

SANTA MONICA RENT CONTROL BOARD-MEMO

To: Board Commissioners

From: Staff

Board Meeting of: March 11, 2004

Re: [General Adjustment Charter Change – Proposal for Modification to Section 1805\(b\) of the Rent Control Law](#)

Section 1805(b) of the Rent Control Law currently requires the Board to set annual general adjustments by determining actual increases in various expenses relating to owning rental properties, such as taxes, utilities, and maintenance expenses. In making this analysis for the general adjustment, the Board has used a “weighted operating cost index.” However, information on actual increases in many of these costs is not publicly available. For this reason, a substantial majority¹ of the costs in the Board’s annual general adjustment studies are based on increases in the Consumer Price Index (CPI). Because of the difficulty in obtaining data, this staff report proposes that the Board recommend to the City Council that it place a measure on the November, 2004 ballot, modifying the method of determining the annual general adjustment so that it is calculated at 75% of the increase in the prior year’s Consumer Price Index, with a cap of 7% and a floor of 0%.

Rent increase ordinances in most other rent control jurisdictions in California are based on increases in the Consumer Price Index. For example, San Francisco’s ordinance provides for an increase of 60% of the increase in the CPI, with a ceiling of 7% (San Francisco Administrative Code §37.3(a)(1)); West Hollywood’s ordinance allows an annual increase of 75% of the increase in the CPI (West Hollywood Municipal Code §17.36.020); and Beverly Hills, East Palo Alto, Los Angeles, and Oakland allow for a rent increase equal to the increase in the CPI.²

¹ Of the 82% of rental income which is adjusted each year, approximately 66% is adjusted by the CPI Index and approximately 16% is adjusted based on increases not tied to the CPI. See Baar, “Apartment Operating Cost Increases (March 2001-March 2002) & the Annual General Rent Adjustment under Santa Monica’s Rent Law” at p. 2. Pages 1-9 of report are attached to this staff report.

² Baar report, p. 1.

Currently, only Berkeley and Santa Monica rent boards set general adjustments based on an analysis of changes in operating costs. Berkeley's City Council has, however, placed on the ballot for the November, 2004 election a measure which, if adopted, will modify Berkeley's law to provide that annual general adjustments will be 65% of the increase in the CPI for All Urban Consumers in the San Francisco-Oakland-San Jose area, with a cap of 7% and a floor of 0%. Berkeley has proposed this change as part of a settlement of a lawsuit filed by the Berkeley Property Owners Association challenging the Berkeley Board's setting of past general adjustments. The parties agreed that using the percentage of the increase in the CPI would streamline the general adjustment process and eliminate current and future litigation.

Santa Monica has not been subjected to lawsuits over its general adjustment methodology. However, because of the difficulty and cost in obtaining actual data regarding increases in expenses, staff has encountered increasing difficulty in doing the general adjustment analysis and has relied on the CPI for the majority of the components in its analysis. Staff therefore recommends that the Board consider requesting the City Council to place on the ballot in the November, 2004 general municipal election, the attached proposed language modifying section 1805(b)'s method for calculation of the annual general adjustment.

From rent control's inception in 1979 through 2003, general adjustments adopted pursuant to section 1805(b)'s current analysis have averaged just over 75% of the increase in the CPI.³ See attached GA and CPI comparison sheet. This figure is within the general range used by rent-control cities with general adjustments determined according to a percentage of the increase in the CPI. In addition, general adjustments in Santa Monica have ranged from a high of 7% to a low of 1%. The proposed amendment provides for a minimum increase of 0% and a maximum increase of 7%, within the range of past general adjustments. These limitations are also identical to the minimum and maximum provided in San Francisco's rent stabilization ordinance and that proposed by the Berkeley settlement.

This proposal will provide a simple, straightforward annual general adjustment process that will be fair to both tenants and property owners. It will simplify the annual general adjustment determination and save money in consultant fees.

³ This average does not take into account the dollar-amount floor and ceiling which the Board imposed in some years, which result in units with the lowest rents paying annual adjustments higher than the percentage amount generally authorized and units with the highest rents paying less than the percentage amount generally authorized. For example, in 2001, the general adjustment was 4.2% or \$40, whichever was less, and in 2003 the general adjustment was 3%, or \$15 for units with MARs of \$516 or less and \$30 for units with MARs of \$984 or more.

Recommendation

Staff recommends that the Board propose to the City Council that it place a measure on the November, 2004 ballot amending Section 1805(b) of the Rent Control Law to modify the method of calculating annual general adjustments to use 75% of the increase in the prior year's Consumer Price Index, with a floor of 0% and a ceiling of 7%. See attached.

Staff recommends that the Board set this proposal for public hearing at its April 22, 2004 Board meeting prior to presenting the proposal to the City Council.

Attachments: [Proposed Amendment to Rent Control Law section 1805\(b\)](#)
[Baar Report \(March 2001-March 2002\), pp. 1-9](#)
[GA and CPI Comparison, 1979-2003](#)