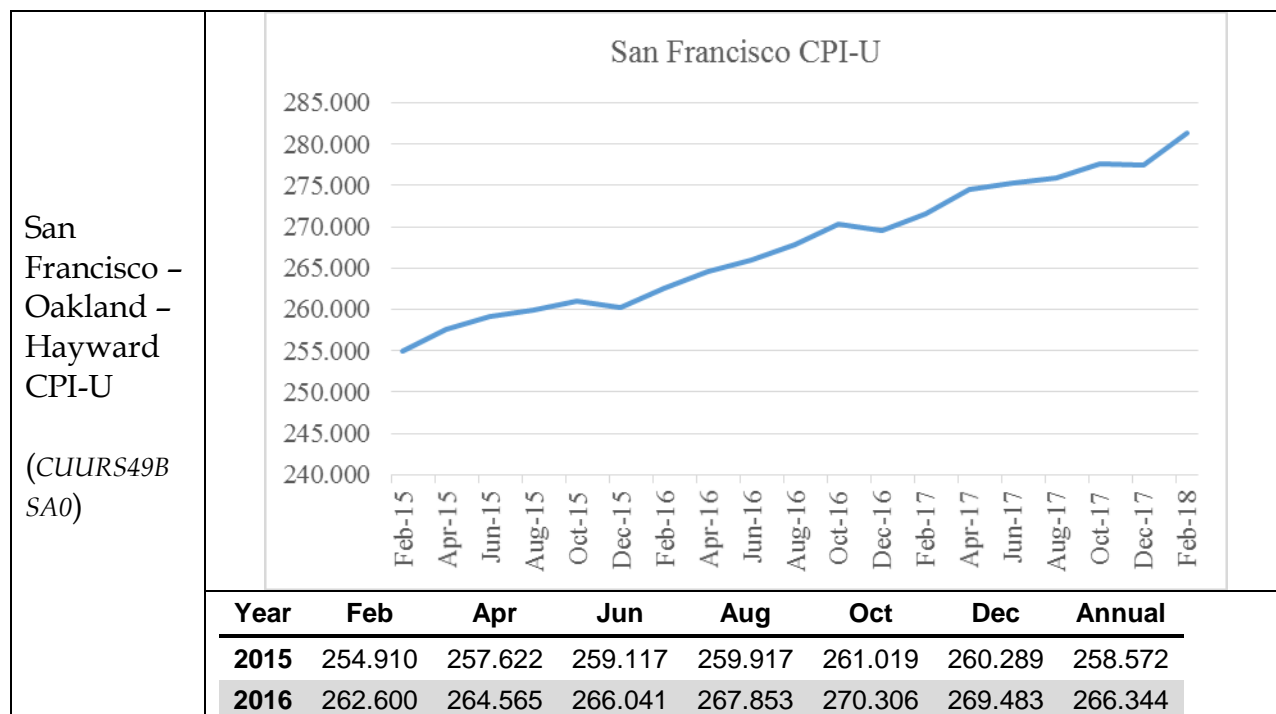
**ANALYSIS**

The table below provides the citation and relevant text of the CSFRA and Chapter 6 Regulations where BLS indices are used.

<b>Annual General Adjustment</b> CSFRA § 1707(a)(1)	The Annual General Adjustment shall be equal to one hundred percent (100%) of the percentage increase in the Consumer Price Index (All Urban Consumers, San Francisco-Oakland-San Jose region, or any successor designation of that index that may later be adopted by the U.S. Bureau of Labor Statistics) as reported and published by the U.S. Department of Labor, Bureau of Labor Statistics, for the twelve-month period ending as of March of the current year. . .
<b>Fair Return Standard</b> Regulation § 6(C)(4)	Consumer Price Index. Consumer Price Index is the Consumer Price Index for All Urban Consumers for “Rent of primary residence” in the San Francisco—Oakland—San Jose, California metropolitan area as published by the United States Department of Labor, Bureau of Labor Statistics and currently listed as Series No. CUURA422SEHA, as it may be revised.

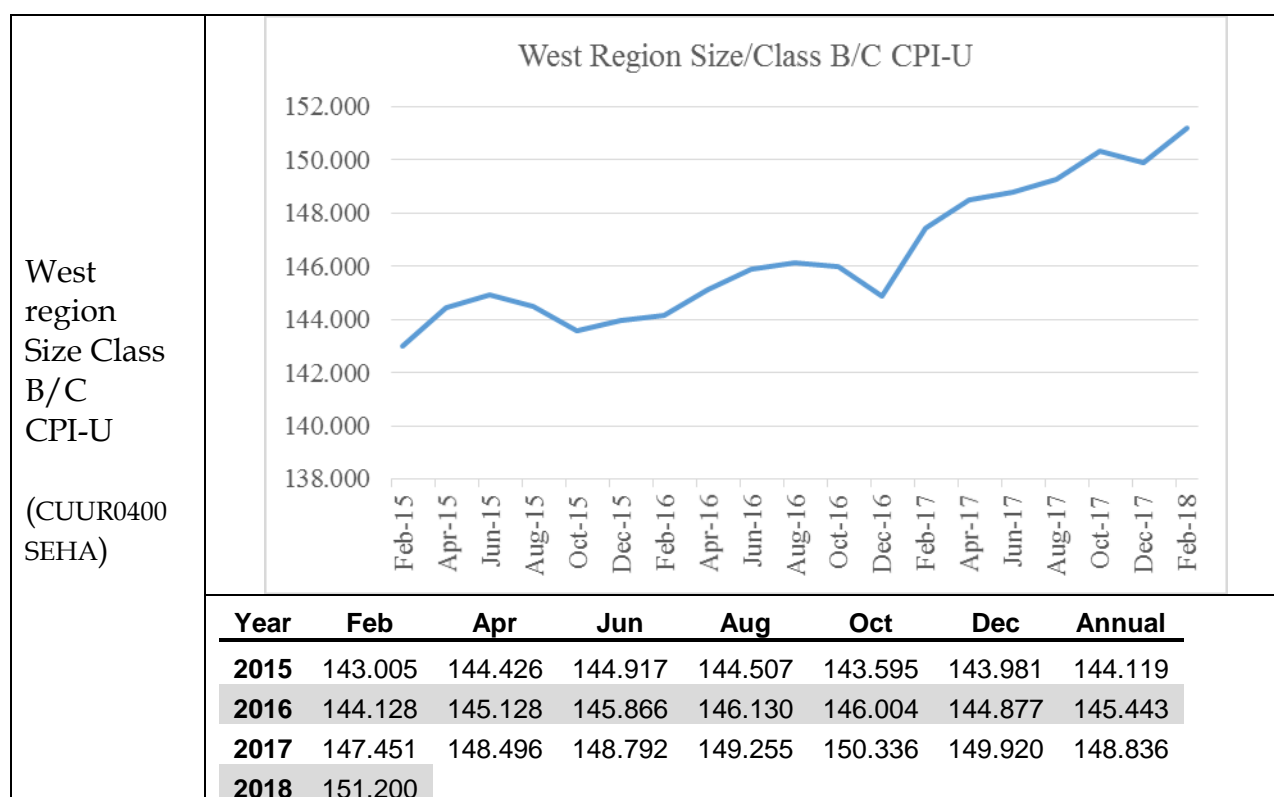
### Annual General Adjustment

CSFRA section 1707 requires use of the "CPI-U" index for the San Francisco - Oakland - San Jose area to determine the Annual General Adjustment by which a landlord may increase the rent without filing a petition. The San Francisco - Oakland - San Jose CPI-U is no longer published. Section 1707 expressly states that the San Francisco - Oakland - San Jose CPI-U may be replaced with "any successor designation of that index that may be later adopted by the U.S. Bureau of Labor Statistics." Staff has identified two indices for consideration by the RHC in order to calculate future Annual General Adjustments.



<b>2017</b>	271.626	274.589	275.304	275.893	277.570	277.414	274.924
<b>2018</b>	281.308						

Staff recommends the San Francisco – Oakland – Hayward CPI-U be selected as the replacement for the San Francisco – Oakland – San Jose CPI-U. This index appears to be the successor index for the San Francisco Bay Area. However, the San Francisco – Oakland – Hayward CPI-U does not rely data collected from Mountain View or Santa Clara County. The San Francisco – Oakland – Hayward CPI-U is published bi-monthly. The index captures the economic conditions in the San Francisco Bay Area and likely better reflects economic conditions in Mountain View than other indices.



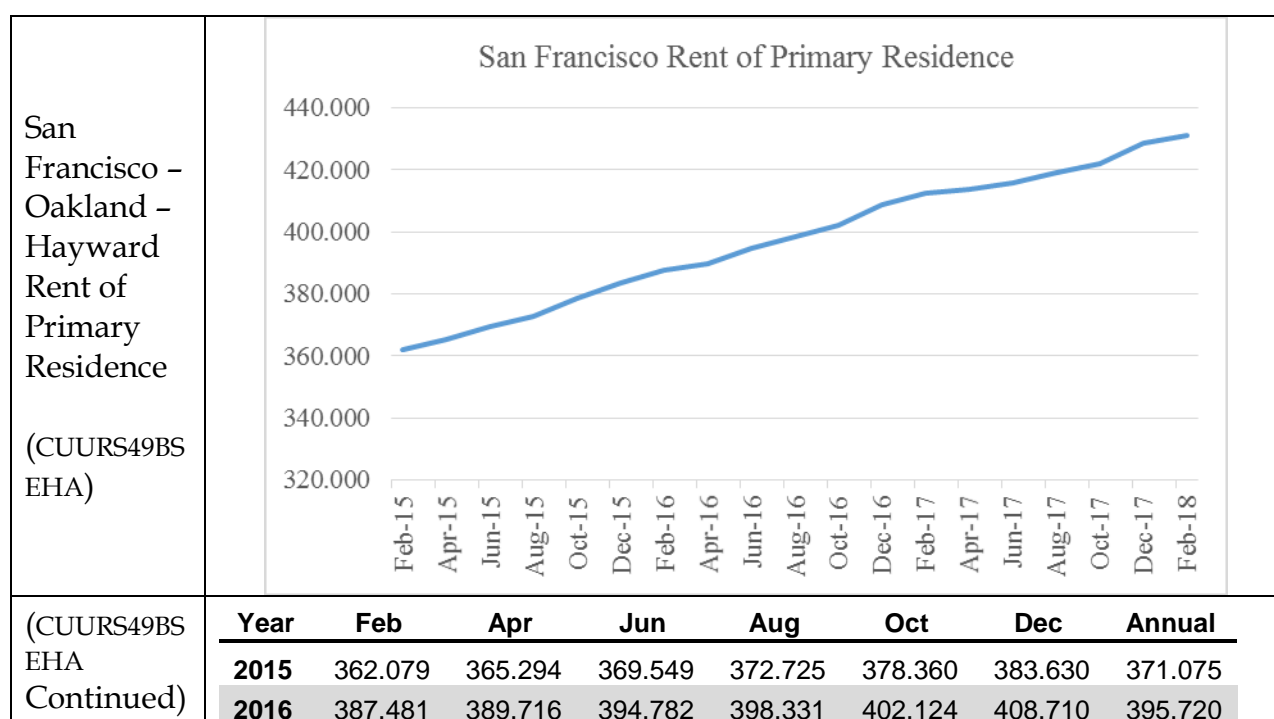
The West region Size Class B/C CPI-U is another option to replace the San Francisco – Oakland – San Jose CPI-U. Because San Jose and Santa Clara County have been excluded by BLS from the San Francisco Bay Area CPI-U calculation, there is no longer an inflation index published by BLS specific to San Jose or Santa Clara County. The West region Size Class B/C index provides aggregated data for similarly sized cities located in Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming. The West region Size Class B/C CPI-U is published monthly.

Staff recommends against this option for two reasons. First, the index is based on data that reflects economic conditions in different states that are less likely to reflect economic conditions in Mountain View. Second, the defining characteristic of West - Size Class B/C changed in 2018 to include regions with up to 2.5 million persons from 1.5 million (e.g. although the index appears continuous, the source of the data changed in 2018 to include communities like Santa Clara County, which was previously excluded).

#### Fair Return Standard

To maintain a landlord's net operating income and thereby ensure that the landlord may earn a fair return from a rental property subject to rent stabilization, the net operating income earned from the property in calendar year 2015 is adjusted by an index to ensure the value of the net operating income is not diminished by inflation.

The RHC previously chose to use the CPI – All Urban Consumers "Rent of primary residence" index for the San Francisco – Oakland – San Jose region to adjust net operating income. This index was a component of the San Francisco – Oakland – San Jose CPI-U. The equivalent component index is available for the new San Francisco – Oakland – Hayward CPI-U. Again, this component index does not include data for Mountain View as of 2018. The Rent of primary residence index is not available for the West region Size Class B/C geographic group.



	<b>2017</b>	412.606	413.736	415.888	419.229	421.940	428.426	417.509
	<b>2018</b>	430.929						

Staff recommends that the RHC adopt the San Francisco – Oakland – Hayward CPI-U for use in both the AGA and Fair Return Standard contexts. Using one index for both purposes would better unify the AGA and Fair Return processes by avoiding situations where the CPI-U is either less- or greater-than the other index. If the other index reflects greater inflation than CPI-U, landlords would be encouraged to file petitions to maximize profits regardless of actual expenses; if the other index reflects less inflation than CPI-U, landlords would be discouraged from filing petitions regardless of actual expenses.

### **FISCAL IMPACT**

The identification of alternate indices is not anticipated to affect the budget of the RHC.

**PUBLIC NOTICING**      – Agenda posting

### **ATTACHMENTS**

1. Draft Resolution
2. Map visualizing changes to BLS indices
3. BLS, Consumer Price Index, San Francisco Bay Area – December 2017
4. BLS, Consumer Price Index, San Francisco Bay Area – February 2018
5. BLS, Consumer Price Indexes Pacific Cities – February 2018