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INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

Hon. Rob Bonta
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Anabel Renteria
Initiative Coordinator

Dear Attorney General Bonta:

Pursuant to Elections Code Section 9005, we have reviewed the proposed statutory Justice for Renters Act initiative (A.G. File No. 22-0008).

BACKGROUND

Rental Housing Is Expensive in California. Renters in California typically pay 50 percent more for housing than renters in other states. In some parts of the state, rent costs are more than double the national average. Rent is high in California because the state does not have enough housing for everyone who wants to live here. People who want to live here must compete for housing, which increases rents.

Several Cities Have Rent Control Laws. Several California cities—including Los Angeles, San Francisco, and San Jose—and some unincorporated communities have laws that limit how much landlords can increase rents for housing from one year to the next. These laws often are called rent control. About one-quarter of Californians live in communities with rent control. Local rent boards carry out rent control. These boards are paid for with fees on landlords.

Court Rulings Limit Local Rent Control. Courts have ruled that rent control laws must allow landlords to receive a "fair rate of return." This means that landlords must be allowed to increase rents enough to receive some profit each year.

State Law Limits Local Rent Control. A state law, known as the *Costa-Hawkins Rental Housing Act* (Costa-Hawkins), limits local rent control laws. Costa-Hawkins creates three main limitations. First, rent control cannot apply to any single-family homes. Second, rent control cannot apply to any newly built housing completed on or after February 1, 1995. Third, rent control laws cannot tell landlords what they can charge a new renter when first moving in.

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State Law Limits Rent Increases. In addition to any local rent control laws in place as allowed by Costa-Hawkins, a more recent state law also limits rent increases for most rental housing in California. Landlords cannot increase rent by more than 5 percent plus inflation in a year, or 10 percent, whichever is lower. This applies to most housing that is more than 15 years old. This law lasts until January 1, 2030.

State and Local Government Tax Revenues. Three taxes are the largest sources of tax revenue for the state and local governments in California—personal income tax, property tax, and sales tax. The state collects a personal income tax on income—including rent received by landlords—earned within the state. Local governments levy property taxes on property owners based on the value of their property. The state and local governments collect sales taxes on the retail sale of goods.

PROPOSAL

Repeals Costa-Hawkins. The measure repeals the limits on local rent control laws in Costa-Hawkins. Under the measure, cities and counties can regulate rents for any housing. They also can limit how much a landlord may increase rents when a new renter moves in. The measure itself does not make any changes to existing local rent control laws. Generally, cities and counties would have to take separate actions to change their local laws. However, in some cases, existing provisions in local rent control laws that are currently inoperative because they are prohibited by Costa-Hawkins could become operative without further action at the local level. The measure does not affect the requirement that rent control laws must allow landlords to receive a fair rate of return.

Limits State Authority to Regulate Rent Control. The measure specifies the state may not limit the right of cities and counties to maintain, enact, or expand rent control. However, the state still could set some minimum protections for renters, like the current statewide limit on rent increases.

FISCAL EFFECTS

Economic Effects. If many local rent control laws automatically expand in response to the repeal of Costa-Hawkins and/or communities respond to this measure by further expanding their rent control laws beyond the existing protections for renters, it could lead to several economic effects. The most likely effects are:

- To avoid rent regulation, some landlords would sell their rental housing to new owners who would live there.
- The value of rental housing would decline because potential landlords would not want to pay as much for these properties.
- Some renters would spend less on rent and some landlords would receive less rental income.

- Some renters would move less often. For example, fewer renters would move because their rents increase.

The size of these effects would depend on how many communities pass new laws (or have existing rent control laws that could immediately become effective), and the type and scope of rent control adopted. If many localities enacted rent regulation that significantly limited rents, other economic effects locally and statewide (such as impacts on housing construction) could occur.

Changes in State and Local Revenues. The measure's economic effects would affect property tax, sales tax, and income tax revenues. The largest and most likely impacts are:

- ***Less Property Taxes Paid by Landlords.*** A decline in the value of rental properties would lead to a decrease in property tax payments made by owners of those properties over time. These property tax losses would be partially offset by higher property tax payments resulting from the sales of rental housing. This is because property sales often cause property tax bills to reset at a higher level. Revenue losses from lower property values would be larger than revenue gains from increased sales. Because of this, the measure would reduce overall property tax payments over time.
- ***More Sales Taxes Paid by Renters.*** Renters who pay less in rent would use some of their savings to buy taxable goods.
- ***Change in Income Taxes Paid by Landlords.*** Landlords' income tax payments would change in several ways, both up and down. Some landlords would receive less rental income. This would reduce their income tax payments. On the other hand, over time, landlords would pay less to buy rental properties. This would reduce expenses they can claim to lower their income tax payments (such as mortgage interest, property taxes, and depreciation). This would increase their income tax payments. The overall effect on state income tax revenue is not clear.

Overall, the measure likely would reduce state and local revenues over time. The largest effect would be on property taxes. The amount of revenue loss would depend on many factors, most importantly how communities respond to this measure. For example, if communities that already have rent control expand their rules to include newer homes and single-family homes, revenue losses could be in the high tens of millions of dollars per year. If many communities create new rent control rules, revenue losses could be larger. If few communities make changes, revenue losses would be more limited and dependent on the scope of rent control laws that automatically expanded in response to the repeal of Costa-Hawkins.

Increased Local Government Costs. If cities or counties create new rent control laws or expand existing ones, local rent boards would have increased costs. For communities where rent control laws expand automatically, costs also could increase. Depending on local government choices, these costs could range from very little to tens of millions of dollars per year. These costs likely would be paid by fees on owners of rental housing.

Summary of Fiscal Effects. We estimate that this measure would have the following major fiscal effect:

- Overall, a potential reduction in state and local revenues in the high tens of millions of dollars per year over time. Depending on actions by local communities, revenue losses could be less or more.

Sincerely,

Carolyn Chu

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for Gabriel Petek
Legislative Analyst

Kari Krogseng
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for Joe Stephenshaw
Director of Finance