

## SANTA MONICA RENT CONTROL BOARD ADMINISTRATION MEMORANDUM

DATE: May 10, 2005  
TO: Santa Monica Rent Control Board  
FROM: Mary Ann Yurkonis, Administrator  
FOR MEETING OF: May 12, 2005  
RE: Annual General Adjustment 2005  
Apartment Operating Cost Increases (March 2004 - March 2005)

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### Summary

The Annual General Adjustment for 2005 is calculated by looking at actual increases in various expense components of the rent dollar using a formula of the “component ratio to gross rent”, or what is also referred to as the “pie” methodology (because each individual category of expense was assigned a portion of the total rent dollar).

A new component was added this year to compensate property owners for a Fire and Life Safety Inspection fee. Fire and Life Safety Inspections are required under state law for multi-family residences. In the past, these inspections were provided by the Santa Monica Fire Department at no cost to the property owner. As of January 2004, the Santa Monica Fire Department began charging a fee for this service. The fee is \$60 per building regardless of the number of units. Staff considered the entire fee of \$60 to calculate the monthly per unit cost for this expense. Details of the calculation are shown on page 6 of this report.

This year’s recommended general adjustment looks at operating expense increases from March 2004 to March 2005. A majority of the components are adjusted based on the increases in the consumer price index for the Los Angeles-Anaheim-Riverside area. The remaining components are adjusted based on actual rate changes or set percentages.

### Recommendation

Staff recommends that the Rent Control Board set a public hearing on June 9, 2005 for consideration of a 3% General Adjustment. Staff further recommends that the Rent Control Board adopt a ceiling or maximum adjustment of \$48. The recommended ceiling was calculated by applying a 3% General Adjustment to the rent level at the 85<sup>th</sup> percentile of rents.<sup>1</sup>

**Note:** Units with market rate increases implemented from September 1, 2004 through August 31, 2005 are not eligible for the 2005 general adjustment. Recent market rate rentals will have taken operating cost increases into account when establishing a new rental rate.

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<sup>1</sup> Based on a consultant’s report: “Operating Expenses and General Adjustment Methods – 1998” by Thomas D. Stringer.

## **Methodology**

The 2005 General Adjustment Report was prepared by the staff of the Rent Control Board using the methodology and survey data developed by Dr. Kenneth Barr. At the direction of the Board, Dr. Baar developed a methodology for calculating the annual General Adjustment with the following features:

1. Division of the rent dollar into categories of expense, including “hard expenses” (taxes, utilities, City services), and “calculated expenses” (management, maintenance and other operating costs, and net operating income).
2. Identification of the “component ratio to gross rent” by dividing the dollar amount of each component of the rent dollar for the hypothetical average apartment by the total rent dollars. These ratios represent the percentage of the average rent dollar devoted to each expense category. See Table C, page 16.
3. Survey of utility companies and government agencies to determine actual increases (or decreases) in costs to property owners in the last year.

For this report, staff collected data from Southern California Gas, Southern California Edison, the U.S. Bureau of Labor Statistics, the City of Santa Monica Water Department and Fire Department.

In 2002, Dr. Kenneth Baar prepared the General Adjustment Report for the Board. Dr. Baar analyzed various approaches to calculating the general adjustment and also completed an extensive review of the components currently used to determine the general adjustment. Dr. Baar’s report recommended some modifications to several of the components. The 2003 and 2004 General Adjustment Reports, which are based on the “component ratio to gross rent” method, incorporated many of the modifications recommended by Dr. Baar.

## Calculation of the 2005 General Adjustment

Many of the components which make up the rent dollar are affected by increases in the Consumer Price Index in the Los Angeles Area. Following are the increases for the various indices used in this year's general adjustment report:

<u>March 2004 – March 2005</u>	CPI for All Urban Consumers – <b>4.0%</b> increase CPI for All Urban Consumers – All items less shelter – <b>2.7%</b>
<u>February 2004 – February 2005</u>	CPI for Urban Wage Earners and Clerical Workers - <b>3.8%</b>

The components to be increased by the CPI “less shelter” (2.7%) are maintenance and insurance. Self labor, cash flow and management costs are adjusted by the full CPI of 4.0%. (Management is ultimately adjusted to 5% of the rent dollar after the general adjustment is calculated.) The water and sewer component is adjusted by the February-February increase for CPI for urban wage earners and clerical workers pursuant to a Santa Monica City Ordinance. The remaining components, including property taxes, refuse, gas, electricity and Fire and Life Safety Inspections are based on either established set increases or actual changes in rates. Details for each component follow.

The net result of the “component ratio to gross rent analysis” is a general adjustment calculation of 3.01% which staff recommends the Board round to 3.0%. If staff calculated the general adjustment using 75% percent of CPI for All Urban Consumers (4%), the result would also be 3%.

## Component Calculations

### Property Taxes

Property tax increases post-Proposition 13 are limited to a 2% increase per year, except when properties are reassessed to market value, which occurs upon a transfer. Staff typically uses the 2% limit in calculating the property tax component of the rent dollar. To use an average of property tax increases every year would substantially over-compensate owners of properties which have not been sold, as those owners continue to operate with property tax bills which increase by no more than 2%. However, larger property tax increases were used in 1989, 1992 and again in 2002. In 2002 the increase was 28.6% and was based on Dr. Baar's analysis of property tax bills for a random sample of 272 properties. The significant increase was related to a reassessment of properties that transferred ownership since 1995, when vacancy decontrol was enacted statewide.

After the significant increase in this component in 2002, staff used the standard 2% increase for the property tax component in the 2003 and 2004 general adjustment calculation. Staff believes it is appropriate to again use the 2% increase to project the property tax component for this year's general adjustment. The table below reflects the 2% increase projected for 2005.

	<b>Average Monthly Property Tax Bill</b>
1978	\$19.20
2001	44.74
2002	57.53
2003	58.68
2004	59.85
2005	61.05

	<b>2004 Average Monthly Property Tax Bill</b>	<b>Rate Increase 2004-2005</b>	<b>Cost Increase Apt./Month \$</b>	<b>Estimated 2005 cost</b>
<b>Property Tax</b>	<b>\$59.85</b>	<b>2%</b>	<b>\$1.20</b>	<b>\$61.05</b>

## Refuse Collection

Refuse collection charges consist of fixed charges per apartment and collection fees dependent upon the type of refuse container and the frequency of collection.

There are several types of containers and various options as to the frequency of collection. Over the years, the Rent Control Board has reviewed records of bills for a variety of apartment buildings and has calculated average expenditure levels. The “typical” configuration (type of refuse container and frequency of pick-up) used for this report is based on a 10 unit building using two 2-yard bins picked up once a week.

Unchanged since 1999, the fixed charges remain \$3.00 per apartment per month. An increase in collection rates was adopted in 2004<sup>2</sup>. The table shows the impact of the rate increase on the overall cost for a hypothetical typical apartment.

Monthly Refuse Collection Charges Per Apartment  
(Hypothetical 10 Unit Building)

	<u>Monthly Fee per Apartment</u>	<u>Bin Charge</u>	<u>Total Bill</u>
April 2003	3.00	10.80	13.80
April 2004	3.00	11.20	14.20
April 2005	3.00	11.40	14.40

The difference between the 2004 total bill estimated at \$14.20 and the projected cost of \$14.40 for 2005 reflects at 1.41% increase.

	2004 Average Monthly Cost Per Apt. Unit	Percent Cost Increase 2004-2005	Cost Increase Apt./Month \$	Estimated 2005 cost
<b>Refuse Collection</b>	<b>\$14.20</b>	<b>1.41%</b>	<b>\$0.20</b>	<b>\$14.40</b>

<sup>2</sup> The rate for the class MSQ - one 2 yard bin picked up once weekly was increased from \$112.00 to \$114.00 per two month period. The analyses developed by staff assume two bins for such a ten unit building, resulting in a cost of \$114.00 per month or \$11.40 per unit/per month.

## Fire and Life Safety Inspection Fee

This is a new component in this year’s general adjustment calculation. Fire and Life Safety Inspections are required of all apartment owners in Santa Monica. Starting in January 2004, a fee for the inspection was charged to the property owners. The cost of the inspection is a flat fee of \$60 per building each year.<sup>3</sup> The average number of units per building used in the Board’s General Adjustment reports is six units per building. Therefore, staff has allocated a cost of \$0.83 per unit (\$60 divided by 6 units divided by 12 months). This amount is the monthly per unit cost for 2005 as shown below and will be the “base” cost for this component.

	2004 Cost Per Apt. Unit	Cost Increase Apt./Month	Estimated 2005 cost
<b>Average Fire &amp; Life Safety Inspection Expense</b>	<b>\$0.00*</b>	<b>\$.083</b>	<b>\$0.83</b>

\*Although the fee was in effect in 2004, the component was not yet part of the general adjustment calculation.

## Water and Sewer

Water and Sewer charges are considered together in this report as the costs for both are made up of usage fees related to water consumption and meter charges based on the size of the water meter. Two factors influence the average cost of water/sewer costs used in the calculation of the annual general adjustment report. The first factor is the actual water and sewer rates, while the second is related to water consumption.

### Water Consumption

Staff has monitored water consumption over the years, as water consumption is directly related to actual water and sewer costs. As of 1997, staff has been tracking water consumption rates and water/sewer and refuse costs on the same two sets of randomly selected properties. (Tracking began on one of the two sets of properties in 1992.) The information compiled from this research has led to some modifications over the years to the average consumption rate (measured in HCF – hundred cubic feet). The latest modification in the year 2000 adjusted the average consumption rate to 4.6 HCF. Staff has used 4.6 HCF as the average consumption rate since that time. The table below shows the average water consumption for the two groups of properties tracked since 1997.

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<sup>3</sup> City Council resolution 9858 adopted on June 17, 2003 established the fees.

## Water Consumption Table

Year*	Avg. HCF 1 <sup>st</sup> Group	Avg. HCF 2 <sup>nd</sup> Group
1997	4.83	4.56
1998	4.65	4.54
1999	4.66	4.51
2000	4.65	4.34
2001	4.77	4.42
2004	5.30	4.61
2005	5.04	4.52

\*The study was not performed in 2002 and 2003.

For purposes of this report, staff reviewed the water consumption rates and costs of water/sewer and refuse bills for the two sets of properties. Currently, the two sets include 56 and 74 properties. Staff believes these properties provide a good representation of water consumption in controlled rental units.

The average HCF for the first group at 5.04 HCF is a little more than the 4.6 HCF average. However, it does reflect a decrease in consumption from last year. Also, it is important to note the average consumption for the first group of properties has always been somewhat higher than the second group. The second group's average of 4.52 HCF is slightly less than the 4.6 used in the general adjustment calculation, and also reflects a decrease in consumption from last year. The combined average of both groups is 4.72 HCF. Staff does not believe an adjustment to the average consumption rate of 4.6 HCF is warranted at this time. It may be necessary to adjust the average HCF figure in the future if consumption levels rise. Staff will continue monitoring water consumption so any changes can be reflected in future general adjustment reports.

## Water and Sewer Average Costs

Although it is not necessary to make any adjustments to the average cost for water and sewer charges related to water consumption, the rates themselves are increased each year in July. Presently, increases in water and sewer rates are tied to increases in the CPI for all items for Urban Wage Earners and Clerical Workers from February to February of each year pursuant to a City resolution.<sup>4</sup> However, later this month, the City's Water Department will be presenting a proposal to the City Council to increase the water/sewer rates above the CPI increase currently authorized pursuant to City Council Resolution No. 9409 (CCS).

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<sup>4</sup> Resolution No. 9409 (CCS) (A Resolution of the City Council...Establishing an Annual Consumer Price Index Increase on Water Rates and Fees), Sec. 4 (June 22, 1999).

At this time, it is unknown what increase will be authorized by the Council. Water Department staff anticipates that, at a minimum, the rates will be increased by the CPI for all items for Urban Wage Earners and Clerical Workers (February 2004 – February 2005 increase is 3.8%). Therefore, staff is projecting the increase for 2005 using the 3.8% CPI increase. If the Council authorizes rate increases other than a 3.8% increase, adjustments can be made to this component in the next year's general adjustment. The estimated cost for 2005 is shown below.

	2004 Average Monthly Cost per Apt. unit	CPI all items Urban Wage Earners & Clerical Workers Pct. Increase	Cost Increase Apt./Month \$	Estimated 2005 cost
<b>Average water/sewer expense</b>	<b>\$19.78</b>	<b>3.8%</b>	<b>\$0.75</b>	<b>\$20.53</b>

## Gas - Common Areas Only

### Average Costs

In more than two-thirds of all apartments, the apartment owners pay for hot water heating through master metered service, while the tenant usually pays for gas heat for the unit on an individual meter.

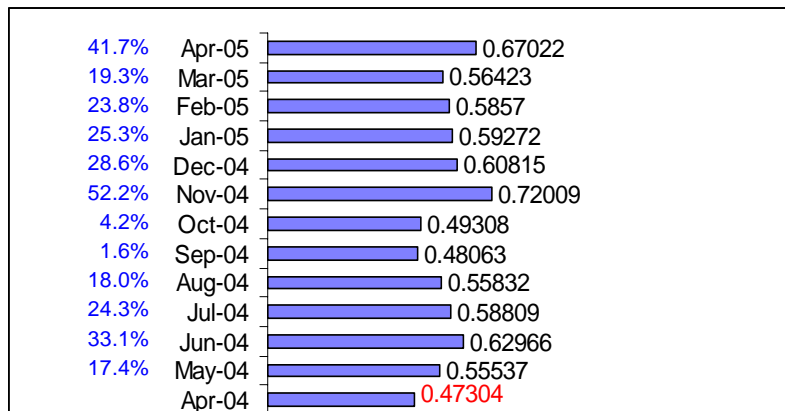
In the 2002 General Adjustment Report, the gas component was modified per Dr. Baar's recommendation which was based on the results of a survey of average cost data from Southern California Gas for the period April 2001 through March 2002. The data consisted of a random sample of 258 buildings with 3369 apartment units and indicated the average monthly cost for gas was \$9.62 per apartment unit. In the 2003 General Adjustment Report, staff modified the gas expenditure for 2002 to equal \$16.03 (\$9.62 gas cost plus 10% tax and other incidental costs gas users are required to pay) and projected the costs for 2003 using \$16.03 as the base with an average use of 16.036 therms. Gas rate increases in 2003 and 2004 brought the per unit gas cost to \$19.38 for 2004.

Usually, staff looks at the difference between the gas cost per therm in April of the previous year and April in the current year to determine the increase or decrease for this expense. In some instances, staff has used an average of gas costs in a twelve month period to calculate changes in gas rates. The cost of gas is based on two components, the procurement cost, which changes monthly, and the transmission charge, which remains constant throughout the year. The pattern of rate changes that occur over a twelve month period is a factor in determining which method is more appropriate to use.



The change in natural gas rates is mostly due to the cost of procuring the gas. Since April of 2004, the procurement component has been on the rise. In the twelve months since April 2004, the monthly procurement rates have ranged from a low of 1.6% to a high of 52.2% above the April 2004 rate. The April 2005 rate is 41.7% higher than the April 2004 rate. The graph below demonstrates the pattern of procurement rate changes as compared to April 2004.

**Procurement Rates  
(shown as cents per therm)**



Based on this pattern, staff believes a fair assessment of the increase in gas costs can be determined by using an average of the procurement rates for the twelve months since April 2004. The twelve month average procurement cost is .587188. The annual transmission charge for this period is .27645. The total monthly cost per therm is .863638 (.587188 + .27645). This is the amount used to calculate this year's projected increase in cost for gas.

Gas Rates for Apartment Owners with Individually Metered Units

The rates shown below are rounded and are made up of the procurement charge and transmission charge.

	April 2002	April 2003	April 2004	April 2005 (12-month Average)
Baseline	.60	.70	.75	.86

	2004 Average Monthly Cost per Apt. unit	Rate Increase 2004-2005	Cost Increase Apt./Month \$	Estimated 2005 cost
<b>Common area average gas expense</b>	<b>\$19.38<sup>5</sup></b>	<b>10.06%</b>	<b>\$1.95</b>	<b>\$21.33<sup>6</sup></b>

<sup>5</sup> April 2004 Cost \$13.29 (16.036 therms x .75348 baseline rate = \$12.08 + 10% tax) + incidentals \$6.09 (daily service rate [30 days x .16438] + State Regulatory Fee [16.036 therms x .0076] + Low Income Discount Rate Surcharge [16.036 therms x .0370] = \$5.54 + 10% tax) = **Total cost \$19.38.**

<sup>6</sup> April 2005 Cost \$15.24 (16.036 therms x .863638 baseline rate = \$13.85 + 10% tax) + incidentals \$6.09 (daily service rate [30 days x .16438] + State Regulatory Fee [16.036 therms x .00] + Low Income Discount Rate Surcharge [16.036 therms x .03802] = \$5.54 + 10% tax) = **Total cost \$21.33.**

## Electricity - Common Areas Only

From June 1996 through 2000, electricity rates were frozen at the 1996 rate levels. In 2001, the Public Utilities Commission authorized a significant increase in rates which was reflected in the 2001 general adjustment report. By 2002, that exceptional rate increase had been rolled back. In Dr. Baar's 2002 general adjustment report, the average cost for electricity was also rolled back which reset the average monthly cost per unit for electricity back to \$10.68. The general adjustment reports for 2003 and 2004 did not project any additional changes to this component which is currently still set at \$10.68.

In September 2003, Southern California Edison restructured its rate schedules. In addition to the baseline and three non-baseline rate tiers, there is now a separate "generation" charge for each rate tier. The generation charge is comprised of two categories - the cost of energy obtained from Southern California Edison and the cost of energy obtained from the Department of Water Resources (DWR).

On April 11 of this year, the Edison Company issued Regulatory Advice Letter #1886-E. The purpose of that Advice Letter was to consolidate the effect of rate changes authorized by the Public Utilities Commission in three significant PUC decisions. One of the rate changes addressed in the advice letter was a change pursuant to a settlement agreement and implemented under Phase 1 of the 2003 General Rate Case. Phase 1 was implemented August 2004 and proposed to establish the Tier 1 (baseline) and Tier 2 (non-baseline level 1) energy charges for all residential customers at the levels in effect on February 2001. The roll-back to the February 2001 rates was required under Assembly Bill (AB)1X.

The February 2001 rates were set at 11.808 per kWh (baseline, Tier 1) and 13.741 per kWh (Tier 2)<sup>7</sup>. These are the rates authorized pursuant to the April 11, 2005 Regulatory Advice Letter and are currently in effect for residential customers for baseline (Tier 1) and non-baseline rates. Although tiers 3 and 4 received rate increases (particularly Tier 4), those increases do not impact the monthly cost used for this component.

## Consumption

For purposes of this report, staff has used a consumption level for electricity of 1638 kWh per month for a 6-unit building which includes electricity usage for the common areas as well as within the six units.<sup>8</sup> Of the 1638 kWh, 1140 hours are billed at baseline rates, and 498 hours charge at non-baseline rates. The non-baseline rates are calculated using the first level (Tier 2) of the non-baseline rate schedule.

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<sup>7</sup> The February 2001 rates are based on a calculation that starts with the rates in effect on June 3, 2001: 13.009- baseline (Tier 1); 15.157 – (Tier 2). Those rates were then adjusted by applying the result of a 10% reduction to the January 1996 -2000 rate levels of 12.009 and 14.157 respectively. [13.009 – 1.201 (12.009 x 10%) = 11.808; 15.157 – 1.4157 (14.157 x 10%) = 13.741.]

<sup>8</sup> These consumption levels have been used in prior general adjustment reports and are based on a 1983 Southern California Edison survey which showed consumption level for electricity in a 6-unit building to be 1638 kWh per month.

## Average Costs

In order to determine the rate of increase (or decrease) for this component, staff uses the average cost for electricity, per unit, in a six unit building, including the cost for usage within apartments as well as common areas. The amounts for common areas alone are relatively small. Thus, the larger figure provides a more stable basis for determining the rate of increase or decrease. The resulting rate change is then applied to the monthly per unit cost of the common area usage.

The first table below shows the average cost per unit including both common areas and individual units in a six unit building. Using the current rates for baseline (Tier 1) and non-baseline (Tier 2), the projected average cost for 2005 is \$37.24. This amount reflects a decrease of 2.1%.

The second table shows the result of applying the 2.1% decrease to the 2004 cost for **common area usage**. Applying the 2.1% decrease to \$10.68 results in an estimated 2005 unit cost of \$10.46.

Electricity Rates for Apartment Owners  
with Individually Metered Units (per kWh)

	<b>Baseline</b>	<b>Non-Baseline</b>	<b>Avg. Cost</b>
April 1978	3.2	4.2	\$ 10.80 <sup>9</sup>
June 1996-April 2000	12.0	14.2	38.03 <sup>10</sup>
April 2001	13.0	19.66	52.10
April 2002-2004	12.0	14.2	38.03
April 2005	11.808	13.741	37.24 <sup>11</sup>

	2004 Average Monthly Cost per Apt. unit	Rate Decrease 2004-2005	Cost Decrease Apt./Month \$	Estimated 2005 unit cost
<b>Common area average electricity expense</b>	<b>\$10.68</b>	<b>-2.1%</b>	<b>-\$0.22</b>	<b>\$10.46</b>

<sup>9</sup> Original bill of \$10.29 + 5% tax = \$10.80

<sup>10</sup>  $1140 \times .12009/6 = \$22.82 + 498 \times .14174/6 = \$11.75$ ;  $\$22.82 + \$11.75 = \$34.57 \times 10\% \text{ tax} = \$38.03$

<sup>11</sup>  $1140 \times .11808/6 = \$22.44 + 498 \times .13741/6 = \$11.41$ ;  $\$22.44 + \$11.41 = \$33.85 \times 10\% \text{ tax} = \$37.24$ .

## Maintenance and Other Operating Expenses

Information for this expenditure specific to Santa Monica is not available. For the 2002 report, Dr. Baar obtained data from Apartment Industry Sources for the Los Angeles area for the year 2000. The data indicated the costs for maintenance and other expenses ranged from \$68 - \$126. Although this information was not specific to Santa Monica, the monthly cost used by the Board for this component falls within that range. As specific information is not available, the Board adjusts this category by the change in the Consumer Price Index, less shelter. The March 2004 – March 2005 percent increase for this index was 2.7%. The effect of this increase on the maintenance component is shown below:

	2004 Average Monthly Cost Per Apt. Unit	CPI all items less shelter Pct. Increase	Cost Increase Apt./Month \$	Estimated 2005 Cost
<b>Maintenance</b>	\$99.48	2.7%	\$2.69	\$102.17

## Insurance

In 1997, the Board commissioned Thomas D. Stringer of Stringer Appraisals to prepare a report on insurance costs. Based on that report and other information gathered by the Board, staff separated the insurance component from the maintenance component and set the average monthly cost per apartment at \$23.96. The component was again adjusted in 1998 based on a subsequent report by Mr. Stringer. Since that time, the Board has used the change in the Consumer Price Index, less shelter to calculate the annual increase for this component. The March 2004 – March 2005 percent increase for this index was 2.7%. The effect of this increase on the insurance component is shown below:

	2004 Average Monthly Cost Per Apt. Unit	CPI all items less shelter Pct. Increase	Cost Increase Apt./Month \$	Estimated 2005 Cost
<b>Insurance</b>	\$28.35	2.7%	\$0.77	\$29.12

## Self Labor

The Board uses the change in the Consumer Price Index for All Urban Consumers to adjust the self-labor component for purposes of calculating the annual general adjustment. The March 2004 – March 2005 percent increase for this index was 4.0%. The effect of this increase on the self labor component is shown below:

	2004 Average Monthly Cost Per Apt. Unit	CPI all items Pct. Increase	Cost Increase Apt./Month \$	Estimated 2005 Cost
<b>Self Labor</b>	\$48.62	4.0%	\$1.94	\$50.56

## Cash Flow Adjustment

The Board uses the change in the Consumer Price Index for All Urban Consumers to adjust the cash flow component for purposes of calculating the annual general adjustment. The March 2004 – March 2005 percent increase for this index was 4.0%. The effect of this increase on the cash flow component is shown below:

	2004 Average Monthly Cost Per Apt. Unit	CPI all items Pct. Increase	Cost Increase Apt./Month \$	Estimated 2005 cost
<b>Cash Flow</b>	\$233.59	4.0%	\$9.34	\$242.93

## Management

Management costs are fixed at 5% of gross rent pursuant to Rent Board Regulation 4101(c)(1). For purposes of calculating the annual general adjustment, the Board uses the change in the Consumer Price Index for All Urban Consumers. The March 2004 – March 2005 percent increase for this index was 4%. The effect of this increase on the management component is shown below:

	2004 Average Monthly Cost Per Apt. Unit	CPI all items Pct. Increase	Cost Increase Apt./Month \$	Estimated 2005 Cost
<b>Management</b>	\$34.66	4.0%	\$1.39	\$36.05

## Calculation of Annual General Adjustment

### A. Dollar Amounts

#### Rent Increases Required to Cover Operating Cost Increases and Index Cash Flow

	Estimated cost 2004* (a)	Estimated cost 2005 (b)	Rent Adjustment required (b-a)
Property Taxes	\$59.85	\$61.05	\$1.20
Refuse	14.20	14.40	.20
Fire & Life Safety Inspection Fee	0	0.83	.83
Water & Sewer	19.78	20.53	.75
Gas	19.38	21.33	1.95
Electricity	10.68	10.46	-.22
Maintenance	99.48	102.17	2.69
Insurance	28.35	29.12	.77
Self-Labor	48.62	50.56	1.94
Debt Service	124.51	124.51	.00
Cash Flow	233.59	242.93	9.34
Management	<u>34.66</u>	<u>36.05</u>	<u>1.39</u>
Total Cost	\$693.10	\$713.94	\$20.84

\* The amounts reflect the 1.3% general adjustment authorized by the Board in 2004.

## B. Percentage Amounts

### Rent Increases Required to Cover Operating Cost Increases and Index Cash Flow

	2004 ratio to gross rent	Percent change 2004-2005	Percent Increase Required
	(a)	(b)	(a*b)
Operating Expense			
Property Taxes	0.0864	2.0%	0.17%
Refuse	0.0205	1.4%	0.03%
Fire & Life Safety Inspection Fee	0.0000	-----	0.12*
Water & Sewer	0.0285	3.8%	0.11%
Gas	0.0280	10.1%	0.28%
Electricity	0.0154	-2.1%	-.03%
Maintenance	0.1435	2.7%	0.39%
Insurance	0.0409	2.7%	0.11%
Self-Labor	0.0701	4.0%	0.28%
Debt Service	0.1796	0.0%	0.00%
Cash Flow	0.3370	4.0%	1.35%
Management	0.0500	4.0%	0.2%
		<b>Total Rent Increase</b>	<b>3.01%</b>

\*The percent increase required for the Fire Safety Inspection has been imputed as this component was not a cost in last year's report. The 2004 total cost was \$693.10. The estimated cost for 2005 is \$713.94. The total percent increase needed to reach \$713.94 is 3.01%.

### C. Percentage and Dollar Amounts

#### Rent Increases Required to Cover Operating Cost Increases and Index Cash Flow

	2004 ratio to gross rent (a)	Percent increase 2004-2005 (b)	Percent Increase Required (a*b)	Estimated cost 2005 (c)	Rent Adjustment required (d)
Operating Expense					
Property Taxes	0.0864	2.0%	0.17%	\$61.05	\$1.20
Refuse	0.0205	1.4%	0.03%	14.40	.20
Fire & Life Safety Inspection Fee	0.0000	0.12%	0.12*	0.83	.83
Water & Sewer	0.0285	3.8%	0.11%	20.53	.75
Gas	0.0280	10.1%	0.28%	21.33	1.95
Electricity	0.0154	-2.1%	-.03%	10.46	-.22
Maintenance	0.1435	2.7%	0.39%	102.17	2.69
Insurance	0.0409	2.7%	0.11%	29.12	.77
Self-Labor	0.0701	4.0%	0.28%	50.56	1.94
Debt Service	0.1796	0.0%	0.00%	124.51	.00
Cash Flow	0.3370	4.0%	1.35%	242.93	9.34
Management	0.0500	4.0%	0.2%	<u>36.05</u>	<u>1.39</u>
			<b>3.01%</b>	<b>\$713.94</b>	<b>20.84</b>