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4/18/2017	2	City Council		

Agenda Date: 04/18/2017

Subject:
A resolution to increase the rental rates when vacancies occur at Geneva Village

Presented By: Mayor Pro Tem Brinkman and Council Member Cernanec

POLICY QUESTION:

Does city council support increasing the rental rates for units at Geneva Village when vacancies occur?

BACKGROUND:

Geneva Village is a 28-unit housing complex that has been owned by the city since 1975. The complex consists of studio, one-bedroom, and two-bedroom rental units for residents who are 55 years of age or older. The city contracts with South Metro Housing Options (SMHO) to manage the property, including screening applicants, maintaining a waiting list, turning over vacant units and re-leasing them, and ongoing general maintenance. The city manages the grounds and coordinates with SMHO on major improvements to the property.

Tenants are not “income-qualified” to be eligible to rent at Geneva Village. The only criteria that tenants must meet are 1) pass the screening criteria; and 2) be 55 years of age or older. By contrast, all tenants at other properties owned or managed by SMHO must qualify based on a percentage of area median income.

There is a wait list of 148 applicants for Geneva Village. There is little turnover, however, there is currently one vacant unit.

The rents at Geneva Village are significantly lower than market rents for the area; subsidized by the city. The table below shows current rents at Geneva Village and contrasts those with fair market rental rates as of September, 2016. The rents at Geneva Village have not increased for 38 years, since 1979.

Bedroom Size	Number of Units	Current Geneva Village Rents	2017 Fair Market Rents (per SMHO)
Studio	10	\$300	\$844
1 Bdrm	10	\$390	\$1,031
2 Bdrm	8	\$450	\$1,305
Average market rent for properties constructed 1960-69 in Littleton (Sept. 2016)			\$950

The management agreement signed in 1975 with SMHO, allows it to invoice the city monthly for a ten percent management fee. In 2009, former City Manager Jim Woods and then SMHO Director Dan Burnham agreed upon a monthly professional service fee of \$2,500 payable by the city to SMHO for custodial/maintenance staff costs (that were formerly paid as professional services) for Geneva Village. The city also reimburses maintenance charges based on actual invoices, paid monthly, for maintenance performed at Geneva Village.

Also of note, during the most recent economic recession, city council approved transferring reserves held in the Geneva Village fund to the city's general fund to address city needs. Transfers occurred in 2009 (\$421,000), 2011 (\$62,080), 2012 (\$94,540), and 2013 (\$52,600). After 2009, an internal policy was put in place to maintain \$98,000 in the Geneva Village account; this equates to a reserve of \$3,500 per unit. Staff now recommends that all revenue generated by Geneva Village, stay in the Geneva Village fund to address the growing list of needs at the complex.

STAFF ANALYSIS:

The property currently generates \$126,000 per year at full occupancy. Tenants are not responsible for their electricity, gas, water and sewer as it is included in the rental rate. In 2016, electricity and /gas cost \$21,709, and water and sewer costs were \$9,164. Additionally, the fixed cost fee of 10 percent of rent and \$2,500 monthly fee to SMHO, at full occupancy means an annual payment to SMHO of \$42,600. Annual insurance costs currently total \$6,640. All of these costs in total represent the city's annual fixed costs of operation of Geneva Village. In 2016, these costs totaled: \$80,113. This leaves approximately \$46,000 to cover annual repair, maintenance and improvements at the complex. In 2016, total maintenance, repair and improvement costs were \$108,000. In 2016, costs exceeded revenue by \$62,000.

Starting in 2016, the city's Finance Department estimates depreciated costs will increase to \$15,000 due to recent improvements at the complex. Until the recent improvements, depreciation was approximately \$3,500 annually.

In 2016, in cooperation with the SMHO, a physical needs assessment (PNA) was completed for Geneva Village to determine and better estimate maintenance and repair needs and costs for the aging property. A review of the major findings and recommended improvements are discussed below.

From the PNA, the standard useful life of Geneva Village is assumed to be 60 years. The complex's actual age is 52 years. Based upon observations and in combination with known previous capital repairs, the PNA consultant AEI estimates the revised useful life of Geneva Village to be at least 48 additional years. This estimate assumes "sound maintenance practices will continue and that recommended repairs will be completed according to the suggested timeline."

The PNA indicates a 20 year estimate of costs and reserves needed at Geneva Village totals \$462,000 (adjusted

for inflation). That represents an average of \$23,000 per year. Much of this cost is routine repairs/replacements that are addressed when units turn over, but there are some large, single-cost projects.

Major repairs recently completed or underway:

Gas Line Replacement (2016)	\$90,000
Installation of Backflow Prevention (2016)	\$24,000
Roofing Replacement (2015 - P&L insurance paid)	\$163,600
Jetting of Sewer Lines (underway 2017)	\$19,500 @ 30% complete (initially estimated at \$4,500 total)
TOTAL	\$297,100

Major repairs recommended in 2017 or for the 2018 Budget:

Water Line & Parking Lot Replacement (Revised) (initially estimated at \$100,000)	\$155,000
Upgrade Remaining Electrical Panels	\$38,000
Landscape Timber Replacement/Alternative	\$7,000
TOTAL	\$200,000

Vacancies & Rent:

In 2014, council rejected a proposal to raise rental rates on existing tenants at Geneva Village by \$50 per year per unit for three years citing concerns that some of the residents likely could not afford the increase.

As noted earlier, there is currently one unit vacant. Given that vacancies are infrequent, staff asked SMHO to hold the unit to allow for a discussion with city council pertaining to vacancies and rents.

Given the concern discussed since 2014, staffs proposes to raise rents, but only as units are vacated. This proposal does not affect those currently renting at Geneva Village, but allows the city to slowly realize a rent increase and some cost recovery.

SMHO has provided a 2017 rental comparison of similar units in Littleton. Note that all example properties are renting for considerably more than the city is charging at Geneva Village. From the information provided, Powers Circle Apartments is the closest property in age and unit offering, while South View Place Towers is a decade newer, but similar to Geneva Village in that it serves tenants 55 years of age or older.

Bedroom Size	Current Geneva Village Rents	2017 Fair Market Rent (per SMHO)	Powers Circle Apartments Rents (LIHTC property)	South View Place Towers Rents (Market rate, 55+)
Studio	\$300	\$844	\$618@50% AMI	\$551
1 Bdrm	\$390	\$1,031	\$722@50% AMI	\$829
2 Bdrm	\$450	\$1,305	\$864@50% AMI	\$1,247

To bring Geneva Village rents in line with other similar Littleton properties but still maintain affordability, staff

recommends that Geneva Village rents be raised for new residents by \$200 per month for a studio, \$300 per month for a one-bedroom, and \$400 per month for a two-bedroom unit. Although these increases may seem very steep, rents have not increased at Geneva Village for 38 years (since 1979) and the staff proposal still puts Geneva Village rents below a similar federally-subsidized tax-credit unit.

Staff also requested a recommendation on rents from SMHO, as requested by council at the earlier study session. The SMHO recommendation is noted in the following table.

Proposed rent increase for new tenants - Staff proposal and SMHO recommended:

Bedroom Size	Current Geneva Village Rents	STAFF Proposed Geneva Village Rents For New Tenants Only	SMHO Recommended Geneva Village Rents For New Tenants Only
Studio	\$300	\$500	\$650
1 Bdrm	\$390	\$690	\$750
2 Bdrm	\$450	\$850	\$850

Because of the slow turn-over of units at Geneva Village, even if rents are addressed as proposed and recommended repairs are made, the city will still need to transfer additional general funds to cover Geneva Village expenses. Of note, this most recently occurred in 2016 - the council approved a transfer of \$75,000 of general funds to pay for the emergency gas line replacement at Geneva Village.

OPTIONS/ALTERNATIVES:

For purposes of this discussion and the following options, staff is only considering increasing rents on units as they become vacant.

1. Do nothing. Rents continue at the rental rates set in 1979 and the general fund is used to subsidize operations, maintenance and improvements when expenses are more than revenues.
2. Increase rents based upon the staff recommendation from the January 2017 city council study session.
3. Increase rents based upon the recommendation of South Metro Housing Options, which are slightly higher than the staff recommendation and closer in-line with market comparisons.
4. Increase rents on new rental of units and index to CPI or 2.5 percent, whichever is higher.

Options 2, 3, and 4 begin to address establishing a reserve to pay for future maintenance and improvements at Geneva Village and do not have any impact upon current residents. Only new and willing residents would pay the increased rates.

FISCAL IMPACTS:

Fiscal impacts are difficult to ascertain due to the unknown number of unit turn-over in the coming years. In recent years, turn-over has averaged about one unit a year. If this were to continue, it could take close to three decades to fully implement new rental rates at Geneva Village.

STAFF RECOMMENDATION:

Increase rental rates on new tenants at Geneva Village, and index the new rental rates to the Denver-Boulder-Greeley CPI or 2.5 percent annually, whichever is more.

PROPOSED MOTION:

I move to approve Resolution 09-2017, to increase Geneva Village rental rates on new tenants and index to CPI

or 2.5 percent, whichever is higher.