

# AGENDA ITEM REQUEST FORM

Department: Rent Program

Department Head: Nicolas Traylor

Phone: 620-6564

Meeting Date: May 15, 2024

Final Decision Date Deadline: May 15, 2024

**STATEMENT OF THE ISSUE:** Section 11.100.060(n) of the Rent Ordinance requires that the Board hold a public hearing and adopt an annual budget for the upcoming fiscal year no later than July 1. The annual budget is funded by the Residential Rental Housing Fee, the amount of which is determined by the City Council following a recommendation from the Rent Board. In consideration of this requirement, staff members have prepared a proposed Fiscal Year 2024-25 Budget with corresponding fees and a 10-year financial projection for its consideration and comment. The purpose of this item is to receive feedback from the Board on the proposed budget and for potential adoption by the July 1 deadline.

## 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>BUDGET</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:** (1) RECEIVE a draft Proposed Fiscal Year 2024-25 Rent Program Budget and corresponding 10-year financial projection and (2) DETERMINE adoption of the Fiscal Year 2024-25 Budget and approval of the fees consistent with Sections 11.100.060(n) and (l) of the Rent Ordinance – Rent Program (Nicolas Traylor/Fred Tran – 620-6564).

AGENDA ITEM NO:

**J-1.**

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# AGENDA REPORT

**DATE:** May 15, 2024

**TO:** Chair Cantor and Members of the Rent Board

**FROM:** Nicolas Traylor, Executive Director  
Fred Tran, Deputy Director

**SUBJECT:** DRAFT PROPOSED FISCAL YEAR 2024-25 BUDGET AND 10-YEAR FINANCIAL PROJECTION

## STATEMENT OF THE ISSUE:

Section 11.100.060(n) of the Rent Ordinance requires that the Board hold a public hearing and adopt an annual budget for the upcoming fiscal year no later than July 1. The annual budget is funded by the Residential Rental Housing Fee, the amount of which is determined by the City Council following a recommendation from the Rent Board. In consideration of this requirement, staff members have prepared a proposed Fiscal Year 2024-25 Budget with corresponding fees and a 10-year financial projection for its consideration and comment. The purpose of this item is to receive feedback from the Board on the proposed budget and for potential adoption by the July 1 deadline.

## RECOMMENDED ACTION:

(1) RECEIVE a draft Proposed Fiscal Year 2024-25 Rent Program Budget and corresponding 10-year financial projection and (2) DETERMINE adoption of the Fiscal Year 2024-25 Budget and approval of the fees consistent with Sections 11.100.060(n) and (l) of the Rent Ordinance – Rent Program (Nicolas Traylor/Fred Tran – 620-6564).

## FISCAL IMPACT:

The proposed budget and Rental Housing Fee study for the 2024-25 fiscal year would authorize \$3,606,614 in expenses and \$3,706,614 in revenue. The Rental Housing Fee for the 2024-25 fiscal year is proposed: \$261 for Fully Covered Rental Units and \$148 for Partially Covered Rental Units.

## DISCUSSION:

At the May 7, 2024 Special Rent Board Meeting, staff were directed to draft a Proposed Budget for Fiscal Year 2024-25; Option 2 (Attachment 1) in accordance with the presentation from Nicolas Traylor, Executive Director on Item F-1.

## ITEM J-1

The Option 2 Budget proposal assumptions are listed below:

- Authorized salary and step increases per each Memorandum of Understanding and Side Letter for SEIU Local 1021, IFPTE Local 21 Mid-Management, and IFPTE Local 21 Executive Management.
- Approximately double the mass mailing budget to four campaigns for the year.
- Invest in a new in-person interpretation service. A Request for Proposal for additional vendors would follow adoption of Fiscal Year 2024-25 Rent Program Budget.
- Reclassifying vacant Office Assistant role in the Hearings Unit to an Administrative Trainee or equivalent; delay hire to the Second Quarter of the fiscal year.
- Add a Compliance Specialist, plan to be hired in the Second Quarter of the fiscal year.

### Proposed Fiscal Year 2024-25 Budget Summary

The proposed total expenditures for Fiscal Year 2024-25 year are 20% greater than that of the prior year and would fund expenses in the following categories:

<b>Category</b>	<b>Proposed FY 2024-25 Budget</b>
Salaries and Wages	\$1,983,278
Fringe Benefits	\$1,002,435
Professional and Administrative Services	\$377,606
Cost Pool (Indirect Service Charges, Space at 440 Civic Center Plaza, General Liability)	\$156,295
Other Operating Expenses	\$77,000
Supplemental Liability Insurance Policy	\$9,500
Utilities	\$500
<b>TOTAL</b>	<b>\$3,606,614</b>

### Ten-Year Financial Projection

In February 2020, the Rent Program entered into a contract with Kevin W. Harper CPA and Associates to prepare a 10-year financial projection for the Rent Program and issue recommendations in support of the agency's goal of achieving long-term financial stability. The 10-year financial projection has been updated to reflect actual expenses and revenues for Fiscal Year 2018-19 through 2022-23, a Projection for Fiscal Year 2023-24, Proposed Budget for Fiscal Year 2024-25, and projections for the remaining Fiscal Years to 2030-31 (Attachment 2). The projection also reflects the Rent Board's

direction to (1) maintain a revolving balance of available funds to address potential cash flow shortages at the beginning of each fiscal year, when Rental Housing Fee invoices have yet to be paid; and (2) build financial reserves equivalent to a minimum of 18 percent and maximum of 25 percent of current year operating expenses.

Proposed Fiscal Year 2024-25 Rental Housing Fee Study

Section 11.100.060(l)(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 budget. The amount of the Rental Housing Fee is annually established by the Richmond Rent Board and approved by the City Council.

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. Therefore, 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.

The fee study is designed to allow the Rent Program Department to recover costs of all budgeted operations, including, but not limited to:

- Personnel costs of staff, fringe benefits, and overtime;
- Risk management and supplemental liability insurance plan (SLIP);
- Charges allocated from 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, Human Resources, etc.);
- Information Technology (IT) expenses associated with a property and rent-tracking database and maintenance of computer hardware and software;
- Costs of education and outreach, including the printing and distribution of print materials and hosting of community workshops and seminars;
- Contracts for translation, interpretations, and other professional services;

Staff members recommend the Board continue to utilize a tiered-fee approach to the Fiscal Year 2024-25 Rental Housing Fee to ensure the requirements of Section 50076 of the California Government Code are met.

Originally the Rental Housing Fees were established as “flat fees,” applicable to all units regardless of partial or full subject to the Rent Ordinance. This approach was utilized during the first 1.5 years of Program since the startup tasks and associated benefits of the agency’s costs were reasonably shared among Rental Units regardless of status.

Table 1 contains the fees corresponding to the proposed Fiscal Year 2024-25 budget.

		<b>Proposed for FY 2024-25</b>	<b>Change from FY 2023-24</b>
<b>TOTAL BUDGET:<sup>1</sup></b>		\$3,606,614	+\$601,919 (+20%)
<b>Fully Covered Units<sup>2</sup></b>	7,857	\$261	+\$41 (+18.7%)
<b>Partially Covered Units (including subsidized units)<sup>3</sup></b>	10,485	\$148	+\$23 (+18.6%)
<b>TOTAL REVENUE<sup>4</sup>:</b>		\$3,706,614	\$631,917 (+20.6%)

The chart compares the proposed FY2024-25 Rental Housing Fee to prior year fees.

<b>FISCAL YEAR</b>	<b>FULLY COVERED RENTAL UNITS</b>	<b>PARTIALLY COVERED RENTAL UNITS</b>	<b>GOVERNMENTALLY SUBSIDIZED RENTAL UNITS</b>
2017-18	\$145	\$145	N/A
2018-19	\$207	\$100	\$50
2019-20	\$212	\$112	N/A
2020-21	\$219	\$124	N/A
2021-22	\$218	\$123	N/A
2022-23	\$226	\$127	N/A
2023-24	\$220	\$125	N/A
<b>2024-25 (Proposed)</b>	<b>\$261</b>	<b>\$148</b>	<b>N/A</b>

Conclusion and Proposed Actions

The Proposed 2024-25 Budget and fees reflect the goals of the Rent Program and will allow the agency to recover costs of all budgeted operations by increasing the Rental Housing Fee to \$261 for Fully Covered and \$148 for Partially Covered units.

**DOCUMENTS ATTACHED:**

Attachment 1 – Proposed Fiscal Year 2024-25 Budget

Attachment 2 – 10-year Financial Projection

<sup>1</sup> Total Expenditures include the budgeted

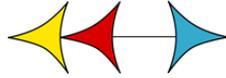
<sup>2</sup> Includes suspected Fully Covered rental units

<sup>3</sup> Includes suspected Partially Covered rental units

<sup>4</sup> Fees rounded up to the nearest full dollar

PROPOSED FY 2024 - 2025 RENT PROGRAM BUDGET AND FEE STUDY									
FEE STUDY - Option 2									
		Type	# UNITS	Proposed Fee	Revenue				
		Fully-Covered	7,857	\$261	\$2,052,494	(a) + (b) + (c)			
		Partially-Covered	10,485	\$148	\$1,554,121	(a) + (b)			
		Total Units	18,342		\$3,606,614				
BUDGET									
Object #	City Account Description	FY 18-19 ACTUALS	FY 19-20 ACTUALS	FY 20-21 ACTUALS	FY 21-22 ACTUALS	FY 22-23 ACTUALS	FY 23-24 ADOPTED	FY 24-25 PROPOSED	Notes
<b>REVENUES</b>									
340445	Fees/Admin Fees	2,189,703	2,681,689	2,764,961	2,332,429	2,553,651	3,004,698	3,606,614	(1)
361701	Int & Invest/Pooled-All Other & Gains	367	11,537	6,096	4,619	31,647	20,000	50,000	
364867	Revenue from Collections & Other & Grants	133	13,042	24,796	19,641	50,078	50,000	50,000	
	<b>TOTAL REVENUES</b>	<b>2,190,203</b>	<b>2,706,268</b>	<b>2,795,854</b>	<b>2,356,688</b>	<b>2,635,376</b>	<b>3,074,698</b>	<b>3,706,614</b>	
<b>EXPENSES</b>									
400001	Salaries & Wages/Executive	530,092	639,594	649,356	676,463	764,496	846,234	984,703	(2)
400002	Salaries & Wages/Mgmts -Local 21	294,152	263,080	183,838	147,008	307,266	367,225	467,164	(2)
400003	Salaries & Wages/Local 1021	128,866	150,317	168,422	152,925	208,948	337,653	443,728	(2)
400006	Salaries & Wages/PT-Temp	49,557	45,905	32,244	35,234	21,447	37,565	47,000	(2)
400031	Overtime/General	4,778	2,094	1,312	1,793	802	2,500	2,500	(2)
400048	Other Pay/Bilingual Pay	6,993	9,064	9,719	7,910	10,713	11,470	14,289	(2)
400049	Other Pay/Auto Allowance	4,200	4,200	4,200	4,200	4,200	4,200	4,200	(2)
400050	Other Pay/Medical-In Lieu of	2,700	1,500	-	-	-	-	-	
400053	Other Pay/Pension Credits	-	-	-	-	-	-	19,694	(2)
400079	Comp Absences/WC-Prof-Mgt-Tec	1,486	5,328	-	-	-	-	-	
400058	OTHER PAY/Retro Pay 2022-23 and Prior	-	-	-	34,200	-	63,615	-	
	<b>Subtotal - Salaries &amp; Wages</b>	<b>1,022,823</b>	<b>1,121,084</b>	<b>1,049,091</b>	<b>1,059,732</b>	<b>1,317,872</b>	<b>1,670,462</b>	<b>1,983,278</b>	
400103	P-Roll Ben/Medicare Tax-ER Shor	14,937	16,389	15,313	15,435	19,219	20,774	26,457	(3)
400105	P-Roll Ben/Health Insurance Be	146,557	136,575	128,611	168,100	238,838	271,329	328,838	(3)
400106	P-Roll Ben/Dental Insurance	16,652	17,021	17,534	13,509	16,624	18,031	19,418	(3)
400109	P-Roll Ben/Employee Assistance	430	473	422	244	217	234	252	(3)
400110	P-Roll Ben/Professional Dev-Mg	3,728	5,200	1,500	250	1,500	7,500	6,750	(3)
400111	P-Roll Ben/Vision	2,106	2,095	2,049	1,588	1,985	2,158	2,324	(3)
400112	P-Roll Ben/Life Insurance	5,557	4,006	3,433	3,336	3,884	3,931	4,047	(3)
400114	P-Roll Ben/Long Term Disability	9,408	10,100	9,259	6,952	6,472	11,996	13,025	(3)
400116	P-Roll Ben/Unemployment Ins	1,860	5,100	4,960	4,440	6,042	5,928	6,384	(3)
400117	P-Roll Ben/Personal/Prof Dev	750	1,493	1,500	1,140	2,250	2,250	3,750	(3)
400118	P-Roll Ben/Worker Comp-Injury Appt	-	-	692	-	-	-	-	
400121	P-Roll Ben/Worker Comp-Clerical	13,806	12,154	14,541	9,042	14,807	6,923	-	
400122	P-Roll Ben/Worker Comp-Prof	69,352	60,744	74,891	47,762	72,880	-	94,187	(3)
400127	P-Roll Ben/OPEB	39,338	43,623	42,145	40,276	34,620	32,127	-	
400130	P-Roll Ben/PARS Benefits	642	434	50	398	280	-	-	
400149	P-Roll Ben/Misc.	123,021	140,616	139,314	128,986	162,492	186,975	240,175	(3)
400151	P-Roll Ben/Misc. (UAL)	162,985	235,683	271,234	252,844	309,894	309,894	258,828	(3)
	<b>Subtotal Fringe Benefits</b>	<b>611,127</b>	<b>691,706</b>	<b>727,447</b>	<b>694,301</b>	<b>864,195</b>	<b>880,050</b>	<b>1,002,435</b>	
400201	Prof Svcs/Professional Svcs	32,112	38,241	10,957	10,460	12,649	140,900	80,700	(4)
400206	Prof Svcs/Legal Serv Cost	137,614	193,742	149,994	183,326	164,576	275,000	275,000	(5)
400220	Prof Svcs/Info Tech Services	2,375	-	2,142	2,205	-	2,400	2,500	(6)
400241	Travel & Trng/Meal Allowance	359	-	-	-	-	-	-	
400242	Travel & Trng/Mileage	1,284	17	-	-	-	-	-	
400243	Travel & Trng/Conf, Mtng Trng	280	-	-	-	-	-	-	
400245	Travel & Trng/Tuition Rmb/Cert	800	800	-	-	3,250	800	-	
400261	Dues & Pub/Memberships & Dues	824	1,590	1,453	1,437	1,689	1,650	2,025	(7)
400263	Dues & Pub/Subscription	1,500	-	-	-	-	-	7,500	(7)
400271	Ad & Promo/Advertising & Promo Materials	1,559	2,106	1,702	3,928	649	800	3,000	(8)
400272	Ad & Promo/Community Events	1,563	1,722	-	-	-	-	-	
400280	Adm Exp/Program Supplies	5,292	1,600	3,432	1,126	4,374	5,808	6,881	(9)
	<b>Subtotal Prof &amp; Admin Services</b>	<b>185,563</b>	<b>239,819</b>	<b>169,680</b>	<b>202,481</b>	<b>187,187</b>	<b>427,358</b>	<b>377,606</b>	
400231	Off Exp/Postage & Mailing	10,849	5,905	6,528	14,981	5,794	15,355	30,000	(10)
400232	Off Exp/Printing & Binding	12,071	3,295	3,428	735	2,377	15,425	30,000	(11)
400233	Off Exp/Copying & Duplicating	46	-	236	-	-	-	-	
400304	Rental Exp/Equipment Rental	8,721	4,532	2,488	2,554	3,255	9,000	9,000	(12)
400321	Misc. Exp/Misc. Contrib	3,000	-	1,500	1,500	-	2,000	-	
400322	Misc. Exp/Misc. Exp	3,061	2,262	-	173	627	5,000	-	
400341	Off Supp/Office Supplies	8,721	6,024	1,891	6,457	6,316	5,000	8,000	(13)
400344	Off Supp/Computer Supplies	18	783	-	-	-	-	-	
	<b>Subtotal Other Operating</b>	<b>46,486</b>	<b>22,801</b>	<b>16,072</b>	<b>26,400</b>	<b>18,369</b>	<b>51,780</b>	<b>77,000</b>	
400121	Carry forward from FY 2022-23 - System	-	-	-	-	-	(100,000)	-	
400401	Utilities/Tel & Telegraph	254	414	551	498	-	500	500	
400538	Contract Svcs/Other Contract Svcs	-	-	103	150	112	-	-	
400552	Prov Fr Ins Loss/Ins Gen Liab	8,029	8,765	9,047	8,991	9,163	9,300	9,500	
400574	Cost Pool/(ISF)-Gen Liab	55,701	75,144	69,513	79,937	83,934	-	99,980	(14)
400586	Cost Pool/(CAP)-Admin Charges	51,454	51,454	51,454	52,481	52,481	-	-	(14)
400591	Cost Pool/(IND)/Civic Ctr Alloc	52,420	47,026	50,289	50,286	48,217	60,248	56,315	(14)
400601	Noncap Asst/Comp Hardware<5K	-	6,526	-	-	-	5,000	-	
400604	Noncap Asst/Furniture<5K	13,328	-	-	-	-	-	-	
	<b>TOTAL EXPENSES</b>	<b>2,047,186</b>	<b>2,264,738</b>	<b>2,143,246</b>	<b>2,175,258</b>	<b>2,581,531</b>	<b>3,004,698</b>	<b>3,606,614</b>	
	<b>NET BUDGET BALANCE</b>	<b>143,017</b>	<b>441,530</b>	<b>652,608</b>	<b>181,431</b>	<b>53,846</b>	<b>70,000</b>	<b>100,000</b>	
<b>Notes:</b>									
(1) Assumes a Fiscal Year 2024-25 Rental Housing Fee of \$261 for Fully Covered unit and \$148 for Partially Covered units									
(2) Refer to the Budget and Fee Study for detailed salary and wage assumptions - amounts provided by City's Finance - Budget Division and MOUs									
(3) The Rent Program received budgeted Fringe Benefits amounts from the City's Finance - Budget Division with the exception of Workers Compensation									
(4) Includes \$20,000 for temporary services, \$41,700 for interpretation services, and \$19,000 for translation services									
(5) Includes \$200,000 contract with the Eviction Defense Center to assist with Unlawful Detainer cases, \$75,000 to contract legal services for landlords/tenants									
(6) TRAKIT annual fee for IT charge \$2,500 for City land management CRM									
(7) Anticipated cost of Bar Association dues for three attorneys (\$675 per Attorney); Object #400263 for \$4,500 for a property information subscription, \$3,000 for a legal research subscription									
(8) Budgeted amount includes funds to satisfy the requirement to publish notices in the newspaper for public hearings as part of the budget adoption process and social media, and outreach supplies									
(9) Budgeted amount includes the cost of email accounts for Rent Board Members, business cards, and videoconference/webinar accounts, supplies and food at Rent Board meetings									
(10) Budgeted amount reflects anticipated postage costs for mailers: Rental Housing Fee invoices, tenancy registration mailings, and the postcards, and Guide to Rent Control									
(11) Budgeted amount reflects anticipated printing costs: Rental Housing Fee invoices, tenancy registration mailings, postcards, and the Guide to Rent Control									
(12) Lease of copy machines including an estimated of cost-per-copy									
(13) Office supplies to operate Rent Program									
(14) Rent Program is collaborating with the City to execute an agreement for reasonable Cost Pool allocations and charges									

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Kevin W. Harper CPA & Associates

March 12, 2020

Ms. Paige Roosa  
Deputy Director  
City of Richmond Rent Program  
440 Civic Center Plaza, Suite 200  
Richmond, CA 94804

Dear Ms. Roosa:

The Rent Program engaged me to:

1. Develop and present a ten-year financial projection of revenues, expenditures and reserves for the Rent Program, including consideration of the historical rate of collection of the Rental Housing Fee and assumptions for future collection rates.
2. Provide recommendations on how to meet the Rental Program's goal of building 17% operating reserves by the close of the 2020-21 fiscal year, and how best to achieve long-term financial stability in a manner that is consistent with all applicable laws and regulations including but not limited to Section 50076 of the California Government Code.
3. Provide recommendations regarding financial and budgetary "best practices" to be utilized by the Rent Board and Rent Program staff members, specifically as it relates to the preparation of an annual budget and fee study for approval by the Rent Board.

During the project, I reviewed relevant Rent Board and City of Richmond documents, gained an understanding management's goals and concerns, researched relevant best practices, and participated in working meetings to develop projection assumptions.

The ten-year financial projection is include as Attachment I. Following are my observations and recommendations:

## **FINANCIAL STABILITY RECOMMENDATIONS**

### **1. Maximizing revenue**

A significant challenge for the Rent Program is identifying all units that are subject to the Rental Housing Fee. To date, units have been identified by sending postcards to occupants of units, crosschecking list of units with other City programs, and obtaining information from the City Planning Division. Although not

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definitively known at this time, Rent Program staff believe as much as 25% of partially covered units may not yet be identified and billed. If partially covered units increased by 25% (~2500 units), revenue would increase by approximately \$1 million per year. The Rent Program should expand efforts to identify additional units by performing regular review of Zillow and other online rental platforms. Additionally, tenants, landlords and other stakeholders should be regularly encouraged to help identify units that should be in the program.

### **2. Inflationary increase for Rental Housing Fee**

The City includes an inflationary increase in most of its fees when it adopts its Master Fee Schedule each year. It determines the percentage increase based on the Employment Cost Index from the US Bureau of Labor Statistics. The Rent Board does not include inflationary increases for its fees. Large increases every few years are harder than smaller increases every year for both the Rent Board and the landlords. A steady planned increase in the fee allows planning by both parties, is consistent with the Rent Board's need to match revenues and expenditures, and is logical to landlords. In years when an inflationary increase is not adequate to meet the Rent Board's needs, then it will be easy to identify to stakeholders what the additional costs are for.

The Rent Board should consider increasing fees each year based on an inflationary estimate. Staff should investigate the legal and political issues before adopting.

### **3. Reserve policy**

The Government Finance Officers Association (GFOA) recommends that governments should maintain a prudent level of financial reserves to protect against reducing service levels or raising fees because of temporary revenue shortfalls or unpredicted one-time expenditures. Reserve funds may be used at the Rent Board's discretion to address temporary cash flow shortages, emergencies, unanticipated economic downturns, and one-time opportunities.

The Rent Board should adopt a Reserve Policy that addresses the following:

- The purpose for the reserve funds
- Under what circumstances the reserve funds may be used
- The amount of the reserve funds, including how the amount was determined and the minimum and maximum reserve levels
- How and when reserve funds are initially built
- How and when the reserves will be replenished after they are fully or partially used

Regarding the appropriate amount of reserves, GFOA recommends:

The adequacy of [reserves] should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance. Articulating these risks in a fund balance policy makes it easier to explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers and employees from unexpected changes in financial condition. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments,

regardless of size, maintain unrestricted budgetary fund balance...of no less than two months of regular ... operating revenues or ... operating expenditures.

Via discussions with Rent Program management, it has been determined that 17% minimum reserve is an acceptable target. We discussed worst case scenario estimates of revenue losses during an economic downturn and determined that such level of reserves would allow time for the Rent Program to identify the downturn and the Rent Board time to make decisions to cut expenses to match the new level of revenue. 17% of annual expenditures equates to approximately \$470,000.

The reserve level is \$55,339 at June 30, 2019. As shown in the ten-year projection at Attachment I, fiscal year 2019-20 is expected to end with a \$319 thousand surplus and fiscal year 2020-21 with a \$134 thousand surplus. Accordingly, it appears that the Rent Program can fund its reserves by June 30, 2021.

The Reserve Policy should clarify what action the Board and senior management will take when revenues decline due to recession or conversion/reduction in the number of applicable units. Without such plan, it may take too long to adjust service offerings and expenses to match the decline in revenues, thereby causing unneeded financial stress.

The City's financial system has the capability to set up a separate account within the fund balance group of accounts for reserves. The Rent Program should work with Accounting to set this up. This will allow the Rent Program to track the amount of reserves at any moment, to assure that the City agrees with the amount of reserves available, and allows easy proof of compliance with the new reserve policy.

#### **4. Fee policy**

The Rent Board should adopt a policy that identifies the manner in which fees are established, billed and collected. Stakeholders should be given an opportunity to provide input into formulation of this policy via one or more community budget workshops. This will increase community understanding and support for the program, and allow management to better understand the needs and concerns of its stakeholders. Costs of service include direct and indirect costs such as operating and maintenance costs, City overhead allocations, and charges for use of capital (depreciation and debt service). State and local laws governing the establishment of fees should be identified in the policy.

The Fee Policy should also address:

- How penalties and interest are determined and billed
- The process for increasing (or decreasing) fees
- Require fee study to demonstrate the need for the amount of fees collected. See recommendation #11 below.
- Identify the process for determining that a unit is eligible for exemption, including required documentation

The Fee Policy should be supplemented with related written procedures. GFOA recommends every government document its accounting procedures "...as an essential component of a comprehensive framework of internal controls." Documentation of comprehensive accounting procedures will allow:

- Management to understand and evaluate whether procedures provide adequate internal controls and mitigation of risks
- Employees to review and revise procedures as circumstances, laws, technology and accounting standards change
- Internal and external auditors to assess the adequacy of the Rent Program’s internal controls
- New employees to be trained to provide consistent service and quality upon staff turnover

**5. City allocations**

The City allocates the cost of providing shared services (e.g., accounting, human resources, information technology, legal, insurance, facilities, management) to all City departments. For fiscal year 2018-19, the amounts charged to the Rent Program were:

City Pool/(ISF)-Gen Liab	\$91,262
City Pool/(CAP)-Admin Charges	51,452
City Pool/(IND)-Civic Ctr Alloc	<u>47,024</u>
	<u>\$189,738</u>

Since the Rent Program is essentially an independent agency rather than a City departments, it is possible that it is being charged for City services that are not utilized. For example, if the City allocations include legal costs, the fact that the Rent Program hires its own attorneys may not have been adequately contemplated in the allocations.

Rent Program staff should work with Accounting to understand how the indirect costs are calculated and allocated, and then should determine whether the amounts being charged to the Rent Program are reasonable. If not, begin negotiations with the City for relief from the allocations.

**6. Comparisons to peers**

There are rent programs in other communities that face similar challenges and opportunities as the Richmond Rent Program. There are many benefits of sharing learnings and non-confidential information with these other programs. Examples of topics that the Rent Program might benefit from shared knowledge includes (a) expected impact on revenue when an economic downturn is predicted, (b) how to identify units subject to the housing fee, (c) staff composition and compensation, (d) cost of operations, (e) stakeholder communications. The Rent Program should identify a few similar rent programs and build a community to share learnings.

**BUDGET RECOMMENDATIONS**

**7. Budget policy**

The Rent Program does not have its own budget policy. Although the City has a budget policy, it is not applicable to the Rent Board’s budget adoption process because the Rent Ordinance gives authority to the Rent Board to adopt the Rent Program’s budgets. The GFOA recommends that governments follow the National Advisory Council on State and Local Budgeting (NACSLB) framework. This framework states that “the mission of the budget process is to help decision makers make informed choices about the

provision of services and capital assets and to promote stakeholder participation in the process.” The framework can be found at [https://www.gfoa.org/sites/default/files/NACSLB\\_RecommendedBudgetPractices.pdf](https://www.gfoa.org/sites/default/files/NACSLB_RecommendedBudgetPractices.pdf).

According to NACSLB, the budget process should accomplish the following:

- Involve stakeholders
- Identify stakeholder issues and concerns
- Obtain stakeholder support for the overall budgeting process
- Achieve stakeholder acceptance of decisions related to goals, services, and resource utilization
- Report to stakeholders on services and resource utilization, and serve generally to enhance the stakeholders’ view of government

The Rent Board should adopt a budget policy. This policy should cover at a minimum:

- Overview of budget process and purpose
- How stakeholder input is obtained
- The definition of a balanced budget
- Roles and responsibilities related to preparation, approval and managing the budget
- Quarterly financial reports showing budget vs. actual revenues and expenditures reviewed by senior management and the Rent Board
- Authorization needed to revise the budget (e.g., when can savings in one line item be used for another?)
- Legal level of budgetary control
- Key dates
- Whether unused appropriations lapse at year end or are automatically reappropriated
- Limit the use of one-time revenues for ongoing expenditures

The Budget Policy should be supplemented with related written procedures that describe what tasks individual employees perform to accomplish the Board’s policy, who is responsible for each task, what internal controls are to be followed and what forms will be used to document approvals and audit trails.

### **8. Budget format**

The annual budget should be prepared following account titles and account numbers in the City’s chart of accounts in order to facilitate recording the budget in the financial system. The budget should be broken down by quarters in order to facilitate preparation of quarterly financial reports that show budget vs actual revenues and expenditures.

Assumptions related to each budget line item should be documented during the budget preparation process. These assumptions should include:

- The rate of inflation assumed, how it was estimated, and what line items it was applied to
- The number of rental units anticipated and how estimated
- The percentage of fees expected to be collected and how estimated
- A list of all authorized staff positions and the expected salaries and benefits related to each
- Allocations of indirect costs from the City
- Expenses related to capital projects or new capital assets

- New contracts expected to be entered into
- Additions to reserves

Attachment II is a recommended sample budget format.

### **9. Ten-year projection**

Long-term financial planning stimulates discussion about the financial impact of an organization's plans and objectives, and engenders a long-range perspective for decision makers. A multi-year financial projection is a tool to minimize financial challenges, stimulate long-term and strategic thinking, gain consensus on long-term financial direction, and communicate plans with internal and external stakeholders.

As part of this project, we assisted the Rent Program to develop the format and process for preparing a ten-year financial projection. See Attachment I for the ten-year financial projection document.

A key element of the projection document is that it is prepared the same way, and in the same level of detail as the annual budget. Projection assumptions are documented in the same way as are assumptions for the budget. The first year of the ten-year projection should become the first draft of the Rent Program's annual budget. The ten-year projection should be updated each year by adding an additional year of projection, reviewing and updating previous assumptions used, and considering new information or management plans.

### **10. Budget vs. actual quarterly report**

A key element of an effective budget process is monitoring actual results against the budget throughout the year. This is done to allow management time to make adjustments if necessary to expenditures, policies or operations. The best way to monitor budget vs. actual results is to prepare a quarterly financial report that is reviewed by management and the Board. Although this budget vs. actual report is an internal management document, it should be reviewed by the Rent Board at a public meeting. Attachment III is a proposed format for the quarterly budget vs. actual financial report.

Key elements of this budget vs. actual report are:

- It is initially prepared at the same level of detail as the budget.
- Significant variances between budgeted and actual amounts are identified, explained and documented. Operating managers will frequently need to be consulted to understand the reasons for variances. It is important to quantify variances that are explained. It is better to thoroughly research and explain very large variances than to do a more cursory explanation of many variances. The variances should be documented on the budget vs. actual financial report.
- The line items of the budget vs. actual report can be rolled up to present less detail depending on the needs of each user. For example, you may want a one-page easy-to-read version for the Board, and may want all detail for a department manager. Whenever there is a rollup, it is important to keep a clear record of which account numbers roll up to which new categories to facilitate explanations and comparisons.

**11. Fee study**

California Government Code Section 50076 requires that governments charge fees in amounts commensurate with the costs necessary to provide the related services to the fee payers. The Rent Program demonstrates the reasonableness of its fees via calculations performed in a Fee Study. I reviewed the Rent Program's Fee Study, including the methodology used. The methodology and documentation appear reasonable. I have the following observations:

- The Rent Program's expenditures are allocated among three components or layers as follows: Program Layer 55%, Just Cause for Eviction Layer 20%, and Rent Control Layer 25%. Fully covered units pay the fee related to all three layers and partially covered units pay the fee related to the Program and Just Cause for Eviction layers only. The percentage of costs that are allocated to these layers is based on management estimate of the amount of time staff spend performing such tasks. The Rent Program should conduct a time study to determine and document that these percentages are accurate.
- A Fee Study is necessary to ensure that the fees charges to landlords are commensurate with the level of services provided. Such Fee Study is not required to be conducted every year. If there are no significant changes in the costs and fees from one year to the next (e.g., only inflationary increases), a Fee Study is not necessary. Most organizations update fee studies when fee increases are sought and otherwise every 3 to 5 years.

\* \* \* \* \*

I would be pleased to discuss these recommendations in more detail or to assist with their implementation.

Sincerely,

*Kevin W. Harper, CPA*  
Kevin W. Harper

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Object #	City Account Description	Historical Actuals					Projected									
		2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 Actuals to 4/30/24	2023-24 May and June	2023-24 Fiscal Year End	2024-25 Proposed	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
<b>REVENUES</b>																
340445	Fees/Admin Fees (a)	2,189,703	2,681,689	2,764,961	2,332,429	2,553,651	2,667,987	80,000	2,747,987	3,606,614	3,738,035	3,875,852	4,018,727	4,167,733	4,323,155	4,485,294
361701	Int & Invest/Pool-All Other	367	11,537	6,096	9,894	31,647	47,738	8,000	55,738	50,000	51,000	52,020	53,060	54,122	55,204	56,308
364867	Revenue from Collections	133	13,042	24,796	14,366	50,078	26,235	14,000	40,235	50,000	30,000	30,000	30,000	30,000	30,000	30,000
	<b>Total Revenues</b>	<b>2,190,203</b>	<b>2,706,268</b>	<b>2,795,854</b>	<b>2,356,688</b>	<b>2,635,376</b>	<b>2,741,960</b>	<b>102,000</b>	<b>2,843,960</b>	<b>3,706,614</b>	<b>3,819,035</b>	<b>3,957,872</b>	<b>4,101,788</b>	<b>4,251,855</b>	<b>4,408,359</b>	<b>4,571,602</b>
<b>EXPENSES</b>																
<b>Salaries &amp; Wages</b>																
400001	Salaries & Wages/Executive	530,092	639,594	649,356	676,463	764,496	719,389	153,933	873,323	984,703	1,033,939	1,085,635	1,139,917	1,196,913	1,256,759	1,319,597
400002	Salaries & Wages/Mgmt-Local 21	294,152	263,080	183,838	147,008	307,266	327,964	71,400	399,364	467,164	490,522	515,048	540,801	567,841	596,233	626,044
400003	Salaries & Wages/Local 1021	128,866	150,317	168,422	152,925	208,948	196,682	41,709	238,392	443,728	465,915	489,210	513,671	539,354	566,322	594,638
400006	Salaries & Wages/PT-Temp	49,557	45,905	32,244	35,234	21,447	39,339	10,275	49,614	47,000	49,350	51,818	54,408	57,129	59,985	62,984
400031	Overtime/General	4,778	2,094	1,312	1,793	802	352	134	486	2,500	2,625	2,756	2,894	3,039	3,191	3,350
400048	Other Pay/Bilingual Pay	6,993	9,064	9,719	7,910	10,713	10,991	1,879	12,869	14,289	15,003	15,753	16,541	17,368	18,236	19,148
400049	Other Pay/Auto Allowance	4,200	4,200	4,200	4,200	-	3,500	700	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200
400050	Other Pay/Medical-In Lieu of	2,700	1,500	-	-	-	14,224	3,053	17,277	-	-	-	-	-	-	-
400053/8	Pension Credits / OTHER PAY/Bonuses	-	-	-	34,200	-	2,000	-	2,000	19,694	20,679	21,713	22,798	23,938	25,135	26,392
400079	Comp Absences/WC-Prof-Mgt-Tec	1,486	5,328	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>Subtotal - Salaries &amp; Wages</b>	<b>1,022,823</b>	<b>1,121,084</b>	<b>1,049,091</b>	<b>1,059,732</b>	<b>1,317,872</b>	<b>1,314,441</b>	<b>283,083</b>	<b>1,597,524</b>	<b>1,983,278</b>	<b>2,082,232</b>	<b>2,186,134</b>	<b>2,295,230</b>	<b>2,409,782</b>	<b>2,530,061</b>	<b>2,656,354</b>
<b>Fringe Benefits</b>																
400103	P-Roll Ben/Medicare Tax-ER Shr	14,937	16,389	15,313	15,435	19,219	18,929	4,109	23,038	26,457	26,986	27,526	28,076	28,638	29,211	29,795
400104	P-Roll Ben/PERS Benefits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400105	P-Roll Ben/Health Insurance Be	146,557	136,575	128,611	168,100	238,838	217,215	46,276	263,491	326,838	333,375	340,042	346,843	353,780	360,856	368,073
400106	P-Roll Ben/Dental Insurance	16,652	17,021	17,534	13,509	16,624	13,873	2,775	16,648	19,418	19,806	20,202	20,607	21,019	21,439	21,868
400109	P-Roll Ben/Employee Assistance	430	473	422	244	217	184	37	220	252	257	262	267	273	278	284
400110	P-Roll Ben/Professional Dev-Mg	3,728	5,200	1,500	2,500	1,500	1,297	1,500	2,797	6,750	6,885	7,023	7,163	7,306	7,453	7,602
400111	P-Roll Ben/Life Insurance	2,106	2,095	2,049	1,588	1,985	1,664	333	1,997	2,324	2,370	2,418	2,466	2,516	2,566	2,617
400112	P-Roll Ben/Visa Insurance	5,557	4,006	3,433	3,336	3,884	3,275	6,055	3,930	4,047	4,128	4,295	4,381	4,468	4,558	4,648
400114	P-Roll Ben/Long Term Disabilit	9,408	10,100	9,259	6,952	6,472	6,517	1,404	7,921	13,025	13,286	13,551	13,822	14,099	14,381	14,668
400116	P-Roll Ben/Unemployment Ins	1,860	5,100	4,960	4,440	6,042	5,700	1,140	6,840	6,384	6,512	6,642	6,775	6,910	7,048	7,189
400117	P-Roll Ben/Personal/Prof Dev	750	1,493	1,500	1,140	2,250	430	1,134	1,565	3,750	3,825	3,902	3,980	4,059	4,140	4,223
400118	P-Roll Ben/Worker Comp-Injury Appt	-	-	692	-	-	-	-	-	-	-	-	-	-	-	-
400121	P-Roll Ben/Worker Comp-Clerica	13,806	12,154	14,541	9,042	14,807	8,874	1,831	10,705	-	-	-	-	-	-	-
400122	P-Roll Ben/Worker Comp-Prof	69,352	60,744	74,891	47,762	72,880	92,220	20,299	112,519	94,187	96,070	97,992	99,952	101,951	103,990	106,069
400124	P-Roll Ben/CON-MEDICL EE Share	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400127	P-Roll Ben/OPEB	39,338	43,623	42,145	40,276	34,620	20,241	4,172	24,413	-	-	-	-	-	-	-
400130	P-Roll Ben/PARS Benefits	642	434	50	398	280	511	134	645	-	-	-	-	-	-	-
400149	P-Roll Ben/Misc	123,021	140,616	139,314	128,986	162,492	173,575	37,353	210,928	240,175	244,979	249,878	254,876	259,973	265,173	270,476
400151	P-Roll Ben/Misc (UAL)	162,985	235,683	271,234	252,844	282,084	199,425	39,019	238,444	258,828	264,005	269,285	274,670	280,164	285,767	291,482
	<b>Subtotal Fringe Benefits</b>	<b>611,127</b>	<b>691,706</b>	<b>727,447</b>	<b>694,301</b>	<b>864,195</b>	<b>763,931</b>	<b>162,171</b>	<b>926,102</b>	<b>1,002,435</b>	<b>1,022,483</b>	<b>1,042,933</b>	<b>1,063,792</b>	<b>1,085,068</b>	<b>1,106,769</b>	<b>1,128,904</b>
<b>Prof &amp; Admin Services</b>																
400201	Prof Svcs/Professional Svcs	32,112	38,241	10,957	10,460	12,649	16,686	3,212	19,899	80,700	82,314	83,960	85,639	87,352	89,099	90,881
400206	Prof Svcs/Legal Serv Cost	137,614	193,742	149,994	183,326	164,576	149,994	33,332	183,326	275,000	280,500	286,110	291,832	297,669	303,622	309,695
400220	Prof Svcs/Info Tech Services	2,375	-	2,142	2,205	-	-	-	-	2,500	2,550	2,601	2,653	2,706	2,760	2,815
400241	Travel & Trng/Meal Allowance	359	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400242	Travel & Trng/Mileage	1,284	17	-	-	-	-	-	-	-	-	-	-	-	-	-
400243	Travel & Trng/Conf, Mtng Trng	280	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400245	Travel & Trng/Tuition Rmb/Cert	800	800	-	-	3,250	1,556	1,046	2,601	-	-	800	800	800	800	800
400261	Dues & Pub/Memberships & Dues	824	1,590	1,453	1,437	1,689	649	-	649	2,025	2,066	2,107	2,149	2,192	2,236	2,280
400263	Dues & Pub/Subscription	1,500	-	-	-	-	-	-	-	7,500	7,650	7,803	7,959	8,118	8,281	8,446
400271	Ad & Promo/Advertising & Promo	1,559	2,106	1,702	3,928	649	1	-	1	3,000	3,060	3,121	3,184	3,247	3,312	3,378
400272	Ad & Promo/Advertising & Promo	1,563	1,722	-	-	-	-	-	-	-	-	-	-	-	-	-
400280	Adm Exp/Program Supplies	5,292	1,600	3,432	1,126	4,374	4,639	1,008	5,647	6,881	7,019	7,159	7,302	7,448	7,597	7,749
	<b>Subtotal Prof &amp; Admin Services</b>	<b>185,563</b>	<b>239,819</b>	<b>169,680</b>	<b>202,481</b>	<b>187,187</b>	<b>173,525</b>	<b>38,598</b>	<b>212,122</b>	<b>377,606</b>	<b>385,158</b>	<b>393,661</b>	<b>401,519</b>	<b>409,533</b>	<b>417,708</b>	<b>426,046</b>
<b>Other Operating</b>																
400231	Off Exp/Postage & Mailing	10,849	5,905	6,528	14,981	5,794	5,988	9,000	14,988	30,000	30,600	31,212	31,836	32,473	33,122	33,785
400232	Off Exp/Printing & Binding	12,071	3,295	3,428	735	2,377	4,727	10,000	14,727	30,000	30,600	31,212	31,836	32,473	33,122	33,785
400233	Off Exp/Copying & Duplicating	46	-	236	-	-	-	-	-	-	-	-	-	-	-	-
400304	Rental Exp/Equipment Rental	8,721	4,532	2,488	2,554	3,255	954	-	954	9,000	9,180	9,364	9,551	9,742	9,937	10,135
400321	Misc Exp/Misc Contrib	3,000	-	1,500	1,500	-	1,915	-	1,915	-	-	-	-	-	-	-
400322	Misc Exp/Misc Exp	3,061	2,262	-	173	-	103	500	603	-	-	-	-	-	-	-
400341	Off Supp/Office Supplies	8,721	6,024	1,891	6,457	627	1,829	1,500	3,329	8,000	8,160	8,323	8,490	8,659	8,833	9,009
400344	Off Supp/Computer Supplies	18	783	-	-	6,316	4,276	-	4,276	-	-	-	-	-	-	-
	<b>Subtotal Other Operating</b>	<b>46,486</b>	<b>22,801</b>	<b>16,072</b>	<b>26,400</b>	<b>18,369</b>	<b>19,793</b>	<b>21,000</b>	<b>40,793</b>	<b>77,000</b>	<b>78,540</b>	<b>80,111</b>	<b>81,713</b>	<b>83,347</b>	<b>85,014</b>	<b>86,715</b>
400201	Carry forward from FY 2022-23 - System	13,328	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400401	Utilities/Tel & Telegraph	254	414	551	498	112	56	-	56	500	510	520	531	541	552	563
400538	Contract Svcs/Other Contract Svcs	-	-	103	150	-	-	-	-	-	-	-	-	-	-	-
400552	Prov Fr Ins Loss/Ins Gen Liab	8,029	8,765	9,047	8,991	9,163	9,195	-	9,195	9,500	9,690	9,884	10,081	10,283	10,489	10,699
400574	Cost Pool/(ISF)-Gen Liab	55,701	75,144	69,513	79,937	83,934	181,454	36,290	217							

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