

SANTA MONICA RENT CONTROL BOARD ADMINISTRATION MEMORANDUM

DATE: May 29, 2008
TO: Santa Monica Rent Control Board
FROM: Tracy Condon, Administrator
FOR MEETING OF: June 5, 2008 (Public Hearing)
RE: Supplemental Staff Report - 2008 Annual General Adjustment

The proposed general adjustment report for 2008 was presented to the Rent Control Board on May 8, 2008. After a presentation and discussion, the Board set a recommended 2.7% general adjustment for public hearing on June 5, 2008.

Following the meeting, some commissioners inquired whether a maximum increase (or ceiling) should be considered for the 2008 general adjustment. Additionally, during the meeting, a member of the public questioned whether a special utility adjustment for units that are master-metered for electricity should be allowed.

This supplemental report addresses those issues.

Ceiling

If the Board would like to establish a maximum increase on the 2008 general adjustment, a ceiling of \$41 is recommended. The reasoning for this recommendation follows.

The Board first set a ceiling on the general adjustment in 1998. Since that time, the Board has set ceilings on the general adjustment each year except 2002 and 2007.

In 1998, the Board commissioned Thomas Stringer to evaluate operating expenses and their relationship to rent levels in Santa Monica.¹ In his report, Stringer found that, "Generally, the operating expenses for properties with arbitrarily high rent levels should be similar to those of other apartment buildings with more typical rent levels." He defined arbitrarily high rent levels as those that are not based on luxury or special accommodations, but rather on high base rents in 1978, base rents set after 1978, and/or one or more vacancy-related rent increases. Based on Mr. Stringer's analysis, staff recommended setting a ceiling on the 1998 general adjustment at the 85th percentile of all rents because it is inclusive of most higher rents -- just 15% of units are not included.

¹ Mr. Stringer's report provided the information needed for staff to consider adding a ceiling to the general adjustment for 1998.

Since that time, when the Board has set a ceiling on the annual general adjustment, it has been based on either the 85th percentile of all rents without vacancy increases or the average of the 85th percentile of rents for all units including both market rate units and non-market rate units. The latter approach has been used in recent years as the number of units rented at market rate has grown. By the end of 2007, 54% of all controlled units had been rented at market rate.

This year's recommended general adjustment is 2.7%. If the Board would like to set a maximum increase for the 2008 general adjustment, staff recommends a ceiling of \$41. The \$41 ceiling is calculated by applying the recommended 2.7% general adjustment to the average of the 85th percentile of rents for all units including market rate units (\$1,871) and non-market rate units (\$1,141). The ceiling would affect units with rents greater than \$1,537.

If the Board sets a ceiling for this year's general adjustment, staff recommends the Board adopt Regulation 3030 (version 2) which includes the \$41 ceiling. [A copy of the proposed regulation is attached.](#)

Master-Metered Utility Adjustment for Electricity

Following the May 8, 2008 meeting, staff conducted an analysis to determine if there was justification for a utility adjustment for units where the owner pays for all the electricity within the unit, as well as for the common areas. The analysis was based on information received from Southern California Edison, data collected previously by staff in preparation of general adjustment reports, past and present, and information provided by a member of the public who addressed the Board at the May 8, 2008 meeting. Based on information currently available, staff has concluded a utility adjustment for units with master-metered electricity is not warranted this year.

In 1985 the Board authorized the first utility adjustment. A 1.5% utility adjustment was granted if the unit was master-metered for both gas and electricity. If the owner paid only for electricity, the adjustment was .5%. In its analysis, staff estimated the average cost of electricity for master-metered units to be \$20.32 per month in 1985.

In 2002, the Board retained Dr. Kenneth Baar to conduct an in-depth study of electricity consumption levels and the electricity rate structure at that time. Dr. Baar requested information from Southern California Edison on actual consumption. The data provided by Edison indicated the average cost for electricity in calendar year 2001 for 130 master-metered buildings with 1,045 units was \$25.69 per month per apartment.²

This figure was less than expected in light of the time lapse between 1985 and 2001. Dr. Baar, therefore, concluded there had been a reduction in consumption levels.

² Edison was not able to provide data for individual accounts due to confidentiality considerations.

Dr. Baar also concluded that Board estimates of electricity expenses, which were based on a presumption that consumption levels did not change, were overestimates because it appeared there was a reduction of consumption levels.³

Using Edison's average cost of \$25.69, staff calculated the level of consumption used to reach that cost would be assessed at the lowest rate tiers, Tier 1 - Baseline and Tier 2- Non-baseline. Documentation provided recently by a member of the public supports staff's estimate that consumption for master-metered units usually falls within Tiers 1 and 2.

This is especially significant as the rates for Tiers 1 and 2 have been limited since 2005 pursuant to legislative action which rolled Tier 1 and 2 rates back to the rates in effect on February 2001.⁴ The rollback is still in effect.

Dr. Baar concluded that in 2001 there had been a reduction in consumption levels which equates with a reduction of the average per unit cost. Staff continues to operate under the assumption that consumption for master-metered units falls within Tiers 1 and 2. Because there has been no increase in these rates a utility adjustment for master-metered electricity is not warranted this year.

To properly consider a master-metered adjustment for electricity (and gas), actual consumption and cost data should be obtained. Receiving this type of detailed information from the utility companies is problematic due to confidentiality issues. The best source of information would be the actual bills from property owners of such units. Consideration of any future upward adjustment for master-metered units' utility costs should be accompanied by a requirement that apartment owners submit complete utility cost information covering several preceding years.

Conclusion

If the Board chooses to establish a maximum increase on the 2008 general adjustment, a ceiling of \$41 is recommended.

A separate utility adjustment for units master-metered for electricity is not recommended this year.

³ From The 2001 Master-Metered Adjustment report prepared by Dr. Kenneth Baar, page 3.

⁴ Assembly Bill (AB)1X.