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COUNCIL TRANSMITTAL: LOS ANGELES HOUSING DEPARTMENT RECOMMENDATIONS FOR A CITY-WIDE POLICY REGULATING THIRD-PARTY BILLING PROVIDERS

SUMMARY

The General Manager of the Los Angeles Housing Department (LAHD) respectfully submits this report in response to the City Council's instruction (C.F. No. 22-0178), directing LAHD to report back on the implementation of an ordinance requiring landlords to ensure greater transparency in utility bills processed by third-party billing agencies that calculate and collect utility bills from tenants, commonly referred to as "Ratio Utility Billing System" (RUBS) for tenants in master-metered rental properties.

Additionally, pursuant to a subsequent amending motion introduced by Councilmembers John Lee and Monica Rodriguez, LAHD was further instructed to report on enforcement strategies to ensure compliance with the ordinance. These strategies could include an administrative enforcement program, a 60-day cure period similar to the provisions of the Tenant Anti-Harassment Ordinance; a fine schedule; a private right of action for tenants against their landlords for overcharging and violations of the ordinance; and mechanisms to address the use of contracted third-party billing agencies.

This report presents key policy recommendations for a proposed third-party billing ordinance designed to regulate RUBS practices citywide. The primary objective is to mandate greater transparency in billing, establish clear regulatory standards, and ensure fairness for tenants in master-metered rental properties. LAHD respectfully requests approval of the recommendations contained in this report.

RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor:

1. REQUEST that the City Attorney, with the assistance of LAHD, prepare and present an ordinance amending the Los Angeles Municipal Code (LAMC), Chapter XV, Rent Stabilization Ordinance (RSO) to:
 - a. Prohibit the use of Ratio Utility Billing Systems (RUBS) and all other unmetered utility allocation methods for master-metered utility services.
 - b. Amend LAMC Section 151.02, which defines “Rent” to include a provision that no landlord may impose a separate fee or charge for any master-metered or other unmetered utility service that is billed directly to the landlord by the utility provider.
 - c. For tenancies under existing leases or rental agreements that allow landlords to collect utility costs through a RUBS system or similar billing obligation, the ordinance must establish a process to allow landlords to apply for a rent adjustment to compensate for utility costs, subject to the following:
 - i. Rent Adjustment Calculation: The rent adjustment must be calculated only on the tenant's average total monthly RUBS cost paid to the provider or landlord over the previous twelve (12) months.
 - ii. Exclusions: All administrative fees, late fees, and similar charges must be excluded from the average monthly cost calculation.
 - iii. Cap: The rent adjustment cannot exceed the Housing Authority of the City of Los Angeles Utility Allowance rates effective December 1, 2025.
 - iv. Post-Adjustment Status: Once the rent adjustment is applied, the adjusted rent becomes the new Maximum Adjusted Rent for the rental unit.
 - v. Timing of Imposition: The rent adjustment can be imposed either:
 1. On a date no earlier than twelve (12) months after the commencement of the tenancy; or
 2. Upon the expiration of a lease with a term longer than twelve (12) months.
 - vi. Forfeiture of Right: Any landlord who does not implement a rent adjustment within two (2) years of the effective date of the ordinance or within twelve (12) months after the expiration of a lease term, whichever comes first, forfeits the right to implement it. Upon forfeiture, the tenant is no longer responsible for paying a separate RUBS or similar billing obligation.
2. REQUEST that the City Attorney, with the assistance of LAHD, prepare and present an ordinance amending Chapter XVI (Housing Regulations) of the Los Angeles Municipal Code to add the following written notice requirements regarding utility passthroughs at the onset of tenancy for landlords of master-metered or other unmetered utility services in non-RSO rental units:

Disclosure Requirement	Description of Information to be Provided
Clear Written Disclosure of Billing Method	Explicitly state the methodology used for the passthrough of master-metered utility costs (e.g., how the RUBS factors are applied).
Itemized Breakdown of Charges	Provide a detailed, itemized list of all components of the charge.
Calculation Methodology	Clearly explain the step-by-step process used to determine the individual tenant's portion of the utility bill.
Administrative Fees or Other Charges	Clearly state the amount or percentage of any administrative fees or other charges applied.
Frequency of Billing	State how often the tenant will be billed for the utility passthrough (e.g., monthly, quarterly).
Access to Master Meter Billing Statements	Provide the tenant with reasonable access to the landlord's master meter billing statements from the utility provider.
Dispute Resolution Process	Detail the formal process available to the tenant for disputing utility passthrough charges.
Unresolved Disputes	Provide notification that non-compliance provides the tenant an affirmative defense for tenants in eviction proceedings which may result in a private right of action if the dispute resolution process remains unresolved.

3. INSTRUCT the Rent Adjustment Commission, with the support of the LAHD, to adopt rules and regulations as necessary to effectively implement the provisions outlined in this report.

BACKGROUND

The City Council adopted the Rent Stabilization Ordinance (RSO) in May 1979 to protect tenants from excessive rent increases while providing landlords with reasonable returns on their rental units. The RSO generally applies to rental units constructed for residential use on or before October 1, 1978, except for one single-family dwelling on a single parcel. However, properties not subject to the RSO are covered under the

City's recently adopted Just Cause for Eviction Ordinance (JCO). The JCO applies after the expiration of the initial lease or after six months of continuous occupancy, whichever comes first. Unlike the RSO, which regulates rent increases, the JCO only provides eviction protections. Under state law, the City is prohibited from regulating rent increases for non-RSO units. Non-RSO rental units built more than 15 years ago are subject to both the JCO and to AB 1482, the Tenants Protection Act of 2019, which allows for a maximum rent increase of no more than 5% plus the percentage change in the cost of living or 10%, whichever is lower. The current allowable rent increase for a unit regulated by AB 1482 is 8%.

At the commencement of a tenancy, landlords of residential properties may establish which utilities are the tenant's responsibility to pay. In some cases, landlords choose to charge a premium rental rate that includes all utilities. This practice is particularly common in properties that are master-metered, where individual consumption per rental unit cannot be determined. Approximately 19% of rental units subject to the City's RSO are master-metered. For these properties, landlords have several options:

- Include utilities in their rent as part of the monthly rental.
- Charge a separate utility fee to tenants.
- Utilize a third-party billing company, such as a Ratio Utility Billing System (RUBS), to allocate costs for master-metered or other unmetered utility services.

Ratio Utility Billing System (RUBS)

Landlords may utilize third-party billing companies to separately bill each rental unit for any utility service. These services may include electricity, water, sewer, gas, garbage (solid resource), or other charges relating to the use and occupancy of the rental unit.

RUBS refers to any methodology by which the cost of master-metered or other unmetered utility services as well as utility costs for common areas of a multi-unit property are apportioned to tenants. RUBS formulas typically estimate utility usage of each rental unit based on factors such as:

- Number of occupants in a unit
- Number of bedrooms in a unit
- Square footage of a unit
- Other similar criteria.

The Tenant Protection Act of 2019 imposes a statewide rent cap that limits annual rent increases to no more than 10%. However, the law does not define whether utilities are considered part of rent, thereby allowing for the use of RUBS. Additionally, state law requires disclosure at the inception of the tenancy if utility meters are shared (master-metered).

Summary of Third-Party Billing Transparency in Other Jurisdictions

LAHD conducted extensive research on the handling of utility payments across several jurisdictions. The findings indicate that Seattle, Washington, Arizona, Texas, and Oregon have established regulatory frameworks governing third-party billing for utilities. For ease of reference, the following table summarizes the approaches taken in these jurisdictions:

	Seattle, WA	Arizona	Texas	Oregon
Type of Utilities	Water, Sewer, Garbage, Electricity, and other unmetered services.	Gas, Water, Solid Waste & Electricity (except common areas)	Water & Sewer	Electricity, natural or liquid propane gas, oil, water, hot water, heat, air conditioning, cable television, direct satellite or other video subscription services, Internet access or usage, sewer service, public services, and garbage collection and disposal.
Administrative Fees or other costs	Landlords must provide a basis for each separate charge. Service charges are no more than \$2 per utility per month, not to exceed \$5 per month for all utilities. Late payment charges are no more than \$5 per month plus interest at a rate not to exceed 1% per month.	Landlords may charge an administrative fee not exceeding the greater of the actual administrative costs or 10% of the utility provider's monthly charge in the aggregate to the landlord.	Landlords cannot impose extra charges beyond the cost per gallon or applicable taxes and surcharges charged by the utility company to the owner. A fee for late payment of a submetered water bill, not to exceed five percent of the bill amount. A service charge of not more than 9% of the costs related to submetering is allocated to each	Landlords must provide charges to the tenant in writing within 30 days of receipt of the provider's bill.

			submetered rental unit. This includes any applicable taxes and surcharges charged by the utility company.	
Type of Properties	Apartments, houses, and Mobile Home Parks with three or more tenant units.	N/A	Apartments, Manufactured home rental communities, and Condos built after 1/1/2003	N/A
Rental/Lease Agreement Utility Disclosure	No	Yes	Yes	Yes
Post Notice on the Property	No	Yes, the current rate and expenses are paid by the landlord.	No	No
Dispute Process	Yes, 30 days of receiving the bill to dispute charges.	No, the tenant must give a written notice to the landlord.	No	No
Penalties	n/a	n/a	Tenants may recover three times the amount of any overcharge, a civil penalty equal to one month's rent, reasonable attorney's fees, and court costs	Tenants may recover twice the actual damages sustained or one month's rent, whichever is greater.

			from the owner or condominium manager.	
Enforcement Agency	Seattle Office of the Hearing Examiner or Civil Court.	Civil Court	Civil Court	Civil Court

Generally, the jurisdictions above require utility disclosure in all rental agreements or leases for properties that use RUBS. This ensures tenants are informed of their specific utility payment obligations, fostering transparency, minimizing disputes, and clearly establishing financial responsibilities.

Jurisdictions Prohibiting Third-Party Utility Billing

California jurisdictions that regulate or prohibit third-party billing (RUBS and similar allocation methods) for rental units covered under their rent stabilization ordinances are the following:

- Mountain View - Mountain View's Community Stabilization and Fair Rent Act stipulates that rent stabilization units with three or more units built before February 1, 1995, cannot pass through utility charges to tenants through RUBS. Landlords with written utility pass-through contracts established before March 1, 2024, were permitted to petition for a one-time rent increase.
- Oakland & Santa Monica - The Oakland and Santa Monica Rent Control ordinances do not prohibit RUBS, but their ordinances define “rent” to include utility costs, in effect prohibiting rent increases for utilities.
- San Jose - San Jose's Rent Stabilization Ordinance prohibits the pass-through of utility charges to tenants based on RUBS and other unmetered allocation arrangements. Landlords with written utility pass-through contracts in place before January 1, 2018, were allowed to petition for a one-time rent increase based on the average amount paid by the tenant, capped at the 2018 Santa Clara County Housing Authority Utility Allowance rates.
- West Hollywood - West Hollywood's Rent Stabilization ordinance prohibits RUBS. The ordinance specifically states that no landlord may impose a separate fee or charge for any utility service that is billed directly to the landlord by the utility provider.

Low-Income Utility Incentives

Low-income tenants who pay their utilities directly to their landlord or through third-party billing providers typically do not receive incentives, as the costs are generally split equally and passed through from the landlord to the tenant.

The Los Angeles Department of Water and Power (LADWP) has confirmed there are no direct low-income programs available for tenants residing in master-metered buildings. Instead, utility incentives for low-income tenants are most often provided through housing programs such as the Housing Choice Voucher Program (Section 8) and Public Housing Programs. These programs include a monthly utility allowance, which is deducted from the tenant's portion of the rent, thereby reducing overall housing costs and ensuring affordability.

Stakeholder Outreach

Tenant Advocates

Neighborhood associations have raised concerns that many tenants in multi-unit buildings in Los Angeles pay their landlords or third-party billing services for utilities without receiving documentation for the amounts charged. Without access to meter readings, billing rates, or the methodology used to divide costs, tenants are unable to validate whether charges are accurate and fair. Tenants emphasize that transparency is essential, and advocate that landlords provide renters with information, such as the underlying meter readings, billing rates, and the calculation used to divide bills among tenants and between the tenants and the landlord. Some tenants have recommended prohibiting the use of RUBS in units subject to the RSO, similar to practices in West Hollywood and Santa Monica.

Landlord Advocates

In meetings held with landlord associations in November 2023, landlords and housing providers emphasized that RUBS supports the City's conservation and greening goals by encouraging tenants to adjust consumption when tenants are financially responsible for usage. Landlords agree that transparency is necessary to enable tenants to understand their rent obligations and how utility costs are determined. Landlords suggest requiring a utility addendum at the inception of the tenancy, explaining the methodology for calculating utility charges. They also note that third-party billing agencies can provide statements that allow tenants to understand their usage and track it over time, enabling them to better understand their utility charges.

Landlords further highlight challenges in quantifying water usage attributable to common areas in master-metered properties. They note that landscaping varies across properties making it difficult to determine water usage for these spaces. As a result, landlords argue that a cap on common area allowances should not exist, as it could discourage the maintenance of green space where cost cannot be accurately quantified.

Housing providers agree that both they and third-party billing agencies should be responsible and accountable for ensuring transparency in master-metered tenant utility bills. They suggest establishing a notification and

response timeline for charge-related concerns, with tenants receiving a response within ten days. This would allow the housing provider a cure period to rectify any mistakes, miscalculations, or good-faith errors.

Discussion

Historically, LAHD has allowed landlords of RSO units to implement RUBS, provided that tenants were informed of these utility responsibilities at the commencement of their tenancy and that such terms are clearly outlined in their rental agreements or leases.

In alignment with the intent of the City Council motion and to address transparency and enhance tenant protections, LAHD recommends an amendment to the RSO to eliminate separate utility charges by explicitly defining all master-metered utilities and other unmetered allocation methods as part of "Rent."

This proactive measure would ensure that tenants are fully aware of their total monthly rent cost obligations from the outset, preventing unforeseen "utility increase charges" and fostering greater financial predictability. Integrating utilities into the base rent would also reinforce existing protections against excessive rent increases, since any utility cost adjustments would be included in the RSO rent increase limitations.

Recommendations for a Los Angeles Utility Billing Ordinance

LAHD recommends the following amendments and new requirements to ensure fair, transparent, and equitable utility billing practices across both RSO and non-RSO rental units in the City of Los Angeles.

Proposed Amendments for RSO Rental Units

LAHD recommends amending the RSO definition of "Rent" under LAMC Section 151.02 to specify that landlords may not impose a separate fee or charge for any utility service that is billed directly to the landlord by the utility provider. This amendment will prohibit landlords from imposing utility charges on tenants through Ratio Utility Billing Systems (RUBS) or other unmetered allocation methods.

Transition from RUBS to Rent Adjustment

To address the transfer of the utility obligation from the tenant to the landlord and facilitate the transition of current RSO tenancies from unmetered utility allocation methods, such as master metering or RUBS, which are not based on a tenant's actual usage, LAHD recommends that a permanent rent adjustment be permitted. This rent adjustment must be calculated based *only* on the tenant's average total monthly RUBS cost paid to the provider or landlord over the previous twelve months. All administrative fees, late fees, and similar charges must be excluded from this average monthly cost calculation, as they will no longer apply once the landlord discontinues using RUBS or comparable services. The rent adjustment cannot exceed the Housing Authority of the City of Los Angeles Utility Allowance rates effective December 1, 2025. A fair rent adjustment based on

the tenant's actual usage is necessary for existing tenancies in order to compensate landlords who are charging for utilities under existing leases. Subsequently, use of RUBS will be prohibited in all tenancies.

This rent adjustment would not apply to utilities that are individually submetered or those for which the tenant receives direct billing from the utility service provider (e.g., Department of Water & Power, Gas Company, LA Sanitation & Environment).

Implementation and Tenant Benefits

The Rent Adjustment Commission (RAC) is vested with the authority to establish the policies, rules, and regulations required to implement the provisions of this utility adjustment. LAHD will assist the RAC to develop the procedures and templates to implement the one time rent adjustment. This adjustment will replace the separate monthly RUBS billing to tenants. Because the affected tenants are already paying an unpredictable, fluctuating utility bill to their landlords (RUBS), and the new rent adjustment will be calculated based on a twelve (12) month average of the actual monthly utility charges (minus any administrative fees) and capped by the Housing Authority of the City of Los Angeles Utility Allowance rate, the change will not constitute a rent increase for tenants. Tenants will benefit from the elimination of a variable additional monthly utility payment.

Non-RSO Rental Units Requirements

Because the City cannot regulate rent increases for non-RSO rental units, LAHD recommends adoption of the following written requirements to ensure fair and transparent utility billing for tenants in non-RSO rental units:

- 1. Clear Written Disclosure of Billing Method:** Landlords must provide a clear, concise written explanation of the specific utility billing method used (e.g., RUBS, sub-metering, or other allocation methods). This explanation should be easy to understand and avoid technical jargon. These requirements should be incorporated into a rental agreement/lease or a utility addendum, signed by both the landlord and the tenant at the commencement of the tenancy. This will ensure that the tenant is fully aware of their financial responsibilities before entering into the tenancy.
- 2. Itemized Breakdown of Charges:** The written agreement must include a detailed, itemized breakdown of all utility costs that will be passed on to the tenant. This should specify which utilities are included (e.g., water, sewer, gas, electricity, trash) and how the charges for each utility are calculated.
- 3. Calculation Methodology:** Landlords must clearly outline the exact methodology used to calculate each tenant's portion of the utility bill. This means explaining the specific factors considered (e.g., number of occupants, square footage, number of bedrooms) and the weighting given to each factor. Furthermore, because the building's total master meter consumption includes common-area usage, the landlord must also disclose the portion of that charge included in the tenant's bill.
- 4. Administrative Fees or Other Charges:** An administrative fee must not exceed the actual administrative costs incurred by the landlord for its monthly utility charges from the Department of Water and Power. Landlords cannot impose additional charges beyond the price per gallon, kilowatt, fee, etc., or the applicable taxes and surcharges charged by the Department of Water and Power to the

landlord.

5. **Frequency of Billing:** The written agreement should specify the frequency of utility billing (e.g., monthly, bi-monthly) and the due date for each payment.
6. **Access to Master Billing Statements:** Tenants should be informed of their right to review the master utility bills for the property upon request. This will provide transparency, allowing tenants to verify the accuracy of the charges.
7. **Dispute Resolution Process:** A clear and accessible process for tenants to dispute utility charges must be outlined in the utility disclosure. This should include contact information for the landlord or property management. It must provide that a tenant has at least 15 days after receiving their bill to notify the landlord of any billing dispute. The landlord or designated agent must respond to the tenant within 15 days of receiving notice of a billing dispute.
8. **Unresolved Disputes:** Failure to address or resolve disputes, or non-compliance with these notice disclosure requirements, will provide an affirmative defense to an unlawful detainer. This may result in a private right of action for overcharging, allowing a prevailing tenant to recover reasonable attorney's fees. Unresolved disputes may be investigated further by LAHD, potentially leading to administrative citations, as a failure to resolve or address disputes as recommended may constitute tenant harassment.

Implementation of these recommendations will foster more equitable and transparent utility billing procedures, thereby minimizing misunderstandings and disputes with tenants, including those in non-RSO units, and strengthen overall compliance with fair housing practices.

FISCAL IMPACT

The actions recommended in this report will have no impact on the General Fund.

Approved By:



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