

**SANTA MONICA RENT CONTROL BOARD ADMINISTRATION MEMORANDUM**

DATE: May 8, 2007  
TO: Santa Monica Rent Control Board  
FROM: Mary Ann Yurkonis, Administrator  
FOR MEETING OF: May 10, 2007  
RE: 2007 Annual General Adjustment  
Apartment Operating Cost Increases (March 2006 - March 2007)

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**Summary**

The recommended annual general adjustment of 2.3% for 2007 is based on 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 or “slice” of the total rent dollar).

This year’s recommended general adjustment looks at operating expense increases from March 2006 to March 2007. 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 7, 2007 for consideration of a 2.3% General Rent Adjustment. Staff also recommends that the Rent Control Board agendaize for a future meeting, consideration of an alternative methodology to calculate the annual general adjustment as a percentage of the CPI. (See page 16 of this report for additional information on this recommendation.)

**Note:** Units with market rate increases implemented from September 1, 2006 through August 31, 2007 are not eligible for the 2007 general adjustment. Recent market rate rentals will have taken operating cost increases into account when establishing a new rental rate.

## Methodology

The 2007 General Adjustment Report was prepared by the staff of the Rent Control Board using the methodology and survey data previously developed by Dr. Kenneth Baar. 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 Tables A and B, pages 14 and 15.
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, Solid Waste Department and Fire Department.

In 2002, Dr. 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. Beginning in 2003, subsequent General Adjustment Reports incorporated many of the modifications recommended by Dr. Baar.

## Calculation of the 2007 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 2006 – March 2007</u>	CPI for All Urban Consumers – <b>3.8%</b> increase CPI for All Urban Consumers – All items less shelter – <b>2.2%</b>
<u>February 2005 – February 2006</u>	CPI for Urban Wage Earners and Clerical Workers - <b>5%</b>

The components to be increased by the CPI for All Urban Consumers (3.8%) are self labor, cash flow and management costs. (Management is ultimately adjusted to 5% of the rent dollar after the general adjustment is calculated.) The components to be increased by the CPI "less shelter" (2.2%) are maintenance and insurance. The water and sewer component is adjusted by the February-February increase in CPI for urban wage earners and clerical workers pursuant to a Santa Monica City Ordinance. The remaining components, including property taxes, refuse, water and sewer, 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.

## 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 due to transfers 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%. Increases significantly greater than 2% were used in 1989, 1992 and again in 2002. In 2002 the increase used 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 has been using 2% for the property tax component in the general adjustment. The table below reflects the 2% increase projected for 2007.

	<b>Average Monthly Property Tax Bill Per Unit</b>
1978	\$19.20
2001	44.74
2002	57.53
2003	58.68
2004	59.85
2005	61.05
2006	62.27
2007	63.52

	<b>2006 Average Monthly (per unit) Property Tax Bill</b>	<b>Rate Increase 2006-2007</b>	<b>Cost Increase Apt./Month \$</b>	<b>Estimated 2007 cost</b>
<b>Property Tax</b>	<b>\$62.27</b>	<b>2%</b>	<b>\$1.25</b>	<b>\$63.52</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 refuse 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.

Since 1999 the fixed charge (monthly fee per apartment) has been set at \$3.00. Effective July 1, 2005 the rate was increased to \$3.30. As of July 1, 2006 the rate was increased to \$3.53, which reflects a 7% increase. Collection rates were also increased by 7% effective July 1, 2006<sup>1</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
April 2006	3.30	12.54	15.84
April 2007	3.53	13.42 <sup>1</sup>	16.95

The difference between the 2006 total bill estimated at \$15.84 and the projected cost of \$16.95 for 2007 reflects a 7% increase.

	2006 Average Monthly Cost Per Apt. Unit	Percent Cost Increase 2006-2007	Cost Increase Apt./Month \$	Estimated 2007 cost
<b>Refuse Collection</b>	<b>\$15.84</b>	<b>7%</b>	<b>\$1.11</b>	<b>\$16.95</b>

<sup>1</sup> The rate for the class MSQ - one 2 yard bin picked up once weekly was increased from \$125.40 to \$134.18 per two month period. The analyses developed by staff assume two bins for such a ten unit building, resulting in a cost of \$134.18 per month or \$13.42 per unit/per month.

## Fire and Life Safety Inspection Fee

This component was added for the first time in the 2005 general adjustment calculation. Fire and Life Safety Inspections are required of all apartment buildings in Santa Monica. Starting in January 2004, a fee for the inspection was charged to the property owners. The 2005 annual cost of the inspection was a flat fee of \$60 per building.<sup>2</sup> The average number of units per building used in the Board’s General Adjustment Reports is six units per building. Therefore, staff set the monthly per unit cost for 2005 as \$0.83 per unit (\$60 divided by 6 units divided by 12 months) and established the “base” cost for this component. The fee was not increased for 2006 and has not been increased for 2007. The 2007 cost for this component remains at \$0.83 per unit.

	2006 Cost Per Apt. Unit	Cost Increase Apt./Month	Estimated 2007 cost
<b>Average Fire &amp; Life Safety Inspection Expense</b>	<b>\$0.83</b>	<b>\$0.0</b>	<b>\$0.83</b>

## 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 water/sewer costs used in the calculation of the annual general adjustment. One factor is water consumption, while the second is the actual water and sewer rates.

### 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 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 1999/2000 General Adjustment Report modified the average consumption rate to 4.6 HCF which reflected a reduction in consumption. Staff used 4.6 HCF as the average consumption rate until 2006. In the 2006 General Adjustment Report, staff found that an upward adjustment to the average consumption rate was warranted and increased the rate to 4.85 HCF.

For purposes of this report, staff again reviewed the water consumption rates and costs of water/sewer and refuse bills for the two sets of properties. Currently, the two sets include 55 and 73 properties. Staff believes these properties provide a good representation of water consumption in controlled rental units.

<sup>2</sup> City Council resolution 9858 adopted on June 17, 2003 established the fees.

The table below shows the average water consumption for the two groups of properties tracked since 1997.

### 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
2006	4.96	4.68
2007	5.00	4.71

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

The average HCFs for both groups (5.00 HCF – first group and 4.71 HCF second group) reflect a slight increase in consumption over the averages for the groups last year. The average consumption rate used to determine the average water and sewer costs was increased last year from 4.6 HCF to 4.85 HCF. Group One’s average of 5.00 HCF is somewhat higher than 4.85 HCF, while Group Two’s average of 4.71 HCF is somewhat less. This is consistent with last year’s analysis. The 2007 average of both groups combined is 4.85 HCF. Combining the averages for the two groups of properties from 2004, 2005, 2006 and 2007, also results in an overall average of 4.85 HCF. This is the same result found last year when the averages from both groups for 2004 through 2006 were combined. The data continues to support the use of 4.85 HCF as the average consumption rate. Therefore, the combined water and sewer costs projected for 2007 will be based on the average consumption rate of 4.85 HCF.

### Water and Sewer Average Costs

Pursuant to a City Council Resolution (CCS) 9409, increases in water and sewer rates have been tied to increases in the CPI for Urban Wage Earners and Clerical Workers from February to February of each year.<sup>3</sup> In 2006, the City’s Water Department relied on the February 2005 to February 2006 CPI for Urban Wage Earners and Clerical Workers to establish a new rate structure effective July 1, 2006. The CPI reported a 5% increase for that time period. The Water Department increased the water and sewer rates by 5% effective July 1, 2006.

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<sup>3</sup> CCS No. 9409 (Sec. 4 June 22, 1999) (establishing an Annual Consumer Price Index Increase on Water Rates and Fees).

The table below sets out the combined water and sewer expenses. The 2006 and 2007 costs reflect the use of 4.85 HCF as the average rate of consumption. The water and sewer expense for 2007 has been projected using the 5% CPI increase.

**Rate Table**

	2006 Average Monthly Cost Per Apt. Unit	Overall Percent Cost Increase 2006-2007	Cost Increase Apt./Month \$	Total Estimated 2007 cost
Water/Sewer Expense	\$21.66	5%	\$1.08	\$22.74

Currently, the City’s Water Department is preparing to submit proposals to the City Council seeking increases in both the sewer and water rates for July 2007. Generally, the projected increases/decreases for the various components used in the Board’s General Adjustment Reports are based on changes over the prior twelve months, rather than on increases/decreases proposed for the future. If additional increases are authorized they will be considered in the future.

**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, Dr. Baar’s recommended modification of the average gas component to equal \$9.62.<sup>4</sup> Per Dr. Baar’s recommendation, the 2003 General Adjustment Report 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. Staff continues to use the average of 16.036 therms to project any changes to the average gas expense component.

To determine any changes in the gas cost, staff has used one of two methods. One method was to look 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 recent years, 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,

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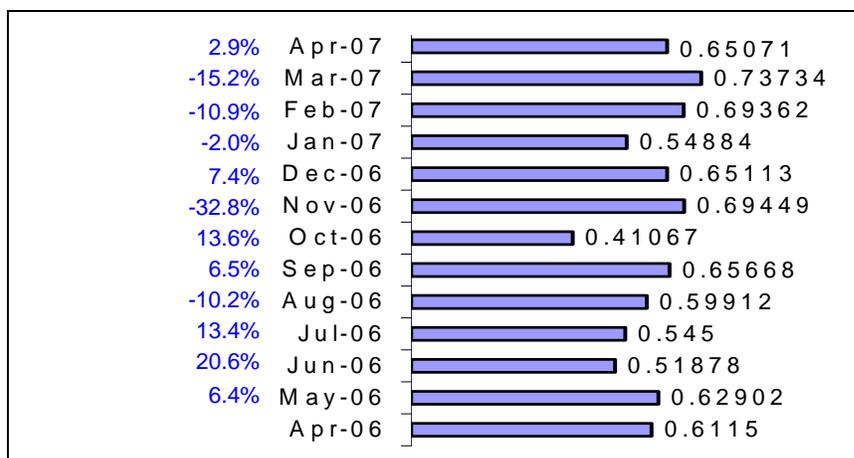
<sup>4</sup> His recommendation was based on the results of a survey of average cost data from Southern California Gas for the period April 2001 through March 2002. The data consisted of a random sample of 258 buildings with 3369 apartment units and indicated the average monthly cost for gas was \$9.62 per apartment unit. Dr. Baar recommended that if no other data could be developed, the gas component should be modified to reflect the \$9.62 average cost.

which changes monthly, and the transmission charge, which remains constant throughout the year. The monthly changes to the procurement rate can result in widely varying costs from month to month. The pattern of rate changes that occurs over a twelve month period is a factor in determining which method is more appropriate to use. In 2005 and 2006 staff determined it was more appropriate to use an average of gas costs as the monthly procurement rates varied so widely from the procurement rate in April of the preceding years.

Although it appears that gas prices have begun to stabilize, staff believes the fairest assessment of the change in gas costs this year can be determined by using an average of the procurement rates for the twelve months since April 2006, as the monthly procurement rates are still fluctuating at widely varying rates as shown on the table below.

Last year the monthly procurement rates from April 2006 back through May 2005 ranged from a high of \$1.09 in November 2005 to a low of \$0.59 in June 2005. Currently, the monthly procurement rates from April 2007 back through May 2006 range from a high of \$0.73 in March 2007 to a low of \$0.41 in October 2006. As was the case last year, the percent increase for each of the last twelve months beginning with April 2007 as compared to April 2006 has also varied greatly, from a low of 32.8% below the April 2006 rate to a high of 20.6% above the April 2006 rate. The following graph demonstrates the pattern of procurement rate changes as compared to April 2006. The percentages in blue on the left side show the % changes.

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



The twelve month average procurement cost from April 2007 back through May of 2006 is .611283. The annual transmission charge for this period is .284690. The total monthly cost per therm is .895973 (.611283 + .284690). This is the amount used to calculate the estimated cost for gas for 2007. This amount is .164533 cents per therm less than last year's per therm cost and will result in an overall decrease in the estimated cost for 2007. Staff's estimate of a decrease in gas costs is in line with an information bulletin posted on Southern California Gas Company's web site that states "Based on current industry projections...For customers living in apartments, average monthly bills for 30 therms of gas are expected to be about \$35 this winter, as compared to \$40 last winter." The 2007 estimated cost is shown in the table that follows.

### 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)	April 2006 (12-month Average)	April 2007 (12-month Average)
Baseline	.60	.70	.75	.86	1.06	.90

	2006 Average Monthly Cost per Apt. unit	Rate Change 2006-2007	Cost Decrease Apt./Month \$	Estimated 2007 cost
<b>Common area average gas expense</b>	<b>\$25.07<sup>5</sup></b>	<b>-11.80%</b>	<b>-\$2.96</b>	<b>\$22.11<sup>6</sup></b>

### 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 common area electricity back to \$10.68. The general adjustment reports for 2003 and 2004 did not project any additional changes to this component.

On February 3, 2006, the Edison Company issued Regulatory Advice letter 1962-E which reiterated statements made in Advice Letter #1886-E issued April 11, 2005. Both advice letters refer to Assembly Bill (AB)1X which required a roll-back to the February 2001 rates for Tier 1 (baseline) and Tier 2 (non-baseline level 1). The February 2001 rates were set at 11.808 per kWh (baseline, Tier 1) and 13.741 per kWh (Tier 2). The rates for Tiers 1 and 2 have been frozen at the 2001 levels through the present. Per Southern California Edison, for 2007, Tier 1 and 2 rates will remain at the 2001 rate levels while the higher tiers will receive rate increases. However, increases on the higher tiers do not impact the monthly cost for this component, as only Tiers 1 and 2 are used in the analysis.

<sup>5</sup> April 2006 Cost \$18.71 (16.036 therms x 1.060506 baseline rate = \$17.01 + 10% tax) + incidentals \$6.36 (daily service rate [30 days x .16438] + State Regulatory Fee [16.036 therms x .00] + Low Income Discount Rate Surcharge [16.036 therms x .05322] = \$5.78 + 10% tax) = **Total cost \$25.07.**

<sup>6</sup> April 2007 Cost \$15.81 (16.036 therms x .895973 baseline rate = \$14.37 + \$1.44 [10% tax]) + incidentals \$6.30 (daily service rate [30 days x .16438] + State Regulatory Fee [16.036 therms x .00076] + Low Income Discount Rate Surcharge [16.036 therms x .0491] = \$5.73 + \$0.57 [10% tax]) = **Total cost \$22.11.**

## 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>7</sup> Of the 1638 kWh, 1140 hours are billed at baseline rates, and 498 hours billed at non-baseline rates. The non-baseline rates are calculated using the lowest level of the non-baseline rate schedule which is Tier 2.

## 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 table below shows the average cost per unit including both common areas and individual units in a six unit building. As of 2006, the rates for Tier 1 (baseline) and Tier 2 (non-baseline) were fixed at the February 2001 levels pursuant to AB1X. The rates for Tier 1 (baseline) and Tier 2 (non-baseline) remain fixed for 2007. Therefore no increase is projected for this component for 2007. The projected average cost for 2007 remains at \$37.24.

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>8</sup>
June 1996-April 2000	12.0	14.2	38.03 <sup>9</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
April 2006	11.808	13.741	37.24
April 2007	11.808	13.741	37.24 <sup>10</sup>

<sup>7</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.

<sup>8</sup> Original bill of \$10.29 + 5% tax = \$10.80

<sup>9</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>10</sup>  $1140 \times .11808/6 = \$22.44 + 498 \times .13741/6 = \$11.41$ ;  $\$22.44 + \$11.41 = \$33.85 \times 10\% \text{ tax} = \$37.24$ .

The following table shows the 2006 cost for common area usage and reflects no change in rates for 2007. The estimated 2007 unit cost for common area usage remains at \$10.46.

	2006 Average Monthly Cost per Apt. unit	Rate Change 2006-2007	Cost Change Apt./Month \$	Estimated 2007 unit cost
<b>Common area average electricity expense</b>	\$10.46	0%	\$0.00	\$10.46

### Maintenance and Other Operating Expenses

Information for this expenditure specific to Santa Monica is not available.<sup>11</sup> Therefore, the Board adjusts this category by the change in the Consumer Price Index, less shelter. The March 2006 – March 2007 percent increase for this index was 2.2%. The effect of this increase on the maintenance component is shown below:

	2006 Average Monthly Cost Per Apt. Unit	CPI all items less shelter Pct. Increase	Cost Increase Apt./Month \$	Estimated 2007 Cost
<b>Maintenance</b>	\$106.36	2.2%	\$2.34	\$108.70

### Insurance

Since 1998, the Board has used the change in the Consumer Price Index, less shelter to calculate the annual increase for this component.<sup>12</sup> The March 2006 – March 2007 percent increase for this index was 2.2%. The effect of this increase on the insurance component is shown below:

	2006 Average Monthly Cost Per Apt. Unit	CPI all items less shelter Pct. Increase	Cost Increase Apt./Month \$	Estimated 2007 Cost
<b>Insurance</b>	\$30.31	2.2%	\$0.67	\$30.98

<sup>11</sup> 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 per unit 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.

<sup>12</sup> 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.

## 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 2006 – March 2007 percent increase for this index was 3.8%. The effect of this increase on the self labor component is shown below:

	2006 Average Monthly Cost Per Apt. Unit	CPI all items Pct. Increase	Cost Increase Apt./Month \$	Estimated 2007 Cost
<b>Self Labor</b>	<b>\$52.94</b>	<b>3.8%</b>	<b>\$2.01</b>	<b>\$54.95</b>

## 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 2006 – March 2007 percent increase for this index was 3.8%. The effect of this increase on the cash flow component is shown below:

	2006 Average Monthly Cost Per Apt. Unit	CPI all items Pct. Increase	Cost Increase Apt./Month \$	Estimated 2007 cost
<b>Cash Flow</b>	<b>\$255.08</b>	<b>3.8%</b>	<b>\$9.69</b>	<b>\$264.77</b>

## 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 2006 – March 2007 percent increase for this index was 3.8%. The effect of this increase on the management component is shown below:

	2006 Average Monthly Cost Per Apt. Unit	CPI all items Pct. Increase	Cost Increase Apt./Month \$	Estimated 2007 Cost
<b>Management</b>	<b>\$37.12</b>	<b>3.8%</b>	<b>\$1.41</b>	<b>\$38.53</b>

## Calculation of Annual General Adjustment

### A. Percentage and Dollar Amounts

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

Operating Expense	2006 ratio to gross rent (a)	Estimated cost 2006*	Percent increase 2006-2007 (b)	Percent Increase Required (a) x (b)	Estimated cost 2007 (c)	Rent Adjustment required (d)
Property Taxes	0.0839	\$62.27	2.0%	0.168%	\$63.52	\$1.25
Refuse	0.0213	15.84	7.0%	0.146%	16.95	1.11
Fire & Life Safety Inspection Fee	0.0011	0.83	0.0%	0.0%	0.83	0.00
Water & Sewer	0.0292	21.66	5.0%	0.149%	22.74	1.08
Gas	0.0338	25.07	-11.8%	-0.398%	22.11	-2.96
Electricity	0.0141	10.46	0.0%	0.0%	10.46	0.00
Maintenance	0.1433	106.36	2.2%	0.315%	108.70	2.34
Insurance	0.0408	30.31	2.2%	0.089%	30.98	0.67
Self Labor	0.0713	52.94	3.8%	0.271%	54.95	2.01
Debt Service	0.1677	124.51	0.0%	0.00%	124.51	0.00
Cash Flow	0.3436	255.08	3.8%	1.306%	264.77	9.69
Management	0.0500	<u>37.12</u>	3.8%	0.190%	<u>38.53</u>	<u>1.41</u>
<b>Totals</b>		<b>\$742.45</b>		<b>2.24%</b>	<b>\$759.05</b>	<b>\$16.60</b>

\* The amounts reflect the 4% general adjustment authorized by the Board in 2006 and an adjustment to Management to reflect 5% of the total cost.

**B. Percentage and Dollar Amounts rounded to 2.3%**

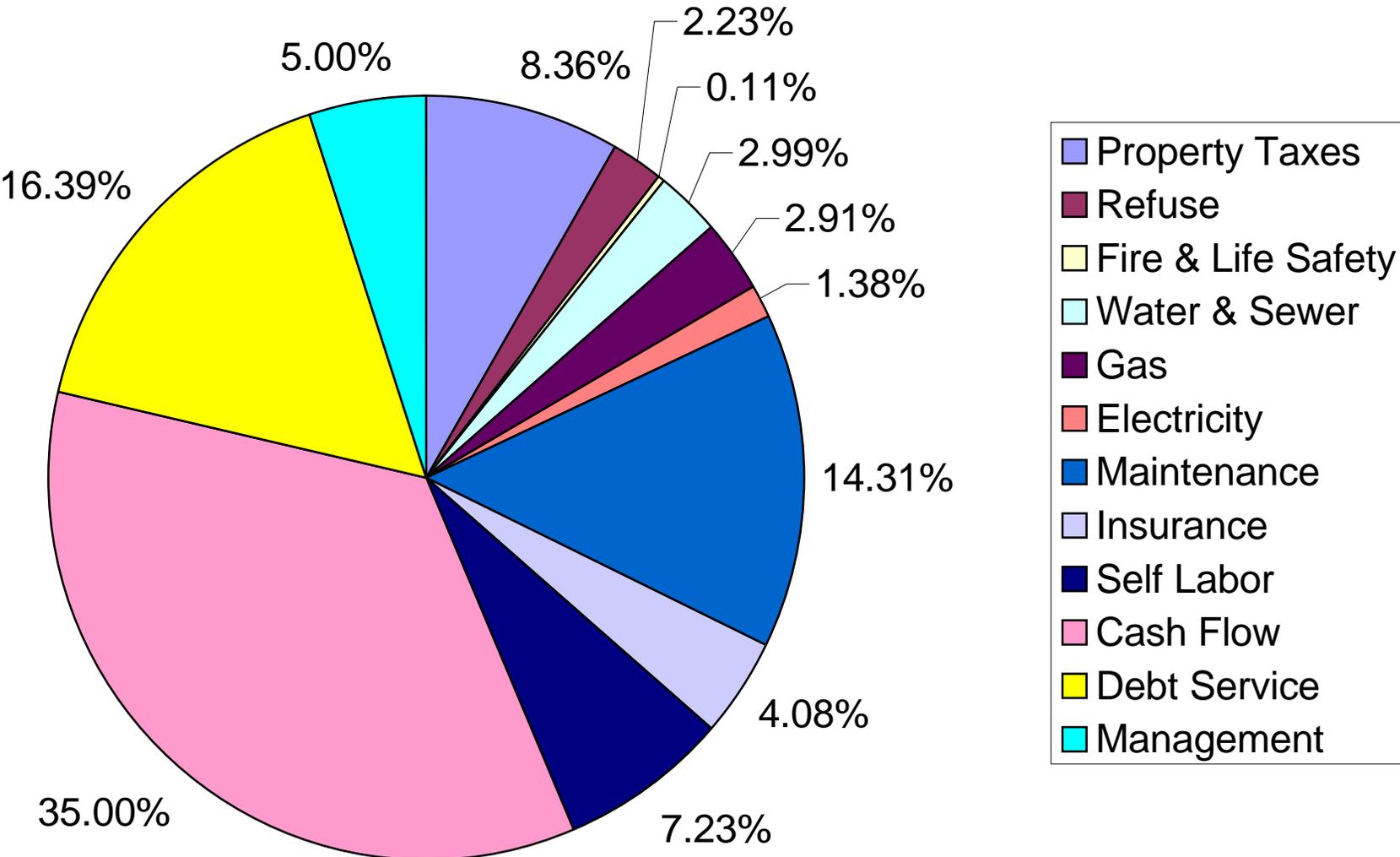
Rounding to 2.3% is accomplished by adjusting management cost to equal 5% of the total rent\* and then adjusting cash flow to accommodate the change.

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

Operating Expense	2006 ratio to gross rent (a)	Percent increase 2006-2007 (b)	Percent Increase Required (a) x (b)	Estimated cost 2007 (c)	Rent Adjustment required (d)
Property Taxes	0.0839	2.0%	0.168%	\$63.52	\$1.25
Refuse	0.0213	7.0%	0.146%	16.95	1.11
Fire & Life Safety Inspection Fee	0.0011	0.0%	0.0%	0.83	0.00
Water & Sewer	0.0292	5.0%	0.149%	22.74	1.08
Gas	0.0338	-11.8%	-0.398%	22.11	-2.96
Electricity	0.0141	0.0%	0.0%	10.46	0.00
Maintenance	0.1433	2.2%	0.315%	108.70	2.34
Insurance	0.0408	2.2%	0.089%	30.98	0.67
Self Labor	0.0713	3.8%	0.271%	54.95	2.01
Debt Service	0.1677	0.0%	0.00%	124.51	0.00
Cash Flow	0.3436	3.8%	1.444%	265.80	10.72
Management	0.0500	3.8%	0.117%	<u>37.98</u>	<u>0.86</u>
<b>Total Rent Increase</b>			<b>2.30%</b>	<b>\$759.53</b>	<b>\$17.08</b>

\*Management costs are fixed at 5% of gross rent pursuant to Rent Board Regulation 4101(c)(1).

# 2007 Rent Dollar Components



## **Alternate Methodology**

The net result of the “component ratio to gross rent analysis” is a general adjustment calculation of 2.24% which staff recommends the Board round to 2.3%. Most jurisdictions which have rent control ordinances in California calculate their annual rent increases based on percentage increases in the CPI. Many of the components currently used in the Board’s general adjustment analysis rely on the CPI index. Appendix 1 presents a comparison of the general adjustments authorized by the Board since 1979 and the percentage of CPI increase for that time period. The total of all general adjustment increases authorized from 1979 through 2006 is 93.35% which is 75.71% of the total CPI increases for the same time period (123.3%). In addition, there is only a difference of .87% between the total of all the general adjustments authorized (93.35%) and the total of 75% of the CPI (92.48%). Using a percentage of the CPI to calculate the annual general adjustment could be an alternative method of calculating the annual general adjustment.

## Appendix 1

### GA and CPI Comparison 1979 - 2006

	CPI Increase	75% of CPI	GA Increase	GA Percentage of CPI
1979	8.8%	6.60%	7.0%	79.55%
1980	18.4%	13.80%	6.5%	35.33%
1981	9.1%	6.83%	5.5%	60.44%
1982	8.8%	6.60%	5.5%	62.50%
1983	0.3%	0.23%	4.5%	1500.00%
1984	4.7%	3.53%	4.0%	85.11%
1985	4.6%	3.45%	3.0%	65.22%
1986	4.3%	3.23%	2.5%	58.14%
1987	4.0%	3.00%	4.0%	100.00%
1988	4.4%	3.30%	3.0%	68.18%
1989	4.6%	3.45%	3.0%	65.22%
1990	6.6%	4.95%	6.0%	90.91%
1991	3.9%	2.93%	3.5%	89.74%
1992	4.2%	3.15%	3.0%	71.43%
1993	3.0%	2.25%	3.0%	100.00%
1994	1.8%	1.35%	2.0%	111.11%
1995	1.4%	1.05%	1.5%	107.14%
1996	1.7%	1.28%	1.6%	94.12%
1997	1.6%	1.20%	2.0%	125.00%
1998	1.0%	0.75%	1.0%	100.00%
1999	2.2%	1.65%	1.0%	45.45%
2000	3.5%	2.63%	3.0%	85.71%
2001	3.2%	2.40%	4.2%	131.25%
2002	2.8%	2.10%	1.75%	62.50%
2003	3.9%	2.93%	3.00%	76.92%
2004	1.8%	1.35%	1.30%	72.22%
2005	4.0%	3.00%	3.00%	75.00%
2006	4.7%	3.53%	4.00%	85.11%
<b>TOTAL</b>	<b>123.3%</b>	<b>92.48%</b>	<b>93.35%</b>	
		<b>GA Percentage of CPI</b>		<b>75.71%</b>