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Oceanside Rent Control—Costly to Oceanside Taxpayers

An Analysis of the Fiscal Impacts of Rent Control in the City of Oceanside

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For the

North San Diego County Association of Realtors

By

San Diego Taxpayers Advocate

Key Findings on the Impact of Rent Control in Oceanside

- Oceanside taxpayers have spent and lost \$7.5 million from 1999 through 2011
- Oceanside will spend and lose \$8 million over next decade
- Unreported additional staff costs are unknown
- Outside legal cost related to rent control is unknown

Executive Summary

The City of Oceanside enacted rent control in 1983. There are 17 mobile home parks with over 2500 units. As the voters are asked to consider modifying the current rent control restrictions in June, it is relevant to analyze the past and ongoing costs and fiscal impacts of rent control on Oceanside's taxpayers. It is also worth noting that as part of this study, it was clearly determined that the City of Oceanside has NOT adequately tracked all of its rent control-related staff and legal costs.

Lost Taxes

Since rent control was enacted, no additional mobile home parks have been built in the city. This non-growth in mobile home parks is in extraordinary contrast to the explosive population growth and the construction of thousands of new housing and apartments units. This stagnation led to depressed property values on these 17 properties, resulting in a potential property tax loss of over \$3.2 million. It is estimated that this under-valuation will mean that Oceanside will not realize \$4 million in additional property tax revenues over the next decade.

Increased Costs

The costs associated with rent control are only partly tracked by the City of Oceanside in its "Mobile Home Rent Control Fund." Whether as a simple oversight, or as an intentional way to hide the full costs, this lack of detailed accounting has made it impossible to determine the complete and accurate impact to the taxpayers. In addition, the financial data which IS available only goes back to the 1999 fiscal year. 15 previous years of rent control related expenditures are a mystery.

According to city Rent Control Fund, since 1999 the Oceanside has collected \$1.7 million in rent control fees, while spending \$2.4 million in staff and other costs. However, it is estimated that an additional \$1.9 million in unreported personnel costs were expended as well, bringing full staff rent control costs to \$4.3 million. Additional rent-control related staff and legal expenditures are unknown.

Introduction

At the request of the North San Diego County Association of Realtors, San Diego Taxpayers Advocate was asked to analyze the fiscal impact of rent control on the City of Oceanside. Rent control was enacted almost 30 years ago.

Areas Reviewed

Four basic areas were considered in analyzing the fiscal impact on Oceanside's taxpayers

Mobile Home Rent Control Fund—City records detailing rent control related revenues and expenditures from fiscal years 1999 through 2011 were examined. Records for the previous 15 years of rent control revenues and costs were NOT available for this study.

Lost Property Tax Revenue—Rent control prevents mobile park owners from charging fair market rent, so the values of the underlying properties are artificially depressed. Income properties are valued primarily on how much net income it can generate to the property owner. Property taxes are based on the assessed value of a property and its improvements. A conservative estimate of "lost property taxes" as a result of two decades of rent control is included in this study.

Other Staff expenditures—Other city records and documents were reviewed to attempt to determine additional costs related to rent control, which are NOT delineated in the "Mobile Rent Control Fund." Since a detailed tracking of all staff hours spent on rent control issues is not available, the full and complete personnel cost of rent control is unknown and cannot be accurately estimated in this report.

Outside Legal costs--While it is evident that outside legal firms have been utilized to deal with the contentious issue of rent control, it seems likely from the data available that all rent control-related legal costs have not been quantified. This leaves a great "unknown" in compiling full costs of rent control and cannot be accurately estimated in this report.

Detailed Findings

As a result of rent control, Oceanside Taxpayers have spent and lost approximately \$7.5 million since 1999*. The city has collected approximately \$1.7 million over that period in mobile home park registration fees. So the estimated NET cost and lost tax revenue to the taxpayers since

1999 is \$5.8 million. However, this is not a full accounting of outside legal and litigation costs, nor does it include all staff costs which have not been allocated to rent control programs.

\$7.5 million cost and losses to taxpayers 1999-2011*

- \$2.4 million in expenditures from the rent control fund.
- \$1.9 million in estimated additional management staff costs
- \$3.2 million in lost property taxes

**15 years of data from 1983-1998 not available and does not include additional unreported staff and outside legal costs.*

Costs of Rent Control

The City of Oceanside's financial documents shows the "total" costs of rent control from 1999 through 2011 as \$2.4 Million. During this same period, \$120,000 in rent control-related fees were received each year. In 2011 the annual amount increased to \$235,875. A total of \$1.7 million in these fees were collected from 1999 through 2011.

City of Oceanside "Reported" Rent Control Administration and Staff Cost 1999-2011

- Total Labor costs \$1.1 million, including \$840,700 for Permanent Employees
- City reports staff-related rent control expenditures of only about \$110,000 a year.

Additional Costs related to rent control 1999-2011:

- Consultant fees \$279,000*
- Maintenance and Operations \$504,600
- General administration allocation \$110,900
- Inspections \$184,000
- Redevelopment and housing admin costs \$122,000
- Rent to city \$257,800
- Management info services to city \$120,000
- Between 2006 and 2011 the City transferred over \$556,000 from general fund to cover rent control expenses

**City characterizes what are predominantly outside legal fees as "consultant costs" in financial documents. Total outside legal costs of rent control is unknown.*

Actual Staff Costs of Rent Control Much Higher

While the city appears to obscure the full internal staff costs of rent control, these are the two primary departments which are involved in rent control activities:

- Housing & Neighborhood Services
- Legal (city attorney)

The Neighborhood Services Director, the Housing Program Manager and the Assistant City Attorney spend significant amount of their time on mobile home related activities. In addition these activities would require administrative support and additional overhead costs.

The current annual costs of these three significant management positions who work on rent control issues is \$550,000. See Chart below:

	Total Salary	Total Modifiers	Salary + Modifiers
Margery Pierce Neighborhood Services. Director	\$ 155,731	\$ 53,589	\$ 209,320
Angie Hanifin Housing Program Manager	\$ 95,444	\$ 33,510	\$ 128,954
Barbara Hamilton Assistant City Attorney	\$ 162,201	\$ 51,731	\$ 213,932

Note: "modifiers" include health benefits, retirement, etc.

Source: City of Oceanside

\$1.9 million estimated additional costs 1999-2011.

For the purpose of this study, we are assuming that these positions spend only 45% of their time on rent control related activities, or \$250,000. It is very likely these actual costs plus other unreported staffing costs are significantly higher. In order to estimate the costs to date (1999-2011) of just these three positions, we calculated an estimated annual cost of \$150,000 a year over 13 years. So the additional cost to the city since 1999 is estimated at \$1.9 million.

Ongoing annual staff costs are estimated at over \$360,000 per year (2012 dollars). This includes an "unreported" amount of approximately \$250,000 and a "reported" amount of \$110,000 per year.

Details of annual rent control expenditures -- 2011

According to city documents, approximately \$170,000 was shown as expended on total 2011 rent control related activities. Of that ONLY \$77,796 was on "permanent employees" and another \$23,700 on employee related costs, for a total of approximately \$100,000 in 2011.

Of the remaining \$70,000 only \$10,000 was spent on "General Administration Allocations."*

This would be the amount determined for the General Funds' activities on behalf of rent control and brings the total recorded amount of staff related expenditures to \$110,000 in 2011.

**This "allocation" should include everything from the City Manager and treasures time, to the Housing Director, City Attorney, code enforcement, inspectors, etc. Clearly, \$10,000 does not cover all these staffing costs.*

The remaining funds were allocated as follows:

- Management info services (IT) \$9,564
- Building rent \$7,008 (rent was reduced from \$20,900 in 1999, as high as \$38,000 in 2002, and gradually dropping to \$17,160 in 2010. There does NOT appear to be any consistent formula for rent charged over the years. (Meaning the city either significantly reduced its rental fees or significantly reduced its rent control related space occupancy.)
- Building debt service \$10,428 (2011 is the first year this expenditure was shown as a separate line item.)
- PERS (retirement costs) \$1,225
- Risk Management expenditure of \$24,984 was charged in 2011. \$90,741 in 2010, and \$81,181 in 2009. The rent control fund was NEVER charged by risk management in previous years.

Absent in 2011 charges to the rent control fund is:

- Community Service mobile home park Inspection costs. In 2009 \$18,000 was charged to the rent control fund, which was consistent with the previous ten years of annual inspection costs. Why hasn't that been billed since then and are the costs now being covered by the General Fund?
- Redevelopment billed rent control fund approximately \$15,000 a year through 2006 and then stopped. How were these costs covered the following five years?
- Consultants* was last billed at \$84,333 in 2009.

*This is where city paid much of its outside legal bills from rent control since 1999.

Oceanside will spend and lose \$8 million over next decade. It is estimated that over the next decade, rent control will have an \$8 million negative impact on the City of Oceanside. This includes an approximate \$4 million in new expenditures and an estimated property tax loss of \$4 million. Both of these estimates are “conservative,” therefore it is likely these losses will be higher.

\$4 Million in new costs

Based on the available data, it is estimated that the city spent over \$400,000 in 2011 on rent control related activities. \$170,000 as outlined in the “Rent Control “fund” and an estimated \$250,000 additional management cost. Measured in 2012 dollars, the City will spend over \$4 million on rent control related activities in the next Ten years.

\$4 million in Lost Property Taxes

Property Taxes are the City’s largest revenue source representing 39.9 percent of the total General Fund revenue. They are derived from a portion of the one-percent property tax collected by the County of San Diego and allocated to the various governmental entities within the county. Oceanside’s General Fund receives approximately \$19.64 for every \$100 collected. In accordance with State law, property is assessed at actual full cash value and the maximum tax is one percent of the assessed valuation. Proposition 13, passed by California voters in 1978, specified that an assessed value may increase at the rate of the Consumer Price Index, not to exceed two percent per year based on the 1975 value, unless the property is improved or sold to establish a new market value. *(Source: City of Oceanside 2012 Budget)*

Rent Control Depresses Property Values and Resale Values

Oceanside has 17 mobile home parks, with a little over 2500 units. Because rent control depresses property and resale values, the average estimated annual TOTAL property tax paid by EACH mobile home parks is only \$13,500. The City of Oceanside receives back approximately \$2,646 annually from EACH park, or about \$45,000 a year. An actual calculation of the reduced value resulting from rent control cannot be determined.

For the purpose of this study, an increased assessed valuation of 10 x current value is used. In other words, if rent control were NOT in place this past two decades, it is assumed for this study that the existing properties would be paying 10 times their current property taxes. The increased valuation of non-rent control revenue producing properties over the last two decades in San Diego County and in Oceanside, this is considered a “conservative” estimate. Therefore, it is assumed that in the absence of rent control these past 20 years, the 17 mobile home parks

would currently be paying a total of \$450,000 in property taxes to the city, a net increase of over \$400,000 a year.

Calculation of estimated property tax receipts without rent control:

- Current net taxes: = $\$45,000 \times 10 = \$450,000$. Subtract current estimated tax receipts of \$45,000. Resulting in a \$405,000 net loss annually to City treasury
- Looking Back 20 years: if rent control were not in place, it is assumed the increased annual assessed values would have resulted in a net increase of \$5 million in property taxes since 1983. This is an average estimated loss to the city of \$250,000 a year (in 2012 dollars).
- Looking Forward: the continued existence of rent control will result in Oceanside losing \$4 million in property taxes (2012 dollars) over the next decade.

Conclusions

From 1999 through 2011, Oceanside taxpayers have spent and lost \$7.5 million as a result of rent control. If rent control is maintained in its current form, Oceanside will spend and lose another \$8 million over next decade. In addition, it is clear that hundreds of thousands of dollars in additional staff and outside legal costs have been incurred, but the city has not kept track of these detailed expenditures. While citizens debate the merits and demerits of rent control, one thing is clear: rent control is a costly proposition to Oceanside's taxpayers.

Report Author

Scott Barnett: Scott Barnett has almost three decades of political and public policy experience, including a term on the Del Mar City Council from 1984-1988, where he was the city's representative on the SANDAG and North County Transit Boards. Mr. Barnett was executive director of the San Diego County Taxpayers Association from 1995 through 2001 and in 2003 formed Taxpayers Advocate a private company which conducts studies on local government spending policy. In November, 2010 he was elected to the Board of Trustees of the San Diego Unified School District. (SDUSD) SDUSD, the second largest school district in California, which has over 100,000 students, 14,000 employees, over 200 educational facilities and an annual budget of \$1 billion.