

SANTA MONICA RENT CONTROL BOARD
ADMINISTRATION MEMORANDUM

TO: Santa Monica Rent Control Board
FROM: Tracy Condon, Administrator
FOR MEETING OF: May 10, 2012
PUBLIC HEARING: June 14, 2012
RE: 2012 Annual General Adjustment
Apartment Operating Cost Increases (March 2011 - March 2012)

The Rent Control Law (Title 18 of the Santa Monica City Charter), empowers the Rent Control Board to regulate rentals so that rents will not be increased unreasonably and so that landlords will be ensured of receiving a fair return. To accomplish this, Section 1805(b) of the 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 2012 is 1.54%.

Methodology

The Board uses a formula of general application known as the "component ratio to gross rent" or "pie methodology" to determine the annual general adjustment. Fourteen identified categories of owners' operating expenses are assigned a portion or "slice" of the total rent dollar. These slices represent the proportion (weight) of each component to the gross rent used in the analysis. Actual cost changes from March 2011 to March 2012 are applied to eight of the components (making up 12% of the pie).¹ Estimated cost changes based upon changes in CPI indexes for the same time period are applied to five components (making up 70% of the pie)² and one component (debt-service--18% of the pie) is not adjusted.

2011 General Adjustment

The Board's general adjustment discussion last year focused in large part on the impact of more than a decade of rentals under vacancy decontrol/recontrol. As of December 2011, more than 61% of controlled rental units (17,291) have been rented at market-rate. Less than 40% of units (10,465) remain occupied by long-term tenants who moved in prior to 1999. Assuming operational costs for a market-rate unit are comparable to those of a traditional controlled unit, the newly-established rents detailed in the Board's annual "Market-Rate Impact" reports have significantly improved owners' overall cash flow.

¹ Actual cost changes are applied to: refuse, water & sewer, common area gas and electricity, fire and life safety inspections, general tax levy, property tax assessments (component newly introduced in 2011), and business license expenses (separated from maintenance component in 2011).

² CPI-based adjustments are applied to insurance, maintenance, management, self-labor and cash-flow.

In 2011, the Board addressed this fact by adjusting the cash-flow component of the GA pie by 75% of the change in the CPI—All Items index, instead of the previously-used 100% adjustment. Seventy-five percent was thought to be reasonable, as cumulatively, 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 during that time.

2012 General Adjustment

This year, staff is again recommending a 75% adjustment to the cash-flow component. Staff is also recommending the “component ratio to gross rent” analysis be conducted on a unit with a rent level of \$1,395--the current overall median rent for all controlled units (long-term and market-rate).

From 1983 through 2011, the analysis has been conducted on the current rent of a hypothetical “average” unit with a base rent of \$300 in 1978. After adding each year’s general adjustment, the rent for the hypothetical unit was \$829.34 after the 2011 GA was applied. Today, after more than 13 years of vacancy decontrol/recontrol, the median rent level of all units as of April 2, 2012 was \$1,395. Staff believes applying the long-term methodology to this rent level provides a more accurate analysis of rent-level reality in Santa Monica as of May 2012.

Recasting the Pie

To shift from an \$829 rent to a \$1,395 rent and “recast” the pie, the dollar values and/or weights of each of the components was recalculated. For “hard cost” components with established monthly rates (property tax, property tax assessments, business license fees, fire & life safety inspection fee, insurance, and all the utility components--refuse, water/sewer, electricity, and gas), the fixed dollar values were retained and the ratio to the gross rent was adjusted. For the “estimated cost” components of maintenance and self-labor, the dollar values were adjusted to maintain the same proportion to the gross rent. For the cash flow and debt service components, the dollar values were adjusted and then slight additional adjustments were made to maintain their same proportional relationship to one another. Management costs are fixed at 5%. Additional details of this conversion are provided in Appendix 1.

Recommendation

Staff recommends the Rent Control Board set a public hearing on Thursday, June 14, 2012 for consideration of a 1.54% general rent adjustment (GA).

If the Board elects to adopt a ceiling or maximum adjustment, staff recommends a ceiling of \$26. The recommended ceiling is calculated by applying a 1.54% general adjustment to the average of the 85th percentile of rents for all units including market rate units (\$2,095) and non-market rate units (\$1,250) or \$1,673.

Note: Units with market rate increases implemented from September 1, 2011 through August 31, 2012 are not eligible for the 2012 general adjustment. Owners with recent market rate rentals will have taken operating costs into account when establishing a new rental rate.

COMPONENT CALCULATIONS

This section analyzes cost changes for each of the fourteen components. The Consumer Price Indexes (CPI) used in the Board's formula for 2012 reflect a decrease from last year's indexes.³ In addition to gathering rate change information for the "hard cost" components, staff repeated analyses conducted in 2011 to determine actual cost changes in the property tax general levy, property tax assessment and business license components. Details on the analyses of the seven property tax assessments are contained in Appendices 2 and 3 (green pages).

Table A on page 12 shows the changes to each component and the overall calculation of the GA of 1.54%. The pie chart on page 13 shows the "pie slice size" for each expense component after applying the recommended adjustments.

Components Adjusted by Actual Changes in Costs

The 2012 estimated costs for components adjusted by actual cost changes are summarized below. Detailed information about these components is found in Appendix 2 (general levy property tax and tax assessments) and Appendix 4.

Property Taxes—General Levy

For this year's report, staff repeated the comprehensive analysis conducted since 2010 of actual general levy tax data for controlled rental properties in Santa Monica. Staff analyzed data from the Board's records and public information from the tax assessor's office for 3,171 controlled buildings with 26,490 units. The property tax data is based upon the 2010 assessed values reflected in the 2011 property tax bills. (See Appendix 2 for details.)

The data shows, as it has since 2010, that the per unit property tax expense varies significantly depending upon the time period in which buildings were sold and reassessed. Properties purchased before 2000 have a much lower median tax expense than properties purchased since 2000.

³ Consumer Price Index (Los Angeles-Riverside-Orange County), All Urban Consumers, (CPI-U), 12-Months Percent Change from March 2011 – March 2012

- All Items Index = 2.0%
- All Items, Less Shelter Index = 2.2%

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%

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	218	1,595	6.0%	\$24.25	\$33.05	\$1,208	2.9%
1969 and prior	151	1,221	4.6%	\$25.10	\$26.62	\$1,261	2.3%
1970-1979	529	4,513	17.0%	\$33.31	\$39.73	\$1,383	3.0%
1980-1989	658	5,586	21.1%	\$66.17	\$71.61	\$1,410	5.5%
1990-1994	207	1,710	6.5%	\$81.94	\$89.13	\$1,450	6.7%
1995-1999	388	3,634	13.7%	\$84.26	\$91.87	\$1,504	6.5%
2000-2004	504	4,214	15.9%	\$141.64	\$157.92	\$1,598	10.3%
2005-2010	483	3,757	14.2%	\$202.57	\$222.24	\$1,589	14.9%
2011	33	260	1.0%	\$142.75	\$166.30	\$1,668	10.2%
Total	3,171	26,490	100.0%	\$75.73	\$102.77	\$1,458	7.2%

The median tax paid per unit per month of \$75.73 reflects an increase of \$2.68 (3.668%) over last year's per unit cost of \$73.05. While \$75.73 over-compensates owners of properties purchased prior to 1990, it is somewhat less than the median for properties purchased between 1990 and 1999 and is significantly less than properties purchased since 2000. However, if the average tax of \$102.77 was used instead of the median, it would overcompensate almost 70% of all units sold. Staff recommends using the median rather than the average per unit property tax as suggested in the Seifel Consulting Reports prepared for the Board in 2010 and 2011.⁴

It is not possible for the Board's formula of general application to address the range of expenses incurred by each property owner. 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. 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.

The median tax per unit per month for 2012 is \$75.73 and represents an increase of 3.668% from the 2011 component value.

	2011 Cost Apt/Month	% Increase 2011-2012	Cost Increase Apt/Month	Estimated 2012 Cost
Property Tax	\$73.05	3.668%	\$2.68	\$75.73

⁴ "In accordance with the property tax adjustment made in 2010, the median rather than the mean or average is used 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." From page 2 of the 2011 Seifel Consulting Inc. Report – Appendix 2.

Property Tax Assessments

In addition to the general tax levy, there are a number of assessments included on property tax bills. In 2011, a new component was created to account for seven assessments included in owners' tax bills that have not been passed through to tenants as surcharges. The seven assessments that make up the new component are itemized in the table below. Five other assessments that the Board has authorized to be directly passed through to tenants as surcharges on top of the maximum allowable rent, are not included in this new component. (See Appendix 2 for details)

In 2011, the Board engaged Seifel Consulting to evaluate the seven assessments and calculate a monthly per unit cost for each. Seifel's analysis resulted in the establishment of the Property Tax Assessment component with a 2011 cost of \$6.84. Staff repeated Seifel's analysis to determine the 2012 cost for this component. The table below details and compares the seven assessments and their monthly per unit cost for 2011 and 2012. Detailed analyses and calculation tables for each assessment are presented in Appendix 2.

Summary of Property Tax Assessments

	2011 Per Unit Per Month Assessment^a	2012 Per Unit Per Month Assessment^a
City of Santa Monica Library Bond	\$0.59	\$0.53
Metropolitan Water District	\$0.27	\$0.28
Trauma/Emergency Services	\$2.64	\$2.63
LA West Mosquito Abatement	\$0.11	\$0.06
Public Health License & Permit Fee	\$1.67	\$2.08
Park District	\$0.96	\$0.96
Flood Control	\$0.61	\$0.61
Total	\$6.84	\$7.15

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 \$7.15 is the 2012 amount for this new component.

	2011 Cost Apt/Month	% Increase 2011-2012	Cost Increase Apt/Month	Estimated 2012 Cost
Property Tax Assessments	\$6.84	4.532%	\$0.31	\$7.15

Business License Expenses--Fees and Taxes

Until 2011, this expense has been part of the maintenance component. While the tax rate has not changed since the early 1990s, the tax paid is based upon property owners' gross receipts from rental income, which have increased significantly since 1999.

Last year, Seifel Consulting Inc. studied actual data on business license fees and taxes paid by owners of Santa Monica's controlled rental properties. Based on their findings, a 2011 monthly per unit cost of \$1.61 was established. To compare that cost to the 2010 cost, staff determined the portion of the 2010 maintenance component attributable to business license fees and separated it from the maintenance component. The 2011 amount of \$1.61 reflected a 21.1% increase over the cost for 2010. (See Appendix 4 for details.)

For 2012, the City's Business License Division provided staff with aggregate business license expense information comparable to that received in 2011. Using the method developed by Seifel, staff analyzed expenses paid in 2011 (based on owners' reported 2010 gross receipts) to determine the 2012 cost. The Business License Tax is based on a property's reported gross income (\$1.25/\$1,000) for a calendar year and has not changed. The processing fee increased from \$25.83 to \$26.50 per residential location. The table in Appendix 4, page 2, evaluates the cost of the tax itself as well as the processing fee for 2,973 controlled properties.

The estimated cost for 2012 of \$1.65 reflects an increase of 2.48% over the 2011 calculated cost of \$1.61 as shown in the table below.

	2011 Cost Apt/Month	% Increase 2011-2012	Cost Increase Apt/Month	Estimated 2012 Cost
Business License Tax & Fee	\$1.61	2.48%	\$0.04	\$1.65

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, 2011, the monthly fixed charge rate and the collection fees were increased by 2.6%.

The 2011 total monthly per unit cost was projected at \$18.97. Applying the 2.6% increase results in the projected cost of \$19.46 for 2012.

	2011 Cost Apt/Month	% Increase 2011-2012	Cost Increase Apt/Month	Estimated 2012 Cost
Refuse Collection	\$18.97	2.60%	\$0.49	\$19.46

Fire and Life Safety Inspection Fee

Fire and Life Safety inspections are conducted on all apartment buildings in Santa Monica. Property owners have been charged a fee for the inspection since January 2004. 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. In addition to the fee increase, a four tier fee schedule with rates based upon the number of units on a property replaced the flat fee per building. A weighted average analysis was conducted to calculate the 2011 estimated cost for this component. Based on the new fee schedule effective July 1, 2010, the monthly per unit cost for 2011 was established at \$1.20.

On July 1, 2011, the Fire Inspection Fee schedule was increased by 2.6%. Again using a weighted average analysis, the 2012 cost for this component was established. Based on the 2.6% increase in the fee schedule, the monthly per unit cost for 2011 is projected to be \$1.24. Details of the analysis appear in Appendix 4, page 3.

Last year's estimated cost for this component was \$1.20. This year's projected cost of \$1.24 represents a 3.3% increase in the cost for this component.

	2011 Cost Apt/Month	% Increase 2011-2012	Cost Increase Apt/Month	Estimated 2012 Cost
Average Fire & Life Safety Inspection Expense	\$1.20	3.33%	\$.04	\$1.24

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. This change was made to promote water efficiency and conservation.

In July 2011, the Water Department implemented the fourth of five scheduled annual increases; water rates were increased by 10% and sewer rates (wastewater) were increased by 9%. This year's GA reflects those increases.

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. Last year, based upon continued annual reductions in consumption levels, the average consumption factor was reduced to 4.6 HCF per unit per month from 4.85 HCF which had been used since 2006. As discussed in Appendix 4, analysis of consumption for 128 controlled properties indicates water consumption has decreased over the last few years. Information from the Water Department confirmed that water consumption city-wide had been decreasing steadily since fiscal year 2007/2008. However, a recent Water Department report indicates that consumption is on the rise for fiscal year 2011/2012. Hopefully, with the City's water conservation efforts, the increase in consumption is temporary and consumption levels will decrease again in the future.

The table below applies the 10% increase to the 2011 adjusted water expense of \$14.65 and the 9% increase to the 2011 adjusted sewer expense of \$18.29.⁵ The 3rd line in the table summarizes the combined water and sewer expenses. The net effect of the combined increases is \$3.11 or a 9.44% increase.

	2011 Cost Apt/Month	July 1, 2011 Rate Increases	Cost Increase Apt/Month	Estimated 2012 Cost
Average water expense	\$14.65	10.0%	\$1.46	\$16.11
Average sewer expense	\$18.29	9.0%	\$1.65	\$19.94
Total Water/Sewer Expense	\$32.94	9.44%	\$3.11	\$36.05

Gas – Common Areas Only

Average Costs

In more than two-thirds of 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 2012 projected cost of gas including the incidental charges and the utility tax reflects a decrease of 1.65% from the cost for 2011.

Total Monthly Gas Cost

The gas cost and incidental charges for 2011 and 2012 are shown below. The 2012 estimated cost is shown in the table that follows.

	2011	2012
Gas	\$13.35	\$12.92
Incidentals	<u>6.79</u>	<u>6.89</u>
	\$20.14 ⁶	\$19.81 ⁷

⁵ Based on the 2011 costs reflecting the decrease in the consumption factor to 4.6 HCF. See 2011 General Adjustment Report, page 10 and Appendix 4, p. 4

⁶ 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.**

⁷ April 2012 Cost \$12.92 (16.036 therms x .732367 baseline rate = \$11.75 + \$1.17 [10% tax]) + incidentals \$6.89 (daily service rate [30 days x .16438] + State Regulatory Fee [16.036 therms x .00068] + Low Income Discount Rate Surcharge [16.036 therms x .08231] = \$6.26 + \$0.63 [10% tax]) = **Total cost \$19.81.**

	2011 Cost Apt/Month	Rate Change 2011-2012	Cost Decrease Apt/Month	Estimated 2012 Cost
Common area average gas expense	\$20.14	-1.64%	-\$0.33	\$19.81

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 and 2011, staff adjusted this component by the change in the composite cost per kWh for the GS-1 rate schedule. The 2011 estimated cost was \$13.37.

The current composite cost for the GS-1 schedule (15.6 cents per kWh) is 14.29% less than last year’s composite cost (18.2 cents per kWh). When the decrease is applied to the 2011 cost of \$13.37, the result is \$11.46. This is the amount projected for 2012.

	2011 Cost Apt/Month	Rate Change 2011-2012	Cost Decrease Apt/Month	Estimated 2012 Cost
Common area average electricity expense	\$13.37	-14.29%	-\$1.91	\$11.46

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. As detailed in Appendix 1, with the exception of the insurance component, the dollar amounts of these components have been adjusted to reflect their dollar value in proportion to the median MAR of \$1,395. The figures shown for 2011 in the charts that follow reflect the adjusted dollar values for the \$1,395 rent.

Components Adjusted by the CPI—Less Shelter Index
(March 2011 - March 2012 = 2.2%)

Maintenance and Other Operating Expenses

Information for this component specific to Santa Monica is not available.⁸ Therefore, the Board adjusts this category by the most-recently reported change in the Consumer Price Index, All Items—Less Shelter. Last year, the 2010 maintenance cost was adjusted to reflect the separation of the business license expense into its own component resulting in a 2010 component value of \$112.18. Applying last year’s increase of 4.3% resulted in the 2011 estimated cost of \$117. Adjusting this amount to convert the MAR from \$829.34 to \$1,395 results in a maintenance component value of \$196.80.

The March 2011 – March 2012 percent increase for this index was 2.2%. The effect of this increase on the maintenance component is shown below.

	Converted 2011 Cost Apt/Month	Rate Change 2011-2012	Cost Increase Apt/Month	Estimated 2012 Cost
Maintenance	\$196.80	2.2%	\$4.33	\$201.13

Insurance

Supplemental studies and adjustments have occurred on this component on multiple occasions: 1997 (27.8%), 1998 (4.26%), 2009 (10.52%). Given that actual data was gathered to establish the 2009 insurance component cost and CPI adjustments have been applied in subsequent years, the 2011 value of this component has been retained for this year’s analysis on the \$1,395 rent level.

In years in which supplemental adjustments were not made, the change in the CPI—Less Shelter index has been applied to calculate the annual increase for this component. (See Appendix 4 for more details.)

This year, the insurance component is adjusted by the CPI—Less Shelter index to estimate the 2012 cost. The March 2011 – March 2012 percent increase for this index was 2.2%.

	2011 Cost Apt/Month	Rate Change 2011-2012	Cost Increase Apt/Month	Estimated 2012 Cost
Insurance	\$36.82	2.2%	\$0.81	\$37.63

⁸ 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.

Components Adjusted by the CPI—All Items Index
(March 2011 - March 2011 = 2.0%)

The March 2011 – March 2012 percent increase for this index was 2.0%. The effect of this increase on the Self Labor, Cash Flow and Management components is shown below. The 2011 costs have been adjusted to reflect the conversion to the median MAR of \$1,395. (See Appendix 1 for details.)

Self-Labor

	Converted 2011 Cost Apt/Month	Rate Change 2011-2012	Cost Increase Apt/Month	Estimated 2012 Cost
Self Labor	\$99.21	2.0%	\$1.98	\$101.19

Management

	Converted 2011 Cost Apt/Month	Rate Change 2011-2012	Cost Increase Apt/Month	Estimated 2012 Cost
Management	\$69.75*	2.0%	\$1.40	\$71.15

*Management costs are fixed at 5% of gross rent pursuant to Rent Board Regulation 4101(c)(1). Based on the median MAR of \$1,395 used in this year's analysis, Management costs are set at \$69.75 for 2011.

Cash Flow

In 2011, to address owners improved cash flow given that more than 50% of units had been rented at market-rate since 1999, the Board adjusted the cash flow component by 75% of the change in the CPI—All Items index rather than the previously-used 100%. That change is retained this year and the cash flow component is again adjusted by 75% of the change in the CPI. The March 2011 – March 2012 percent increase for this index was 2.0%. Seventy-five percent of the increase is 1.5% (75% of 2%).

	Converted 2011 Cost Apt/Month	Rate Change 2011-2012	Cost Increase Apt/Month	Estimated 2012 Cost
Cash Flow	\$572.10	1.5%	\$8.58	\$580.68

Debt Service

Debt service is not adjusted. However, an adjustment was made to the 2011 cost for this component to reflect the conversion to the median MAR of \$1,395. The 2011 and 2012 amount for Debt Service is set at \$252.20. (See Appendix 1 for details.)

Table A
Calculation of Annual General Adjustment
Percentage and Dollar Amounts

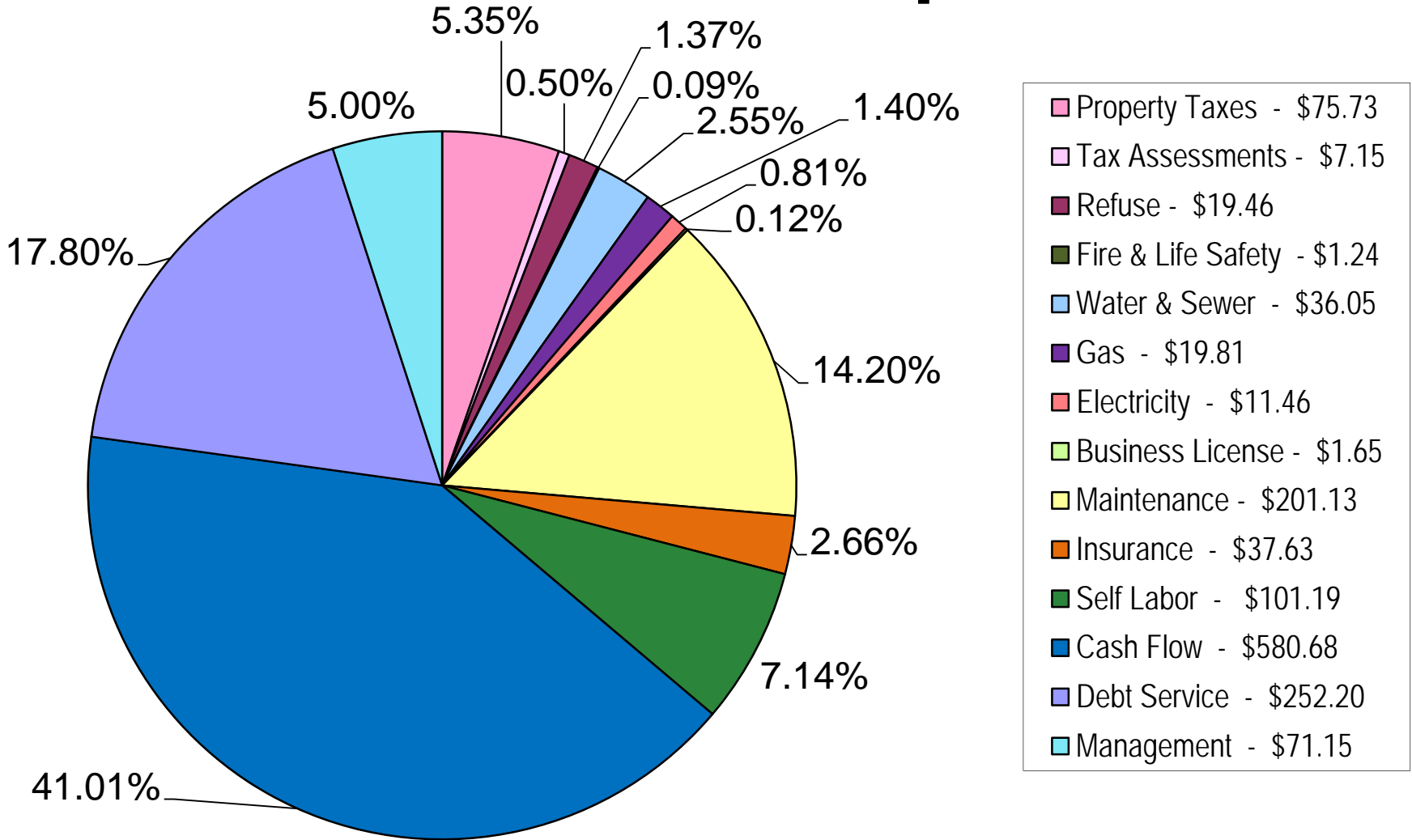
Rent Increases Required to Cover Operating Cost Increases and Index Cash Flow

Operating Expense	2011 ratio to gross rent (a)	Estimated cost 2011	Percent increase 2011-2012 (b)	Percent Increase Required (a) x (b)	Estimated cost 2012 (c)	Rent Adjustment required (d)
Property Taxes	0.05237	\$73.05	3.67%	0.1921%	\$75.73	\$2.68
Property Tax Assessments	0.00490	6.84	4.53%	0.0222%	7.15	0.31
Business License Tax and Fees	0.00115	1.61	2.48%	0.0029%	1.65	0.04
Refuse	0.01359	18.97	2.60%	0.0354%	19.46	0.49
Fire & Life Safety Inspection Fee	0.00086	1.20	3.33%	0.0029%	1.24	0.04
Water & Sewer	0.02361	32.94	9.44%	0.2229%	36.05	3.11
Gas	0.01443	20.14	-1.64%	-0.0236%	19.81	-0.33
Electricity	0.00958	13.37	-14.29%	-0.1369%	11.46	-1.91
Insurance	0.02639	36.82	2.2%	0.0581%	37.63	0.81
Maintenance	0.14107	196.80	2.2%	0.3104%	201.13	4.33
Self Labor	0.07111	99.21	2.0%	0.1422%	101.19	1.98
Debt Service	0.18078	252.20	0.0%	0.0000%	252.20	0.00
Cash Flow*	0.41011	572.10	1.5%	0.6152%	580.68	8.58
Management*	0.0500	<u>69.75</u>	2.0%	0.1000%	<u>71.15</u>	<u>1.40</u>
Totals		\$1395.00		1.5435%	\$1416.53	\$21.53

Recommended GA rounded to 1.54% \$1395 x 1.54% = \$1416.485 \$21.48

*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 \$1416.48 sets the cost for management at \$70.82 rather than \$71.15 (a difference of \$0.33). Cash Flow will be adjusted from \$580.68 to \$580.96 to reflect the \$0.33 difference in the management cost and the \$0.05 difference due to the effect of rounding the GA from 1.5435% to 1.54%

2012 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 again prepared the general adjustment report for the Board and analyzed 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.

The 2009 GA report was prepared using the methodology and survey data previously developed by Dr. Baar with modifications to accommodate for 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.

The 2011 GA report was also prepared using the Board's long-standing methodology and introduced two additional components: property tax assessments and business license expenses. Seifel Consulting Inc. compiled and analyzed actual property tax, property tax assessments and business license expense data. During the initial review of the 2011 general adjustment recommendation, Board discussion focused on how more than 10 years of market-rate rents established under vacancy decontrol/recontrol should be addressed in the GA analysis. Concerns over the cash flow component were expressed given the significantly improved cash flow position of owners who have rented units at market-rate.

In response, at the general adjustment public hearing the Board considered three alternative methods for establishing the 2011 general adjustment. The Board elected to reduce the adjustment on the cash flow component of the GA pie from 100% of the change in the CPI—All Items index to 75% of the change. The resulting general adjustment adopted by the Board for 2011 was 3.2%.

This year's report was prepared using Dr. Baar's methodology with two modifications to address the impact of 13 years of vacancy decontrol/recontrol on rents in Santa Monica. The Board's 2011 modification to adjust the cash flow component by 75% of the change in the CPI—All Items index was retained. The second modification is to conduct the "component ratio to gross rent" methodology on the overall median MAR of \$1,395 as April 2, 2012. With more than 60% of units now rented at market-rate, the dollar amount of \$829 previously used in the analysis no longer reflects the reality of rents in Santa Monica today.

The GA "pie" has been "recast" using the current median MAR of \$1,395 (median MAR of all units, market-rate and long-term controlled) rather than the hypothetical rent of \$829.34, which is derived by applying all general adjustments since 1979 to a 1978 rent of \$300. To "recast" the "pie", the dollar value for the components for which actual per unit costs are known ("hard costs") are not changed; however, their relationship to the gross rent (their weight or piece of the pie) are recalculated. Components with "hard

costs” include property tax, property tax assessments, business license fees, fire & life safety inspection fee, insurance, and all the utility components (refuse, water/sewer, electricity, and gas). For the components where actual data is not available (“soft costs”), the dollar values are increased so the components retain the same proportional relationship to the median MAR of \$1,395 as to the hypothetical MAR of \$829.34. Components with “soft costs” are: maintenance, self-labor and management. Cash flow and debt service, which are also “soft costs,” require adjustments to both the dollar values and their “weights”. After adjusting the dollar values and ratios for each of the components for the conversion to the \$1,395 MAR, the total gross rent totaled \$1,255.23. The balance of \$139.77 was allocated to cash flow and debt service to maintain the same relationship to one another as in the analysis using the \$829.34 MAR.

As in past years, cost change data from 2011 to 2012 was collected 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]). The main features of the methodology used include:

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 average apartment by the current median MAR. These ratios represent the percentage of the average rent dollar devoted to each expense category. See Table A, page 11.
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.

APPENDIX 2

Property Tax (General Levy) and Property Tax Assessments

A. Property Tax (General Levy)

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% limit to calculate the property tax component of the GA.¹ In-depth analyses and supplemental adjustments were completed in 1989, 1992, 2002, 2010, and 2011 to account for the increases that occur upon sale. The 2011 property tax component of the GA was \$73.05.

Actual County Assessor information and Rent Control Board data was evaluated to analyze property tax.² Findings are presented by timeframe of prior purchase in Tables 1a and 1b.

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 2012. The sample includes 26,490 housing units in 3,171 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. 48.7% of the units were last purchased prior to 1990. Roughly 20% were last purchased in the 1990s and 31% 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 \$75.73. By timeframe, this ranges from a low of \$24 for properties without a prior purchase date listed to a high of \$202 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 \$102.77. As shown in Table 1a, average monthly taxes are lower than this in most timeframes. Almost 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 slightly more than 30 percent of units, but skew average property tax amounts up significantly.
- Average monthly rent is approximately \$1,458, including both long-term (restricted) and market-rate rents. 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 \$1,234) and the highest in those that have turned over since 2000 (roughly \$1,618).
- The average ratio of property taxes paid to rental income per apartment is 7.2%, and the ratio of tax to rental income is significantly higher for properties that have turned over since 2000 as compared to 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.

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

² Data collected as of March 2012. Property tax data is from the 2011 tax bill and relies on 2010 assessed property valuation data, the most recent available from the Los Angeles County Assessor.

2. Property Tax Recommendation

Based on the data and findings above, staff recommends increasing the property tax component from \$73.05 to \$75.73, the median tax currently paid per unit per month. This amounts to an increase of roughly 3.67%. In accordance with the property tax adjustments made in 2010 and 2011, and per Seifel Consulting Inc.'s recommendations,³ 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

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
Total used for Property Tax Calculation	3,171	26,490	100.0%	\$75.73	\$102.77	\$1,458	7.2%
No sale date	218	1,595	6.0%	\$24.25	\$33.05	\$1,208	2.9%
1969 and prior	151	1,221	4.6%	\$25.10	\$26.62	\$1,261	2.3%
1970-1979	529	4,513	17.0%	\$33.31	\$39.73	\$1,383	3.0%
1980-1989	658	5,586	21.1%	\$66.17	\$71.61	\$1,410	5.5%
1990-1994	207	1,710	6.5%	\$81.94	\$89.13	\$1,450	6.7%
1995-1999	388	3,634	13.7%	\$84.26	\$91.87	\$1,504	6.5%
2000-2004	504	4,214	15.9%	\$141.64	\$157.92	\$1,598	10.3%
2005-2010	483	3,757	14.2%	\$202.57	\$222.24	\$1,589	14.9%
2011	33	260	1.0%	\$142.75	\$166.30	\$1,668	10.2%

Assumes a 1% tax rate.

Table 1b
Cumulative Analysis of 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(a)							
1969 and prior	369	2,816	10.6%	\$24.52	\$30.26	\$1,231	2.6%
1979 and prior	898	7,329	27.7%	\$28.33	\$36.09	\$1,325	2.9%
1989 and prior	1,556	12,915	48.8%	\$40.64	\$51.45	\$1,361	4.0%
1994 and prior	1,763	14,625	55.2%	\$44.89	\$55.86	\$1,372	4.3%
1999 and prior	2,151	18,259	68.9%	\$52.65	\$63.02	\$1,398	4.8%
2004 and prior	2,655	22,473	84.8%	\$64.13	\$80.82	\$1,436	5.8%
2010 and prior	3,138	26,230	99.0%	\$75.03	\$101.07	\$1,458	7.1%
2011 and prior	3,171	26,490	100.0%	\$75.73	\$101.71	\$1,460	7.1%

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.

³ Seifel Consulting Inc. Report, 2011 – Appendix 2.

B. Property Tax Assessments

In addition to the general tax levy, there are a number of assessments included on property tax bills. The Rent Control Board has authorized five assessments to be passed through directly to tenants as monthly surcharges in addition to the maximum allowable rent: Community College Bonds, Unified Schools Bonds, the Santa Monica Malibu Unified School District Measure R Parcel Tax, Santa Monica Stormwater Fee and Santa Monica Clean Beaches 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.

The remaining seven assessments on owners' tax bills are not passed through to tenants as surcharges and were introduced as a new GA component in 2011. Seifel Consulting evaluated actual data for the seven assessments and calculated a monthly per unit cost for each. The total per unit composite cost for all seven assessments was determined to be \$6.84 and this amount was used to establish the Property Tax Assessment component in 2011.

The analysis was repeated this year and the composite total for 2012 was determined to be \$7.15. The table below shows the monthly per unit cost for 2011 and 2012 for each of the seven assessments. A detailed calculation table for each assessment follows.

Summary of Property Tax Assessments

	2011 Per Unit Per Month Assessment^a	2012 Per Unit Per Month Assessment^a
City of Santa Monica Library Bond	\$0.59	\$0.53
Metropolitan Water District	\$0.27	\$0.28
Trauma/Emergency Services	\$2.64	\$2.63
LA West Mosquito Abatement	\$0.11	\$0.06
Public Health License & Permit Fee	\$1.67	\$2.08
Park District	\$0.96	\$0.96
Flood Control	\$0.61	\$0.61
Total	\$6.84	\$7.15

- 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.

Details

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 2011/12 Library Bond Assessment was \$6.973 per \$100,000 of assessed valuation. This reflects a decrease from last year's amount of \$7.99 per \$100,000 of assessed valuation.

Library Bond Assessment Key Findings

- Of the 3,171 buildings that were analyzed for the property tax adjustment, 17 additional buildings were removed from the Library Bond Assessment analysis as their assessed valuation totaled \$0 after real estate exemptions were applied. A total of 3,154 buildings with 26,360 units were included in this analysis.
- As shown in Appendix 3, Table 1, both median and mean (average) assessed values per building were calculated to understand typical assessed value. The median assessed value per

apartment building is nearly \$576,913.

- On a per unit basis, the median assessed value is approximately \$91,269 per unit, based on the median per unit assessed value of the 3,154 buildings.⁴ By timeframe, per unit values range from a low of \$29,103 for properties without a prior purchase date listed to a high of \$243,202 for properties that last turned over between 2005 and the end of 2010. The data shows 33 properties were sold in 2011 and the per unit assessed value for those buildings is \$171,306.
- The mean or average assessed value per apartment building is \$926,673. On a per unit basis, the average assessed value is \$123,985 per unit.⁵ As shown in Appendix 3, Table 1, average assessed values are lower than this in most timeframes. Almost 56% of buildings were last purchased before 1995, timeframes within which the average is less than \$926,673, and generally much less. The average assessed value for buildings sold between 1995 and 1999 (12 percent of all buildings) is only 16 percent higher than the \$926,673. While the average assessed value for buildings sold since 2000, are at a minimum, 49 percent more than \$926,673. These buildings which only represent 32% of all buildings sold skew average assessed values 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:

$\begin{aligned} &\text{Median Assessed Value/Unit} \times \text{FY 2011/12 Fee Assessment} \div 12 \text{ months} = \\ &\$91,269/\text{Unit} \times \$6.973/\$100,000 \div 12 \text{ months} = \$0.53/\text{unit}/\text{month} \end{aligned}$
--

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 2011/12 Water District Assessment was \$3.70 per \$100,000 of assessed valuation, which is the same as the assessment for FY 2010/11.

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 3, 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.
- Water District Assessment Calculation:

$\begin{aligned} &\text{Median Assessed Value/Unit} \times \text{FY 2011/12 Fee Assessment} \div 12 \text{ months} \\ &\$91,269/\text{Unit} \times \$3.70/\$100,000 \div 12 \text{ months} = \$0.28/\text{unit}/\text{month} \end{aligned}$

⁴ 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.

⁵ See footnote above.

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 2011/12 assessment was \$3.99 per 100 square feet of improvement, which is the same as the assessment for FY 2010/11.

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, 53 buildings with unavailable or likely inaccurate improvement square footage data were removed from the analysis. A total of 3,118 buildings (25,865 units) were included in this analysis.
- As shown in Appendix 3, 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 791 SF per unit over the 3,118 buildings in the analysis (this is slightly less than the median used in last year’s analysis).⁶
 - 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.⁷ As shown in Appendix 3, 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:

$\begin{aligned} &\text{Median Square Footage/Unit} \times \text{FY 2011/12 Fee Assessment} \div 12 \text{ months} \\ &791 \text{ SF/Unit} \times \$3.99/100 \text{ SF} \div 12 \text{ months} = \$2.63/\text{unit}/\text{month} \end{aligned}$

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 2011/12, the fee for residential parcels is \$5.87 for parcels less than one acre and \$4.26 plus \$1.61/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. The fees for parcels less than or equal to five acres is significantly less than the assessment for FY 2010/11 (\$11.40 for parcels less than one acre).

Mosquito Abatement Assessment Key Findings

- Of the 3,171 buildings that were analyzed for the property tax adjustment, ten additional

⁶ Calculation of per unit median and average assessed value follows methodology used to calculate per unit assessed value, as described in footnote 4.

⁷ See footnote above.

buildings were removed from the Mosquito Abatement Assessment analysis as no lot size information or Mosquito Abatement Assessment was reported for 2011.

- 3,156 of the 3,161 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 3, 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, using 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 below, 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**

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	3,156	25,657	97.1%	0.1721	\$5.87	\$0.06017
1 - 2 acres	5	776	2.9%	1.0940	\$4.26 + \$1.16/ac	\$0.00323
Total	3,161	26,433	100.0%	0.1721		\$0.0585

a. Calculated using the FY 2011/12 assessment of \$5.87 for parcels less than 1 acre and flat fee of \$4.26 plus \$1.61/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 the property has a swimming pool. The FY 2011/12 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	\$299.00	\$537.00
11 to 20 Units	\$309.00	\$547.00
21 to 50 Units	\$368.00	\$606.00
51 to 100 Units	\$394.00	\$632.00
100+ Units	\$417.00	\$655.00
100+ Units 2 Pools	\$417.00	\$796.00

Health License Fee Key Findings

- The analysis 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 2012. The sample includes 26,490 housing units in 3,171 buildings.
- As shown in Appendix 3, Table 4, almost 94 percent of all buildings (2,972 buildings) do not have a pool while 3 percent do have a pool (96 buildings). An additional 3 percent (103 buildings) with more than 5 units did not have reported assessments for 2012.
- Nearly 95 percent of the buildings analyzed had 20 or fewer units.
- As shown in Table 4 below, to determine an overall Health License Fee, a two-tiered weighted average was used to account for the distribution of buildings types within the building type categories.

**Table 4
Los Angeles County Public Health License and Permit Fee per Unit per Month, 2012**

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	985	3,372	\$0	\$0.00	0	0	\$0	\$0.00	3,372	\$0.00
> 5 units / no assessment	103	963	\$0	\$0.00	0	0	\$0	\$0.00	963	\$0.00
5 to 10 units	1,526	10,611	\$299	\$3.58	3	27	\$537	\$4.97	10,638	\$3.59
11 to 20 units	377	5,147	\$309	\$1.89	12	207	\$547	\$2.64	5,354	\$1.92
21 to 50 units	80	2,135	\$368	\$1.15	71	2,275	\$606	\$1.58	4,410	\$1.37
51 to 100 units	3	230	\$394	\$0.43	7	486	\$632	\$0.76	716	\$0.65
101+ units	1	288	\$417	\$0.12	2	217	\$655	\$0.00	505	\$0.00
101+ units - 2 pools	0	0	\$417	\$0.00	1	532	\$796	\$0.12	532	\$0.12
Total	3,075	22,746		\$2.21	96	3,744		\$1.26	26,490	\$2.08

a. Includes 103 buildings that each contain more than 5 units but do not have a reported Public Health License and Permit assessment for 2012.

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 2011/12 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. The rate has not changed since 1996.

Park District Assessment Key Findings

- Of the 3,171 buildings that were analyzed for the property tax adjustment, eight additional buildings were removed from the Park District Assessment, as lot size data was not available. A total of 3,163 buildings with 26,444 units were included in the analysis for the Park District Assessment.
- As shown in Appendix 3, 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, using 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 below, to determine an overall Park District Assessment, a weighted average was used to account for the distribution of buildings within the building type categories applicable for the fee calculation.

Table 5
Los Angeles County Park District Assessment per Unit per Month, 2011

Building Type	Total Buildings	Total Units	% of Total Units	Median Lot Size (acres)	Park District Assessment by Building Type	Weighted Average Park District Assessment/Unit/Month
Duplex	168	336	1.3%	0.1353	\$33.69/ac + \$21.69	\$1.09
Triplex	228	684	2.6%	0.1519	\$33.69/ac + \$32.54	\$1.05
4+ Units	2,767	25,424	96.1%	0.1721	\$33.69/ac + \$10.85/unit	\$0.96
Total	3,163	26,444	100.0%	0.1721		\$0.96

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 2011/12, the Flood Control Assessment is \$28.85 per acre (or fraction of) multiplied by the runoff factor divided by 0.0637. 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

Flood Control Assessment Key Findings

- Of the 3,171 buildings that were analyzed for the property tax adjustment, eight additional buildings were removed from the Flood Control Assessment, as lot size data was not available. A total of 3,163 buildings (parcels) with 26,444 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 3, 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% 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, using 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 below, to determine an overall Flood Control Assessment, a weighted average was used to account for the distribution of buildings within the building type categories applicable for the fee calculation.

Table 6
Los Angeles County Flood Control Assessment per Unit per Month^a, 2011

Building Type	Total Buildings^b	Total Units	% Total Units	Median Lot Size (acres)	Runoff Factor	Weighted Average Flood Control Assessment/ Unit/Month^a
Duplex	168	336	1.3%	0.1353	0.4176	\$1.07
Triplex	228	684	2.6%	0.1519	0.6815	\$1.30
Fourplex	586	2,344	8.9%	0.1492	0.8194	\$1.15
5+ Unit	2,181	23,080	87.3%	0.1721	0.8553	\$0.53
Total	3,163	26,444	100.0%	0.1721		\$0.61

a. Calculated based on FY 2011/12 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.

Appendix 3, Table 1
Apartment Assessed Valuation by Timeframe of Prior Purchase
(Santa Monica Library Bond/Metropolitan Water District Assessments)

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	3,154	576,913	\$926,673	26,360	100.0%	\$91,269	\$123,985
No sale date	218	\$160,087	\$276,188	1,595	6.1%	\$29,103	\$39,664
1969 and prior	151	\$193,629	\$253,640	1,221	4.6%	\$30,120	\$31,939
1970-1979	529	\$281,368	\$398,166	4,513	17.1%	\$39,974	\$47,678
1980-1989	649	\$494,746	\$684,367	5,516	20.9%	\$79,969	\$87,119
1990-1994	207	\$607,501	\$760,914	1,710	6.5%	\$98,069	\$106,956
1995-1999	382	\$559,595	\$1,074,039	3,585	13.6%	\$101,572	\$111,970
2000-2004	504	\$964,515	\$1,376,374	4,214	16.0%	\$169,973	\$189,500
2005-2010	481	\$1,365,000	\$1,814,737	3,746	14.2%	\$243,202	\$267,797
2011	33	\$959,408	\$1,062,444	260	1.0%	\$171,306	\$199,559

a. Excludes 17 buildings that receive real estate exemptions and therefore have 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, 2012 (2011 property tax bill based on 2010 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, Table 2
Apartment Unit Distribution and Size by Building Improvement Square Footage Category
(Trauma, Emergency and Bioterrorism Response Assessment)

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	3,118	4,831	6,979	25,865	100.0%	791	834
0-2,000 SF	245	1,649	1,595	650	2.5%	617	639
2,001-4,000 SF	1,013	3,040	3,013	4,537	17.5%	695	712
4,001-6,000 SF	629	4,885	4,938	3,937	15.2%	811	839
6,001-8,000 SF	470	6,973	6,948	3,930	15.2%	870	901
8,001-10,000 SF	319	8,796	8,891	3,136	12.1%	895	1,001
>10,000SF	442	15,208	20,615	9,675	37.4%	966	1,025

**Appendix 3, Table 3
Apartment Unit Distribution and Lot Size by Building Parcel Acreage
(Los Angeles West Mosquito Abatement Assessment)**

Buildings By Parcel Acreage	Total Buildings	% of Total Buildings	Total Units	% of Total Units	Median Lot Size	Average Lot Size
< 1 acre	3,156	99.8%	25,657	97.1%	0.1721	0.1926
1 - 2 acres	5	0.2%	776	2.9%	1.0940	1.3993
Total	3,161	100.0%	26,433	100.0%	0.1721	0.1945

a. Excludes 10 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, 2012 (2011 property tax bill based on 2010 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, Table 4
Distribution of Apartments with and without Pool by Building Type
(Los Angeles County Public Health License and Permit Fee)**

Building Type	Buildings with No Pool			Buildings with Pool			Buildings >5 Units No Assessment^a			Total Buildings	Total Units
	Total Buildings	% of Total Buildings	Total Units	Total Buildings	% of Total Buildings	Total Units	Total Buildings	% of Total Buildings	Total Units		
<5 units	985	31.1%	3,372	0	0.0%	0	-	-	-	985	3,372
5 to 10 units	1,526	48.1%	10,611	3	0.1%	27	87	2.7%	525	1,616	11,163
11 to 20 units	377	11.9%	5,147	12	0.4%	207	7	0.2%	98	396	5,452
21 to 50 units	80	2.5%	2,135	71	2.2%	2,275	8	0.3%	254	159	4,664
51 to 100 units	3	0.1%	230	7	0.2%	486	1	0.0%	86	11	802
101+ units	1	0.0%	288	2	0.1%	217	0	0.0%	0	3	505
101+ units-2 pools	0	0.0%	0	1	0.0%	532	0	0.0%	0	1	532
Total	2,972	93.72%	21,783	96	3.03%	3,744	103	3.25%	963	3,171	26,490

a. Includes 103 buildings that have more than 5 units and do not have a reported Public Health License and Permit assessment for 2012.

Source: Los Angeles County Assessor, Los Angeles County Public Health, Santa Monica Rent Control Board, 2012 (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 3, Table 5
Apartment Building Lot Size by Building Type^a
(Los Angeles County Park District Assessment)**

Building Type	Total Buildings	% of Total Buildings	Total Units	% Total Units	Median Lot Size (acres)	Average Lot Size (acres)
Duplex	168	5.3%	336	1.3%	0.1353	0.1277
Triplex	228	7.2%	684	2.6%	0.1519	0.1473
4+ Units	2,767	87.5%	25,424	96.1%	0.1721	0.2025
Total	3,163	100.0%	26,444	100.0%	0.1721	0.1945

a. Excludes 8 buildings where lot size data is not available.

Source: Los Angeles County Assessor, DataQuick, Santa Monica Rent Control Board, 2012 (2011 property tax bill based on 2010 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, Table 6
Apartment Building Lot Size by Building Type^a
(Los Angeles County Flood Control Assessment)**

Building Type	Total Buildings^b	% of Total Buildings	Total Units	% Total Units	Median Lot Size (acres)	Average Lot Size (acres)
Duplex	168	5.3%	336	1.3%	0.1353	0.1277
Triplex	228	7.2%	684	2.6%	0.1519	0.1473
Fourplex	586	18.5%	2,344	8.9%	0.1492	0.1509
5+ Unit	2,181	69.0%	23,080	87.3%	0.1721	0.2163
Total	3,163	100.0%	26,444	100.0%	17.2%	0.1945

a. Excludes 8 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, 2012 (2011 property tax bill based on 2010 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 4 Other Component Details

Business License Expense

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, 1990¹. 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—Less Shelter index.

Since vacancy decontrol/recontrol 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 last year’s analysis, the Board engaged Seifel Consulting to study 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. Using a weighted average analysis, the consultants determined the 2011 average monthly per unit cost for the processing fee is \$0.21 and \$1.41 for the tax. The total business license monthly expense per unit was found to be \$1.61.

To calculate the current value of the business license expense, the 2010 estimated value of the expense was split out from the maintenance component. The amount attributable to the business license expense for 2010 was determined to be \$1.33². The estimated cost for 2011 of \$1.61 reflected an increase of 21.1% over the 2010 calculated cost of \$1.33.

For 2012, staff obtained data from the City’s Business License Division on expenses paid in 2011 (based on owners’ reported 2010 gross receipts). 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 \$26.50 per residential location. The analysis presented on the following table summarizes the business license tax paid as well as the processing fee for 2,973 controlled properties by Santa Monica property owners in 2011.

¹ 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.

² Based on the 1991 cost of \$0.89 plus the changes in the CPI index (all items, less shelter) for all years through 2010.

Business License Taxes per Unit per Month - 2012

Building Type (# of Units)	Total Buildings ^a	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	466	1179	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
4 (owner-occupied) ^b	99	380	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
4	372	1488	\$25,519.34	\$9,858.00	\$1.43	\$0.55	\$1.98
5	337	1685	\$28,995.40	\$8,930.50	\$1.43	\$0.44	\$1.88
6	484	2904	\$53,457.02	\$12,826.00	\$1.53	\$0.37	\$1.90
7	227	1589	\$28,978.61	\$6,015.50	\$1.52	\$0.32	\$1.84
8	145	1160	\$20,820.44	\$3,842.50	\$1.50	\$0.28	\$1.77
9	55	495	\$9,472.20	\$1,457.50	\$1.59	\$0.25	\$1.84
10	267	2670	\$42,381.00	\$7,075.50	\$1.32	\$0.22	\$1.54
11	117	1287	\$23,094.24	\$3,100.50	\$1.50	\$0.20	\$1.70
12	66	792	\$14,722.34	\$1,749.00	\$1.55	\$0.18	\$1.73
13	20	260	\$5,581.67	\$530.00	\$1.79	\$0.17	\$1.96
14	36	504	\$9,234.13	\$954.00	\$1.53	\$0.16	\$1.68
15	21	315	\$5,918.65	\$556.50	\$1.57	\$0.15	\$1.71
16	35	560	\$9,783.03	\$927.50	\$1.46	\$0.14	\$1.59
17	12	204	\$3,464.23	\$318.00	\$1.42	\$0.13	\$1.55
18	13	234	\$4,336.18	\$344.50	\$1.54	\$0.12	\$1.67
19	8	152	\$3,106.16	\$212.00	\$1.70	\$0.12	\$1.82
20	29	580	\$10,883.37	\$768.50	\$1.56	\$0.11	\$1.67
21	13	273	\$4,227.53	\$344.50	\$1.29	\$0.11	\$1.40
22	14	308	\$5,517.33	\$371.00	\$1.49	\$0.10	\$1.59
23	12	276	\$6,317.39	\$318.00	\$1.91	\$0.10	\$2.00
24	19	456	\$8,897.96	\$503.50	\$1.63	\$0.09	\$1.72
25-26	13	333	\$5,635.73	\$344.50	\$1.41	\$0.09	\$1.50
27-29	15	416	\$7,579.45	\$397.50	\$1.52	\$0.08	\$1.60
30-33	29	896	\$17,829.67	\$768.50	\$1.66	\$0.07	\$1.73
34-39	11	392	\$9,983.02	\$291.50	\$2.12	\$0.06	\$2.18
40-49	23	1065	\$25,549.74	\$609.50	\$2.00	\$0.05	\$2.05
50+	15	1852	\$34,268.02	\$397.50	\$1.54	\$0.02	\$1.56
TOTALS	2973	24705	\$425,553.83	\$63,812.00			
Weighted Average^c					\$1.44	\$0.22	\$1.65

- a. Excludes 359 buildings for which no Business License Tax data matched with the Rent Control Board's database of 3,332 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

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, 2011, the monthly fixed charge rate was increased by 2.6% resulting in a monthly fee per apartment of \$4.06. Collection rates were also increased by 2.6% effective July 1, 2011.³ The table shows the impact of the rate increases on the 2012 overall cost for a hypothetical typical apartment.

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

	<u>Monthly Fee per</u> <u>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	15.02	18.97
April 2012	4.06	15.40	19.46

The difference between the 2011 total bill calculated as \$18.97 and the projected cost of \$19.46 for 2012 reflects a 2.6% increase (\$0.49).

³ The rate for the class MSQ - one 2-yard bin picked up once weekly was increased from \$150.13 to \$154.03 per two month period. The analyses developed by staff assume two bins for such a ten-unit building, resulting in a cost of \$154.03 per month or \$15.403 per unit/per month.

Fire and Life Safety Inspection Fee

This component was introduced in the 2005 GA 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.⁴

Until July 2010 the cost of the inspection was a flat fee per building regardless of size. Based on a fee study conducted in the spring of 2010, Fire Inspection Fees for multi-family residential and commercial properties were increased starting July 1, 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. A weighted average analysis was used to calculate the 2011 estimated cost for this component and determined the average monthly per unit cost was \$1.20.

Effective July 1, 2011, the Fire Inspection Fee schedule was increased by 2.6%. Staff again used a weighted average analysis to calculate the 2012 estimated cost for this component. Based on the 2.6% increase in the fee schedule, the monthly per unit cost for 2012 is projected to be \$1.24 and represents a 3.3% increase in the cost for this component.

Fee Schedule as of 7/1/2011 (annual)		# of Bldgs	# of Units	% of Bldgs	Annual cost per Bldg	Weighted Avg. Cost per unit per month
Less than 3 units	\$ 0	219	438	6.57%	\$ 0	\$0.00
3-15 units	119.02	2,812	18,193	84.39%	334,684	1.53
16-49 units	246.24	283	7,012	8.5%	69686	0.83
50-99 units	343.71	13	902	0.39%	4468	0.41
100+ units	405.27	5	1,147	0.15%	2026	0.15
Totals		3,332	27,692	100%	\$410,865	\$1.24

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 2011, the Water Department implemented the fourth of the five increases and water rates were increased by 10% and sewer rates (wastewater) were increased by 9%. This year's GA reflects the total increase of 10% on water rates and 9% on sewer rates. The net effect of the combined

⁴ City Council resolution 9858 adopted on June 17, 2003 established the fees.

increases is a 9.44% increase (\$3.11 more than 2011). The amount projected for 2012 is \$36.05. (See page 8 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 GA 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.⁵

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 this 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 Board's policy is to follow consumption trends for a number of years before making any adjustments to the consumption rate. Over the past eleven years, the consumption rate has been reduced twice and increased once. 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. In the 2011 GA report, staff found a downward adjustment to the average consumption rate was warranted and lowered the rate to 4.6 HCF. The 2011 estimated cost of \$32.95 reflected an average consumption factor of 4.6 HCF per unit per month.

For this year's report, staff again reviewed consumption and costs for the two sets of properties tracked since 1997. The results of that analysis are reflected in the consumption table that follows. For 2012, the average consumption for Group 1 is 4.45 HCF while the average for Group 2 is 3.93 HCF. For Group 1 the average went up very slightly while Group 2's average went down slightly. However, the averages for both groups remain below the 4.6 HCF per unit factor used in staff's analysis for estimating the monthly per unit water and sewer expense.

⁵ 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
2012	4.6	4.45	3.93

*The study was not performed in 2002 and 2003.

Recent reports from the City's Water Department for the current fiscal year (2011-2012), indicate that water consumption may be on the rise again. Staff is not recommending any changes to the consumption factor. As stated previously, the Board's policy is to follow consumption trends for a number of years before making any adjustments to the consumption rate. However, if in future years, water consumption continues to increase, staff may recommend a change to the consumption factor.

The total 2012 estimated cost per unit per month for water and sewer is \$36.05.

Distribution by City Area of Properties Tracked for Water Consumption

The two sets of properties reviewed 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 2012 back through May of 2011) is .392667. The average for the prior twelve month period was 0.422057.

The table shows that from May 2011 through November 2011, the monthly procurement costs for six of the seven months in that time period were higher than the prior year's for the same time period. (The average increase for those six months was 11.2%). For the five month period beginning December 2011 through April 2012, the monthly procurement costs were less. (The average decrease was 26.9% which is significantly more than the average increase.) Overall, the average monthly procurement cost for the most recent twelve month period is .02939% less than the average cost for the prior twelve month period.

Monthly Procurement Costs

Time Period	Core Procurement Gas Price (Cents Per Therm)	
	2011/2012	2010/2011
April	0.25102	0.46017
March	0.29725	0.41683
February	0.29670	0.47380
January	0.35960	0.40136
December	0.38354	0.43851
November	0.39148	0.34044
October	0.42214	0.39942
September	0.41466	0.35376
August	0.49551	0.46722
July	0.46196	0.47068
June	0.48360	0.41577
May	0.45454	0.42672
Average	0.392667	0.422057

Transmission Charge: The annual transmission charge for this period is 0.339700 which is 0.004880 more than last year's charge of 0.334820.

The total cost for gas per therm (procurement cost + transmission charge) is .732367 (.392667 + .339700). This is the amount used to calculate the estimated cost for gas for 2012 and is .024510 less than the prior twelve month period.

	2011/2012	2010/2011
Average procurement cost	0.392667	0.422057
Transmission Charge	<u>0.339700</u>	<u>0.334820</u>
Per Therm cost	0.732367	0.756877

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 2002.⁶

The projected cost for gas for 2012 without incidental charges is \$12.92 (2012 per therm cost of \$0.732367 x 16.036 therms = \$11.74 plus 10% tax = \$12.92). This is \$0.43 less 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.

Incidental Charges

Only one of the items included in the incidental charges experienced a rate change since last year. Effective January 1, 2012, the Public Purpose Program surcharge was increased by \$0.00544 cents (from .07687 cents per therm to .08231 cents per therm). This change resulted in an overall increase of \$0.10 to the incidental charges. The projected cost for incidental charges for 2012 is \$6.89.

Total Monthly Gas Cost

The gas cost and incidental charges for 2011 and 2012 are shown below. The 2012 estimated cost is 1.64% less (\$0.33) than the 2011 cost.

	2011	2012	Difference
Gas	\$13.35	\$12.92	\$0.43
Incidentals	<u>6.79</u>	<u>6.89</u>	<u>0.10</u>
	\$20.14 ⁷	\$19.81 ⁸	\$0.33

⁶ 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.

⁷ 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**.

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.⁹ 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 3,332 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 the count includes properties not under Rent Control. It appears some controlled properties are on a schedule other than GS-1. However, it appears that a significant number of multi-family properties under Rent Control use "house meters" and are charged GS-1 rates. Since 2009, the GS-1 rate schedule has been used 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. In last year's report, the composite cost for the GS-1 schedule was 18.2 cents per kWh. This cost was 4% higher than the 2010 cost of 17.5 cents per kWh. An increase of 4% to the 2010 cost of \$12.86 resulted in the estimated cost of \$13.37 for 2011.

For this year's report, research showed that the current composite cost for the GS-1 schedule is 15.6 cents per kWh. This cost is 14.29% less than last year's cost of 18.2 cents per kWh. A decrease of 14.29% to the 2011 cost of \$13.37 results in the estimated cost of \$11.46 for 2012.

⁸ April 2012 Cost **\$12.92** (16.036 therms x .732367 baseline rate = \$11.75 + \$1.17 [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 .08231] = \$6.26 + \$0.63 [10% tax]) = **Total cost \$19.81**.

⁹ 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.

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 GA 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. In 2010, 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 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. In 2011, this component was increased by the CPI—Less Shelter index (4.3%) and the amount for 2011 was set at \$36.82. The 2011 per unit cost remains the same after the conversion to the median MAR of \$1,395 used in this year's analysis as it is considered a "hard cost".

This year, the insurance component is adjusted by the CPI—Less Shelter index to estimate the 2012 cost. The March 2011 – March 2012 percent increase for this index was 2.2%. The effect of this increase on the insurance component results in an estimated cost for 2012 of \$37.63.