Rent Stabilization Board

M E M O R A N D U M

DATE: May 7, 2007

TO: Honorable Members of the Rent Stabilization Board

FROM: Budget and Personnel Committee
and Jay Kelekian, Executive Director

SUBJECT: OVERVIEW OF THE FY 2007/08 BUDGET SITUATION AND ADOPTION OF THE ANNUAL REGISTRATION FEE AND MAXIMUM EXPENDITURE LEVEL FOR FISCAL YEAR 2008

INTRODUCTION:

Because of an extended jury duty assignment as well as a nearly complete turnover in the composition of the Budget and Personnel Committee, the presentation of this year's budget process has been a bit of an anomaly. Traditionally at this time of year, you receive a lengthy budget book that includes detailed descriptions of expenditure categories and trends as well as work plans for recurring program activities. The budget book also includes the Director's budget message, which includes a good deal of historical and social context about the mission of the Ordinance and Program as well as an analysis about how we are doing in fulfilling that mission. Finally, the budget book includes a discussion and detailed listing of our accomplishments during the prior year as well as a vision for the coming year.

At your April 16th meeting, the Board agreed to a modified process in adopting the FY 2008 budget. After receiving an update (see pages 12 - 14) on the current fiscal year's budget through February, and an initial discussion of where adoption of a "status quo" budget would leave the Program's fund reserves, the Board agreed to a budget process that included the following:

1. Schedule a special meeting on May 7th, for the purpose of hearing public comments prior to setting the registration fee due on July 1st.
2. Set the fee, preferably on May 7th but not later than May 11th.
3. Limit any fee increase to no more than $18 per unit per year.
4. Commit, on May 7th, to a maximum expenditure level for FY 2008 and provide the Budget and Personnel Committee with any additional guidance in coming back with a final line-item budget and staffing model.

This process allows the Board to receive adequate information to make an informed decision about the level of the registration fee (which, as a practical matter, must be set in early May, nearly two months before the budget is legally required to be adopted) but continue working on the details of the staffing model and line-item budget that can most cost-effectively achieve our goals.

THE BUDGET PROCESS AND ACTION TONIGHT

The Board received a mid-year budget update for the FY 2007 budget at your March Board meeting. The Budget and Personnel Committee also began meeting in early April to continue our discussions on the status of the FY 2007 budget. Additionally, we began planning a strategy for how to develop the FY 2008 budget. Based upon those initial meetings, the Committee recommended the process outlined above, including this evening's public hearing. The Committee has met three times since April 16th to develop a framework for crafting our FY 2008 budget.

As has been our practice for the past several years, we began by looking at a "Status Quo" budget (see page 14), which built in all known increases (such as negotiated employee COLAs, increased cost of health care and office rent) and any known decreases. The "Status Quo" budget assumed no other changes. At the Committee's request, those projections went out an additional year, into FY 2009 (see page 15). While the Board will be formally approving only the FY 2008 budget guidelines at this time, we agreed that it would be best to propose a plan for both FY 2008 and FY 2009.

From the start, the "Status Quo" budget projections proved problematic; showing a potential Fund balance of $115,000 at the end of FY 2008 and a Fund deficit of nearly $400,000 by the end of FY 2009. More troubling, if unchecked, the gap between recurring revenues and expenditures would be approximately $435,000 in the first year and over $500,000 in FY 2009.

The Committee supported the approach that in developing an acceptable budget, we needed to both be frugal by continuing our practice of cutting where we can, but **not** allow the situation to prevent the Program from delivering the services necessary to fulfill our mission. We also would not waver in our commitment to continuing improvements in service delivery. This has caused the Budget and Personnel Committee to look at increases as well as decreases to the original "Status Quo" budget. Most significant of these changes is a one-time set aside of $125,000 for an upgrade of our Rent Tracking System (RTS) database, which is nearly fourteen years old. The Committee is confident that the final budget proposed, while potentially cutting back in some positions or areas, also will continue to make important strides in improving the services we deliver to the public.

On May 1st, the Committee adopted a recommendation that, when adopted in June, the final budget include a maximum expenditure level of $3,525,000 for FY 2008. This reflects a reduction in the amount of recurring expenditures of over $45,000 from what was reflected in the "Status Quo" budget. It also reflects the $125,000 in one-time expenditures for the RTS upgrade noted above. These guidelines, along with the recommendation to increase the annual registration fee by $16 per unit per year are articulated in the proposed resolution listed as Item 4. d. on your agenda tonight.

This resolution is intended to do two things:

1. Set the registration fee so that staff can begin preparation for the annual registration billing.

2. Provide guidance to staff and the Budget and Personnel Committee about the maximum expenditure level the Board will authorize when it formally adopts the Budget on June 18th.

Staff and the Budget and Personnel Committee realize that the full Board, not having the ability to review a detailed budget book, is not expected to commit to the final details of a staffing model or line-item budget tonight. We expect the Board and public to raise questions, observations and suggestions this evening and continuing over the next six weeks. If the Board adopts the proposed resolution this evening, staff will work with the Committee to refine the maximum authorized expenditure level and present a detailed line-item budget and staffing model for the full Board's approval on June 18th.

While it is not necessary to adopt the line-item budget this evening, it is imperative that the Board set the registration fee this week so that staff can send the annual registration bills out on time.

BACKGROUND:

Section 6(N) of the Rent Ordinance provides that the Board shall finance its reasonable and necessary expenses by charging landlords a reasonable annual registration fee, which may not be passed on to tenants without prior Board authorization.

Every year, the Board calculates its budget, calculates the number of registered units, determines its expected income from past fees and penalties, and sets a reasonable registration fee. In order to make final decisions determining the Budget and Fee, the Board must consider (1) its current budget, (2) the program and service goals for the upcoming fiscal year, (3) its revenue sources, and (4) the fiscal implications of the various options. The remainder of this document discusses the various factors that impact the determination of the budget and the amount of the registration fee for the coming year.

I. RENT BOARD RESERVES

According to City records, as well as my discussions with the City's outside auditor, C. G. Uhlenberg, LLP, at the end of last fiscal year (05/06), the Board had a fund reserve balance of approximately $680,000. The Board also carried approximately $85,000 in obligations from prior years into FY 2006/07, leaving an uncommitted available fund balance of roughly $595,000 at the beginning of this fiscal year.

Last May, when the Board adopted its budget, the Board believed that the Program would be ending this fiscal year with an uncommitted reserve balance of roughly $332,000. For a variety of reasons, we will end this fiscal year with an even healthier reserve balance than anticipated last May.

Based upon the actual expenditures and revenues through the end of February 2007, I estimate that the Board will spend, encumber or commit approximately $3,170,000 in FY 2006/07. I also estimate that the Board will raise approximately $3,040,000 in revenue during this fiscal year. Thus, I estimate that the Board will end this fiscal year (2006/07) with an uncommitted available fund balance of slightly over $550,000.

Given the vagaries and volatility of the legislature and the courts, you have been advised over the years that it is essential to maintain a healthy reserve balance so that the Board is able to respond should a major change in how the Ordinance is implemented become necessary. In each of the past several years I indicated that, absent any planned major capital improvements, a reserve balance of roughly 10% of your budget (apx. $300,000 - $325,000) is sufficient, given the current political climate.

Generally, the Board experiences at least $100,000 per year in savings from the amount budgeted, but this is never guaranteed. Thus, over a two-year period, we have not budgeted for but feel confident we can expect to realize between $100,000 - $200,000 in savings from whatever budget(s) the Board adopts. The Committee believes this more accurately reflects what our uncommitted Fund reserve balance actually will be in June 2009. As we discuss below, we also believe the Board should build in a mechanism for evaluating the status of the Fund reserve midway through FY 2008.

II. PROPOSAL FOR BALANCING THE BUDGET IN FY 2008 & 2009

As previously indicated, the "Status Quo" budget from which we started our discussions would, if unaltered, result in transforming a Fund reserve of $680,000 at the beginning of this year, into a modest and potentially insufficient reserve of $115,000 by the end of FY 2008. This is prior to allocating anything for the $125,000 estimated to be necessary to maintain and upgrade the RTS database. This one-time expenditure would completely deplete the reserve. If we project the unaltered "Status Quo" budget out one additional year, the Board experiences a negative fund balance of between $400,000 - $500,000 by the end of FY 2009. These projections assume that no additional savings are realized over the next two years.

The "Status Quo" budget for FY 2008 assumed recurring expenditures totaling $3,445,500 and revenue totaling $3,010,000. Thus, a structural gap of $435,000 exists for FY 2008 alone, even before budgeting for the RTS upgrade. The structural gap would increase in FY 2009 and all subsequent years unless the structural assumptions were changed. The challenge before us is how best to narrow or eliminate this structural gap to an acceptable level: balancing a commitment to maintaining a vital and ever-improving program with the potential unpopularity of an increase in the registration fee.

The Board's previous practice of deficit spending to draw down the Fund reserve, rather than increase fees has served both the Board and the public well. In the past twelve years, the fee has increased a total of 23.2% from $125 to $154, while the CPI has gone up over 40% over the same period. Median rents citywide have increased roughly 70% since 1995.

Regrettably, we are unable to utilize reserves alone to bridge this gap and a combination of fee increases as well as expenditure reductions must also be relied upon. In addition, it is imperative that to reduce the amount of any potential fee increase, we make sure all units that are required to register, do so. The increases over the FY 2007 Adopted Budget amounts that comprise the FY 2008 Status Quo budget include:

- Approximately $90,000 for scheduled Cost of Living increases (COLA's).
- Approximately $75,000 for anticipated additional fringe charges primarily due to rising health care premiums charged to the City.
- Approximately $6,000 (a 2% COLA) for additional funding for professional service contracts (line item 30-38). As was explained at your April 16th Board meeting, the Status Quo budget amount is reached by first deducting $30,000 in one-time items and then adding the $6,000.
- Approximately $12,500 for additional rental charges.
- Approximately $27,500 in reduced revenue collection projections.

Budget Committee's Proposed Modifications to the Status Quo Budget

	Proposed Action	Savings/ Cost In FY 2008
1.	Additional one-time capital expenditure, totaling $125,000, to the FY 2008 budget for RTS database upgrades:	(- $125,000)
2.	Additional allocation for Continuation of Succession Planning efforts:	(- $15,000)
3.	Additional allocation to increase use of hourly/temp employees:	(- $10,000)
4.	Reduce funding for the Senior Planner in the Housing Department from 33% to 20%:	$12,000
5.	Reduce funding for 30-38 contracts from 2007 budgeted levels and levels listed in 2008 Status Quo budget by 4.3%:	$13,000
6.	Reduce Status Quo expenditure allocation levels in operational budget for items other than personnel, contracts and rent by 13.5%:	$45,500
7.	Increase the registration fees by $16 per Unit:	$320,000
8.	Pass along the majority ($12) of the registration fee increase to tenants that are living in units that have never received a vacancy decontrol increase:	0
9.	Adjust recurring revenue assumptions to reflect resumed implementation of the New Unit registration project:	$25,000
10.	By January 2008, identify an additional $40,000 in savings, unbudgeted revenue or additional cuts, to take effect in FY 2009:	0
11.	Continue the practice of paying for new increases in recurring costs by identifying recurring savings to offset the cost(s): *(Note: this prevents us from going further into debt)*	0
12.	Continue the practice of paying for increased costs for existing non-COLA driven budgeted items by identifying offsetting savings in other budgeted areas: *(Again, this is to prevent us from going further into debt)*	0

III. DESCRIPTION OF PROPOSED CHANGES TO THE STATUS QUO BUDGET

The Budget Committee is proposing a combination of twelve measures be utilized to contain and reduce expenditures & raise the revenues necessary to continue improving the Program's operation. Page 16 presents a chart showing the financial impact of these measures on the Fund balance.

Proposed Action 1: Add one-time capital expenditure, totaling $125,000, to the FY 2008 budget for RTS database upgrades. This is a difficult request to propose at a time when the Board is already facing the probability of a fee increase. The existing RTS database has served us well over the past 14 years but is now limiting our ability to move forward with the information we are being requested to provide. Of even greater importance is the concern that the system will fail and we will be limited in our ability to recover from a disastrous system failure without incurring very substantial costs. Two years ago, we raised the possibility of upgrading or replacing the RTS database. Limited upgrades were made in FY 2006. The FY 2007 budget included an allocation of $30,000 to begin the design of a new system, with the idea that additional funding would be available in FY 2008. As was discussed on April 16th, we did not move forward with a separate design process this fiscal year but, beginning in July, will be working closely with the City of Berkeley's Information Technology Department to develop a system that not only meets our anticipated future needs but also works harmoniously with the existing and planned City platforms. It is our hope to either complete or make substantial progress on the database upgrade in FY 2008 and ask that the entire anticipated amount of the project be set aside at this time.

Proposed Actions 2 and 3: Continuation of Succession Planning efforts and an Additional allocation of $10,000 to increase use of hourly/temporary employees. It is assumed that these will be recurring expenditures. For the past several years, the Board has been committed to planning for the future stewardship of the Program by supporting the Executive Director's agenda of Succession Planning. Succession Planning has consisted of three key components: recruiting and hiring of quality staff; training of existing staff in leadership and development of other key skills; and when appropriate, building in steps for promotional opportunities. The specific details of this year's proposal are still being developed and will be included in your June budget presentation. It is requested that $15,000 be set aside for FY 2008.

In addition, it is requested that the Status Quo Budget allocation for Temporary/Hourly employees be increased by $10,000 to reflect a more realistic amount of $25,000 for the year. Because of retirement, extended illnesses and a prolific staff (3 newborns in 2 fiscal years), we will spend between $45,000 - $50,000 for these services in FY 2007; substantially more than the $15,000 budgeted last May.

Proposed Action 4 and 5: Reduce use of the Senior Planner in the Housing Department down to 20% time and reduce "38-30" contract expenditures by $13,000. It is assumed that these will be recurring savings and are designed to offset the increases proposed in Action 2 and Action 3 above. For several years, the Board has set aside funding for utilizing the services of a Senior Planner in the Housing Department to conduct research, surveys, or perform desired analysis. We have set aside funding to use between 30% – 33% of the individual's time. We are charged based upon actual services performed. If this recommendation is adopted we will reduce the amount set aside for these services by approximately $12,000 per year.

It is also recommended that we reduce the overall recurring allocation for contracts issued under line item 30-38 from the amount set aside in the Status Quo budget. The total allocation would be reduced by 4.3%, from $300,000 down to $287,000. The specific amounts allocated for any contract will be proposed by the Committee and then reviewed and approved by the full Board.

Proposed Action 6: Reduce Status Quo expenditure allocation levels in the operational budget by an additional $45,500 in items other than personnel, contracts and rent. It is assumed that these cuts would be recurring savings. This reflects a 13.5% reduction taken from items in the operational budget other than personnel, rent and contracts (which are covered in recommended Action #5). These cuts are likely to be in items involving printing, postage, advertising, computers, and miscellaneous legal expenditures, as well as other operational areas. The Budget Committee will work with staff and other Committees to develop the specific list of proposed cuts and the detailed proposal will be included in the final document reviewed and approved by the Board in June.

Proposed Action 7 & 8: Increase the registration fee by $16 and pass some or all of the increase along to tenants in units that have never had a full Costa-Hawkins increase. The majority of the proposed balancing measures are focused on containing the expenditure side of the budget despite tremendous pressure caused by increased salary and benefit costs. In the Status Quo budget for FY 2008, only three areas are scheduled to increase over FY 2007: RTS replacement, office rent and personnel related costs. We have already discussed the one-time allocation of $125,000 to redesign and upgrade the 14-year-old RTS database before it crashes. Approximately $12,500 (roughly 6%) is set aside for increased rental charges. The final, and most significant, change is in personnel-related costs. Even with no changes in staffing, our costs are projected to increase by $165,000 in FY 2008. After three consecutive years of cutting staff, the Executive Director has asked the Board to maintain the staffing levels in FY 2007 and 2008 at 19.3 FTE. We cannot bridge or even significantly narrow the gap through cost-cutting measures alone. Both the revenue and the expenditure side of the picture require adjustment.

Increasing the registration fees by $16 (10.4%) would raise an additional $320,000 per year. While there was no fee increase last year, this would be the third time the Board has increased fees since 1999. As noted previously, in the prior twelve years, the fee has increased a total of 23.2% from $125 to $154. If the Board increases the fee to $170, the cumulative increase over the past twelve years would be 36%. The CPI has gone up over 40% over the same period and median rents citywide have increased roughly 70% since December 1995.

The last two times the Board increased the registration fee, a significant portion (two-thirds or greater) was allowed to be passed through to the tenants. The Budget Committee and the Executive Director are recommending that this practice be continued for units that have not experienced a turnover in tenancy prior to January 1, 1999. Once the registration fee is paid in full and proper notice served on the tenant, an owner would be able to add $1.00 per month as a temporary general adjustment to the rent for tenancies that began prior to January 1, 1999. The earliest an owner could begin collecting the pass through would be July 2007. It is expected that most owners will wait and take the pass through with their AGA in January. Regardless when the pass through is first collected, it cannot last more than twelve months and must end on December 2008, unless extended by the subsequent Board action.

Since the adoption of statewide vacancy decontrol, rent levels have been set using two different standards. Approximately 30% of the rental units in the City have a tenancy that began prior to January 1, 1999, when vacancy decontrol came completely into effect. In the past, the Board has attempted to guarantee that owners of these rent-controlled units continue to receive compensation for actual increased costs such as adjustments to the registration fee. Units with tenancies that began January 1, 1999, and after fall under vacancy decontrol rules. Under vacancy decontrol, owners are expected to take into account past and anticipated future operating cost increases when setting the initial rent for a new tenancy. Therefore, increases to the registration fee presumably have been factored into the rent charged.

Proposed Action 9: Adjust recurring revenue assumptions by $25,000 to reflect resumed implementation of the New Unit registration project. Based upon actual and projected year-end collections for FY 2007, the Status Quo budget's initial recurring revenue estimate was adjusted down to $3,010,000. The anticipated shortfall in collections is linked to temporary staffing interruptions, which caused a pause in the implementation of the New Unit Registration Project. It is believed that if this project is resumed and implemented in FY 2008, that an additional $25,000 (minimum) in recurring revenue will be realized. The proposed action will both assist the Program financially and also allow for a fairer application of the registration requirements of the Ordinance.

Last year, we began a project of reviewing units listed in our database as exempt from the registration requirements of the Ordinance. Currently, there are over 10,000 units in our database listed as exempt. The vast majority of these units are in fact exempt. However, a notable number of the units claimed as exempt should actually be required to register with the Program. When we receive a claim of exemption from an owner, we take steps to verify that claim. If confirmed, we change our database. Once all the units at a property have been listed in our database as exempt, we stop billing the owner and sending notices to the unit. Thus, while there is an initial verification of the exemption, there is little follow-up in subsequent years. In FY 2006, we sent out letters to many properties in which all units were listed as exempt and offered a reasonable settlement if the owner voluntarily informed us of a unit that needed to be registered. With little or no follow-up, we collected nearly $20,000 in past due fees. In FY 2008, in fairness to the majority of owners that do properly report and pay for their rental units, staff will resume this project that needed to be "put on the back burner" this year.

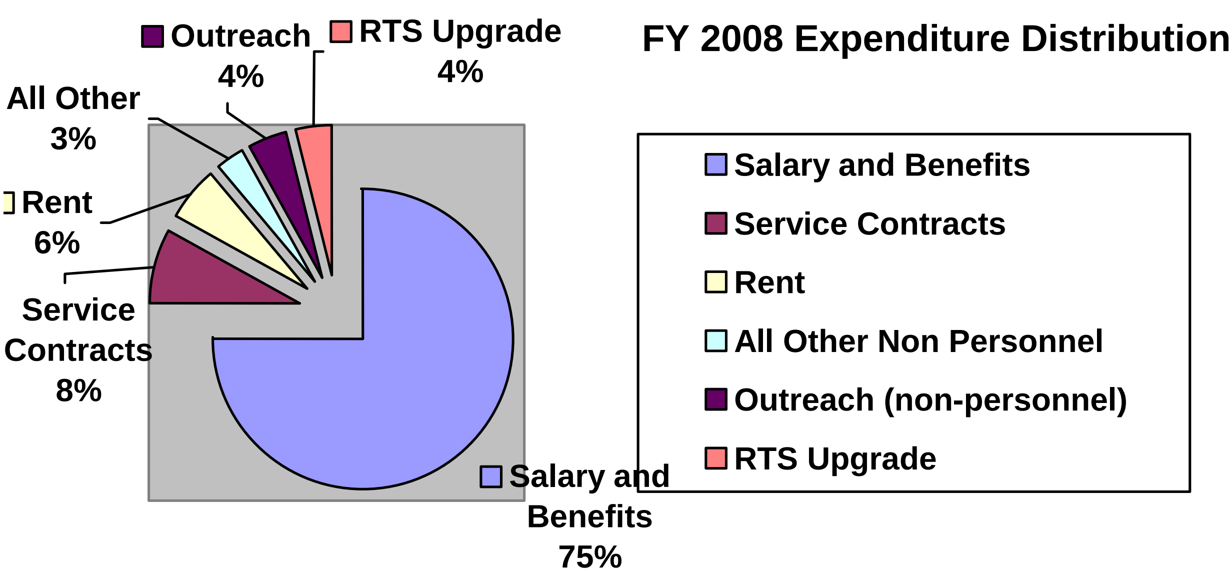
Proposed Action 10: By January 2008, identify an additional $40,000 in savings, unbudgeted revenue or additional cuts, to take effect in FY 2009. The proposed budget balancing plan, if adopted, clearly will meet the Board's stated goal of maintaining a 10% or $300,000 minimum fund reserve at the end of FY 2008. However, if estimates for FY 2009 are correct, the Program will fall below the $300,000 Fund reserve goal by June 2009. In order to meet this target, and better guarantee that potential future fee increases are limited, it is proposed that the Committee be charged with identifying an additional $40,000 in cuts, savings or unbudgeted revenue in early 2008.

Proposed Action 11 and 12: Pay for recurring new increased costs by identifying offsetting savings, and pay for increased costs of existing budgeted items by identifying offsetting savings in other areas of the operational budget. This practice was adopted by the Board several years ago and has been in place since that time. It is listed here in part as a reminder and in part to inform new Board members of some of the measures we have been undertaking for several years to contain costs. This technique is a good way of controlling "cost spikes" and "cost creep" which have a tendency to infiltrate budgets unless a vigilant eye is maintained. One example of how this technique was used in the development of this proposal can be seen in recommended actions 2-4, as the chart below demonstrates.

EXPENDITURE	INCREASE	DECREASE	LINE ITEM
Hourly/Temporary Agency Personnel	$10,000		11-03
Continue Succession Planning Efforts	$15,000		11-01
Reduce Senior Planner to 20%		$12,000	Other dept
Reduce Contracts 4.3%		$13,000	38-30
Totals	$25,000	$25,000	

IV. BUDGET DISTRIBUTION

If the proposed changes to the "Status Quo" budget are adopted, and no other significant changes are made in the final budget approved by the Board in June, the Program would allocate spending in the following six general areas:



The Budget and Personnel Committee has discussed with the Executive Director some of the improvements we envision with the adoption of this year's budget. These will be articulated in the budget book issued next month. While we will continue working with staff, service providers and several committees to develop additional details on all the proposals and priorities. The following potential changes are worth noting now:

- Completion of the phone replacement project as well as the design and eventual implementation of the RTS upgrade. These will conclude the series of capital improvement items first identified as funding priorities several years ago.

- Continue to expand outreach efforts beyond our traditional mailings to owners and tenants. Also increase outreach efforts to schools, religious organizations and other community-based organizations.

- Work with the City Council to develop an anti-harassment ordinance as well as increased standards for maintaining rental units in habitable condition.

- Ongoing improved coordination with other City Departments including the sharing of key information.

- Continue our work advising Council on how to mitigate the adverse impacts of pending changes in City housing policy such as soft-story and condominium conversion ordinances.

V. <u>THE BASIS FOR REVENUE ASSUMPTIONS</u>

The Board receives almost all its income from two sources: registration fees for the current year, and back fees and penalties for previous years.

A. <u>Estimate of Registered Units</u>

The FY 2007 budget estimates approximately 19,000 units will be registered and raise $2,887,500 in current year registration fees. Through February, we have received $2,838,857, or 98% of the $2,887,500 budgeted. By year-end, we may reach our target or fall a little short of our mark – it is too early to know for sure. I estimate that in FY 2008, if the Board agrees to increase the registration fees by $16, that we will collect approximately $3,190,000 in current year fees.

B. <u>Estimate of Income from Past Fees and Penalties</u>

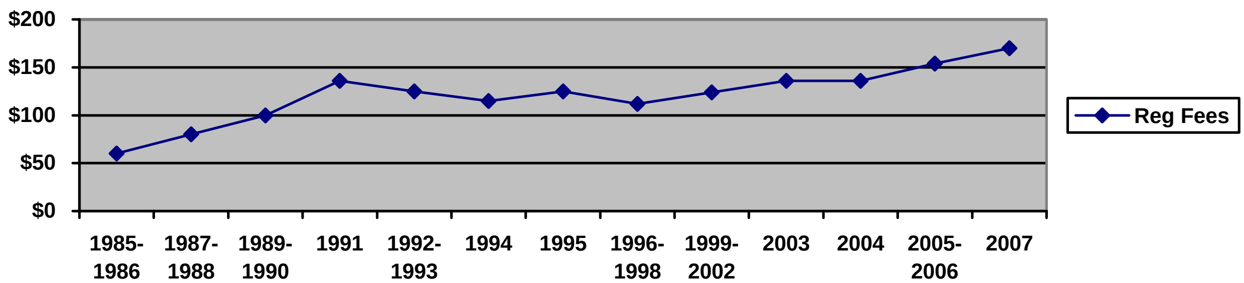
Historically, the Board has collected in excess of $100,000 in prior years' fees and penalties. The current year's budget estimated $150,000 from these items. Based on collections through February, I estimate we will fall a little short of our projections – collecting closer to $120,000. Consequently, given the resumption of the New Unit review project, I would revise my estimate in FY 2006 upward to $160,000.

C. Estimate of Total Income from Fees and Penalties

If annual registration fees yield $3,190,000, the prior fees and penalties result in an additional $160,000, and we collect $5,000 from various miscellaneous revenues, the total year-end revenue is projected to be $3,355,000. This continues the trend of utilizing the fund reserves to minimize increases to the registration fee. If you fully implement your budget, the Board will be left with a fund reserve of approximately $380,000 (10.8%) at the end of FY 2008 and approximately $305,000 (8.9%) at the end of FY 2009.

VI. HISTORY OF REGISTRATION FEES

Two years ago, the Board increased the registration fee for the second time since 1999. This year, we did not increase the fee but dipped into Fund reserves. For the reasons already discussed, it is recommended that the registration fee for next year be increased to $170. The following graph shows all the registration fees assessed (and for 2007 proposed) by the elected Rent Stabilization Board. The Registration Year is listed by the calendar year it is due (not by fiscal year). For example: the proposed fee of $170 in the last column is for FY 2008 but is due July 1, 2007 and listed under Registration Year 2007. Page 17 of this report, is a table showing, year-by-year, the annual registration fees charged and the adopted FTE staffing level. Page 18 shows the Program's adopted staffing model/organizational chart for FY 2007.



Rent Stabilization Board

RENT STABILIZATION BOARD

DATE: April 16, 2007

TO: Honorable Members of the Rent Stabilization Board

FROM: Budget and Personnel Committee
BY: Jay Kelekian, Executive Director

SUBJECT: Recommendation to hold a special meeting and public hearing on the FY 2007/08 Rent Board Budget & consider a possible increase in the registration fee, on May 7, 2007

Recommendation:

That the Board agree to schedule a special meeting and public hearing on the FY 2007/08 Budget on May 7, 2007. That as part of that special meeting the Board hold a public hearing to receive comments on a possible increase in the registration fees due July 1, 2007, in an amount not to exceed $18.00 per year per unit.

Background and Need For Rent Stabilization Board Action:

Legally, the Board has through the end of June to adopt a line-item budget and expenditure authorization level for FY 2007/08. Unfortunately, however, in order to provide sufficient time to allow staff to print and mail the annual bill prior to the last week of May, the Board must set the fee no later than May 11th. In addition, if the Board wishes to raise the current fee of $154 per unit, a public hearing must be held upon ten days published notice as set forth in Government Code section 6062a. Therefore, in order to hold a public hearing to consider raising the registration fee prior to May 11th, notice of a potential fee increase must be first published no later than May 1st. Newspapers require between 3-5 days advance notice before publishing the public notice. The Board may hold the public hearing the same evening that it makes a decision on the registration fee. At the recommendation of the Executive Director, the Budget and Personnel Committee is recommending that we hold the hearing and attempt to make a determination on the fee at a special meeting to be held on Monday, May 7th. The date of May 7th was selected because we have access to the Council Chambers and the meeting can be televised and broadcast on the radio and internet. This will allow the greatest degree of transparency to the Board's budget and fee setting process.

Based upon the most recent budget figures available (please see the attached year end projections, based upon figures available through the end of February), I am projecting that the Rent Stabilization Fund will end this fiscal year with an unallocated balance of at least $550,000. This amount is approximately $220,000 greater than the Board anticipated when it adopted the FY 2007 budget last June. These amounts are roughly $100,000 more optimistic than I reported to you last month after reviewing figures available through the end of December.

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On April 9th, I provided the Budget and Personnel Committee a preliminary "status quo" budget for FY 2007/2008. I projected that if the Board adopted the "status quo" budget (**please note, this was not my recommendation**) we would end next fiscal year with in excess of $115,000 available in unallocated reserves. This information gives the Committee and subsequently the full Board an initial projection of what our financial situation would be at the end of next fiscal year if we built in known cost increases (rent, staff cost of living adjustments, etc) but otherwise assumed no major changes in the Program's operations. This exercise does not bind the Board but provides a good snapshot of the overall financial well being of the agency if we continue with no changes. All adjustments (both up and down) to the "status quo" can then be evaluated with an understanding of how the financial footing of the agency would be affected. Thus, the Board may make additions or deletions that offset each other or make choices that increase or decrease the overall fund balance.

Based upon my year-end projections for the current fiscal year as well as my initial "status quo" projections for next year, I proposed that the Budget and Personnel Committee recommend to the full Board that you schedule a public hearing to consider raising the registration fee due on July 1, 2007. The maximum amount that I believe it may be necessary to increase the fee is $18 per unit per year. It is possible the fee will not need to be increased by that amount. Over the next several weeks I will meet regularly with the members of the Budget and Personnel Committee to formulate a more comprehensive plan and recommendation. You will have this information prior to your May 7th meeting.

In order to comply with the noticing requirements for governmental agencies increasing user fees, the Board must determine this evening either that:

1. The 2008 registration fee will not exceed $154 per unit, or

2. Establish a maximum amount that the fees may go up and schedule a public hearing for May 7, 2007

In either case, the Board will not make the final fee determination until May 7th . The Board may always set the fee at an amount lower than the $154 per unit but may not increase it in an amount greater than advertised in the public hearing notice. Failure to set a public hearing this evening may preclude the Board from being in a position to increase the fee if they desire to do so on May 7th.

<u>Financial Impact</u>:

If the Board decides to meet on May 7th, there would be limited financial costs associated with publicizing, holding, broadcasting and captioning the meeting. These costs would probably be less than $2,000. The cost of conducting the meeting should not be a consideration in the Board's discussion as the amount of the registration fee is clearly a significant public policy issue and will have the primary fiscal impact for the Program.

<u>Name and Telephone Number of Contact Person:</u>

Jay Kelekian, Executive Director (510) 644-6128

Rent Stabilization Fund

FY 2007 Two-Third Update
And FY 2008 Status Quo Budget

FY2 Description	FY 2005 Actual	FY 2006 Actual	FY2007 Adopted	2007 Adjusted	FY 2007 2/3 Year	FY 2007 Year End Projected **	FY2008 Status Quo
Monthly Employees	1,369,300	1,391,592	1,540,000	1,540,000	883,438	1,465,000	1,630,000
Hourly Employees	0	0	0	0	7,338	23,500	0
Overtime	416	466	3,000	3,000	17	2,000	3,000
Benefits	693,103	794,180	830,000	830,000	475,137	790,000	905,000
Stipends	54,280	54,200	54,000	54,000	31,250	54,000	54,000
Misc. Legal Expenses	-6,539	1,587	10,000	10,000	135	5,000	10,000
Temp Agency Empl's	21,872	38,595	15,000	15,000	22,836	23,500	15,000
Misc. Prof. Services	309,255	**261,568**	324,000	365,000	190,860	322,000	300,000
Office Equip Mtc. Svcs/Furniture	7,574	23,399	20,000	20,000	2,253	12,000	20,000
Bldg & Structures Mtc Svc.	495	540	4,000	4,000	4,875	5,500	4,000
Professional Dues	1,705	1,855	2,000	2,000	1,895	2,000	2,000
Insurance	0	84	500	500	84	500	500
Telephone	15,325	5,024	10,000	50,000	2,645	50,000	10,000
Printing and Binding Outside	34,125	36,169	45,000	45,000	14,264	32,000	45,000
Commercial Trans	944	682	1,000	1,000	0	1,000	1,000
Meals & Lodging	1,124	1,724	2,000	2,000	960	2,000	2,000
Registration Fees	4,970	4,132	4,500	4,500	0	4,500	4,500
Transportation	815	1,630	2,500	2,500	500	2,500	2,500
Advertising	30,870	26,453	45,000	45,000	23,307	30,000	45,000
Books & Pubs	9,434	9,877	10,000	10,000	5,713	10,000	10,000
Rental of Land/Buildings	197,541	195,840	207,500	207,500	206,683	210,000	220,000
Rental of Off Equip & Furniture	0	1,476	1,500	1,500	0	1,500	1,500
Postage	38,145	46,300	55,000	55,000	26,386	38,000	55,000
Messenger/Delivery	970	824	2,000	2,000	748	2,000	2,000
Office Supplies	13,023	7,393	18,000	18,000	9,117	16,000	18,000
Office Equipment	1,341	0	4,000	4,000	0	1,000	4,000
Computers	15,372	19,110	25,000	25,000	11,673	18,000	25,000
Facilities Maint. Charges	2,450	0	0	0	0	0	0
Central Duplicating	4,362	4,189	5,000	5,000	3,250	5,000	5,000
City Vehicle/Fuel & Maint.	6,432	4,847	6,500	6,500	2,669	6,500	6,500
Training	330	0	3,000	3,000	575	3,000	3,000
Liability Payments	100	448	2,000	2,000	0	1,000	2,000
Expenditure Subtotal	**2,829,134**	**2,934,184**	**3,252,000**	**3,333,000**	**1,928,608**	3,139,000	**3,405,500**
Other Department Transfer	27,587	33,046	38,000	38,000	13,196	30,000	40,000
Total Fund Expenditures	**2,856,721**	**2,967,230**	**3,290,000**	**3,371,000**	**1,941,804**	3,169,000	**3,445,500**
Total Fund Revenue	**2,708,438**	**3,019,264**	**3,037,500**	**3,037,500**	**2,940,204**	**3,010,000**	3,010,000
Prior year's adjustment				**30,332**	**30,332**	**30,332**	
Fund Balance	**$627,957**	**$679,991**	**$427,491**	**$376,823**	**$1,708,723**	551,323	**115,823**

** Amounts listed in "FY 2007 Year-End Projected" reflect both the amounts that will actually be spent in the fiscal year as well as that which will be carried over into next year

Rent Stabilization Fund Balance
FY 2002 - 2006 Actuals
FY 2007 Projected
FY 2008 and 2009 Status Quo Projected

Description	Actual FY 2002	Actual FY 2003	Actual FY 2004	Actual FY 2005	Actual FY 2006	Adjusted * FY 2007	Projected ** FY 2007	Projected ** FY 2008	Projected FY 2009
Beginning Balance	856,329	919,545	857,102	776,240	627,957	679,991	679,991	551,323	115,823
Revenues	2,526,741	2,557,121	2,676,924	2,708,438	3,019,264	3,037,500	3,010,000	3,010,000	3,010,000
Expenditures	2,463,525	2,676,365	2,751,131	2,856,721	2,967,230	3,371,000	3,169,000	3,445,500	3,515,000
Prior Year Adjustment		56,801	-6,655			30,332	30,332		
Ending Balance	**919,545**	**857,102**	**776,240**	**627,957**	**679,991**	**376,823**	**551,323**	**115,823**	**-390,823**

* Adjusted Budget reflects the Adopted Budget plus unspent carryover of approximately $85,000 from prior year

** Based on FY 2007 actual expenditures through February 2007.

Rent Stabilization Fund Balance FY 2004 - 2006 Actuals FY 2007 Projected FY 2008 Status Quo Projected FY 2008 and 2009 Proposed Budget								
Description	**Actual**	**Actual**	**Actual**	**Adjusted ***	**Projected ****	**Status Quo**	**Proposed**	**Projected**
	FY 2004	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2007**	**FY 2008**	**FY 2008**	**FY 2009**
Beginning Balance	857,102	776,240	627,957	679,991	679,991	551,323	551,323	381,323
Recurring Revenues	2,676,924	2,708,438	3,019,264	3,037,500	3,010,000	3,010,000	3,035,000	3,035,000
Registration Fee Increase							320,000	320,000
Recurring Expenditures	2,751,131	2,856,721	2,967,230	3,371,000	3,169,000	3,445,500	3,400,000	3,470,000
One time RTS Project							125000	
Prior Year Adjustment	-6,655			30,332	30,332			
Additional Cuts/Revenue								40,000
Ending Balance	**776,240**	**627,957**	**679,991**	**376,823**	**551,323**	**115,823**	**381,323**	**306,323**

*   Adjusted Budget reflects the Adopted budget plus unspent carryover of approximately $85,000 from prior year.
** Based on FY 2007 actual expenditures through February 2007.

The Proposed Plan for FY 2008 and FY 2009 assumes the following changes to the Status Quo Budget:

1. Recurring Revenues are adjusted upward by $25,000 to reflect resumption of the New Unit Registration Project.

2. The annual registration fee will increase by $16 (approximately 10%) per unit, per year raising $320,000 per year.

3. Recurring Expenditures will decrease by $45,500 reflecting the following changes:
   a. Increases totaling $25,000 to reflect increased use of temporary/hourly employees ($10,000) and continuation of Succession Planning efforts ($15,000).
   b. Offsetting decreases totaling $25,000 by reducing use of a Senior Planner in the Housing Department to 20% FTE and reducing "30-38" contracts by $13,000.
   c. Additional cuts to the Status Quo allocations totaling $45,500. Specific cuts to be determined in June budget. This reflects a 13.5% decrease in the operational budget for items other than personnel, contracts and rent.

   c. Additional cuts to the Status Quo allocations totaling $45,000. This reflects a 13.5% decrease in the operational budget for items other than personnel, contracts and rent.

4. In FY 2008, a one time expenditure of $125,000 for RTS upgrade.

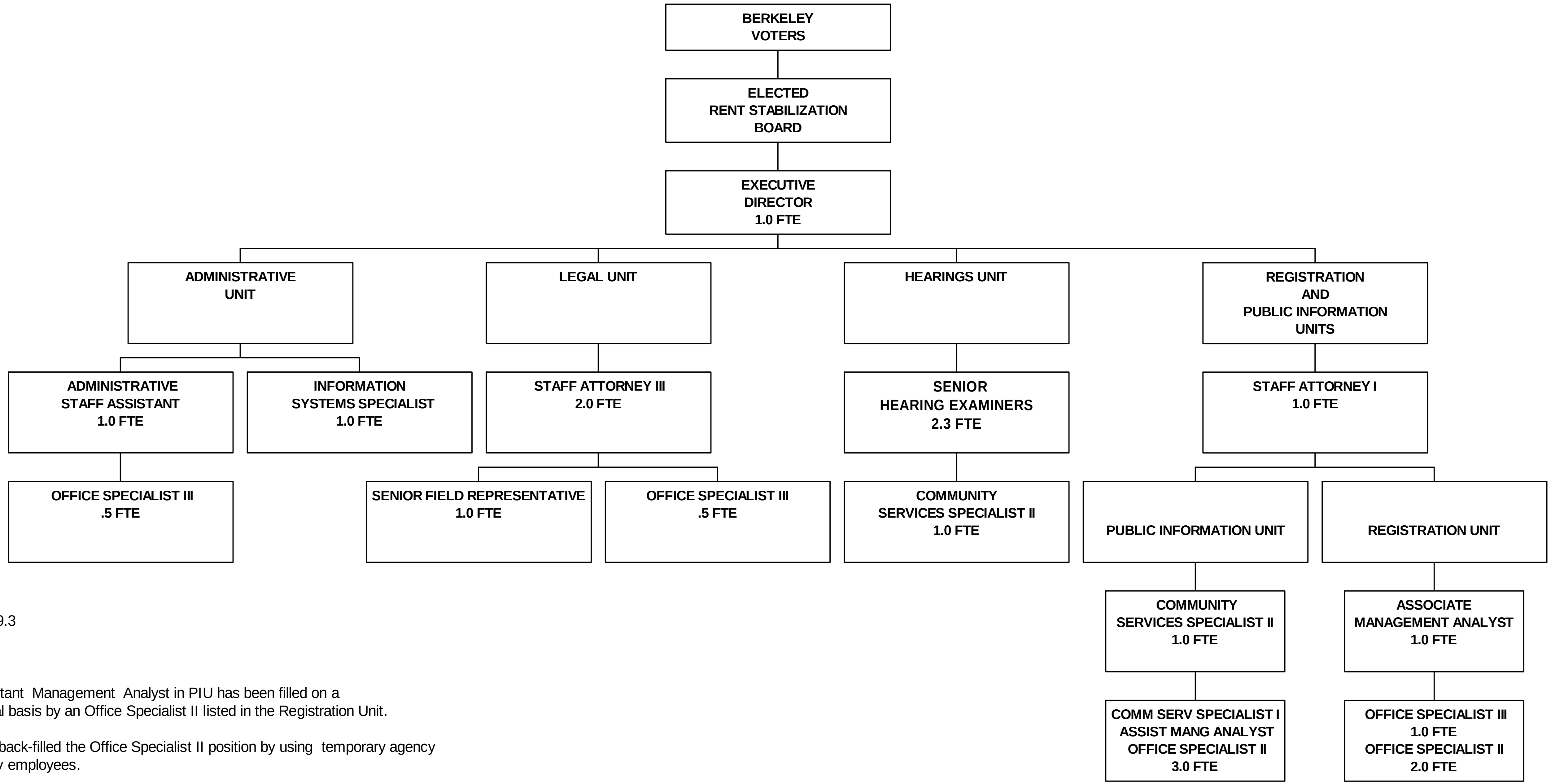
5. By January 2008, the Budget committee will identify $40,000 in additional cuts or revenue to guarantee that the revenue/expenditure gap in FY 2009 is not greater than $75,000 and the Fund balance remains above $300,000.

PAST FEES CHARGED BY THE ELECTED BERKELEY RENT STABILIZATION BOARD

REGISTRATION YEAR	REGISTRATION FEE	FULL-TIME EQUIVALENT*
1985	$60	31.50
1986	$60	36.00
1987	$80	31.50
1988	$80	31.50
1989	$100	32.93
1990	$100	33.63
1991	$136	26.85
1992	$125	29.65
1993	$125	26.20
1994	$115	25.35
1995	$125	26.60
1996	$112	26.60
1997	$112	24.60
1998	$112	24.60
1999	$124	23.70
2000	$124	22.20
2001	$124	22.30
2002	$124	22.30
2003	$136	21.30
2004	$136	20.30
2005	$154	19.30
2006	$154	19.30

*** NOTE: The Registration Fee is listed by calendar year of the year due, while the FTE count is by fiscal year.**

BERKELEY RENT STABILIZATION BOARD ORGANIZATION CHART
Fiscal Year 2007 Adopted



TOTAL 19.3

NOTE:

The Assistant Management Analyst in PIU has been filled on a provisional basis by an Office Specialist II listed in the Registration Unit.

We have back-filled the Office Specialist II position by using temporary agency and hourly employees.