



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



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February 27, 1985

Budget and Finance Committee
of the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Rent Increase for Oak Park Duplexes Family
Housing Development

SUMMARY

The attached report is submitted to you for review and recommendation prior to consideration by the Housing Authority of the City of Sacramento.

RECOMMENDATION

The staff recommends approval of the suggested rent increase.

Respectfully submitted,

Andrew J. Plescia
ANDREW J. PLESCIA
Acting Executive Director

TRANSMITTAL TO COMMITTEE:

Solon Wisham Jr

SOLON WISHAM, JR.
Assistant City Manager



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



February 7, 1985

Housing Authority of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Rent Increase for Oak Park Duplexes Family Housing
Development

SUMMARY

The Oak Park Duplexes are a locally funded development with operating costs paid entirely by rents (no Federal subsidies). The present rents of \$180, established in 1982, are inadequate to cover operating costs and anticipated capital replacement and painting needs. It is recommended that rents be increased to \$226 per unit to cover expenses and reserve needs. This increase would be effective the second month following the month in which commission approval is obtained. The target date is April 1, 1985.

BACKGROUND

This 24 unit Family Development was constructed in 1982 with Replacement Housing Funds set aside from Tax Increment receipts. Thus there is no on-going debt service since initial capital costs were paid at the time of construction. However, there are no Federal or State subsidy funds provided for on-going maintenance, management and capital replacement needs. All operating costs must be paid by tenant rents, which are presently established at \$180 per month.

It has become apparent that the original rent levels, established in April, 1982 are not adequate to cover on-going operating costs and fund a capital replacement fund. Therefore, since tenant rents are the primary source of operating income available for this development, it is necessary to consider an increase in rents.

This would be the first increase in the 30 months of operation of the Duplexes.

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FINANCIAL DATA

With an improved cost accounting system, implemented in 1984, it has been possible to capture costs attributable to a particular development more accurately. Based on an analysis of actual costs through October of 1984 and trending these through the end of the year the following expense picture results:

Expenditures for 1984

<u>Line Item</u>	<u>10/31/84 Actual Costs</u>	<u>Trended Costs for 1984</u>
Administrative Employee Services	\$ 4,677	\$ 5,612
Management Employee Services	5,712	6,854
Maintenance Employee Services	9,426	11,311
Insurance	1,831	2,197
Office Expense	616	739
Bad Debts	1,987	2,384
Utilities	3,888	4,666
Maintenance Materials	1,599	1,919
Maintenance Contracts	10,521	12,625
Agency Overhead	<u>8,456</u>	<u>10,147</u>
	\$48,713	\$58,454

For 1985 a 5% increase in costs may be reasonably anticipated. This would result in an expense per unit for 1985 of \$213 per unit per month plus replacement reserve and painting reserve requirements of \$10 per unit.

Replacement Reserves were originally set up in the initial budget at \$10 P.U.M. However, it has not been possible to set aside this amount because of increases in operating costs. Replacement reserves are needed for capital items as a building ages such as appliance replacement, floor covering replacement, heating and air conditioning equipment replacement, and roof replacement.

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1985 Operating Costs	\$61,377
Replacement Reserve	<u>2,880</u>
	\$64,257

Alternative 1: Annual Revenue at rent of \$230 P.U.M.	
Rental Rate \$230 P.U.M.	\$66,240
Less 3% Vacancy Factor	<u>1,987</u>
Net Revenue	\$64,253

Alternative 2: Annual Revenue with Rent of \$226 P.U.M.	
Rental Rate \$226	\$65,088
Less 3% Vacancy Factor	<u>1,952</u>
Net Revenue	\$63,136

POLICY IMPLICATIONS

While a \$230 per month rent level will cover estimated 1985 expenses, it would require that some residents and new applicants would pay more than 30% of their income for rent. The present average family size for these three bedroom duplexes is 5.5 and 75% of the households receive AFDC as their income source. An AFDC grant for a family of five is \$753. 30% of this grant amount would generate a rent of \$226 per month. Even though this will not cover all estimated expenses, staff recommends that this cap be applied to the rent increase. Some economies of operation may be possible in 1985 that will reduce revenue requirements. If a deficiency results in 1985 from this revenue level, staff will initiate a request for a rent increase in 1986 and perhaps suggest a revision of the 30% of income for rent standard.

In terms of the local market comparables \$226 is still a bargain rent for a three bedroom unit. The Section 8 Program keeps records by zip code of the full market rents for units it assists. The average rent for these three bedroom units in the zip code area of the Oak Park Duplexes is \$387 per month. These units are generally older and not of the same quality as the Duplexes.

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VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of February 20, 1985, the Sacramento Housing and Redevelopment Commission adopted a motion recommending adoption of the attached resolution. The votes were as follows:

AYES: Amundson, Luttrell, Moose, Pettit, Sanchez, Angelides

NOES: Lopez, Ose, Wooley

ABSENT: Teramoto, Walton

RECOMMENDATION

The staff recommends that the Commission adopt Alternative 2, with the suggested rent increase to \$226 per month, effective April 1, 1985.

Respectfully submitted,



ANDREW J. PLESCIA
Acting Executive Director

TRANSMITTAL TO COUNCIL:

WALTER J. SLIPE
City Manager

Contact Person: John Harmon

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RESOLUTION NO.

ADOPTED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO
ON DATE OF

APPROVING RENT INCREASE FOR OAK PARK DUPLEXES AND ESTABLISHING MANAGEMENT POLICY

WHEREAS, financial analysis of the Oak Park Duplexes housing development located between 35th and 36th Street at 5th Avenue has disclosed revenue deficiencies; and.

WHEREAS, increased income is needed to cover operating cost increases and to accumulate capital replacement reserves; and

WHEREAS, there are no Federal or State subsidies available for the operation of this project, leaving tenant rents as the only major source of operating income;

NOW, THEREFORE, BE IT RESOLVED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO:

Section 1: The Executive Director is hereby authorized to increase the dwelling rents at the Oak Park Duplexes to \$226 per month.

Section 2: The effective date of this increase will be April 1, 1985.

Section 3: Resolution number 82-018, adopted April 27, 1982, is repealed.

Section 4: The Executive Director is authorized to operate the Oak Park 24-unit Family Housing Complex located at 35th Street under the guidelines of the current Agency Occupancy Policy for Conventional housing with the following exceptions:

- a. Flat rents will not exceed the operating and capital replacement reserve costs of the project.
- b. Such flat rent levels will be established according to the recommendation of the Executive Director as approved by the Housing Services Committee.

CHAIR

ATTEST:

SECRETARY