

-SANTA MONICA RENT CONTROL BOARD ADMINISTRATION MEMORANDUM

TO: Santa Monica Rent Control Board
FROM: Tracy Condon, Administrator
FOR MEETING OF: May 12, 2011
PUBLIC HEARING: June 9, 2011
RE: 2011 Annual General Adjustment
Apartment Operating Cost Increases (March 2010 - March 2011)

Summary

The Rent Control Law requires the Board to adjust rent ceilings each year to reflect changes in owners' operating expenses. This adjustment is called the annual general adjustment, or "GA." The recommended GA for 2011 is 3.5%.

Actual and estimated changes in operating expenses from March 2010 to March 2011 are researched and evaluated using a formula of general application known as the "component ratio to gross rent" or "pie methodology". Each individual category of an owner's operating expenses is assigned a portion or "slice" of the total rent dollar.

Actual changes in costs for refuse, water and sewer, gas, electricity and fire and life safety inspections are used to adjust these components. The general tax levy component is adjusted by actual changes in assessed taxes due to property transfers and other reassessments¹. Inflation-related adjustments are made to the remaining components: management, self labor and cash flow (CPI—All Items index) and maintenance and insurance (CPI-All-Items, Less-Shelter index). Debt Service is not adjusted. This year, two new tax-related components are introduced: Property Tax Assessments and Business License Expenses.

The Board engaged Seifel Consulting Inc. to conduct analyses of several tax-related components of the GA. They repeated last year's analysis of the general property tax levy component and conducted studies of seven property tax assessments that are not passed through to tenants as direct surcharges on the maximum allowable rents. Seifel also evaluated business license fees and taxes paid by owners of Santa Monica's controlled rental units.

¹ Previously, the property tax component was adjusted by 2% pursuant to Proposition 13. In 1989, 1992 and 2002, additional adjustments were authorized based upon analyses of property transfers in the intervening years from the previous supplemental adjustment. In 2010, the property tax component was adjusted based on changes in assessed values due to property transfers and other reassessments.

Recommendation

Staff recommends the Rent Control Board set a public hearing on Tuesday, June 9th, 2011 for consideration of a 3.5% general rent adjustment (GA).

If the Board elects to adopt a ceiling or maximum adjustment, staff recommends a ceiling of \$57. The recommended ceiling is calculated by applying a 3.5% general adjustment to the average of the 85th percentile of rents for all units including market rate units (\$2,022) and non-market rate units (\$1,211) or \$1,617.²

Note: Units with market rate increases implemented from September 1, 2010 through August 31, 2011 are not eligible for the 2011 general adjustment. Owners with recent market rate rentals will have taken operating costs into account when establishing a new rental rate.

Last Year's General Adjustment

The 2010 general adjustment of 2% was based on the Board's long-standing methodology. Some special adjustments were also made. Significant adjustments were made to the property tax and insurance components (11.6% and 10.52% respectively) based on supplemental studies conducted by Seifel Consulting Inc. The Board also made adjustments to the CPI-adjusted components to factor in the negative CPI index in 2009 that had not been incorporated into that year's general adjustment. (The Board granted a 1% GA in 2009.)

2011 Methodology

This year's GA calculation follows the long-standing methodology developed at the Board's direction by Dr. Kenneth Baar in 1983. (More information about the methodology is contained in Appendix 1.) The Consumer Price Indexes (CPI) used in the Board's formula for 2011 have continued the upward climb they began last year.³

This year the Board conducted supplemental analyses of three tax aspects of the general adjustment. Seifel Consulting Inc. repeated the comprehensive general tax levy

² Based on a consultant's report: "Operating Expenses and General Adjustment Methods – 1998" by Thomas D. Stringer.

³ Consumer Price Index (Los Angeles-Riverside-Orange County), All Urban Consumers, (CPI-U), 12-Months Percent Change from March 2010 – March 2011

- All Items Index = 3.0%
- All Items, Less Shelter Index = 4.3%

Consumer Price Index (Los Angeles-Riverside-Orange County), All Urban Consumers, (CPI-U), 12-Months Percent Change from March 2009 – March 2010

- All Items Index = 1.9%
- All Items Less Shelter Index = 4.1%

Consumer Price Index (Los Angeles-Riverside-Orange County), All Urban Consumers, (CPI-U), 12-Months Percent Change from March 2008 – March 2009

- All Items Index = -1.0%
- All Items Less Shelter Index = -2.7%

analysis performed last year. They also evaluated actual tax data to recommend a monthly per unit cost for introduction of two new components into the 2011 general adjustment calculation: Property Tax Assessments and Business License Expenses.

For the Property Tax Assessments, Seifel analyzed and calculated a monthly per unit cost for seven assessments on owners' property tax bills that are not currently passed through to tenants as direct surcharges on the maximum allowable rent. Two bond-related assessments appear under the Voted Indebtedness portion of tax bills: City of Santa Monica Library Bond and Metropolitan Water District Bond. Five service-specific assessments appear under the Direct Assessments portion of tax bills: Trauma/Emergency Services, LA West Mosquito Abatement, Public Health License and Permit Fee, County Park, and Flood Control.

For the Business Licenses Expenses, Seifel analyzed actual business license fees and taxes paid in 2010 by owners of Santa Monica's controlled rental units and calculated a monthly per unit cost.

Seifel's analyses and findings are reflected in the sections of this report discussing these three components. Their complete report is included as Appendix 2.

Dollar Value General Adjustment Components

The recommended 3.5% GA results in a rent of \$832 for the hypothetical average apartment used in the calculation. (See Table A on page 14.) In the Board’s “pie methodology”, the “slices” represent the percentage of the average rent dollar available for each expense category as shown in the pale yellow column (1) in the table below.

The bright yellow column (A) represents the hypothetical average unit with a rent of \$832. The light blue column (B) reflects the current median maximum allowable rent (MAR) of \$815 for all units that have not received any market rate increases. The purple column (C) reflects the current median MAR of \$1,335 for all units (long-term controlled and market rate), and the orange column (D) reflects the current median MAR of \$1,673 for units rented at market.

The columns show the dollar amounts available for each of the operating expense components when the same ratios (pie slices) are applied to various median rent levels. As the rent level increases, the amount available for each of the expenses rises proportionately. For example, on the unit with a MAR of \$832 the general adjustment formula provides \$73.05 available for the property tax expense; while on a rent of \$1,673, \$146.89 is available.

Component	(1) 2011 Ratio to Gross Rent	(A) 2011 Rent \$831.75	(B) Median No Market Rents \$815.00	(C) Median All Units \$1,335.00	(D) Median Market Units \$1,673.00
Property Taxes	8.78%	\$73.05	\$71.56	\$117.21	\$146.89
Tax Assessments	0.82%	\$6.84	\$6.70	\$10.97	\$13.75
Refuse	2.28%	\$18.97	\$18.58	\$30.44	\$38.14
Fire & Life Safety	0.14%	\$1.20	\$1.14	\$1.87	\$2.34
Water & Sewer	3.96%	\$32.94	\$32.27	\$52.87	\$66.25
Gas	2.42%	\$20.14	\$19.72	\$32.31	\$40.49
Electricity	1.60%	\$13.37	\$13.04	\$21.36	\$26.77
Business License	0.19%	\$1.61	\$1.58	\$2.59	\$3.25
Maintenance	14.07%	\$117.00	\$114.67	\$187.83	\$235.39
Insurance	4.43%	\$36.82	\$36.10	\$59.14	\$74.11
Self Labor	7.09%	\$58.98	\$57.78	\$94.65	\$118.62
Debt Service	14.97%	\$124.51	\$122.01	\$199.85	\$250.45
Cash Flow	34.24%	\$284.73 *	\$279.06	\$457.10	\$572.84
Management	5.00%	\$41.59 *	\$40.75	\$66.75	\$83.65
Total Rent 2010 w/ 2.0% GA		\$803.62	\$815.00	\$1,335.00	\$1,673.00
Total Rent 2011 w/ 3.5% GA		\$831.75	\$843.53	\$1,381.73	\$1,731.56
<i>Dollar difference</i>		\$28.13	\$28.53	\$46.73	\$58.56

*The 2011 amounts shown for Management and Cash Flow reflect the adjustment needed so that Management is equal to 5% of the gross rent, and to account for the effect of rounding the GA from 3.46% to 3.5%

COMPONENT CALCULATIONS

This section analyzes cost changes for each operating component. Table A on page 14 shows the changes to each component and the overall calculation of the GA of 3.5%. The pie chart on page 15 shows the “pie slice size” for each expense component after applying the recommended adjustments.

Components Analyzed by Seifel Consulting Inc.
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Property Taxes

Property taxes post-Proposition 13 are limited to one percent (1%) of the assessed value of the property based upon a two percent (2%) increase in assessed value per year, except when properties are reassessed, which normally occurs upon a transfer. For most years the property tax component of the GA has been adjusted by 2%.

Following additional analysis on the property tax component, in 1989, 1992, 2002, and 2010, increases larger than 2% were applied to this component to compensate for increases in taxes associated with property sales. In 1989 and 1992, the component was increased by 6% to account for properties that had changed ownership between 1982 – 1989 and 1989 – 1991, respectively. In 2002, the component was increased by 28.6% due to the reassessment of properties that transferred ownership since 1995, when vacancy decontrol was enacted statewide. The 2002 increase was based on Dr. Baar’s analysis of property tax bills for a random sample of 272 of Santa Monica’s controlled properties.

In 2010, the component was increased by 11.6% based on assessed values (as reflected in the 2009 property tax bills) of 3,158 controlled buildings with 26,478 units. Seifel Consulting found that the per unit property tax expense varied significantly depending upon the time period in which buildings were sold and reassessed. Properties purchased before 2000 had a much lower median tax expense as compared to properties purchased since 2000.

For this year’s report, Seifel repeated their comprehensive analysis by analyzing data from the Board’s records and public information from the tax assessor’s office for 3,155 controlled buildings with 26,410 units. The property tax data is based upon the assessed values reflected in the 2010 property tax bills.

Table 1 Apartment Property Taxes by Timeframe of Prior Purchase

Purchase Year	Total Buildings	Total Units	Percent of All Units Sold	Median Tax Per Unit Per Month	Average Tax Per Unit Per Month	Average Monthly Rent/Unit	Average Ratio of Tax to Rental Income
No sale date	224	1,674	6.3%	\$24.07	\$32.82	\$1,177	2.9%
1969 and prior	153	1,234	4.7%	\$24.91	\$26.42	\$1,195	2.4%
1970-1979	545	4,668	17.7%	\$32.92	\$39.85	\$1,331	3.2%
1980-1989	661	5,622	21.3%	\$65.27	\$70.22	\$1,350	5.6%
1990-1994	211	1,731	6.6%	\$82.48	\$89.18	\$1,395	7.0%
1995-1999	393	3,629	13.7%	\$83.53	\$91.44	\$1,452	6.7%
2000-2004	511	4,239	16.1%	\$140.90	\$158.85	\$1,548	10.8%
2005-2009	457	3,613	13.7%	\$201.30	\$216.91	\$1,525	15.3%
Total	3,155	26,410	100.0%	\$73.05	\$99.71	\$1,400	7.3%

The consultants recommend decreasing the property tax component from the 2010 amount of \$73.76 to \$73.05, the median tax paid per unit per month. As the report states, “The decline in the per unit per month property tax costs from 2010 is likely attributable to automatic reassessments to property purchased since 2003 made by the Los Angeles County Assessor. The automatic reassessments were made to reflect the recent economic downturn.”

The recommendation further states, “In accordance with the property tax adjustment made in 2010, we suggest using the median rather than the mean or average to account for the fact that recently sold properties skew the average data such that it is not representative of the property tax paid on most units.”⁴ Staff agrees with the recommendation and has used the overall median tax amount of \$73.05 for this component.

The 2010 component cost of \$73.76 is decreased by \$0.71 to reach the recommended 2011 cost of \$73.05. While the amount of \$73.05 overcompensates owners of properties purchased prior to 1990, it is somewhat less than the median for properties purchased through 1999 and is significantly less for properties purchased since 2000. It may be assumed that owners who purchased properties since vacancy decontrol/re-control began in 1999 did so with increased expectations of potential rental income. Presumably, purchase price decisions were made accordingly.

It is not possible for the Board’s formula of general application to address the range of expenses incurred by each property owner. For 50% of all units sold, the median amount of \$73.05 is greater than the median (and average) tax per unit per month. (If the average tax of \$99.71 was used it would overcompensate 70.3% of all units sold.) Because the Board’s formula is one of general application there will always be property owners who are overcompensated and those whose expenses are greater than the component cost.

The amount recommend by the consultants is \$73.05. This amount is reflected in the following table and represents a decrease of -0.96% from the 2010 component value.

	2010 Average Monthly (per unit)	Percentage Increase/Decrease 2010-2011	Cost Decrease Apt/Month	Estimated 2011 cost
Property Tax	\$73.76	-0.96%	-\$0.71	\$73.05

⁴ From Page 2 of Seifel Consulting Inc. Report – Appendix 2

Property Tax Assessments

In addition to the general tax levy, there are a number of other assessments included on property tax bills. The Rent Control Board has authorized the following assessments to be passed through directly to tenants as monthly surcharges in addition to the maximum allowable rent: Community College Bonds, Unified Schools Bonds, Santa Monica Stormwater Fee, Santa Monica Clean Beaches Tax, and the Santa Monica Malibu Unified School District Measure R Parcel Tax. In each of these instances, Santa Monica residents voted on the proposed bond or parcel tax and following passage, the proponents of the measures asked the Rent Control Board to authorize pass-through to the tenants.

Seven assessments on owners' tax bills are not passed through to tenants as surcharges and have not previously been included in the property tax component of the general adjustment. Seifel Consulting evaluated the seven assessments to calculate a monthly per unit cost for each. The total per unit cost for all seven assessments is used to establish a new Property Tax Assessment component in the 2011 general adjustment. Table 2 details the seven assessments and their monthly per unit cost. Detailed analyses and calculation tables for each assessment are presented in Appendix 2.

**Table 2
Summary of Property Tax Assessments**

	Per Unit Per Month Assessment^a
City of Santa Monica Library Bond	\$0.59
Metropolitan Water District	\$0.27
Trauma/Emergency Services	\$2.64
LA West Mosquito Abatement	\$0.11
Public Health License & Permit Fee	\$1.67
Park District	\$0.96
Flood Control	\$0.61
Total	\$6.84

a. As detailed in the appendix tables, per unit per month assessments are calculated from median values (assessed value, improvement SF, lot SF), with the exception of the Public Health License and Permit Fee.

Source: Los Angeles County Assessor, DataQuick, City of Santa Monica, Metropolitan Water District of Southern California, Los Angeles County Health Services, Los Angeles County West Vector Control District, Los Angeles County Public Health, Los Angeles County Park District, Los Angeles County Department of Public Works, Santa Monica Rent Control Board.

The composite total of \$6.84 is the 2011 amount for this new component. In the future, staff will review the annual change in the costs of the seven assessments and will adjust the component accordingly.

	2010 Average Monthly (per unit)	Estimated 2011 cost
Property Tax Assessments	NA	\$6.84

Business License Expenses--Fees and Taxes

Until 1990, the general adjustment analysis considered the City of Santa Monica Business License tax as part of the "Maintenance and Other Operating Expenses" component. In 1990, the business license cost was split out from the maintenance component in response to a change in the minimum business license tax effective July 1, 1990⁵. The value of the business license tax component was found to be \$0.60 per unit per month and the maintenance component was reduced by that amount. The change in the minimum business license tax cost resulted in an increase of 49.73% to that component and the 1990 estimated cost for the business license component was increased to \$0.89. No change was made to this component in the 1991 general adjustment study and in 1992 the component was added back into the maintenance component which is adjusted by the CPI index (all items, less shelter).

Since vacancy decontrol/re-control began in 1999, rents for controlled units in Santa Monica have been steadily increasing. As a result, the overall gross income realized by most property owners has also increased. Although the tax has not changed since 1990, the increase in revenues due to higher market rents may have increased the cost of the business license tax for property owners. For this year's analysis, Seifel studied the cost of the business license fees and taxes paid by owners of Santa Monica controlled rental properties. They analyzed expenses paid in 2010 (based on owners' reported 2009 gross receipts) provided by the City's Business License Division and data from the Board's records.

The Business License Tax is based on a property's reported gross income (\$1.25/\$1,000) for a calendar year plus a flat processing fee of \$25.83 per residential location. Table 7 of the Seifel Report (Appendix 2) evaluates the cost of the tax itself as well as the processing fee for 2,817 controlled properties. Using a weighted average analysis, the consultants determined the average monthly per unit cost for the processing fee is \$0.21 and \$1.41 for the tax cost. The total business license monthly cost per unit is \$1.61. This is the estimated cost for 2011.

To calculate the current value of the business license expense, the 2010 estimated value of the expense was split out from the maintenance component. Staff determined the amount attributed to the business license expense for 2010 to be \$1.33⁶.

The estimated cost for 2011 of \$1.61 reflects an increase of 21.1% over the 2010 calculated cost of \$1.33 as shown in the table below.

	2010 Average Monthly Cost Per Apt. Unit	Percent Cost Increase 2010-2011	Cost Increase Apt/Month	Estimated 2011 cost
Business License Tax & Fee	\$1.33	21.1%	\$0.28	\$1.61

⁵ The business license tax itself (\$1.25 per \$1,000 of gross receipts) was not increased, only the minimum was changed. The minimum had been \$10 on receipts under \$10,000, the new minimum was set at \$75 on gross receipts under \$60,000. The minimum and the tax itself have not been increased since.

⁶ Based on the 1991 cost of \$0.89 plus the changes in the CPI index (all items, less shelter) for all years through 2010.

Components Adjusted by Actual Changes in Costs

A summary of the 2011 estimated costs for components adjusted by actual cost changes follows. Detailed information about each of these components is found in Appendix 3.

Refuse Collection

Refuse collection charges consist of a fixed charge per apartment and collection fees based on the type of refuse container used and the frequency of collection. Effective July 1, 2010, the monthly fixed charge rate and the collection fees were increased by 2.3%.

The 2010 total monthly per unit cost was projected at \$18.54; applying the 2.3% increase results in the projected cost of \$18.97 for 2011.

	2010 Average Monthly Cost Per Apt. Unit	Percent Cost Increase 2010-2011	Cost Increase Apt./Month	Estimated 2011 cost
Refuse Collection	\$18.54	2.3%	\$0.43	\$18.97

Fire and Life Safety Inspection Fee

Fire and Life Safety Inspections are required for all apartment buildings in Santa Monica. Since January 2004, property owners have been charged a fee for the inspection. Until July 2010 the cost of the inspection was a flat fee per building regardless of size. Fire Inspection Fees for multi-family residential and commercial properties were increased starting July 1, 2010, based on a fee study conducted in the spring of 2010. In addition to the fee increase, a four tier fee schedule was established based on the number of units on a property instead of a flat fee per building. Staff used a weighted average analysis to calculate the 2011 estimated cost for this component. Details of the analysis appear in Appendix 3, page 1.

Last year's estimated cost for this component was \$0.91 (based on a \$65.62 flat fee). Based on the new fee schedule effective July 1, 2010, the monthly per unit cost for 2011 is projected to be \$1.20. This represents a 31.87% increase in the cost for this component.

	2010 Cost Per Apt. Unit	Percent Cost Increase 2010-2011	Cost Increase Apt./Month	Estimated 2011 cost
Average Fire & Life Safety Inspection Expense	\$0.91	31.87%	\$.29	\$1.20

Water and Sewer

On July 8, 2008, the City Council adopted a five-year rate schedule for water and sewer (wastewater). The schedule reflects a change in the rate schedule to a commodity-only structure (based only on water usage). The fixed bi-monthly service charge was eliminated and a four tier commodity schedule was established. (Previously a three tier schedule was in use.) This change was made to promote water efficiency and conservation. Information provided by the Water Resources Department indicates this objective is being realized as consumption levels city-wide have decreased in each of the past three years.

In July 2010, the Water Department implemented the third of five scheduled annual increases; water rates were increased by 10.5% and sewer rates (wastewater) were increased by 15%. This year's GA reflects the total increase of 10.5% on water rates and 15% on sewer rates.

In addition to the change in water and sewer rates, changes in consumption levels are also evaluated to determine the average per unit cost for the water and sewer component. Since 2006, an average consumption factor of 4.85 HCF per unit per month has been used. As discussed in Appendix 3, analysis of consumption for 128 controlled properties indicates water consumption has decreased over the last few years. This is supported by information from the Water Department showing water consumption city-wide has been decreasing steadily since fiscal year 2007/2008. At this time, staff recommends reducing the average consumption factor to 4.6 HCF per unit per month. (See detailed discussion in Appendix 3.)

The table below applies the 10.5% increase to the 2010 water expense of \$14.02 and the 15% increase to the 2010 sewer expense of \$16.82. The 3rd line in the table summarizes the combined water and sewer expenses. The net effect of the combined increases is \$3.99 or a 12.94% increase. The cost for water and sewer are then adjusted to reflect the decrease in the water consumption factor from 4.85 HCF to 4.6 HCF; this is a decrease of 5.43%. The adjusted figures for water and sewer are shown in the last column. The adjusted total estimated cost for water and sewer for 2011 based on consumption of 4.6 HCF is \$32.94.

The table below reflects the increase in water rates for 2010 as well as the effect of the decrease in the average consumption rate to 4.6 HCF. The decrease in the average consumption rate affects both the water expense and the sewer expense.

	2010 Average Monthly Cost per Apt	July 1, 2010 rate increases	Cost Increase Apt/Month	Estimated 2011 cost	Adjusted 2011 cost (4.6 HCF)
Average water expense	\$14.02	10.5%	\$1.47	\$15.49	\$14.65
Average sewer expense	<u>\$16.82</u>	15.0%	<u>\$2.52</u>	<u>\$19.34</u>	<u>\$18.29</u>
Total Water/Sewer Expense	\$30.84	12.94%	\$3.99	\$34.83	\$32.94

Gas – Common Areas Only

Average Costs

In more than two-thirds of all apartments owners pay for hot water heating through master-metered service, while tenants pay for gas heat on an individual meter.

The average gas expense includes the actual cost of gas which is made up of a procurement cost (cost of the gas itself which changes monthly) and a transmission charge (cost for delivering gas to homes), several incidental charges, and a 10% Santa Monica Utility Tax. The 2011 projected cost of gas including the incidental charges and the utility tax reflects an increase of 2.56% from the cost for 2010.

Total Monthly Gas Cost

The gas cost and incidental charges for 2010 and 2011 are shown below. The 2011 estimated cost is shown in the table that follows.

	2010	2011
Gas	\$12.92	\$13.35
Incidentals	<u>6.72</u>	<u>6.79</u>
	\$19.64 ⁷	\$20.14 ⁸

	2010 Average Monthly Cost per Apt. unit	Rate Change 2010-2011	Cost Increase Apt/Month	Estimated 2011 cost
Common area average gas expense	\$19.64	2.55%	\$0.50	\$20.14

Electricity – Common Areas Only

Average Costs

In 2009, staff increased the average cost for this component to reflect the conversion of properties with “house meters” from Schedule D to the GS-1 rate schedule. The result was an increase of 21.49% to the 2008 cost resulting in the estimated 2009 cost of \$12.71. In 2010, staff adjusted this component by the change in the composite cost per kWh for the GS-1 rate schedule. The 2010 estimated cost was \$12.86.

The current composite cost for the GS-1 schedule (18.2 cents per kWh) was compared to last year’s cost (17.5 cents per kWh). The difference is an increase of 4%. When applied to the 2010 cost of \$12.86 the result is \$13.37. This is the amount projected for 2011.

	2010 Average Monthly Cost per Apt. unit	Rate Change 2010-2011	Cost Change Apt/Month	Estimated 2011 per unit cost
Common area average electricity expense	\$12.86	4.0%	\$.51	\$13.37

⁷ April 2010 Cost \$12.92 (16.036 therms x .732281 baseline rate = \$11.74 + \$1.17 [10% tax]) + incidentals \$6.72 (daily service rate [30 days x .16438] + State Regulatory Fee [16.036 therms x .00068] + Low Income Discount Rate Surcharge [16.036 therms x .07269] = \$6.11 + \$0.61 [10% tax]) = **Total cost \$19.64.**

⁸ April 2011 Cost \$13.35 (16.036 therms x .756877 baseline rate = \$12.14 + \$1.21 [10% tax]) + incidentals \$6.79 (daily service rate [30 days x .16438] + State Regulatory Fee [16.036 therms x .00068] + Low Income Discount Rate Surcharge [16.036 therms x .07687] = \$6.17 + \$0.62 [10% tax]) = **Total cost \$20.14.**

Components Adjusted by Changes in the Consumer Price Index

Inflation-related adjustments are made to the following components: maintenance, insurance, management, self labor, and cash flow. Maintenance and insurance are adjusted by the CPI-Less Shelter Index while management, self labor, and cash flow are adjusted by the CPI-All Items Index.

Components Adjusted by the CPI Less Shelter Index (March 2010 - March 2011 = 4.3%)

Maintenance and Other Operating Expenses

Information for this component specific to Santa Monica is not available.⁹ Therefore, the Board adjusts this category by the most-recently reported change in the Consumer Price Index, All Items, Less Shelter. As discussed in the section about the business license expense component, the 2010 maintenance cost has been adjusted to reflect the separation of the business license expense into its own component. The estimated 2010 cost for the maintenance component was originally set at \$113.51. After removing the 2010 business license expense of \$1.33, the adjusted 2010 amount is \$112.18.

The March 2010 – March 2011 percent increase for this index was 4.3%. The effect of this increase on the maintenance component is shown below.

	2010 (adjusted) Average Monthly Cost Per Apt. Unit	Percent Change	Cost Change/ Apt./Month	Estimated 2011 Cost
Maintenance	\$112.18	4.3%	\$4.82	\$117.00

Insurance

Prior to 1997, the GA analysis considered the insurance and maintenance components together and the CPI, Less Shelter index was used to calculate the annual increase or decrease for the combined component. In 1997, the Board commissioned Thomas D. Stringer of Stringer Appraisals to survey local insurance costs to determine whether local costs were adequately represented in the Board's GA analysis.

Based on Stringer's analysis, and other information gathered by the Board, the 1997 general adjustment report found that an increase of 27.8% for insurance was warranted. To apply the increase only to the insurance component, insurance was separated from the maintenance component. This resulted in an average monthly cost per apartment for insurance of \$23.96. The component was again adjusted in 1998 by 4.26% based on information contained in a subsequent report by Stringer.

From 1999 through 2009, the Board used the change in the CPI, Less Shelter index to calculate the annual increase for this component. Last year, Seifel Consulting studied insurance costs for Santa Monica multi-family dwellings. The consultants analyzed actual 2008 and 2009 insurance data for a group of Santa Monica properties and also reviewed data

⁹ For the 2002 report, Dr. Baar obtained data from Apartment Industry Sources for the Los Angeles area for the year 2000. The data indicated the costs for maintenance and other expenses per unit ranged from \$68 - \$126. Although this information was not specific to Santa Monica, the monthly cost used by the Board at that time for this component fell within that range.

from the Institute of Real Estate Management (IREM). The consultants determined the data on the Santa Monica properties was the best indicator of actual local insurance costs. The actual insurance data showed that the average per unit cost for insurance was higher for smaller buildings. Therefore, the consultants used a weighted average analysis to calculate an average cost. Based on their findings, in 2010 the insurance component was increased from the 2009 amount of \$31.94 to \$35.30, a 10.52% increase.

This year, the insurance component is adjusted by the CPI, Less Shelter index to estimate the 2011 cost. The March 2010 – March 2011 percent increase for this index was 4.3%. The effect of this increase on the insurance component is shown below:

	2010 Average Monthly Cost Per Apt. Unit	Percent Change	Cost Change/ Apt./Month	Estimated 2011 Cost
Insurance	\$35.30	4.3%	\$1.52	\$36.82

Components Adjusted by the CPI All Items Index (March 2010 - March 2011 = 3.0%)

The March 2010 – March 2011 percent increase for this index was 3.0%. The effect of this increase on the Self Labor, Cash Flow and Management components is shown below.

Self Labor

	2010 Average Monthly Cost Per Apt. Unit	Percent Change	Cost Change/ Apt./Month	Estimated 2011 Cost
Self Labor	\$57.26	3.0%	\$1.72	\$58.98

Cash Flow Adjustment

	2010 Average Monthly Cost Per Apt. Unit	Percent Change	Cost Change/ Apt./Month	Estimated 2011 Cost
Cash Flow	\$276.31	3.0%	\$8.29	\$284.60*

Management

	2010 Average Monthly Cost Per Apt. Unit	Percent Change	Cost Change/ Apt./Month	Estimated 2010 Cost
Management	\$40.18	3.0%	\$1.21	\$41.39*

*Management costs are fixed at 5% of gross rent pursuant to Rent Board Regulation 4101(c)(1). After adjusting the Management component to reflect 5% of the 2011 gross rent amount, the Cash Flow component is adjusted to accommodate the difference.

Table A
Calculation of Annual General Adjustment
Percentage and Dollar Amounts

Rent Increases Required to Cover Operating Cost Increases and Index Cash Flow

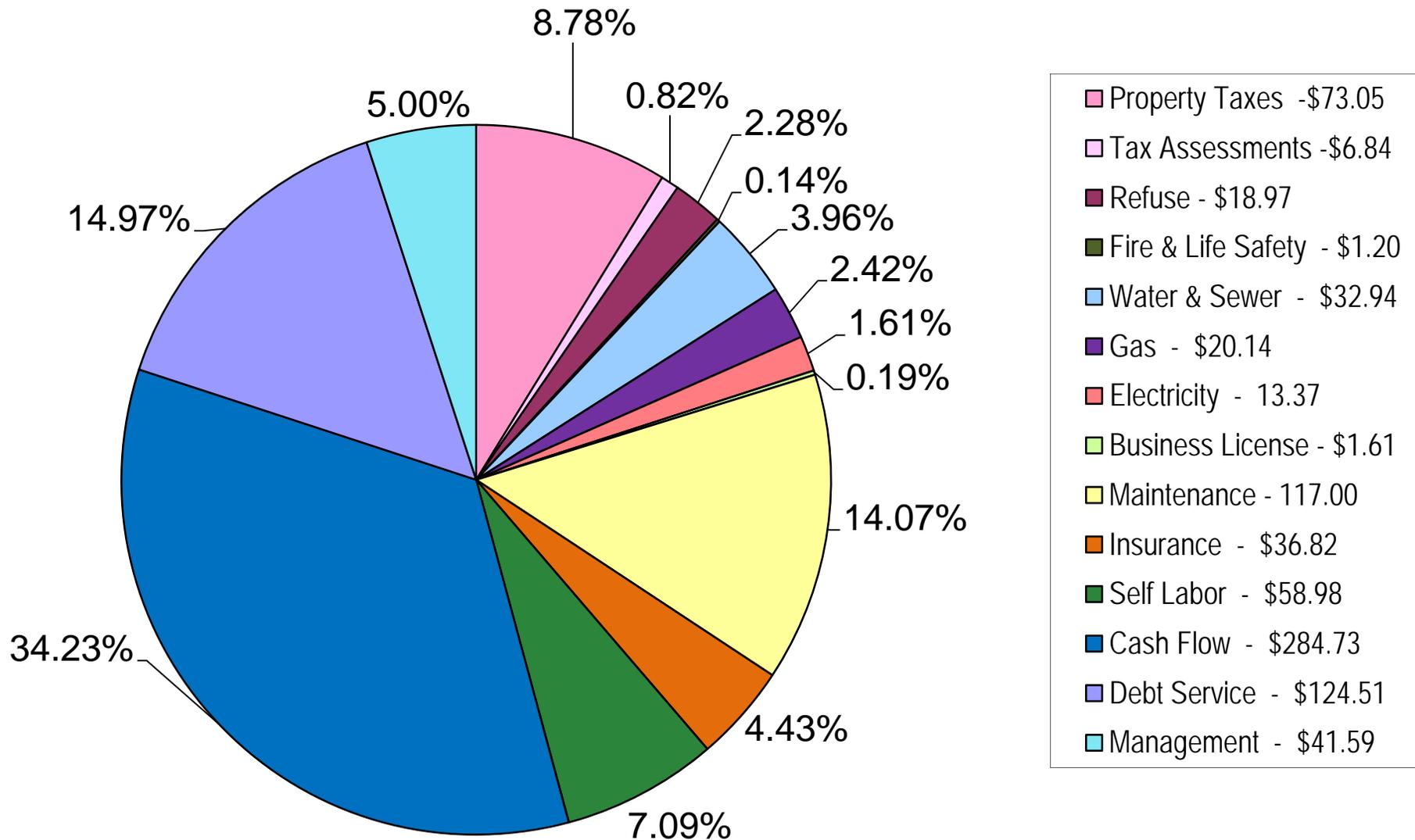
Operating Expense	2010 ratio to gross rent (a)	Estimated cost 2010*	Percent increase 2010-2011 (b)	Percent Increase Required (a) x (b)	Estimated cost 2011 (c)	Rent Adjustment required (d)
Property Taxes	0.0918	\$73.76	-0.96%	-0.0884%	\$73.05	-\$0.71
Property Tax Assessments	0.0000	0.00		0.8511% ¹	6.84	6.84
Refuse	0.0231	18.54	2.3%	0.0531%	18.97	0.43
Fire & Life Safety Inspection Fee	0.0011	0.91	31.87%	0.0361%	1.20	0.29
Water & Sewer	0.0384	30.84	12.94%	0.2613% ²	32.94	2.10
Gas	0.0244	19.64	2.55%	0.0626%	20.14	0.50
Electricity	0.0160	12.86	4.0%	0.0640%	13.37	0.51
Business License Tax and Fees	0.0017	1.33	21.05%	0.0348%	1.61	0.28
Maintenance	0.1396	112.18	4.3%	0.6003%	117.00	4.82
Insurance	0.0439	35.30	4.3%	0.1889%	36.82	1.52
Self Labor	0.0713	57.26	3.0%	0.2138%	58.98	1.72
Debt Service	0.1549	124.51	0.0%	0.0000%	124.51	0.00
Cash Flow	0.3440	276.31	3.0%	1.0315%	284.60	8.29
Management	0.0500	<u>40.18</u>	3.0%	0.1500% ³	<u>41.39</u>	<u>1.21</u>
Totals		\$803.62		3.46%	\$831.42	\$27.80
Recommended GA rounded to 3.5%				\$803.62 x 3.5% =	\$831.75	\$28.13

¹ The percent increase required for the Property Tax Assessments has been imputed as this component was not a cost in last year's report.

² The percent increase required for Water & Sewer has been adjusted to reflect change in the consumption factor from 4.85 HCF to 4.6 HCF. Prior to the adjustment, the percent increase required for this component from the 2010 figure was .4966%.

³ Management costs are fixed at 5% of gross rent pursuant to Rent Board Regulation 4101(c)(1). Adjusting management to equal 5% of the new gross rent of \$831.75 sets the cost for management at \$41.59 rather than \$41.39. Cash Flow has been adjusted from \$284.60 to \$284.73 to reflect the increase in the management cost and the effect of rounding the GA from 3.46% to 3.5%.

2011 Rent Dollar Components



APPENDIX 1 Methodology

In 1983, at the direction of the Board, Dr. Kenneth Baar developed a methodology for calculating the annual General Adjustment. Some modifications were made to the methodology in subsequent years.

In 2002, Dr. Baar was asked again to prepare the general adjustment report for the Board and to analyze various approaches to calculating the general adjustment. While the Board decided not to alter the methodology previously developed by Dr. Baar, they did incorporate some of his recommended modifications to several of the components. These modifications were incorporated in the GA reports beginning in 2003.

In 2008, staff proposed studying whether an alternate methodology based entirely on the CPI index should be considered. However, the Board felt the existing methodology was most responsive to changes in costs for Santa Monica properties and did not change the methodology.

The 2009 General Adjustment Report was prepared using the methodology and survey data previously developed by Dr. Kenneth Baar with modifications to accommodate the negative CPI indexes used in the analysis. The 2010 report was prepared using the Board's long-standing methodology and relied on analyses of property tax and insurance costs performed by Seifel Consulting Inc. at the Board's request.

This report was prepared using the methodology and survey data previously developed by Dr. Kenneth Baar with the features shown below. Staff collected data from Southern California Gas, Southern California Edison, the U.S. Bureau of Labor Statistics and the City of Santa Monica (Water Department, Solid Waste Department, Finance Department [Business License Division]). In addition, staff engaged Seifel Consulting Inc. to compile and analyze data related to the property tax, property tax assessments and business license fees and taxes.

1. Division of the rent dollar into categories of expense, including "hard expenses" (taxes, utilities, City services), and "calculated expenses" (management, maintenance and other operating costs, and net operating income).
2. Identification of the "component ratio to gross rent" by dividing the dollar amount of each component of the rent dollar for the hypothetical average apartment by the total rent dollars. These ratios represent the percentage of the average rent dollar devoted to each expense category. *See Table A, page 14.*
3. Survey of utility companies, government agencies and tax assessor records to determine actual increases (or decreases) in property owners' costs in the last year.

This methodology is consistent with the Rent Control Law as stated in the Board's Charter Amendment, Section 1805(b).

ANNUAL GENERAL ADJUSTMENT: Each year the Board shall generally adjust rents as follows:

- (1) Adjust rents upward by granting landlords a utility and tax increase adjustment for actual increases in the City of Santa Monica for taxes and utilities.
- (2) Adjust rents upward by granting landlords a maintenance increase adjustment for actual increases in the City of Santa Monica for maintenance expenses.
- (3) Adjust rents downward by requiring landlords to decrease rents for any actual decreases in the City of Santa Monica for taxes.

In adjusting rents under this subsection, the Board shall adopt a formula of general application.

Santa Monica Rent Control Board

2011 Property Tax, Property Tax Assessments and Business License Tax Summary of Findings

A. Purpose and Organization

Rent Control Law Section 1805(b) requires the Santa Monica Rent Control Board (Board) to generally adjust rents each year and adopt a formula for making general adjustments (GA). The adjustment must take increases in utility, tax and maintenance expenses into account.

The Board requested Seifel Consulting Inc. (Seifel) to inform the 2011 GA through a review of property tax, property tax assessments and business license information. This summary presents findings to the Board and staff and includes a property tax analysis that updates the analysis from 2010; an analysis of seven property tax assessments and the business license fee applicable to property owners in Santa Monica and assesses the impact of these assessments to property owners' operating expenses.

This summary is organized as follows:

- A. Purpose and Organization
 - B. Property Tax Adjustment
 - C. Property Tax Assessment Analysis
 - D. Business License Analysis
- Appendix Tables

B. Property Tax Adjustment

Proposition 13 (1979) limited property taxes to one percent of the assessed value of the property, based on a 2 percent increase in assessed value per year, except upon a transfer (sale), when properties are reassessed to market value. The Board has generally used the 2 percent limit to calculate the property tax component of the GA.¹ In depth analyses were done in 1989, 1992, 2002, and 2010 to account for the increases that occur upon sale.

The 2010 property tax component of the GA was \$73.76. The potential 2011 property tax component would be \$75.24, applying the 2 percent limit.

Seifel Consulting used County Assessor and Rent Control Board data to analyze property tax.² Findings are presented by timeframe of prior purchase in Tables 1a and 1b.

¹ The annual general adjustment (GA) is determined on a per unit per monthly basis.

² Data collected as of March 2011. Property tax data is from the 2010 tax bill and relies on 2009 assessed property valuation data, the most recent available from the Los Angeles County Assessor.

1. Property Tax Key Findings

- The sample is based on properties subject to rent control, excluding those where 50 percent or more of the units have no registered rents as of March 2011. The sample includes 26,410 housing units in 3,155 buildings.
- Properties were analyzed by timeframe of prior purchase as property taxes and the related expense ratio vary significantly based on when they were last transferred. 50 percent of the units were last purchased prior to 1990. Roughly 20 percent were last purchased in the 1990s and 30 percent since 2000.
- Both median and mean (average) monthly property taxes paid per apartment were calculated to understand typical property tax levels.
 - The median monthly property tax paid per apartment unit is \$73.05, roughly 97 percent of the 2011 property tax component calculated using the 2 percent limit. By timeframe, this ranges from a low of \$24 for properties without a prior purchase date listed to a high of \$201 for properties that last turned over between 2005 and the end of 2010.
 - The mean or average monthly property tax paid per apartment unit is \$100, roughly 132 percent of the 2010 property tax component calculated using the 2 percent limit. As shown in Table 1a, average monthly taxes are lower than this in most timeframes. Over 70 percent of units were last purchased before 2000, timeframes within which the average is less than \$100, and generally much less. In other words, sales within the last decade amount to less than 30 percent of units, but skew average property tax amounts up significantly.
- Average monthly rent is approximately \$1,400, including both long term (restricted) and market rate rent. Average rent levels vary by timeframe, with the lowest rents found in buildings that have not been sold since before 1970 or have no sale date (roughly \$1,180) and the highest in those that have turned over since 2000 (roughly \$1,550).
- The average ratio of property taxes paid to rental income per apartment is 7.3 percent, and the ratio of tax to rental income is significantly higher for properties that have turned over since 2000 than for other properties.
- Higher purchase prices (and therefore property tax amounts) may in part reflect higher expectations of rental revenue, particularly for properties sold since 1995 when vacancy decontrols were instituted.

2. Property Tax Recommendation

- The decline in the per unit per month property tax cost from 2010 is likely attributable to automatic reassessments to property purchased since 2003 made by the Los Angeles County Assessor. The automatic reassessments were made to reflect the recent economic downturn.
- Based on the data and findings above and the Board's adjustments made in 2010, Seifel recommends decreasing the property tax component of the GA from \$73.76 to \$73.05, the median tax currently paid per unit per month. This amounts to a decrease of roughly 1 percent. In accordance with the property tax adjustment made in 2010, we recommend using the median rather than the mean or average to account for the fact that recently sold properties skew the average data such that it is not representative of the property tax paid on most units.

Table 1a
Apartment Property Taxes by Timeframe of Prior Purchase
Santa Monica Rent Control Board

Purchase Year	Total Buildings	Total Units	Percent of All Units Sold	Median Tax Per Unit Per Month ^a	Average Tax Per Unit Per Month ^a	Average Monthly Rent/Unit	Average Ratio of Tax to Rental Income
Total used for Property Tax Calculation	3,155	26,410	100.0%	\$73.05	\$99.71	\$1,400	7.3%
No sale date	224	1,674	6.3%	\$24.07	\$32.82	\$1,177	2.9%
1969 and prior	153	1,234	4.7%	\$24.91	\$26.42	\$1,195	2.4%
1970-1979	545	4,668	17.7%	\$32.92	\$39.85	\$1,331	3.2%
1980-1989	661	5,622	21.3%	\$65.27	\$70.22	\$1,350	5.6%
1990-1994	211	1,731	6.6%	\$82.48	\$89.18	\$1,395	7.0%
1995-1999	393	3,629	13.7%	\$83.53	\$91.44	\$1,452	6.7%
2000-2004	511	4,239	16.1%	\$140.90	\$158.85	\$1,548	10.8%
2005-2010	457	3,613	13.7%	\$201.30	\$216.91	\$1,525	15.3%

a. Assumes a 1% tax rate.

Source: Los Angeles County Assessor, Santa Monica Rent Control Board, 2011 (2010 property tax bill based on 2009 property assessed value). Based on properties subject to rent control, excluding those where 50 percent or more of the units have no registered rents and those with no assessed valuation recorded.

Table 1b
Cumulative Analysis of Apartment Property Taxes by Timeframe of Prior Purchase
Santa Monica Rent Control Board

Purchase Year	Total Buildings	Total Units	Percent of All Units Sold	Median Tax Per Unit Per Month ^a	Average Tax Per Unit Per Month ^a	Average Monthly Rent/Unit	Average Ratio of Tax to Rental Income
No sale date							
1969 and prior ^a	377	2,908	11.0%	\$24.40	\$30.10	\$1,184	2.7%
1979 and prior	922	7,576	28.7%	\$28.11	\$36.11	\$1,275	3.0%
1989 and prior	1,583	13,198	50.0%	\$39.23	\$50.64	\$1,307	4.1%
1994 and prior	1,794	14,929	56.5%	\$44.13	\$55.11	\$1,317	4.4%
1999 and prior	2,187	18,558	70.3%	\$51.93	\$62.21	\$1,344	4.9%
2004 and prior	2,698	22,797	86.3%	\$63.33	\$80.18	\$1,382	6.0%
2010 and prior	3,155	26,410	100.0%	\$73.05	\$98.89	\$1,401	7.3%

Note: Because of averaging over timeframes and rounding, calculations may not precisely add/subtract.

a. Includes properties without a sale date available. Assumes a 1% tax rate.

Source: Los Angeles County Assessor, Santa Monica Rent Control Board, 2011 (2010 property tax bill based on 2009 property assessed value). Based on properties subject to rent control, excluding those where 50 percent or more of the units have no registered rents and those with no assessed valuation recorded.

C. Property Tax Assessment Analysis

Santa Monica property owners are charged various assessments as part of their annual property tax bill. These assessments are evaluated below to understand their impacts on property owners' operating expenses. A summary of the seven assessments evaluated and their per unit per month assessment is presented in Table 2. Detailed calculation tables for each assessment are presented in the appendix.

Table 2
Summary of Property Tax Assessments, 2011
Santa Monica Rent Control Board

	Per Unit Per Month Assessment^a
City of Santa Monica Library Bond	\$0.59
Metropolitan Water District	\$0.27
Trauma/Emergency Services (County)	\$2.64
LA West Mosquito Abatement (County)	\$0.11
Public Health License & Permit Fee (County)	\$1.67
Park District (County)	\$0.96
Flood Control (County)	\$0.61
Total	\$6.84

a. As detailed in the appendix tables, per unit per month assessments are calculated from median values (assessed value, improvement SF, lot SF), with the exception of the Public Health Licence and Permit Fee.

Source: Los Angeles County Assessor, DataQuick, City of Santa Monica, Metropolitan Water District of Southern California, Los Angeles County Health Services, Los Angeles County West Vector Control District, Los Angeles County Public Health, Los Angeles County Park District, Los Angeles County Department of Public Works, Santa Monica Rent Control Board.

1. Santa Monica Library Bond Assessment

The Santa Monica Library Bond Assessment (Library Bond Assessment) was approved by voters in 1998 as Proposition L. Proposition L was a \$25 million bond measure that supports the construction of library facilities. The Library Bond Assessment is applied based on a property's assessed value. The FY 2010/11 Library Bond Assessment was \$7.99 per \$100,000 of assessed valuation.

a. Library Bond Assessment Key Findings

- Of the 3,155 buildings that were analyzed for the property tax adjustment, 11 additional buildings were removed from the Library Bond Assessment analysis as their assessed valuation totaled to \$0 after real estate exemptions were applied. A total of 3,144 buildings with 26,410 units were included in this analysis.

- As shown in Appendix Table 1, both median and mean (average) assessed value per building were calculated to understand typical assessed value.
 - The median assessed value per apartment building is nearly \$557,000.
 - On a per unit basis, the median assessed value is approximately \$88,000 per unit, based on the median per unit assessed value of the 3,144 buildings.³ By timeframe, per unit values ranges from a low of \$28,900 for properties without a prior purchase date listed to a high of \$241,700 for properties that last turned over between 2005 and the end of 2010.
 - The mean or average assessed value per apartment building is \$906,000.
 - On a per unit basis, the average assessed value is \$120,000 per unit.⁴ As shown in Appendix Table 1, average assessed values are lower than this in most timeframes. More than 70 percent of buildings were last purchased before 2000, timeframes within which the average is less than \$906,000, and generally much less. In other words, sales within the last decade amount to less than 30 percent of buildings, but skew average assessed value up.
- For the Library Bond Assessment calculation, the overall median assessed value per unit is used since recently sold properties skew the average data such that it is not representative of the assessed value on most units.
- Library Bond Assessment Calculation:

Median Assessed Value/Unit x FY 2010/11 Fee Assessment ÷ 12 months =

\$87,890/Unit x \$7.99/\$100,000 ÷ 12 months = \$0.59/unit/month

2. Metropolitan Water District Assessment

The Metropolitan Water District Assessment (Water District Assessment) is a charge for continuing debt service on bonds to finance water treatment facilities and infrastructure for the Metropolitan Water District. The Water District Assessment is calculated based on assessed valuation. The FY 2010/11 Water District Assessment was \$3.70 per \$100,000 of assessed valuation.

a. Metro Water District Assessment Key Findings

- The same set of buildings as the Library Bond Assessment analysis was used to understand assessed valuation for calculation of the Water District Assessment. See Appendix Table 1.
- For the Water District Assessment calculation, the overall median assessed value per unit is used since recently sold properties skew the average data such that it is not representative of the assessed value on most units.

³ The database of rent control properties is by apartment buildings. Per unit assessed value, or average per unit assessed value, is calculated by dividing the total building assessed value by the number of units in the building. Unit median assessed value and averaged assessed value is then calculated over the total buildings within each subcategory of timeframes.

⁴ See footnote above.

- Water District Assessment Calculation:

$$\text{Median Assessed Value/Unit} \times \text{FY 2010/11 Fee Assessment} \div 12 \text{ months} =$$

$$\$87,890/\text{Unit} \times \$3.70/\$100,000 \div 12 \text{ months} = \$0.27/\text{unit}/\text{month}$$

3. Trauma, Emergency Services and Bioterrorism Response Assessment

The Trauma, Emergency Services and Bioterrorism Response Assessment (Trauma Services Assessment) is a parcel tax approved by county voters in 2002 to fund trauma, emergency services and bioterrorism preparedness efforts. The Trauma Services Assessment is calculated based on the total square footage of improvements. The FY 2010/11 assessment was \$3.99 per 100 square feet of improvement.

a. Trauma Services Assessment Key Findings

- The improvement square footage data analyzed was drawn from a 2006 data set from DataQuick. As some properties may have performed additions, 87 buildings with unavailable or likely inaccurate improvement square footage data was removed from the analysis. A total of 3,068 buildings (or 25,553 units) were included in this analysis.
- As shown in Appendix Table 2, both median and mean (average) building square footage were calculated to understand typical building size. Buildings are categorized by improvement square footage categories to understand the distribution of building sizes among the buildings analyzed.
 - The median square footage per apartment building is nearly 4,900 SF.
 - On a per unit basis, the median square footage is approximately 790 SF per unit over the 3,068 buildings in the analysis.⁵
 - The mean, or average, square footage per apartment building is approximately 7,000 SF.
 - On a per unit basis, the average square footage is approximately 840 SF per unit.⁶ As shown in Appendix Table 2, the average improvement square feet per building is lower than this in over 75 percent of the buildings. In other words, only 25 percent of buildings have more than 7,000 SF in improvements, but skew the average improvement square footage up significantly.
- Trauma Services Assessment Calculation:

$$\text{Median Square Footage/Unit} \times \text{FY 2010/11 Fee Assessment} \div 12 \text{ months} =$$

$$794 \text{ SF}/\text{Unit} \times \$3.99/100 \text{ SF} \div 12 \text{ months} = \$2.64/\text{unit}/\text{month}$$

⁵ Calculation of per unit median and average assessed value follows methodology used to calculate per unit assessed value, as described in footnote 3.

⁶ See footnote above.

4. Los Angeles West Mosquito Abatement Assessment

The Los Angeles West Mosquito Abatement Assessment (Mosquito Abatement Assessment) was created in 1996 and is a direct assessment over a special mosquito abatement district. The Mosquito Abatement Assessment is calculated based on the parcel size in acres. For FY 2010/11, the fee for residential parcels is \$11.40 for parcels less than one acre and \$8.74 plus \$2.66/acre for parcels greater than one acre and less than or equal to five acres. For parcels greater than one acre and less than or equal to five acres, \$20.00 is the maximum annual assessment.

a. Mosquito Abatement Assessment Key Findings

- Of the 3,155 buildings that were analyzed for the property tax adjustment, nine additional buildings were removed from the Mosquito Abatement Assessment analysis as no lot size information or Mosquito Abatement Assessment was reported for 2011.
- 3,141 of the 3,146 buildings are on parcels that are less than one acre in size and five parcels are greater than one acre in size. All parcels are less than five acres in size.
- As shown in Appendix Table 3, both median and mean (average) lot size were calculated to understand typical lot size. Buildings are categorized by parcel acreage categories to understand the distribution of lot sizes among the buildings analyzed.
- The median lot size is approximately 0.17 acres. As over 99 percent of the buildings are on lots less than one acre in size, the overall median lot size is the same as the median lot size for apartment buildings on a lot less than one acre.
- The average lot size is slightly greater at 0.19 acres.
- Median and average lot size does not vary considerably over the parcel acreage categories used to calculate the Mosquito Abatement Assessment. However, utilizing the median lot size for the assessment calculation would most fairly calculate the assessment across all buildings in the analysis.
- As shown in Table 3, to determine an overall Mosquito Abatement Assessment, a weighted average was used to account for the distribution of buildings within the lot acreage categories applicable for the fee calculation.

Table 3
Los Angeles West Mosquito Abatement Assessment per Unit per Month, 2011^a
Santa Monica Rent Control Board

Buildings By Parcel Acreage	Total Buildings	Total Units	% of Total Units	Median Lot Size	Fee by Lot Size	Weighted Average Mosquito Abatement Assessment/Unit/Month
< 1 acre	3,141	25,579	97.1%	0.1721	\$11.40	\$0.12
1 - 2 acres	5	776	2.9%	1.0940	\$8.74 + \$2.66/ac	\$0.01
Total	3,146	26,355	100.0%	0.1721		\$0.11

a. Calculated using the FY 2010/11 assessment of \$11.40 for parcels less than 1 acre and flat fee of \$8.74 plus \$2.66/acre for parcels greater than one acre and less than 5 acres.

Source: Los Angeles County Assessor, Los Angeles County West Vector Control District, DataQuick, Santa Monica Rent Control Board, 2011 (property tax as of 2011.) Based on properties subject to rent control, excluding those where 50 percent or more than the units have no registered rents.

5. Los Angeles County Public Health License and Permit Fee

As permitted by State law, Los Angeles County assesses the Public Health License and Permit Fee (Health License Fee) in order to recover the cost of regulatory inspections and services provided by the Department of Public Health. The Environmental Health Division of the Department of Public Health is responsible for ensuring that residential housing within Los Angeles County is safe, sanitary and fit for human habitation. DES is responsible for the inspection of more than 60,000 multiple family dwellings (5 units or more), and responds to approximately 40,000 complaints concerning dwellings of 4 units or less. In addition to other land uses, the Health License Fee is applied to multifamily residential uses with five or more units. The fee structure is tiered based on the number of units on the property and whether property has a swimming pool. The FY 2010/11 Health License Fee for multifamily uses is:

Building Type	Without Swimming Pool	With Swimming Pool
<5 Units	\$0.00	\$0.00
5 to 10 Units	\$203.00	\$379.00
11 to 20 Units	\$303.00	\$484.00
21 to 50 Units	\$370.00	\$565.00
51 to 100 Units	\$447.00	\$662.00
100+ Units	\$468.00	\$685.00

a. Health License Fee Key Findings

- Of the 3,155 buildings that were analyzed for the property tax adjustment, 76 additional buildings with no pools were removed from the Health License Fee analysis as they did not reported assessment for 2011. The remaining 3,079 buildings (or 25,603 units) were included in the analysis.
- As shown in Appendix Table 4, 97 percent of all buildings (2,988 buildings) did not have a pool while 3 percent did have a pool (91 buildings).
- Nearly 95 percent of the buildings analyzed had 20 or fewer units.
- As shown in Table 4, to determine an overall Health License Fee, a two-tiered weighted average was used to account for the distribution buildings types within the building type categories applicable for the fee calculation.

Table 4
Los Angeles County Public Health License and Permit Fee per Unit per Month, 2011
Santa Monica Rent Control Board

Building Type	Buildings with No Pool ^a				Buildings with Pool				Total Units	Weighted Average Public Health Licence Fee/ Unit/Month
	Total Buildings	Total Units	FY 2010/11 Assessment	Weighted Average Assess/Unit/ Month	Total Buildings	Total Units	FY 2010/11 Assessment	Weighted Average Assess/Unit/ Month		
<5 units	973	3,331	\$0	\$0.00	0	0	\$0	\$0.00	3,331	\$0.00
5 to 10 units	1,553	10,776	\$203	\$2.44	2	18	\$379	\$3.51	10,794	\$2.44
11 to 20 units	368	4,997	\$303	\$1.86	18	294	\$484	\$2.47	5,291	\$1.89
21 to 50 units	88	2,416	\$370	\$1.12	63	2,018	\$565	\$1.47	4,434	\$1.28
51 to 100 units	3	230	\$447	\$0.49	7	486	\$662	\$0.79	716	\$0.70
101+ units	3	923	\$468	\$0.13	1	114	\$685	\$0.50	1,037	\$0.17
Total	2,988	22,673		\$1.70	91	2,930		\$1.43	25,603	\$1.67

a. Excludes 76 buildings (with no pool) that each contain more than 5 units and does not have a reported Public Health License and Permit assessment for 2011.

Source: Los Angeles County Assessor, Los Angeles County Public Health, Santa Monica Rent Control Board.

6. Los Angeles County Park District Assessment

The LA County Park District Assessment (Park District Assessment) is a direct assessment on all properties in the County. For multifamily residential uses, the Park District Assessment is calculated based on parcel size (maximum of 2.5 acres) and an associated flat fee, based on the number of units in the building. For the FY 2010/11 Park District Assessment, all parcels are charged \$33.69 per acre (or fraction of) plus a flat fee of \$21.69 for duplexes, \$32.54 for triplexes, or \$10.85 per unit for properties with four or more units.

a. Park District Assessment Key Findings

- Of the 3,155 buildings that were analyzed for the property tax adjustment, seven additional buildings were removed from the Park District Assessment, as lot size data was not available. A total of 3,148 buildings with 26,366 units were included in the analysis for the Park District Assessment.
- As shown in Appendix Table 5, both median and mean (average) lot size were calculated to understand typical lot size. Buildings are categorized by parcel acreage categories to understand the distribution of lot sizes among the buildings analyzed.
- The median lot size is approximately 0.17 acres. As over 87 percent of the buildings contain four or more units, the overall median lot size is the same as the median lot size for apartment buildings with four or more units.
- The average lot size is slightly greater at 0.19 acres.
- Median and average lot size does not vary considerably over the parcel acreage categories used to calculate the Park District Assessment. However, utilizing the median lot size for the assessment calculation would most fairly calculate the assessment across all buildings in the analysis.
- As shown in Table 5, to determine an overall Park District Assessment, a weighted average was used to account for the distribution buildings within the building type categories applicable for the fee calculation.

Table 5
Los Angeles County Park District Assessment per Unit per Month, 2011
Santa Monica Rent Control Board

Building Type	Total Buildings ^a	Total Units	% of Total Units	Median Lot Size (acres)	Park District Assessment by Building Type	Weighted Average Park District Assessment/Unit/Month
Duplex	170	340	1.3%	0.1376	\$33.69/ac + \$21.69	\$1.10
Triplex	219	657	2.5%	0.1518	\$33.69/ac + \$32.54	\$1.05
4+ Units	2,759	25,369	96.2%	0.1721	\$33.69/ac + \$10.85/unit	\$0.96
Total	3,148	26,366	100.0%	0.1721		\$0.96

a. Excludes 7 buildings where lot size data is not available.

Source: Los Angeles County Assessor, Los Angeles County Park District, DataQuick, Santa Monica Rent Control Board.

7. Los Angeles County Flood Control Assessment

The LA County Flood Control Assessment (Flood Control Assessment) is a special tax levied each year for payment of bonds and interest used to construct storm drain improvements, drainage improvements and systems. The Flood Control Assessment is calculated based on the actual acreage of a parcel up to a threshold size according to land use and runoff factor associated with different land uses. For FY 2010/11, the Flood Control Assessment is \$28.85 per acre (or fraction of) multiplied by the runoff factor divided by 0.0637.⁷ For any acreage above the land use threshold size, an additional runoff factor is applied to the excess amount of acreage. Runoff factors are summarized below in Table 6.

The threshold parcel sizes are as follows:

Duplex	0.6514 acres
Triplex	0.9771 acres
Fourplex	1.3028 acres
5+ units	N/A

a. Flood Control Assessment Key Findings

- Of the 3,155 buildings that were analyzed for the property tax adjustment, seven additional buildings were removed from the Flood Control Assessment, as lot size data was not available. A total of 3,148 buildings (parcels) with 26,366 units were included in the analysis for the Flood Control Assessment.
- None of the parcels analyzed exceeded the threshold size for their respective land uses.
- As shown in Appendix Table 6, both median and mean (average) lot size were calculated to understand typical lot size. Buildings are categorized by parcel acreage categories to understand the distribution of lot sizes among the buildings analyzed.
- The median lot size is approximately 0.17 acres. Nearly 70 percent of the buildings contain five or more units. Therefore, the overall median lot size is the same as the median lot size for apartment buildings with five or more units.
- The average lot size is slightly greater at 0.19 acres.
- Median and average lot size does not vary considerably over the parcel acreage categories used to calculate the Flood Control Assessment. However, utilizing the median lot size for the assessment calculation would most fairly calculate the assessment across all buildings in the analysis.
- As shown in Table 6, to determine an overall Flood Control Assessment, a weighted average was used to account for the distribution buildings within the building type categories applicable for the fee calculation.

⁷ Santa Monica is within Zone 1 for the purposes of calculating the Flood Control Assessment.

Table 6
Los Angeles County Flood Control Assessment per Unit per Month^a, 2011
Santa Monica Rent Control Board

Building Type	Total Buildings^b	Total Units	% Total Units	Median Lot Size (acres)	Runoff Factor	Weighted Average Flood Control Assessment/ Unit/Month^a
Duplex	170	340	1.3%	0.1376	0.4176	\$1.08
Triplex	219	657	2.5%	0.1518	0.6815	\$1.30
Fourplex	582	2,328	8.8%	0.1492	0.8194	\$1.15
5+ Unit	2,177	23,041	87.4%	0.1721	0.8553	\$0.52
Total	3,148	26,366	100.0%	0.1721		\$0.61

a. Calculated based on FY 2010/11 assessment formula provided by the County Department of Public Works. Santa Monica is in the Zone 1 flood district.

b. No buildings exceeded the threshold area limits by building type as set by the Los Angeles County Department of Public Works.

Source: Los Angeles County Assessor, Los Angeles County Department of Public Works, DataQuick, Santa Monica Rent Control Board.

D. Business License Analysis

The Business License Tax, charged by the City of Santa Monica, is part of the maintenance component of the GA and is adjusted annually based on the CPI index, (all items, less shelter). The Business License Tax is calculated based on gross income during a calendar year plus a flat processing fee. For 2010, the Business License Tax was: \$1.25/\$1,000 in gross receipts plus a flat processing fee of \$25.83/residential location.⁸ Although the \$1.25/\$1,000 in gross receipts component of the Business License Tax has not changed since 1990, increases in gross income due to higher market rate rents may have increased the cost of the Business License Tax for property owners. The analysis presented below in Table 7 evaluates the business license tax paid by Santa Monica property owners in 2010.

⁸ The City of Santa Monica adjusts the processing fee by the CPI each year on July 1.

**Table 7
Business License Taxes per Unit per Month, 2011
Santa Monica Rent Control Board**

Building Type (# Units)	Total Buildings^a	Total Units	% Total Units	Business License Tax	Business License Processing Fee	Business License Tax/ Unit/Month	Business License Processing Fee/ Unit/Month	Total Business License Tax/ Unit/Month
2-3 ^b	465	1,169	5.04%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
4 (owner-occupied unit) ^b	95	380	1.64%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
4	360	1,440	6.21%	\$27,496.83	\$9,298.80	\$1.59	\$0.54	\$2.13
5	299	1,495	6.45%	\$27,401.25	\$7,723.17	\$1.53	\$0.43	\$1.96
6	463	2,778	11.98%	\$53,133.65	\$11,959.29	\$1.59	\$0.36	\$1.95
7	209	1,463	6.31%	\$27,745.00	\$5,398.47	\$1.58	\$0.31	\$1.89
8	135	1,080	4.66%	\$18,696.55	\$3,487.05	\$1.44	\$0.27	\$1.71
9	51	459	1.98%	\$8,038.33	\$1,317.33	\$1.46	\$0.24	\$1.70
10	241	2,410	10.39%	\$41,411.57	\$6,225.03	\$1.43	\$0.22	\$1.65
11	117	1,287	5.55%	\$22,377.08	\$3,022.11	\$1.45	\$0.20	\$1.64
12	63	756	3.26%	\$12,506.25	\$1,627.29	\$1.38	\$0.18	\$1.56
13	20	260	1.12%	\$5,551.25	\$516.60	\$1.78	\$0.17	\$1.94
14	32	448	1.93%	\$8,525.00	\$826.56	\$1.59	\$0.15	\$1.74
15	20	300	1.29%	\$5,170.00	\$516.60	\$1.44	\$0.14	\$1.58
16	32	512	2.21%	\$8,991.25	\$826.56	\$1.46	\$0.13	\$1.60
17	12	204	0.88%	\$3,717.50	\$309.96	\$1.52	\$0.13	\$1.65
18	13	234	1.01%	\$4,068.75	\$335.79	\$1.45	\$0.12	\$1.57
19	10	190	0.82%	\$3,357.50	\$258.30	\$1.47	\$0.11	\$1.59
20	27	540	2.33%	\$10,548.75	\$697.41	\$1.63	\$0.11	\$1.74
21	12	252	1.09%	\$4,341.25	\$309.96	\$1.44	\$0.10	\$1.54
22	12	264	1.14%	\$4,305.00	\$309.96	\$1.36	\$0.10	\$1.46
23	11	253	1.09%	\$5,147.50	\$284.13	\$1.70	\$0.09	\$1.79
24	18	432	1.86%	\$8,417.08	\$464.94	\$1.62	\$0.09	\$1.71
25-26	13	332	1.4%	\$5,338.75	\$335.79	\$1.34	\$0.08	\$1.42
27-29	14	389	1.7%	\$6,753.75	\$361.62	\$1.45	\$0.08	\$1.52
30-33	27	835	3.6%	\$17,547.08	\$697.41	\$1.75	\$0.07	\$1.82
34-39	14	498	2.1%	\$10,598.75	\$361.62	\$1.77	\$0.06	\$1.83
40-49	20	929	4.0%	\$18,817.66	\$516.60	\$1.69	\$0.05	\$1.73
50+	12	1,603	6.9%	\$20,232.50	\$309.96	\$1.05	\$0.02	\$1.07
Total	2,817	23,192	100.0%	\$390,235.83	\$58,298.31			
Weighted Average^c						\$1.40	\$0.21	\$1.61

- a. Excludes 504 buildings for which no Business License Tax data matched with the Rent Control Board's database of 3,321 properties subject to rent control.
- b. Buildings with three or fewer units and fourplexes that have one owner-occupied unit are not subject to the Business license Tax and Processing Fee.
- c. Includes units not subject to the Business License Tax and Processing Fee.

Source: City of Santa Monica, Santa Monica Rent Control Board.

1. Business License Tax Findings

- The analysis is based on a sample of rent control buildings for which the City was able to match the Rent Control Board's address data to the City's Business License Tax database. A total of 2,817 buildings or 23,197 units are included in the analysis.
- Properties were analyzed by building type, defined by the number of units in the building. Buildings with 25 or more units were aggregated into broader categories.⁹ Over 80 percent of units are in buildings with 25 or fewer units.
- Approximately 5 percent of units are in duplexes or triplexes and therefore are not charged a Business License Tax or Processing Fee.
- An additional 1.6 percent of all units are in fourplexes with one owner occupied unit. These buildings are also not subject to the Business license Tax or Processing Fee.
- At \$25.83/residential location, the weighted average Processing Fee is \$0.21/unit/month.
- At \$1.25/\$1,000 in gross receipts, the weighted average Business License Tax is \$1.40/unit/month.
- The weighted average Total Business License Tax (Processing Fee plus Business License Tax) per unit per month is \$1.61, which is approximately 116% of the 2011 Business License Tax calculated using the CPI adjustment (\$1.39).¹⁰
- The higher Business License Tax paid by property owners, as compared with the Business License Tax adjusted by CPI is likely attributable to higher rents, which have grown faster than the annual CPI.

2. Business License Tax Recommendations

- Based on the data and findings above, Seifel recommends increasing the Business License Tax portion of the maintenance component of the GA from \$1.33 to \$1.61 for 2011. This amounts to an increase of approximately 21 percent.
- Given the impact of market rent fluctuations, the Board and staff should consider replicating this analysis every 3 to 5 years to ensure that the GA keeps pace with Business License Tax expenses.

⁹ Buildings with 25 or more units were aggregated to maintain the confidentiality of those buildings.

¹⁰ Calculated by applying the CPI (4.3%) to the 2010 Business License Tax (\$1.33). The calculated \$1.39 Business License Tax for 2011 does not include the Processing Fee component.

Appendix Tables
Santa Monica Rent Control Board
2011 Property Tax Assessments

Appendix Table 1
Apartment Assessed Valuation by Timeframe of Prior Purchase
(Santa Monica Library Bond/Metropolitan Water District Assessments)
Santa Monica Rent Control Board

Purchase Year	Total Buildings ^a	Median AV/ Building	Average AV/ Building	Total Units	% of Total Units	Median AV/ Unit ^b	Average AV/ Unit ^b
Total used for Assessment Calculation	3,144	\$556,861	\$906,031	26,410	100.0%	\$87,980	\$120,068
No sale date	224	\$160,460	\$279,502	1,674	6.3%	\$28,886	\$39,379
1969 and prior	153	\$188,409	\$250,950	1,234	4.7%	\$29,895	\$31,706
1970-1979	545	\$277,821	\$397,026	4,668	17.7%	\$39,507	\$47,820
1980-1989	655	\$490,366	\$674,914	5,622	21.3%	\$78,778	\$85,035
1990-1994	211	\$601,546	\$751,372	1,731	6.6%	\$98,979	\$107,012
1995-1999	389	\$554,122	\$1,055,521	3,629	13.7%	\$100,623	\$110,854
2000-2004	511	\$953,978	\$1,366,070	4,239	16.1%	\$169,078	\$190,618
2005-2010	456	\$1,342,463	\$1,802,436	3,613	13.7%	\$241,661	\$260,867

a. Excludes 11 buildings that receive real estate exemptions and therefore has no taxable assessed valuation.

b. Based on calculation of average per unit square footage per building.

Source: Los Angeles County Assessor, Santa Monica Rent Control Board, 2011 (2010 property tax bill based on 2009 property assessed value). Based on properties subject to rent control, excluding those where 50 percent or more of the units have no registered rents and those with no assessed valuation recorded.

Appendix Table 2
Apartment Unit Distribution and Size by Building Improvement Square Footage Category
(Trauma, Emergency and Bioterrorism Response Assessment)
Santa Monica Rent Control Board

Building Improvement Square Footage Category	Total Buildings ^a	Median Square Feet/Building	Average Square Feet/Building	Total Units	% of Total Units	Median Square Feet/Unit ^b	Average Square Feet/Unit ^b
Total Used for Assessment Calculation	3,068	4,865	7,026	25,553	100.0%	794	836
0-2,000 SF	242	1,675	1,599	641	2.5%	617	642
2,001-4,000 SF	986	3,040	3,014	4,432	17.3%	694	709
4,001-6,000 SF	620	4,888	4,937	3,887	15.2%	811	837
6,001-8,000 SF	465	6,978	6,953	3,891	15.2%	867	901
8,001-10,000 SF	316	8,796	8,890	3,073	12.0%	896	1,007
>10,000SF	439	15,292	20,715	9,629	37.7%	968	1,034

Appendix Table 3
Apartment Unit Distribution and Lot Size by Building Parcel Acreage
(Los Angeles West Mosquito Abatement Assessment)
Santa Monica Rent Control Board

Buildings By Parcel Acreage	Total Buildings	% of Total Buildings	Total Units	% of Total Units	Median Lot Size	Average Lot Size
< 1 acre	3,141	99.8%	25,579	97.1%	0.1721	0.1926
1 - 2 acres	5	0.2%	776	2.9%	1.0940	1.3993
Total	3,146	100.0%	26,355	100.0%	0.1721	0.1946

a. Excludes 9 buildings where lot size data is not available or no 2011 Mosquito Abatement assessment was reported.

Source: Los Angeles County Assessor, Los Angeles County West Vector Control District, DataQuick, Santa Monica Rent Control Board, 2011 (2010 property tax bill based on 2009 property assessed value). Based on properties subject to rent control, excluding those where 50 percent or more of the units have no registered rents and those with no assessed valuation recorded.

Appendix Table 4
Distribution of Apartments with and without Pool by Building Type
(Los Angeles County Public Health License and Permit Fee)
Santa Monica Rent Control Board

Building Type	Buildings with No Pool^a			Buildings with Pool			Total Buildings	Total Units
	Total Buildings	% of Total Buildings	Total Units	Total Buildings	% of Total Buildings	Total Units		
<5 units	973	31.6%	3,331	0	0.0%	0	973	3,331
5 to 10 units	1,553	50.4%	10,776	2	0.1%	18	1,555	10,794
11 to 20 units	368	12.0%	4,997	18	0.6%	294	386	5,291
21 to 50 units	88	2.9%	2,416	63	2.0%	2,018	151	4,434
51 to 100 units	3	0.1%	230	7	0.2%	486	10	716
101+ units	3	0.1%	923	1	0.0%	114	4	1,037
Total	2,988	97.0%	22,673	91	3.0%	2,930	3,079	25,603

a. Excludes 76 buildings (with no pool) that have more than 5 units and does not have a reported Public Health License and Permit assessment for 2011. Source: Los Angeles County Assessor, Los Angeles County Public Health, Santa Monica Rent Control Board, 2011 (property tax as of 2011.) Based on properties subject to rent control, excluding those where 50 percent or more than the units have no registered rents.

Appendix Table 5
Apartment Building Lot Size by Building Type^a
(Los Angeles County Park District Assessment)
Santa Monica Rent Control Board

Building Type	Total Buildings	% of Total Buildings	Total Units	% Total Units	Median Lot Size (acres)	Average Lot Size (acres)
Duplex	170	5.4%	340	1.3%	0.1376	0.1253
Triplex	219	7.0%	657	2.5%	0.1518	0.1469
4+ Units	2,759	87.6%	25,369	96.2%	0.1721	0.2026
Total	3,148	100.0%	26,366	100.0%	0.1721	0.1946

a. Excludes 7 buildings where lot size data is not available.

Source: Los Angeles County Assessor, DataQuick, Santa Monica Rent Control Board, 2011 (2010 property tax bill based on 2009 property assessed value). Based on properties subject to rent control, excluding those where 50 percent or more of the units have no registered rents and those with no assessed valuation recorded.

Appendix Table 6
Apartment Building Lot Size by Building Type^a
(Los Angeles County Flood Control Assessment)
Santa Monica Rent Control Board

Building Type	Total Buildings^b	% of Total Buildings	Total Units	% Total Units	Median Lot Size (acres)	Average Lot Size (acres)
Duplex	170	5.4%	340	1.3%	0.1376	0.1253
Triplex	219	7.0%	657	2.5%	0.1518	0.1469
Fourplex	582	18.5%	2,328	8.8%	0.1492	0.1509
5+ Unit	2,177	69.2%	23,041	87.4%	0.1721	0.2164
Total	3,148	100.0%	26,366	100.0%	0.1721	0.1946

a. Excludes 7 buildings where lot size data is not available.

b. No buildings exceeded the threshold area limits by building type as set by the Los Angeles County Department of Public Works.

Source: Los Angeles County Assessor, DataQuick, Santa Monica Rent Control Board, 2011 (2010 property tax bill based on 2009 property assessed value). Based on properties subject to rent control, excluding those where 50 percent or more of the units have no registered rents and those with no assessed valuation recorded.

APPENDIX 3 Component Details

Refuse Collection

Refuse collection charges consist of a fixed charge per apartment and collection fees based on the type of refuse container used and the frequency of collection.

There are several types of containers and various options as to the frequency of collection. Over the years, the Board has reviewed refuse bills for a variety of apartment buildings and has calculated average expenditure levels. The “typical” configuration (type of refuse container and frequency of pick-up) used for this report is based on a ten-unit building using two 2-yard bins picked up once a week.

Between 1999 and June 2004, the fixed charge (monthly fee per apartment) did not vary and held at \$3.00. Since July 2005, the fixed charge rates and the collection rates have increased effective July 1 of each year. Effective July 1, 2010, the monthly fixed charge rate was increased by 2.3% resulting in a monthly fee per apartment of \$3.95. Collection rates were also increased by 2.3% effective July 1, 2010

¹. The table shows the impact of the rate increases on the 2011 overall cost for a hypothetical typical apartment.

Monthly Refuse Collection Charges per Apartment
(Hypothetical 10 Unit Building)

	<u>Monthly Fee per Apartment</u>	<u>Bin Charge</u>	<u>Total Bill</u>
April 2004	\$3.00	\$11.20	\$14.20
April 2005	3.00	11.40	14.40
April 2006	3.30	12.54	15.84
April 2007	3.53	13.42	16.95
April 2008	3.65	13.88	17.53
April 2009	3.79	14.39	18.18
April 2010	3.86	14.68	18.54
April 2011	3.95	15.018	18.97

The difference between the 2010 total bill calculated as \$18.54 and the projected cost of \$18.96 for 2011 reflects a 2.3% increase (\$0.43).

¹ The rate for the class MSQ - one 2-yard bin picked up once weekly was increased from \$146.75 to \$150.13 per two month period. The analyses developed by staff assume two bins for such a ten-unit building, resulting in a cost of \$150.13 per month or \$15.01 per unit/per month.

Fire and Life Safety Inspection Fee

This component was introduced in the 2005 general adjustment calculation. Fire and Life Safety Inspections are required of all apartment buildings in Santa Monica. Since January 2004, property owners have been charged a fee for the inspection. The 2005 annual cost of the inspection was a flat fee of \$60 per building.²

Until July 2010 the cost of the inspection was a flat fee per building regardless of size. Fire Inspection Fees for multi-family residential and commercial properties were increased starting July 1, 2010, based on a fee study conducted in the spring of 2010. In addition to the fee increase, a four tier fee schedule was set out based on the number of units on a property; this schedule replaced the flat fee. Staff used a weighted average analysis to calculate the 2011 estimated cost for this component. The average monthly per unit cost is \$1.20.

Fee Schedule as of 7/1/2010		# of Bldgs	# of Units	Cost by Bldg size	Weighted Avg. Cost per unit per month
2-3 units	\$ 0	226	452	\$ 0	\$0.00
3-15 units	116	2,798	18,130	324,568	1.49
16-49 units	240	281	6,968	67,440	0.81
50-99 units	335	13	902	4,355	0.40
100+ units	395	5	1,147	1,975	0.14
Totals		3,323	27,599	\$398,338	\$1.20

In July 2009 the inspection fee per building was \$65.62. Based on that fee the monthly per unit cost for 2010 was projected to be \$0.91. Based on the new fee scheduled effective July 1, 2010, the monthly per unit cost for 2011 is projected to be \$1.20 as shown in the table above. This represents a 31.87% increase in the cost for this component.

Water and Sewer

On July 8, 2008, the City Council adopted a five-year rate schedule for water and sewer (wastewater). The new schedule reflects a change in the rate schedule to a commodity-only structure. The fixed bi-monthly service charge was eliminated and a four tier commodity schedule (based on water usage) was established. (Previously a three tier schedule was in use.) This change was made to promote water efficiency and conservation.

Pursuant to City Council Resolutions (CCS) 10322 and 10372, the first rate increase under the new schedule was implemented as of August 1, 2008. The Resolutions set forth the maximum increases that would be allowed for 2009 through 2012. In July 2010, the Water Department implemented the third of the five increases and water rates were increased by 10.5% and sewer rates (wastewater) were increased by 15%. This year's GA reflects the total increase

² City Council resolution 9858 adopted on June 17, 2003 established the fees.

of 10.5% on water rates and 15% on sewer rates. The net effect of the combined increases is a 12.94% increase (\$3.99 more than 2010). The amount projected for 2011 is \$34.83. (See page 9 for calculation.)

Average Costs

Water and sewer charges are considered together as the costs for both are made up of fees related to water consumption. Two factors influence the average water/sewer costs used in the general adjustment calculation: actual water and sewer (wastewater) rates and water consumption.

Prior to 2008, changes to the water and sewer rates were usually equal and increases or decreases were projected on the combined water and sewer expenses to determine the total cost for the water and sewer component. In 2009, the rate increases for water and sewer were not equal and it was necessary to separate the water and sewer components to calculate the respective increases.³

Consumption

The new rate structure established by the City Council in 2008 is wholly dependent on the amount of water used. Therefore, consumption levels play a more significant role than in past years in determining the average costs for water and sewer. To evaluate changes in the cost of the water/sewer component, staff has been monitoring water consumption for many years. Since 1997, water consumption rates and water/sewer and refuse costs on two sets of randomly selected properties have been tracked. (Tracking began on one set of properties in 1992.) This research has led to some modifications over the years to the average consumption rate (measured in HCF – hundred cubic feet). The 1999/2000 GA report modified the average consumption rate to 4.6 HCF which reflected a reduction in consumption and was used until 2006. In the 2006 GA report, staff found an upward adjustment to the average consumption rate was warranted and increased the rate to 4.85 HCF. This consumption rate was used through 2010 although staff's analysis has shown that consumption has been decreasing since 2007. The Board's policy is to follow consumption trends for a number of years before making any adjustments to the consumption rate.

For this year's report, staff again reviewed consumption and costs for the two sets of properties tracked since 1997.

The 2010 estimated cost of \$30.84 reflected an average consumption factor of 4.85 HCF per unit per month. Last year, staff observed a continuing downward trend in water consumption. Staff's observation is supported by information from the City's Water Department. Information from the Water Department reports that city-wide water consumption has been on the decline since fiscal year 2007/2008. Water conservation efforts and education appear to be having a positive effect on water consumption throughout the City. At this time, staff believes it is appropriate to make a downward adjustment to the consumption rate used in the GA analysis. The consumption factor for this year has been set at 4.6 HCF per unit per month. As shown in the consumption table that follows, the 2011 the average consumption for Group 1 is 4.43 HCF while the average for Group 2 is 3.95.

³ The 2009 costs were found to be \$12.69 for water and \$14.25 for sewer. The combined per unit cost for 2009 was \$26.94.

Water Consumption Table

Year*	Average HCF used in GA	Avg. HCF 1 st Group	Avg. HCF 2 nd Group
1997	5.0	4.83	4.56
1998	5.0	4.65	4.54
1999	5.0	4.66	4.51
2000	4.6	4.65	4.34
2001	4.6	4.77	4.42
2004	4.6	5.30	4.61
2005	4.6	5.04	4.52
2006	4.85	4.96	4.68
2007	4.85	5.00	4.71
2008	4.85	4.81	4.64
2009	4.85	(old rate) (new rates) 4.62 4.79	(old rate) (new rates) 4.43 4.45
2010	4.85	4.81	4.10
2011	4.6	4.43	3.95

*The study was not performed in 2002 and 2003.

For 2009, staff considered the average for three billing periods before the new rate structure was implemented and for the three billing periods after implementation. As shown in the table above, once the new rates were implemented, consumption levels did increase somewhat for both groups, but still reflected a reduction from the 2008 consumption levels. In 2010, the average for Group 1 showed a slight increase over 2009 but was still less than the 4.85 HCF consumption factor. In 2011, the consumption average for both groups decreased from last years' averages; 11% for Group 1; 3.8% for Group 2. The overall average for both groups for 2011 is 4.19 HCF. However, rather than base the new factor on one year's average, staff considered the averages for both groups since 2006 to determine the new HCF factor for purposes of this analysis. The overall average was found to be 4.61% rounded to 4.6%.

The change in the consumption factor from 4.85 HCF to 4.6 HCF reflects a decrease of 5.43%. To determine the cost of water and sewer for 2011, staff first applied the increase in the water and sewer rates (10.5% increase to the 2010 water expense of \$14.02 and the 15% increase to the 2010 sewer expense of \$16.82) and then reduced the resulting figures by 5.43% to reflect the reduction in consumption to 4.6HCF.

The table below reflects the increase in water rates for 2010 as well as the effect of the decrease in the average consumption rate to 4.6 HCF. The decrease in the average consumption rate affects both the water expense and the sewer expense.

	2010 Average Monthly Cost per Apt	July 1, 2010 rate increases	Cost Increase Apt/Month	Estimated 2011 cost	Adjusted 2011 cost (4.6 HCF)
Average water expense	\$14.02	10.5%	\$1.47	\$15.49	\$14.65
Average sewer expense	\$16.82	15.0%	\$2.52	\$19.34	\$18.29
Total Water/Sewer Expense	\$30.84	12.94%	\$3.99	\$34.83	\$32.94

Distribution by City Area of Properties Tracked for Water Consumption

The two sets of properties staff reviews to evaluate consumption rates and water/sewer costs include 128 properties with 1,181 units. Staff believes these properties provide a good representation of water consumption in controlled rental units. The table below shows the number of properties, the number of units and what percentage of each group's units is within the seven city areas defined by the Rent Control Board for various analyses. In most instances, the groups' percentages are similar to the overall distribution of controlled units within the city areas.

City Area	1 st Group 55 properties/578 units			2 nd Group 73 properties/603 units		
% of all units by area	Number of properties	Number of units	% units in area	Number of properties	Number of units	% units in area
A 17%	11	92	15.92%	8	65	10.78%
B 12%	8	43	7.44%	5	24	3.98%
C 4%	1	42	7.27%	1	10	1.66%
D 10%	6	51	8.82%	9	58	9.62%
E 19%	14	128	22.15%	18	138	22.89%
F 16%	5	116	20.07%	8	117	19.40%
G 22%	10	109	18.34%	24	191	31.67%

Gas – Common Areas Only

Average Costs

The average gas expense includes the actual cost of gas which is made up of a procurement cost (cost of the gas itself) and a transmission charge (cost for delivering gas to homes), and several incidental charges which include a daily charge, a surcharge for Low Income Discount Rate Surcharge (Public Purpose Programs) and a surcharge for the State Regulatory Fee (Public Utilities Commission Reimbursement Fee), and a 10% Santa Monica Utility Tax.

Cost of Gas

The average of gas costs in a twelve month period is used to calculate the overall effect of changes in gas rates. The cost of gas is based on two components, the procurement cost, which changes monthly, and the transmission charge, which remains constant throughout the year.

Procurement Cost: The chart that follows shows the monthly procurement rates for the most recent twelve months and for the twelve month period considered in last year's report. The average procurement cost for the most recent twelve months (April 2011 back through May of 2010) is .422057. The average for the prior twelve month period was 0.421881.

The table shows that for the six month period beginning May 2010 through October 2010, the monthly procurement costs were higher than the prior year's for the same time period. But for the five month period beginning November 2010 through March 2011, the reverse is true; the monthly procurement costs were less. The April 2011 cost is higher than the April 2010 cost. Overall, the average monthly procurement cost for the most recent twelve month period is only slightly more (.0417%) than the average cost for the prior twelve month period.

Monthly Procurement Costs

Time Period	Core Procurement Gas Price (Cents Per Therm)	
	2010/2011	2009/2010
April	.46017	.44552
March	.41683	.42429
February	.47380	.59331
January	.40136	.57867
December	.43851	.49786
November	.34044	.47143
October	.39942	.39651
September	.35376	.29807
August	.46722	.39354
July	.47068	.35516
June	.41577	.33896
May	.42672	.26925
Average	0.422057	0.421881

Transmission Charge: The annual transmission charge for this period is .334820 which is 0.024420 more than last year's charge of 0.310400.

The total cost for gas per therm (procurement cost + transmission charge) is .756877 (.422057 + .334820). This is the amount used to calculate the estimated cost for gas for 2011 and is .024596 more than the prior twelve month period.

	2010/2011	2009/2010
Average procurement cost	0.422057	0.421881
Transmission Charge	0.334820	0.310400
Per Therm cost	0.756877	0.732281

To calculate the average monthly cost of gas per unit, a consumption level of 16.036 therms per unit/per month is used. This consumption level was established in the 2003 general adjustment report and was related to a modification of the gas component per Dr. Baar's recommendation in 2002.⁴

The projected cost for gas for 2011 without incidental charges is \$13.35 (2011 per therm cost of \$0.756877 x 16.036 therms = \$12.14 plus 10% tax = \$13.35). This is \$0.43 more than last year's gas-only cost. In order to calculate the total cost for gas, the incidental charges must be added to the gas-only cost. The incidental charges are discussed below.

⁴ In the 2002 GA report, Dr. Baar recommended modification of the average gas component to equal \$9.62. His recommendation was based on the results of a survey of average cost data from Southern California Gas for the period April 2001 through March 2002. A random sampling of 258 buildings with 3369 apartment units indicated the average monthly gas cost was \$9.62 per apartment unit. In the 2003 GA report staff incorporated Dr. Baar's recommendation and modified the total gas expenditure for 2002 to equal \$16.03 (\$9.62 gas cost plus 10% tax and other incidental costs gas users are required to pay). The \$9.62 gas cost reflects a consumption level of 16.036 therms per month per apartment.

Incidental Charges

Only one of the items included in the incidental charges experienced a rate change since last year. Effective January 1, 2011, the Public Purpose Program surcharge was increased by \$0.00418 cents (from .07269 cents per therm to .07687 cents per therm). This change resulted in an overall increase of \$0.07 to the incidental charges. The projected cost for incidental charges for 2011 is \$6.79.

Total Monthly Gas Cost

The gas cost and incidental charges for 2010 and 2011 are shown below. The 2011 estimated cost is 2.55% more (\$0.50) than the 2010 cost.

	2011	2010
Gas	\$13.35	\$12.92
Incidentals	<u>6.79</u>	<u>6.72</u>
	\$20.14⁵	\$19.64⁶

Electricity – Common Areas Only

Average Costs

Through 2008, the common area electricity cost used in the general adjustment report has been based on figures provided in Southern California Edison’s rate sheet known as Schedule D.⁷ In 2009, according to an SCE representative, customers with house meters who were previously on Schedule D were being switched to Schedule GS-1. However, Southern California Edison does not require the use of house meters to evaluate common-area electricity usage and it is unknown how many controlled properties use “house meters” for common area electricity. Properties that provide common-area electricity could also be on meters controlled by Schedule D (whose rates are lower than the GS-1 rates), or other commercial rate schedules (whose rates could be either higher or lower than GS-1). Currently, Board records reflect there are 3,321 properties of 2 or more units under Rent Control. As of April 2011, SCE records showed 2,003 properties in Santa Monica have “house meter” designations for their meters. SCE did not identify the properties by address so it is likely their count includes properties not under Rent Control. It seems clear that at least some properties are on a schedule other than GS-1. However, staff believes that a significant number of multi-family properties under Rent Control use “house

⁵ April 2011 Cost \$13.35 (16.036 therms x .756877 baseline rate = \$12.14 + \$1.21 [10% tax]) + incidentals \$6.79 (daily service rate [30 days x .16438] + State Regulatory Fee [16.036 therms x .00068] + Low Income Discount Rate Surcharge [16.036 therms x .07687] = \$6.17 + \$0.62 [10% tax]) = **Total cost \$20.14.**

⁶ April 2010 Cost \$12.92 (16.036 therms x .732281 baseline rate = \$11.74 + \$1.17 [10% tax]) + incidentals \$6.72 (daily service rate [30 days x .16438] + State Regulatory Fee [16.036 therms x .00068] + Low Income Discount Rate Surcharge [16.036 therms x .07269] = \$6.11 + \$0.61 [10% tax]) = **Total cost \$19.64.**

⁷ In 2002, the average monthly cost per unit for common area electricity was set at \$10.68. The general adjustment reports for 2003 and 2004 did not project any additional changes to this component. In 2005, per Assembly Bill (AB)1X, Southern California Edison issued Regulatory Advice letter #1886-E, which resulted in a roll-back of rates to the February 2001 rates for Tier 1 (baseline) and Tier 2 (non-baseline level 1). As a result of the roll-back, the Board adjusted the cost for electricity to \$10.46. This is the amount used until 2009 as the rates for Tiers 1 and 2 of Schedule D were limited to the 2001 levels until March 1, 2010 when Senate Bill (SB) 695 provided for increases of 3% for Tiers 1 and 2 of Schedule D.

meters” and are charged GS-1 rates. Since 2009 staff has used the GS-1 rate schedule to calculate the estimated monthly per unit cost for this component.

In 2009, due to the conversion of properties with “house meters” to the GS-1 schedule, staff increased the 2008 average cost (\$10.46 – based on Schedule D) for this component by 21.49% which led to the estimated cost for 2009 of \$12.71. For 2010 staff applied the difference between the 2009 composite cost for the GS-1 schedule (17.5 cents per kWh) and the 2010 cost (17.3 cents per kWh). The difference resulted in increase of 1.16% or \$0.15 and the 2010 estimated cost for this component was set at \$12.86.

For this year’s report, staff’s research showed that the current composite cost for the GS-1 schedule is 18.2 cents per kWh. This cost is 4% more than last year’s cost of 17.5 cents per kWh. An increase of 4% to the 2010 cost of \$12.86 results in the estimated cost of \$13.37 for 2011.

SANTA MONICA RENT CONTROL BOARD ADMINISTRATION MEMORANDUM

TO: Santa Monica Rent Control Board
FROM: Tracy Condon, Administrator
DATE: June 2, 2011
PUBLIC HEARING: June 9, 2011
RE: Supplemental Staff Report
2011 Annual General Adjustment

At the May 12, 2011 meeting, the Rent Control Board considered the 2011 Annual General Adjustment report which included the following recommendation:

- A 3.5% general adjustment with a ceiling of \$57, if the Board elected to implement a ceiling.

This staff report presents an alternative option for the Board's consideration.

- A 3.2% general adjustment with or without a ceiling of \$52.

The difference between the original recommendation and the alternative is how the cash flow component is adjusted. This component is usually adjusted by the change in the CPI--All Items index. For the period from March 2010 to March 2011, the CPI change is 3%. The alternative option adjusts the cash flow component by 75% of the change in the CPI (2.25% rather than 3%). The overall effect of that change results in a general adjustment calculation of 3.2%.

At the last meeting, Board members questioned why it was necessary to apply an increase to the cash flow component given that approximately 60% of all controlled units in Santa Monica have received at least one market-rate rent increase since the implementation of vacancy decontrol/recontrol in 1999.

The Board's current methodology which was developed in the early 1980s does not consider the effect of market-rate rent increases on a property owner's net operating income. Following the May 12th Board meeting where Board members expressed concern over the proposed general adjustment of 3.5%, staff reconsidered this issue and determined that one method to address some of the effects of vacancy decontrol/recontrol would be to adjust the cash flow component by something less than the full increase in the CPI--All Items index. Adjusting the cash flow component by 75% of the CPI change rather than 100% is a reasonable alternative given: 1) almost 60% of controlled units have received market-rate rent increases and 2) the total of all Board-authorized general adjustment increases since 1979 has been roughly equal to 75% of the overall change in the CPI index since that time.

In the last two years, the Board has made similar adjustments to components of the general adjustment formula that are adjusted by inflation-related factors. In 2009, the Board did not apply the then-negative CPI indexes to the cash flow, management, self-labor, maintenance and insurance components. No adjustment was made to these components which resulted in a general increase during a time when no increase at all would have resulted by applying the formula in the usual manner. In 2010, the decreases that would have resulted from the application of the negative consumer prices indexes in 2009 were applied before applying the 2010 CPI increases.

Possible Future Alternative Approaches

Most California jurisdictions with rent control/rent stabilization calculate their annual rent increases based on percentage increases in the CPI. Using a percentage of the change in the CPI rather than the current component ratio to gross rent or “pie” methodology could be an alternative method of calculating the annual general adjustment in future years, if supported by a Charter Amendment.

A CPI-based methodology simplifies the calculation of the annual general adjustment in that it is easy to understand and does not involve complicated computations. This methodology would eliminate many of the challenges associated with collecting reliable operating expense information. Currently the Board’s methodology uses a CPI index to calculate a majority of the components. A CPI-based methodology based on 75% of the change in the CPI this year would result in a 2.25% general adjustment.

If the Board would like to discuss alternative methods for determining future years’ general adjustments, staff recommends placing the topic on a future Board meeting agenda.

SANTA MONICA RENT CONTROL BOARD ADMINISTRATION MEMORANDUM

TO: Santa Monica Rent Control Board
FROM: Tracy Condon, Administrator
DATE: June 8, 2011
PUBLIC HEARING: June 9, 2011
RE: Second Supplemental Staff Report
2011 Annual General Adjustment

This Second Supplemental Staff Report presents a third alternative 2011 General Adjustment (GA). Based upon concerns from the Board and the public, staff offers a third option for the Board's consideration. Staff believes all of the options are authorized by the Charter.

ALTERNATIVE 1:

At the May 12, 2011 meeting, the Rent Control Board considered the 2011 Annual General Adjustment report which included the following recommendation:

- A 3.5% general adjustment with an optional ceiling of \$57.

This recommendation was based on the change in the costs for all the components considered plus the addition of the new Property Tax Assessment component as a percent increase that adds .8511% to the GA.

ALTERNATIVE 2:

Based upon concerns expressed by the Board, an alternative option adjusting the cash flow component by 75% of the change in the CPI was proposed. This modification would have the following result:

- A 3.2% general adjustment with an optional ceiling of \$52.

ALTERNATIVE 3:

This alternative modifies one aspect of the calculation of Alternative 1 by considering the new Property Tax Assessment component as a flat dollar amount instead of a percent increase. An increase of \$7.00 would account for the combined tax assessments analyzed by Seifel Consultants. Under the method that the Board has used to calculate the GA in past years, the adjustment for the balance of the components would be 2.6% (see attached table). Therefore the third alternative is:

- A general adjustment of 2.6% with an optional ceiling of \$42, plus \$7 for the tax assessment component. The ceiling would apply to rents greater than \$1,617.

If the Board elects this alternative, it is recommended that the general adjustment for mobile home spaces be 3.5%. This is because the 2.6% GA plus a flat charge of \$7 would be excessive due to the nature of mobile home rentals.

Alternative 3
Calculation of Annual General Adjustment
Percentage and Dollar Amounts

Rent Increases Required to Cover Operating Cost Increases and Index Cash Flow

Operating Expense	2010 ratio to gross rent (a)	Estimated cost 2010*	Percent increase 2010-2011 (b)	Percent Increase Required (a) x (b)	Estimated cost 2011 (c)	Rent Adjustment required (d)
Property Taxes	0.0918	\$73.76	-0.96%	-0.0884%	\$73.05	-\$0.71
Property Tax Assessments	0.0000	0.00		NA	6.84	6.84
Refuse	0.0231	18.54	2.3%	0.0531%	18.97	0.43
Fire & Life Safety Inspection Fee	0.0011	0.91	31.87%	0.0361%	1.20	0.29
Water & Sewer	0.0384	30.84	12.94%	0.2613% ¹	32.94	2.10
Gas	0.0244	19.64	2.55%	0.0623%	20.14	0.50
Electricity	0.0160	12.86	4.0%	0.0640%	13.37	0.51
Business License Tax and Fees	0.0017	1.33	21.05%	0.0348%	1.61	0.28
Maintenance	0.1396	112.18	4.3%	0.6003%	117.00	4.82
Insurance	0.0439	35.30	4.3%	0.1889%	36.82	1.52
Self Labor	0.0713	57.26	3.0%	0.2138%	58.98	1.72
Debt Service	0.1549	124.51	0.0%	0.0000%	124.51	0.00
Cash Flow	0.3440	276.31	3.0%	1.0315%	284.60	8.29
Management	0.0500	<u>40.18</u>	3.0%	0.1500% ²	<u>41.39</u>	<u>1.21</u>
Totals		\$803.62		2.60%	\$831.42	\$27.80
Recommended GA 2.6% + \$7 for Tax Assessments (rounded from \$6.84)					\$803.62 x 2.6%+\$7 = \$831.51	\$27.89

¹ The percent increase required for Water & Sewer has been adjusted to reflect change in the consumption factor from 4.85 HCF to 4.6 HCF. Prior to the adjustment, the percent increase required for this component from the 2010 figure was .4966%.

² Management costs are fixed at 5% of gross rent pursuant to Rent Board Regulation 4101(c)(1). Adjusting management to equal 5% of the new gross rent of \$831.42 sets the cost for management at \$41.57 rather than \$41.39. Cash Flow has been adjusted from \$284.60 to \$284.51 to reflect the increase in the management cost and the effect of rounding the tax assessment component from \$6.84 to \$7.