

# CITY COUNCIL MEETING

Tuesday, Dec. 5, 2023

Staff Presenter:  
Bill Chapin,  
Rent Program Director



## Capital Improvement Plan (CIP) Policy Update



# Procedural History

- **May 11 & June 6, 2023:** Council adopted a temporary moratorium on Capital Improvement Plan (CIP) applications for properties with 25+ units and directed staff to return with recommended changes to the Rent Program's CIP Policy.
- **October 25, 2023:** Council introduced for First Reading an ordinance to modify the CIP Program.
- **November 21, 2023:** Council declined Second Reading of the ordinance and directed Staff to return with the previous First Reading Staff Report on CIP.

# What is Alameda's CIP Policy?

Capital Improvement Plans are a longstanding provision of the City's Rent Program

- **Intent:** Maintain quality of City's rental housing stock and encourage certain types of long-term improvements while providing tenant protections.
- **What it does:**
  - Allows landlords to submit proof of qualifying improvements and pass costs through to tenants.
  - Moderates the costs of the pass throughs by spreading them over the useful life of improvements.
  - Requires landlords to provide relocation assistance if tenants must be displaced.
- **Policy Documents:** Established by Resolution 15138, implemented by Rent Control Ordinance Regulation 23-01.

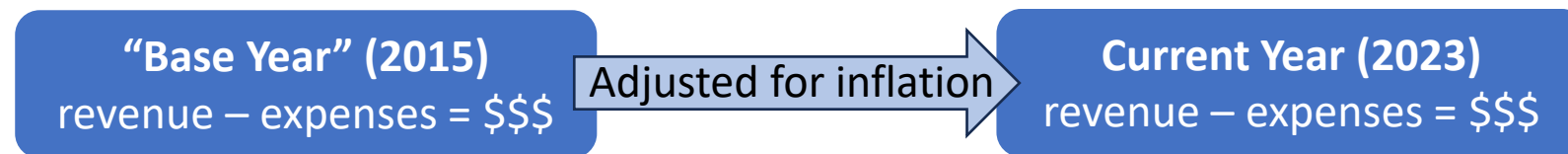
# CIP Policy Update

Current policy is outdated and not achieving its stated goals

- **CIP Resolution Predates Current Rent Ordinance:** Certain provisions and definitions of CIP Policy are not in harmony with enhanced Rent Ordinance.
- **Few Applications, Fewer Qualify:** Just 14 applications since 2016. All but four rejected, most because they did not meet cost threshold requirement.
- **Inadequate Tenant Protections:** South Shore Apartments CIP application demonstrated that current method for calculating CIP pass throughs, when combined with AGA and banking, can result in extreme rent increases.

# Alternative: Fair Return Petitions

- **What is “Fair Return”?**
  - Constitutional right to a fair return on investment, including rental property
  - Rent control jurisdictions must have a process in place to ensure landlords receive a fair return
- **“Maintenance of Net Operating Income” (MNOI)**



- **Alameda’s Fair Return Petition Process:**
  - Refined and updated in September 2019 as part of enhanced Rent Ordinance
  - Landlord makes case for an upward rent adjustment in an administrative hearing
  - Hearing Officer makes determination based on evidence, including documentation of MNOI
  - Petition could include amortized cost of capital improvements

# CIP Policy Comparison

## Capital improvements in other jurisdictions

Staff researched how recovery of capital improvements is handled in 22 California jurisdictions with rent control:

- **9 of 22 jurisdictions** have a CIP application separate from the fair return petition process, including Alameda.
- **Only Alameda** employs a cost threshold to qualify for a CIP
- **Only Alameda** does not currently have a cap on the dollar amount of a CIP pass through.

# Two Policy Options:

## Option A : Revised CIP Policy

- Adopt new CIP Policy that adds tenant protections while allowing more projects to qualify.
- Draft proposal maintains moratorium limitation, i.e. only properties with less than 25 units may apply
- Properties with 25+ units may use existing Fair Return petition process

## Option B : Eliminate CIP

- Eliminate CIP by repealing Resolution 15138
- Landlords of any size property would continue to be eligible to use the existing Fair Return petition process
- Updated Fair Return petition to include section on Capital Improvements and comprehensive amortization schedules

# CIP Policy Update (Option A) - Highlights



## Eligible Recovery Based on Property Size

2-4 Units = 100% Pass Through  
5-15 Units = 75% Pass Through, 100% for seismic upgrades  
16-24 Units = 50% Pass Through, 100% for seismic upgrades  
25 or more Units = No CIP (Fair Return remain available)



## Caps on Pass Through

Initial calculation not to exceed 5% of current rent. Annual rent increase (AGA and Banking) + CIP not to exceed 8%.



## Minimum Threshold

\$10,000 overall and \$1,000 per unit (both must be satisfied)



## Tenant Hardship Exemption

Tenants may be eligible for exemption from CIP Increase based on income



## Qualifying Improvements Expanded

Utilities for energy efficiency/conservation  
Fire sprinklers & alarm systems  
Replacement of stairs or railings  
Lead remediation (staff requesting amendment)



## Temporary Relocation Only

Permanent Relocation not permitted



# Distribution of Tiers Based on Property Size

	Option A Proposed Cost Recovery	# of Properties	Total Units
2- to 4-unit properties	100%	1,939	4,836
5- to 15-unit properties	75%	519	3,469
16- to 24-unit properties	50%	40	750
25+ unit properties	No CIP	67	4,644
TOTAL fully regulated properties		2,565	13,699

# Temporary Relocation Tenant Assistance Program

- On October 25, 2023, Council Approved staff's recommendation to establish a Temporary Relocation Tenant Assistance Program
- Staff has already begun implementation of this Program
- No additional action or funding is requested by Staff

# Staff Recommendation:

Update the existing CIP policy by either:

- A. Introducing the ordinance revising CIP policies by enhancing tenant protections, clarifying authorized improvements, and eliminating CIP for properties with 25 or more units. (Option A), OR
- B. Introducing the alternative ordinance that would eliminate and discontinue all CIPs. (Option B).