



CITY OF SACRAMENTO

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DEPARTMENT OF PLANNING AND DEVELOPMENT

1231 "I" Street

Sacramento, Ca. 95814

November 26, 1986

Administration

Room 300 449-5571

Building Inspections

Room 200 449-5716

Planning

Room 200 449-5604

Budget and Finance Committee and
Transportation and Community Development Committee
Sacramento, CA

Honorable Members in Session:

**SUBJECT: USE OF STATE OF CALIFORNIA REVENUE AND TAXATION CODE PROVISIONS
REGARDING MAINTENANCE OF SUBSTANDARD RENTAL HOUSING**

SUMMARY:

At the meeting of the City Council on October 14, 1986, a report of same title was received with a report back requested in six weeks to the joint Budget and Finance and Transportation and Community Development Committees. This report meets that requirement. The report advises that full compliance with State law will be achieved during January 1987, by inclusion of specific wording regarding the Revenue and Taxation Code penalties in all notices sent to property owners. The department will also continue its review of the Housing Program and related codes in an effort to improve effectiveness and efficiency.

BACKGROUND:

AB 2148 (Chapter 1279, Statutes of 1985, State of California, Revenue and Taxation Code) became effective January 1, 1986. It provides that deductions may not be allowed for interest, taxes, depreciation, or amortization paid or incurred in relation to the maintenance of substandard rental housing as defined by the local jurisdiction.

The Program works as follows:

1. If a property is inspected and deemed to be substandard, the owner is noticed. The notice contains a list of health and safety violations and a time period to correct. A minimum of six months is required prior to notification of Franchise Tax Board. The notice also contains a warning that failure to comply may result in referral to the State Franchise Tax Board.
2. When the time period has expired without compliance, a "Notice of Noncompliance" is mailed to the taxpayer by certified mail at his/her last known address. A letter must be enclosed stating that an appeal is available through the Housing Code Advisory and Appeals Board. If an appeal is not filed within ten days or if the appeal is not granted, the Franchise Tax Board will be notified of said noncompliance.

BACKGROUND (Continued):

3. The penalty for noncompliance commences on the date the notice is received by the Franchise Tax Board. In other words, no tax deductions may be allowed until a Notice of Compliance is sent by the enforcement agency and received by the Franchise Tax Board.

The State does not require vacation of the building if repairs can be made without compromising the health and safety of the tenants.

The City of Sacramento currently has a Substandard Housing Program that is primarily targeted to three designated areas: (1) Del Paso Heights; (2) Oak Park; (3) the inner city. With a staff of three (3) field inspectors, the program is concentrated primarily toward open, vacant dwellings and structurally dangerous buildings. Compliance with typical City substandard housing cases is normally achieved in less than six months. The Franchise Tax aspect does not come into play until six months of noncompliance has elapsed. The impact therefore will not be significant on work flow but provides an additional tool to demand compliance, if normal measures have not been successful.

In order to comply with the State mandated program, the City must add the Franchise Tax Board warning to all notices and modify the City Housing and Dangerous Building Codes to contain the State mandated warning. This is currently being prepared by staff and will be implemented by early 1987. At that time the City will be in full compliance with the State program.

FINANCIAL ANALYSIS:

The financial impact of bringing the City of Sacramento's substandard housing program into compliance through forms modification and amending Chapters 49 and 50 of the City Code is not a significant cost.

City Housing staff currently concentrates on open, vacant buildings. The financial impact of instituting a proactive substandard rental housing inspection program could vary for the following reasons:

1. The State discourages vacation of property if repairs can be made without compromising the health and safety of tenants. This is frequently not possible and temporary or permanent relocation becomes necessary. Therefore, a proposal must be developed for funding the relocation of displaced tenants.
2. Multiple family buildings (4 or more units) are required to be inspected by separate inspectors from the three disciplines, building, plumbing, and electrical.

FINANCIAL ANALYSIS (Continued):

The costs have the possibility of being partially offset as follows:

1. The State Program provides that deductions not allowed to the property owner may be delivered to the local jurisdiction to be used for any or all of the following:
 - a. To offset administrative costs.
 - b. To fund housing rehabilitation programs for low and moderate income families.
 - c. To prevent or minimize the cost of displacement of tenants.

Significant revenues should not be expected since most jurisdictions that have utilized this Program agree that for most violations the cost of compliance exceeds the probable tax penalty. The threat of notification to Franchise Tax is the most effective tool for enforcement. Only the City of San Francisco with a large sub-standard rental program, aimed at residential hotels, generates appreciable revenue in this manner. Their revenue in 1983-84 was approximately \$80,000.00 from this Program. Their costs, however, included a staff of ten plus working the Program.

2. Some jurisdictions, including the City of San Jose, have a mandatory Code-compliance inspection program for multiple-unit buildings, with a fee charges to owners for periodic inspections (one to three years - depending on building age and condition).

This could allow an aggressive sub-standard rental program to provide minimum health and safety standards of occupants of multiple-unit buildings. Staff is exploring this Program and will report on its findings.

RECOMMENDATION:

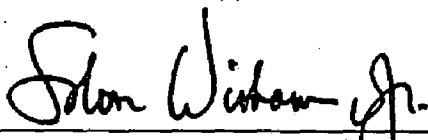
It is recommended in this report that the City Housing Program include the Franchise Tax Board warning on all notices and direct staff to submit for City Council approval amended City Codes to be in compliance with the State Program.

Respectfully submitted,



 D. T. Sullivan, Superintendent
 Building Inspections Division

Recommendation Approved:


 For: SOLON WISHAM, JR., Assistant City Manager

December 9, 1986