



Agenda Report

August 8, 2022

TO: Honorable Mayor and City Council

FROM: City Manager's Office

SUBJECT: ANALYSIS OF BALLOT MEASURE TITLED PASADENA FAIR AND
EQUITABLE HOUSING CHARTER AMENDMENT

RECOMMENDATION:

This report is for information purposes only. No action is requested by the Council.

BACKGROUND:

In response to signature gathering for a proposed initiative to amend the City's Charter, titled, "The Pasadena Fair and Equitable Housing Charter Amendment" ("Amendment") on April 28, the LA County Registrar reported that County staff reviewed 20,564 submitted petition signatures and validated 15,101 to be the signatures of registered voters in the city of Pasadena. The official number of the registered voters of the City of Pasadena based on the latest report to the Secretary of State is 90,369. The minimum number of signatures needed to qualify the initiative petition at the required 15% threshold is 13,555 signatures. Therefore, the Amendment will be presented to the voters on November 8, 2022. On May 9, 2022, the City Council directed staff to prepare an analysis of the proposed Amendment, including costs, potential impacts on existing and future housing stock and identify potential inconsistencies between the Amendment and existing rules, policies or regulations.

In addition, the City Council has approved the Housing Element which was recently submitted to the State's Housing and Community Development Department for approval. Importantly, the Element includes Program #14, Rental Housing Assistance, which says in pertinent part, *"In the event that the rent control initiative on the November 2022 ballot fails to pass, investigate the feasibility of enacting local rent stabilization controls or other tenant protection strategies that reflect conditions unique to Pasadena."*

REPORT ON BALLOT MEASURE

In response to Council's direction, the City hired Management Partners to prepare a report including an independent and objective analysis of the Amendment (Management Partners Report "Report", Attachment A). The Report is not intended to provide a recommendation on whether the Amendment would be good policy for the City or whether or not the Council should support or oppose the Amendment. The Report provides a factual analysis of the Amendment and potential impacts of implementing it. Staff reviewed a draft of the document for factual accuracy, but did not alter or influence the analysis.

CONCLUSIONS/FINDINGS

Below are high level conclusions and findings of the Report.

- The regulations would affect 31,316 rental units in Pasadena, over 75,000 residents, and hundreds of landlords.
- The Amendment's rent regulations would limit the year-to-year increases in rents to 75% of the regional CPI increase and the eviction regulations would prohibit evictions except in specified circumstances.
- An 11 member Rental Housing Board would be appointed by the City Council to oversee the Amendment's various provisions with members compensated for their service.
- It is estimated that to fully implement the Amendment would cost \$5.8 million and require hiring 26 employees as well as securing office space, equipment and software necessary for the program. The costs would be paid for through annual fees charged to landlords for each rental unit. These fees could not be passed on to tenants. The annual fee amount would be approximately \$184 per unit based upon the estimated numbers to date, but the actual fee could be higher or lower.
- Modern rent stabilization measures have no discernable effect on new housing production but may increase the conversion from rental to for sale units.
- In California, single-family home and multi-family rental units constructed after February 1995 are exempt from local rent stabilization laws.

POTENTIAL IMPACTS AND IMPLEMENTATION

It should also be noted that there are many unknowns with respect to the Amendment – both because data is still being collected on the long-term impact of these second-generation rent-control regulations but also because the Amendment is silent or ambiguous in certain areas of implementation. Pasadena has a City Manager form of government where the City Charter grants the City Council and City Manager specified powers over City employees and over budgetary and fiscal matters, among other things. The Amendment amends the Charter but is not a perfect overlay with existing provisions of the Charter; therefore, there are ambiguities with respect to the powers ostensibly given to the Board. Some powers and duties of the Rental Housing Board appear to limit the authority of the City Council and the administrative role of the City Manager. This raises some concerns at the practical level of implementation that may require legal analysis on the facts as developed and possibly litigation to fully resolve.

- Implementation of the Amendment – If approved there could be challenges regarding the implementation of the Amendment given that, “the Rental Board shall be an integral part of the government of the City but shall exercise its powers and duties under this Article independent from the City Council, City Manager, and City Attorney, except by request of the Rental Board.”
 - Personnel: Will the Board hire its own staff directly or through the City? Will staff be City employees subject to City existing and future personnel rules and reporting to the City Manager, or will they be subject only to the Board?
 - Fiscal Management: What fiscal responsibilities will the Board have? Will the Board hold and disburse funds directly or act through the City Finance Department? Will the Board be subject to the same fiscal administration and reporting requirements as the City? Will its budget be approved by the City Council or only the Board? Will the Board be required to adhere to City purchasing policies?
 - Enforcement: There is ambiguity with respect to the responsibility for enforcement of public nuisances, building and safety provisions, property maintenance requirements, investigation and eviction for drug activity, zoning and other regulations and penalties related to inclusionary units and Accessory Dwelling Units. Additional research would be needed to develop a supportable approach to divide responsibilities between existing City staff/departments and the Board.
 - Funding: The Amendment requires the City to advance all necessary funds to ensure the effective implementation of the program. It is unclear as to the mechanics of developing and approving a start-up budget, directing payment and actually making and monitoring expenditures. Traditionally departments and Operating Companies develop a budget which is approved by the City Council, and cannot deviate from that without City Council approval.
- Potential Impacts
 - Property Values – According to the California Legislative Analyst’s Office (LAO) in its analysis of a proposed 2017 rent stabilization law:
“The market values of properties appear to decline when they are placed under rent control. Further, some evidence suggests that the market value of non-rent-controlled properties in the vicinity of rent-controlled property also declines.”
The Report identifies several other studies outside of California that indicated that rent control did not impact property values.
 - Condominium Conversions – California’s Ellis Act allows landlords to evict tenants to facilitate the conversion of the units into condominiums or to redevelop the entire property. Studies in Los Angeles and San Francisco show that rent stabilization regulations incentivized landlords to convert rental units into owner-occupied units or redevelop the property to exempt them from regulation.

- Property Maintenance – Some studies suggest that tenant affordability comes at the cost of maintenance, with rent stabilized buildings experiencing more maintenance and habitability concerns. Other studies show that regulations that condition rent adjustments on compliance with maintenance provisions (like the proposed Amendment) may serve as an incentive for landlords to properly maintain their properties.
- Tenant Affordability – The Amendment uses 2021 as the base year for calculating rent adjustments. Increases would be limited to 75% of the regional CPI increase. Overall, rental costs will remain relatively stable if a tenant remains in their unit. However, state law allows landlords to reset rents as rental units are vacated, resulting in different rent amounts depending on move-in date.
- Landlord Income – Landlord income varies depending on the starting rents, tenancy turnover rates, vacancies, operating costs over time, and market conditions. As a result, the financial effects on landlords from the rent stabilization regulations in the Amendment cannot be estimated, but some studies show that their income would decrease as a result of rent control regulations.

GENERAL SUMMARY OF REPORT

The Report includes, but is not limited to an analysis of the following:

- An overview of the Amendment;
- A review of literature related to the impacts of rent control;
- The cost of implementing the program; and
- Potential inconsistencies between the Amendment and existing regulations.

OVERVIEW OF THE AMENDMENT

The stated purpose of the proposed Amendment is to promote neighborhood and community stability by regulating rent increases and preventing arbitrary evictions. The Amendment would apply to a total of 31,316, or 83.5% of rental housing units in Pasadena. The remaining 16.5% of units are not tenant occupied.

Rental units built after February 1995 are not subject to rent regulations pursuant to the Costa-Hawkins Rental Housing Act (Costa-Hawkins). Accordingly, the analysis showed the rent stabilization and just cause eviction provisions would apply to 24,852 units in Pasadena's multi-unit housing stock which was built before February 1995. Rental units built after this date would still be subject to the Amendment's just cause eviction provisions. This would include 6,464 units in the multi-unit housing stock which were built after February 1995.

Under Costa-Hawkins, landlords would set the initial rent amounts when new tenants move in a unit. However, future rent increases of that unit would be regulated under the proposed Amendment. The amount of these increases would be tied to the Consumer Price Index, and only one increase would be allowed each year. The base rent for

existing tenants would be established as of May 17, 2021, or the initial rent they paid when they moved into the unit after May 17, 2021.

The Amendment also contains provisions allowing a landlord to request an upward adjustment (rent increase) to ensure landlords receive a "fair return." Tenants could also request a "downward adjustment" (rent decrease) in cases where a landlord failed to properly maintain a unit in compliance with various state laws, or beyond ordinary wear and tear. Evictions would be limited under the proposed Amendment to specific circumstances where a landlord has a just cause to require a tenant to move. Relocation benefits would be available to tenants in certain types of eviction cases. These benefits, where applicable, would be paid by landlords.

The proposed Amendment would create an 11-member Rental Housing Board which would be appointed by the City Council to oversee the various rent stabilization and eviction regulations, adopt rules and regulations, provide policy direction, and hear petitions for rent adjustments. The proposed Amendment would also require the Board to enact a Rental Housing Fee for each rental unit. This fee would be paid annually by landlords, and it could not be passed on to tenants. The purpose of the annual fee is to provide funding for the rent stabilization and eviction protection programs.

LITERATURE REVIEW

Studying the impacts of rent regulations and tenant protection measures is complicated. In an effort to provide a broad spectrum of existing scholarly literature regarding the impacts of rent stabilization regulations, staff spoke with Mr. Shane Phillips, Manager for the Randall Lewis Housing Initiative for the UCLA Lewis Center for Regional Policy Studies, Richard K. Green, Ph.D., Director of the USC Lusk Center for Real Estate and Professor in the USC Sol Price School of Public Policy and the Marshall School of Business and Mr. Ryan Bell, Southern California Regional Coordinator for Tenants Together, a statewide coalition of local tenant organizations dedicated to defending and advancing the rights of California tenants to safe, decent, and affordable housing and is also a member of the Pasadena Tenants Union. As a result of these conversations, we provided Management Partners with several studies and reports on rent control to include in their analysis, along with other studies which they independently identified. The proposed Amendment is consistent with what the literature considers to be "second-generation regulations" which are typically set at the local level and are generally more moderate, with exemptions for new construction and rent resets for vacated units.

Research studying the impacts of these more moderate, second-generation regulations shows a mix of outcomes, largely determined by the specific regulations and rental markets. Differences in the details of rent stabilization programs can produce varied results.

COST OF IMPLEMENTING THE PROGRAM

Management Partners compiled data regarding rent stabilization programs in five other communities. These are small- to mid-size communities, including Berkeley, Beverly Hills, Richmond, Santa Monica, and West Hollywood. The analysis focused on staffing

and budget data from the programs in Berkeley and Santa Monica because they are more comparable to Pasadena. The Report estimated the staffing requirements using the comparison data from similar cities and calculated the costs of implementing the proposed Amendment using financial information for personnel costs provided by the Human Resources Department. This analysis showed the overall program would require 26 staff positions and cost approximately \$5.8 million to operate. To offset the program costs identified in the Amendment, the Rental Housing Fee would be approximately \$184 per unit in the first year.

FISCAL IMPACT:

There is no fiscal impact associated with this action. This item is for information purposes only.

Respectfully prepared and submitted,



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Approved by:



CYNTHIA J. KURTZ
Interim City Manager

Attachment:

Attachment A – Objective Analysis of a Ballot Measure Titled, “Pasadena Fair and Equitable Housing Charter Amendment”, prepared by Management Partners.