

AGENDA ITEM REQUEST FORM

Department: Rent Program

Department Head: Nicolas Traylor

Phone: 620-6564

Meeting Date: October 17, 2018

Final Decision Date Deadline: October 17, 2018

STATEMENT OF THE ISSUE: On December 20, 2017, the Richmond Rent Board adopted Regulation 602, which allows Landlords of Controlled Rental Units to “bank” Annual General Adjustment rent increases, with limitations. Staff members are proposing revisions to Regulation 602 to (1) clarify the banking provisions of the Regulation, where Landlords may apply up to 5% of deferred rent increases in a twelve-month period, and (2) establish the utilization of a compound interest formula, rather than a simple interest formula, in the calculation of the Maximum Allowable Rent.

INDICATE APPROPRIATE BODY

- | | | | | |
|---|---|--|--|---|
| <input type="checkbox"/> City Council | <input type="checkbox"/> Redevelopment Agency | <input type="checkbox"/> Housing Authority | <input type="checkbox"/> Surplus Property Authority | <input type="checkbox"/> Joint Powers Financing Authority |
| <input type="checkbox"/> Finance Standing Committee | <input type="checkbox"/> Public Safety Public Services Standing Committee | <input type="checkbox"/> Local Reuse Authority | <input checked="" type="checkbox"/> Other: <u>Rent Board</u> | |

ITEM

- | | | |
|---|--|---------------------------------|
| <input type="checkbox"/> Presentation/Proclamation/Commendation (3-Minute Time Limit) | | |
| <input type="checkbox"/> Public Hearing | <input checked="" type="checkbox"/> Regulation | <input type="checkbox"/> Other: |
| <input type="checkbox"/> Contract/Agreement | <input type="checkbox"/> Rent Board As Whole | |
| <input type="checkbox"/> Grant Application/Acceptance | <input type="checkbox"/> Claims Filed Against City of Richmond | |
| <input type="checkbox"/> Resolution | <input type="checkbox"/> Video/PowerPoint Presentation (contact KCRT @ 620.6759) | |

RECOMMENDED ACTION: ADOPT amendments to Regulation 602 to (1) clarify the banking provisions of the Regulation, where Landlords may apply up to 5% of deferred rent increases in a twelve-month period, and (2) establish the utilization of a compound interest formula, rather than a simple interest formula, in the calculation of the Maximum Allowable Rent – Rent Program (Nicolas Traylor 620-6564).

AGENDA ITEM NO:

H-1.



AGENDA REPORT

DATE: October 17, 2018

TO: Chair Gray and Members of the Rent Board

FROM: Nicolas Traylor, Executive Director

SUBJECT: PROPOSED REVISIONS TO REGULATION 602, REGARDING
"BANKING" OF ANNUAL GENERAL ADJUSTMENT RENT INCREASES

STATEMENT OF THE ISSUE:

On December 20, 2017, the Richmond Rent Board adopted Regulation 602, which allows Landlords of Controlled Rental Units to "bank" Annual General Adjustment rent increases, with limitations. Staff members are proposing revisions to Regulation 602 to (1) clarify the banking provisions of the Regulation, where Landlords may apply up to 5% of deferred rent increases in a twelve-month period, and (2) establish the utilization of a compound interest formula, rather than a simple interest formula, in the calculation of the Maximum Allowable Rent.

RECOMMENDED ACTION:

ADOPT amendments to Regulation 602 to (1) clarify the banking provisions of the Regulation, where Landlords may apply up to 5% of deferred rent increases in a twelve-month period, and (2) establish the utilization of a compound interest formula, rather than a simple interest formula, in the calculation of the Maximum Allowable Rent – Rent Program (Nicolas Traylor 620-6564).

FISCAL IMPACT:

While there is no discernable fiscal impact concerning this action item, if Regulation 602 is not amended, the process of calculating the Maximum Allowable Rent may be more administratively complex and could lead to confusion for both Landlords and Tenants, which may lead to higher staff costs.

DISCUSSION:

Background

Each September, the Fair Rent, Just Cause for Eviction and Homeowner Protection Ordinance (Rent Ordinance) allows Landlords to increase the Maximum Allowable Rent by the Annual General Adjustment. Pursuant to Rent Board Regulation 602, if a Landlord elects not to take an AGA increase, rather than losing that AGA increase, they may defer that increase (or multiple deferred AGA increases) to be taken in future years, with a limit of taking no more than 5% of deferred increases plus the current year's applicable increase within a 12 month period.

Proposed Amendments to Clarify the Banking Provisions of Regulation 602

On December 20, 2017, the Richmond Rent Board adopted Regulation 602, which states, in pertinent part:

“B. To the extent a Landlord has not increased Rent up to the Maximum Lawful Rent level, the Landlord shall have the ability to apply deferred Annual General Adjustment rent increases; however, the net rent increase in any one twelve-month period shall not exceed the current year Annual General Adjustment Rent Increase plus five percent (5.0%) of the Rent charged at any time during the preceding 12-month period.”

In their application of this provision, staff members have recognized that the phrase “*the net rent increase in any one twelve-month period shall not exceed the current year Annual General Adjustment Rent Increase plus five percent (5.0%) of the Rent charged at any time during the preceding 12-month period*” does not adequately articulate the Board’s intent to limit the application of deferred rent increases to five percent annually.

To rectify this issue, staff members propose the following language:

“B. To the extent a Landlord has not increased Rent up to the Maximum Lawful Rent level, the Landlord shall have the ability to apply deferred Annual General Adjustment rent increases; however, if the proposed rent increase for the Tenant household exceeds the current year Annual General Adjustment plus 5 percent (5.0%) of the rental amount charged to the Tenant household at any time during the 12 months prior to the effective date of the proposed increase, either in and of itself or when combined with any other rent increases for the 12 months prior to the effective date of the increase, the proposed rent increase shall be void.”

Compounding vs. Simple Interest Issue

The current Regulation employs a simple interest formula (e.g. 3.0% plus 3.4% equals 6.4%) rather than a compounding interest formula (e.g. 3.0% plus 3.4% equals 6.56%). To accurately calculate the Maximum Allowable Rent, which equals the Base or initial Rent paid plus each years AGA increase, the previous years Maximum Allowable Rent level must be multiplied by the current AGA percentage. This process uses compounding interest. Regulation 602 should therefore reflect this process.

The cumulative impact of utilizing simple versus compound interest formulas is shown in the table below. While the difference between the Maximum Allowable Rent using these two formulas may appear nominal in the first few years, the net effect of utilizing simple versus compound interest formulas will become more pronounced over time.

Year	AGA Rent Increase	Cumulative Total AGAs – <u>Simple Interest Formula</u>	New MAR - <u>Simple Interest Formula</u> (Assumes Base Rent of \$1,000)	Cumulative Total AGAs – <u>Compound Interest Formula</u>	New MAR – <u>Compound Interest Formula</u> (Assumes Base Rent of \$1,000)
2016	3.0%	3.0%	\$1,030	3.0%	\$1,030
2017	3.4%	6.4%	\$1,064	6.56%	\$1,065
2018	3.6%	10.0%	\$1,100	10.3%	\$1,103

Under a simple interest “banking” scheme, Landlords who elect to defer Annual General Adjustment increases will forego a portion of the rent increase. This may be inconsistent with the Rent Board’s intent to allow Landlords to recover previously deferred Annual General Adjustment rent increases to the fullest extent.

DOCUMENTS ATTACHED:

Attachment 1 – Redlined version of revised Regulation 602

Attachment 2 – Amended Regulation 602

ITEM H-1 ATTACHMENT 1

602. Banking

- A. A Landlord may, but is not required to, increase Rent by the Annual General Adjustment as provided by Chapter 6 of these Regulations.
- B. To the extent a Landlord has not increased Rent up to the Maximum Lawful Rent level, the Landlord shall have the ability to apply deferred Annual General Adjustment rent increases; however, if the proposed rent increase for the Tenant household exceeds the current year Annual General Adjustment plus five percent (5.0%)~~the~~ of the rental amount charged to the Tenant household at any time during the 12 months prior to the effective date of the proposed increase, either in and of itself or when combined with any other rent increases for the 12 months prior to the effective date of the increase, the proposed rent increase shall be void. net rent increase in any one twelve month period shall not exceed the current year Annual General Adjustment Rent Increase plus five percent (5.0%) of the Rent charged at any time during the preceding 12 month period.
- C. In the event that a current year's Annual General Adjustment exceeds five percent (5.0%), a Landlord may not apply any deferred Annual General Adjustment increases until the next Annual General Adjustment increase less than five percent (5.0%) is effective.
- D. "Banking" of Annual General Adjustment Increases shall be calculated based on simple compound addition, ~~without compounding~~. For example, an increase of three percent (3.0%) plus three point four percent (3.4%) is equal to a combined increase of six point five six percent (6.56%), not six point four percent (6.4%)~~, not six point five six percent (6.56%)~~.
- E. Nothing in this Regulation shall preclude a Landlord from petitioning for a Rent Increase in excess of the Annual General Adjustment.
- F. This Regulation shall become effective September 1, 2018.

[Formerly Regulation 17-09; adopted December 20, 2017; [Amended October 17, 2018](#)]

ITEM H-1
ATTACHMENT 2

602. Banking

- A. A Landlord may, but is not required to, increase Rent by the Annual General Adjustment as provided by Chapter 6 of these Regulations.
- B. To the extent a Landlord has not increased Rent up to the Maximum Lawful Rent level, the Landlord shall have the ability to apply deferred Annual General Adjustment rent increases; however, if the proposed rent increase for the Tenant household exceeds the current year Annual General Adjustment plus five percent (5.0%) of the rental amount charged to the Tenant household at any time during the 12 months prior to the effective date of the proposed increase, either in and of itself or when combined with any other rent increases for the 12 months prior to the effective date of the increase, the proposed rent increase shall be void.
- C. In the event that a current year's Annual General Adjustment exceeds five percent (5.0%), a Landlord may not apply any deferred Annual General Adjustment increases until the next Annual General Adjustment increase less than five percent (5.0%) is effective.
- D. "Banking" of Annual General Adjustment Increases shall be calculated based on compound addition. For example, an increase of three percent (3.0%) plus three point four percent (3.4%) is equal to a combined increase of six point five six percent (6.56%), not six point four percent (6.4%).
- E. Nothing in this Regulation shall preclude a Landlord from petitioning for a Rent Increase in excess of the Annual General Adjustment.
- F. This Regulation shall become effective September 1, 2018.

[Formerly Regulation 17-09; adopted December 20, 2017; Amended October 17, 2018]