

Management Partners



To: Mr. Sean McGlynn, City Manager
From: Jerry Newfarmer, President and CEO
Steven Bocian, Special Advisor
Subject: City of Santa Rosa Rent Stabilization and Other Tenant Protections
Ordinance Program Staffing, Cost and Fee Estimate
Date: August 17, 2016

The City of Santa Rosa has engaged Management Partners to assist with implementing its Rent Stabilization and Other Tenant Protections Ordinance (ordinance), which is currently under consideration for adoption. As part of our scope of work, we have agreed to provide a program staffing plan, an estimate of ongoing operating costs, and an estimated program fee.

The City's direction is that the program should be funded on a user fee basis, as is typical for non-general purpose programs. Therefore, fees should be set at an amount that will enable the program to operate without support from the General Fund. The goal of this study is to provide the City with the information it needs to consider adoption of a program budget and fees.

As part of our effort, we worked closely with City staff on drafting the ordinance, which is scheduled to be presented to the City Council at its meeting on August 16, 2016. Because the ordinance sets forth program parameters, service requirements and expectations, it serves as the basis for determining a program plan, budget and fee. As such, should there be modifications to the ordinance through the adoption process, modifications to our cost estimates would also be necessary.

Background

The City of Santa Rosa is considering adopting an ordinance that will place limitations on annual rent adjustments and establish provisions related to the termination of tenancies for certain multifamily residential properties. As currently drafted, the ordinance establishes an administrative process pertaining to such matters as tenant and landlord notification requirements, a petition process for requesting upward and downward rent adjustments, and utilization of a hearing officer in the event of tenant and landlord disputes. In addition to these specific program processes, adoption of the ordinance will necessitate ongoing program activity

related to public information and outreach, assisting tenants and landlords with disputes and ordinance interpretations, and internal administrative procedures related to billing, computer systems, and staff training. Due to the complexity of program implementation, Management Partners has been engaged to assist with various aspects of the process.

Estimated Program Cost and Fee Approach

Our approach uses a cost of service methodology to estimate necessary and reasonable annual program costs consistent with the administrative requirements set forth in the ordinance and state law. These program costs are then used to estimate a program fee that reflects a fair and reasonable relationship to the impact and benefit of the ordinance. However, because program costs are influenced by program activity, such as number and type of tenant and land petitions, number of administrative hearings and activity related to the number and type of tenant evictions, we have made general assumptions related to program activity. In addition, the number of California cities with some form of rent stabilization and tenant eviction protection laws is limited and as such, when necessary, we relied on program administration data that are most similar to the ordinance. Due to the potential impact of these various cost factors, the ordinance requires an annual program review to identify the necessary fees to recover the costs of administering the program.

To develop the estimates identified in this report, we spent considerable time with City staff reviewing existing and potential new administrative and organizational structures to identify those that are consistent with City practice and capable of meeting program needs. When possible, we used existing City expense information including:

- Personnel classifications, pay and benefits for program staffing,
- General overhead as determined by the City,
- Internal service charges for such items as information technology support.

We also engaged City staff regarding program service levels and anticipated service outcomes. Nevertheless, we anticipate that the year-end review of program activity and expenditures as mandated in the ordinance probably will result in adjustments to program costs and fees.

To assist with identifying program expenses, we developed the following six program cost categories. These help isolate specific program activities.

- General program administration;
- Rent petitions, excluding those related to capital improvements;
- Review of Capital Improvement Plans submitted by a landlord;
- Termination of tenancies;
- Support staffing from other City departments; and
- Services and supplies.



As indicated later in this report, we relied on City staff to identify the number of residential units that would be subject to the program.

Key Program Overview

Our review of the effort required to administer the ordinance includes the following:

- The program will be operated from the City's Department of Housing and Community Services, which has expertise in addressing a range of housing related programs.
- Administering the program will include support from other departments including Information Technologies, Finance and City Attorney. These services and related expenses are reflected in the overall program cost estimate.
- Program costs are dependent on a range of service demands including the number of rent petitions, inquiries, evictions, etc.
- Approximately 11,076 residential units will be subject to the program and required to pay a program fee to offset City expenditures.
- The program will require 3.6 full-time equivalent employees (FTE) of direct program staff and 0.9 FTE of support staff for a total of 4.5 FTE. Of those, 3.5 FTE will be new positions. A summary of the proposed program staffing is shown in Table 1. It is important to note that the amount of work estimated for existing staff is not insignificant, and while our analysis did not involve a detailed workload study, it is reasonable to assume the employees are already fully committed to existing work. However, the hiring of a new deputy director should help address this issue. In the future should the new program work "crowd out" other priorities the City may need to consider contracting or other staffing options.



Table 1. Program and Support Staff Summary

Position Titles	Department	FTE	Primary Service Area
Existing Program Staff			
Director Housing and Community Services	Housing and Community Services	0.20	Serves as Program Administrator
Administrative Services Officer	Housing and Community Services	0.20	General Program Administrative Support
Administrative Technician	Housing and Community Services	0.20	General Program Administrative Support
Assistant City Attorney	City Attorney's Office	0.25	Legal Assistance and consultation
Paralegal	City Attorney's Office	0.15	Program assistance
Subtotal Existing Positions		1.00	
New Positions			
Housing and Community Services Manager	Housing and Community Services	1.00	Overall program coordination. Petition review, counseling, public outreach, etc.
Administrative Analyst	Housing and Community Services	1.00	Petition review, counseling, program material development, etc.
Senior Administrative Assistant	Housing and Community Services	1.00	Primary administrative support
Customer Service Representative	Finance	0.50	Program fee billing and collectibles
Subtotal New Positions		3.50	
Total All Positions		4.50	

Notes: Includes a total of 4.5 FTE with 3.5 new positions

- Based on our review, we estimate the annual program cost to be \$1,248,674. Because the program will be effective for only a portion of this fiscal year, we have estimated current fiscal year cost at \$744,059.
- The annual program fee for a full fiscal year is estimated at \$113. The estimated program fee for the remainder of this fiscal year is \$67. The ordinance specifies that this cost can be split 50/50 between the landlord and the tenant. The premise is that both



parties get certain benefits. Based on our review of other similar surveyed programs, this cost appears to be within the range of existing programs.

Program Cost and Fee Review

To reflect our approach of identifying specific cost categories, the information below includes a number of tables that detail the level of effort for each cost category. Background information pertaining to staffing costs and hourly rates is also provided to show how the estimates were developed.

Non-Exempt Units Subject to the Ordinance

The number of non-exempt residential units subject to the program is of primary importance since it determines the number of units required to pay the program fee and acts as an indicator for determining program workload. We relied on City staff to provide information based on availability of existing housing data and an interpretation of the ordinance. The number of non-exempt units may fluctuate annually if existing units are demolished, permanently removed from the rental market, and/or become owner occupied. Table 2 shows the estimate of non-exempt units subject to the ordinance.

Table 2. Non-Exempt Units Subject to the Ordinance

Unit Type	Housing Units
Total Housing Units	66,605
Non-Exempt Units	
Multifamily units constructed prior to February 1995	14,640
Exempt Units	
Duplexes	2,253
Owner occupied triplexes	57
Governmental housing	1,254
Total Exempt Units	3,564
Total Non-Exempt Units	11,076

Source: City of Santa Rosa



Estimated Labor Rates

To estimate labor rates, we used the City's Salary Plan for Regular Positions effective April 2016. All estimates are based on the City's top pay grade except for the customer service representative position, which is at the first pay grade to reflect staff's interest in exploring the use of a temporary position. The hourly rates identified in Table 3 below are fully burdened based on 1,850 productive hours annually.

The selection of specific personnel classifications was an outcome of discussions with staff regarding responsibilities and duties within existing personnel classifications. While the City may elect to create unique classifications for administering the ordinance in the future, the personnel classifications listed below are consistent with anticipated program responsibilities.

Table 3. *Estimated Labor Rate with Benefits*

Department	Position Title	Annual Salary and Benefits	Hourly Rate
Rent Program	Housing and Community Services Manager	\$165,896	\$89.67
	Administrative Analyst	\$128,045	\$69.21
	Senior Administrative Assistant	\$76,098	\$41.13
Housing and Community Services	Director Housing and Community Services	\$225,351	\$121.81
	Administrative Services Officer	\$146,927	\$79.42
	Administrative Technician	\$95,725	\$51.74
City Attorney	Assistant City Attorney	\$258,867	\$139.93
	Paralegal	\$122,755	\$66.35
Finance Department	Customer Services Representative	\$62,607	\$33.84

Composite Rent Program Hourly Rates

Due to the anticipated range of program functions and employee responsibilities, we identified a composite hourly rate, which was applied to all rent program functions (i.e., those located in the Department of Housing and Community Services). For non-program staff support functions, we used the actual employee hourly rate. Of the 3.6 FTE identified in Table 4, the housing manager, administrative analyst, senior administrative assistant and customer service representative are new positions.



Table 4. Composite Rent Program Hourly Labor Rate

Position Title	FTE	Hourly Rate	Composite Hourly Rate
Director Housing and Community Services	0.20	\$121.81	\$24.36
Administrative Services Officer	0.20	\$79.42	\$15.88
Administrative Technician	0.20	\$51.74	\$10.35
Housing and Community Services Manager	1.0	\$89.67	\$89.67
Administrative Analyst	1.0	\$69.21	\$69.21
Senior Administrative Assistant	1.0	\$41.13	\$41.13
Composite Hourly Labor Rate	3.60		\$69.62

Note: The composite hourly labor rate is based on fully burdened productive hours.

Rent Program General Administration

Administering the ordinance will require a level of effort from the Department of Housing and Community Services as well as other City department's providing support services. However, the most significant burden will fall on the Department of Housing and Community Services and we estimated these program costs with the assumption that the program will be operated in this department. To accurately capture program costs, we assume the City will create a division or program within the Department of Housing and Community Services for the Rent Program.

Table 5 identifies 2,000 hours (1.07 FTE) dedicated to this function, which includes a range of services not specifically related to processing ordinance petitions, capital improvements and termination of tenancies. Overall, the workload represents general administration and public outreach and education.

Table 5. General Administration of Rent Program

Activity	Hours	FTE	Composite Hourly Rate	Estimated Annual Staff Cost
Program inquiries through phone, email, in person	600	0.32	\$69.62	\$41,772
Public education, outreach, City website updates	500	0.27	\$69.62	\$34,810
General tenant and landlord counseling and assistance	600	0.32	\$69.62	\$41,772
Program evaluation, staff support, training, planning	200	0.11	\$69.62	\$13,924
Process development and modification	100	0.05	\$69.62	\$6,962
Total	2,000	1.07		\$139,240



Rent Program Petitions and Capital Improvement Plan

The ordinance includes a process allowing a tenant or landlord to submit a petition for the purpose of conducting a rent review. The petition may be for consideration of a rent increase above the ordinance's allowable annual adjustment or for consideration of a downward rent adjustment when a tenant believes the applied rent amount is inconsistent with the requirements of the ordinance. The program administrator is responsible for reviewing these petitions and issuing a decision on the petition.

In addition to the actual process of reviewing and issuing decisions regarding petitions, we anticipate the City will have a sizable workload related to tenant and landlord inquiries regarding the petition process and that there will be considerable activity related to resolving disputes without the need for a formal petition review. As Table 6 shows, we have estimated 2,700 hours (1.44 FTE) for administering this aspect of the ordinance.

Table 6. Rent Program Petitions (Excluding Capital Improvement Plans)

Activity	Hours	FTE	Composite Hourly Rate	Estimated Annual Staff Cost
Petition inquiries	400	0.21	69.62	\$27,848
Petition intake, noticing and initial review	700	0.37	69.62	\$48,734
Communication with landlord and tenants	600	0.32	69.62	\$41,772
Petition evaluation and decision	800	0.43	69.62	\$55,696
Prepare material for hearing officer	200	0.11	69.62	\$13,924
Total	2,700	1.44		\$187,974

Note: Assumes 53 petitions annually.

The ordinance also provides that a landlord may submit a Capital Improvement Plan detailing specific capital improvements that provide significant repairs and/or enhancements consistent with improvement standards set forth in the ordinance. Submittal of a Capital Improvement Plan initiates a review process culminating in a City decision regarding a rent adjustment. We assumed that approximately 12 Capital Improvement Plans would be submitted annually. As Table 7 shows, we estimate this function will result in a workload of 360 hours (0.19) annually.



Table 7. Rent Program Review of Capital Improvement Plans

Activity	Hours	FTE	Composite Hourly Rate	Estimated Annual Staff Cost
Capital Improvement Plan inquiries	50	0.03	69.62	\$3,481
Plan intake, noticing and review	50	0.03	69.62	\$3,481
Communication with landlord and tenants	60	0.03	69.62	\$4,177
Plan evaluation and decision	100	0.05	69.62	\$6,962
Prepare material for hearing officer	100	0.05	69.62	\$6,962
Total	360	0.19		\$25,063

Note: Assumes 12 Capital Improvement Plans annually.

Termination of Tenancies

The ordinance includes regulations related to the terminations of tenancies and the payment of a relocation fee by a landlord to a tenant in certain situations. While the ordinance does not include a specific City review process of these terminations, it is anticipated that these provisions will result in considerable program activity related to tenant and landlord inquiries, review of noticing requirements, calculation and application of a relocation fee, and other related costs. We also anticipate ongoing correspondence concerning specific termination activity and counseling during a termination process. We estimate a 1,600 hours (0.85 FTE) for this activity, as detailed in Table 8.

Table 8. Termination of Tenancies

Activity	Hours	FTE	Composite Hourly Rate	Estimated Annual Staff Cost
Program inquiries through phone, email, in person	600	0.32	69.62	\$41,772
Review of termination and counseling	200	0.11	69.62	\$13,924
Review for program compliance	500	0.27	69.62	\$34,810
Correspondence regarding program compliance	300	0.16	69.62	\$20,886
Total	1,600	0.85		\$111,392



Support Staff

As indicated above, we estimate a rent program staff of 3.6 employees is required to for program administration. Of these, three will be new positions. In addition to the rent program staff, we have also identified the need for non-program staff to meet services demands. The support demand will be from the City Attorney's Office and the Finance Department. Primary responsibilities include performing program fee billing and collectibles and legal support related to interpreting the ordinance, addressing complex legal issues related to state and federal regulations, support for rent dispute hearings by the hearing officer, and other related matters.

As part of our estimations, we reviewed the anticipated level of effort for the City's legal staff without consideration of staff availability to provide the identified services. As such, we assume the City Attorney's Office will review this level of effort and determine if it is best to use existing staff or private legal counsel for these services. As Table 9 shows, we estimate that 1,665 hours (0.9 FTE) will be required to provide these services.

Table 9. Support Staffing

Staff Positions	Activity	Hours	FTE	Hourly Rate	Estimated Annual Staff Cost
City Legal Staffing					
Assistant City Attorney	Ordinance review, support for hearings, public inquiries, legal reviews	450	0.24	\$139.93	\$62,969
Paralegal	Paralegal support	275	0.15	\$66.35	\$18,246
City Finance Support Staffing					
Customer Service Representative	Conduct annual billing, customer contact regarding billing questions and collectibles	940	0.51	\$33.84	\$31,810
Total		1,665	0.90		\$113,024

Services and Supplies

Table 10 identifies a full range of anticipated program costs related to program overhead, general supplies, the hearing officer, and consultant fees. Included as part of these estimates is a one-time charge of \$150,000 to cover the cost of interim program services for administration of the program until it is fully staffed and operational. While the City has not yet finalized an agreement with a service provider, it is currently reviewing alternatives related to this need. A total of \$309,000 of the total Services and Supplies costs represent one-time charges that will not occur in subsequent years.



Table 10. Services and Supplies

Expense Category	Description	Estimated Cost
Audit Services	Annual review of program expenditures and revenue and fee calculation	\$2,500
Consultant Services	General consulting services including current agreement with Management Partners, current agreements for program implementation (\$94,000) and as needed consultant services	\$130,000
Computer Equipment	Cost of new computer equipment for new employees (3)	\$9,000
Database Development	Anticipated services to meet billing, notifications, records management and other services	\$25,000
Information Technologies Support	Work station support (4.45 FTE)	\$19,580
Miscellaneous	Various program expenses	\$5,000
Office Equipment	Equipment for new program	\$3,000
Office Furnishing	Office equipment for new employees	\$8,000
City Overhead Charges	Includes general overhead (\$75,000), program fee billing services (\$57,500) and legal services (\$65,000)	\$197,500
Postage	Notifications, billings, etc.	\$20,000
Printing and Design Services	Anticipated cost of educational and information material	\$20,000
Software Licensing	Anticipated cost of new software licensing	\$10,000
Supplies- General	Ongoing office supplies	\$1,500
Hearing Officer	Twenty-four hearings annually at six hours per hearing plus court reporting	\$42,400
Interim "gap" services	Anticipate cost to meet service requirements until staff positions are filled and functioning	\$150,000
Training	City and rent program training	\$4,500
Translation Services	Required for hearings and meetings	\$4,000
Website maintenance and design	Upgrades to web services to improve the program's web functionality	\$20,000
Total Services and Supplies		\$671,980



Fee Estimates

Based on our review, the estimated annual program cost and program fee is shown in Table 11.

Table 11. Total Estimated Annual Program Cost and Fee

Expense Category	FTE	Staffing Cost
Rent Program Staffing		
General Administration	1.07	\$139,240
Petitions (excluding Capital Improvement Plans)	1.44	\$187,974
Capital Improvement Plans	0.19	\$25,063
Tenant Terminations	0.85	\$111,392
City Support Staffing, Services and Supplies		
Legal Staffing	0.39	\$81,215
Finance Staffing	0.51	\$31,810
Subtotal	4.45	\$576,694
Services and Supplies		\$671,980
Total Annual Program Cost		\$1,248,674
Annual Program Fee (11,076 Eligible Units)		\$113

Note: One-time charges estimated at \$309,000. Estimated cost without one-time charges is \$939,674.

Estimated Cost and Fee Estimate for Remainder of Current Fiscal Year

Table 11 reflects our estimate of annual program costs based on currently available information. However, because the Ordinance indicates that the program fee will be paid once annually either at the time a business license for the rental unit is issued, if applicable, or on July 1 of each year for those units that do not pay the business license tax, Table 12 outlines estimated program and fee cost for the remainder of this fiscal year. To do this, we assumed all staff support based on six months of service and made general assumptions related to expenses. The latter is not applicable to a cost allocation based on the number of months the ordinance is in effect since some of these expenses will be incurred without concern for the implementation timeline.

As an example, the interim “gap” service would be the same amount for both a full and partial year since it will be used primarily to provide services from the time the ordinance is adopted until such time that City staff are in place to administer the program. Further, while City overhead costs are included in the annual plan, they have been eliminated from the partial year estimate since the City will not apply this cost until FY 2018-19.

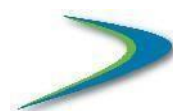


Table 12. Total Estimated Program Cost and Fee for Remainder of FY 2016-17

Item	Annual Estimate	Cost for FY 2016-17
Rent Program Staffing		
General Administration	\$139,240	\$69,620
Petitions (Excluding Capital Improvement Plans)	\$187,974	\$93,987
Capital Improvement Plans	\$25,063	\$12,532
Tenant Terminations	\$111,392	\$55,696
City Support Staffing		
Legal Staffing	\$81,215	\$40,607
Finance Staffing	\$31,810	\$15,905
Subtotal Staffing Cost	\$576,694	\$288,347
Services and Supplies	\$671,980	\$399,200
FY 2016-17 10% Contingency		\$74,405
Total Cost	\$1,248,674	\$818,464
Partial Year Program Fee (11,076 Eligible Units)		\$74

Note: Overhead charges will not be billed to the program until FY 2018-19.

Summary

As indicated previously, actual program costs will be largely dependent on program activity and the City's long-term service plan. However, based on our review, this fluctuation should not significantly impact staffing requirements and as such, program staffing should remain constant. Program costs related to the licensing, software development, support staff, public educational material, hearing officers, etc. will most likely be most susceptible to the cost fluctuations.

Attachment: Overview of rent stabilization programs for comparative purposes.



Overview of Rent Stabilization Programs

City	Number of Non-exempt Housing Units	Current Program Operating Budget	Annual Registration Fee	Number of Program FTE	Annual Allowable Rent Increase
Alameda ¹	13,037	\$1,900,000	\$131	6	5%
Berkeley	19,093	\$4,550,000	\$234	20.60	1.5% (CPI Formula)
East Palo Alto ²	2,400	\$650,000	\$234	2.00	2.40% (CPI Formula)
Hayward ³	3,000	\$27,875	\$2.77	0.50	5.00%
Oakland	N/A	\$1,773,209	\$30	12.00	2% (CPI Formula)
Santa Rosa	11,076	1,248,674	\$113	4.5	3%

Source: Annual budget documents, city websites and program reports.

¹ The City of Alameda information represents an estimated amount as the program has just recently been approved. ² The City of East Palo Alto budget includes \$206,000 City overhead charges.

³ The city of Hayward includes various conditions that allow rent increases in excess of 5%, including rent carry-overs. Cost is based on 80% program recovery. A total of 20% is funded by the General Fund. 3,000 units subject to the rent control portion of the program.

