



CITY OF ALAMEDA

RENT PROGRAM REGULATORY FEE STUDY

JUNE 2016
FINAL REPORT

PREPARED FOR:

**CITY OF ALAMEDA
CITY COUNCIL**

PREPARED BY:



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ACKNOWLEDGEMENTS

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EXECUTIVE SUMMARY

INTRODUCTION

On March 1, 2016, the City of Alameda (“City”) adopted a Rent Review, Rent Stabilization and Limitations on Evictions Ordinance (“Ordinance”) creating a new regulatory framework for both rental property owners and residential tenants (“Rent Program”). The Ordinance went into effect on March 31, 2016 and is intended to protect tenants from the rapidly increasing cost of rental housing and the potential risk of eviction. The Ordinance also establishes procedures to help resolve landlord-tenant disputes over rent increases, particularly those greater than 5% in one year.

The purpose of this Rent Program Regulatory Fee Study (“Study”) is to establish the legal and policy basis for imposing an annual Rent Program Regulatory Fee (“Fee”) on rental units within the City for administration of the new Rent Program and enforcement of the Ordinance.

PROPOSITION 26

Proposition 26, the “Stop Hidden Taxes Initiative,” was passed by California voters on November 2, 2010 and amended Article XIII of the State Constitution. It provides a definition of a “tax” for state and local purposes so that neither the Legislature nor local governments can circumvent these restrictions on increased taxes by simply defining new or expanded taxes as “fees.” Accordingly, under Proposition 26, a tax has been very broadly defined as meaning “any levy, charge, or exaction of any kind imposed by” a local government, except for seven categories.

In order to impose such fees, this Study will present findings in order to meet the procedural requirements of Proposition 26, which are as follows:

1. Demonstrate that the levy, charge, or other exaction is not a tax; and
2. The amount is not more than necessary to cover the reasonable cost of the governmental activity; and
3. The manner in which those costs are allocated to a payor bears a fair or reasonable relationship to the payor’s burden on, or benefits received from, the governmental activity.

To determine the Fee consistent with these procedural requirements, this Study utilizes a cost of service methodology and approach. Under this method, the total annual cost of administration of the Rent Program and enforcement of Ordinance by the City are determined. These annual costs are then applied to all of the rental units subject to the Fee to determine an annual cost / fee per rental unit.

SUMMARY OF GENERAL FINDINGS

The following general findings from the Study are:

1. The administrative structure and the processes described in the Ordinance are well designed and fair, and should work effectively for the City and the Housing Authority to limit the effects of rapid rent increases, and the associated risks of evictions, without placing an undue or onerous burden upon the City's rental marketplace.
2. The City's proposed Fee is not a tax, but a regulatory fee in that the Ordinance creates a new City regulation for both rental property owners and residential tenants. The Fee recovers the full costs associated with enforcement of the new regulations.
3. The City and the Housing Authority went through a deliberative process to establish a reasonable expenditure plan that is valid for use in setting the Fee.
4. The Fees determined by this Study do not exceed the reasonable cost of the administration of the Program and enforcement of the Ordinance. However, since the Fees are based on a first year expenditure plan, Fees will need to be recalculated for the second year.
5. The manner in which cost of the administration of the Program and enforcement of the Ordinance is allocated to a payor bears a fair or reasonable relationship to the payor's burden on, or benefits received from, the governmental activity.

SUMMARY OF GENERAL RECOMMENDATIONS

Based on the findings presented in the Study, the following general recommendations are:

1. The City should establish a Rent Program Regulatory Fee in the amount of \$131 annually per rental unit within the City to fairly recover the costs of administration of the Rent Program and enforcement of the Ordinance.
2. The City should impose a separate, one-time fee in the amount of \$4,705 per hearing for initiating the hearing process. It is recommended that the City require an owner to pay only 10% of the fee (\$471 rounded) and a tenant to pay only 5% of the fee (\$235 rounded), with the remainder of the fee to be deferred and apportioned to the owners and tenants of non-exempt units in the next fiscal year.
3. After the first fiscal year of the Rent Program and without any significant changes in the Ordinance, the City should adjust the Fee based upon a comprehensive update of this Study. Following that update, the City should evaluate whether or not the Fee can be adjusted annually based on the change in the Consumer Price Index or if another comprehensive update is needed. The new Fee would then be effective on July 1 of each year.

DETERMINATION OF RENTAL UNITS

This section describes the process for determining the number of rental units subject to the Rent Program Regulatory Fee.

Using March 2016 Assessor's lien roll data provided by the Alameda County Assessor's office, all residential properties within the City were identified and classified as 1) rental units and 2) excluded units. Figure 1 below shows the estimated rental units. Rental units include all currently rented single family residences, and individually owned condominiums and townhomes and include all multi-family units currently rented or that are vacant but available to the rental market. Owner-occupied units in multi-family buildings in which the property owner resides (e.g. triplex where the owner lives in one unit and rents two units) were identified and the units not occupied by the owner were designated as rental units. Excluded rental units are defined as units, regardless of ownership, for which the rents are regulated by regulatory agreement or federal law, such as the Section 8 Voucher Program, and other units excluded in subsection Z of Section 6-58.15 or the Ordinance. Within the excluded units are the approximate number of privately owned Section 8 housing units (841 units).

Rental units were then further categorized as 1) exempt or 2) non-exempt rental units as defined by the Costa Hawkins Rental Housing Act of 1995. California state law exempts single-family residences, condominiums, and multi-family units, built after February 1995, from rent stabilization. These properties are categorized as Exempt. Multi-family residences, including duplexes, built before February of 1995, are not exempt from rent stabilization. These properties are categorized as Non-Exempt.

The parcel data research included in this Study in support of the Rent Program Regulatory Fee should provide a high degree of accuracy, but is dynamic and limited by the accuracy of the Assessor data. For example, the mixed-use developed property (e.g., live-work developments) residential unit information is incomplete and could not be corroborated without additional field research. It is recommended that the City work directly with mixed-use property owners to verify the correct number of rental residential units.

FIGURE 1 – ESTIMATED RENTAL UNITS

Land Use	Exempt Units ¹	Non-Exempt Units ¹	Excluded Units ²	Total Units	
	<i>Calc</i>	<i>a</i>	<i>b</i>	<i>c</i>	<i>d = a + b</i>
Single Family Detached / Townhome	2,172	0			2,172
Multi-Family Residential	2	12,583			12,585
Mixed Use	2	454			456
Condominium	527	0			527
Subtotal	2,703	13,037	3,013		15,740
Total Rental Units					14,899

Source: City of Alameda; County of Alameda Assessor's Office; SCI Consulting Group

¹ Exempt units are single family rental homes and multi-family units built after February 1, 1995. Non-exempt units are multi-family units built before 1995 (Costa Hawkins Units).

² Excluded units are units, regardless of ownership, for which the rents are regulated by regulatory agreement or federal law, such as the Section 8 Voucher Program, and other units excluded in subsection Z of Section 6-58.15 of the Ordinance.

DETERMINATION OF REGULATORY COSTS

This section determines the costs associated with administration and regulation of the Rent Program. The type of costs covered in the Fee include direct labor and indirect labor costs, contracted services and supply costs.

FULLY BURDENED HOURLY RATES

Labor costs are based on the fully burdened hourly rates for City and Housing Authority staff involved with administration of the Rent Program and enforcement of the Ordinance. Figure 2 shows the salary/wage and benefits for City and Authority staff. According to the City, a full-time employee is available for 1,872 hours per year to perform the activities. This excludes annual paid leave hours.

FIGURE 2 – FULLY BURDENED HOURLY RATES

Department / Office / Division	Position	Annual Salary and Benefits		Fully Burdened Hourly Rate ¹
		<i>Calc</i>	<i>a</i>	<i>b = a / 1,872</i>
Rent Program	Director		\$186,673	\$99.71
Rent Program	Manager		\$161,250	\$86.13
Rent Program	Rent Specialist		\$101,422	\$54.17
Rent Program	Analyst		\$129,419	\$69.13
Rent Program	Assistant		\$87,603	\$46.79
City Attorney's Office	Assistant City Attorney		\$189,000	\$100.96
City Attorney's Office	Paralegal		\$88,425	\$47.23
Finance	Accounting Technician		\$107,000	\$57.15
Community Development	Director		\$253,380	\$135.35
Contracted Labor	Hearing Officer			\$300.00

Source: City of Alameda; Alameda Housing Authority

Notes:

¹ The fully burdened hourly rates include annual salary and benefits divided by 1,872 "billable hours" for each position.

COMPOSITE FULLY BURDENED HOURLY RATE FOR RENT PROGRAM

Figure 3 below shows the determination of the composite fully burdened hourly labor rate for the Rent Program. The Housing Authority estimates that 6.0 full-time equivalents (“FTEs”) will be necessary to administer the Rent Program. Dedicated staff will include the Program Director, a Program Manager, two (2) rent specialists, an analyst, and an administrative assistant. As shown, the composite fully burdened hourly rate for the Rent Program is \$68.35.

FIGURE 3 – COMPOSITE FULLY BURDENED HOURLY RATE FOR RENT PROGRAM

Position Description	FTEs	Fully Burdened Hourly Rate ¹
Director	1.0	\$99.71
Manager	1.0	\$86.13
Rent Specialist	2.0	\$54.17
Analyst	1.0	\$69.13
Assistant	1.0	\$46.79
Composite Fully Burdened Hourly Labor Rate	6.0	\$68.35

Source: City of Alameda; Alameda Housing Authority; SCI Consulting Group

Notes:

¹ See Figure 2. The composite fully burden hourly rate is based on the number of FTEs by position for the Program.

DIRECT AND INDIRECT LABOR COSTS

Figures 4 through 8 on the following pages detail the direct and indirect labor associated with administration of the Rent Program and enforcement of the Ordinance. The labor costs are segmented by Rent Program activity and level of effort provided by City and Housing Authority staff. The hours for each Rent Program activity were determined for Housing Authority and City Attorney staff by diagramming the tasks involved with the activity and the estimated level of effort. (These flowcharts are in Appendices A through C.) These time estimates and level of effort were then reviewed and evaluated by other Housing Authority staff, City management and SCI for their reasonableness.

FIGURE 4 – RENT PROGRAM LABOR COSTS BY ACTIVITY

Task / Activity	Position Description	Fully Burdened Hourly Rate	Staff (FTEs)	Annual Billable Hours	Estimated Annual Labor Cost
	<i>Calc</i>	<i>a</i>	<i>b (rounded)</i>	<i>c</i>	<i>d = a * c</i>
Program General Administration					
Changes in Utility Billing	Program	\$68.35	0.107	200	\$13,670
Lease Language	Program	\$68.35	0.134	250	\$17,088
Property Owner and Tenant Outreach including Workshops	Program	\$68.35	0.059	110	\$7,519
Program Assistant Tasks and Public Inquiries	Program	\$68.35	0.144	270	\$18,455
Development of Policies, Procedures, Forms and Website	Program	\$68.35	0.048	90	\$6,152
Total			0.492	920	62,882

Source: City of Alameda; SCI Consulting Group

FIGURE 5 – CIP PROCESS BY ACTIVITY

Task / Activity	Position Description	Fully Burdened Hourly Rate	Staff (FTEs)	Annual Billable Hours	Estimated Annual Labor Cost
	<i>Calc</i>	<i>a</i>	<i>b (rounded)</i>	<i>c</i>	<i>d = a * c</i>
CIP Process					
Program Administrator reivews CIP application	Program	\$68.35	0.155	290	\$19,822
Program Administrator works with Landlord concerning tenant relocation issues. Program	Program	\$68.35	0.053	100	\$6,835
Total			0.208	390	\$26,657

FIGURE 6 – RENT REVIEW ADVISORY COMMITTEE LABOR COSTS BY ACTIVITY

Task / Activity	Position Description	Fully Burdened Hourly Rate	Staff (FTEs)	Annual Billable Hours	Estimated Annual Labor Cost
	<i>Calc</i>	<i>a</i>	<i>b (rounded)</i>	<i>c</i>	<i>d = a * c</i>
Rent Review Advisory Committee ("RRAC")					
Pre-hearing Staff Contacts; Public Inquiries	Program	\$68.35	1.362	2,550	\$174,293
Private Agreements & First Meeting	Program	\$68.35	0.561	1,050	\$71,768
Notices Invalidated; RRAC Mediates; Cases Dismissed	Program	\$68.35	0.134	250	\$17,088
Written Agreements	Program	\$68.35	0.091	170	\$11,620
Prepare File for Non-Binding CC Review	Program	\$68.35	0.016	30	\$2,051
Total			2.164	4,050	\$276,818

Source: City of Alameda; SCI Consulting Group

FIGURE 7 – TERMINATION NOTICE ADMINISTRATION LABOR COSTS BY ACTIVITY

Task / Activity	Position Description	Fully Burdened Hourly Rate	Staff (FTEs)	Annual Billable Hours	Estimated Annual Labor Cost
	<i>Calc</i>	a	b (rounded)	c	d = a * c
Termination Notice Administration					
Receive Public Inquiries	Program	\$68.35	1.816	3,400	\$232,390
Termination Notices Received, Reviewed, Recorded, & Response Provided	Program	\$68.35	0.641	1,200	\$82,020
Compliance	Program	\$68.35	0.321	600	\$41,010
No Cause Notice to Vacate	Program	\$68.35	0.107	200	\$13,670
Landlord in Compliance; Relocation Verification	Program	\$68.35	0.246	460	\$31,441
Landlord Not in Compliance	Program	\$68.35	0.005	10	\$684
Total			3.136	5,870	\$401,215

Source: City of Alameda; SCI Consulting Group

FIGURE 8 – CITY ADMINISTRATION / LEGAL SUPPORT LABOR COSTS BY DEPT. / POSITION

Task / Activity	Position Description	Fully Burdened Hourly Rate	Staff (FTEs)	Annual Billable Hours	Estimated Annual Labor Cost
	<i>Calc</i>	<i>a</i>	<i>b (rounded)</i>	<i>c</i>	<i>d = a * c</i>
City Administration					
Finance Department	Account Technician	\$57.15	1.000	1,872	\$106,985
Community Development Department	Director	\$135.35	0.100	187	\$25,338
Legal Support					
City Attorney's Office	Attorney	\$100.96	2.000	3,744	\$377,994
City Attorney's Office	Paralegal	\$47.23	1.000	1,872	\$88,415
Total			4.100	7,675	\$598,731

Source: City of Alameda; SCI Consulting Group

SERVICES AND SUPPLIES COST

The annual cost of contracted services, supplies and other expenses associated with 1) administration of the Program; 2) collection of the Fee by the Finance Department; 3) legal support provided by the City Attorney's office; and 4) oversight by the Community Development Department are presented below and on the following page. Cost allocations cover overhead costs associated with executive, finance, human resources and information technology support of all budgeted positions. The cost allocations are based on 15% of the annual salaries and benefits for the associated FTEs for each department.

As shown in Figure 9, the annual services and supplies cost for administering the Rent Program is \$326,033. Figure 10 shows the annual services and supplies cost associated with City administration and legal support which totals \$164,800.

FIGURE 9 – SERVICES AND SUPPLIES COST – RENT PROGRAM ADMINISTRATION

Item	Annual Cost
Rent Program Administration	
Training	\$4,500
Audit	\$2,500
Computers, equipment and software	\$13,800
Consultant	\$30,000
Copiers, mail machine etc.	\$1,560
Fair Housing Services	\$10,000
Fax machine and phone line	\$400
IT equipment	\$2,500
Miscellaneous, including room rental	\$4,941
Office equipment	\$15,000
Office rent	\$12,000
Office supplies	\$2,400
Online forms, reporting and website	\$25,000
Phone	\$2,832
Printing and postage	\$40,000
Recruitment expenses	\$6,000
Software and licenses	\$3,600
Translation	\$4,000
Cost Allocations (Intra and Inter-Dept.)	\$115,000
Database Access	\$30,000
Total Rent Program Administration	\$326,033

Source: Alameda Housing Authority; City of Alameda; SCI Consulting Group

FIGURE 10 – SERVICES AND SUPPLIES COST – CITY ADMINISTRATION

Item	Annual Cost
Finance Department	
Software	\$5,500
Forms Printing	\$10,000
Postage	\$20,000
Office Equipment	\$6,000
Equipment Maintenance	\$1,500
Bank Charges	\$20,000
Cost Allocations (Intra and Inter-dept.)	\$28,000
Total Finance Department	\$91,000
City Attorney's Office	
Cost Allocations (Intra and Inter-dept.)	\$70,000
Total City Attorney's Office	\$70,000
Community Development Department	
Cost Allocations (Intra and Inter-dept.)	\$3,800
Total Community Development Department	\$3,800
Total City Administration and Legal Support	\$164,800

Source: City of Alameda Finance Department; SCI Consulting Group

DETERMINATION OF FEES

This section presents the determination of the total costs per rental unit.

RENT PROGRAM REGULATORY FEE

Figure 11 shows the determination of the Fee. Costs attributable to the Rent Program are estimated to be approximately \$1.95 million. As previously stated, since the Fee is for the first year of the Rent Program, an allocation of 5% is included as a contingency and to initiate a working capital reserve as necessary. This will be needed for unanticipated costs associated with start-up and/or changes in the program. As shown, the proposed fee is \$131 per rental unit per year.

FIGURE 11 – RENT PROGRAM REGULATORY FEE DETERMINATION

Category	FTEs	Labor Costs	Services and Supplies	Annual Cost
<i>Calc</i>	<i>a</i>	<i>b</i>	<i>c</i>	<i>d = b * c</i>
Rent Program	6.0	\$767,571	\$326,033	\$1,093,603
City Legal Support	3.0	\$466,409	\$70,000	\$536,409
City Administration	1.1	\$132,322	\$94,800	\$227,122
Contingency / Reserve (5%)	-	-	-	\$93,000
Total Cost	10.1	\$1,366,302	\$490,833	\$1,950,134
Rental Units ¹				14,899
Rent Program Regulatory Fee (Per Unit, Rounded)				\$131

Source: City of Alameda; SCI Consulting Group

Notes:

¹ See Figure 1.

FEE FOR THE HEARING PROCESS FOR NON-EXEMPT UNITS

Landlords and tenants of non-exempt rental units are entitled to initiate a separate hearing process by which a neutral hearing officer will determine the rent increase, which decision is binding on the parties. Since this process is available only to owners of and tenants in non-exempt rental units, a separate fee is required. The Housing Authority estimates that the level of effort for this hearing process would involve approximately 15 hours at \$300 per hour for a Hearing Officer and approximately 3 hours for Program staff to administer and coordinate the hearing process. Therefore, the one-time cost for this process is \$4,705.

It is recommended that the City impose a separate, one-time Fee in the amount of \$4,705 per hearing for initiating the hearing process. It is recommended that the City require an owner to pay only 10% of the fee (\$471 rounded) and a tenant to pay only 5% of the fee (\$235 rounded), with the remainder of the fee to be deferred and apportioned to the owners and tenants of non-exempt units in the next fiscal year.

BENCHMARK ANALYSIS

Figure 12 provides a comparative analysis of the Fee per Unit for rent stabilization programs throughout the State.

FIGURE 12 – BENCHMARK ANALYSIS

City	Staffing per 1,000 Units	Units per FTE	Cost / Fee per Unit	
			Annually	Monthly
Berkeley	1.1	905	\$234.00	\$19.50
Santa Monica	0.92	1,084	\$174.96	\$14.58
East Palo Alto	0.8	1,250	\$234.00	\$19.50
Alameda	0.68	1,475	\$131.00	\$10.92
West Hollywood	0.5	1,988	\$120.00	\$10.00
Oakland	0.31	3,234	\$30.00	\$2.50
Los Angeles	0.17	5,714	\$24.48	\$2.04
San Francisco	0.18	5,490	\$36.00	\$3.00
San Jose	0.03	29,533	\$12.72	\$1.06

Source: City of San Jose Department of Housing; SCI Consulting Group

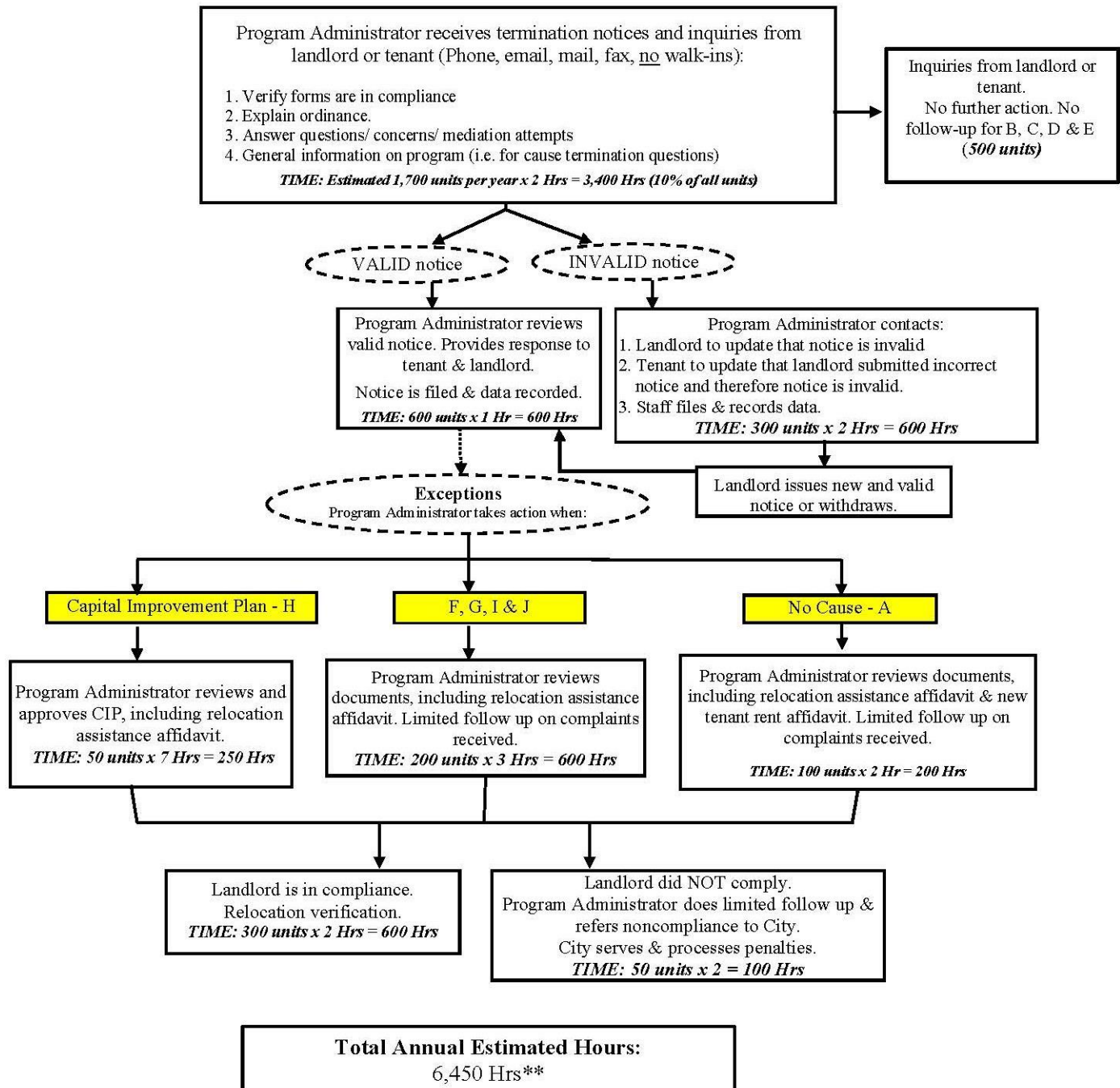
APPENDICES

Appendix A – Termination Notice Flowchart

Appendix B – Rent Increase Notice Flowchart

Appendix C – Capital Improvement Plan Flowchart

APPENDIX A – TERMINATION NOTICE PROCESS FLOWCHART

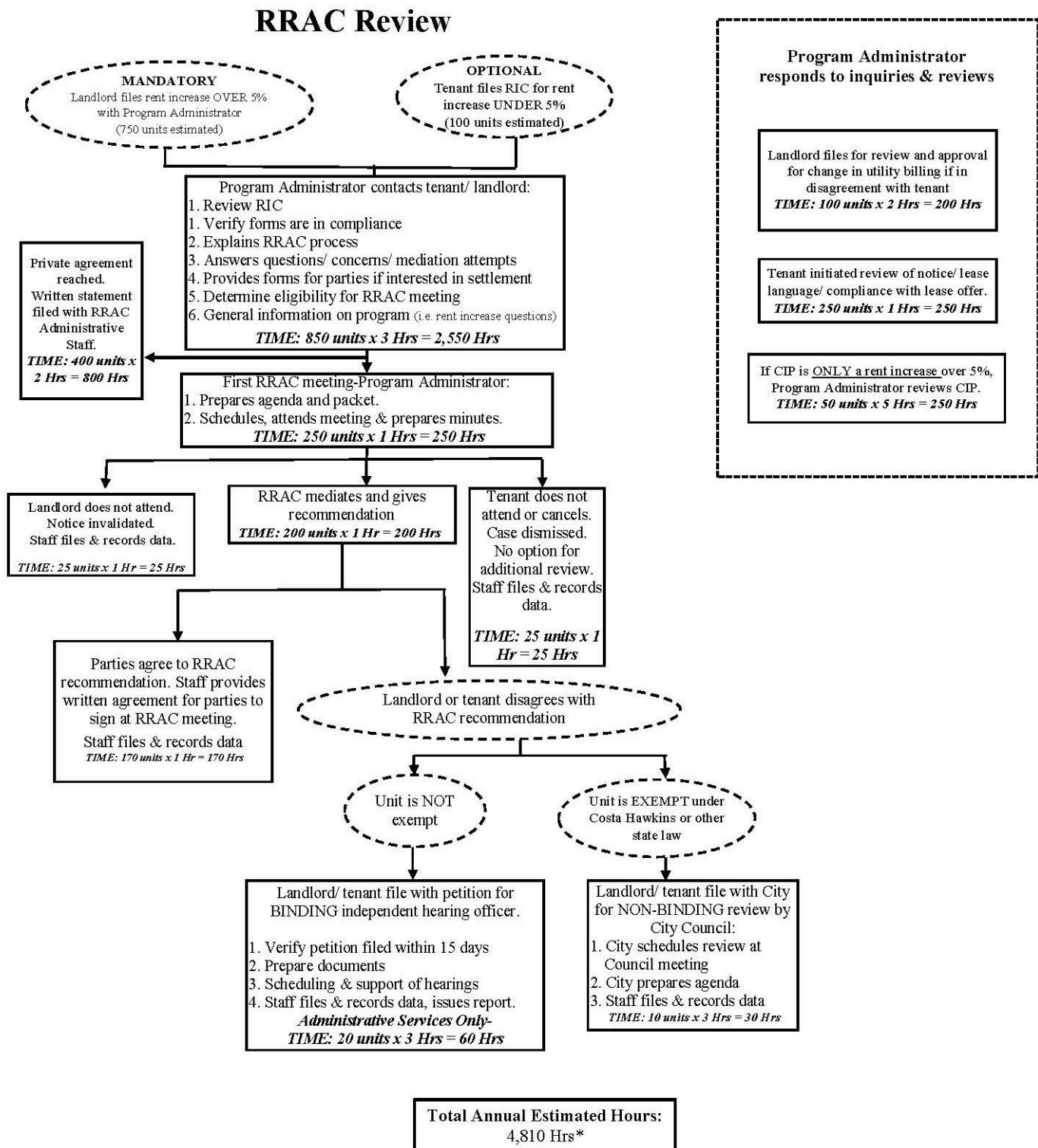


Assumptions:

- ** Assumes no "for cause" notices are required to be filed with Program Administrator for exceptions B, C, D or E.
- ** All penalties and all enforcement is done by City Attorney's Office.
- ** Data entry and annual reporting are included in estimated hours.
- ** Does not include unit registration, fee collection or hearing officers hours.
- ** Does not include program setup or community outreach on ordinance.
- ** Assumes inclusion of single family homes.
- ** Does not include staff training, supervision or vacation/sick.

Note: Capital Improvement Plan Process – H is further detailed in Appendix C.

APPENDIX B – RENT INCREASE NOTICE FLOWCHART

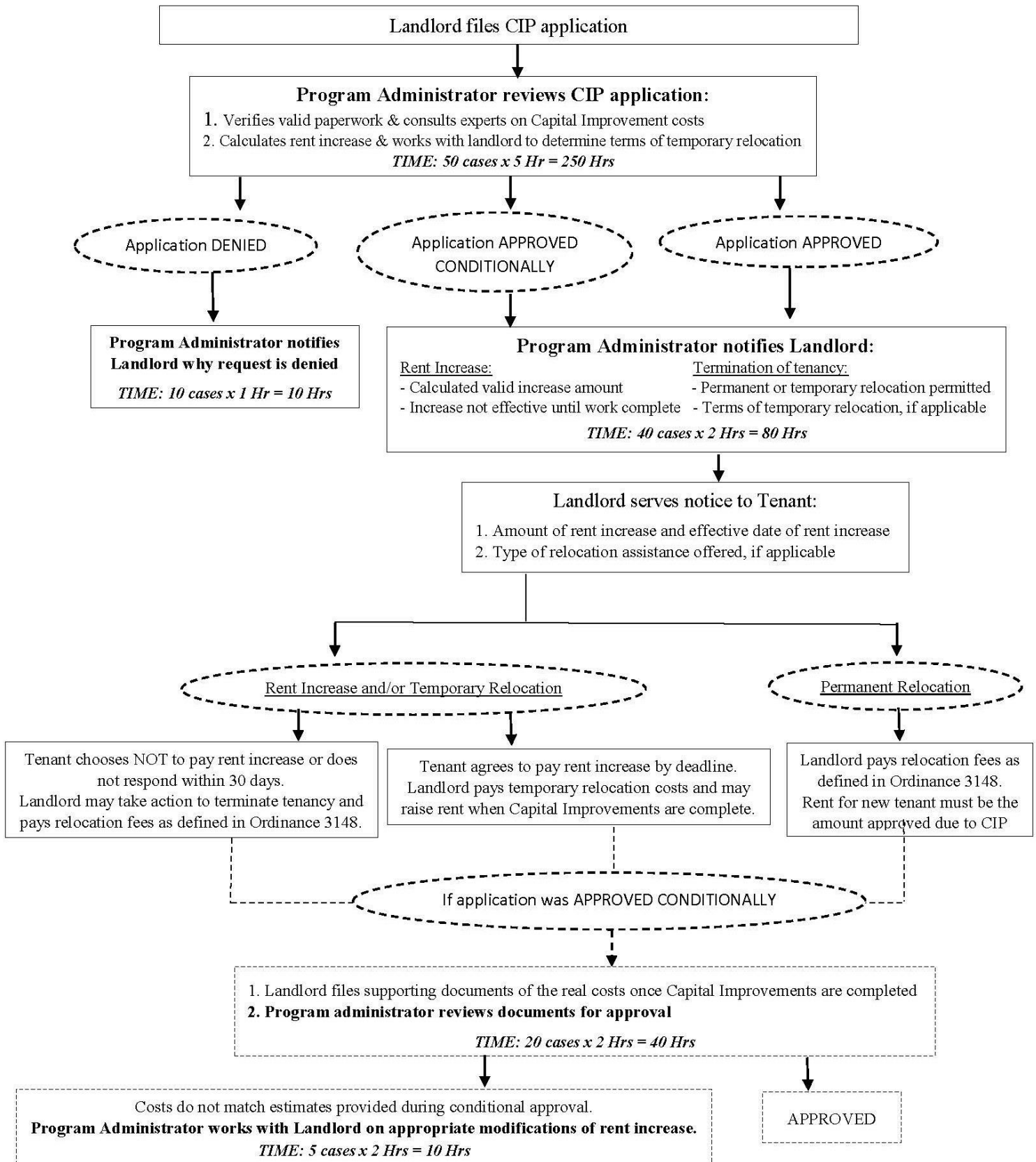


Assumptions:

- * Only rent increases greater than 5% must be filed with RRAC.
- * Data entry and annual reporting are included in estimated hours.
- * Does not include unit registration, fee collection, issuance of penalties or hearing officers hours.
- * Does not include program setup and outreach to public.
- * Does not include staff training, supervision or vacation/sick.

APPENDIX C – CAPITAL IMPROVEMENT PLAN PROCESS FLOWCHART

1. Landlord seeks to increase rent OVER 5% for a Capital Improvement
and/ or 2. Landlord believes the Capital Improvement work necessitates a relocation of the tenant
*No CIPs accepted for permits issued or for work started prior to 11/1/15



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