



Rent Stabilization Board

RENT STABILIZATION BOARD

DATE: June 20, 2024

TO: Honorable Members of the Rent Stabilization Board

FROM: Honorable Members of the Budget & Personnel Committee
By: DéSeana Williams, Executive Director
Shamika Cole, Finance Director

SUBJECT: Recommendation to Board on FY 2024/25 Line-Item Budget, Staffing Model & Expenditure Level

Recommendation:

That the Board adopt Resolution 24-13 approving the FY 2024/25 line-item budget and staffing model of 29.0 FTE career employees and authorize an overall spending level of \$8,332,918 which includes \$256,313 in expenditures earmarked from the Capital Reserve Expenditure line item and moving \$500,000 from the Board's uncommitted reserve to replenish the Board's Capital Reserve that could be allocated later for larger, one-time capital projects.

Background and Need for Rent Board Action

Legally, the Board has until the end of June to adopt a staffing model and a budget with a maximum expenditure authorization for FY 2024/25. The Board's Budget and Personnel Committee is responsible for recommending to the Board the adoption of its annual budget. The Committee has met five times thus far in calendar year 2024 to review the status of the budget, the composition of the staffing model, and the projected revenues and expenditures for the coming fiscal year.

The Board received the FY 2023/24 mid-fiscal year budget update at its February 23, 2024 meeting as part of the Budget & Personnel Committee's recommendation to increase registration fee levels for FY 2024/25. After reviewing the status of the budget and the agency's projected revenue needs for the next fiscal year, the Board voted to raise the fully-covered unit fee from \$290 to \$344 per unit and the partially-covered unit fee from \$178 to \$212 per unit. The Board also voted to increase the Measure MM fee for specific affordable housing projects funded by the City of Berkeley Housing Trust Fund from \$37 to \$53 per unit and the Summer Fraternity and Sorority fee from \$70 to \$96.

The Board and the Budget & Personnel Committee determined that these increased fee levels would provide the agency with sufficient revenue to cover expenditures for the upcoming fiscal year.

FY 2023/24 Revenue Accounted for in FY 2023

Due to the data transition to the 3Di platform and established registration payment due dates, registration fees for FY 2023/24 were mistakenly applied in FY 2022/23. This resulted in a surplus of \$1,477,473 in FY 2022/23, which was carried over to FY 2023/24. Consequently, the Board's financial statements display surplus revenue for FY 2022/23. The Finance Director is working closely with 3Di to improve fiscal reporting and coordinating with the Registration Manager to enhance user experience. These efforts aim to ensure owners complete their registration within the correct period and that payments for future registration years are properly allocated.

Update on Measure MM Registration

Approximately 5,700 partially covered units have been registered through May 2024, up from the 5,175 units registered by May 2023. This includes 600 units in affordable housing projects operated by nonprofits that paid the lower \$37 per unit Measure MM fee. Total partially-covered unit revenue is estimated at around \$1,020,000 for FY 2024. The total number of partially covered rental units subject to registration will continue to grow as new buildings are constructed and then leased for the first time. Staff and the Budget & Personnel Committee will continue to monitor and report on changes to the number of partially covered units registered each fiscal year.

FY 2022/23 Year-end Fund Balance

The Board's year-end FY 2022/23 revenue was reported at \$6,159,705, and total expenditures were reported at \$6,436,811. Reported revenue includes \$775,000 from FY 2022/23 registration payments that were applied during FY 2021/22.

In summary, the Board spent less than anticipated in its adopted FY 2022/23 budget which reduced the \$1.1M projected shortfall. The underspent amount was primarily due to personnel savings from several unanticipated vacancies. The Board's revenues were also about \$473,000, more than initially anticipated due to higher-than-expected revenue from registration fees and registration penalties. This left the Board with a total year-end fund balance of \$1,529,573 (on an accrual basis) on June 30, 2023, which is the last day of the fiscal year.

At the end of the fiscal year, the Board's capital reserve expenditures stood at \$45,516 which left the Board's uncommitted reserve at \$1,516,410. The uncommitted reserve balance amounted to 24% of the projected recurring expenditures, well above the Board's 16% reserve target level. However, please note that these figures are preliminary and are yet to be audited. The City of Berkeley hires an external auditor to review its financial statements. The audit of the Board's financial statements for the fiscal year 2022/23 is scheduled for the 3rd quarter of 2024.

3rd Quarter Update on FY 2023/24 Budget Status and Year-End Projections

At the end of the 3rd quarter of FY 2023/24 (as of March 31, 2024), the agency's total revenue was \$5,201,320, and its total expenditures were \$4,994,205. Total FY 2023/24 registration year revenue through the 3rd quarter, including the \$1,477,473 accounted for in FY 2022/23, was \$6,678,793.

Staff now estimate that total expenditures for FY 2023/24 will be around \$6,500,000, while total revenue for the same period is expected to be just over \$6,900,000. This would result in a surplus of approximately \$400,000 for FY 2023/24. The main reasons for this reduction in the previously anticipated shortfall include lower personnel costs, higher revenue from partially covered unit registrations, and a significant increase in revenue from registration penalties and compliance efforts.

The Board now projects to end the fiscal year with an uncommitted fund balance of just over \$1,923,885, over 29% of projected FY 2023/24 expenditures. The Board will also have spent \$303,422 of its capital reserve, \$76,313 of which was earmarked towards the continued development of the 3Di Rent Registry system.

Increased Registration Penalty Collection

Over the span of a decade, from FY 09/10 to FY 18/19, registration penalty revenues averaged \$158,000 annually. During this period, this revenue typically accounted for approximately 3.6% of the total annual registration fee revenue. In FY 2010/11, the agency collected \$196,000 in penalty revenue, but this figure declined to an average of around \$79,000 (equivalent to 1.6% of registration fee revenue) in FY 2019/20 and FY 2020/21, coinciding with the onset of the COVID-19 pandemic.

However, in FY 2022/23, registration penalty revenue reached an unprecedented high of approximately \$425,000, representing 7.4% of the total projected registration revenue. While part of this surge may be attributed to partially covered units registering for the first time, staff have also implemented enhancements to the collections process. Staff will continue to work on improvements to the collection process and explore new avenues for fund collection.

For FY 2023/24, staff anticipates ending the year with \$372,000 in penalty revenue.

Administration of the Empty Homes Tax Ordinance

Responding to a request from the City Council, the Board agreed to support the City of Berkeley in implementing and administering the voter-approved Empty Homes Tax (B.M.C. Chapter 7.54), effective January 1, 2024. The Council has allocated \$332,920 in Measure U1 funds to the Rent Board for its involvement with the Empty Homes Tax Program in FY 2023/24. Empty Homes Tax funds are being utilized to supplement personnel costs for staff handling Empty

Homes Tax implementation, conducting program outreach, and developing necessary databases and reports to identify potentially vacant units.

In FY 2024/25, funded positions include an Associate Planner (100% FTE) and an Office Specialist II (100% FTE)

As funding for the Empty Homes Tax originates from the City's Measure U1 fund, the Rent Board's staff involvement in the Empty Homes Tax program will have minimal impact on the Board's budget, aside from personnel cost savings resulting from employee salaries being partially covered by Empty Homes Tax funding allocation.

Staff anticipates receiving a comparable level of funding to continue supporting the implementation and administration of the Empty Homes Tax Program in FY 2024/25.

Budgeting for Office Relocation

The agency initiated its current lease agreement with 2000 Center Street LLC in the third quarter of the fiscal year 2023/2024.

During the same fiscal year, the Board authorized a sum of \$350,000 to the agency's unallocated account. Initially, these funds were not specifically earmarked for any particular expenses but were designated for various costs incurred during the office relocation process.

Aside from the initial costs associated with securing office space, such as the first few months' rent, a security deposit equivalent to one month's rent, and moving expenses, the Board also invested in furniture purchases and improvements to the new office premises. Despite these expenditures, the negotiation of the lease agreement allowed the Board to benefit from seven months of rent-free occupancy, resulting in significant cost savings over the lease period.

Looking ahead, the agency anticipates an increase of up to \$8,000 in building rent expenses for the fiscal year 2024/25, amounting to an annual rental payment of approximately \$360,000. This rate is expected to incrementally rise throughout the lease term, potentially reaching around \$750,000 annually by the conclusion of the 10-year lease agreement. Consequently, the relocation to the new office space may necessitate the Board's consideration of future adjustments to registration fees.

Highlights of the FY 2024/25 Proposed Budget

The proposed FY 2024/25 Budget (Attachment 1) requests new spending authorization totaling \$8,332,918. This amount includes \$8,076,605 for the agency's recurring operational expenses and \$256,313 for various specific initiatives. These initiatives include the development of the 3Di Rent Registry database, consultant support for annual evaluations of the Executive Director and General Counsel, compliance efforts, legal expenses, and expenditures related to staff and commissioner training. The proposed FY 2024/25 budget also includes changes to the agency's current staffing model which will increase organizational capacity.

Staffing Model

The proposed budget recommendation includes modifications to the current staffing model, increasing the number of full-time equivalents (FTEs) to 29.0.

For years, the Board has expressed an interest in increasing the agency's social media presence and adapting our outreach program to include popular applications such as Twitter and LinkedIn. The Digital Education and Social Media Coordinator will also be responsible for enhancing digital education efforts and updating the community on important affordable housing matters, legislation, and resources that inform and benefit those we serve.

The Board has consistently expressed an interest in augmenting the staffing model to include a Policy Director, particularly concerning housing and land use planning. The Policy Director will ensure the successful adoption and implementation of policies that align with the Board's mission and goals.

Further changes to the staffing model include the addition of four positions designed to enhance operational efficiency, approved by the Board at its February 15, 2024 meeting. The Budget and Personnel Committee, along with the Board, approved the addition of an Administrative Staff Assistant to the Executive Office. This position will be filled by the second quarter of FY 2024/25.

The Budget & Personnel Committee and the Board approved changes to the existing Public Information Unit (PIU) staffing model. They have introduced a Community Development Program Coordinator (CDPC) and a Community Services Specialist I (CSSI) to further service and operational performance goals while providing new promotional opportunities. These new positions will be created using two budgeted vacant Community Services Specialist II classifications. The CDPC position will be a permanent transition from a CSSII classification, while the other vacant CSS II will remain budgeted but underfilled as a CSS I.

As a result, one of the PIU CSS II classifications will remain, offering the necessary flexibility to operations as we implement and monitor the changed staffing model. Recruitment for these positions is scheduled to begin in the first quarter of FY2024/25.

Operations will assess the performance of the Registration Unit and seek to re-establish an Accounting Office Specialist position within the unit. Based on the need, recruitment for the position will take place by the first quarter of FY 2024/2025.

Proposed FY 2024/25 Budget Highlights

\$75,000 – Legal Costs - The next fiscal year brings new hurdles. The Board has been served with a rather important class action lawsuit that challenges the Measure MM fee adopted in November 2020 to allow the Board to register and provide services to various partially covered Berkeley rental units. Board legal staff anticipate spending about \$75,000 to hire outside counsel to assist with this litigation. There is much work to be done, and legal staff believes it crucial to have the expertise of outside counsel to take the lead on litigation that has never been filed against the Board. It is common and best practice to engage with outside counsel in these types

of cases even in situations where a municipal legal unit is fully staffed.

\$15,000 – Technology Stipend - To prepare for possible purchases of technology for Commissioners.

\$100,000 - Technology and Compliance Enhancements - The proposed budget allocates \$100,000 of the capital reserve expenditure level towards technology enhancements. Additionally, staff will carry over the Board's existing capital reserve balance with a remaining total of \$73,913, which is reserved for future expenditures on possible improvements to the 3Di Rent Registry system.

\$78,000 – Board & Staff Trainings -The proposed budget recommends that \$78,000 be allocated annually to the Training line item (40-63) for ongoing enhanced training opportunities as well as separate training for the Board's elected commissioners and the agency's senior leadership team.

\$10,000 – Digital Education – Investing in digital education has been an ongoing Board priority. This expenditure is proposed to pay for the creation of new digital video content, as well as other forms of digital outreach.

\$45,000 – Printing and Binding - Our agency has experienced a surge in demand for printed materials, such as mailings, brochures, and outreach materials, due to various factors such as expanded programs, increased outreach efforts, or regulatory requirements. This uptick in printing needs has exceeded our historical budget allocation for printing and binding expenses.

\$55,000 – Books and Publications – The Board maintains a steadfast commitment to fostering robust outreach and ensuring public access. This expenditure aims to reallocate resources effectively towards enhancements in technology infrastructure and services to improve the user experience.

Status of the Rent Board Fund Reserve Balance

Throughout its history, the Board has endeavored to uphold a prudent reserve balance within the Rent Stabilization Fund, aiming for a range of "one-to-two months" of uncommitted funds. However, at one juncture, the Board even sanctioned a reserve level as low as 8%. Therefore, in fiscal year 2022, a policy was adopted by the Board to ensure a minimum reserve equivalent to at least two months or 16% of the agency's recurring operational budget.

There have been instances where the Board chose to dip below the 8% reserve threshold to mitigate the necessity for significant fee increases. During the height of the COVID-19 pandemic, the Board authorized a reduction to as low as 5% to forestall any fee escalations. Despite these potential challenges, the agency has managed to maintain a reserve balance surpassing 16% since the conclusion of fiscal year 2017/18. Finance staff anticipates that by the

close of the current fiscal year, the agency will maintain an uncommitted reserve exceeding 19%.

Additionally, there is approximately \$76,300 earmarked in the Capital Reserve for the ongoing development of the 3Di Rent Registry, further underscoring the agency's commitment to strategic initiatives amid financial stewardship.

Based on the projected revenue of \$8,293,575 for fiscal year 2024/25, the proposed expenditure level would result in an uncommitted capital reserve balance of approximately \$1,300,000 for the Board. Furthermore, staff recommends allocating \$500,000 to the Capital Reserve for unforeseen expenses and technology enhancements. This proposed allocation from the Board's fund balance maintains alignment with the Board's target reserve level of 16%, while also providing a prudent buffer for addressing unexpected occurrences during FY 2024/25.

Sustainability of FUND 440 Reserve Balance

In the fiscal year 2023/24, the adopted budget was initially projected to be below the Board's uncommitted reserve level at 13% and an expected shortfall of \$500,000. However, due to savings derived from personnel cost reductions resulting from staff turnover and vacancies, as well as higher-than-expected registration revenue from fully covered and Measure MM units, the Board's reserve never reached a critical level.

In the fiscal year 2024/25, staff recommends a 16% reserve target. This marks an increase from the prior year's recommendation. Additionally, it includes allocating \$500,000 from the Board's uncommitted operational balance to the Capital Reserve to address potential unforeseen needs. Assuming the agency continues its compliance efforts in collecting registration fees, it is expected that the Board's reserve balance will stay at or above the targeted 16% level.

Attachments:

1. Proposed FY 2025 Line-Item Budget and Preliminary Year-end FY 2024 actuals
2. Proposed FY 2024/25 Proposed Organizational Chart
3. Proposed FY 2024/25 Position Detail Summary Table

RESOLUTION 24-13

**ADOPTING THE FISCAL YEAR 2024-2025 BUDGET, STAFFING MODEL POSITION
DETAIL, AND THE MAXIMUM EXPENDITURE LEVEL**

BE IT RESOLVED by the Rent Stabilization Board of the City of Berkeley as follows:

WHEREAS the Rent Stabilization Board operates based on a fiscal year and each year adopts an operational budget after public review and input; and

WHEREAS, Section 123 of Article XVII of the Charter of the City of Berkeley provides that the Rent Stabilization Board shall finance its reasonable expenses by charging landlords annual registration fees in amounts deemed reasonable by the Board; and

WHEREAS, the Budget and Personnel Committee met five times during this calendar year to monitor the budget and the Program's progress in meeting the goals established by the Board; and

WHEREAS, on March 21, 2024, after reviewing the available reserves and considering revenue needs for FY 2025, the Board voted to increase the annual registration fee for fully-covered units to \$344 per unit, the Measure MM or partially-covered unit fee to \$212 per unit; the Measure MM fee for certain affordable housing units to \$53 per unit; and the Summer Fraternity and Sorority Registration Fee to \$96; and,

WHEREAS, the Budget and Personnel Committee has met with the Finance Director and the Executive Director several times this year to discuss a line-item operating budget and staffing model for FY 2024-2025 for the Board's consideration; and,

WHEREAS, the proposed operating budget (including contracts) for FY 2024-2025 authorizes new expenditures totaling \$8,332,918, which includes both recurring operational, capital needs and expenditures related to the agency's relocation to a new office space, technology enhancements; and

RESOLUTION 24-13

**ADOPTING THE FISCAL YEAR 2024-2025 BUDGET, STAFFING MODEL POSITION
DETAIL, AND THE MAXIMUM EXPENDITURE LEVEL (Page 2)**

WHEREAS, the proposed budget for FY 2024-2025 includes \$256,313 in expenditures earmarked from the Capital Reserve Expenditure line item and moving \$500,000 from the Board’s uncommitted reserve to replenish the Board’s Capital Reserve that could be allocated later for larger, one-time capital projects; and

WHEREAS, after reviewing the current workload and filled positions along with the goals and objectives for FY 2024-2025 articulated by the Board, the Finance Director, the Executive Director, and the Budget and Personnel Committee, the Board believes that it is necessary to maintain a staffing level of at least 29.0 career Full-Time Equivalents (FTE’s).

NOW, BE IT RESOLVED that an overall spending level totaling \$8,332,918 (which includes \$256,313 in expenditures earmarked from the Capital Reserve Expenditure line item and moving \$500,000 from the Board’s uncommitted reserve to replenish the Board’s Capital Reserve that could be allocated later for larger, one-time capital projects) and a staffing level of 29.0 FTE’s is hereby adopted for the Fiscal Year 2024-2025.

Dated: June 20, 2024

Adopted by the Rent Stabilization Board of the City of Berkeley by the following vote:

YES:
NO:
ABSTAIN:
ABSENT:

Leah Simon-Weisberg, Chair
Rent Stabilization Board

Attest: _____
DéSeana Williams, Executive Director

Rent Stabilization Program FUND 440
FY 2024 Year End and Projected FY 2025 Budget

Code	Description	Adopted FY 2023	Year End FY 2023	Adopted FY 2024	Prelim Year End FY 2024	Proposed FY 2025
11-01	Monthly Employees	3,015,000	2,791,672	3,265,000	2,700,000	3,820,000
11-03	Hourly Employees	0	0	0	0	0
13-01	Overtime	1,000	27	1,000	12,000	10,000
27-20	Benefits	2,075,000	1,792,002	2,225,000	1,700,000	2,640,000
30-12	Stipends	154,000	158,582	164,000	164,000	169,000
30-12b	Technology Stipend	30,000	30,000	5,000	0	15,000
30-23	Misc. Legal Expenses	85,000	149,487	20,000	55,000	90,000
30-36	Temp. Agency Employees	25,000	82,648	10,000	31,000	10,000
30-38	Misc. Professional Services	378,500	502,128	402,800	550,000	393,000
30-42	Office Equip. Mtc. Svcs. / Furniture	13,000	11,156	25,000	11,000	25,000
30-43	Bldg. & Structures Mtc. Svc.	500	460	500	365	500
30-51	Bank Credit Card Charges	25,000	16,443	20,000	14,000	20,000
40-10	Professional Dues & Intern Fees	2,000	1,993	2,000	2,040	4,200
40-31	Telephones	7,000	8,524	9,000	9,000	9,000
40-50	Printing and Binding	30,000	18,471	30,000	75,000	45,000
40-62	Meals & Lodging	1,000	0	7,000	1,100	5,000
40-63	Registration Fees/Training	12,000	2,897	13,000	6,905	78,000
40-61/64	Transportation & Commercial Travel	3,000	929	4,000	4,000	4,000
40-70	Advertising/public access	50,600	31,610	99,100	70,000	80,000
40-80	Books & Publications	13,000	13,831	13,000	22,500	55,000
50-10	Rental of Land / Buildings	370,000	361,132	528,405	363,000	374,000
51-10	Postage	35,000	75,497	35,000	10,000	42,000
51-20	Messenger / Delivery	500	16	500	600	500
55-11	Office Supplies	13,500	15,656	13,500	13,500	13,500
55-50	Food and Water	1,000	4,881	2,500	3,000	5,000
644110	Supplies - Clothing				3,000	1,500
70-43	Office Equipment and Furniture	5,000	0	5,000	331,000	50,000
70-44	Computers, Printers, Software	15,000	23,873	10,000	3,000	20,000
75-25	PC Replacement/City Software Licences	74,305	74,305	74,305	74,305	74,305
75-35	Mail Services	3,600	3,600	3,600	3,600	3,600
75-50	City Vehicle / Fuel & Maint.	1,500	4,500	7,500	7,500	19,500
	Displacement Reimbursement Offset	0	10,760	0	0	0
	Unallocated	0	0	233,000	0	0
	Expenditure Subtotal**	6,440,005	6,187,081	7,228,710	6,240,415	8,076,605
	Capital Reserve Expenditures (incl. technology advances, evaluations, training and compliance controls)	358,100	309,731	277,750	303,422	256,313
		Adopted FY 2023	Year End FY 2023	Adopted FY 2024	Prelim Year End FY 2024	Proposed FY 2025
	Total Authorized Fund Expenditures*	6,798,105	6,436,811	7,506,460	6,543,837	8,332,918
	Fully-covered Unit Revenue	4,885,000	4,264,528	5,725,000	4,038,000	6,880,000
	Measure MM Revenue	600,000	603,130	946,600	1,020,000	1,120,000
	Registration Penalties	150,000	473,933	250,000	372,664	250,000
	Fair Chance Ord. Administration	50,000	41,575	41,575	41,575	41,575
	Misc. (Project review, Settlements, Admin. Fees)	2,000	1,180	2,000	2,000	2,000
	Total Authorized Fund Revenue*	5,687,000	5,384,346	6,965,175	5,474,239	8,293,575
	<i>FY 24 Registration Revenue***</i>		775,359		1,477,473	
	<i>Registration Year Revenue</i>		6,159,705		6,951,712	
	Annual Surplus/Shortfall	(1,111,105)	(277,106)	(541,285)	407,875	(39,343)
	<i>Previous FY Carryover Expenditures</i>					
	FUND BALANCE (cash basis)	1,470,933	1,529,573	988,288	1,937,448	1,898,105
	FUND BALANCE (accrual basis)	658,073	1,529,573	988,288	1,937,448	1,898,105
	TOTAL UNCOMMITTED OPERATIONAL	423,473	1,516,410	975,125	1,923,885	1,384,542
	TOTAL CAPITAL RESERVE FUND					500,000

* Note: this report only reflects charges & revenues against the Rent Board Fund (Fund 440 and Fund 801) and does not include services charged to or received from other funds

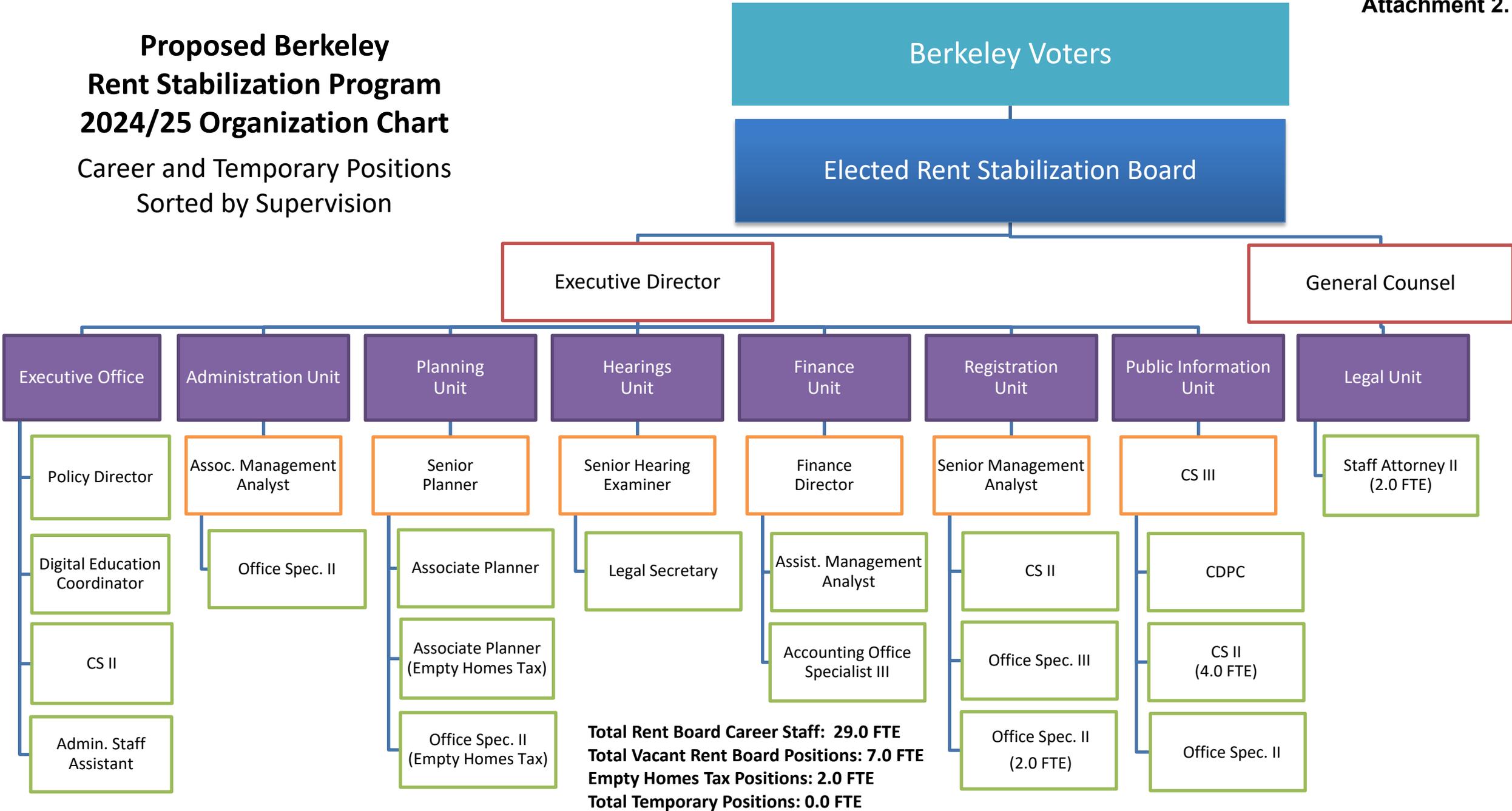
** Note: variance in actual expenditures and total fund balance reflects remaining balance in reimbursement offset escrow

*** Note: \$775,359.47 in FY23 registration revenue was collected as FY22 revenue.

*** Note: \$1,477,473 in FY24 registration revenue was collected as FY23 revenue.

Proposed Berkeley Rent Stabilization Program 2024/25 Organization Chart

Career and Temporary Positions
Sorted by Supervision



Rent Board Position Detail
Sorted by Classification

Classification Title	Adopted FY 23/24	Proposed FY 24/25
Accounting Office Specialist II	0.00	1.00
Accounting Office Specialist III	1.00	1.00
Administrative and Fiscal Services Manager	1.00	1.00
Assistant Management Analyst	1.00	1.00
Administrative Staff Assistant	0.00	1.00
Associate Management Analyst	1.00	1.00
Associate Planner	1.00	1.00
Associate Planner (Empty Homes Tax)	0.00	1.00
Communications Specialist	0.00	1.00
Community Development Program Coordinator	0.00	1.00
Community Service Specialist II	7.00	6.00
Community Service Specialist III	1.00	1.00
Executive Director	1.00	1.00
General Counsel	1.00	1.00
Office Specialist II	4.00	3.00
Office Specialist III	1.00	1.00
Legal Secretary	1.00	1.00
Policy Director	1.00	1.00
Senior Hearing Examiner	1.00	1.00
Senior Management Analyst	1.00	1.00
Senior Planner	1.00	1.00
Staff Attorney II	2.00	2.00
TOTAL FTE:	28.00	30.00

Changes in FY 2024/2025 include the following:

Create 1.0 FTE Communications Specialist

Create 1.0 FTE Associate Planner - Empty Homes Tax - Funding for this position will come from the U1 Fund

Create 1.0 FTE Administrative Staff Assistant

Convert 1.0 Community Services Specialist III to 1.0 FTE Community Development Program Coordinator