

Management Partners



To: Mr. Bill Lindsay, City Manager, City of Richmond

From: David Jensen, Senior Manager
Christine Butterfield, Senior Management Advisor

Subject: Rent Program Fee Study

Date: April 20, 2017

Management Partners is pleased to support the City of Richmond in the implementation of the Richmond Fair Rent, Just Cause for Eviction and Homeowner Protection Program (Program). As you know, there are a relatively small number of cities in the State of California with active rent stabilization and tenant protection programs. Each of these programs is unique to the community needs and local political preferences. Like the detailed elements of each program design, the fee structures are different in many respects but all programs are primarily supported by user fees and most are entirely supported by user fees.

Typically, landlords are required to pay the user fee, and then require reimbursement for some portion (usually one-half of the total fee spread over 12 months) from the tenant. Municipalities with rent stabilization and tenant protection programs usually find that both landlords and tenants derive some benefit from the program, with tenants gaining some protections and landlords gaining certainty about what and how the system works. To enable the program to begin effective operations as soon as possible and minimize the impact on other critical City functions, Management Partners has developed an entirely fee-based program for consideration by the Richmond Rent Board (Board).

Fees for Public Services

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. Pursuant to Richmond Municipal Code (RMC) Chapter 11.100.060 (l) (1), the Board is also responsible for recommending the Residential Rental Housing Fee to the City Council. The ordinance contemplates that the fee will fund the Program budget. Further, (RMC) Chapter 11.100.060 (n), outlines that the Board will develop and approve a budget each year prior to July 1. We anticipate these two processes will occur concurrently with the City's typical budget process.

Structure of the Fee Program

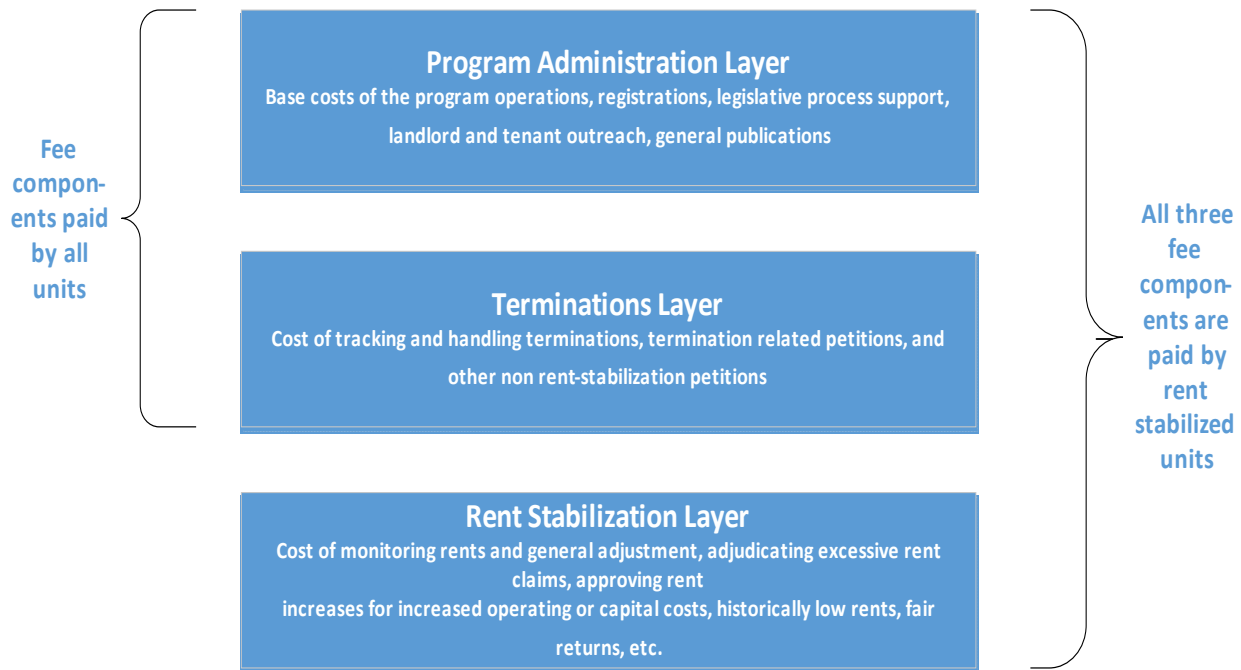
In terms of methodology the fee structure must comply with the requirements of Section 50076. Following our review of the Richmond Fair Rent, Just Cause for Eviction and Homeowner Protection Ordinance, there are two broad classes of beneficiaries of the program. The first are the landlords and tenants of multiple family units built prior to 1995 that are eligible for local rent stabilization controls under the Costa-Hawkins Act. Those tenants will receive rent protections under the ordinance, and landlords will obtain certainty about how rent adjustments may be made. The second, larger group, includes all tenants who are provided with Just Cause for Eviction and other protections as defined by City ordinances, with concomitant benefits to tenants and landlords. In addition, the Board is charged under the Ordinance with tracking changes in tenancy and terms of tenancy, ensuring proper notice has been delivered as required by the Ordinance and state statutes, and other duties related to the payment of related rental housing fees, and support for landlords and tenants in complying with the statutes.

Therefore, we propose a fee structure that captures these categories of beneficiaries along with the administrative activities and public education necessary to implement the Program. As such, the fee structure will include three layers or components. Each component is linked to the cost of the underlying services. As depicted in Figure 1, Management Partners proposes the following:

- *Program Administration Layer.* The costs included in this component are the base costs of the program, staff support provided to the Board, and outreach and education activities.
- *Terminations Layer.* This layer includes administration of tenant termination related reports, petitions, and other landlord/tenant issue resolution processes not related to rent stabilization.
- *Rent Stabilization Layer.* The final layer offsets the cost of collecting rent information, monitoring changes in rents, supporting the Annual General Adjustment and rent increase and decrease petition processes.



Figure 1. Fee Structure



Using this model, Management Partners proposes a startup fee consisting only of the base startup costs be implemented in FY 2016-17, covering operations over the period from January through June 2017. In addition, the fee includes development of an operating reserve of 17% and risk reserve of 8%. The Government Finance Officers' Association recommends an operating reserve of 17% as a best practice, the Risk Reserve was recommended to provide a reserve base for future challenges to the Ordinance or Board policies. That fee is applied equally to all rental units. The total startup budget of \$1,098,596 spread over the City's 24,797 total rental units corresponds to a fee of \$44.30 per unit.

In FY 2017-18, the Program will operate for a full 12-month period. During that time, the Board will recruit and appoint an executive director and other necessary staff. The City of Richmond staff recommend a budget of \$2,123,080 for FY 2017-18. The fee layers and estimates of the units to which the fees are applied are shown in Table 1 below.



Table 1. 2018 Proposed Budget and Fees

	Applicable Units	Exempt Units	Units Applied	Proposed Fees	Total Fee	Budget
FEES						
Units Subject to Rent Stabilization	10,469		10,469	\$101.24	\$144.12	\$1,059,904
All Rental Units	24,797		24,797	\$42.88	\$42.88	\$1,063,176
				Total Fee Revenue		\$2,123,080
EXPENDITURES						
				Personnel Expenses		\$798,878
				Operating Expenses		\$899,586
				Reserves		\$424,616
				Total Expenditures		\$2,123,080

Other Rental Housing Services: Tax and Fees

In addition to the Program fee (i.e., Rental Housing Fee), the City of Richmond provides additional services to rental housing business operators that also require cost recovery fees. These include the business license tax, rental housing safety inspections, and fire inspections. Section 11.100.060 (l) of the ordinance requires that landlords pay these fees to comply with the program and before any petition for a rent increase can be heard. City staff are working on integrating the Program fee with the due dates of the other rental housing operator programs and fees so landlords receive a single bill. Doing so will be more convenient for landlords and more efficient for City operations.



Comparison with other Rent Stabilization Fees: Program and Services

Program Fees

The cost of rent stabilization programs throughout the state vary depending on the complexity of the programs; degree of oversight provided; size of the city; and subsidies from the general fund, grants or other related service fees charged. A summary of rent stabilization program fees is provided in Table 2 on the next page.

Berkeley, Santa Monica, and East Palo Alto charge higher fees as they provide a higher degree of oversight and track the rents charged for each program unit. The programs in those cities require landlords to report every change in tenancy and rent. The cities monitor rents very closely, and provide many support services for both landlords and tenants.

Based on our review, the City of West Hollywood's program elements appear to parallel those contemplated in the City of Richmond Program. West Hollywood tracks only new tenancies and does not track rents by unit. Not surprisingly, the proposed Program fee is similar to the West Hollywood program fee.

Service Fees

Several of the rent stabilization programs in the state charge service fees in addition to the program fee. For example, relocation process-related fees are occasionally charged. Those fees often cover just the cost of a relocation service to assist the displaced tenants. One or two cities offset their internal costs with such fees, but most internal costs are offset in the yearly rental unit fee as indicated here. Other cities charge fees for some hearing-related petitions or for mediation services. As the program matures in the City of Richmond, the Board may choose to recommend additional fees as the policies of the Board are implemented and historical data is collected on the nature of the work required to support the program.

Conclusion

Management Partners has proposed this fee program to provide the City of Richmond with a solid revenue stream for the initial months of operation to provide revenues necessary for the operation of Richmond Fair Rent, Just Cause for Eviction and Homeowner Protection program. Rate changes and additional fees may become necessary as the City accumulates historical data on the needs of the community and the program.



Table 2. Fees in Peer Rent Stabilization Programs

	Berkeley	Santa Monica	East Palo Alto	Los Angeles	Oakland	West Hollywood	Alameda	San Francisco
Program Budget	\$4,863,500	\$5,026,553	\$637,370	\$22,347,942	\$2,950,000	\$1,900,000	\$1,939,248	\$6,942,409
Rent Stabilized Units	19,093	27,542	2,325	631,000	65,000	16,805	14,899	173,000
Fees (per units)	\$234/year	\$175/year	\$234/year	\$25/year	\$68/year	\$120/year	New program; fees not yet established	\$40 apartment; \$20 residential hotel room
Who pays the fees?	Landlord	Landlord	Landlord	Landlord	Landlord	Landlord	Not established	Landlord
Exemptions	Government subsidized housing, non-profit housing	Government subsidized housing	All Section 8	City-owned Section 8 only	Government subsidized housing	Government subsidized housing	Not established	Government subsidized housing
Portion Passed-Through to Tenants	50%; City may reimburse low-income tenants	50%	50%	50%	50%	50% (No pass through for Section 8 tenants)	Not yet established	50%



AMENDED FISCAL YEAR 2016-17 and DRAFT 2017-18 RENT PROGRAM BUDGETS

										DRAFT FY 2017/2018	AMENDED FY 2016/2017 (7 Months)												
REVENUE										FEE COMPONENTS													
										Applicable Units	Exempt Units	Charged Units	Proposed Fees	Costs Recovered	Proposed Fee	Cost Recovered	Program Fee Part	Terminations Fee Part	Rent Stabilization Fee Part				
Rent Stabilized Unit Fees										10469	2008	8461	\$ 141.25	\$ 1,195,091			\$ 38.23	\$ 11.88	\$ 141.25				
All Rental Unit Fees										24797	250	24547	\$ 50.12	\$ 1,230,264	\$ 46.87	\$ 1,150,433			\$ 50.12				
														\$ 2,425,355		\$ 1,150,433			\$ 191.37				
EXPENDITURES										COST ALLOCATION													
										2017-2018	2016-2017												
Personnel - Salary & Benefits										Salary (Step 3)/ Month	Annual Salary (Months Budgeted)	Benefits (at 55% of Salary)	Annual Salary & Benefits	# of employees (FTE)	COMPENSATION	Salary Ranges	Alloc %	Program	Alloc %	Terminations	Alloc %	Rent	
Possible Positions, Titles, & Expenses										12	0.55				Salary Assumptions								
Executive Director										\$ 11,554	\$ 138,650	\$ 76,258	\$ 214,908	1	\$ 214,908.12	\$ 68,225	\$ 8,087 - \$12,873 (4 month estimate)	50.0%	\$ 107,454	10.0%	\$ 21,491	40.0%	\$ 85,963
Senior Management Analyst*										\$ 8,247	\$ 98,964	\$ 54,430	\$ 153,394	1	\$ 153,394.20	\$ 85,368	\$ 7,158 \$7,496 \$7,868 \$8,247 \$8,657	40.0%	\$ 61,358	10.0%	\$ 15,339	50.0%	\$ 76,697
Management Analyst I/II*										\$ 7,315	\$ 87,780	\$ 48,279	\$ 136,059	1	\$ 136,059.00	\$ 75,700	\$ 6,357 \$6,674 \$6,977 \$7,315 \$7,684	40.0%	\$ 54,424	10.0%	\$ 13,606	50.0%	\$ 68,030
Management Analyst I/II*										\$ 7,315	\$ 87,780	\$ 48,279	\$ 136,059	1	\$ 136,059.00	\$ 75,700	\$ 6,357 \$6,674 \$6,977 \$7,315 \$7,684	40.0%	\$ 54,424	10.0%	\$ 13,606	50.0%	\$ 68,030
Associate/Administrative Analyst*										\$ 7,315	\$ 87,780	\$ 48,279	\$ 136,059	1	\$ 136,059.00		\$ 4,910 \$5,115 \$5,360 \$5,602 \$5,873	30.0%	\$ 40,818	10.0%	\$ 13,606	60.0%	\$ 81,635
Admin Trainee *										\$ 5,914	\$ 70,968	\$ 39,032	\$ 110,000	1	\$ 110,000.40	\$ 61,293	\$ 3,685 \$3,829 \$3,983 \$4,151 \$4,325	30.0%	\$ 33,000	10.0%	\$ 11,000	60.0%	\$ 66,000
Code Enforcement Officer I* (duties shall include the issuance of citations and liens for non-compliance with payment of fees approved by City Council)																		100.0%	\$ 50,006				
										\$ 2,689	\$ 32,262	\$ 17,744	\$ 50,006	0.5	\$ 50,006.10		\$ 4,727 \$4,940 \$5,159 \$5,377 \$5,577						
Admin Intern (P/T - 15 hrs./wk.)										\$ 1,292	\$ 15,506			1	\$ 15,505.56	\$ 8,295	15.54 17.20 18.81 20.51 22.07	30.0%	\$ 4,652	10.0%	\$ 1,551	60.0%	\$ 9,303
Admin Intern (P/T - 15 hrs./wk.)										\$ 1,292	\$ 15,506			1	\$ 15,505.56	\$ 8,295	15.54 17.20 18.81 20.51 22.07	30.0%	\$ 4,652	10.0%	\$ 1,551	60.0%	\$ 9,303
Overtime/Comp Time															\$ 12,000.00	\$ 10,000		30.0%	\$ 3,600	10.0%	\$ 1,200	60.0%	\$ 7,200
*Titles subject to final review by the Human Resources Department																							
TOTAL PERSONNEL EXPENSES													8.5	\$ 979,497	\$ 392,876		\$ 414,386		\$ 92,949		\$ 472,162		
														COSTS		COMMENTS							
Professional Services and Administrative Costs																							
400201 Professional Services																							
Management Partners															\$ 20,000	\$ 128,500	Analytical and policy development support for program implementation	40.0%	\$ 8,000	10.0%	\$ 2,000	50.0%	\$ 10,000
Relocation (OPC Contract)															\$ 10,000	\$ 10,000	Relocation support services to assist tenants who are relocated under City ordinances.	40.0%	\$ 4,000	10.0%	\$ 1,000	50.0%	\$ 5,000
Mediation (Contract)															\$ 60,000	\$ 15,000	Mediation services to assist in the resolution of general landlord/tenant problems or other services as directed by the Board.	40.0%	\$ 24,000	10.0%	\$ 6,000	50.0%	\$ 30,000
Hearing Officers (Contract)															\$ 80,000	\$ 20,000	Assumes 15 cases per month, 2 hours per case @ \$220/hour.	40.0%	\$ 32,000	10.0%	\$ 8,000	50.0%	\$ 40,000
Outside Legal Counsel (Measure L litigation)															\$ 50,000	\$ 50,000	Outside legal counsel to respond to litigation pertaining to the Fair Rent, Just Cause for Eviction, and Homeowner Protection Ordinance. Previous litigation was dismissed without prejudice on Saturday, May 6, 2017. Reflects estimate for anticipated future litigation.	40.0%	\$ 20,000	10.0%	\$ 5,000	50.0%	\$ 25,000

	Legal Services and/or Additional Legal Counsel		\$ 135,494	\$ 20,000	Legal services to provide assistance to Tenants that have paid the Maximum Allowable Rent, are being evicted (Unlawful Detainer), and are able to provide evidence that their Landlord is not in compliance with the Fair Rent, Just Cause for Eviction, and Home Owner Protection Ordinance, as may be determined by policy of the Rent Board (Contract or Employee). NOTE: FY17-18 .60 FTE (~3 days a week) Assistant City Attorney salary and benefits, but does not include cost pool or risk management.	0.0%	\$ -	50.0%	\$ 67,747	50.0%	\$ 67,747
	Rent Program Legal Counsel		\$ 160,000	\$ 40,000	Legal Counsel to assist with training, daily operations, reviewing regulations, assisting with compliance and enforcement of the Ordinance, Excess Rent Complaints, Rent Adjustment Petitions, and the hearing process. Assumes approximately 12 hours per week.	40.0%	\$ 64,000	10.0%	\$ 16,000	50.0%	\$ 80,000
	Translation Services (Contract)		\$ 30,000	\$ 10,000	Translation services to ensure that all forms and notices are available in both English and Spanish, at a minimum, and for oral translation, as it may be advantageous for administration.	40.0%	\$ 12,000	10.0%	\$ 3,000	50.0%	\$ 15,000
	Community Education		\$ 20,000	\$ 5,000	LEAP Digital Rent Program Literacy Proposal & other outreach activities.	40.0%	\$ 8,000	10.0%	\$ 2,000	50.0%	\$ 10,000
400242	Mileage		\$ 1,000		Use of City pool car.	40.0%	\$ 400	10.0%	\$ 100	50.0%	\$ 500
400243	Training / Conferences		\$ 15,000		Legal and professional trainings (e.g. dispute resolution, handling of sensitive information) for staff, attendance at conferences.	40.0%	\$ 6,000	10.0%	\$ 1,500	50.0%	\$ 7,500
400244	Cell Phone		\$ 1,200		Assumed for (FY 2017-18.)	40.0%	\$ 480	10.0%	\$ 120	50.0%	\$ 600
400262	Books & Subs		\$ 200		Educational and reference materials	40.0%	\$ 80	10.0%	\$ 20	50.0%	\$ 100
400271	Ad & Promotional materials		\$ 2,000		Posting of community events and other information in publications	40.0%	\$ 800	10.0%	\$ 200	50.0%	\$ 1,000
	Subtotal Professional Services & Administrative Costs		\$ 584,894	\$ 298,500			\$ 179,760		\$ 112,687		\$ 292,447
	Information Technology Expenses										
	Startup Costs Year 1 and 2		\$ 29,500	\$ 27,399	Estimated startup costs.	40.0%	\$ 11,800	10.0%	\$ 2,950	50.0%	\$ 14,750
	Annual IT Costs (Including replacement funding)		\$ 18,683	\$ 12,452	General PC software and costs	40.0%	\$ 7,473	10.0%	\$ 1,868	50.0%	\$ 9,342
	IT Support		\$ -	\$ 19,000	IT staff support not included in city cost	40.0%	\$ -	10.0%	\$ -	50.0%	\$ -
	Subtotal Information Technology Expenses		\$ 48,183	\$ 58,851	51,471.50		\$ 19,273		\$ 4,818		\$ 24,092
	Other Operating Expenses										
400231	Postage & Mailing		\$ 75,000	\$ 50,000	Costs of mailing include production, printing, proofing, and postage (assumes ~\$25,000 per mailing.)	40.0%	\$ 30,000	10.0%	\$ 7,500	50.0%	\$ 37,500
400233	Copying & Duplicating		\$ 50,000	\$ 10,000	Bulk printing of materials for public outreach and information	40.0%	\$ 20,000	10.0%	\$ 5,000	50.0%	\$ 25,000
400304	Rental Exp - XEROX		\$ 5,000	\$ 3,500	Cost of rental and maintenance of Xerox machines in 440 Civic Center Plaza.	40.0%	\$ 2,000	10.0%	\$ 500	50.0%	\$ 2,500
400322	Misc. Exp		\$ 10,000		Miscellaneous expenses associated with program development and operations (FY 2017-18.)	40.0%	\$ 4,000	10.0%	\$ 1,000	50.0%	\$ 5,000
400341	Office Supplies and Furniture		\$ 6,000	\$ 1,000	Cost of general office supplies, timestamp, and office furniture (e.g. desk chairs.)	40.0%	\$ 2,400	10.0%	\$ 600	50.0%	\$ 3,000
	Subtotal Other Operating Expenses		\$ 146,000	\$ 64,500			\$ 58,400		\$ 14,600		\$ 73,000
	Cost Pool and Risk Management			\$ 105,620							

	General Liability and Worker's Comp		\$ 52,981	\$ 43,631	FY 17/18 Workers Compensation - \$2,748 per employee, General Liability - \$3,485 per employee (combined total \$6,233 per employee)	40.0%	\$ 21,192	10.0%	\$ 5,298	50.0%	\$ 26,491
	Space at 440 Civic Center Plaza		\$ 52,275	\$ 30,179	Space at 440 CCP is based on the percentage of total square footage occupied. This percentage is then applied to the total annual debt service. Rent Program is presumed to occupy 0.9% of Civic Center's total square footage. The percentage was applied to the total annual debt service for FY 2016-17 to determine the cost.	40.0%	\$ 20,910	10.0%	\$ 5,228	50.0%	\$ 26,138
	Indirect Cost		\$ 51,454	\$ 31,810	Indirect Costs are 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.) Allocations are determined in the City's cost allocation plan completed by an external consultant. Since the Rent Program dept. is new, it was not included in the current cost allocation plan. Staff recommended using the allocation of a department similar in size. In this case, the City Manager's Office was used as the basis.	40.0%	\$ 20,582	10.0%	\$ 5,145	50.0%	\$ 25,727
	SLIP Policy		\$ 25,000		General liability policy for the Rent Control program	40.0%	\$ 10,000	10.0%	\$ 2,500	50.0%	\$ 12,500
	Subtotal Cost Pool + Risk Management		\$ 181,710	\$ 105,620			\$ 72,684		\$ 18,171		\$ 90,855
	TOTAL OPERATING EXPENSES		\$ 960,787	\$ 527,471		\$ 960,787	\$ 330,117	\$ 150,276	\$ 480,394		
	Reserves										
	Operating Reserve (17%)		\$ 329,848	\$ 156,459	As recommended by the Government Finance Officers Association (GFOA.)	40.0%	\$ 131,939	10.0%	\$ 32,985	50.0%	\$ 164,924
	Risk Reserve (8%)		\$ 155,223	\$ 73,628	Risk Management reserve fund.	40.0%	\$ 62,089	10.0%	\$ 15,522	50.0%	\$ 77,611
	Subtotal Reserves		\$ 485,071	\$ 230,087			\$ 194,028	\$ 48,507	\$ 242,536		
	TOTAL		\$ 2,425,355	\$ 1,150,433			\$ 938,532	\$ 291,733	\$ 1,195,091		
					Effective allocation rate		38.70%	12.03%	49.27%		