



## CITY OF MOUNTAIN VIEW

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### MEMORANDUM

Finance and Administrative Services and  
Community Development Departments

**DATE:** May 21, 2018

**TO:** Rental Housing Committee

**FROM:** Patty J. Kong, Finance and Administrative Services Director  
Helen Ansted, Principal Financial Analyst  
Anky van Deursen, Program Manager (Acting)

**SUBJECT:** Rental Housing Committee Fiscal Year 2018-19 Proposed Budget

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### RECOMMENDATION

That the Rental Housing Committee (RHC or Committee) review, discuss, and provide feedback to the Fiscal Year 2018-19 Proposed Budget for the RHC for the administration of the Community Stabilization and Fair Rent Act (CSFRA). The Fiscal Year 2018-19 Budget is scheduled for adoption at a meeting of the RHC on June 18, 2018. 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 an entirely 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 as necessary to ensure implementation of the CSFRA by charging landlords an annual Rental Housing Fee.

On October 23, 2017, the RHC adopted the Fiscal Year 2017-18 Budget and Rental Housing Fee. Fiscal Year 2017-18 included the funding for the full fiscal year, as well as reimbursement to the City for the initial implementation of the CSFRA program prior to budget adoption.

## **ANALYSIS**

Fiscal Year 2017-18 is the first full fiscal year of operations, and staff and the RHC continue to evaluate and gather information to assess the appropriate level and most effective method 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 meeting materials as well as costs associated with education, outreach, and communications;
3. Third-party professional services; and
4. City resources/administrative support.

Although this is the second budget for the RHC, the program continues its implementation and the Proposed Budget for Fiscal Year 2018-19 is staff's best estimate of the costs for the program taking into consideration experience of the current fiscal year. The costs that are start-up or implementation costs will not be recurring, but the ongoing program costs will recur each fiscal year (July through June). As the program gains more experience, future budgets and corresponding fees will be modified to reflect any updates. The RHC will adopt a budget annually.

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

	<u>2017-18 Adopted</u>	<u>2017-18 Estimated</u>	<b><u>2018-19 Proposed</u></b>	Variance Proposed to <u>Adopted</u>
Revenues:				
Interest Earnings	\$ -0-	6	<b>2</b>	2
Rental Housing Fees	<u>2,591</u>	<u>2,230</u>	<b><u>2,127</u></b>	<u>(464)</u>
Total Revenues	2,591	2,236	<b>2,129</b>	(462)
Operating Expenditures	<u>1,934</u>	<u>1,186</u>	<b><u>1,918</u></b>	<u>16</u>
Operating Balance	657	1,050	<b>211</b>	(446)
Miscellaneous Limited-Period	(20)	(3)	<b>(17)</b>	3
Litigation	(30)	(125)	<b>(200)</b>	(170)
IT System	(175)	-0-	<b>(175)</b>	-0-
City Repayment	<u>(432)</u>	<u>(432)</u>	<b><u>-0-</u></b>	<u>432</u>
Excess (Deficiency) of Revenues	-0-	490	<b>(181)</b>	(181)
Beginning Balance	-0-	120	<b>610</b>	610
Reserve/Rebudgets	<u>-0-</u>	<u>(576)</u>	<b><u>(384)</u></b>	<u>(384)</u>
Ending Balance	\$ <u>-0-</u>	<u>34</u>	<b><u>45</u></b>	<u>45</u>

### **Fiscal Year 2017-18**

For Fiscal Year 2017-18, revenues are estimated at \$2.2 million, \$355,000 lower than adopted. Estimated revenues are lower as we refined the number of units the CSFRA is applicable to. Although estimated revenues are lower than budgeted, expenditures are also lower than budgeted. Total expenditures are estimated at \$1.7 million, \$845,000 lower than budget. For Fiscal Year 2017-18, the RHC is estimated with a balance of revenues over expenditures of \$490,000.

### **Fiscal Year 2018-19 Proposed Budget**

A summary of the revenues, expenditures, and balances of the CSFRA/RHC are included to provide a multi-year overview of the prior fiscal year, current fiscal year adopted and estimated, and the upcoming fiscal year proposed (Attachment 1). More

detail of the Proposed Budget, including positions and major categories, is included as Attachment 2. The components for the Fiscal Year 2018-19 Proposed Budget are as follows:

### **Staffing – \$661,300**

#### **Administration**

The Fiscal Year 2017-18 Adopted Budget includes 4.0 FTEs: 1.0 FTE Program Manager, 2.0 FTE Administrative Analysts, and 1.0 FTE Office Assistant (OA) II. Currently, 1.0 FTE Office Assistant (OA) II position remains vacant. This position is continued to be included in the budget to address a foreseen increase in the workload related to the implementation of the CSFRA, amongst others, based on the expedited application process the RHC is considering.

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, but it has decreased slightly, between four and six hours per week. 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. 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 Expenses – \$238,400**

These expenses include cost estimates for program expenditures related to office operations, communications, outreach efforts, and cost of materials for the RHC. Examples of such cost items include development, printing, mailing, and postage of outreach materials such as postcards, flyers, and resource guides; RHC agenda packets and materials; office equipment and office supplies; noticing for meetings; costs associated with education and outreach meetings; as well as translation services, including Spanish and Mandarin, for outreach materials and simultaneous translation services. During this fiscal year, the CSFRA program is administered from facilities within City Hall. Going forward, staff administering the CSFRA and supporting the RHC may be housed in a different location than City Hall. If so, the budget would need to account for this expense.

*The Proposed Budget includes \$85,000 for printing, materials, postage, and mailing (six mailings at \$12,500 each and \$10,000 for copying/print costs); \$10,000 for supplies and miscellaneous; \$3,000 for copier lease; \$10,000 for training costs; and \$112,800 for office space*

*off-site. In addition, there is \$17,400 included as a rebudget of the balance from Fiscal Year 2017-18 for furniture and equipment costs.*

All of these costs are the same as included in the Adopted Budget, with the exception of Postage and Mailing, which has been increased by \$23,000 for additional mailings, a reduction of \$10,000 for training costs, and a \$54,000 increase based on updated information for a one-year lease of current office space in the downtown area.

### **Third-Party Professional/Technical Services – \$867,800**

On March 26, 2018, the RHC reviewed and discussed options regarding the professional service needs for the implementation of the CSFRA for the upcoming fiscal year. The Fiscal Year 2018-19 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 currently provides 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; 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.

The RHC expressed an interest in issuing a Request for Proposal (RFP) for legal services for the upcoming fiscal year. The Proposed Budget includes a placeholder based on the services provided by Goldfarb and Lipman for this fiscal year. If a different law firm is selected during the fiscal year, this could result in a different cost estimate. It is anticipated 40 to 55 hours are needed each month to cover up to two RHC meetings per month (attendance at meetings, agenda review, drafting of staff reports and review of staff reports), legal advice on implementation and administration of the CSFRA, drafting of remaining regulations, and two to three petition hearings per month.

*Hearing Officer Services (\$300,000).* To provide petition hearing services in accordance with adopted rules and regulations. The Proposed Budget includes a projection of 300 cases at an average of \$1,000 per case. This is based on the expedited application process the RHC is considering. Depending on the outcome of the discussion regarding this process, this amount may be modified.

*Litigation (\$200,000).* 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. v. City of Mountain View, Rental Housing Committee and Does 1 through 20 Inclusive*, Santa Clara Superior Court Case 18CV322991). The budget includes \$200,000 for litigation for the next fiscal year and would be used to pay legal expenses related to these two 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 40 hours per week at \$60 per hour.

*Prehearing Settlement Conference Services (\$20,000).* To provide prehearing settlement facilitation services, potentially reducing demands for formal hearings. The Proposed Budget includes 50 cases at \$400 per case.

*Tenant Relocation Services (\$10,000).* To provide counseling and process services as well as neutral third-party income eligibility determination for tenant relocation assistance under the CSFRA and TRA0. The Proposed Budget includes 20 cases at \$500 per case.

*Translation Services (\$8,000).* Translation services to translate materials based on 100 hours at \$80 per hour. Services may be provided by City staff.

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

The costs comparisons are (dollars in thousands):

	2017-18 <u>Adopted</u>	2017-18 <u>Estimated</u>	2018-19 <u>Proposed</u>	Variance Proposed to Adopted
Professional Services: <sup>1</sup>				
Legal	\$200	200	<b>200</b>	-0-
Hearing Officers	300	21	<b>300</b>	-0-
Litigation	30	125	<b>200</b>	170
Helpline	125	120	<b>125</b>	-0-
Prehearing	60	3	<b>20</b>	(40)
Relocation	20	2	<b>10</b>	(10)
Translation	8	-0- <sup>2</sup>	<b>8</b>	-0-
Facilitation	<u>20</u>	<u>10</u>	<u><b>5</b></u>	<u>(15)</u>
Total Professional Services	<u>\$763</u>	<u>481</u>	<u><b>868</b></u>	<u>105</u>

<sup>1</sup> The Adopted Budget for professional services excluded \$8,000 for translation services and included training costs of \$20,000.

<sup>2</sup> Costs included in wages as translation services have been performed by City staff.

Based on experience to date, \$65,000 of reductions in prehearing, relocation, and facilitation services are proposed. However, due to potential litigation, an increase for litigation services of \$170,000 is proposed, resulting in a total of \$868,000 for Fiscal Year 2018-19.

### **Information Technology – \$240,000 (\$175,000 rebudget)**

The Fiscal Year 2018-19 Proposed Budget for Information Technology totals \$240,000, of which \$175,000 represents a rebudget for the database system. The \$65,000 for software licenses/annual maintenance, operation, and support remains unchanged from the current fiscal year adopted. The selection of a system is progressing, but a final selection and contract may not be completed prior to the end of the fiscal year. Therefore, the \$175,000 is proposed to be rebudgeted, but will not impact the fee calculated for Fiscal Year 2018-19.

### **City Resources/Administrative Support – \$284,170**

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 be considered a direct cost. Other services of the City Attorney's Office would be included in indirect costs.
- 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 identifying costs associated with equipment replacement, and benefits associated with employees.



Other costs typically included in administrative overhead would be facilities for the allocation of office space and maintenance, etc. Currently, staff administering the CSFRA and staffing the RHC are functioning in facilities provided by the City. At some point, if the program is housed off-site, this would be accounted for separately.

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, based on the 16 petition applications received, one application has been referred to the Multi-Family Housing Inspection Program, and staff has been able to incorporate the two 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 different.

### **Petition Fee**

Based on last year's decision of the RHC to not include a nominal petition fee for submitting petitions, staff has not included such fee in the Proposed Budget for Fiscal Year 2018-19. One reason for such a petition fee would be to deter frivolous filing of petitions. To date, 16 petitions have been filed. If the RHC would be interested in a petition fee, staff requests the RHC provide direction to review and propose a petition fee.

### **Rebudgets**

There are rebudgets of \$192,400 for the IT system and furniture and equipment. Rebudgets are items that were budgeted as one-time 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 2018-19 budget. Items that are requested to be rebudgeted for Fiscal Year 2018-19 are

the \$175,000 for the IT database system and the balance of \$17,000 for furniture and equipment.

### **Reserve**

Staff is also proposing a \$384,000 reserve balance be established. 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. The reserve would also provide funding if revenues fall below budget, as occurred this fiscal year.

### **Annual Rental Housing Fee**

On October 23, 2017, the RHC adopted a rental housing fee of \$155 per unit based on the Fiscal Year 2017-18 Adopted Budget and an estimated 16,788 units. As of April 30, 2018, a total of \$2.2 million in Rental House Fees has been collected and a total of 15,300 units are estimated. To ensure full funding of the CSFRA program, the Rental Housing Fee would be calculated by dividing the total amount of the Fiscal Year 2018-19 Budget as approved by the RHC (less the amounts rebudgeted) by the total amount of rental units covered by the CSFRA (15,300). Based on the Proposed Budget, less the amounts of the rebudgets, the fee would be \$139 per unit for Fiscal Year 2018-19.

Currently, the Rental Housing Fee is billed with the Multi-Housing Inspection Fee in January. Billing these two fees together provides for efficiencies. However, due to the costs beginning to be incurred at the start of the fiscal year, staff is recommending moving the billing of the Rental Housing Fee to earlier in the fiscal year. This would result in the potential for two billings to occur in calendar year 2019. If the RHC agrees, staff would notify property owners in the coming months by separate mailing.

### **REQUESTED ACTION**

**Staff has prepared the Proposed Budget based on staff's best estimate for administration of the CSFRA program for Fiscal Year 2018-19. Staff requests any additional feedback to the Proposed Budget and, based on this feedback, staff will return to the RHC for adoption of the budget at its next meeting on June 18, 2018.**

### **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.

PJK-HA-AvD/4/RHC

546-05-21-18M-E

- Attachments:
1. Community Stabilization and Fair Rent Act (CSFRA)/Rental Housing Committee (RHC) Statement of Revenues, Expenditures, and Balances
  2. Community Stabilization and Fair Rent Act (CSFRA)/Rental Housing Committee Fiscal Year 2018-19 Proposed Budget