

Apartment Operating Cost Increases in Berkeley
Analysis for the 2004 Annual General Adjustment

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This report was commissioned by the Berkeley Rent Stabilization Board. The opinions expressed herein are those of the author and do not necessarily represent the opinions of the Board.

Executive Summary

This report estimates the amount of rent increases necessary to cover increases in the operating costs of Berkeley apartments since July 1, 2002.

From July 1, 2002 to July 1, 2003 the Consumer Price Index (CPI) increased by 1.6%.

It is estimated that the operating cost increases of Berkeley apartments equal approximately 2.8% of the annual rent.

The principal cost increases have been as follows:

Rental Housing Safety Program - inspection fee	\$17 0.23% of annual rent
Demonstration of compliance with Rental Housing Safety Program	\$20 0.27% of annual rent
Rental Registration Fee	\$12 0.16% of annual rent
Gas Costs - individually metered units July 2003 offset of decrease from July 2001 to July 2002	0.86% of annual rent

I. Introduction

a. The Ordinance

Under the Berkeley Rent Stabilization ordinance the Rent Board is directed to [consider setting and adjusting the rent ceiling for all rental units]. The ordinance (Berkeley Municipal Code, section 13.76.110) states:

A. Once each year, the board shall consider setting and adjusting the rent ceiling for all rental units covered by this chapter in general and/or particular categories of rental units covered by this chapter deemed appropriate by the board. The board shall hold at least two public hearings prior to making any annual general adjustment of the rent ceilings. The board shall publish and publicize notices of the date, time, and place of the public hearings at least thirty days prior to the hearing date. The two required public hearings shall be conducted and the annual general adjustment shall be set between September 1 and October 31, of each year. The annual adjustment shall become effective the following January 1.

B. In making annual general adjustments of the rent ceiling, the board shall:

- 1. Adjust the rent ceiling upward by granting those landlords who pay for utilities a utility adjustment for increases in the city of Berkeley for utilities.**
- 2. Adjust the rent ceiling upward by granting landlords a property tax, maintenance and operating expense increase adjustment (exclusive of utilities) for increases in the city of Berkeley for property taxes and maintenance and operating expenses.**
- 3. Adjust the rent ceiling downward by requiring landlords to decrease rents for any decreases in the city of Berkeley for property taxes.**
- 4. Adjust the rent ceiling downward by requiring landlords who pay for utilities to decrease rents for any decreases in the city of Berkeley for utilities.**

In adjusting rent ceilings under this subsection, the board shall adopt a formula or formulas of general application. This formula will be based upon the annual rent registration forms, surveys, information and testimonies, presented at public hearings, and other available data indicating increases or decreases in the expenses relating to the rental housing market in the city of Berkeley set forth in this subsection. For maintenance and operating expense adjustments, the board may also use survey data from surrounding communities where appropriate. The board shall make no more than one annual adjustment of rent ceilings per rental units per year.

Adoption of a formula greater than forty-five percent of the increase in the Consumer Price Index for the twelve months ending the previous June 30 shall require the affirmative vote of six commissioners, other provisions notwithstanding. Adoption of such a formula shall be a specific and special exception to the requirement of only five affirmative votes to make a decision. For the purposes of this subsection, the Consumer Price Index shall mean the Consumer Price Index for all urban consumers in San Francisco - Oakland, all items (1967 equals 100), as reported by the Bureau of Labor Statistics of the U.S. Department of Labor, as it pertains to the city of Berkeley.

b. Methodology

The purpose of this report is provide an analysis of apartment operating cost increases. Overall apartment operating costs equal about 43% of the rental income of apartments that have not been eligible for vacancy increases.

Berkeley's annual general adjustment analyses have used a "weighted" cost index in order to estimate increases in the operating costs of Berkeley apartments. Under this approach, the ratio of each type of expense to gross income and its rate of increase is estimated. The rent increase necessary to cover the cost increase is estimated by multiplying the ratio of the particular operating cost by its percentage increase. For example, if a particular cost equals 7% of gross income and it increases by 5% a 0.35% rent increase would be required to cover the cost increase. ($7\% \times 5\% = 0.35\%$)

Pursuant to the direction of the Board this analysis follows the methodologies that have been used in prior reports. It considers the increases in each type of expense and relies on prior annual general adjustment reports in calculating the ratio to gross rental income (the weight) of each expense.

While the report considers changes in 29 types of apartment operating costs, it should be noted a substantial portion of these expenses constitute only a small fraction of rental income. Eleven types of expenses equal only 2.6% of rental income.

Actual cost increases in three principal types of costs - maintenance, management, and insurance - are not surveyed and are not available. Instead, an allowance for increases in these types of costs is imputed. This allowance is tied to the Consumer Price Index. From July 1, 2002 to July 1, 2003, the Consumer Price Index increased by 1.6%. In fact, increases in these costs may vary substantially among properties.

The charges for most other costs are set by public agencies or utilities. Therefore, their actual rate of increase is known. For the purpose of estimating cost increases, average consumption levels are used and it assumed that service and consumption levels remain constant.

Charges for the cost of most public services are determined by either: 1) assessed values; 2) square footage of improvements; 3) the number of dwelling units; 4) the level of water usage; or 5) total rental income.¹ Refuse collection charges are based on the level of refuse collection service. In

¹ In preparing this report, this author has strived to supply the underlying legal authority for each of the public charges and the publicly regulated charges. In some cases such information has not been readily available from the jurisdictions imposing the taxes or assessments.

In some cases, rate information is not complete as of this date. However, the missing information only involves minor cost differentials that would not significantly change the outcome of this analysis.

this analysis, the categories of costs are grouped together based on what measure is used to determine their charges and costs. A few small costs are fixed for all size buildings regardless of the number of dwelling units.

c. Vacancy Increases and Average Rents. This Analysis Does Not Consider Vacancy Decontrol Increases

Until 1991, annual general adjustments covered operating cost increases, but did not provide for any growth in net operating income. In 1991, the Board adopted a regulation which provided that annual general adjustments shall provide for growth in net operating income at 100% of the percentage increase in the CPI.² In 1992, the Rent Board amended its fair return standard to define fair return as 1979 net operating income indexed by 100% of the percentage increase in the CPI since 1979.³ Pursuant to these standards the Board granted an across-the-board rent increase of 28.36%. From 1991 through 1995, the annual general adjustments covered operating cost increases and provided for growth in net operating income at the rate of increase in the CPI.

In 1995, the Rent Board amended its fair return standard and defined fair return as 1979 net operating income adjusted by 65% of the percentage increase in the CPI since 1979.⁴ Since 1996, annual general adjustments have been limited to the amounts necessary to cover only operating cost increases based on the rationale that growth in net operating income exceeded the levels required to yield a fair return, due to the rent adjustments under the prior 100% indexing standard.

From 1996 through 2003, annual general adjustments totaling approximately 10.4% have been granted.⁵ However, from 1996 through 1998, pursuant to state law (the Costa-Hawkins Act), rent increases of 15% were permitted on vacancies. Starting in 1999, pursuant to this law, unlimited increases have been permitted upon vacancies. As a result vacancy decontrol increases have become the main rent adjustment mechanism.⁶

² Rent Board Regulation 1100 (effective Sept. 20, 1991)

³ Rent Board Regulation 1264 (effective March 20, 1992, superseded in 1995)

⁴ Rent Board Regulation 1264 (effective Nov. 25, 1995).

⁵ In some years the increases were in dollar amounts rather than percentages.

⁶ In 1991, the Rent Board's consultant commented: "[In the cities with vacancy decontrol] ... there is significant annual turnover in tenancies (15-30% in most years), the primary determinant of trends in long-term average rents is the turnover rate, not the annual rent adjustments in units which are not vacated." Hamilton, Rabinovitz & Alschuler, Inc. (Los Angeles), "Inflation Indexing in Berkeley Rent Regulation in the Aftermath of the Searle Decision." (August 19, 1991).

Consistent with trends in the San Francisco Bay area, since 1995 rent increases in Berkeley have been substantial and have exceeded the increase in the CPI.⁷ Overall from 1995 through June 2002, average rents increased by 46% (from \$674 to \$986) compared to an increase in the CPI of 27% during the same period.⁸ As of September 2003, of the 2,345 properties with four units or more, since January 1999, 1,899 properties have reported vacancy rent adjustments.⁹ As of June 2003, 56% of the units in the city have become eligible for unlimited vacancy increases.

From June 2002 to June 2003, the average rent of all units increased from \$986 to \$1,016. As of June 2003 - the average rent of units without vacancy increases was \$698. The average rent of units that have had vacancies since January 1999 was \$1,220.

For the purposes of the analyses, this report uses the median rent that apartments would have if they have not become vacant since 1999 and did not obtain any 15% rent increases between 1996 and 1998 pursuant to Costa-Hawkins Act and did not obtain any type of individual rent adjustment (e.g. for historically low rents or capital improvements). The median rent for such apartments is estimated to be \$611.88 and the estimate of the percentage rent increase required to cover cost increases is based on this base rent.

⁷ The data in this section was tabulated by this author based on statistical summaries provided by the Rent Stabilization Board. It covers registered rental units.

⁸ CPI - June 1995 - 151.7; June 2002 - 193.2.

⁹ Of the 248 properties with between 10 and 14 units, 197 properties have reported three or more units that have been eligible for vacancy increases. Of the 135 properties with between 15 and 20 units, 116 properties have reported five or more units that have been eligible for vacancy increases. The data in this section was supplied by the Rent Board.

II. Increases in Apartment Operating Costs

A. New Costs¹⁰

1. The Rental Housing Safety Program - Costs of Demonstrating Compliance

The Rental Housing Safety Program was adopted in 2001.¹¹ However, the costs associated with complying with this program have not been considered in prior annual general adjustment operating cost studies.

Under that program apartment owners were required to annually submit to tenants and the City a certification that they had complied with specified requirements set forth in the Rental Housing Safety Program Certification Checklist.¹² Owners who obtain a certification of compliance from the City Housing Department are exempt from these requirements for three years. This year the City repealed the requirement that a copy of the certification be submitted to the City in cases where the owner is unable certify compliance.¹³

In addition, apartment owners were required to submit a certification once every three years from P.G.E. or a private licensed contractor that all gas appliances are safe. This year the required frequency of gas safety certifications was changed to once every five years.¹⁴

The costs of supplying this certification have differed greatly among apartment owners. P.G.& E provides free inspections. The scheduling of such inspections by P.G.& E. typically has a four hour window. Therefore, in the case of apartment owners who do not have an onsite manager, an onsite waiting period of several hours may be required. State law requires that buildings with 16 or more units have a resident manager.¹⁵

¹⁰ In November 2002, Berkeley voters approved a measure authorizing the City to issue \$7.2 million in bonds for the construction of an animal shelter. "The measure will be used to ensure that the shelter meets the additional requirements which have been imposed by state law regarding the length of time animals are to be held in the shelter and related services which must be provided for them." City Attorney's analysis on the ballot. According to the ballot analysis the cost of this program would be minimal - \$4.00 per \$100,000 assessed value. There will be no assessment pursuant this measure in FY 2003-2004.

¹¹ Berkeley Municipal Code, sec. 12.48.010-.120 (Ordinance No. 6651-NS, _____, 2001).

¹² Berkeley Municipal Code, sec. 12.48.050.

¹³ Berkeley Ordinance No. 6,761-NS (July 15,2003) amending Berkeley Municipal Code, sec. 12.48.050.A.2.

¹⁴ Berkeley Ordinance No. 6731-NS, sec. 1 (2003)

¹⁵ 25 California Code of Regulations sec. 42

However, the capacity of P.G.& E. to conduct such inspections is limited and owners have had to hire private inspectors. Last year, apartment owners noted this problem. This year's discussions with city staff have confirmed that this problem is more common than staff previously realized.

Owners who have not been able to obtain an appointment by a P.G.& E. inspector have needed to employ private inspectors who charge \$90 or more per dwelling unit.

Under these circumstances it is impossible to provide a precise estimate of the average cost of complying with the rental housing inspection program. For the purposes of this analysis it is assumed that the average cost per dwelling is \$100 every five years. Typically, an owner would have to complete a Rental Housing Safety Program Certification Checklist each year for each unit and obtain one gas inspection within a five year period. (If owners spent 20 minutes per year inspecting their units and completing each check list and an average of \$15 per year (\$75 in five years) on gas inspections, their annual cost would be \$20 per unit.)

The housing department has indicated that about half of all apartment units are in compliance with the program at this time. For the purposes of this analysis compliance is assumed.

2. Rental Housing Safety Program Fee

This year, the City introduced a fee of \$17 per rental unit per year for the financing of the rental housing safety inspection program.¹⁶

This fee equals 0.23% of the annual rent of an apartment.¹⁷

B. Costs Indexed by the CPI

1 & 2. Maintenance and Management

Data on actual maintenance and management expenses for Berkeley apartments is not compiled. For the purposes of estimating increases in these expenses, it has been assumed that these expenses increase at the same rate as the CPI.

¹⁶ Berkeley City Council Resolution No. 62186 (July 15, 2003) establishing \$17 fee. (Berkeley Ordinance No. 6761-NS, authorizes the adoption of a fee for this program.)

¹⁷ \$17/\$7,342.

3. Insurance

Data on actual insurance expenses for Berkeley apartments is not compiled. For the purposes of estimating increases in these expenses, it has been assumed that they increase by the CPI for renters insurance. In this analysis it is assumed that these costs increase at the same rate as the CPI-all items, which is used to estimate increases in management and maintenance costs.

As indicated, the CPI increased by 1.6% from July 1, 2002 to July 1, 2003.

In recent years apartment owners have claimed that insurance costs have increased at a much greater rate than the rate of increase in CPI. However, there is no systematic data on this cost for Berkeley apartment owners. Further research on trends in this cost would be useful.

C. Property Taxes and City, County, and Special District Assessments Based on Property Value

Pursuant to state law (Proposition 13) property assessments are set at 1% of value and increases in assessments are limited to 2% a year except when properties are sold. In addition, several county and special district assessments are included in property tax bills. These assessments are small relative to the property tax. They raise the overall property tax rate from 1% to approximately 1.25%.

For the purposes of the annual general adjustment analyses it has been assumed that assessed values increase by 2% per year. This report follows this approach. In fact, when properties are sold assessments increase by percentages comparable to the rate of increase in property values. In the case of sales of properties that were in the same prior ownership for a long period of time, the increase in assessed values may be as high as several hundred percent. Property tax/rental income ratios vary enormously among properties depending on when they were last sold.

At some point, it may be appropriate to considering overall property tax increases.

4. City of Berkeley, School Facility Maintenance, Measure S.

This measure is a general obligation bond. The tax rates for meeting the obligations of this bond were reduced from 0.0450% in FY 2002-2003,¹⁸ to 0.0425% in FY 2003-2004.¹⁹ (On the property tax bill, Measure S and Measure G are combined as a single entry.)

¹⁸ Berkeley Ordinance No. 6698-N.S (August 8, 2002).

¹⁹ Berkeley Ordinance No. 6758-N.S.(August 7, 2003)

5. City of Berkeley, Fire Seismic General Obligation Bond (Measure G, Series C).

The rates for this bond remained unchanged between FY 2002-2003 and FY 2003-2004,²⁰ at 0.0300%. (On the property tax bill, Measure S and Measure G are combined as a single entry.)

6. Berkeley Unified School District Bond

In FY 2002-2003, the tax rate for this bond was 0.14%. According to the information that this author has obtained this rate will be the same in FY 2003-2004. However, additional confirmation is needed.

7. Peralta Community College

In its forthcoming meeting scheduled for Sept. 23, 2003, the Peralta Community College District will consider a staff recommendation to decrease its assessment 0.0176% to 0.0157% of value.

8. East Bay Regional Park

The East Bay Regional Park District reduced its assessment from 0.0065% of value to 0.0057%. In the case of rental units with an assessed value of \$100,000 or less, the annual reduction per dwelling unit would be \$0.70 or less.

9. EBMUD

The East Bay Municipal District (EBMUD) reduced its assessment pursuant to its General Obligation Bond from 0.0084% of value to 0.0079%. In the case of rental units with an assessed value of \$100,000 or less, the annual reduction per dwelling unit would be \$0.50 or less.

10. Property Taxes

As indicated, property taxes are fixed at 1.00% of assessed value and increases in assessed values are increased by 2% per year, except when a property is sold. For the purposes of annual general adjustment analyses it has been assumed that property taxes increase by 2% per year.

In fact, assessed values have increased at a greater rate because a substantial portion of properties have been sold and reassessed at their market value at the time of sale (generally the sale price.)

²⁰ Berkeley Ordinance No. 6700-N.S. (August 8,2002) and Ordinance No. 6759 (August 7,2003)

Summary of Changes in Tax Rates Based on Assessed Value of Property

The following table summarizes the rates for these assessments in FY 2002-2003 and FY 2003-2004.

Property Taxes and City, County and Special District Assessments Based on Value

	Rates July 1, 2002	Rates July 1, 2003
Countywide Property Tax	1.0000%	1.0000%
Berkeley Unified School District	.1400	.1400(a)
City Measure G	.0300	.0300
City Measure I	New in 2003	.0040
Peralta Community College	.0176	.0159(b)
East Bay Regional Park	.0065	.0057
EBMUD	<u>.0084</u>	<u>.0079</u>
 Total	 1.2475%	 1.2420%

(a) confirmation of 2003-2004 rate still not obtained
 (b) proposed

D. Assessments Based on Square Footage

The City imposes a total of eight different assessments based on the square footage of improvements on a property. For the purposes of preparing annual operating cost studies, it has been assumed that the average size of a rental unit is 1,000 square feet.

10. City of Berkeley - "Berkeley Public Schools Educational Act of 1994" (Measure B)

In 1994, Berkeley voters passed a referendum which authorizes a tax based on the square footage of property improvements.²¹ Under the Act, each year the tax rate may be increased by the percentage increase in the CPI.²²

In FY 2002-2003, the school class size assessment was \$0.121 per square foot. In FY 2003-2004, the assessment was increased to \$0.1229 per square foot.²³ For a unit with 1,000 square feet, the annual cost increase would be \$1.90. (from \$121.00 per year to \$122.90 per year).

²¹ This Act replaced Measure H, which was adopted by the voters in 1986.

²² Measure B, sec. 4D.

²³ Berkeley Unified School District, Resolution 02-64 (April 2, 2003)

11. City of Berkeley "Berkeley School Facilities and Maintenance Act of 2000" (Measure BB)

In November 2000, Berkeley voters approved a tax for the maintenance of school facilities. Pursuant to state law, the amount of the tax may be increased each year by the percentage increase in the statutory cost of living (COLA).²⁴ In FY 2002-2003, the rate was \$0.0467 per square foot. In FY 2003-2004, the rate was increased to \$0.0475.²⁵ For a unit with 1,000 square feet, the annual cost increase would be \$0.80. (from \$46.70 per year to \$47.50 per year).

12. City of Berkeley - "Library Relief Act"

In June 1980, Berkeley voters approved the "Library Relief Act."²⁶ The ordinance authorized an initial tax rate of \$0.0230 per square foot,²⁷ and it authorized annual increases in the tax rate that are tied to the Consumer Price Index.²⁸ In 1988, the voters authorized an amendment in the ordinance, increasing the tax rate to \$0.72 per square foot.²⁹ In FY 2002-2003, the tax rate was \$0.1134 per square foot.³⁰ The rate for FY 2003-2004 was increased to \$0.1292,³¹ an increase of 13.93%. For a unit with 1,000 square feet, the annual cost increase would be \$15.80 (from \$113.40 per year to \$129.20 per year).

13. City of Berkeley Landscape and Parks Assessment

In FY 2002-2003, the tax rate was \$0.09610 per square foot.³² The rate for FY 2003-2004 was

²⁴ California Education Code, sec. 42238.1(b).

²⁵ Berkeley Unified School District, Resolution 02-75 (April 2, 2003)

²⁶ Berkeley Municipal Code, sec. 7.56.010-.120 (June 1980)

²⁷ Berkeley Ordinance No. 5262-NS, sec. 3(A).

²⁸ Berkeley Municipal Code, sec. 7.56.040 (June 1980).

²⁹ Berkeley Ordinance No, 5894-NS, sec. 3 (Nov. 1988) (Measure H).

³⁰ Berkeley Ordinance No. 6694-N.S. (Aug. 8, 2002)

³¹ Berkeley Ordinance No. 6754-N.S. (Aug. 7, 2003)

³² Berkeley Ordinance No. 6694-N.S. (Aug. 8, 2002)

increased to \$0.09831,³³ an increase of 2.30%. For a unit with 1,000 square feet, the annual cost increase would be \$2.21 (from \$96.10 per year to \$98.31 per year).

14. City of Berkeley Street Lighting Assessment

The City imposes a school lighting assessment of \$0.108 per square foot. This assessment was not increased during the past year

15. City of Berkeley Emergency Medical Services Tax

The emergency medical services tax, which was adopted by referendum, authorized an initial rate of \$0.0329 per square foot and authorized the City Council to increase the tax in accordance with increases in the cost of living.³⁴ In FY 2002-2003, the tax rate was \$0.025525 per square foot.³⁵ The rate for FY 2003-2004 was increased to \$0.026112,³⁶ an increase of 2.30%. For a unit with 1,000 square feet, the annual cost increase would be \$0.86 (from \$25.52 per year to \$26.11 per year).

16. City of Berkeley Emergency Services for Disabled

The Emergency Services for the Severely Disabled Tax (Measure E) was passed by the voters in November 1998.³⁷ The tax is used to provide emergency services and incidental case management for severely physically disabled persons. The City Council is authorized to increase the tax rate by the greater of the cost of living in the San Francisco Bay Area or personal income growth in the state.

In FY 2002-2003, the tax rate was \$0.00910 per square foot.³⁸ The rate for FY 2003-2004 was increased to \$0.00931,³⁹ an increase of 2.31%. For a unit with 1,000 square feet, the annual cost increase would be \$0.21 (from \$9.10 per year to \$9.31 per year).

³³ Berkeley Ordinance No. 6754-N.S. (Aug. 7, 2003)

³⁴ Berkeley Municipal Code, sec. 7.90.020; Ordinance 6374-NS sec. 3, 1997)

³⁵ Berkeley Ordinance No. 6695-N.S. (Aug. 8, 2002)

³⁶ Berkeley Ordinance No. 6755-N.S. (Aug. 7, 2003)

³⁷ The source of the background information in this paragraph is the City Council Action Calender of June 24, 2003.

³⁸ Berkeley Ordinance No. 6696-N.S. (Aug. 8, 2002)

³⁹ Berkeley Ordinance No. 6756-N.S. (Aug. 7, 2003)

17. City of Berkeley Fire Safety Services Tax (Measure Q)⁴⁰

In November 2000, Berkeley voters approved Measure Q, which established a Community Facilities Special District and authorized a tax for disaster fire protection. The rate is \$0.0125 per square foot.⁴¹ This tax is not subject to annual adjustments.

Summary of Cost Increases - Assessments Based on Square Footage

Annual assessments based on square footage for a typical rental unit of 1,000 square feet increased by \$21.51, from \$532.32 to \$553.83 per year.

City Assessments Based on Square Footage of Improvements

Type of Assessment	Rates/Sq. Ft.		Cost/Rental Unit/Year	
	FY2002-03	FY2003-2004	FY2002-03	FY2003-04
Public Schools (Measure B, 1994)	0.1210	0.1229	\$121.00	\$122.90
Measure BB	0.0467	0.475	46.70	47.50
Library Assessment	0.1134	0.1292	113.40	129.20
Landscape and Parks	0.0961	0.09831	96.10	98.31
Street Lighting Assessment	0.1080	0.1080	108.00	108.10
Emergency Medical Services	0.25525	0.26112	25.52	26.11
Emergency Services for Disabled	0.0091	0.00931	9.10	9.31
Fire Safety Services	0.0125	0.0125	12.50	12.50
Total	0.53532	0.55383	\$532.32	\$553.83

⁴⁰ Berkeley Municipal Code, sec. 7.82.010-.060.

⁴¹ Berkeley Municipal Code, sec. 7.999.010 Exhibit A.

E. Assessments Based on the Number of Apartment Units

Some county and district assessments are based on the number of units in a dwelling. This section describes these assessments and rate increases that have taken place during the past year.

18. Alameda Emergency Medical Services District Special Tax⁴²

Alameda County imposes an emergency medical services assessment based on the number of living units in a dwelling.

In FY 2002-2003, the charge was \$23.92 per dwelling unit per year. In FY 2003-2004, the charge was increased to \$24.32 per dwelling unit per year.⁴³

19. Lead Abatement

Alameda County imposes an assessment of \$10 a year per dwelling unit for the funding of its lead abatement program.

The assessment applies to all buildings constructed prior to 1978. Virtually all of Berkeley's rent controlled units were constructed prior to that date, since units constructed since the adoption of rent control in 1980 are exempt from rent regulation.⁴⁴

There was no increase in this assessment during the past year.

20. East Bay Regional Trails District

⁴² Alameda County Administrative Code, Section 2.20

⁴³ Board of Supervisors of the County of Alameda, Resolution R-2003-630 (June 17, 2003)

According to the version of the ordinance on the county's web page, the tax is actually calculated based on the number of "benefit units" on a property. Properties with two to five units are deemed to have three benefit units. For properties with six units or more, 0.60 benefit units are counted for each dwelling unit.

However, County staff has indicated that this version of the ordinance is incorrect. Review of actual property tax bills indicates that the charge was \$23.92 per dwelling unit in FY 2002-2003.

⁴⁴ Berkeley Municipal Code, sec. 13.76.050.I; Ord. No. 5261-NS, sec. 5 (1980)

The East Bay Regional Trails District imposes an assessment of \$2.72 per apartment unit per annum. That fee has not been increased during the past year.

21. Mosquito Abatement

The Alameda County Mosquito Abatement District was formed in 1930. In 1982, Alameda County voters passed Measure K, which authorized the district to levee a special tax. As of the first half of 2001, the County leveed an assessment of \$4.00 per year per parcel. Then the charge was eliminated. However, effective in FY 2003-2004, the assessment has been reinstated.⁴⁵

Assessments Based on the Number of Dwelling Units

Type of Assessment	Assessment/ Dwelling Unit/Year	
	FY 2002-2003	FY 2003-2004
Alameda County Emergency Medical Services	\$23.94	\$24.32
Lead Abatement	10.00	10.00
East Bay Regional Trails District	2.72	2.72
Mosquito Abatement	<u>0.0</u>	<u>0.67</u>
Total Annual Cost	36.66	37.71

F. Charges Based on Water Usage

In past annual general adjustment reports for the Board, it has been assumed that average water consumption apartment per month is 5.5 units (1 unit = 100 cubic feet of water) and that most units are served by a 1" meter. These assumptions have been based on discussions with and data obtained from EBMUD. These assumptions are used for the purposes of this analysis.

⁴⁵ Alameda County Mosquito Abatement District, Resolution 877-1 (July 9, 2003)

22. Water

Water rates are set by the East Bay Municipal Utility District (EBMUD).

Water charges consist of a combination of four charges.⁴⁶

1. water consumption charges
2. monthly meter charge - based on the size of water pipe serving the building at the meter
3. elevation charge - based on the elevation of the reservoir serving the dwelling
4. seismic improvement program surcharge

It has also been assumed that most apartments do not pay an elevation charge because they fall into Elevation Band 1, which is not subject to this charge.

In July 2003, the charge per unit of water was increased \$1.85 to \$1.92,⁴⁷ an increase of 3.7%. Assuming an average consumption of 5.5 water units per month, the monthly cost increase would be \$0.38.

Also, monthly meter charges were increased by 3.7%. The monthly charge for one inch meters was increased from \$11.58 to \$12.01, an increase of \$0.43. Assuming that such a meter serves six rental units on the average, the increase in the meter charge is \$0.07 per month per rental unit.

For an apartment unit with a typical level of consumption, the cost increase would be \$5.40 per year.

Water Costs (Monthly)		
	July 1, 2002	July 1, 2003
Consumption Charge per Unit of Water	1.85	1.92
Monthly Costs		
Consumption charge (5.5 units avg. consumption)	10.18	10.56
Service charge (1/6 of monthly meter charge)	1.93	2.00
Seismic Improvement Charge	3.76	3.76
Total Monthly Costs	15.87	16.32
Total Annual Cost	190.44	195.84

⁴⁶ These charges are posted on the web page of EBMUD.

⁴⁷ EBMUD Schedule A, Rate Schedules for Water Use, FY04, page 1-A (7/01/03)

23. Wastewater

Wastewater fees are set by EBMUD. They are based on a combination of a treatment charge, a water flow charge, and fixed charges per dwelling unit (“service” and “strength” charges). The FY 2002-2003 and FY 2003-2004 charges are set forth in the table below.

Wastewater Charges (Monthly)		
	July 1, 2002	July 1, 2003
Treatment Charge per Unit of Water	\$0.824	\$0.855
Flow Charge per Unit of Water	\$0.426	\$0.426
<u>Monthly Costs</u>		
Charges based on water use (5.5 units avg. consumption)		
Treatment charge	\$4.53	\$4.70
Flow charge	2.34	2.34
Service charge per dwelling unit	3.91	4.08
Strength charge per dwelling unit	4.00	4.15
Total Monthly Costs	14.78	15.27
Annual Costs	177.42	183.31

The overall annual cost increase is \$5.89 per year per dwelling unit.

24. Sewer Service Fees⁴⁸

The City charges sewer service fees based on water usage. The fees vary slightly between buildings with less than five units and buildings with five or more units. However, the rate of increase in these fees has been uniform.

The fees for FY 2003-2004 were increased by 6.2% over fees for FY 2002-2003. In the case of buildings with five or more units, the fee increased from \$2.87 per water unit to \$3.05 per water unit.⁴⁹

In the case of units with typical consumption levels, 5.5 units per month, the monthly cost will increase by \$0.99, from \$15.78 to \$16.77.⁵⁰ The annual cost increase is \$11.88, from \$189.42 per annum to \$201.30 per annum.

⁴⁸ Berkeley Municipal Code, sec. 17.04.____

⁴⁹ Berkeley Resolution No. 61,620 (_____, 2002) and Berkeley Resolution No. 62,068 (May 20, 2003).

⁵⁰ 5.5 x \$2.87 in FY 2002-2003 to 5.5 x \$3.05 in FY 2003-2004.

F. Other Apartment Operating Costs

25. Refuse Collection⁵¹

Refuse collection rates are primarily based on the type and number of refuse containers and the number of collections per week. For the purpose of annual operating studies it has been assumed that the most typical collection configuration would be one 45 gallon container with one weekly collection, serving a six unit building.

This year the rates for the different types of services were increased 6.5%. For example, the rate for collection of a 45 gallon container once a week increased from \$24.32 to \$25.92.⁵² The annual cost increase is \$19.20 (from \$291.84 to \$311.04).

26. City Business License Fee⁵³

Owners of rental property must pay an annual license fee equal to \$10.81 per thousand dollars of rental income (1.081% of rental income). All properties, except for properties with less than three dwelling units are covered by the law.

This fee was not increased in the last year and no general adjustment was authorized last year. Therefore, this cost is unchanged.

27. Rent Board Registration

Effective July 1, 2003, the annual Rent Board registration fee for each unit was increased from \$124 to \$136.⁵⁴ The annual cost increase of \$12 is equal to 0.16% of annual rents.

⁵¹ Berkeley Resolution 62.067.

⁵² The rates for FY 2002-2003 were set forth in Berkeley Resolution No. 61,577 (_____). The current rates are set forth in Berkeley Resolution No. 62,067 (May 20, 2003).

⁵³ Berkeley Municipal Code, sec. 9.04. 195 (Rental property covered by the law); sec. 9.04.240 (Business license rates).

⁵⁴ Berkeley Rent Stabilization Board, Resolution No. 03-08 (May 5, 2003)

28. Fire Inspection⁵⁵

Berkeley has a fire safety inspection program that is applicable to all residential structures with three or more units. The City Council is authorized to adopt resolutions setting fire inspection fees.⁵⁶

This year the inspection fee was increased from \$41.50 to \$53.00 for each fifteen minutes of inspection time.⁵⁷ Prior to this year the fee had not been increased since 1996.

In prior annual general adjustment reports, it has been assumed that inspections for six unit buildings would last 30 minutes on the average. Using this assumption the annual cost of an inspection would increase from \$83.00 to \$106.00, an increase of \$23.00. In the case of a six unit building, the increase in the annual cost per unit would be \$3.84.

29. Wet Weather Facilities Charge⁵⁸

The U.S. Environmental Protection Agency required EBMUD to eliminate wet weather overflows of storm water and dilute raw sewage before flowing into the San Francisco Bay. EBMUD established the Wet Weather Facilities Charge as of 1987. The charge finances EBMUD's \$210 million program to improve the District's capacity to collect and treat all sewer outflows during rainy weather.

The charge, which is included in property tax bills, is \$58.80 per dwelling unit subject to a ceiling on the charge of \$294 per property (the amount required for five dwelling units).

This fee was not increased during the past year.

30. Vector Control

A vector control assessment of \$5.92 per dwelling unit, subject to a ceiling of \$29.60 per property is in effect. This charge has not changed during the past year.

⁵⁵ Berkeley Municipal Code sec. 12.50.010 et. seq. (Ordinance 5462-NS, 1982)

⁵⁶ Berkeley Municipal Code sec. 12.50.060.

⁵⁷ Berkeley Resolution No. 62060, sec. 3 (May 20, 2003)

⁵⁸ The source for the discussion in this Section was a report prepared in the staff manual of EBMUD (A5-22B.0, III-39, Rev. 8/1/96)

H. Gas and Electricity Costs

31. Gas - Individually Metered Buildings

In last year's annual general adjustment analysis, it was estimated that apartment owners' gas expenses for individually metered buildings equal 2.2% of rental income.

In last year's annual general adjustment analysis, it was estimated that there was a substantial decrease in gas rates (approximately 39%), based on a comparison of the gas rates in effect in July 2001 and July 2002. (Comparison of the rate levels in effect on consecutive July 1 dates of each year for each type of expense has been standard in the annual general adjustment studies.) On the basis of that analysis it was estimated that the gas cost reduction for individually metered apartments was equal to 0.86% of the rent.

In fact gas rates have been fluctuating substantially and frequently within the past few years. Under these circumstances (which are not applicable to other types of apartment operating costs that do not fluctuate upward and downward), comparing rates in effect on a specified date of each year does not provide a particularly representative comparison of annual changes in costs from year to year.

While it was estimated that gas cost levels had declined in last years' annual general adjustment study, winter rates for gas were higher from December 2002 through March 2003 than they were in the corresponding period of the prior year.

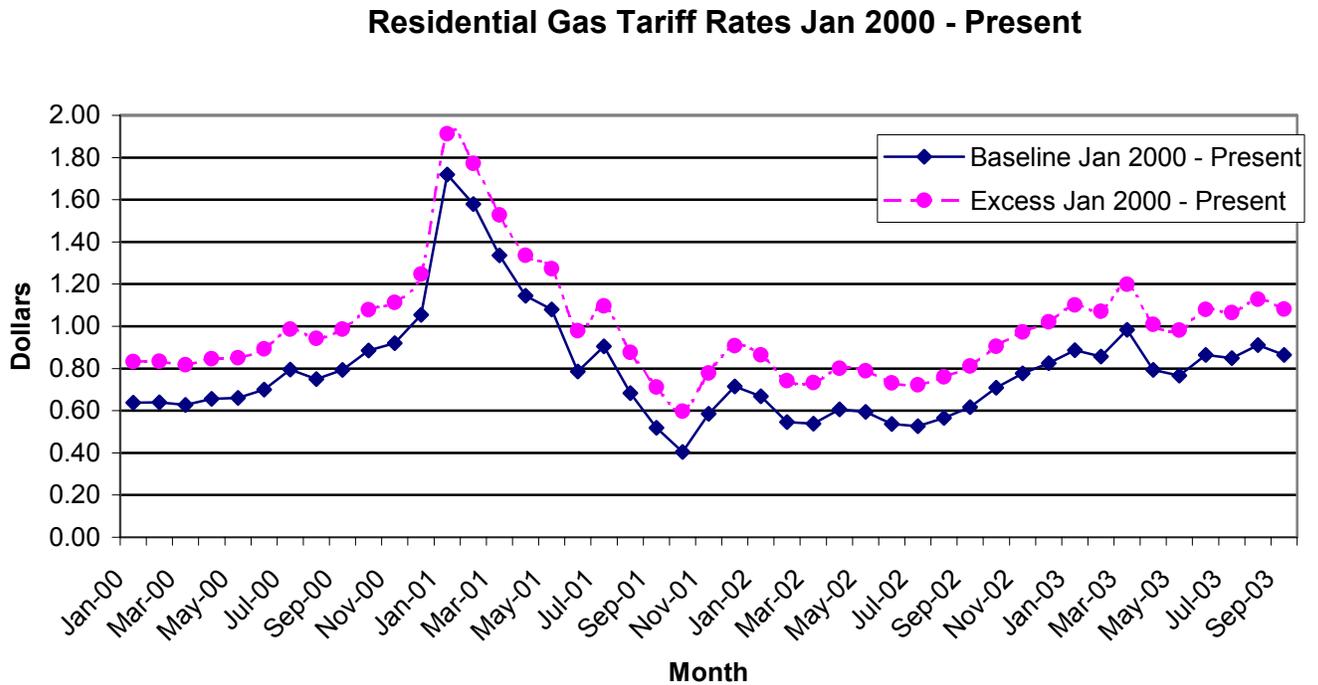
This year, gas rate increases offset the rate decreases of last year. As of July 2003, rates were slightly lower than the July 2001 rates.

	Gas Rates⁵⁹	
	Baseline	Price Per Therm Excess
July 1,2001	\$0.90424	\$1.09723
July 8,2002	0.52669	.72197
July 8,2003	0.84956	1.06513
Aug 8,2003	0.86457	1.08727

⁵⁹ P.G.& E., Residential Gas Tariff Rates (tables published on the internet)

Under these circumstances, it is estimated that the gas cost increase is equal to the gas cost decrease that was estimated in last year's annual general adjustment study.

The graph demonstrates the extent of the gas price fluctuations since January 2000.



In light of the extensive fluctuations in gas prices, in lieu of using prices as of a specific month each year in order to measure changes in costs, this author recommends that in future years, averages of rates over twelve month periods should be compared.

Gas - Master Metered

The analysis of master-metered gas expenses on last year's annual general adjustment study were dependent on the same rate trends. Because the cost ratio is much higher for master metered than for individually metered apartments, it was estimated that a 3.60% rent reduction was required to offset the rate decrease. Taking into account the 0.93% rent increase required to cover other cost increases, it was estimated that a 2.67% rent reduction was required to cover the net reduction in operating costs of owners of master-metered apartment buildings. (3.60%-2.67%).

However, no rent adjustment was ordered to master-metered buildings. Under these circumstances, the increase in this year's cost for master-metered buildings is not considered.

Electricity

Residential electricity rates include a rate for base level usage, a rate of for usage in excess of base rate levels, and graduated surcharges for higher levels of use.

The rates are as follows:

Electricity Rates

Baseline (Tier 1)	\$0.11589
Excess Rates	
101-129% of baseline quantity (Tier 2)	0.14321
130-200% of baseline quantity (Tier 3)	0.19445
201-300% of baseline quantity (Tier 4)	0.23838
300% of baseline quantity (Tier 5)	0.25826

These rates have remained unchanged since June 2001.

III. Summary of Cost Increases (revised October 16, 2003)

Category	Expense Ratio as of July 2002	2003 inc. dollars	2003 inc. percent	Rent Increase required to cover cost increase	Expense Ratio Current
Rental Hsg. Program Fee		\$17		0.23%	0.00232
Rent Hsg. Preparation Costs		\$20		0.27%	0.00272
Mosquito Abatement Management		0.67		0.01%	0.00009
Maintenance	0.08289		1.60%	0.13%	0.08421
Property Taxes	0.07494		1.60%	0.12%	0.07614
Insurance	0.06122		2.00%	0.12%	0.06245
Refuse	0.05316		1.60%	0.09%	0.05402
Sewer	0.02857		6.60%	0.19%	0.03046
School Bonds	0.02580		6.27%	0.16%	0.02742
Water	0.02284		1.61%	0.04%	0.02321
Rent Board Registration	0.02135		2.88%	0.06%	0.02197
Library Assessment	0.01689	\$12		0.16%	0.01852
Landscaping & Park Maint.	0.01544		13.93%	0.22%	0.01759
City Business License	0.01309		2.30%	0.03%	0.01339
Wastewater Treatment	0.01089		0%	0.00%	0.01089
Emergency Medical Services	0.01023	\$5.88		0.08%	0.01023
Wet Weather Facilities Assess.	0.00674		2.30%	0.02%	0.00690
Clean Storm Water	0.00667		0%	0.00%	0.00667
Fire Inspection	0.00252		0%	0.00%	0.00252
Disaster Fire Protection Ass.	0.00188	\$3.84		0.05%	0.00188
Street Lighting Assessment	0.00170			0.00%	0.00170
Lead Abatement Assessment	0.00147		0%	0.00%	0.00147
Emergency Services Disabled	0.00136		0%	0.00%	0.00136
Peralta Community College	0.00124		2.31%	0.00%	0.00126
Vector Control	0.00100		-12.30%	-0.01%	0.00088
East Bay Regional Park	0.00081		0%	0.00%	0.00081
	0.00037		-12.30%	0.00%	0.00032
Ratio Exclusive of Gas and Electric	0.46308				0.48140
Gas Indiv. Metered Bldgs.	0.01368		62.89%	0.86%	0.02228
Electricity Indiv. Metered Bldgs.	0.01947		0%	0.00%	0.01947
Gas Master-Metered Bldgs	0.08429				0.09293
Electricity Master-Metered Bldgs	0.05489				0.05489
Ratio Individually Metered Bldgs.	0.49623				0.52314
Ratio Master-Metered Bldgs	0.60160				0.62922
			Total Increase Required:	2.83%	

ADDENDUM TO ANNUAL GENERAL ADJUSTMENT STUDY

Rationale for a “Bifurcated” Rent Adjustment

This year several members of the annual general adjustment subcommittee expressed interest in and/or support for the concept of a bifurcated rent adjustment. The subcommittee passed a resolution in support of an adjustment of 1.0% + either \$2.00 or \$3.00 for units that have been eligible for vacancy increases and an adjustment in the range of 1.8% to 2.0% + \$2.00 or \$3.00 for units that have not been eligible for vacancy increases.

Current rent levels are largely determined by the circumstance of whether or not a unit has had a vacancy increase, rather than size of the unit. As of June 2003, the average rent of units that have not been eligible for vacancy increases is \$698 and the average rent of units that have been eligible for vacancy increases is \$1,220. Under these circumstances, the average rent increase in dollars (as opposed to a percentage) would be approximately the same for both types of units if the proposed differentials in allowable percentage increases are adopted. (E.g. 1% of \$1,220 + \$3 = \$15; 2% of \$698 + \$3 = \$17.)

Assuming that cost increases for units that have obtained vacancy increases are comparable to the increases for units that have not obtained vacancies, a methodology that leads to more uniformity in the dollar amount of the rent increase would better serve the purposes of granting an annual general adjustment that covers operating cost increases.

In the analysis in this report, calculations of required percentage increases were based on the assumption that the rent is \$611, the median for units that have never obtained either a vacancy increase or an individual adjustment. A 2.8% rent increase for a unit with a rent of \$11 would amount to \$17.11.