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# REPORT TO LAW & LEGISLATION COMMITTEE City of Sacramento

915 I Street, Sacramento, CA 95814-2671

STAFF REPORT  
July 21, 2005

Law and Legislation Committee  
Honorable Members in Session

**Subject:** Residential Rental Housing Inspection Program

**Location/Council District:** City Wide

**Recommendation:**

The Code Enforcement Department is recommending that the attached discussion paper (Exhibit A) be reviewed and direction given to staff regarding future action on the proposed residential rental housing inspection program. Possible options are: (a) to hold a workshop with the City Council on the proposed program or (b) to bring forward a proposed ordinance to the Law and Legislation Committee.

**Contact:** Max B. Fernandez, Director, 808-7940

**Presenter:** Max B. Fernandez, Director

**Department:** Code Enforcement Department

**Division:** Housing and Dangerous Buildings

**Organization No:** 4653

**Summary:**

Rental inspection programs have proven to be beneficial in preserving and maintaining existing housing stock by: (a) helping to maintain property values; (b) reducing substandard and deteriorating rental housing; (c) promoting the health, safety and welfare of the community; and (d) allowing property owners to benefit by the marketing of their property certification. The Sacramento Housing and Redevelopment Commission supports the implementation of a rental housing inspection program as a means to reduce the incidence of equity-stripping practices that occur when loans greater than the value of substandard rental properties are made on houses in varying conditions of disrepair. A rental housing inspection program reinforced by code actions has the potential to benefit both the residential rental population of the City as well as property owners in this City's neighborhoods by ensuring compliance with existing health and safety standards and building codes.

**Committee/Commission Action:** None.

**Background Information:**

The increasing incidence of appraisal inflation and equity stripping were brought to the public's attention by the Sacramento Bee's published investigation (in 2003) of lending practices which allowed the purchase and later refinancing of substandard housing with loans that were much greater than the value of the property without requiring any improvements or reinvestment in the property. On July 27, 2004, The Sacramento Housing and Redevelopment Commission's Task Force recommended to the Sacramento City Council that a housing inspection program be established in the City of Sacramento which would assist the city to bring substandard rental properties into compliance with health and safety standards especially at the time of their sale or refinance. This Task Force consisted of members from the private and public sectors in the fields of lending, appraisals, code enforcement and community reinvestment, and two SHRC commissioners. The consensus was that housing inspection programs, property checklists for non-FHA appraisals, and lending restrictions on properties that had recorded code enforcement liens could be successful methods to improve the status of residential rental housing stock in Sacramento.

The City of Sacramento's Code Enforcement Department has conducted several outreach efforts including mailings and meetings with stakeholders including: ACT, Human Rights/Fair Housing Commission, Sacramento Mutual Housing Association, SHRA, State Senate Housing Committee, Sacramento Association of Realtors, Rental Housing Association of Sacramento, and others. In addition, the Sacramento Mediation Center has facilitated two informational meetings this month including the stakeholders, Code Enforcement, and the City Attorney's Office.

Staff surveyed the cities of Concord, Hayward, Long Beach, Los Angeles, Pasadena, and San Francisco. Inspections were performed at varying intervals from every 2 years to every 7 years and/or at change of occupancy (Pasadena). The units covered varied from 4 or more per parcel including rooming houses, hotels & motels (both included or excluded). The total numbers of units inspected ranged from 8,000 (Long Beach) to 800,000 (Los Angeles). The City of Concord initiated a self-certification program in 2004 in addition to random inspections. Building inspectors, code enforcement officers, and/or registered environmental health specialists conducted the inspections in these jurisdictions. Fees were collected by revenue departments, the health department, or billed on property tax.

Landlord and tenant training as well as continuing outreach and educational efforts will also be part of the program. Partnerships with the community and other organizations will also be developed as part of this program. The proposed rental housing inspection program will be self-supporting with a fee-based cost recovery program schedule.

Staff is requesting direction from the Law and Legislation Committee regarding future action on this proposed program. Possible options are to:

- Conduct a workshop with the City Council on the proposed ordinance.
- Bring forward a proposed ordinance to the Law and Legislation Committee.

**Financial Considerations:**

Full program cost recovery will be based on fees for services provided.

**Environmental Considerations:**


This report is not considered a project and therefore has no potential for an effect on the environment as stated by the provisions of the California Environmental Quality Act (Section 15061 (b) (3)).

**Policy Considerations:**

This report is consistent with policies associated with the City's mission to protect, preserve, and enhance the quality of life for present and future generations. A proactive residential rental inspection program would have significant impact in the preservation of current and future residential rental housing properties in the City of Sacramento. The proposed code enforcement inspection program will contribute to the City of Sacramento's vision to be the most livable city in America. This program will also help attain the Mayor/Council strategic goals of improve and expand public safety and increase opportunities for all Sacramento residents to live in safe and affordable housing.

**Emerging Small Business Development (ESBD):**

Not applicable.

Respectfully Submitted by:   
MAX B. FERNANDEZ  
Code Enforcement Director

Approved by:   
RICHARD J. RAMIREZ  
Assistant City Manager

Recommendation Approved:

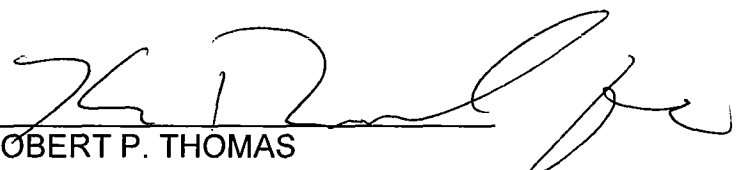
  
ROBERT P. THOMAS  
City Manager

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## **Discussion Paper on Proposed Rental Housing Inspection Program**

The proposed program would establish a proactive rental inspection program whereby residential rental housing units can be certified as meeting minimum housing standards to ensure that all persons who live in rental housing units are provided decent, safe, and sanitary housing.

### **Background:**

On July 27, 2004, the Sacramento Housing and Redevelopment Commission presented a task force report to the City Council on Lending on Substandard Single Family Rental Housing. In the report, the task force recommended that the City consider a proactive inspection program for rental housing, not triggered by complaints, as a means to reduce the incidence of equity-stripping practices. The report further notes that if code enforcement liens were recorded on substandard single-family rental properties, then chances would increase that a title company, appraiser, and/or lender would take notice. Under the best conditions, their decision would be to repair the conditions that created the lien prior to sale, or to hold back loan funds for the repair.

The task force concluded that code enforcement may be the most effective tool to decrease the incidence of equity stripping practices. Additionally, proactive rental inspections would prevent further property deterioration by fixing problems earlier and responding more holistically to a building's deficiencies rather than often is possible when responding to a specific complaint. For example, a heater's venting into an attic rather than outside the house would more likely be found in a comprehensive rental inspection program than one that responds to a complaint about a broken sewer line.

### **Current Findings:**

Based on the recommendation of the task force, City staff has reviewed rental inspection programs in other jurisdictions and have found that rental inspection programs throughout the state and nation:

- Helps maintain property values.
- Works toward eliminating substandard and deteriorating rental housing.
- Promotes the health, safety and welfare of the community.
- Allows property owners to market the certification of their property.

In Sacramento, code enforcement cases are frequently found on property that is neglected by owners. The U. S. Census Bureau's 2003 American Community Survey states that approximately 44% of the housing units in Sacramento is renter occupied.

Currently, the City performs inspections on a complaint-driven basis, although proactive inspections are conducted in target areas, as identified by the Sacramento Housing and Redevelopment Agency, where deteriorated properties are more highly concentrated.

Community Development Block Grant (CDBG) funding has contributed to the financing for the proactive programs in lower income neighborhoods.

The City's Fire Department currently conducts proactive fire safety inspections on all multi-family units consisting of 3 units and above. Inspections are conducted annually. The annual fee is \$30 for 3-5 units, \$60 for 7-15 units, and \$100 for 16 units and above.

Inspection programs vary throughout the state and nation. According to the 2004 City of Sacramento Population Housing and Employment Report, there are approximately 80,000 rental units in Sacramento. Based on this, it is recommended that the City's program include:

- A rental housing certification program
- Proactive inspection once every 4 years
- A full cost recovery program
- Landlord and tenant training
- Not apply to residential units for a period of 3 years from date of original construction year
- Exclusion for hotels, motels, bed and breakfast inns
- A per unit fee to cover the cost of operating the program

Concerns about the program include:

- The regulation
- The fee will drive up rental rates

**Future Direction:**

Staff has identified the following options for consideration in adopting a proactive rental inspection program for the City:

- A. Limit inspections to a minimum number of units and above.
- B. Comprehensive inspection program for all rental housing, including single-family residences.

Staff requests direction from the Law and Legislation Committee on the action to be taken regarding the future consideration and discussion of this issue. Options include:

- Hold a workshop with the City Council on the proposed ordinance.
- Bring forward a proposed ordinance to the Law and Legislation committee.