ANALYSIS

of the

MILL VILLA ESTATES MOBILE HOME PARK

RENT INCREASE APPLICATION

(Tuolumne County, California)

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Oct 14, 2025*

This report was prepared at the request of.Tuolumne County. The opinions set forth in the report are those of the author and do not necessarily represent the opinions of County staff.

*This report was submitted to Park Owner's Attorney and the Residents' Representatives on Oct. 14, 2025. This version, submitted on Oct. 20, contains corrections and modifications to improve clarity and references. The calculations underlying the fair return calculations are unchanged.

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The Author

The author has a Ph.D. in Urban Planning and is an Attorney. He has worked extensively as a consultant to California city and county governments on issues related to rent regulations and the economics of rental housing, preparing expert reports on fair return issues, conducting studies of the mobile home park space rental market, and of the impact of rent regulations on investments in rental housing. In addition, he has authored numerous scholarly articles on housing issues.

Publications on Rent Stabilization and Mobile Home Park Regulation cited in Appellate Court Opinions

The author's publications in law journals on rent control legislation, and in particular on fair return issues and mobilehome park policies, have been cited in numerous California and New Jersey court of appeal and supreme court opinions and in opinions of appellate courts in five other states (Colorado, Maryland, Massachusetts, New Mexico, and Washington). (cases listed in Author's Resume, Appendix G, pp. G.8-G.9)

Expert Reports & Testimony on behalf of Cities and Counties in Mobilehome Park Rent Stabilization Fair Return Cases:

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Studies of the Performance of Rental Housing Investments under Rent Regulations

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Consultant to Cities on Drafting Mobile Home Park Rent Legislation:

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I. Introduction

The purpose of this report is to provide an analysis of the fair return application submitted by the Mill Villa Mobile Home Park. The report takes into account the claims and financial information submitted the Park Owner, the comments by the Residents about the Park Owner's claims, the standards in Tuolumne County's mobile home park rent control ordinance, and judicial guidelines regarding fair return.

Tuolumne County is one of approximately ninety jurisdictions in California that regulates rent increases in mobile home parks. The County contains 50 mobile home parks with a total of 1963 spaces. Six mobile home parks with one hundred or more spaces contain 887 spaces. Nine parks with between 50 and 99 spaces, contain 603 spaces.

Under the County's Rent Ordinance,[1] park owners are permitted annual percentage rent increases equal to the annual percentage increase in the Social Security Administration's Cost of Living Index (COLA). (Increases in the COLA have approximated annual increases in the Consumer Price Index (CPI)).[2]

In addition to the annual increases, park owners are allowed additional rent increases of 10% upon in-place transfers of mobile homes.[3] Spaces constructed after 1990 are exempted from the rent increase regulations. In Mill Villa 155 out of 228 spaces in the Park are covered by the rent regulation. The other 73 spaces are exempt because they were constructed after 1990.

Park owners can also apply for additional rent increases on the basis that they are not obtaining a fair return. The Ordinance does not set forth a particular fair return standard. Instead, it states: "The Board may adopt as its fair rate of return standard any lawful formula, including but not limited to, one based on average net income, investment or net operating income." (Sec. 5.28.070.D.)

In this case, the Park Owner has applied for a fair return adjustment of $228,358 - $122.77/space/month - an increase of 16.8% increase over the current average space rent of $738 of the rent controlled spaces.

The fair return claim is based on a maintenance of net operating income (MNOI) standard. This standard is widely used in rent stabilization fair return cases and has been praised by the Courts. Under the standard, fair return is defined as net operating income as of a base year adjusted by a portion or one hundred percent of the percentage increase in the CPI. For example, if the net operating income in the base year was $500,000 and the CPI has increased by 50% since the base year, a fair net operating income in the current year would be $750,000.

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[1] Tuolumne County Ordinance Code Secs. 5.28.010 - .130.

[2] In contrast to the CPI all-items for *all-urban consumers*, the COLA index measures the index for *urban wage earners*. From 1999 through 2024, the CPI all-items for all urban consumers has increased by 108%, the cumulative total of COLA increases has been 93%. In the first years after the COLA standard was adopted in the Ordinance the increases in the COLA index were substantially below the increases in the CPI for all urban consumers. Since the 2020, the COLA increases have exceeded the increases in the all urban consumer index.

[3] Ord.No. 2584, Sec. 4 (Sept. 21, 2004)

Net operating income is equal to rental income minus operating expenses. Mortgage interest is not taken into account as an operating cost in a calculation of net operating income.[4] However, the MNOI standard insures a right to rent increases that are adequate to cover increases in operating costs and also mandate an allowance for growth in net operating income, consequently increasing the amount of income that is available to cover increased financing and provide increased cash flow.

While the Ordinance does not prescribe the use of a particular standard it contains a presumption that supports the use of the MNOI standard. It provides that "It shall be rebuttably presumed that the net operating income produced by the property using the base rents provided a fair rate of return on the landlords investment." (Sec. 5.28.070.A). The MNOI standard takes into account base year net operating income and compares that amount with the current net operating income taking into account an inflation factor.

The gist of the Park Owner's claim is that from a base year of FY-2015-2016 (the year prior to its purchase of the property) through 2024, increases in operating costs have exceeded increases the increases in rents and have not provided any growth in net operating income. During this period CPI has increased by 32.4% in contrast to the increase in operating expenses of 94% projected in the petition. The Residents Representatives contend that a substantial amount of the increased costs, the amounts claimed for increases in management and maintenance expenses, are not reasonable.

(Table 1)

Park Owner's Application
Income, Operating Expenses, & Net Operating Income
Share Attributed to Rent Controlled Spaces

	Base Year (FY 2015-2016)	Current Year (2024)	Pct Increase or Decrease
Rental Income	**1,004,935**	**1,341,391**	33%
Total Income	**1,197,660**	**1,743,494**	46%
Operating Expenses	**624,589**	**1,211,705**	94%
Net Operating Income	**573,071**	**531,790**	(7%)

Explanation: The tabulations of base year rental income, total income, and operating expenses in this table are made by this author rather than included in the Application. They are based on the Applicant's explanation that 155/193 of net operating income was attributed to the rent controlled spaces. Using the assumption that 155/193 of income and operating expenses was attributable to the rent controlled spaces, they generate exactly the same net operating income calculation as the Applicant's. CPI increase tabulations made by this author.

[4] In three cases the Court of Appeal has ruled that basing allowable rents on the basis of differences among the financing arrangements among park owners has no rational basis or no reason. *Palomar Mobilehome Park Ass'n v. Mobile Home Rent Review Commission* [of San Marcos] 16 Cal.App.4th 481 (1993), *Westwinds Mobile Home Park v. Mobilehome Park Rental Review Bd.*, 30 Cal.App.4th 84, 94 (1994); *Colony Cove Properties v. City of Carson*, 220 Cal.App. 4th 840,871 (2013),

(Table 2)

Park Owner's Fair Net Operating Income Calculations*

	Net Operating Income Derived From Rent Controlled Spaces
Base Year (July 2015-July 2016)) Net Operating Income	$573,071
Current (2024) Net Operating Income	$531,790
Base Year Net Operating Income Inflation Adjusted (33% inflation)	$760,147
Fair Net Operating Income Adjustment ($760,147 - $531,790)	$228,358
Fair Net Operating Income Adjustment/ Mobile Home Space/Month ($228,358/ (155 spaces x 12 months)	$122.77

*Table prepared by this author based on narrative explanation on the second page of the Park Owner's Application (included in Appendix B of this report)

Section II of this report provides information about the overall costs of space tenancies in Mill Villa, rent increases since the adoption of the Ordinance, and additional details about the rent control ordinance.

Section III sets forth details about the Park Owner's fair return claim.

Section IV sets forth this author's analysis of the fair return claim. The outcome of this analysis projects a substantially lower fair return adjustment than the amount projected by the Applicant. The differences between the projections of the Applicant and this author about what rent adjustment is required to provide a fair return are substantially attributable to differences in how rental income and operating costs are allocated among the rent controlled and exempt units. Other major factors that may impact the outcome under an MNOI analysis relate to the allowable cost allowances for waste management and for the increases in management and maintenance costs.

In this case, no claims have been advanced for the use of an alternative to the maintenance of net operating income (MNOI) standard as a fair return standard. While local legislatures have the authority to establish their own fair return standards the parameters of fair return law have been established by judicial precedent. One appendix to this report discusses the rationale for the use of the MNOI standard and case law regarding what increases in net operating income must be permitted under that standard. A second appendix contains an article by this author, published by the Real Property Reporter, a publication of the California Continuing Education of the Bar, which discusses the issues and problems with the use of other types of measures of return as measures of fair return.

II. Background

A. Mill Villa Description

Mill Villa is located in Jamestown. The Park has a clubhouse, pool, spa, game room, and horseshoe and shuffleboard areas.[5]

Pursuant to state law and the County Ordinance spaces in the Park that were created after 1990 are exempt from the rent increase regulation. Overall 73 spaces are exempt. As of the base year (FY 2015-2016) the Park had 193 spaces, with 38 exempt spaces. The Applicant has added another 35 spaces, since purchasing the property in 2016.

B. Average Monthly Costs and Rent Increases Under the Ordinance

Since 2000, five years after the Ordinance was adopted, park owners have been required to submit annual rent registration forms which include the rent for each space.[6] Growth in rental income has tracked the rate of increase in the CPI. From June 2000 to December 2024, the average space rent of the rent controlled spaces has increased from $378 to $732 an increase of 93% compared to an increase in the CPI of 94% during this period. Since the base period (FY 2015-2016), the space rental income from the rent controlled has increased by 38.7%, compared to an increase in the CPI of 32.4% increase in the CPI.

In addition to space rent, Residents reimburse the Park Owner for water and sewer costs. Electricity service is submetered. The charges for the submetered service are regulated by the state Public Utilities Commission (PUC). In 2024, average monthly rental costs including utility costs were as follows:

(Table 2)

Average Monthly Costs
Rent Controlled Spaces*

Space Rent	738
Water	29
Sewer	38
Electricity	125
Total	930

The utility amounts are estimated on the basis of dividing the annual park revenues for these services divided by the number of spaces in the park and twelve months.

[5] Pictures of the Park are posted on the Owner's website: https://millvillaipgliving.com/

[6] It is recommended that the County permanently preserve these records in electronic form and require that future registrations be provided in excel as well as pdf format.

B. Rent Increase Standards Under the Ordinance

Annual Across-the-Board Rent Increases

Rent increases in Mobile Home Parks in Tuolumne County have been regulated by County Ordinance since 1995.[7]

Under the original ordinance, the annual allowable rent increases were set according to the annual increase in the Consumer Price Index (CPI). In 1999, the Ordinance was amended to provide to tie annual allowable rent increases to the percentage increase in the Social Security Administration's Cost of Living Index (COLA).[8]

Cost Passthroughs

In addition to the annual increases based on the increases in the COLA index, park owners may passthrough increases in government fees and assessments and costs to correct code violations (provided those costs are not caused by the park owner's failure to maintain the property).[9]

Capital Improvement Costs

Other types of capital improvement costs may be passed through on an amortized basis, subject to the condition that the proposed increases are approved in advance by a majority of the Residents.[10] Apart from obtaining capital improvement increases with tenant approval, pursuant to fair return standards the costs of capital improvements may be included as an amortized cost in a fair return application.[11]

The Exemption from Rent Regulations

Until January 2025, state law exempted from local rent regulations rents that were set pursuant to leases of one more or year that met specified conditions, including that the lease was entered into before Feb. 13, 2020.[12]

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[7] Tuolumne County Code Sections 5.28.010 – 5.28.130, originally adopted in 1995.
[8] Ord. No 2311, Sec. 6 (Nov. 26, 1999)
[9] Sec. 5.28.090 A&B.
[10] Sec. 5.28.090.C
[11]
Section 5.28.070.C.1
[12] Pursuant to Cal. Acts of 2020 Leg. Session, AB 2782, the exemption was terminated in January 2025. California Civil Code Sec. 798.17.

III. Mill Villa's Rent Increase Application

As indicated, the Park Owners Application indicates that net operating income has not increased at the same rate as the increase in the CPI.

Typically in mobile home park rent stabilization fair return cases in which a rent increase has been justified under the MNOI standard, the applicable ordinance has limited annual rent increases to significantly less than 100% of the percentage increase in the CPI. A substantial portion of the mobile home park rent stabilization ordinances in California limit annual increases to less than the rate of increase in the CPI.

Often in mobile home park rent stabilization cases, increases under the MNOI standard have been largely justified by a large increase in property taxes triggered by a sale of a park by a long term owner. Usually, utility cost increases do not have a significant impact on the outcome in fair return cases because most of these costs are passed through to the Residents in most parks.

In this case, the Park Owner's justification of a rent increase of $228,358 under the MNOI standard is based on a combination of a large increase in insurance costs, an increase in waste management costs of $103,257 since the base year, and large increases in management and maintenance costs. Compared to the 32.4% increase in the CPI from the base year (FY 2015-2016) to the current year (2024), operating costs (excluding utility costs) increased by 93%, from $389,786 to $751,074.

(table 3)

Park Owner Application
Increases in Space Rents and Major Operating Expenses
Allocated to Rent Controlled Spaces
Base Year to Current Year

	Base Year FY 2015-2016	Current Year 2024	Increase Base Year to Current Year	% Increase	Increase/ Space / Month
CPI				32.4%	
Space Rent	1,004,935	1,341,390.88		33%	180.89
	Major Operating Expenses Not Including Utilities*				
Total Admin & Mgmt	94,484.13	178,317.23	83,833.11	89%	45.07
M&R + Maint. Staff	78,215.33	159,075.30	80,859.97	103%	43.47
Trash	44,832.11	120,094.56	75,262.45	168%	40.46
Property Tax	89,432.25	122,658.89	33,226.64	37%	17.86
Insurance	5,579.28	59,616.21	54,036.93	969%	29.05

*Base Year amount = Amounts calculated by this author using 80.3% of the Park total reported in Profit and Loss Statement of prior owner. The 80.3% share reflects (155 rent controlled spaces/193 total spaces)
Current Year Amount - Reported in Application , column in spreadsheet labeled "rent control sites"

Documents Submitted by the Applicant

In the course of completing its application and submitting other documents in response to staff requests for additional information the Park Owner has provided extensive documentation including:

1. December 2022, 2023, and 2024 rent levels of the rent controlled spaces,
2. invoices for 2024 operating expenses, organized by expense category
3. annual profit and loss statements from 2016 through 2024, listing income and expenses by category,
4. monthly profit and loss statements for the base year (FY 2015-2016) and 2024,
5. data on gas and electricity consumption
6. data detailing insurance costs

The Park Owner's MNOI analysis uses FY 2015-2016 as a base year for the comparison of income and operating income, and net operating income. The Owner obtained income and expense information for that year from the prior owner pursuant to its purchase of the Park.

The Application was submitted on December 26, 2024. The County indicated that a submission with the first eleven months of income and operating expense data, January through November, would be adequate. For the purposes of making its calculations of overall operating expenses in 2024, the Park Owner annualized the January through November amounts.[13]

[13] Expenses which were covered by one or twice yearly payments, property taxes and insurance, were not annualized because those payments covered all twelve months.

IV. Calculation of Allowable Rent Adjustment under the Maintenance of Net Operating Income (MNOI) Standard

A. Introduction

It is essential to understand how the MNOI standard works, compared to how other types of financial analysis might work. Under the MNOI standard, consistent with intuition, a lower net operating income in the **current year** justifies a larger rent increase. However, under the MNOI standard, in regard to the **base year** income and operating expense projections, a higher net operating income in the **base year** justifies a higher fair net operating income level in the current year. The measure of a fair net operating income in the current year is the base year net operating income with an inflation adjustment.

An analysis of the income and operating expense claims in an MNOI claim involves a broader purview than an accounting analysis or consideration of how income and expenses are treated in cash flow accounting or under the income tax laws. Evaluation of a maintenance of net operating income claim entails consideration of the reasonability of income and operating expense claims taking into account: 1) whether the amounts reflect ongoing income and expense levels and 2) whether the operating expense amounts are reasonable by industry standards and 3) whether the income and operating expense claims provide a fair comparison between the base year and the current year. In the case of a fair return rent adjustment the income and expenses projections are the basis for a permanent reset of the base rents, rather than only a reset of income and expense calculations for just one year.

B. Fair Return Calculations in a Park with Both Rent Controlled and Exempt Spaces

In this case making fair return calculations requires more steps than usual because a portion of the park spaces are exempt from rent control and have different rent levels than the rent controlled spaces. Therefore, after consideration of overall park rental income and operating expenses, an allocation of rental income and operating expenses must be made between the rent controlled and exempt spaces.

In this case, also a second round of adjustments in operating cost projections is required because the number of exempt spaces changed between the base year and the current year. Consequently, differing percentage allocations of the operating costs among the rent controlled and exempt spaces in the base year and the current year.

C. Calculation of Base Year Net Operating Income

1. Adjustment of the Base Year Rental Income Amount Attributed to the Rent Controlled Spaces

In the Application, the base year net operating income projection was based on projections that attributed a 155/193 share of the rental income and operating to the rent controlled spaces. (155 rent controlled spaces/193 spaces in the park)

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It appears to be reasonable to attribute 155/193 of the base year operating costs to the rent controlled spaces on the basis that the costs of operating the spaces were the same for the rent controlled and exempt spaces. However, the share of space rent income attributable to rent controlled spaces was lower than their share of total spaces because the rents of exempt spaces were higher than the rents of the rent controlled spaces. Therefore, a projection of the base year space rent income from the rent controlled spaces should be based on the actual rents of the rent controlled spaces in the base year.

The Park Owner's projection of **current year** (2024) net operating income from the rent controlled spaces was based on a calculation of the actual current year rental income from only the rent controlled spaces. Pursuant to that calculation the portion of rental income that was allocated to the rent controlled spaces was lower than the proportion of rent controlled spaces to the total number of spaces in the park. This methodology fairly reflects that the portion of the space rental income from the rent controlled spaces was less than their proportionate share of the total number of spaces in the park.

The profit and loss statement for the base year (FY 2015-2016) that was submitted by Applicant does not include a breakdown of space rental income between the rent controlled and the exempt spaces. However, the 2015–2016 and 2016-2017, the annual registrations of current rents in the park by space that were submitted on August 6, 2015 and May 3, 2016, have been retained by the County. On the basis of the data in those registration reports the total of the space rents from the rent controlled spaces can be projected.

Therefore, in this analysis, the projection of base year net operating income is based on using the amount of the rental income attributable to the rent controlled spaces, rather than the Applicant's projection.

A tabulation of the space rent data from the annual registration forms indicates that the space rental income from the rent controlled spaces in the base year was $967,183, rather than a 155/193 share of the total rental income which was 1,004,934.60. On this basis, the base year the rental income amount is reduced by $37,758. In turn, the impact of this modification is to reduce the current year fair net operating income.

(Table 4)

Calculations of Base Year Rental Income From Rent Controlled Spaces		
Applicant's methodology		
	Park Annual Total Space Rent in P&L	Amounts Attributed to Rent Controlled Spaces - 155/193 of Park Total
Applicant's Calculation	1,251,305.66	**1,004,934.60**
Fair Return Analysis		
	rent controlled spaces monthly rent total based on annual registration statements	rent controlled spaces annual rent total
Total 2015-2016 rent report	79,327.91	951,934.92
Total 2016-2017 rent report	81,869.26	982,431.12
avg 2015-2017	80,598.59	**967,183.02**
Difference Between Applicant's Projection and Projection in Fair Return Analysis of Base Year Net Operating income		
		(37,751.58)

2. Projection of Base Year Insurance Expenses[14]

Property Insurance.

The ordinances that include an MNOI standard commonly provide for adjustments of projections of base year operating expenses that do not reflect ordinary circumstances. For example, if a park

[14] **Worker's Compensation Insurance.** In the profit and loss statement for the base year (FY 2015-2016), that was submitted by the Applicant, the total for worker's compensation insurance costs is a negative amount, in other words a source of income in the net operating income calculation, rather than an expenditure. This is the result of an entry of a positive amount (in other words income) of $10,000 for March 2016 rather than an expenditure. However, this $10,000 entry was excluded from the operating cost calculation in the application.

owner had a particular large non-recurring operating expense in the base year, including that cost when calculating base year net operating income would result in a projection of a lower base year net operating income for the base year that was not consistent with the ongoing returns of the mobile home park at that time.

In this case, the insurance expenses reported for the base year are exceptionally low and out of line with the industry norm. Prior to the meltdown in the insurance market of the past few years, insurance costs for mobile home parks were typically in the range of about 2% of rental income.

The base year (FY 2015-2016) profit & loss statement reports $6,947 for property insurance costs, an amount equal to about 0.5% of the rental income.[15] This amount is exceptionally low, even when compared to typical insurance cost levels at that time. Data from appraisal reports from 2011through 2015 indicates that an insurance expense of about $100/space/year would have been the norm in the base year.[16] In 2017, the first full year of the Applicant's ownership, the insurance costs were $24,681.

If base year insurance expenses are projected as $19,300 (193 spaces x $100/space) rather than $6,947. The cost allocated to the rent controlled units would increase from $5,579 (155/193 x $6,947) to $15,500 (155/193 x $19,300) an increase of $9,921.

(Table 5)

Base Year Property Insurance Expenses		
	Annual Total	**155/193 share of annual total allocated to rent controlled spaces**
Applicant's Proft &Loss Report	**6,947**	**5,579**
Fair Return Analysis - Projection Based on Industry Norm	**19,300**	**15,500**
Adjustment in Fair Return Analysis		**(9,921)**

[15] FY 2015-2016 Profit & Loss Statement, Line 8510.

[16] In a 2017 fair return case, portions of four appraisal reports by the Park Owner's appraisal witness were included in an Appendix to this author's report in that case. (Ojai Valley Estates Mobile Home Park Discretionary Rent Increase Application hearing proceedings.) Those reports contained extensive data on operating cost data for the years 2010 to 2015. The reports consistently indicated average insurance costs in the range of $90 to $105. A copy of this Appendix has been supplied to County Staff.

3. Adjustment of the Base Year Net Operating Income Calculation and Calculation of Fair Net Operating Income in Current Year

If base year net operating income is adjusted solely on the basis of the foregoing modifications the projection of base year net operating income is reduced by $47,634 (reduction in projection of base year rental income - $37,751 and $9,921 increase in projection of base year insurance costs.)

Impact of Adjustment of Base Year Net Operating Income Amount on a Projection of Fair Net Operating Income in the Current Year

The overall impact of the adjustments of the projection of the base year net operating income is to reduce the projection of a fair net operating income in the current year 2024 by $63,067, ($47,634 x 1.32), an amount equal to $33.90/space/month.

D. Calculations of <u>Current Year</u> Net Operating Income

Share of Overall Operating Expenses Attributed to the Rent Controlled Spaces

In the Applicant's calculations of the current year's operating expenses 75.9% of the operating expenses are attributed to the rent controlled spaces. This ratio is consistent with the fact that as of May 31, 2024, when 204 spaces were rented, 75.9% of the spaces in the park were rent controlled spaces. This allocation does not attribute any share of the operating costs to the vacant spaces in the park. (The June 2022 annual rent registration reported a total of 228 spaces in the Park.)

Calculation of Property Taxes Attributable to the Rent Controlled Spaces

An increase n property taxes was a known certainty to be triggered by a reassessment of the property upon sale. Standardly, this increase in operating expenses is taken into account in an MNOI analysis. Subsequent to a reassessment in value triggered by a sale, increases in assessed value are limited to 2% per year, unless improvements have been undertaken.

From the base year (FY 2015-2016) to FY 2022-2023, the amount of property taxes increased from $111,733.57 to $128,147.24.

From FY 2022-2023 to FY 2023-2024 property taxes increased from $128,147 to $160,562.20,[17] an increase of $32,415 or 25.2%, as opposed to the two percent increase that would occur in the absence of a reassessment. This increase is attributable to an increase in the valuation of improvements in the Park (as opposed to the land value) of $2,926,371. The valuation of improvements increased from $5,716,505 in FY 2022-2023 to $8,642,876 in 2023-2024.[18] (See FY 2022-2023 and FY 2023-2024 Property Tax Bills in Appendix D.)

This increase in property taxes was tied to the addition of new spaces in the Park, rather than attributable to an increase in property taxes attributable to the rent controlled spaces. On this basis, for the purposes of an MNOI analysis, the 2024, the computation of the property tax amount is

[17]These amounts include the 1% property tax plus voter approved taxes (agency taxes) of about $5,500.
[18] The Park Owner's depreciation claim on its tax return confirms this conclusion. On the 2023 tax return, $3,355,840 is listed as "expansion" in the category "Unadjusted Basis Immediately After Acquisition," date acquired 12/08.22.

based on the assessed value that would have been taxed in the absence of the 2023 structural improvements.

For the purposes of this MNOI analysis, the property tax cost amount is calculated by adjusting the FY 2022-2-23 property tax of $127,151 by the two annual increases of 2% that would have occurred in the absence of the new improvements attributable to the creation of the new spaces. That amount is equal to $132,288. In turn, for the purposes of the MNOI analysis, the property tax amount attributable to the rent controlled spaces in 2024 is $106,242 (155/193*132,288), a reduction of $16,417 from the $122,658.89 amount used in the Park Owner's calculation of property taxes attributable to the rent controlled spaces.

(Table 6)

Calculation of Current Year Property Taxes Attributed to the Rent Controlled Spaces		
	Annual total for whole park	**Share allocated to rent controlled spaces**
Application	**161,434.93**	**122,658.89**
Fair Return Analysis - Assessed Value Attributable to 2023 improvements (new spaces) is excluded	**132,288**	**106,242**
Adjustment in Fair Return Analysis		**(16,416.89)**

Insurance Costs in the Current Year

In the Owner's original submission annual insurance costs of $78,462.62 were projected for the whole park and $59,616.21 of that amount (75.9% of the total cost), was attributed to the rent controlled spaces. This ratio reflected the ratio of rent controlled spaces/rent spaces in the park.

Subsequently, the Park Owner modified the insurance cost calculation and projected an annual insurance cost of $67,674.73 for the whole park.[19]

The Park is covered by seven different types of policies. The bulk of the premiums, $63,535 out of $67,674, are based on the costs three of the policies – general liability, property, and umbrella.

The cost of property insurance is allocated on the basis that the insurance value of the park is $2,516,244 out of a total insurable value of $172,345,000 for all of the properties covered by the policy (nationwide).

In the Applicant's calculations, the share of the general liability and umbrella policies allocated to Mill Villa is based on a 228 space share of the total the number of spaces 2,480 in parks in California that are covered by the those policies. In this analysis, the share of the premium for

[19] Email letter from Applicant's Attorney to City Attorney, Oct 2, 2025.

those policies that is allocated to the rent controlled spaces is 67% of that total (155 spaces/228 spaces).

The table below sets forth the Park Owner's allocations of insurance costs to Mill Villa and the allocations that are used in this analysis to set forth the costs for the rent controlled share of the spaces.

(Table 7)

Allocation of Insurance Costs to Rent Controlled Spaces				
Amount Projected in Application				**59,616.21***
Applicant's Report on Insurance Costs			Calculations in Fair Return Analysis	
Type of Insurance	Method of Allocation of Cost to Mill Villa	Cost Allocated to Mill Villa	Method of Cost Allocation to Rent Controlled Spaces	Cost Allocation to Rent Controlled Spaces
Cyber	193 Spaces out of national total	62	155/193 spaces	49.47
Crime	Share of national employees	449	155/208 spaces	334.46
EPL	Share of California employees	1,868	155/208 spaces	1,392.35
General Liability	228 out 2480 California spaces are in Mill Villa	21,692	155/228 spaces	14,746.75
Umbrella	228 out 2480 California spaces are in Mill Villa	21,763	155/228 spaces	14,795.02
Auto	policy only for Mill Villa	1,760	155/208 spaces	1,311.54
Property	share of insurance value owned by IPG	20,129	155/228 spaces	13,684.19
Total				**46,313.79**
Adjustment of Amount Projected in Application				**(13,302)**

*Subsequently the Park Owner reduced its overall insurance calculation for the Park. If the cost allocated to the rent controlled spaces had been based on the new insurance total, the share allocated to the rent controlled spaces would have been $51,365 (75.9% of $67,674.)

E. Other Operating Cost Issues

The Costs of Waste Management (Trash Collection)

The waste management (trash collection) costs for the whole park nearly tripled from $55,823 in the base year (FY 2015-2016) to $103,256.93 in 2023, to $158,059 in the current year (2024), an increase of $102,236.

(table 8)

Waste Management Costs

	Annual Total	/space/month
FY 2015-2016	55,823.21	24.10
2017	56,975.84	24.60
2022	67,890.94	29.31
2023	103,256.92	44.58
Annualized 2024	158,059.53	68.25

Source: Mill Villa P&L Statements. Author's calculation of amount/space/month

The share of these costs attributable to the rent controlled spaces in the base year was $44,832 compared to $120,094 in the current year, an increase of $75,262 or $40.46/space/month (from $24.10 to $64.56/space/month.

While waste management rates have increased since the base year, it appears that the dramatic increase in Mill Villa is mainly attributable to an increase in service levels in terms of the number of dumpster (bin) pickups per week.

Apart from the rate of increase in these costs, the current cost significantly exceeds the amount that the Residents would incur if they had individual service. The monthly fees for individual service to the Residents would be $32.03 for a 35 gallon cart and $45.38 for a 65 gallon cart (Ordinary service levels for a single family dwelling the size of a doublewide mobilehome.) These levels of service include a second can for recycling. The other mobilehome parks in the County with over one hundred spaces are served in this way, rather than through parkwide commercial accounts.

If a cost reduction reduced the amount of operating expenses considered in a fair return calculation that justifies a rent increase, the Residents would garner the full amount of the cost saving without a new saving to the Park Owner.

If Waste Management service costs were covered by individual accounts for each mobilehome and the Park Owner would be required to provide an offset in the rent in return for transferring this cost to the Residents, The amount of the offset be $59,575 ($32.03*155 spaces*12 months.) an amount tied to the rate for one 35 gallon cart, $32.03/space/month. If an addition the Park Owner still incurred $15,000 in common area costs after the service transfer, the total waste management cost would be about $75,000 a year. This amount would be a reduction of $44,832; $24/space/month, from the current operating cost level for Waste Management attributable to the rent controlled spaces.

Management & Maintenance Costs

Since the base year, management, maintenance, and administrative costs have increased by substantially more than the percentage increase in the CPI.

The Profit and Loss statements of the Applicant break down these types of expenses in detailed categories. On the other hand, the weight of year to year comparisons defined by these categories is undercut by the realities that management and maintenance and administrative costs involving overlapping tasks. Therefore, changes within a category may reflect reallocations of costs and/or increases or decreases in real costs.

The overall management, maintenance and administrative costs for the whole park increased from $259,432 in the base year to $499,351 in the current year, a 96% increase compared with the 32.4% increase in the CPI. The share of those costs attributable to the rent controlled spaces increased from $208,532 to $379,368, an 82% increase equal to $64.48/space/month.

(table 9)

Calculations of Management, Administrative, Payroll, and Maintenance Expenses in Applicant's Profit & Loss Statements					
	FY 2015-2016	2017	2022	2023	2024
Total - 6000 - Administrative Expenses	27,535	79,503	133,493	212,913	129,483
Total - 6200 - Professional Fees	79,009	33,021	56,957	14,994	6,916
Total - 6300 - Maintenance & Repairs	61,281	59,872	73,713	113,188	113,851
Total - 6400 - Payroll Expenses - Other	91,606	122,594	139,496	223,485	249,102
	Author's Tabulations				
Park Total	259,432	294,991	403,659	564,579	499,351
Rent Controlled Units Ratio to Total Based on Share Used by Applicant	155/193				75.9% of total
Cost Attributable to Rent Controlled Spaces	208,352				379,369
Pct. Increase (FY 2015-2016 to 2024)					82%
Increase/Space/Month					64.48

The submissions by the Resident Representatives extensively detail and discuss these increases and question their reasonability. The Residents contend that the cost increases of the past years are the outcome of increased costs associated with the construction of new spaces in the Park, rather than increased services for the existing spaces. They note that a spike in management and maintenance costs occurred after 2021.

There are no systematic sources of data on operating costs of mobile home parks. The current year costs for the combination of management, maintenance, and administration, of about $208/month/space, appear to be above average, but not exceptional. The data that is available indicates that there are substantial variations among parks in management and maintenance costs per space.

An appraisal report by Collier's, a national firm that performs mobile home park appraisals on behalf of lenders, was submitted by a Park Owner in a 2023 hearing in rent stabilization case in Petaluma.[20] That data in that report indicated the following: 1) typical annual repairs & maintenance costs range from $200 to $500.; offsite management costs range from 3 to 5% of gross income; on-site annual management costs for the comparables in that report averaged $685; general administrative costs range from $150 to $350/homesite. If these amounts were used to project a typical cost for management and maintenance costs in a park with the some number of spaces as Mill Villa, the total would be $365,000 ($314,425 in the 2020 appraisal report adjusted by a 16% increase in the CPI from 2020 to 2024), as opposed to the total of $379,369 for Mill Villa.[21] However, the strength of such a comparison is subject to the issue of how the facilities in the parks in the appraisal compared with the facilities in Mill Villa.

[20] Youngstown Mobile Home Park, Petaluma 2023 rent increase application. A copy of the report has been provided to County staff.

[21]

Author's Projection of Management & Maintenance Costs Using Projections of Averages in Collier's Appraisal of Youngstown Mobile Home Park, Petaluma in 2020					
	on site mgmt.	off-site mgmt.	maintenance	gen'l & admin	
Calculation used to project cost	685/space/yr	5% of income	5% of income	$350/ space/yr	Total
155 spaces, income $1.7 million	106,175	85,000	85,000	38,250	314,425

(table 10)

	Calculation of Rent Adjustment Based on Maintenance of Net Operating Income (MNOI) Standard				
		Amounts Attributable to Rent Controlled Spaces			
		Application	**Baar Analysis**	**Amount of Modification**	**Explanation of Modification**
a.	Base Year Net Operating Income	573,071			
b.	Rental Income	1,004,934	967,183	(37,752)	Total adjusted to reflect rent from only rent controlled spaces
c.	Cost of Property Insurance			(9,882)	Cost adjusted to reflect industry norm
d.	**Base Year Net Operating Income Projection**	**573,071**	**525,437**	**(47,634)**	
e.	CPI Adjustment of Base Year NOI	32.4%	32.4%	32.4%	
f.	**Fair Net Operating Income in 2024 = Base Year NOI adjusted by CPI**	**760,147**	**695,679**	**(63,067)**	
g.	**Current Year Net Operating Income Reported by Applicant**	531,790			
h.	Property Taxes	122,658	106,242	(16,417)	Adjusted to exclude increase due to new construction
i.	Insurance Cost Attributable to Rent Controlled Spaces	59,616	46,314	(13,302)	Calculation Based on Applicant Formula for Allocating Insurance Costs
j.	**Current Year Net Operating Income Projection**	**531,790**	**561,509**	**30,019**	

	Rent Adjustment			
		Application	**Fair Return Analysis**	
k.	**Rent Adjustment Required to Permit Fair Net Operating Income in 2024) (f-j)**	**228,358**	**134,719**	**Calculation Unless Waste Management or Maintenance and/or Management Cost Amounts are Modified**
l.	**Rent Adjustment /Space/Month k/(155sp*12 mo)**	**122.79**	**72.43**	

Costs Not Taken Into Account in the Applicant's Fair Return Calculations

Apart from the income and operating expense claims included in the Application, the Application notes that the Park Owner "incurred $367,000 of capital charges during 2024 including $273,000 for a paving project, which were not passed through to residents.[22]

If these costs are amortized over ten year period with an 8% interest allowance, the amount would be $19.53/space/month. If the amortization was over a 20 year period the amount would be $13.46/space/month. The use of a different interest allowance would not change the outcome substantially. For example, a 7% or 9% interest allowance, instead of an 8% allowance, would change the outcome by only about one dollar per space per month.

If these costs were included in the Application and were reasonable they would have been allowed as an amortized cost in this application. However, including these costs may have been subject to the qualification that an equal CPI adjusted amount would have been included in the projection of base year operating costs on the basis that these were recurring capital improvement costs.

If a 100% indexing standard is applied and a base year capital improvement cost was also projected, the inclusion of this cost in the current year would not have changed the outcome under an MNOI analysis.

A "Kavanau" Adjustment

In cases in which there has been an unreasonable delay in granting a rent increase justified by a fair return application, park owners have been granted "Kavanau" adjustments. Such adjustments provide for a recovery of rents that Residents would have had to pay if a fair return was granted in a reasonable amount of time. In some cases, particularly where the increase is substantial, the cost to the Residents of covering the back rents awarded in the fair return claim has been amortized.

This issue is raised here due to the length of time between when the rent increase application was filed and its adjudication by the County. However, analysis of whether a Kavanau adjustment is justified and, if so, the amount of such an adjustment, is beyond the scope of this phase of the fair return analysis.

[22] Application, p.2. (included in Appendix B of this report).

V. Conclusion

There is no single answer as to what rent adjustment should be permitted in this case. The courts have repeatedly explained that rent regulations requires a balancing of interests and there is a range of rents that may be deemed reasonable. For example, in one case the California State Supreme Court stated:

> ….the rate regulator is balancing the interests of investors, i.e., landlords, with the interests of consumers, i.e., mobilehome owners, in order to achieve a rent level that will on the one hand maintain the affordability of the mobilehome park and on the other hand allow the landlord to continue to operate successfully. (*Galland v. City of Clovis*, 24 Cal.4th 1003, 1026 (2001))

In another case, a Court of Appeal explained:

> There is a range of rents which can be charged, all of which could be characterized as allowing a just and reasonable There is arange of rents which can be charged, all of which could be characterized as allowing a just and reasonable. Colony Cove Properties LLC v. City of Carson, 220 Cal.App.4th 840, 864 (2013)

This analysis includes substantial modifications to the Applicant's allocation of the shares of park expenses among the rent controlled and exempt spaces. These modifications seem to be warranted based on reasoned "statistical" modifications based on consideration of the data and records provided by theApplicant and the County's rent records. Pursuant to these modifications, the projection of the allowable monthly rent increase under the MNOI standard is $72.43, rather than the $122.79 amount in the Applicant's calculations.

However, a calculation of $72.43 does not consider whether other modifications are appropriate based on the cost allowance for waste management. As indicated, a transfer of the service from a parkwide commercial account using bins (dumpsters) to individual accounts using carts would generate a reduction of about $24/space/month in the rent increase amount that would be justified under the MNOI standard. This projection takes into account that the cost to the Residents of taking on the individual service would be offset by a rent reduction. At the same time, the reduction in the Park's waste management costs arising out of a transfer of the responsibility for waste management services would be larger than a required rent reduction to the Residents. As indicated, now the waste management cost to the park ownership is $68.25/space/month. In contrast, reimbursing the Residents for taking on the cost for individual service for a 35 gallon cart would be $32.03/month.

Also, the foregoing calculations do not resolve the issue of whether there should be a modification of the management and maintenance expenses that are allowed pursuant to the fair return analysis. These expenses account for a substantial portion of the Park Operating expenses and the increase in Park expenses since the base year.

Consideration of Additional Information and Comments

The discussion and conclusions in this report are subject to the qualification that they may be modified as a consequence of receiving additional information and comments from the parties prior to the hearing in this case.

Two requests for additional information, which were made on October 7, are still outstanding. One was a request for comments from both the Park Owner and the Residents about issues related to a transfer of the waste management costs from parkwide commercial service to individual resident accounts. The other was an inquiry of the Park Owner related to its insurance costs.