

AGENDA ITEM REQUEST FORM

Department: Rent Program

Department Head: Nicolas Traylor

Phone: 620-6564

Meeting Date: November 20, 2019

Final Decision Date Deadline: November 20, 2019

STATEMENT OF THE ISSUE: On or around June 6, 2019, a community member wrote to members of the Richmond Rent Board asking about the Rent Board's policy on solar installation on rental properties. The Executive Director responded in writing to the constituent and recommends that this item be included as a consent item for consideration by the Rent Board.

INDICATE APPROPRIATE BODY

- | | | | | |
|---|---|--|--|---|
| <input type="checkbox"/> City Council | <input type="checkbox"/> Redevelopment Agency | <input type="checkbox"/> Housing Authority | <input type="checkbox"/> Surplus Property Authority | <input type="checkbox"/> Joint Powers Financing Authority |
| <input type="checkbox"/> Finance Standing Committee | <input type="checkbox"/> Public Safety Public Services Standing Committee | <input type="checkbox"/> Local Reuse Authority | <input checked="" type="checkbox"/> Other: <u>Rent Board</u> | |

ITEM

- | | | |
|---|--|--|
| <input type="checkbox"/> Presentation/Proclamation/Commendation (3-Minute Time Limit) | | |
| <input type="checkbox"/> Public Hearing | <input type="checkbox"/> Regulation | <input checked="" type="checkbox"/> Other: <u>CONSENT CALENDAR</u> |
| <input type="checkbox"/> Contract/Agreement | <input type="checkbox"/> Rent Board As Whole | |
| <input type="checkbox"/> Grant Application/Acceptance | <input type="checkbox"/> Claims Filed Against City of Richmond | |
| <input type="checkbox"/> Resolution | <input type="checkbox"/> Video/PowerPoint Presentation (contact KCRT @ 620.6759) | |

RECOMMENDED ACTION: RECEIVE a response letter to the constituent letter received by the Board at the June 19, 2019, Regular Meeting – Rent Program (Nicolas Traylor 620-6564).

AGENDA ITEM NO:

F-6.



SENT VIA EMAIL

November 15, 2019

Sarah Woods
SolarIT
315 Montgomery Street, 9th Floor
San Francisco, CA 94104
sarah.woods@solarit.org

Dear Sarah Woods,

On or around June 6, 2019, you wrote to members of the Richmond Rent Board asking about the Rent Board's policy on solar installations. In your letter, you indicated you recently met with a Landlord in the City of Richmond who was interested in installing solar panels on his rental properties. You mentioned that this Landlord is an environmentalist wanting to do all he can do to reduce the carbon footprint on his properties. You described many of the benefits of installing solar panels, including significant potential savings for Tenants. You also noted that the Landlord may see a return on their investment after 6-11 years of making the change to solar energy. The question you posed is whether the Rent Board would approve of and support Richmond Landlords investing in the installation of solar energy.

Rent Board policy, as reflected by its regulations, currently supports and provides an avenue for Landlords to seek and potentially receive an upward rent adjustment (rent increase) for making solar capital improvements to rent-controlled units in the City. Under the California Constitution and the Richmond Rent Ordinance, Landlords have a right to what is known as a "fair return." The methodology for calculating a "fair return" most commonly employed in California cities with rent control, and that has most consistently been upheld as constitutional, is termed Maintenance of Net Operating Income (hereafter "MNOI").

In March 2018, the Richmond Rent Board adopted Chapter 9 of the Rent Board Regulations, which, in pertinent part, allows Landlords to request an increase in the Maximum Allowable Rent through the MNOI petition process. In short, the MNOI petition provides Landlords the right to obtain a net operating income equal to the Base Year (2015) net operating income adjusted by 100% of the percentage increase in the Consumer Price Index (inflation percentage for the Bay Area). Net operating income is calculated by finding the difference between total income on the property (via rents) and operating expenses. The net operating income from the Base Year is then compared to the net operating income of the current year (the year prior to the year in which the petition is filed) to determine if the current net operating income, adjusted for inflation, is at least as much as the net operating income of the Base Year (2015). Landlords whose net operating income in the current year has not kept up with inflation compared to the Base Year qualify for an upward rent adjustment.

As part of the MNOI Regulation (905), Landlords may include Capital Improvements as an operating expense in calculating a potential rent adjustment; however, unlike regular operating expenses, capital improvements under Regulation 905 must be amortized for a set number of years depending on the type of improvement. Solar installation is included as an allowable improvement and the expense must be amortized over the span of 10 years.

Amortization works to both the benefit of the Landlord and Tenant financially. For Tenants, rent increases resulting from Capital Improvements are spaced over many years, decreasing the monthly rent increase amount. Landlords, on the other hand, see the benefit of an interest allowance to cover the amortization of the cost. The interest allowance is the interest rate on the cost of the amortized expense equal to the "average rate" for thirty-year fixed rate on home mortgages plus two percent. The "average rate" is based on the rate Freddie Mac last published in its weekly Primary Mortgage Market Survey (PMMS) as of the date of the initial submission of the petition. As of today, a Landlord who filed a petition would be entitled to a 5.75% (PMMS rate is 3.75% plus 2%) interest return on their specific amortized cost. For reference, I have attached the 2018 PMMS data table. A Landlord will typically receive a greater financial return on their specific amortized cost than the open market would otherwise provide based solely on PMMS.

Finally, the MNOI petition process allows Landlords who wish to install solar panels the ability to petition the Rent Board for an upward rent adjustment and seek conditional approval prior to spending any funds towards the purchase and installation. This process allows Landlords to find out whether they qualify for an increase before they expend funds toward the project.

The Rent Board meets monthly to discuss policy matters, such as the one you have presented. I encourage you to attend an upcoming Board meeting to further present your thoughts and concerns on the matter to the Rent Board. Furthermore, community members may call or visit the Rent Program Office to speak with a Rent Program Services Analyst regarding the petition process and obtain the requisite forms to apply for a rent increase.

If you have any questions or need any clarification about what I have explained, please feel free to contact me.

Sincerely,



Nicolas Traylor
Executive Director
City of Richmond Rent Program
(510) 620-6564
nicolas_traylor@ci.richmond.ca.us