

September 25, 2014

Mr. Michael Houlemard, Jr.  
Fort Ord Reuse Authority  
920 Second Street, Suite A  
Marina, California 93933



Re: Preston Park FY 2014/15 Proposed Budget

Dear Mr. Houlemard:

It has been a pleasure to continue to work with residents and the Fort Ord Reuse Authority over the last year. With the combination of wonderful residents and effective staff, a number of positive changes have been seen in Preston Park:

- 1) **Exterior Building Upgrades:** Re-roofing of the buildings has been completed and final clean up and gutter repairs are underway. Garage motion sensor lights have been installed on each court. Termite treatment has taken place at a number of locations in the community and includes a three year warranty from the date of service. Staff members are planning the replacement of all windows in the community as well as steel front and back doors. This project is anticipated to be underway in early November.
- 2) **Code Compliance/Safety Improvements:** The electrical sub-panel in each home was serviced, and grounding rods were replaced at each meter panel site throughout the community. All required attic repairs were completed. Each oven flue vent was re-sealed, and notable issues reported for repair in the coming year. One time use Fire Extinguishers were installed in each home within Preston Park. A Property Assessment took place from which a plan of action was developed to address exterior building as well as interior unit issues.
- 3) **Concrete Grinding:** Concrete grinding was performed throughout the community. Three sites on Brown Court were located indicated to require tree root removal and re-pouring of concrete or asphalt.
- 4) **Tree Trimming:** The community has performed the first phase of tree trimming and is obtaining bids for the larger phase to begin in November.
- 5) **Units of Long Term Residents:** Several long-term residents have seen upgrades in their flooring, paint, and appliances with little intrusion or inconvenience. These services are extended to long-term residents upon notification or inspection indicating replacement is necessary.
- 6) **Green Initiatives:** The community continues to implement water and energy saving programs inspired by Alliance's own Focus Green Initiative. Devices designated as water or energy saving are purchased and installed as replacement fixtures as needed. PG&E has been working with residents in the Below Market and Section 8 programs to weatherize their homes at no cost to the resident or the community. Planned landscaping changes will reduce the amount of water usage in the common areas of the community, and will continue to evolve into larger cost savings as we work in conjunction with Paul Lord at Marina Coast Water. The community participates in an appliance buy-back program where used and/or broken appliances are purchased from the community and recycled.

Alliance looks to continue to provide the residents at Preston Park a comfortable and quality living experience. Continued capital improvements throughout the community will allow this property to remain a desirable neighborhood for renters, as well as a continued source of affordable housing for the general populace of Marina.

Revenues

The primary source of revenue is rents, Section 8 voucher payments from the Housing Authority of the County of Monterey, and associated charges to residents such as late fees. The community experienced a delayed 1.7% rental increase in February 2013. An increase of 2.4% took place in September 2013. Previous to the February 2013 increase, the community had not seen a rental increase since August 2010.

The proposed budget reflects projected revenues according to the approved formula indicating that the annual increase in market rents for in-place tenants shall be capped at the lesser of three percent (3%) or the Department of Labor’s Consumer Price Index for San Francisco-Oakland-San Jose, All Items, for All Urban Consumers (referred to as CPI-U) Average percentage for the previous year (February to February) be applied to the next fiscal year, provided that the increased rent for in-place residents does not exceed the market rent charged to move-in residents. The proposed Budget Option 1 assumes the maximum rent increase for in-place residents of two point four percent (2.4%) resulting in an anticipated 2.7% increase in Total Income (\$153,852) over the FY 2013/14 Estimated Actuals. The proposed Budget Option 2 assumes no increase in the FY 2014/15 rent schedule for in-place residents, however still results in a 2.5% increase in Total income (\$141,045) due to new move-in rent values. Both budgets capture revenue from the addition of Pet Rent and Month to Month Fees for new move-ins. Please see **Attachment E** for a summary of Revenue Income under the two options.

Note: Due to the delay of the approval of a rental increase, the property has already lost the ability to collect an additional \$44,306. This amount directly relates to the reduction of funds available to be contributed to the Capital Reserve Fund (see Capital Expenses below).

In Place Residents - Market Rent

The rents proposed in Budget Option 1 are as follows:

<b>In-Place Market Rate Rents</b>			
<b>Unit Size</b>	<b>Current Rent Range FY13/14</b>	<b>Proposed FY14/15 Rent</b>	<b>Change 10/1/14</b>
Section 8 - Two BR	\$1,029 - \$1,198	\$1,054 - \$1,227	\$25 - \$29
Section 8 - Three BR	\$1,423 - \$1,562	\$1,457 - \$1,599	\$34 - \$37
Two Bedroom	\$1,208 - \$1,715	\$1,236 - \$1,756	\$29 - \$41
Three Bedroom	\$1,499 - \$2,010	\$1,535 - \$2,058	\$36 - \$48
Luxury - Two BR*	\$1,800 - \$2,200	\$1,843 - \$2,253	\$43 - \$53
Luxury - Three BR*	\$1,947	\$1,994	\$47

\* Note: Three 2-Bedroom homes and one 3-Bedroom home have additional features that warrant higher than average rental rates.

Fair Market Rents (FMR) for Monterey County on a County-wide basis as published in October 2013 by the Monterey County Housing Authority (MCHA) are as follows:

<b>Unit Bedroom Size</b>	<b>Fair Market Rent</b>
Two Bedroom	\$1,234
Three Bedroom	\$1,800

The two bedroom average in-place market rent at Preston Park is \$1,459 which represents a difference of \$225 from the FMR table above. The general cause of the difference in two-bedroom rents relates to the unique amenities and space available in the two-bedroom apartments at the community as compared to the general marketplace. Conversely, the majority of in-place market renters in Preston Park three bedroom homes are below the MCHA Fair Market Rent for a home of this size. The average in-place rent for the three bedroom units at Preston Park is \$1,754, which represents a difference of \$46 from the FMR table above.

Please refer to **Attachment E** for detailed information regarding Preston Park rental rates, including utility estimates, as compared to other communities that pay for Water, Sewer, and Trash service.

Affordable Rents

Affordable rental rates are derived from median income schedules published by governmental agencies. Rental rates at Preston Park are based upon 50% and 60% of the median income for Monterey County. The U.S. Department of Housing and Urban Development calculates the maximum household income by family size in Monterey County, generally once a year. As of the date of this memo new rental rates have not been released.

**An increase is not proposed at this time.**

<b>In-Place Affordable Rate Rents</b>	
<b>Unit Size</b>	<b>Current Rent Range FY13/14</b>
Two Bedroom VL - L	\$677 - \$832
Three Bedroom VL - L	\$756 - \$928

Maximum Household Income Limits for 2014 as published in January 2014.

Income Category	Two Person	Three Person	Four Person	Five Person	Six Person	Seven Person	Eight Person
50% VL	\$28,800	\$32,400	\$35,950	\$38,850	\$41,750	\$44,600	\$47,500
60% L	\$34,560	\$38,880	\$43,140	\$46,620	\$50,100	\$53,520	\$57,000

Current Market Rent Conditions

The market rent for new move-ins is calculated by comparable market rent levels in the competitive market throughout the year. Additionally, the comparables as outlined in the attached Market Survey dated 5.13.14 (**Attachment G**) are smaller in square footage than units at Preston Park, and many do not offer the specialized features including in-home laundry vs 9.25.14

room, gated back yard with patio, direct access garage, generous storage space, dogs and cats accepted with pet deposit (Breed restrictions apply, max 2 animals per home). Please refer to **Attachment H** for detailed information.

Per the approved rent formula in 2010, the market rents for new move-ins are fluid throughout the year and change according to market conditions. Should a rental increase be approved, market rents for incoming residents would be as follows:

Unit Size	Current Rent Range for Incoming Market Rate Residents
Two Bedroom	\$1,650 - \$1,775
Luxury - Two BR	\$1,850 - \$2,275*
Three Bedroom	\$2,035 - \$2,060
Luxury - Three BR	\$2,275*

\* Note: Three 2-Bedroom homes and one 3-Bedroom home have additional features that warrant higher than average rental rates.

Budget Summary

Expenses as outlined in **Attachment E** include Operating Expense projections and relevant changes from the FY 2013/14 budget. Operating expenses typically include expenditures for routine maintenance of the property, redecorating expenses as they apply to unit turns, and expenditures relating to the daily operations of the Leasing Office. Non-Routine expenses are included as they pertain directly to the daily function of the community, however are not typically able to be forecasted (i.e. large plumbing leaks requiring vendor service, unit specific rehabilitation projects). Annual Inspection materials are included with the Non-Routine expenses as they are a one-time yearly expense. Overall, total operating expenses proposed for FY 2014/15 are 10.0% higher than the estimated actual expenses for FY 2013/14 (\$152,555). Alliance seeks to maximize cost savings, e.g. lower utilities expenses through installation of water/energy saving devices, while contending with inescapable cost increases such as fuel for maintenance vehicles.

Note the large increase in Non-Routine expenses (\$115,664) over 2013/2014 Estimated Actuals. This increase is largely due to projects (such as bathtub replacements) that are necessary to complete over the course of the next several years. **Without a rental increase, the property will experience a deficit in Net Income from the previous year in the amount of \$19,461.**

Capital Expenses

Expenses categorized as Capital expenses directly impact the long term value of the community, including roof replacements, exterior painting, large-scale landscaping improvements, and interior upgrades including appliances and carpeting/vinyl. Capital projects that are currently pending completion as approved in the 2013/14 FY include:

- 1) Exterior Unit Windows - \$1,240,000
- 2) Exterior Unit Doors - \$200,000

The following Capital projects were delayed to the 2014/2015 FY due to timing:

- 1) Exterior Building/Flashing Repairs - \$500,000
- 2) Exterior Paint - \$200,000
- 3) Seal Coat Streets - \$155,787

2014/2015 FY Capital Improvement Program

Recommended Capital Projects to be managed through the Construction Department (excluding continuing projects or completions of projects from 2013/14):

- 1) Dry Rot Repairs - \$40,000
- 2) Landscape/Irrigation Upgrades - \$100,000
- 3) Leasing Office/Signage - \$90,000
- 4) Playgrounds - \$65,000

Capital Reserves Fund

Expenditures for the 2014/15 fiscal period are projected to equal \$1,453,804. This amount reflects an increase of \$200,000 attributed to the total expense projected for the Building/Flashing Repairs (initially evaluated at \$800K; current value of \$1M), and splits the total value of that expenses and the \$400K expense related to painting of the community over a 2 year period. In accordance with the 2014 reevaluation of the Replacement Reserves Study conducted in April 2008, Alliance recommends a minimum reserve withholding of \$2,057.27 per unit per year during the 2014/15 fiscal period. **Please refer to Attachment C.** This withholding amount would ensure that the asset holds adequate reserves to perform necessary replacements and repairs to protect the useful life of the buildings and account for possible unforeseen cost increases as projects get underway. These funds will also allow for future projects, such as parking improvements which are not currently included in the capital plan, to be incorporated at a later date without resulting in a substantial increase in withholding amounts in future years.

**Budget Option 1** (Maximum rent increase of 2.4% for in-place residents) offers an opportunity to increase the property's replacement reserve account through revenue generation, thus allowing for many of the critical Capital Improvement projects throughout the community to take place over time. (**Attachment E**)

**Budget Option 2** (No rent increase for in-place residents) outlines community needs to continue daily operations, but may compromise long-term capital projects due to restricted funds available to complete such projects. (**Attachment E**)

We will continue to look for new ways to improve our services over the coming year and remain committed to meeting the objectives set by FOR A.

Please feel free to contact me should you have additional questions or concerns at (415) 336-3811. Approval of the final budget prior to November 20, 2014, would be helpful in order to implement rental increases by January 1, 2015.

Regards,

Corinne Carmody  
Regional Manager

Cc: Jonathan Garcia, FOR A  
Ivana Bednarik, FOR A  
Robert Norris, FOR A  
Brad Cribbins, Chief Operating Officer, Alliance Communities, Inc.  
Annette Thurman, Vice President of Operations, Alliance Communities, Inc.

Attachments:

- FY 2014/15 Budget Revenue Summary
- Unit Matrix
- May 2014 Market Survey
- Capital Improvement Plan/Reserve Withholding
- Budget Option 1 - Rental Increase