

# Regular Meeting of the Richmond Rent Board

March 21, 2018 | City Council Chambers

# Item G-1: Maintenance of Net Operating Income Fair Return Regulation (Chapter 9)

## Regular Meeting of the Richmond Rent Board

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# Item G-1: Background

- On February 21, 2018, Rent Boardmembers received a draft, proposed Maintenance of Net Operating Income (MNOI) “fair return” regulation (Chapter 9)
- On February 28, 2018, Rent Boardmembers discussed and considered a number of policy questions and provided direction to staff
- Staff have continued to conduct research and refine recommendations for modifications to the draft regulation
- A revised Maintenance of Net Operating Income (MNOI) “fair return” regulation (Chapter 9) has been prepared for the Rent Board’s consideration and potential adoption

# Item G-1: Background

COMMUNITY ENGAGEMENT TIMELINE	
<u>Date</u>	<u>Event</u>
December 4, 2017	Community Workshop #1
December 9, 2017	Community Workshop #2
February 13, 2018	Draft Proposed MNOI Fair Return Regulation (Chapter 9) Posted for Public Review and Comment
February 15, 2018	Staff meet with Fair and Affordable Richmond Coalition
February 16, 2018	Staff meet with Association of United Richmond Housing Providers
February 21, 2018	Rent Board receives draft MNOI Fair Return Regulation (Chapter 9)
February 27, 2018	Staff meet with Fair and Affordable Richmond Coalition
February 28, 2018	Rent Board discusses additional policy considerations associated with MNOI Fair Return Regulation (Chapter 9)
March 12, 2018	Staff meet with Association of United Richmond Housing Providers
March 13, 2018	Staff meet with Association of United Richmond Housing Providers
March 21, 2018	Rent Board considers adoption of MNOI Fair Return Regulation (Chapter 9)

# Item G-1: Background

- On February 28, 2018, Rent Boardmembers considered the following policy questions and provided the following direction to staff:
  1. How much (percentage) of inflation should be applied to the Net Operating Income (NOI)?
    - *Direction from Board: Prepare a study and more examples for the Board to consider*
  2. What should the Base Year be?
    - *Direction from Board: Utilize 2015 as the Base Year*
  3. Should rent increases calculated to provide a Fair Return be capped to avoid rent shock, and if so, by how much?
    - *Direction from Board: Yes, 15% per year (any remaining portion deferred; interest allowance included)*
  4. Should amortization of capital improvements be permanent or temporary?
    - *Direction from Board: Permanent rent increases (staff have since modified their recommendation for this policy)*
- The following slides further explain the revisions to the Maintenance of Net Operating Income (MNOI) Fair Return Regulation (Chapter 9).

How much (percentage) of inflation should be applied to the Net Operating Income (NOI)?

- In our example case, the Hearing Examiner applied 100% of the change in the CPI. This equated to a 15% increase between 2015 and 2020.
- But, what if the Rent Board's policy was to apply 50%, 65% or 75% of the change in CPI?

# Maintenance of Net Operating Income (MNOI) Calculation Example

## Item G-1: MNOI Example Calculation

Greetings!  
I'm Maria



Base Year Rent is \$1,400  
per unit per month



4 Unit Complex

Item G-1:  
MNOI Example

MNOI calculations  
begin by examining  
the **Base Year net  
operating income and  
operating expenses...**

# Example of Operating Expenses

## Item G-1: Definition of “Operating Expenses”

### Included in Operating Expenses

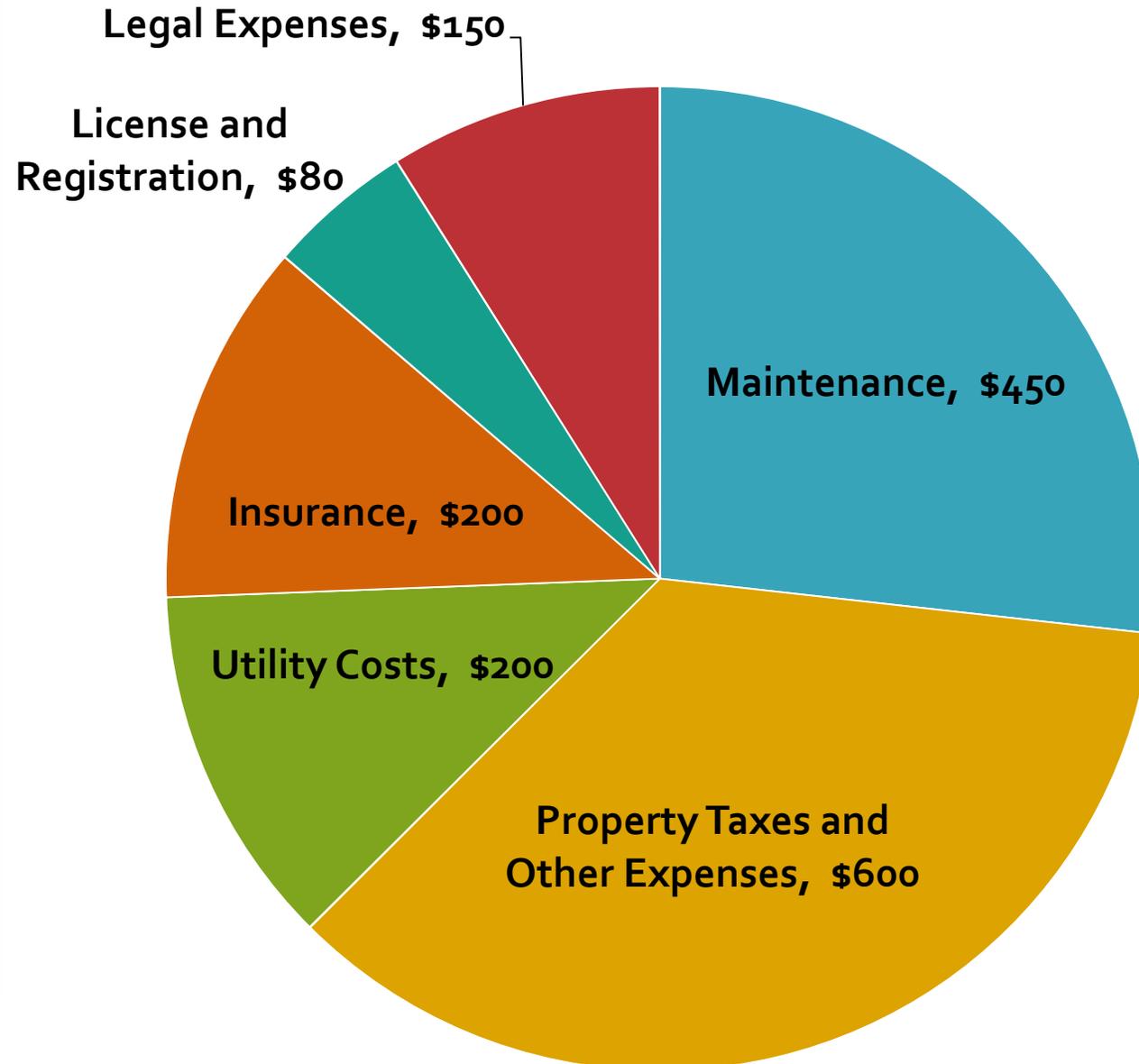
- Reasonable costs of operation and maintenance of the unit
- Real property taxes
- Insurance
- Utility costs
- Management expenses
- License, registration, and other public fees
- Landlord-performed labor
- Legal Expenses
- Amortized costs of capital improvements and exceptionally non-re-occurring expenses

### NOT Included in Operating Expenses

- Debt service costs and costs for obtaining financing
- Mortgage payments or principal
- Any penalties, fees, or interest assessed for violation of the ordinance or law
- Political contributions
- Depreciation
- Any expenses for which the landlord has already been reimbursed
- Unreasonable increases in expenses since the base year

# Maria's Monthly Operating Expenses (Hypothetical)

## Item G-1: MNOI Example Calculation



**Total Monthly  
Operating  
Expenses  
=  
\$1,680**

# What is included in operating income?

## Item G-1: MNOI Example Calculation



Monthly Net Operating  
Income

=

Total Monthly Rent Collected  
– Operating Expenses

Operating income is usually the total amount of rent collected minus expenses. For the purpose of the Maintenance of Net Operating Income (MNOI) analysis, we will be using the **monthly** rental income collected.

Let's look at a 4-unit complex example with the base year being 2015...

Item G-1:  
MNOI  
Example  
Calculation



**\$5,600**

Monthly revenue is 4 units times \$1,400 = \$5,600



**\$1,680**

Monthly expenses are 30% of revenue = \$1,680

**Base Year  
Net  
Operating  
Income**



**\$3,920**

Monthly net operating income (NOI) = \$3,920

# Illustration of Fair Return Using the MNOI Standard

Fast forward to 2020: Rent has increased by \$210 through AGA increases over the span of five years.

Current Year Rent is \$1,610 per unit per month



4 Unit Complex

# Illustration of Fair Return Using the MNOI Standard

Maria has applied all of the Annual General Adjustment increases, but utility and management costs have also increased.



\$6,440

Monthly revenue for 4 units is  
 $\$1,610 = \$6,440$

Current Year  
Net  
Operating  
Income



\$2,184

Monthly expenses are now 34%  
of revenue = \$2,184

=  \$4,256

Monthly net operating income  
(NOI) = \$4,256

# Illustration of Fair Return Using the MNOI Standard

The Hearing Examiner looks at the Net Operating Income in the Base Year (2015) for Maria's case.



$$\begin{array}{rcccl} \text{Base Year} & & \text{15\% NOI} & & \text{Current} \\ \text{NOI} = & & \text{CPI Increase} & & \text{Year NOI} \\ \$3,920 & + & \$588 & = & \$4,508 \end{array}$$

- Fair net operating income is the base year net operating income (NOI) adjusted by the Consumer Price Index (CPI) increase since the base year.
  - In this hypothetical example, the CPI increased by 15%. Therefore, the fair net operating income is \$3,920 increased by 15% for a total of \$4,508. To receive a Fair Return, the landlord should receive a monthly net operating income of \$4,508.

# Illustration of Fair Return Using the MNOI Standard

## Item G-1: MNOI Example Calculation

- Because expenses have increased by 30 percent (from \$1,680 to \$2,154) since 2015, Maria's monthly net operating income has increased by less than the percentage increase of the Consumer Price Index (CPI).
  - The Hearing Examiner has determined the Fair Return Net Operating Income (NOI) is \$4,508 (\$252 above the actual NOI of \$4,256).
  - To provide the landlord with a Net Operating Income (NOI) that generates a Fair Return, the Hearing Examiner determines each unit may receive up to a \$63 increase in the Maximum Allowable Rent (a total of \$252 for all 4 units).
  - The Hearing Examiner checks to see how much of a percentage the rent increase will result in for each tenant. In this example, the adjustment in the Maximum Allowable Rent would result in a 4 % rent increase for each tenant. This rent increase is below the 15% rent increase cap directed by the Rent Board.

How much (percentage) of inflation should be applied to the Net Operating Income (NOI)?

- In the previous example, the Hearing Examiner applied 100% of the change in the CPI. This equated to a 15% increase between 2015 and 2020.
- But, what if the Rent Board's policy was to apply 50%, 65% or 75% of the change in CPI?

# Example of “Partial Indexing” Concept

Allowed Percentage Increase from a 15% CPI Increase	Percentage Increase to Net Operating Income	Actual Monthly Net Operating Income	Necessary Fair Return Net Operating Income	Total Rent Adjustment	Monthly Rent Increase Per Unit	% Rent Increase (assumes current rent is \$1,610)	Does 15% Rent Increase “cap” apply? <i>(In this example, the rent increase would have to be more than \$241.50 for the cap to apply)</i>
50%	7.5%	\$4,256	\$4,214	\$0 – Landlord does not qualify	No Increase	0%	No – resulting rent increase is less than a 15% increase
65%	9.75%	\$4,256	\$4,302.20	\$88.20	\$22.05 per unit	1.4%	No – resulting rent increase is less than a 15% increase
75%	11.25%	\$4,256	\$4,361	\$105.00	\$26.25 per unit	1.6%	No – resulting rent increase is less than a 15% increase
100% (staff recommendation)	15.0%	\$4,256	\$4,508	\$252.00	\$63.00 per unit	3.9%	No – resulting rent increase is less than a 15% increase

# Policy Question 3: Fair Return (MNOI) Case Study Research

Should rent increases calculated to provide a Fair Return be capped to avoid rent shock, and if so, how much?

City	AGA Standard % Rent Increase	NOI Adjustment in Fair Return Standard (% of Increase in CPI) (Policy Question #1)	Limitation on a resulting fair return rent increase (if any)
Berkeley	65%	65%-75% depending on base year	Not more than 15% of the Maximum Allowable Rent on the date the petition is filed, or \$50 per month, whichever is greater, with a cap of \$75 per month. (Beginning in 1993, the \$50 and \$75 limitations shall be adjusted upward by 100% of the percentage in the CPI, All Urban Consumers, less its shelter component, for the twelve month period ending on the preceding June 30 <sup>th</sup> .) ( <a href="#">Regulation 1274</a> ) (applies to all individual adjustments of the Maximum Allowable Rent)
East Palo Alto	80%	100%	None

# Policy Question 3: Fair Return (MNOI) Case Study Research (cont.)

## Should rent increases calculated to provide a Fair Return be capped to avoid rent shock, and if so, how much?

City	AGA Standard % Rent Increase	NOI Adjustment in Fair Return Standard (% of Increase in CPI) (Policy Question #1)	Limitation on a resulting fair return rent increase (if any)
Santa Monica	75%	40%	Not more than 12% or twice the Employment Cost Index (ECI) or \$50 per month, whichever is greater, for any tenant or low or moderate income for whom such a rent increase shall result in severe economic hardship. ( <a href="#">Regulation 4107</a> )
Richmond (proposed)	100%	100%	Not more than 15% of the Maximum Allowable Rent per year on the date the petition is filed.

# What should the Base Year be?

- **Staff recommend a 2015 Base Year for the following reasons:**
  - It is more likely that 2015 rent level information would be available to landlord and tenants.
  - In 2015, there was no adopted rent control policy in the City, therefore 2015 represents the preceding full year without rent regulation.
  - Since the Ordinance was not approved by a majority of Richmond voters until Nov. 2016, using 2014 as a Base Year would account for almost two years prior to the adoption of rent control in Richmond.
- **Why use 2014?**
  - One could argue that some landlords raised rent in early 2015 in anticipation of rent control. If the claim is correct, rent levels in 2015 might be slightly inflated above what they would otherwise have been. The City Council began discussing rent control and just cause for eviction policies in the Spring of 2015.

Should rent increases calculated to provide a Fair Return be capped to avoid rent shock, and if so, by how much?

# Policy Question 3: Fair Return (MNOI) Case Study Research

## Should rent increases calculated to provide a Fair Return be capped to avoid rent shock, and if so, how much?

City	% of Inflation for AGA rent increases	% of Inflation applied to NOI calculation (Policy Question #1)	Limitation on a resulting fair return rent increase (if any)
Berkeley	65%	65%-75% depending on base year	<p>Current cap for Berkeley now: Not more than 15% of the Maximum Allowable Rent on the date the petition is filed, or \$50 per month, whichever is greater, with a cap of \$75 per month.</p> <p>Beginning in 1993, the \$50 and \$75 limitations shall be adjusted upward by 100% of the percentage in the CPI, All Urban Consumers, less its shelter component, for the twelve month period ending on the preceding June 30<sup>th</sup>. (<a href="#">Regulation 1274</a>) (applies to all individual adjustments of the Maximum Allowable Rent)</p>
East Palo Alto	80%	100%	None

# Policy Question 3: Fair Return (MNOI) Case Study Research (cont.)

## Should rent increases calculated to provide a Fair Return be capped to avoid rent shock, and if so, how much?

City	% of Inflation for AGA rent increases	% of Inflation applied to NOI calculation (Policy Question #1)	Limitation on a resulting fair return rent increase (if any)
Santa Monica	75%	40%	Not more than 12% or twice the Employment Cost Index (ECI) or \$50 per month, whichever is greater, for any tenant or low or moderate income for whom such a rent increase shall result in severe economic hardship. ( <a href="#">Regulation 4107</a> )
Richmond (proposed)	100%	100%	Not more than 15% of the Maximum Allowable Rent on a yearly basis on the date the petition is filed.

# Policy Question 3: Fair Return (MNOI) Case Study Research (cont.)

## Should rent increases calculated to provide a Fair Return be capped to avoid rent shock, and if so, how much?

Let's examine how the 15% per year rent increase cap would work in Maria's case, if the Hearing Examiner determined an Individual Rent Adjustment of \$300 per month (which exceeds the 15% cap):

Year	Current Rent	Permitted Rent Increase (up to 15%)	Portion of Deferred Rent Increase	Interest Allowance (assumes 6.50% interest)
1	\$1,610	\$241.50	\$58.50	\$3.80
2	\$1,851	$\$58.50 + \$3.80 =$ \$62.30	\$0	\$0

# Should amortization of capital improvements be permanent or temporary?

- **Remember: Capital improvement costs are part of the MNOI standard, however the Board may consider adoption of a separate capital improvement regulation that would allow for cost pass-throughs for specific types of incentivized improvements (e.g. seismic, energy efficiency, large-scale system-wide improvements).**

# Should amortization of capital improvements be permanent or temporary?

- **Background:** The proposed regulation allows for a variety of costs to be included in the calculation of a property's Net Operating Income, including:
  - Reasonable costs of operation and maintenance of the rental unit
  - Real property taxes
  - Insurance
  - Utility costs
  - Management expenses
  - License, registration, and other public fees
  - Landlord-performed labor
  - Legal Expenses
  - The amortized cost of capital improvements
- **In the context of a Maintenance of Net Operating Income Fair Return Regulation, the inclusion of capital improvements exists to arrive at an accurate Net Operating Income to meet constitutional standards**

# Should amortization of capital improvements be permanent or temporary?

- There are a few key advantages to utilizing a permanent capital improvement calculation:
  - Ease of administration
  - Clarity for Tenants and Landlords – rent increases do not expire when the amortization period ends, as would be the case in the adoption of a temporary approach
- THAT SAID... the methodology for arriving at the permanent rent increase for capital improvements is complex and will require additional research
- Therefore, if it is the intent of the Board to put in place regulations to allow administration of the hearings process to begin, staff recommend the Board reverse their previous decision to direct staff to calculate a permanent rent increase, and at this time, continue with the recommendation from Dr. Baar to use the temporary amortization schedule.
- After staff has had additional time to research the permanent rent increase methodology, staff may present amendments to the regulation, including a permanent rent increase formula, for the Board's consideration.

# Additional Recommended Modifications

Proposed Maintenance of Net Operating Income (MNOI) Fair  
Return Regulation (Chapter 9)

# Additional Recommended Modifications:

Regulation Section	Incorporated Revision
905(A)(6)(a) Calculation of Net Operating Income and Gross Rental Income	<p><b><u>Original provision:</u></b> In calculating net operating income, vacant units are calculated on the basis of average rents for comparable units in the property which have had vacancy increases within the past two years. If there are no comparable units in the property, rental income for the vacant unit shall be calculated on the basis of rents for recently established initial rents for comparable units in the City.</p> <p><b><u>Revised provision:</u></b> If there is a difference in the number of Rental Units between the Base Year and the current year, the rental income and expenses for the same number of units shall be used in calculating the net operating income for both periods. <u>The purpose of this provision is to ensure that a petitioner is not requesting that the current fair net operating income reach a level which was provided in the Base Year by a larger number of units or is limited to a net operating income which was formerly provided by a smaller number of units.</u> If there are units that are vacant or owner-occupied at the time a petition is filed which were rented in the Base Year, for the purposes of the MNOI analysis a rental income for the unit shall be calculated on the basis of average rents for comparable units in the building which have been permitted vacancy decontrol increases within the past two years. If there are no comparable units in the property, rental income for the vacant or owner occupied units, the rent shall be calculated on the basis of recently established initial rents for comparable units in the City.</p> <p><b><u>Rationale:</u></b> To ensure that a petitioner is not requesting that the current fair net operating income reach a level which was provided in the Base Year by a larger number of units or is limited to a net operating income which was formerly provided by a smaller number of units.</p>

# Additional Recommended Modifications:

Regulation Section	Incorporated Revision
<b>905(A)(6)(b) Calculation of Net Operating Income and Operating Expenses</b>	<p><b>Remove the reference to property insurance in subsection (i).</b></p> <p><b>Add “and insurance” to subsection (iv) such that the subsection is titled, “Real property taxes and insurance.”</b></p> <p><b><u>Rationale:</u> Grouping “insurance” in the category of “real property taxes” is more appropriate than referencing insurance in subsection (i).</b></p>
<b>905(A)(6)(b) Calculation of Net Operating Income and Operating Expenses</b>	<p><b>Replace the term “replacements” with “improvements” in subsection viii, so the term is “Capital Improvements,” not “Capital Replacements.”</b></p> <p><b>Insert amortization schedule for Capital Improvements</b></p> <p><b>Delete the amortized cost table (for illustrative purposes only)</b></p> <p><b><u>Rationale:</u> To maintain consistency of terminology. “Capital improvements” is the term used in the Regulation.</b></p>

# Additional Recommended Modifications:

Regulation Section	Incorporated Revision
<b>905(A)(8)(c) Conditional Rent Adjustments for Proposed Capital Improvements</b>	<p><b><u>Original provision:</u></b> No addendum shall be issued for such proposed capital improvements unless they are completed within twelve months from the date of final decision granting the conditional rent adjustment, unless the Landlord obtains an additional addenda authorization an extension of the time period to complete the capital improvement. If supported by just cause such extensions shall be granted.</p> <p><b><u>Revised provision:</u></b> No addendum shall be issued for such proposed capital improvements unless they are completed within twenty-four (24) months from the date of final decision granting the conditional rent adjustment, unless the Landlord obtains an additional addenda authorization an extension of the time period to complete the capital improvement. Extensions may be granted due to reasonable delays in the completion of capital improvements as determined by the Hearing Examiner.</p> <p><b><u>Rationale:</u></b> Staff recommends that the time period for conditional approval be 24 months instead of 12 months, considering the reasonable possibility that it can take many months to secure permits, plans and due to reasonable delays due to weather and other uncontrollable events. While the current regulation allows a landlord to request an extension of more than 12 months, allowing for 24 months will help reduce administrative burden and avoid unnecessary debate regarding the reasonableness of an extension request and subsequent possible denial of that request.</p>

# Additional Recommended Modifications:

Regulation Section	Incorporated Revision
<b>905(A)(9) Conditional Rent Adjustments for Proposed Capital Improvements</b>	<p><b><u>Existing Provision:</u></b> Any unit which received a vacancy rent increase pursuant to Civil Code Section 1954.53 within the two years prior to the Fair Return application shall be ineligible for a rent increase for the portion of any rent increased based on the cost of proposed capital improvements.</p> <p><b><u>Revised Provision:</u></b> Any unit which received a vacancy rent increase pursuant to Civil Code Section 1954.53 within the one (1) year prior to the Fair Return application shall be ineligible for a rent increase for the portion of any rent increased based on the cost of proposed capital improvements.</p> <p><b><u>Rationale:</u></b> Staff recommends this time period be reduced to one year since a longer time period may discourage landlords from making necessary capital improvements. In other words, if a tenant has moved in within 24 months and the landlord will be ineligible to apply an individual rent adjustment to them, they may wait until this restriction period expires.</p>

## Item G-1: Recommended Action

- ADOPT proposed Maintenance of Net Operating Income (MNOI) Fair Return Regulation (Chapter 9) – Rent Program (Nicolas Traylor/Michael Roush 620-6564).

**DRAFT FISCAL YEAR 2018-19  
OPERATING BUDGET AND  
RENTAL HOUSING FEE STUDY**  
CITY OF RICHMOND RENT PROGRAM

Nicolas Traylor

ITEM H-1 | March 21, 2018 Regular Rent Board Meeting

[www.richmondrent.org](http://www.richmondrent.org)

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**(1) Department Organization and Goals**



**(2) Proposed Fiscal Year 2018-19 Budget Options**



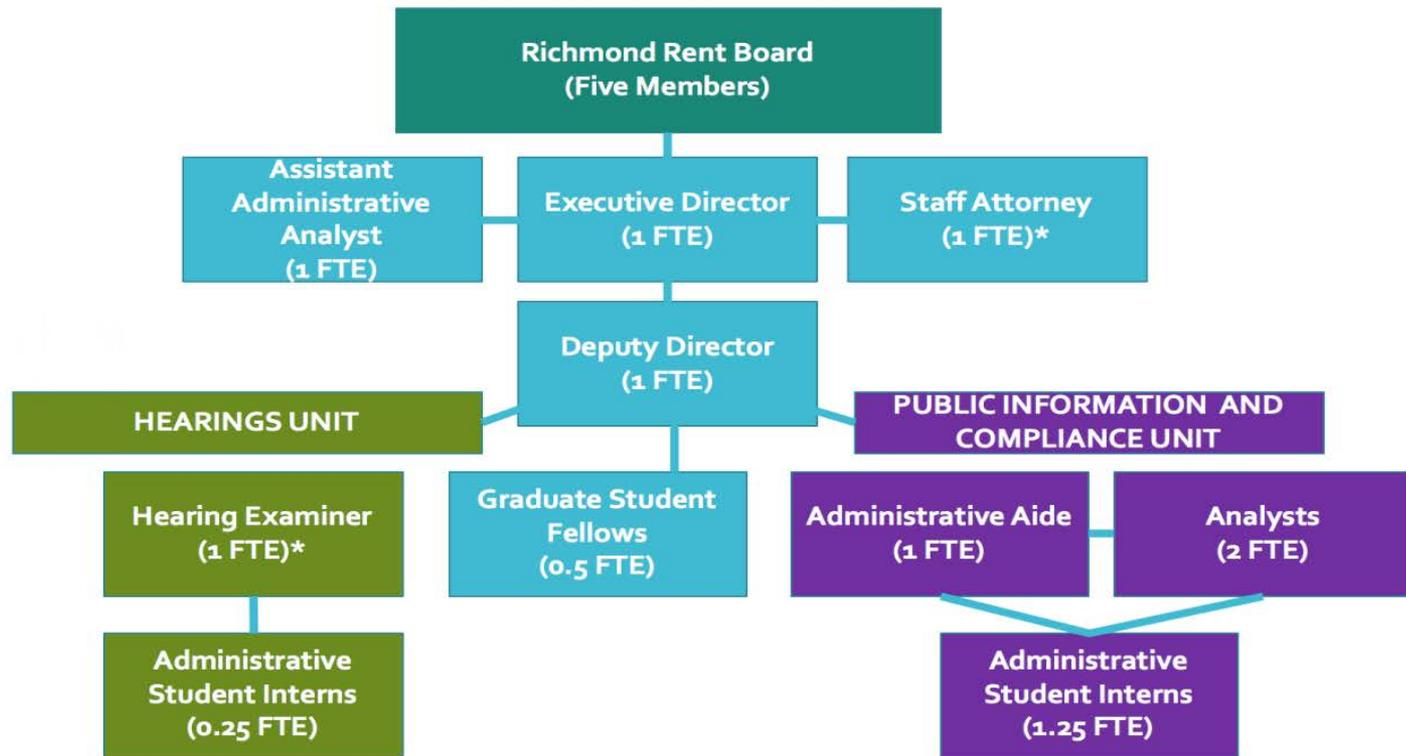
**(3) Draft Fiscal Year 2018-19 Rental Housing Fee Study**



# **(1) DEPARTMENT ORGANIZATION AND GOALS**

DRAFT FISCAL YEAR 2018-19 OPERATING BUDGET

# RENT PROGRAM ORGANIZATIONAL CHART



*\*These staff members are anticipated to be hired by April 2018*

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# MANAGEMENT UNIT DESCRIPTION

- ❖ Consists of the Executive Director, Deputy Director, Staff Attorney, Administrative Analyst, and Graduate Student Fellows
- ❖ Duties include:
  - ❖ Supporting the Rent Board and ensuring compliance with all Brown Act requirements
  - ❖ Conducting policy research, surveys, and studies to inform administrative improvements and the formation of sound public policy, in addition to the Annual Report required by the Ordinance
  - ❖ Coordinating with peer rent control jurisdictions to inform legislation and promulgation of regulations
  - ❖ Oversees all personnel-related issues
  - ❖ Monitoring Rent Program budget and expenses
  - ❖ Facilitating interdepartmental coordination with other City Departments
  - ❖ Legal responsibilities of the Staff Attorney, including:
    - ❖ Representing the Rent Board in litigation
    - ❖ Advising the Director and Rent Board on legal matters
    - ❖ Reviewing and opining on decisions on appeal
    - ❖ Coordinating responses to public records act requests
    - ❖ Training Rent Program Services Analysts; providing counseling support and quality control
    - ❖ Supervising investigations and lawsuits for non-compliance
    - ❖ Reviewing contracts
    - ❖ Responding to legal challenges to the Rent Ordinance and applicable regulations
    - ❖ Drafting Rent Board regulations to further implement the Rent Ordinance

# PUBLIC INFORMATION AND COMPLIANCE UNIT

- ❖ Consists of the Administrative Aide, two Analysts, and Administrative Interns
- ❖ Duties include:
  - ❖ Conducting outreach to Tenants and Landlords
  - ❖ Counseling Tenants and Landlords on rights and responsibilities under the Rent Ordinance and California law
  - ❖ Conducting monthly educational workshops
  - ❖ Developing and updating the Guide to Rent Control in Richmond and other informational handouts
  - ❖ Assisting Landlords and Tenants with the rent adjustment petition process
  - ❖ Facilitating mediation sessions
  - ❖ Billing and collection of registration fees
  - ❖ Conducting registration and billing outreach
  - ❖ Processing and tracking new tenancies, maximum allowable rents, and changes in exempt status \*\*\*with addition of Administrative Aide position [1 FTE]

# HEARINGS UNIT DESCRIPTION

- ❖ Consists of the Hearing Examiner and Administrative Intern
- ❖ Duties include:
  - ❖ Conducting hearings related to rent adjustment petitions, excess rent complaints, and unpaid temporary and permanent relocation payment complaints
  - ❖ Issuing decisions
  - ❖ Conducting settlement conferences
  - ❖ Providing support to staff in interpreting the Rent Ordinance and associated regulations
  - ❖ Assisting with drafting public information documents and serving as the primary author to the Guide to Rent Control and Petition Process booklets
  - ❖ Reviewing other documents for public circulation
  - ❖ Assisting with the development of petition forms
  - ❖ Conducting mediations and hearings for other City Departments (on loan) if time permits
  - ❖ Completing special projects as assigned by Executive Director, such as working with staff to develop the rent registration and tracking software to better administer the adjustment of rent levels

# DRAFT RENT PROGRAM MISSION STATEMENT

The mission of the Rent Program is to support community health and wellness by providing housing stability for Richmond residents. The Rent Program regulates an inflated housing market that, if left unchecked, leads to increasing social burdens, especially for those with very low, low, and moderate incomes and those with special needs. The Rent Program strives to ensure housing stability for Richmond residents by limiting rent increases and protecting Tenants in good standing from unwarranted, arbitrary, discriminatory, or retaliatory evictions while ensuring a fair return on investment for rental property owners.

The primary objectives of the Rent Program are (1) to provide housing stability for Tenants similar to the housing stability and financial predictability that homeowners on a fixed-term mortgage enjoy, and (2) encourage and maintain the social, cultural, and economic diversity that the City of Richmond proudly represents.

# RENT PROGRAM FISCAL YEAR 2018-19 GOALS

- ❖ ESTABLISH a robust rent registration/rent tracking database
- ❖ ESTABLISH a fully operational hearings unit with an online filing system
- ❖ TRAIN Rent Program Services Analysts and other senior staff on conducting mediations
- ❖ OPERATE a fully functional mediation program
- ❖ PUBLISH the “Guide to Rent Control in Richmond”
- ❖ EXPAND the use of innovative outreach tools: create informational/infographic educational videos, establish a social media presence, conduct targeted outreach to specific properties
- ❖ COORDINATE with other City department to improve housing inspection options and strengthen affordable housing policy
- ❖ IMPROVE website and develop online registration of new tenancies and other administrative forms
- ❖ IMPROVE compliance with payment of the Rental Housing Fee

# EXPENSE AND REVENUE SUMMARY

FISCAL YEAR	BUDGETED AMOUNT (EXCLUDING RESERVES)	FUNDS EXPENDED (AS OF 2/28/18)	REVENUE COLLECTED (AS OF 2/28/18)
2016-17	\$920,347	\$789,592	\$789,592
2017-18 (PARTIAL)	\$1,940,271	\$571,866	\$850,075
<b>TOTAL</b>	<b>\$2,860,618</b>	<b>\$1,361,458</b>	<b>\$1,638,667</b>

<sup>1</sup> Amount of expended funds and revenue collected reflect 7 months of the 12-month fiscal year.

<sup>2</sup> Note funds expended in Fiscal Year 2017-18 are only as of 2/28/17; this amount does not reflect the projected amount of expended funds for the entire Fiscal Year.

# **(2) PROPOSED FY 2018-19 BUDGET OPTIONS**

DRAFT FISCAL YEAR 2018-19 OPERATING BUDGET

# PROPOSED BUDGET PRIORITIES AND THEMES



# PROPOSED BUDGET PRIORITIES

Staff members recommend the Board consider adding the following line items to the Fiscal Year 2018-19 operating budget to support department operations:

- ❖ Maximize utility of the counseling area by reconfiguring the existing space to accommodate three counseling stations and improve comfort of clients and counselors
- ❖ Install permanent signage on doors and walls in 440 Civic Center Plaza to ensure community members can locate and navigate within the office
- ❖ Employ an additional Administrative Aide (1 FTE) to implement and administer rent registration consistent with regulations adopted by the Board
- ❖ Employ a contract attorney to perform compliance-related tasks, such as investigations, issuing correspondence for noncompliance, and pursuing legal action for noncompliance with the Ordinance, registration, and fee payment requirements.

# PROPOSED BUDGET OPTIONS AND CORRESPONDING ESTIMATED RENTAL HOUSING FEE

## OPTION A

PROPOSED OPTION	DESCRIPTION OF SIGNIFICANT CHANGES	ESTIMATED COST (\$)	TOTAL BUDGET (INCLUDING OPERATING AND RISK RESERVES EQUAL TO 25% OF EXPENSES)	CORRESPONDING APPROXIMATE PROPOSED RENTAL HOUSING FEE (ROUNDED UP TO NEAREST DOLLAR)	PROPOSED PORTION OF FEES PAID BY TENANT (50% OF TOTAL FEE)
A – BASELINE BUDGET WITH PHYSICAL IMPROVEMENTS	Add funds to furniture and construction costs for counseling area redesign and permanent signage	\$15,000	\$2,626,443	Partially Covered Units: \$84/unit  Fully Covered Units: \$181/unit	Partially Covered Units: \$42/unit  Fully Covered Units: \$90.50/unit

<sup>11</sup> Identified changes do not include regular, anticipated cost increases, such as step (salary) increases for employees, changes in indirect costs, and an increase in funds for computer equipment.

# IMPORTANCE OF COUNSELING AREA REDESIGN

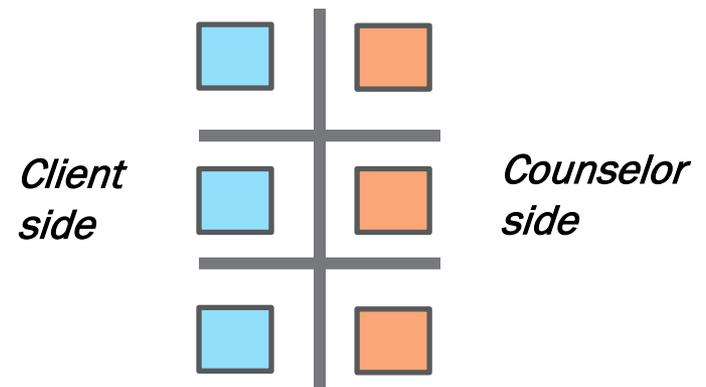
- ✓ Maximize utility of existing space
- ✓ Accommodate three counseling stations, instead of two
- ✓ Improve comfort and privacy of counseling sessions
- ✓ Estimated cost: approximately \$7,000

## EXISTING CONDITIONS:



## ENVISIONED CONFIGURATION

*Bird's eye view:*



# IMPORTANCE OF EXTERIOR PERMANENT SIGNAGE

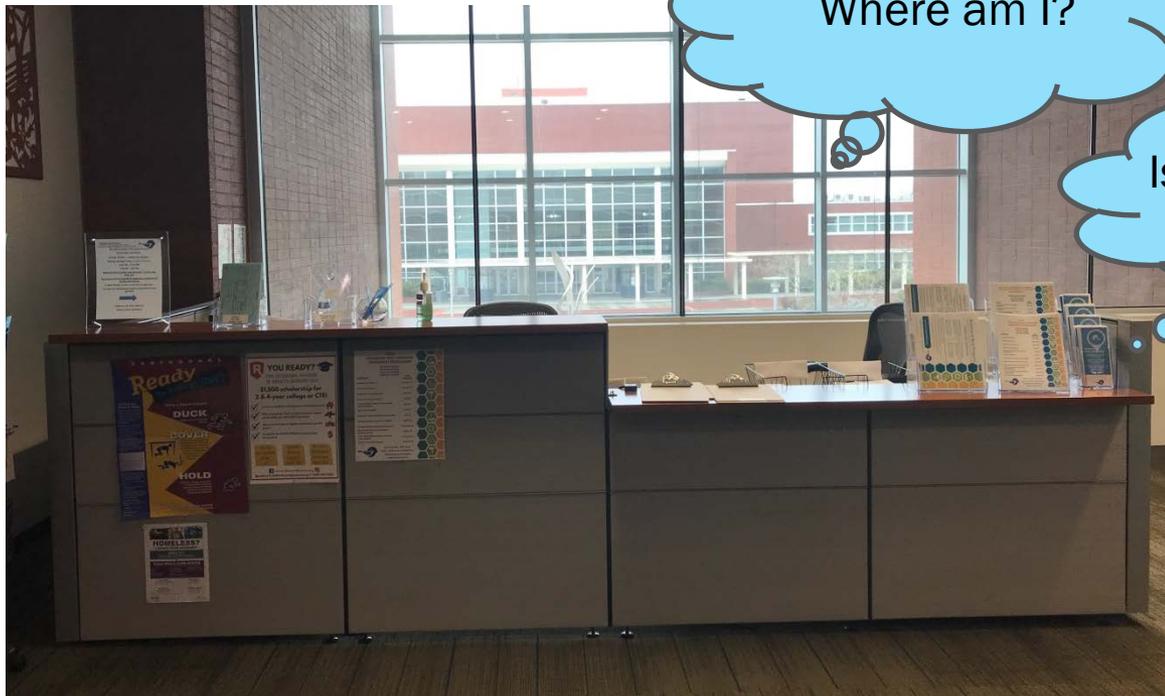
We could  
put a sign  
here...

...or here

# IMPORTANCE OF INTERIOR PERMANENT SIGNAGE

- ✓ Estimated cost for interior and exterior permanent signage: approximately \$8,000
- ✓ Ensure clients can locate the Rent Program office
- ✓ Reduce confusion for visitors to the Rent Program office
- ✓ Provide direction in both English and Spanish

## EXISTING CONDITIONS:



Where am I?

Is this the Rent Program?

# PROPOSED BUDGET OPTIONS AND CORRESPONDING ESTIMATED RENTAL HOUSING FEE: OPTION B

PROPOSED OPTION	DESCRIPTION OF SIGNIFICANT CHANGES	ESTIMATED COST (\$)	TOTAL BUDGET (INCLUDING OPERATING AND RISK RESERVES EQUAL TO 25% OF EXPENSES)	CORRESPONDING APPROXIMATE PROPOSED RENTAL HOUSING FEE (ROUNDED UP TO NEAREST DOLLAR)	PROPOSED PORTION OF FEES PAID BY TENANT (50% OF TOTAL FEE)
B – OPTION A PLUS ADDITIONAL RESOURCES FOR RENT REGISTRATION	Add funds to hire an additional Administrative Aide to administer rent registration	\$15,000 (Option A) + \$60,550 (salary) + \$33,303 (benefits) + \$6,233 (liability) + \$1,000 (IT account) = \$116,086	\$2,752,800	Partially Covered Units: \$88/unit  Fully Covered Units: \$189/unit	Partially Covered Units: \$44/unit  Fully Covered Units: \$94.50/unit

Identified changes do not include regular, anticipated cost increases, such as step (salary) increases for employees, changes in indirect costs, and an increase in funds for computer equipment.

# IMPORTANCE OF HIRING AN ADMINISTRATIVE AIDE TO IMPLEMENT RENT REGISTRATION

- ✓ **Accurate rent registration and rent tracking includes:**
  - ✓ Creation and maintenance of a database of tenancies, rents, and exempt statuses
  - ✓ Annual mailing of Maximum Allowable Rent certifications
  - ✓ Close monitoring of exempt status, which improves billing accuracy
- ✓ **Function of an Administrative Aide (per the Human Resources Department):**
  - ✓ Performs difficult paraprofessional work in the maintenance of records of unit operations
  - ✓ Administrative Aide functions with greater independence at a journey paraprofessional level
  - ✓ Must have general knowledge of administrative techniques including principles of organization, budgeting, and personnel administration
  - ✓ Must have basic mathematical knowledge and simple accounting techniques
  - ✓ Must have the ability of interpret rules and regulations
  - ✓ Must have the ability to train and provide direction to other personnel

# PROPOSED BUDGET OPTIONS AND CORRESPONDING ESTIMATED RENTAL HOUSING FEE: OPTION C

PROPOSED OPTION	DESCRIPTION OF SIGNIFICANT CHANGES	ESTIMATED COST (\$)	TOTAL BUDGET (INCLUDING OPERATING AND RISK RESERVES EQUAL TO 25% OF EXPENSES)	CORRESPONDING APPROXIMATE PROPOSED RENTAL HOUSING FEE (ROUNDED UP TO NEAREST DOLLAR)	PROPOSED PORTION OF FEES PAID BY TENANT (50% OF TOTAL FEE)
C – OPTION B PLUS ADDITIONAL RESOURCES FOR COMPLIANCE-RELATED WORK	Add funds to hire an additional Administrative Aide to administer rent registration and add a contract attorney to assist with compliance-related work	\$116,086 (Option B)+ \$97,500 contract for legal services (assumes contract attorney would work 10-15 hours per week at a rate of \$150/hour) = \$213,586	\$2,874,675	Partially Covered Units: \$91/unit  Fully Covered Units: \$198/unit	Partially Covered Units: \$45.50/unit  Fully Covered Units: \$99/unit

# IMPORTANCE OF HIRING A CONTRACT ATTORNEY TO PERFORM COMPLIANCE OPERATIONS

- ✓ As of March 16, 2018, over \$1.2 million in Rental Housing Fees have been assessed, but are unpaid
- ✓ As of March 16, 2018, over \$136,000 in late fees have been assessed, but are unpaid
- ✓ The estimated cost of hiring a contract attorney (\$97,500) is a small fraction (7.2%) of the potential revenue (\$1,361,258)
- ✓ A contract attorney can perform the following functions independently of the Staff Attorney:
  - ✓ Issue formal correspondence to property owners with delinquent fees to compel compliance
  - ✓ Properly cite and enforce applicable codes and regulations
  - ✓ Proactively prompt Board-initiated hearings and investigations for noncompliant properties
  - ✓ With a narrowly-defined scope of work, this individual would be better able to perform with greater accuracy



# PROPOSED BUDGET OPTIONS AND CORRESPONDING ESTIMATED RENTAL HOUSING FEE (COMPARISON)

PROPOSED OPTION	DESCRIPTION OF SIGNIFICANT CHANGES	ESTIMATED COST (\$)	TOTAL BUDGET (INCLUDING OPERATING AND RISK RESERVES EQUAL TO 25% OF EXPENSES)	CORRESPONDING APPROXIMATE PROPOSED RENTAL HOUSING FEE (ROUNDED UP TO NEAREST DOLLAR)	PROPOSED PORTION OF FEES PAID BY TENANT (50% OF TOTAL FEE)
A – BASELINE BUDGET WITH PHYSICAL IMPROVEMENTS	Add funds to furniture and construction costs for counseling area redesign and permanent signage	\$15,000	\$2,626,443	Partially Covered Units: \$84/unit Fully Covered Units: \$181/unit	Partially Covered Units: \$42/unit Fully Covered Units: \$90.50/unit
B – OPTION A PLUS ADDITIONAL RESOURCES FOR RENT REGISTRATION	Add funds to hire an additional Administrative Aide to administer rent registration	\$15,000 (Option A) + \$60,550 (salary) + \$33,303 (benefits) + \$6,233 (liability) + \$1,000 (IT account) = \$116,086	\$2,752,800	Partially Covered Units: \$88/unit Fully Covered Units: \$189/unit	Partially Covered Units: \$44/unit Fully Covered Units: \$94.50/unit
C – OPTION B PLUS ADDITIONAL RESOURCES FOR COMPLIANCE-RELATED WORK	Add funds to hire an additional Administrative Aide to administer rent registration and add a contract attorney to assist with compliance-related work	\$116,086 (Option B)+ \$97,500 contract for legal services (assumes contract attorney would work 10-15 hours per week at a rate of \$150/hour) = \$213,586	\$2,874,675	Partially Covered Units: \$91/unit Fully Covered Units: \$198/unit	Partially Covered Units: \$45.50/unit Fully Covered Units: \$99/unit

Identified changes do not include regular, anticipated cost increases, such as step (salary) increases for employees, changes in indirect costs, and an increase in funds for computer equipment.

**(3) DRAFT FISCAL YEAR 2018-  
19 RENTAL HOUSING FEE STUDY**

DRAFT FISCAL YEAR 2018-19 OPERATING BUDGET

# INTRODUCTION AND BACKGROUND

- ❖ Section 11.100.060(I)(1) of the Fair Rent, Just Cause for Eviction, and Homeowner Protection Ordinance (“Rent Ordinance”) provides all Landlords shall pay a Residential Rental Housing Fee to fund the Rent Program operating budget.
- ❖ The amount of the Rental Housing Fee is determined annually by the City Council following a recommendation from the Rent Board.
- ❖ Under Section 50076 of the California Government Code, fees charged for any service or regulatory activity must not exceed the reasonable cost of providing the service. Those fees must be approved by the City Council, as the legislative body, in public session.
- ❖ A fee study is necessary to ensure that the Residential Rental Housing Fee recommended by the Rent Board and charged to Landlords is commensurate to the level of services provided by the Rent Program.

# INTRODUCTION AND BACKGROUND (CONTINUED)

- ❖ The fee study is designed to allow the Rent Program Department to recover costs of all budgeted operations, including:
  - ❖ Personnel costs of staff, benefits, and overtime;
  - ❖ Risk management and supplemental liability insurance plan (SLIP);
  - ❖ Charges allocated to City Departments to reimburse the General Fund for administrative services by central service departments (i.e. City Council, City Manager, City Attorney, City Clerk, Finance, HR, etc.);
  - ❖ Information Technology (IT) expenses associated with the creation of a rent-tracking database and maintenance of computer hardware and software;
  - ❖ Legal costs to support enforcement and defense of legal challenges to the Rent Ordinance;
  - ❖ Costs of education and outreach, including the printing and distribution of print materials and hosting of community workshops and seminars;
  - ❖ Contracts for translation and other professional services;
  - ❖ Mileage and attendance at conferences and trainings; and,
  - ❖ Operating and risk reserves to fund unanticipated costs and variations in collection of the Rental Housing Fee.

# PROPOSED FEE STRUCTURE

## Program Layer (40%)

- Departmental administration and management
- Legal defense of the Rent Ordinance and Departmental policies
- Preparing studies, regulations, and reports as directed by the Rent Board
- Enrollment and registration
- Billing and collections
- Website maintenance

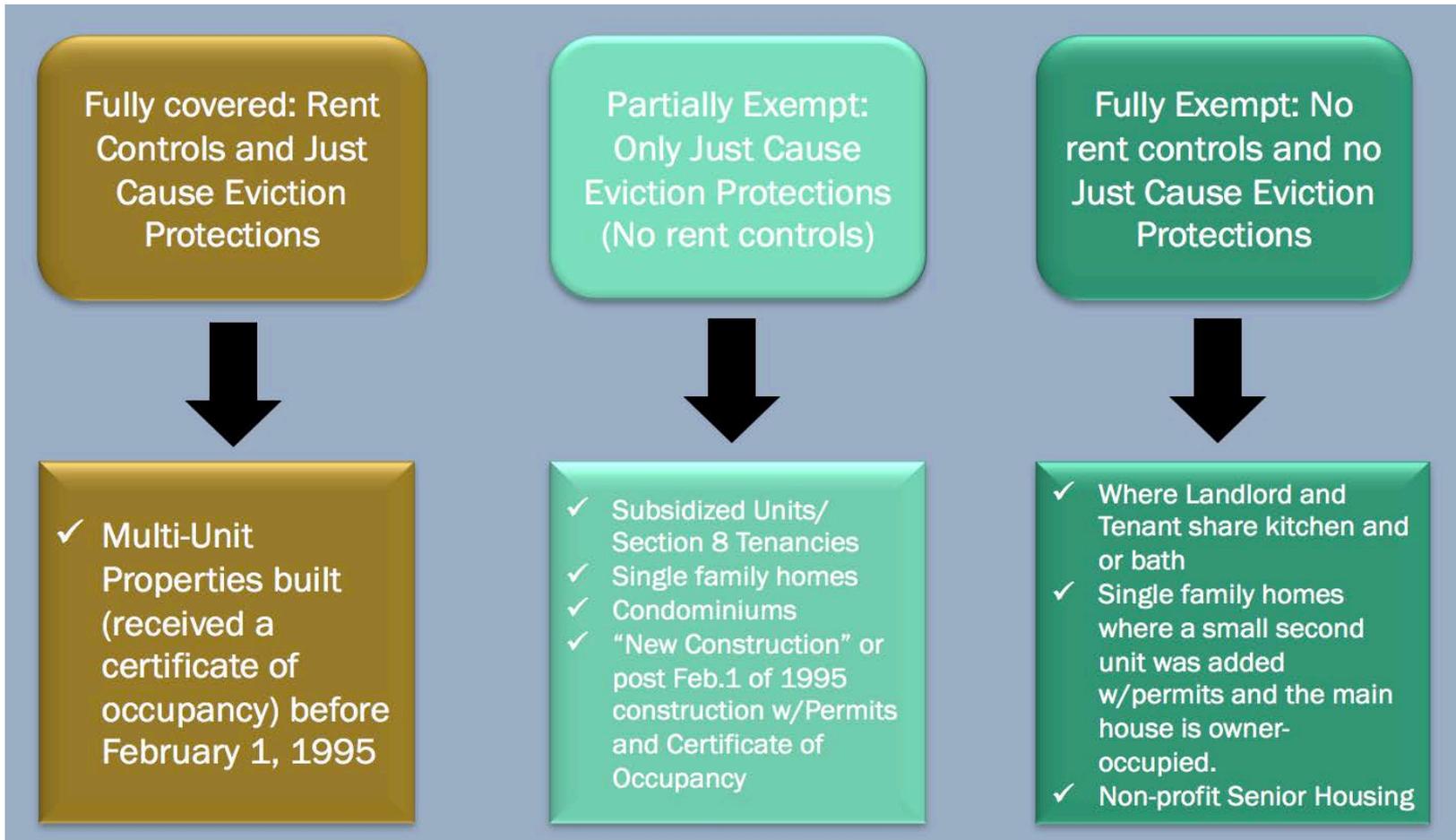
## Just Cause for Eviction Layer (25%)

- Public education and outreach (includes counseling)
- Legal services referrals to community services agencies
- Administration of Relocation Ordinance, Withdrawal from Rental Market, and Owner Move in processes
- Mediation of eviction-related complaints
- Development of termination of tenancy and written warning notice templates
- Review of Termination of Tenancy notices

## Rent Control Layer (35%)

- Public education and outreach (includes counseling)
- Legal services referrals to community services agencies
- Administration of petition and hearings to adjudicate Rent Adjustment Petitions and Excess Rent Complaints
- Rent Registration and tracking of the Maximum Allowable Rent
- Development of rent increase templates
- Establishment of the Annual General Adjustment

# PROPOSED FEE STRUCTURE (CONTINUED)



# RENTAL HOUSING FEES FOR EACH BUDGET OPTION

UNIT COUNTS		BUDGET OPTION A FEES (PER UNIT)	BUDGET OPTION B FEES (PER UNIT)	BUDGET OPTION C FEES (PER UNIT)
TOTAL EXPENDITURES:		\$2,626,443	\$2,752,800	\$2,874,675
PARTIALLY COVERED UNITS	10,381	\$83.69	\$87.77	\$90.97
FULLY COVERED UNITS	9,750	\$180.28	\$188.89	\$197.98
TOTAL REVENUE:		\$2,626,443	\$2,752,800	\$2,874,675

# PROPOSED RENTAL HOUSING FEE SUMMARY

Proposed Budget Option	Proposed Fully Covered Unit Fee	Proposed Partially Covered Unit Fee
Option A – Baseline budget with physical improvements	\$181	\$84
<i>Rent registration possible for...</i>	+\$8 more than baseline fee	+\$4 more than baseline fee
Option B – Option A plus additional resources for rent registration	\$189	\$88
<i>Rent registration AND additional resources for compliance-related work possible for...</i>	+\$17 more than baseline fee	+\$7 more than baseline fee
Option C – Option B plus additional resources for compliance-related work	\$198	\$91

# COMPARISON TO PEER JURISDICTIONS

JURISDICTION	PROGRAM BUDGET (FY 17-18)	RENT-STABILIZED UNITS	FY 2017-18 FEES (PER UNIT)	MEDIAN GROSS RENT (2012-2016 5-YEAR ESTIMATE)
<b>ACTIVELY ENFORCED RENT PROGRAMS</b>				
BERKELEY	\$5,125,740	19,093	\$270.00	\$1,434
SANTA MONICA	\$5,181,693	27,542	\$198.00	\$1,626
EAST PALO ALTO	\$427,415	2,325	\$222.00	\$1,510
RICHMOND	\$2,874,675 (proposed Option C for FY 18-19)	10,381 fully covered units; 9,750 partially covered units	\$198.00 for fully covered units; \$91.00 for partially covered units (proposed Option C for FY 18-19)	\$1,242
<b>PASSIVELY ENFORCED RENT PROGRAMS</b>				
LOS ANGELES	\$25,256,173	631,000	\$24.51	\$1,241
OAKLAND	\$817,903	65,000	\$68.00	\$1,189
WEST HOLLYWOOD	\$4,015,021	16,805	\$144.00	\$1,446
ALAMEDA	\$1,782,000	14,899	\$120	\$1,478
SAN FRANCISCO	\$8,227,649	173,000	\$45.00 for apartments; \$22.50 for residential hotel rooms	\$1,632

# PARTIAL PASS-THROUGH OF THE RENTAL HOUSING FEE

- ❖ It is common among rent control jurisdictions in California to permit an optional, temporary pass-through of a portion of the Rental Housing Fee to be paid by Tenants in monthly installments over the course of the year.
- ❖ It is important to note that the pass-through of the fee does not increase the Rent or Maximum Allowable Rent as defined in the Rent Ordinance; rather, the pass-through is a line item surcharge in excess of the Maximum Allowable Rent.
  - ❖ For example, if the Rent Board adopts Budget Option C, for a rent-controlled Tenant, the associated monthly pass-through would be approximately \$8.25 per month.
  - ❖ Such a policy would allow a Landlord of a rent-controlled unit to recover \$99 of the Rental Housing Fee if the Board elects to adopt Budget Option C.
- ❖ Rent Program staff members recommend that the Board adopt such a policy following the City Council's adoption of the Fiscal Year 2018-19 Rental Housing Fee.

# STAFF RECOMMENDATIONS

- ❖ ADOPT Fiscal Year 2018-19 Budget Option C (robust enforcement through targeted compliance efforts and rent registration)
- ❖ APPROVE the Fiscal Year 2018-19 Rental Housing Fee Study
- ❖ RECOMMEND TO THE CITY COUNCIL adoption of a fee of \$91.00 per unit for partially covered units and \$198.00 per unit for fully covered units to support continued program development
- ❖ DIRECT STAFF to prepare a regulation permitting a 50% pass-through of the Rental Housing Fee divided over each month's rent for the Rent Board's consideration at a future meeting

# ITEM H-1 RECOMMENDED ACTION

- ❖ **RECEIVE** proposed Fiscal Year 2018-19 Rent Program operating budget options and corresponding Rental Housing Fee Study and **PROVIDE** direction to staff.