

Agenda Report

January 22, 2024

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Rent Stabilization Department

SUBJECT: ADOPTION OF THE FY2024 RECOMMENDED OPERATING BUDGET OF THE RENT STABILIZATION DEPARTMENT

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15 061 (b)(3) (common sense exemption); and
2. Adopt the FY2024 Recommended Operating Budget of \$2,876,232 for the Rent Stabilization Department, inclusive of the previously appropriated \$600,000, and 12.0 FTE positions as detailed in the report. Due to the anticipated delay in billing the FY2024 Rental Housing Fee, a temporary negative cash position for the department is acknowledged as described in the report.

BACKGROUND:

The Rent Stabilization Department (RSD) was created in December 2023 to support the Pasadena Rental Housing Board (PRHB) duties to regulate rent increases on certain rental properties in the city, provide eviction protections, and carry out the other duties set forth in the Pasadena Fair & Equitable Housing Charter Amendment (Charter Amendment) approved by Pasadena votes in November 2022.

On January 10, 2024, the PRHB adopted the FY2024 Recommended Operating Budget for the RSD and set the FY2024 Rental Housing Fee to be levied on each applicable rental unit.

The RSD's annual budget will be incorporated into the City budget approval process, and therefore must be adopted by the City Council. The PRHB independently sets the Rental Housing Fee in accordance with Section 1811 (I) of the Charter Amendment

Rental Housing Fee in accordance with Section 1811 (l) of the Charter Amendment based on the approved annual budget. The fee is anticipated to support the full expenses of the RSD.

The remainder of the report outlines the initial operating budget for the RSD and the Rental Housing Fee for the current fiscal year (July 1, 2023 through June 30, 2024) to implement the provisions of the Charter Amendment. The report also highlights the RSD's responsibilities, anticipated expenditures, staffing needs and work plan.

Department Responsibilities

RSD is responsible for:

- Enforcing rent stabilization laws: Implementing policies and procedures to prevent unfair rent increases, eviction, and other habitability violations while ensuring rental-property owners receive a fair return on investment in accordance with the Charter Amendment.
- Assisting tenants and landlords: Provide counseling and guidance to empower tenants and landlords to understand their rights and responsibilities and navigate PRHB processes for petitions, hearings and accessing other city services.
- Collecting and analyzing data: Comprehensive data on rents, housing availability, and other data to inform policy decisions, and enforce regulations.
- Engaging in community outreach and education: Collaborative initiatives with community organizations will educate tenants and landlords about their rights and responsibilities under Pasadena's rent stabilization law (Charter Article XVIII).
- Support the PRHB to fulfill its policy development functions, processes and facilitate public meetings.

Recommended Budget for FY2024 (July 1, 2023 thru June 30, 2024)

To effectively fulfill its mission, the RSD requires an initial operating budget of \$2,876,232 and authorization to hire 12 staff (12.0 FTE). Funding for the department will be provided by revenues collected from the Rental Housing Fee of \$91.85 on all rental units affected by the Charter Amendment. The budget allocation breaks down as follows:

Summary of Appropriations by Expense Category & FTEs

Category	FY 2024 Recommended
Personnel	\$ 1,005,426
Services & Supplies	\$ 1,531,500
Internal Service Charges	\$ 339,306
Grand Total	\$ 2,876,232

FTE

Summary of Revenues

Category	FY 2024 Recommended
Rental Housing Fee (31,316 units x \$91.85) ⁽¹⁾	\$ 2,876,232
Grand Total	\$ 2,876,232

(1) The Rental Housing Fee incorporates repayment of the \$500,000 advance from the City’s General Fund, as authorized by the City Council in May 2023 to fund start-up expenses. The budget accounts for \$457,379 already spent by the PRHB as of 12/31/2023. Additionally, \$5,060 was spent on audio-visual services during the previous fiscal year (FY2023).

Budget Discussion

Staff recommends a phased approach to budgeting, considering both short-term and long-term needs during the start-up phase of the department:

Phase 1: Initial Implementation (FY2024)

- **Initial Budget:** The recommended budget for the remainder of FY2024 (through June 30, 2024) takes a conservative approach, factoring in existing authorized expenditures from the PRHB, establishing the Rental Registry, hiring of staff, supporting communication and outreach needs, securing office space, and implementing other start-up infrastructure. The estimated operating expenses for the remainder of the fiscal year were in part calculated based on prior expenditures.
- **Limited Information:** While a full year of actual expenditure data is not yet available for forecasting future budgets, staff are utilizing the best information currently available, including a comprehensive staffing model and cost analysis provided by Bhyv Consulting (Attachment A). This model estimates costs to run

the RSD at full capacity to be \$5,914,056 annually and \$765,000 in one-time costs for initial setup.

- Previous appropriations: The recommended budget also incorporates \$600,000 in appropriations already authorized by the City Council during the startup phases for the PRHB, including:
 - (1) \$425,000 for Bhyv Consulting on July 31, 2023
 - (2) \$175,000 for Goldfarb & Lipman LLP on October 2, 2023

Phase 2: Ongoing Operations (FY2025 and Beyond)

- Subsequent budgets for FY2025 and beyond will be informed by:
 - Actual expenditures incurred during Phase 1.
 - Ongoing monitoring and adjustments based on real-time data and evolving needs.
 - Refinement of the original cost analysis model based on actual staffing and operational requirements.

Cost of Service Study in FY2025: To ensure the long-term financial sustainability of the RSD and accurately quantify the resources needs for fulfilling the Charter Amendment, staff plans to engage an experienced firm to conduct a comprehensive Cost of Service Study in FY2025. This study will leverage all relevant data collected to date and future projections to provide a data-driven and transparent assessment of the RSD's financial requirements. This data-driven approach will ensure the RSD operates efficiently, effectively fulfills its duties, and remains financially sustainable for the long term.

Personnel

RSD will begin hiring the first 12.0 full-time equivalent (FTE) positions over the next six months. The table below describes those positions that will be prioritized for hiring in the remainder of the fiscal year. The notes column indicates the number of months the position will be budgeted in the current fiscal year.

Position	Annual Salary and Benefits	Notes	FY24 Recommended	FTE
Executive Director	\$341,756	7 months	\$ 199,358	1.0
Senior Office Assistant	\$113,682	6 months	\$ 56,841	1.0
Public Information Coordinator	\$159,434	3 months	\$ 39,859	1.0
Housing Counselor (Program Coordinator I)	\$145,746	6 months	\$ 218,619	3.0
Senior Hearing Officer	\$279,976	3 months	\$ 69,994	1.0
Management Analyst IV	\$198,399	3 months	\$ 49,600	1.0
Customer Service Representative	\$106,820	3 months	\$ 26,705	1.0

Deputy City Attorney ⁽²⁾	\$279,976	3 months	\$ 69,994	1.0
Senior IT Support Specialist ⁽²⁾	\$65,277	6 months	\$ 32,639	1.0
Senior Business Systems Analyst ⁽²⁾	\$193,337	6 months	\$ 96,669	1.0
PRHB Members (13)	\$145,150	12 months	\$ 145,150	
Subtotal			\$ 1,005,426	
FTE Total				12.0

(2) While the budget for the IT and Legal positions resides within the RSD, these FTEs will be allocated to, filled and managed by their respective existing departments – the Department of Information Technology and the City Attorney's Office. This approach ensures the RSD has access to dedicated, full-time expertise from highly qualified personnel within established city structures.

See Attachment B for the RSD proposed organization chart.

Services & Supplies

Establishing and running the RSD will require an investment in both startup and ongoing costs. Consultants hired by the PRHB in 2023 laid the groundwork for the work activities of the future department, while setting up a new office will require one-time infrastructure expenses. Ongoing costs cover staffing, essential technology, and operational needs, such as office rent and supplies. The budget projections for the current fiscal year incorporate recommendations from Bhyv Consulting's cost analysis (Attachment A), consider actual expenditures to date, and conservative estimates for the remaining months of the fiscal year. The annual amount column represents either already committed expenses or annual cost estimates for future fiscal years. The notes column indicates if the expense is one-time, ongoing annual amount or a calculated amount based on the ongoing annual amount.

Services & Supplies	Annual Amount	Notes	FY2024 Recommended
Consultant/Professional Services			
Management Consulting (Bhyv Consulting)	\$425,000	One-time	\$ 425,000
Legal Counsel (Goldfarb & Lipman LLP)	\$225,000	One-time	\$ 225,000
Public Relations (Allegra Consulting)	\$75,000	One-time	\$ 75,000
Language Translation services	\$75,000	Ongoing	\$ 75,000
Audio Visual Services for PRHB Meetings	\$12,000	Ongoing	\$ 12,000
Staffing Recruitment Services	\$75,000	One-time	\$ 75,000
Software Subscriptions & Maintenance			

Rental Registry	\$150,000	Ongoing	\$ 150,000
Outreach Activities			
Communications, Marketing, Advertising	\$120,000	Ongoing	\$ 25,000
Printing	\$20,000	Ongoing	\$ 10,000
Postage	\$10,000	Ongoing	\$ 2,500
Materials & Supplies	\$30,000	Ongoing	\$ 5,000
Dues, Memberships, Professional Subscriptions	\$5,000	Ongoing	\$ 5,000
Training Costs	\$15,000	Ongoing	\$ 5,000
Conference & Meetings	\$7,000	Ongoing	\$ 5,000
Office Rent	\$216,000	4 months	\$ 72,000
Office Equipment & Furniture Start-up	\$90,000	One-time	\$ 90,000
Office IT Infrastructure Startup	\$275,000	One-time	\$ 275,000
Subtotal			\$ 1,531,500

Internal Service Charges

Internal service charges are the annual costs to integrate the RSD into the City's existing infrastructure and systems for revenue collection, procurement, human resources, general legal support, and IT services. The Finance Department and Department of Information Technology have calculated the RSD's estimated share – its "pro-rata" cost – for all the shared services. This approach ensures all City departments contribute fairly to the maintenance and operation of these shared services. The annual amount column represents annual cost estimates for a full year.

Internal Services	Annual Amount	Notes	FY2024 Recommended
Cost Allocation Plan (CAP) - Human Resources, Finance, General Legal	\$332,167	7 months	\$ 193,764
IT Services	\$249,500	7 months	\$ 145,542
Subtotal			\$ 339,306

Revenues

The Charter Amendment specifies the PRHB will fund its operations through an annual fee levied on each rental unit in accordance with Section 1811 (I) of the Charter Amendment based on the approved annual budget . On January 10, 2024 the PRHB adopted a resolution setting the FY2024 Rental Housing fee that supports the full expenses of the RSD. See Attachment C for the adopted resolution of the PRHB.

Fee Timing: Staff recommends delaying the billing of the Rental Housing Fee for FY2024 to:

- Align with the launch of the Rental Registry database: The system for registering properties and collecting the fee won't be operational until June 2024 (estimated). Delaying the billing of the fee aligns with the system's availability.
- RSD will work with the Finance Department to accept payment of the Rental Housing Fee prior to the launch of the Rental Registry database, when requested by a rental property owner.

The Rental Housing Fee also incorporates repayment of the \$500,000 advance from the City's General Fund, as authorized by the City Council in May 2023 to fund start-up expenses. The budget accounts for \$457,379 already spent by the PRHB as of 12/31/2023. Additionally, \$5,060 was spent on audio-visual services during the previous fiscal year (FY2023).

Revenues		Notes	FY2024 Recommended
	Rental Housing Fee - 31,316 Rental Units @ \$91.85	Delayed	\$2,876,322
Subtotal			\$2,876,232

Department Cash Position

Staff recommends delaying the billing of the Rental Housing Fee until the Rental Registry is launched in June 2024 (estimated). By not billing the Rental Housing Fee, the RSD will face a negative cash position that could reach \$2,876,232 by the end of the fiscal year if all expenses occur. Approving the FY2024 budget authorizes this temporary position, which is anticipated to be recovered by the collection of Rental Housing Fees of \$2,876,232 after the Rental Registry is launched.

FY2024 Department Work Plan

Over the course of the next six months, the primary activities for the RSD are described below. Staff plan to provide a more detailed workplan in a future meeting with milestone dates that will be shared with the PRHB and to the public.

- Establish the Rent Stabilization Department:
 - Secure office space and technology infrastructure.
 - Hire and onboard initial staff (e.g., director, housing counselors, administrative personnel).
 - Develop organizational structure and internal policies.
- Implement the Rental Registry Database

- Implement Petition and Hearing Processes
- Outreach and Education:
 - Create the RSD website with relevant information for tenants and landlords
 - Create robust communications channels for receiving and processing inquiries.
 - Expand existing efforts to develop communication materials and public awareness campaigns to inform landlords and tenants about the new department and its role.
 - Support community meetings and workshops to provide education on tenant rights and landlord responsibilities.
- Support the PRHB with Policy Development
 - Review existing rent stabilization laws and regulations.
 - Implement policies and procedures for handling hearing and petitions.
 - Develop and implement data collection and management systems.
- Tenant & Landlord Education and Support:
 - Provide consultative services to tenants and landlords.
 - Support educational workshops on rights and responsibilities.
 - Partner with housing advocacy organizations to refer support services.
 - Create Rental Registry outreach plan and workshops to assist landlords register rental units into the database.

FY2025 Future Outlook

In preparing for the next fiscal year starting July 1, 2024, staff anticipates building a robust budget that carefully considers updated staffing needs and a recommended Rental Housing Fee, developing a work plan outlining the department's priorities and planned activities for the year ahead, and ensuring the department is fully operational and delivering all the services expected by the Charter Amendment and set by the PRHB.

Compared to FY2024, the department's FY2025 budget and staffing levels are likely to increase significantly reflecting the department's transition from initial startup to full operations. The Bhyv Consulting report (Attachment A) serves as the best estimate for the department's future needs:

- Operating Expenses: \$5,914,056
- Staffing Level: 22.5 Full-Time Equivalents (FTE)
- Rental Housing Fee: \$213

Due to the delay in billing the FY2024 Rental Housing Fee, rental property owners may receive a combined charge for both fiscal years in the future. This combined charge could range from \$200 to \$300 or more. Staff will present fee collection options for Board approval as part of the FY2025 Housing Rental Fee adoption anticipated for April/May 2024 and informed by the status of the Rental Registry launch status.

COUNCIL POLICY CONSIDERATION:

The City Council's strategic planning goal of maintaining fiscal responsibility and stability will be advanced through the adoption of the FY 2024 Recommended Operating Budget for the Rent Stabilization Department.

ENVIRONMENTAL ANALYSIS:

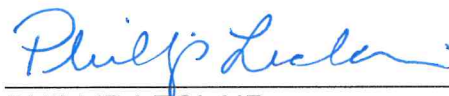
The proposed action is exempt from the CEQA pursuant to State CEQA Guidelines Section 15061(b) (3), the “common sense” provision of CEQA (formerly the general rule), which applies to projects which may have the potential for causing a significant effect on the environment. The proposed action will not result in any new development or physical changes.

FISCAL IMPACT:

The FY2024 Recommended Operating Budget proposes total operating appropriations of \$2,876,232 in the Rent Stabilization Fund (689) and revenues collected from the Rental Housing Fee to cover all expenses. A temporary negative cash balance for the department will occur until the Rental Housing Fee can be collected.

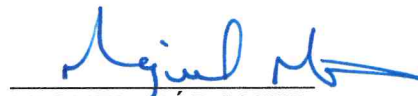
The FTE positions funded represent 12.0 FTEs.

Respectfully submitted,



PHILLIP LECLAIR
Interim Executive Director
Rent Stabilization Department

Approved by:



MIGUEL MÁRQUEZ
City Manager

Attachment A: Bhyv Consulting – Staffing Model and Cost Analysis for Pasadena Rent Stabilization Department

Attachment B: Rent Stabilization Department Proposed Organization Chart

Attachment C: Resolution RHB-2024-01 – Adopting the FY2024 Recommended Operating Budget, Setting the FY2024 Rental Housing Fee, and Delaying Collection of the FY2024 Rental Housing Fee From Landlord