

SANTA MONICA RENT CONTROL BOARD ADMINISTRATION MEMORANDUM

DATE: May 9, 2006
TO: Santa Monica Rent Control Board
FROM: Staff
FOR MEETING OF: May 11, 2006
RE: Utility Adjustment 2006
Buildings Master-Metered for Gas

Summary

In most rent-controlled apartments within the City, tenants pay the gas and electricity costs for their individual units. Landlords typically pay for the utilities attributable to the common areas of the property, i.e. hot water heaters, common area laundry rooms, security lights, etc. The costs incurred by the landlords for the common area utilities are factors considered in setting the annual general adjustment. The recommended annual general adjustment of 4% for this year was calculated to cover the utility expenses paid by landlords for the common areas.

However, there are a number of buildings within the City where a landlord pays the utility costs for use within the individual apartments as well as the common areas. These buildings are referred to as master-metered buildings. In some instances, the entire building or a group of units are connected to a single meter, while in other buildings, units have individual meters, but the owner pays the monthly bill for the utilities. The units in both instances are referred to as master-metered apartments. Owners may pay for only gas, gas and electricity or only electricity. From time to time, when necessary, the Board has approved supplemental general adjustments to compensate owners of the master-metered buildings for increased utility costs.

The 2006 general adjustment report reflects an increase of 17.54% for the gas component as compared to the 2005 cost for gas. The increase in gas costs had a significant role in calculating the 4% general adjustment currently before the Board.

The next question is whether the 4% general adjustment is sufficient for owners who pay for gas used within the units in addition to the common area gas usage. This year staff has done a detailed analysis of the cost of gas for master-metered apartments. Based on the analysis outlined in this report, staff is recommending a supplemental general adjustment this year for master-metered units where the owner pays for gas or for both gas and electricity for units which have not received a market vacancy increase.

Recommendation

Staff recommends the Board adopt a flat dollar utility adjustment of \$7 per month for apartments where the owner pays either gas, or both gas and electricity. (No utility adjustment is recommended if the owner pays only electricity). Staff also recommends that only those master-metered apartments that have **not** received a market rate increase be eligible for the \$7 utility adjustment. Finally, staff recommends that the Board schedule a public hearing on June 8, 2006 to consider the recommended \$7 master-meter utility adjustment.

History of Prior Utility Adjustments

In 1985 the Board approved an additional general adjustment increase for properties where the owner paid for either all the electricity or all the gas, or both, within the apartments as well as for common areas. Owners were required to apply for the additional adjustment, demonstrating that they paid the utility costs within the apartments in question.

Once the application was approved, owners were permitted an additional .5% for electricity, 1.0% for gas, or 1.5% if they paid for both, on all qualifying units. This was an additional permanent increase to the Maximum Allowable Rent (MAR).

In 1986 the Board approved an additional 2% utility adjustment for electricity only.

In 1991 the Board approved a flat dollar utility adjustment of \$7 for apartments where the owner paid electricity only and an adjustment of \$11 for those apartments where the owner paid both electricity and gas.

From 1991 through 2000 a review of utility rate increases showed that additional utility adjustments were not necessary.

In 2001, the Board approved a flat dollar utility adjustment of \$10 for apartments where the owner paid either for electricity, or both electricity and gas. No utility adjustment was found necessary for buildings where the owner paid only for gas.

In 2002, the Board rescinded the \$10 master-metered adjustment authorized in 2001. The rescission was based primarily on information provided directly by Southern California Edison which indicated the average per month/per unit electric cost was significantly less than the amount staff previously calculated as the average electric cost for master-metered units.¹

¹ In November 2002, Dr. Kenneth Barr (a consultant often used by the Board for general adjustment matters), prepared a report for the Board after receipt of actual utility cost data from Southern California Edison. The data showed that for calendar year 2001 the average per month per unit electric cost for mater-metered units was 25.69. This information was based on the data for 130 master-metered buildings containing 1,045 units.

Methodology and Analysis

Staff collected and analyzed gas bills from 20 different master-metered properties throughout Santa Monica. For all properties, at least 12 months of billing history was available. In some instances, close to three years of history was available. The average billing history contained 25 months. The data from the 20 properties indicates the average number of therms per unit on a master-metered property is 21.8699 therms. The average number of therms per unit used in the common area gas component of the annual general adjustment report is 16.036 therms. Therefore, it appears that gas usage for master-metered properties averages 5.8339 therms more per unit than the average gas usage on a property where the owner pays only for common area gas (21.8699 less 16.036 = 5.8339).

The cost per therm used in the 2006 annual general adjustment report is set at 106.0506 cents per therm.² The dollar value of the 5.8339 therms is \$7.15 per month, per unit, (see Appendix B) and is not covered by the 4% general adjustment recommended for 2006. Due to the higher average of therms used in a "master-metered" building and the cost of those additional therms, staff is recommending an additional utility adjustment of \$7 for master-metered buildings for 2006 where the owner pays for either gas only or for both gas and electricity.

Currently, Agency records reflect there are 317 properties that fall in this category with a total of 4,211 "master-metered" apartments. The majority of the 4,211 units are those where the owner pays both gas and electricity (2,928 units in 220 buildings). The number of units where the owner pays for gas only is 1,283 in 97 buildings. (There are 42 additional buildings (139 units) that are also "master-metered", however, in those buildings the owner pays only for electricity. Therefore, those units are not included.)

Of the 4,211 "master-metered" apartments, Board records show that 49% or 2,079 units have received market rent increases.³ It is presumed owners would have taken the cost for gas used within the apartment into consideration when they established a market rate rent on vacant units. Therefore, staff is recommending that any master-metered units that received market rent increases since January 1, 1999 not be eligible for the proposed utility adjustment.

Owners of units which have already qualified for previous utility adjustments would not have to re-apply before implementing the 2006 utility adjustment. However, owners must apply and qualify for this adjustment on apartments not previously approved by the Agency.

² From page 11 of the 2006 Annual General Adjustment report. The twelve month average procurement cost is .7781958. The annual transmission charge for this period is .28231. The total monthly cost per therm is 1.060506 (.7781958 + .28231). This is the amount used to calculate this year's projected increase in cost for gas.

³ Based on Agency records as of 4/7/06.

Conclusion

Based on the higher gas consumption for master-metered units and the increasing gas costs, an additional rent adjustment of \$7 is required to keep pace for apartments where the owner pays gas only or both gas and electricity.

Following this report are Appendices A and B. Appendix A is a summary of the master-metered units currently registered with the Agency (as of 4/7/06). Appendix B shows the calculations for the additional gas expense for apartments master-metered for either gas only or both gas and electricity.

Appendix A

The chart below shows that there are a total of 4,350 units with some type of master-meter. The greatest portion of that total consists of units where owners pay for gas only or both gas and electricity (4,211 units). The remaining 139 units are units where owners pay electricity only and are not considered in this report. Of the 4,211 units, 49% have received market rate increases.

	# of Units	# of Units with Market Rate Rents	# of units <u>without</u> Market Rent Increases
Gas & Electric	2,928	1,524	1,404
Gas Only	1,283	555	728
Electric Only	<u>139</u>	<u>82</u>	<u>57</u>
Total Units	4,350	2,161	2,189
Total Units with Gas or Gas & Electricity	4,211	2,079	2,132

Appendix B

The chart below shows the calculations for 2006 for apartments master-metered for gas and both gas and electricity. The chart shows the cost difference in gas usage for master-metered apartments.

Average number of therms per unit used in annual general adjustment – 16.036

Average number of therms per unit for master-metered units – 21.8699

Total number of therms not considered in annual general adjustment – **5.8339**

		Cost per therm in cents	2006 Cost for 5.8339 therms
A.	Per therm - monthly average cost	106.0506	\$6.19
B.	Per therm - Low income discount rate surcharge	.05322	.31
C.	Subtotal		\$6.50
D.	Plus 10% tax		.65
E.	Total		\$7.15