



AGENDA ITEM NO. 13

CITY OF HAWTHORNE City Council AGENDA BILL

For the meeting of October 10, 2023

Originating Department: Housing

City Manager:


Vontray Norris

Dir. of Housing:


Kimberly Mack

SUBJECT:

Annual Rent Increase for City-Owned Multi-Family Affordable Housing Units

RECOMMENDED MOTION:

Staff recommends that the City Council approve an annual rent increase for City-owned multi-family affordable housing units. The increase will be either 3% or the year's Consumer Price Index (CPI) rate, whichever is higher.

DISCUSSION:

BACKGROUND:

The City of Hawthorne possesses six (6) Affordable Housing buildings, encompassing a total of 38 units affordable to moderate- and very low-income households. The existing affordability restrictions mandate that the properties remain affordable and be occupied by individuals and families with moderate and very-low household incomes for the longest feasible duration, but no less than 55 years from the initial restriction date. The earliest building's affordability terms are set to expire in 2046, with the latest ending in 2064.

Following the enactment of various legislative changes and the dissolution of Redevelopment Agencies statewide in 2012, the City lost funding sources for the necessary maintenance and operation of its Affordable Housing properties. In the absence of support from the City's General Fund, the sole income stream for covering essential maintenance and operational costs is derived from the monthly rents paid by tenants residing in these Affordable Housing properties.

In 2020, City staff conducted a comprehensive review of the City's affordable housing rents. This review revealed that the City's affordable rents are considerably below those permissible by the properties' affordability covenants. These lower-than-optimal rents are placing a financial burden on the City, impacting our ability to maintain the properties without subsidies from alternative funds and grants. It is crucial to underscore that General Fund and grant support will

remain necessary until rents are adjusted to a sustainable level.

DISCUSSION:

To address the financial sustainability of the City's Affordable Housing Program, it is imperative to acknowledge that rents for the City's Affordable Housing units have remained stagnant for more than a decade, while utility, maintenance, and improvement costs have continued to rise. Considering these escalating operational expenses, an adjustment in rental rates becomes a vital consideration to ensure that the properties are adequately maintain absent a dedicated funding source and alleviate the fiscal strain on the City.

A moderate increase of the greater of 3% or the current year CPI rate in rental rates provides a balance between the need to maintain financial stability for the City and the goal of avoiding undue financial hardship for our residents.

Rents

Table 1 below presents the following for all affordable housing properties owned by the City:

- The existing gross rents for all the properties (Existing Gross Rents);
- The increased rents calculated using the maximum allowable rents based on the 2023 income limits for very low, low and moderate income households published by the Department of Housing and Community Development (HCD) or 2023 HCD Rent Limit; and
- The rents with the proposed increase of 3% (Existing Gross Rent +3%).

Table 1. Existing Gross Rents, Allowable Increase, and Proposed Increase

Property	Existing Gross Rent ¹	Max. Allowable Increase			Proposed Increase		
		2023 HCD Rent Limit	%	\$	Existing Gross Rent + 3%	%	\$
11529 Gale	\$581	\$2,341	303%	\$1,760	\$598	3%	\$17
11537 Gale	624	1,130	81%	505	643	3%	19
11605 Gale	428	1,007	135%	578	441	3%	13
12529 Truro	1,059	1,244	17%	185	1,091	3%	32
12720 & 12726 Grevillea	431	2,228	417%	1,797	444	3%	13
Avg. Rent Per Unit (All Properties):	\$625	\$1,590	154%	\$965	\$643	3%	\$19
Current Total Rent (Per Month):	\$19,213	\$65,356	240%	\$46,143	\$19,789	3%	\$576
Current Total Rent (Per Year):	\$230,556	\$784,268	240%	\$553,712	\$237,473	3%	\$6,917

¹ Existing gross rent represents the average of all the units in each property. In addition, gross rents utilized for the purposes of this analysis do not include Section 8 subsidies.

Source: City of Hawthorne, California Department of Housing and Community Development (HCD)

As shown in Table 1, the 2023 HCD Rent Limit allows for a substantial increase in rental rates. The average rent per unit for all properties is \$625 and the HCD limit would push this figure to \$1,590, a 154% increase. In contrast, the proposed increase of 3% represents a significantly smaller

adjustment that aims to balance the City's financial needs with the affordability of housing for our residents.

Furthermore, the total annual rent for all properties within the program amounts to \$230,556. If rents were increased to the HCD limits, this total would increase to \$784,268, reflecting a 240% increase. In contrast, the proposed 3% increase would result in a more modest total rent of \$237,473 in one year, yielding \$6,917 in additional revenue that could be utilized for maintenance, operation, and improvement costs. This method represents a responsible and sustainable approach to maintaining the program's financial stability.

Three Percent Increase

As shown in Table 2 below, the proposed 3% annual increase in rental rates for the City's Affordable Housing Program aligns closely with the median CPI increase of 3.2% over a five-year period. This choice reflects a responsible and measured approach, considering the local economic landscape and cost-of-living trends. Such an increase balances the program's financial stability with the affordability imperative for our residents.

Table 2. Consumer Price Index Increase, Five Years

Year	CPI
2019	3.2%
2020	3.1%
2021	0.9%
2022	7.5%
2023	5.8%
Median Increase:	3.2%

Source: Bureau of Labor Statistics, Los Angeles 12-month CPI, January

Utility Costs

The City pays utilities for all City-owned apartment units to Southern California Edison, Cal Water, the Hawthorne Water System, and SoCal Gas. Rate increases for electricity have been the most significant. Table 3 below offers a detailed perspective on the rate increases for electricity over the past five fiscal years, reflecting the general upward trend in utility rates. These figures, sourced from Southern California Edison, illustrate the rate increases experienced in baseline service, nonbaseline service, and high usage charges.

Table 3. Electricity Cost Increase, Southern California Edison

Year	Baseline Service	% Inc.	Nonbaseline Service	% Inc.	High Usage Charge	% Inc.
FY 18-19	\$ 0.10008		\$ 0.15302		\$ 0.33253	
FY 19-20	0.11940	19.3%	0.18082	18.2%	0.25005	-24.8%
FY 20-21	0.16135	35.1%	0.23451	29.7%	0.31698	26.8%
FY 21-22	0.17324	7.4%	0.25627	9.3%	0.34985	10.4%
FY 22-23	0.15697	-9.4%	0.24612	-4.0%	0.34648	-1.0%
5-Year Increase	\$ 0.05689	56.8%	\$ 0.09310	60.8%	\$ 0.01395	4.2%

Source: Southern California Edison

Rate increases for water usage have been significant as well. Table 4 below details rate increases for water usage since January 1, 2017, reflecting a similar increasing trend in the cost of water. The table includes the changes in rates for general metered service, metered service for senior residents (which include a 20% discount), and reclaimed water service.

Table 4. Water Usage Cost Increase, California Water Service

Effective Date	General Metered Service Rate*	% Inc.	Senior Metered Service Rate**	% Inc.	Reclaimed Water Service Rate*	% Inc.
01/01/2017	\$ 4.1762		\$ 3.3410		\$ 2.4180	
01/01/2020	4.6652	11.7%	3.7322	11.7%	2.7012	11.7%
01/01/2021	5.2063	11.6%	4.1651	11.6%	3.0144	11.6%
01/01/2022	5.8117	11.6%	4.6494	11.6%	3.3650	11.6%
07/01/2023	5.8999	1.5%	4.7199	1.5%	3.4160	1.5%
6-Year Increase	\$ 1.72370	41.3%	\$ 1.37890	41.3%	\$ 0.99800	41.3%

Source: California Water Service

* Per 100 cubic feet.

* For first 1,000 cubic feet, per 100 cubic feet.

Waste services are provided by Republic Services. The franchise contract between the City and Republic Services includes a provision for an annual rate increase of 4.2% every July.

These rate increases translate into higher costs for the City, affecting various operational aspects. The misalignment between rising utility rates and unchanged rents for City-owned multi-family affordable housing units has led to an escalating financial burden for the City. As utility expenses continue to outpace rental income, the City's budget faces increased strain, which may impact our ability to maintain essential services and programs.

Improvement Costs

In addition to the notable increase in utility costs, it is essential to address the impact of other significant expenses that the City has incurred and is projected to incur. These expenses further contribute to the financial burden faced by the City, particularly in the context of managing affordable housing properties. The following expenses are noteworthy and have been paid-for using alternative monies, such as grants and other City funds:

1. **2020 Roof Repair:** The City undertook essential roof repairs in 2020, incurring a total cost of \$48,650. These repairs were distributed across different housing sites, with Gale accounting for \$27,000, Truro for \$33,809, and Grevillea for \$15,200. These repairs were essential for maintaining the structural integrity of the properties and ensuring the safety and well-being of our residents.
2. **2023 Exterior Project:** Currently underway, this extensive project entails the replacement of roofs, plywood, fascia board, rafter tails, rain gutters, painting, and hole repairs, among

other crucial maintenance tasks. The project's estimated cost is \$1,495,580 for all housing sites. The breakdown of costs by site is as follows: Gale \$211,000, Grevillea \$252,000, 11605 Gale \$211,000, 12720 & 12726 Grevillea \$252,000, 11529 & 11537 Gale \$540,000, and Truro \$192,000. These expenditures are crucial for ensuring the long-term viability of our affordable housing properties.

3. **Maintenance Charged to Other Funds:** An additional \$100,000 has been allocated from other City funds to cover maintenance expenses for these properties. This reflects the City's commitment to maintaining the quality and safety of its housing units.
4. **Future Projects:** The City has identified further projects for the near future, including an exterior project not to exceed \$200,000 for all sites. This project will involve tasks such as asphalt removal, concrete work, landscaping, irrigation, fencing, and lighting upgrades, contributing to the overall upkeep and appearance of the properties. The estimated breakdown by site includes Gale \$33,500, Truro \$9,500, Gale \$28,000, 11605 Gale \$36,285, and Grevillea \$69,021.25.
5. **2023-2024 Interior Work:** An ambitious interior work project is anticipated for 2023-2024, with an estimated cost not to exceed \$2,777,123 for all housing sites. This comprehensive project will encompass drywall replacement, painting, electrical upgrades (GFI), appliance and fixture upgrades, cabinet replacements, floor replacements, window upgrades, security gate installation, garage door improvements, and more. This project is expected to go out to bid in the current month and is pivotal for maintaining the overall quality and functionality of the affordable housing units.

Conclusion

Given the static rental rates and the rising costs of utilities and property improvements, the proposed 3% annual increase in rental rates emerges as a necessary measure to ensure the well-being and quality of life for our tenants. This balanced approach addresses the financial challenges faced by the City, enabling essential property improvements while maintaining affordability for our valued residents. It is a step toward the long-term financial sustainability of the Affordable Housing Program, benefitting both the City and our community members.

STAFF RECOMMENDATION

Stagnant rents and rising costs affecting the Affordable Housing Program are financially impacting the City's ability to maintain the properties without subsidies from other funds. To help mitigate the financial impacts to the City, staff recommends:

1. Approve an annual rent increase of 3% or the percentage corresponding to the CPI (per Bureau of Labor Statistics), whichever is larger, for the Affordable Housing properties. If this is approved, the rental rates of the Affordable Housing units shall not exceed the mandated rent limit, as published by the California Department of Housing and Community Development or the HOME Program limits; whichever is applicable.

ECONOMIC DEVELOPMENT STRATEGIC PLAN:

None.

FISCAL IMPACT:

None.

NOTICING PROCEDURES:

72 hours posted notice pursuant to the Ralph M. Brown Act

ATTACHMENT(S):

1. Hawthorne Council Meeting Presentation 2023-10-10