

Mayor's Office of Housing and Community Development  
City and County of San Francisco



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**MIDTOWN PARK APARTMENTS  
RENT MODIFICATION PROGRAM  
June 4, 2014**

The goals of the Midtown Park Apartments ("Midtown") Rent Modification Program ("RMP") are to

- Keep current residents in their homes;
- Keep Midtown rents affordable;
- Make rent adjustments in a fair and reasonable manner; and
- Provide enough rental income for Midtown to stabilize operations.

**PROGRAM RATIONALE:**

Midtown Park Apartments is a 139-unit residential development that has historically been designated for low and moderate income households. The development is owned by the City and County of San Francisco, under the jurisdiction of the Mayor's Office of Housing and Community Development ("MOHCD") and is currently leased to Midtown-Mercy Corporation, a non-profit entity governed by Mercy Housing California.

Over the last 10 years, Midtown has not been able to cover the ordinary costs of operations (including things such as security, insurance, and utilities) because rents have stayed very low over the long term. In addition, there has been no rental income to pay the regular costs of maintenance and building upkeep. Midtown now faces extreme property disrepair.

To protect residents' health and safety, Midtown must take steps to stabilize its operating budget and repair or replace its deteriorating physical conditions.

One of the steps it must take is to adjust overall rental income, which is extremely low, to a level that is higher but still affordable to the current

residents. This modification is essential to keep Midtown operating, but it also must and will be done in a fair and reasonable manner.

To achieve this, MOHCD has created the Midtown Rent Modification Program (RMP). The RMP is a critical first step toward making Midtown financially self-sufficient. The RMP is designed to reduce the gap in Midtown's operating budget as much as possible without over-burdening its residents.

It is possible that even with the rent increases under the RMP, Midtown will continue to need ongoing assistance from the City to pay all of its operating and maintenance costs. But Midtown residents cannot rely on other San Franciscans to help pay their housing costs indefinitely, particularly if some Midtown residents are paying far less than what is affordable to them. For the time being, however, the City is committed to providing Midtown with additional operating subsidies on an emergency basis until Midtown's operating budget is fully stabilized.

### **RENTS UNDER THE RMP:**

Under the RMP, all current Midtown residents, regardless of their income, will pay 30% of their household income toward rent, which is the widely accepted standard of affordability used for federal housing programs, such as Section 8 assistance. Further, rents that are set at 30% of household income offer far deeper affordability than what is available at most other affordable housing developments in the City and nationally.

After the first year, rents will be based on two factors:

(1) 30% of the household's income (the "Base Rent"); if the household's income increases, the Base Rent will also be increased so that the Base Rent remains at least 30% of the household's income; if a household's income decreases or remains unchanged, the Base Rent portion of their rent will remain unchanged; plus

(2) An operating cost<sup>i</sup> pass-through (the "Cost Increase Adjustment") based on how much if any, operating costs for Midtown may have increased in the past year, and limited to no more than 3.5% in any given year. If operating costs decrease or remain unchanged, there would be no Cost Increase Adjustment. This portion of the modified rents at Midtown is included so that rents no longer fall far behind increases in the cost of running Midtown properly.

For example, a household with an annual income of \$44,000 (the average income at Midtown), will have a Base Rent of \$1,100 (30% of \$44,000 divided by 12) the first year of the RMP. If costs increase by 2% during that year and that household's income remains the same, their second year rent would be \$1,100 plus \$22 (2% of \$1,100) for a total of \$1,122.

RMP Assurances:

- The RMP applies to all households currently living at Midtown.
- No tenant will be evicted because his or her income is too high or too low.
- For Midtown residents currently paying less than 30% of their incomes in rent, rent increases will be phased in over time (see below for more on rent increase phasing).
- Midtown residents paying *more* than 30% of their incomes in rent will see a rent *decrease* effective immediately upon execution of a new lease.
- Rents for Midtown residents now paying 30% of their incomes will remain the same.

### **THE RMP PROCESS AND TIMING:**

Step one – Income certifications: All current households must certify their incomes by **July 31, 2014**, so that a fair and affordable rent can be set.

- Household income must be re-certified each year, and rent will increase depending on changes to income.
- All household members must be included in the certification process.

Step two – Rent Adjustment: The adjusted rent based on 30% of the household's income will be compared to the existing rent and, if necessary, a plan for adjusting the current rent over time will be created.

- Households currently paying more than 30% of their income for rent will have a one-time reduction of their rent to the 30% level at the execution of a new lease. Thereafter, and for the next 5 years, annual rent increases will be limited to 30% of any increases in household income plus a Cost Increase Adjustment if operating costs have increased.
- Households currently paying 30% of their income for rent (and no more) will see no change in their rent this year. Thereafter, and for the next 5 years, annual rent increases will be limited to 30% of any increases in household income plus a Cost Increase Adjustment if operating costs have increased.
- Households paying less than 30% of their income for rent will see an increase phased-in over 3 to 5 years beginning with the execution of a new lease by October 2014. Thereafter and for three to five years, their rent will be increased by a combination of a Base Rent as identified in their phase-in plan plus a Cost Increase Adjustment if any is applicable. Once the Base Rent reaches 30% of a household's income, future increases will be limited to 30% of any increases in household income plus a Cost Increase Adjustment if operating costs have increased.

Step three – Resident Appointments: Mercy and MOHCD will meet individually with each household to discuss any proposed adjustments to the rent and the proposed phase-in plan for implementing those adjustments over time. Residents are encouraged to bring a trusted friend or family member to the appointment.

Step four – New Rents Start: New rents (including gradual increases as necessary) will be effective upon execution of new leases by October 1, 2014.

Step five – Annual Income Re-certifications and Cost Increase Adjustments: Steps one through three will be repeated each year, starting with an annual re-certification of household income and rent adjustments based on the increase in operating costs (if any) in the prior year.

### **RENT INCREASE PHASING**

Rent increases for households that are currently paying less than 30% of their incomes in rent will be phased in over 3, 4 or 5 years. Rent increase phasing will be done by household and will include a review of certified household information to develop a fair and reasonable phasing plan. New rents will not start until new leases are executed, or by October 1, 2014.

Phasing Parameters:

Households earning \$80,000 and below will be phased-in over 5 years.  
Households earning \$81,000 - \$100,000 will be phased-in over 4 years.  
Households earning over \$100,000 will be phased-in over 3 years.

### **RMP ELIGIBILITY AND FAILURE TO INCOME CERTIFY:**

The RMP is available to all households that currently reside at Midtown and who complete the income certification process, regardless of their income. The income certification process is essential to the successful transformation of Midtown Park Apartments to sustainable, healthy, safe, secure and affordable housing. Without this information, establishing and maintaining Midtown's affordability for all of its residents would be impossible.

Failure to participate in the certification process or to include all household members in the certification process jeopardizes Midtown's ability to improve its financial stability.

**Therefore, any household that fails to complete the income certification process by July 31, 2014, or fails to do so in good faith, will be disqualified from participating in the RMP.**

For households that do not certify their incomes it will be impossible to determine whether a household's current rent meets the program goal of 30% of income. Therefore, rent will increase by October 1, 2014 to an amount that

may be as high as market rate, as determined by a market study of comparable housing in the general vicinity of Midtown Park Apartments.

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“Operating Costs” are costs incurred in the day-to-day operation of Midtown Park Apartments, including such things as the cost of utilities, property taxes, liability insurance, property management and maintenance staff, accounting and bookkeeping services, security personnel salaries and benefits, payroll taxes and insurance, general maintenance equipment and supplies, and all other expenses actually incurred in operating the development.