



# CITY OF CARSON

## Legislation Text

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### Report to Mayor and City Council

Tuesday, April 02, 2019

Discussion

#### **SUBJECT:**

#### **CONTINUED REVIEW, DISCUSSION AND UPDATE OF THE RESIDENTIAL PROPERTY REPORT PROGRAM (CITY COUNCIL)**

#### **I. SUMMARY**

On March 27, 2019, the City Council continued this matter for discussion to April 2, 2019.

On July 19, 2016, at the direction of Mayor Robles, a Residential Property Report (Program) Ad Hoc committee (Committee) was formed consisting of Councilmembers Davis-Holmes and Hicks. Mayor Robles requested the Committee to meet with the South Bay Association of Realtors' (SBAOR) designated representatives and other interested parties to discuss their concerns about the Program and return with recommendations to the City Council.

On September 7, 2016, and October 13, 2016, the Committee met with industry representatives Lourdes Everett and Irma Vasconcelos (both members of SBAOR), and property investor Ken Letourneau (Pacific Realtors). The industry representatives provided input to the Committee on the strengths and weaknesses of the Program. Topics of discussion included past and current practices of the Program including inspections, exemptions, and the Property Remediation Agreement process. The industry representatives also suggested that at times staff had issued notices of violation that were beyond the original scope of the Program regulations.

The Committee has met several times to discuss the Program and considered various options to modify the Program. However, at its last meeting on June 12, 2018, the Committee concluded that it is best to recommend to the City Council to end the Program. If the City Council concurs with the Subcommittee's recommendation, staff will prepare an amendment to the Municipal Code eliminating the Program and bring it back for adoption. This would include a recorded notice on the title of all single family properties informing owners of the Program's termination and the rescission of the notice. Otherwise, the Alternatives section of the staff report provides other possibilities for City Council's consideration. This report summarizes the Committee's recommendations and offers

options for the City Council to consider.

## **II. RECOMMENDATION**

PROVIDE DIRECTION REGARDING THE RESIDENTIAL PROPERTY REPORT PROGRAM.

## **III. ALTERNATIVES**

1. Direct staff to end implementation of the Program consistent with the Subcommittee's direction;
2. Direct staff to continue implementing the current Program with no changes;
3. Direct staff to make specific modifications to the Program such as conducting inspection from the exterior of the homes; or
4. Take such other action, as the City Council deems appropriate, consistent with the requirement of the law.

## **IV. BACKGROUND**

In 1999, the City established the RPR Program with the intent to preserve and improve the quality of neighborhoods in Carson. This program identifies and generally requires correction of major building code and zoning violations with intent of making single-family homes safer. This is accomplished by requiring the inspection of homes during their sales escrow period and the correction of violations by the seller prior to closing of escrow. The basic components of the Program include the following:

### **1. Inspections**

The Program currently requires exterior inspections of the properties and interior inspections of garages and other non-residential/non-habitable structures to determine significant structural additions, modifications, and alterations that were made without appropriate permits. Most common violations include illegal garage conversions to habitable space, illegal room additions, and unpermitted structural changes. The violations identified during this process are the responsibility of the seller to correct before obtaining clearance from the City to close the escrow.

### **2. Property Remediation Agreement**

The Program allows the buyer to accept responsibility to correct the RPR violations after escrow closes with a Property Remediation Agreement (PRA). The PRA is typically secured by an escrow, usually the same escrow holder as is handling the sale. The program currently requires three bids for the corrective work to determine the amount to be placed in the escrow account to correct these violations. The buyer is required to deposit funds to ensure compliance with the PRA. The escrow on the sales transaction can close during that period, subject to the provisions of the PRA, and

escrow funds are then released to the buyer upon compliance with the PRA, namely, securing sign-off on the correction of the deficiencies. Given the title defect created by the PRA lien at the close of escrow, typically these purchasers are sophisticated investors not needing approval of a mortgage lender - cash buyers.

### 3. RPR Notice Recordation

In 2005, the City Council approved the recordation requirement. A notice is recorded against the title of all single family residential properties to advise the stakeholders to obtain an approved RPR before the close of future escrows.

### **Survey of Cities**

In comparison to other cities, the following cities either do not have a Program or have a Program that does not require a pre-sale inspection:

<b>No RPR Program</b>	<b>With RPR Program but No Pre-Sale Inspection</b>
Beverly Hills Cerritos El Segundo Lakewood Long Beach Torrance Rancho Palos Verdes	Los Angeles Manhattan Beach Santa Monica Newport Beach

On the other hand, Compton, Gardena, Maywood and Pasadena have RPR programs that are similar to Carson.

### **Program Benefit**

The Program is a useful tool to maintain a healthy community and strong property values. The pre-sale inspection verifies that residential buildings meet certain zoning and building code requirements. However, the Program also has constraints: overlapping inspections, transaction delays, and the process to allow the buyer to assume responsibility can be slow moving and costly.

### **Committee Meeting**

The Program provides the buyer with an additional “set of eyes” prior to purchasing a home in Carson by providing a report on the condition of the property before purchasing a house. However, the Committee identified some concerns after discussions with the industry representatives who attended the Committee meetings.

Subsequently, the Committee held two additional meetings to discuss the details of the Program, the concerns of the industry representatives, and potential changes to the Program that can be recommended for City Council’s consideration.

### **Program Challenges**

On June 12, 2018, the Committee determined to recommend discontinuing the program based on the following issues of concern:

1. Inspections

*Transaction Delays*

The pre-sale inspection and the requirement to correct the violations could potentially delay transactions between the seller and buyer. Therefore, compliance with the Program may necessitate escrow extensions and could cause delays in the escrow chain as well.

*Duplicate Responsibilities*

Over the years, the City has adopted various statewide and countywide plumbing, electrical and fire code updates, such as requiring operable smoke and carbon monoxide detectors, GFCI, and water heater safety, etc. In response to these updates, the City has expanded the Program inspections into the interior of residential buildings. Therefore, this expansion has caused some duplication with the inspections required by the real estate professionals such as appraisers, agents, and home inspectors.

a. Overlapping Inspections: RPR Inspector and Real Estate Professionals

The representatives of South Bay Association of Realtors showed that seventeen (17) out of eighteen (18) RPR inspections are identified as overlapping inspections between the RPR inspector, real estate agents, appraisers, and home inspectors. For complete list of items inspected by each group, refer to Exhibit No. 2.

- As mentioned above, the RPR Inspector checks for health and safety code violations, illegal garage conversions, unpermitted additions and subdivisions, plumbing, electrical, and swimming pools.
- Appraisers are typically hired by the lender and should be state-licensed or have other certification. According to realtor.com the appraiser performs the following inspections:
  - Conduct a room-by-room walk-through to determine interior condition;
  - Walk the length of the property to determine exterior condition;
  - Evaluate any amenities such as a swimming pool, finished basement, or a built-in bar;
  - Note any health or safety code violations; and
  - Record the layout of the property.
- Buyers often hire home inspectors who are usually certified members of the National Association of Home Inspectors. According realtor.com, home inspectors run down a checklist of about 1,600 potential problems on their checklist. Based on staff's research, home inspectors checklist items overlap many of the corrections conducted by the RPR inspector; see Exhibit No. 2. For example, the following are items that home inspectors check:
  - Grounds (e.g., grading, pathways, walls, sheds, and railings)

- Structure
- Roof
- Exterior
- Window, doors, trim
- Interior rooms
- Kitchen
- Bathrooms
- Plumbing
- Electrical

## 2. Property Remediation Agreement: Cumbersome and Costly

A property remediation agreement allows the buyer to assume responsibility to clear the noted violations after the residential property sells. However, this process is cumbersome, as it requires submitting three contractor bids to determine the cost of corrections. This process is often time consuming and could cause financial burden on the buyer since they have to deposit the cost of the corrections into escrow as well as provide a down payment and pay for completing the corrections. This is largely only practical in the case of investors or cash buyers and not individual buyers seeking to acquire a home with a conventional mortgage.

## 3. RPR Notice Recordation: Inconsistent Results

Over the years, the recordation has not been as productive as expected because sales of properties have occurred by some owners through such means as auctions, online sales, or ordinary sales by agents without an approved RPR, resulting in inconsistent application of the Program.

## 4. Fiscal Responsibility: End City Subsidy to the Program

The City subsidizes about \$150,000 per fiscal year to run the Program. These funds could be an opportunities to pay for other City projects such as street maintenance, City-owned infrastructure improvements, and park and senior programs.

- Since 2013, the cost to operate the Program has been about \$232,000 per fiscal year (this includes Planning and Building and Safety staff salaries multiplied by the estimated hours used to run the program).
- 2017-2018 fiscal year:

Cost (includes Planning and Building and Safety staff)	\$232,000
Revenue (from RPR Application fees)	\$81,525
Deficit	\$150,475

## CONCLUSION

### Keeping the Program

- a. Benefits:
  - The Program inspection process identifies code deficiencies and ensures preservation and improvement of the housing stock; and
  - The Program increases the overall value and appearance of the neighborhoods.
- b. Disadvantages:
  - Possible delays in transactions and close of escrow;
  - Increased costs burden to buyers;
  - Duplicity of inspection efforts by the City, realtors, appraisers, and home inspectors; and
  - Negative fiscal impacts on the City budget.

### Discontinuing the Program

- a. Benefits:
  - Smoother and flexible transactions will result since the parties involved in the transactions can decide determine the timing and financial responsibility of the deficiencies. Therefore, transactions will not be delayed due to the Program;
  - No duplication of inspection efforts;
  - No negative impacts to the City's budget.
- b. Disadvantages:
  - Illegal garage conversions and additions may not be necessarily identified and corrected prior to the sale of each home;

### Recommendation

The Subcommittee recommends the City Council to consider discontinuing the Program based on the findings mentioned above.

### Next Steps

If the City Council decides to discontinue the Program, modifications to the Carson Municipal Code (CMC) will be required, and removal of the Notice Recordation from the residential properties through the Los Angeles County Recorder's Office.

## V. FISCAL IMPACT

Currently, sellers of properties file the Program application and pay the associated fee to ensure compliance with the Program. This fee only pays for a portion of staff time that administers the Program. According to staff's analysis, the Program operates at about \$150,475 annual deficit.

Ending the Program will cost the City in staff time to modify the Municipal Code and to process removing the Notices from the County Recorder's Office.

## **VI. EXHIBITS**

1. Copy of CMC Chapter 9: Residential Property Report (pgs. 8-15)
2. RPR Checklist Comparison to Real Estate Professionals (pg. 16)
3. Minutes RPR Ad Hoc Committee Meeting on June 12, 2018 (pgs. 17-18)

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