

POLICY CONCERNING RENT STABILIZATION – CAPITAL IMPROVEMENT PLANS

1. Purpose. The purpose of this Policy is to encourage landlords to improve the quality of the City's rental housing stock, to ensure landlords receive a just and reasonable return on their capital improvement expenditures and that tenants are not unreasonably displaced as a result of capital improvements to their rental units or the buildings housing such rental units. Except for "Capital Improvement" as set forth in Section 2 of this Policy, terms in this Policy are the same as those terms are used in the City's Rent Stabilization and Other Tenant Protection Ordinance (Chapter 6-90 of the Santa Rosa Municipal Code).

2. Capital Improvement. A capital improvement, for purposes of this Policy Concerning Rent Stabilization – Capital Improvement Plans ("RS-CIP"), shall be any improvement to a rental unit or property that (a) materially adds to the value of the property, (b) appreciably prolongs the useful life or adapts the property to new use, including demolition of one or more rental units and the immediate reconstruction of new rental unit(s) on the property, (c) has a useful life of more than one year and, under the straight line depreciation provisions of the Internal Revenue Code and the regulations issued pursuant thereto, is required to be amortized over the useful life of the improvement and (d) has a documented cost that is not less than the product of eight times the amount of the rent multiplied by the number of rental units to be improved. Excluded as capital improvements are routine repairs, replacement or maintenance including, but not limited to, interior painting of a rental unit, plastering, replacing broken windows, replacing carpets or drapes, cleaning, fumigating, routine landscaping, standard repairing of electrical and plumbing services, and repairing or replacing furnished appliances and under this Policy the Program Administrator shall not grant a rent increase that exceeds the allowable annual adjustment and no landlord shall terminate a tenancy therefor.

3. Policy. Sections 4 through 11 of this Policy allows a landlord to obtain a rent increase that exceeds the allowable annual adjustment and/or to seek a termination of a tenancy in connection with capital improvements. Sections 4 through 11 of this Policy allows rent for a rental unit to be increased in excess of the allowable annual adjustment to provide a just and reasonable return on the expenditures for capital improvements where the landlord in good faith intends primarily to benefit the tenants and where such capital improvements are for major long term improvements or repairs as defined in Section 6 of this Policy or are necessary to bring the rental unit or the building/complex into compliance with Code requirements. Sections 4 and 12 of this Policy allows a landlord to seek in good faith a termination of a tenancy in order to demolish one or more rental units on the property if the landlord reconstructs on the property new rental units(s) immediately following demolition.

4. When a Capital Improvement Plan Must be Filed. A landlord must file with the Program Administrator a capital improvement plan, in a form as may be approved by the Program Administrator, when the landlord (a) requests a rent increase that exceeds the allowable annual adjustment in connection with capital improvements not connected to demolition/immediate reconstruction, (b) requests a rent increase that is equal to or below the allowable annual adjustment in connection with capital improvements but not connected to demolition/immediate reconstruction and the landlord in good faith believes the work associated with the capital improvements cannot be accomplished safely with the tenant remaining in the rental unit while the work associated with the capital improvements is performed or (c) intends in good faith to demolish the rental unit(s) on the property and immediately reconstruct on the same property new rental units. The landlord must provide to the Program Administrator supporting documentation when required and as described in Section 7 of this Policy, the names and addresses of the

tenants affected by the request and mail a copy of the request (but not the supporting documentation) to each tenant affected by the request.

5. Calculation of Rent Increases for Capital Improvements. Where a landlord demonstrates an improvement qualifies as a capital improvement under Section 2 of this Policy and satisfies the requirements of Section 3 of this Policy, the Program Administrator shall calculate the amount of a rent increase by amortizing the cost of the improvement, including one-half of the sum of an assumed interest rate of the Wall Street Journal's prime rate (Western Edition) plus one percent, over 20 years (notwithstanding that the useful life of such improvements for straight line depreciation purposes may be longer under the Internal Revenue Code and the regulations that implement such Code) and dividing that cost by the number of rental units that benefit by the improvement. The dollar amount of the rent increase as calculated in this Section 5 shall be deducted from the rent then in effect at the conclusion of the 20 year amortization period.

6. Major Long Term Improvements or Repairs. A Landlord's expenditures for any major long term improvements or repairs listed in subsection A of this Section 6 shall qualify for an adjustment of the base rent, provided the documented cost thereof is not less than the product of eight times the amount of the rent multiplied by the number of rental units to be improved.

A. The following major long term improvements or repairs shall be eligible for a rent increase:

1. A new roof covering all or substantially all of a building or a structurally independent portion of a building;
2. A significant upgrade of the foundation of all or substantially all of a building or a structurally independent portion of a building, including seismic retrofits;
3. A new or substantially new plumbing, electrical or heating , ventilation and air conditioning (HVAC) system for all or substantially all of a building;
4. Exterior painting or installation/replacement of siding on all or substantially all of a building;
5. Repairs reasonably related to correcting or preventing the spread of defects that are noted as findings in a Wood Destroying Pest and Organisms Report issued by a pest control company registered in Branch 3 of the State of California Structural Pest Control Board provided that any such expenditures for such repairs exceed \$6000 or the product of \$1000 times the number of units in the building, whichever is less.
6. The installation of water conservation devices that are intended to reduce the use of water or energy efficient devices, such as a solar roof system, that are intended to save energy and/or reduce greenhouse gases; provided, however, the Program Administrator may take into account that tax credits may be available to a landlord who installs such devices.
7. Improvements or upgrades to the Rental Unit or the building/complex that meet or exceed disability/accessibility standards as required by law.

B. In determining the cost of a major repair under this Section 6, no consideration shall be given to any additional cost incurred for increased property damage and/or deterioration due to an unreasonable delay in the undertaking or completing any repair or improvement.

7. Supporting Documentation. For requests for a rent increase that exceed the allowable annual adjustment, the supporting documentation must substantiate the nature and cost of the claimed improvement and should include copies of cancelled checks and may include copies of invoices, signed contracts, material and labor receipts, self-labor logs, spread sheets or any other items of documentation accepted and used in the normal course of business; provided, however, if the supporting documentation is based on estimates, the landlord must subsequently provide to the Program Administrator supporting documentation as set forth in the previous sentence.

8. Limitations on Rent Increases. No rent increase under this Policy shall be granted in consideration of any capital improvement for which a building permit had been issued prior to January 1, 2016 or, if the capital improvement was for work for which a building permit was not required, for any capital improvement that was started prior to January 1, 2016. For capital improvements commenced after January 1, 2016 for which a landlord seeks a rent increase, a landlord must comply with Section 4 of this Policy within 12 months of completion of the capital improvements.

9. Program Administrator's Determination. The Program Administrator shall review the request and supporting documentation and determine whether the documentation is adequate and sufficient to approve the requested rent increase in excess of the allowable annual adjustment. The Program Administrator will provide the tenant(s) with the opportunity to respond to the request. If the Program Administrator approves the request, the Program Administrator shall notify the landlord and the tenant(s). Any approved rent increase shall not take effect until the Program Administrator has determined the landlord has completed the capital improvement; provided, however, if the landlord has requested a rent increase that exceeds the allowable annual adjustment based on estimated costs, the Program Administrator may grant conditional approval of a rent increase but the rent increase shall not take effect until the Program Administrator has determined the landlord has completed the capital improvement and submitted to the Program Administrator adequate and sufficient supporting documentation to approve unconditionally the rent increase that exceeds the allowable annual adjustment. If the Program Administrator does not approve the request for a rent increase that exceeds the allowable annual adjustment, the Program Administrator shall advise the Landlord in what respects the request is deficient.

10. Landlord's Notice to the Tenants That the Rent Increase Has Been Approved. Where the landlord has requested a rent increase that exceeds the allowable annual adjustment and the Program Administrator has unconditionally approved such rent increase, the landlord shall notify the tenants in writing.

11. Relocation Assistance.

A. When the landlord has notified a tenant of the amount of a rent increase that exceeds the allowable annual adjustment, as provided in Section 10 of this Policy, the landlord shall inform the tenant that the tenant must advise the landlord within 30 days whether or not the tenant intends to pay the rent increase when the improvement work is completed. If the tenant has advised the landlord that the tenant does not intend to pay the rent increase when the improvement work is completed or if the tenant has not advised the landlord within 30 days one way or the other, the landlord may, when the improvement work is completed, take action to terminate the tenancy but is required to provide relocation assistance to the tenant as provided in the City's Rent Stabilization and Other Tenant Protection Ordinance (Section 6-90.130, Santa Rosa Municipal Code).

B. Where the landlord has notified a tenant of a rent increase that is equal to or less than the allowable annual adjustment based on the capital improvements and has filed with the Program Administrator a capital improvement plan that contemplates the temporary or permanent

relocation of a tenant based on the landlord's good faith belief that the capital improvement work cannot be accomplished safely with the tenant in the rental unit while the work is performed and the Program Administrator concurs, the Program Administrator will approve a capital improvement plan that includes terms and conditions of relocating the tenant either on a temporary or permanent basis as provided further in this section 11.

C. Where the landlord has requested a rent increase that exceeds the allowable annual adjustment and filed with the Program Administrator a capital improvement plan that contemplates the temporary or permanent relocation of a tenant based on the landlord's good faith belief that the capital improvement work cannot be accomplished safely with the tenant in the rental unit while the work is performed and the Program Administrator concurs, the Program Administrator will approve a capital improvement plan that includes terms and conditions of relocating the tenant either on a temporary or permanent basis as provided further in this section 11.

D. If (1) the approved capital improvement plan requires a tenant to vacate the tenant's rental unit, (2) the tenant has informed the landlord the tenant will pay the rent increase once the improvement work is complete and (3) at the time the tenant must vacate the rental unit there is a comparable and available replacement rental unit satisfactory to the tenant within the building/complex, the landlord must (a) relocate the tenant into such comparable and available replacement rental unit satisfactory to the tenant but within the building/complex, (b) offer the tenant the rental unit that the tenant vacated, or a comparable rental unit satisfactory to the tenant within the building/complex, on a first right of refusal basis (subject to the rent increase) when the capital improvement is completed, (c) provide the tenant with reasonable and documented costs of relocating the tenant to and from the replacement rental unit and (d) until the tenant re-occupies the rental unit or comparable rental unit after the capital improvement is completed, impose on the tenant the rent the tenant was charged at the time of the displacement.

E. If (1) the approved capital improvement plan requires a tenant to vacate the tenant's rental unit, (2) the tenant has informed the landlord that the tenant will pay the rent increase once the improvement work is completed, and (3) at the time that the tenant must vacate the rental unit there is no comparable and available rental unit satisfactory to the tenant in the building/complex, the Program Administrator will determine whether the landlord must provide temporary relocation benefits to the tenant or whether the landlord may take action to terminate the tenancy. In determining whether a tenant may be temporarily relocated during the improvement work rather than permanently relocated, the Program Administrator will take into consideration the length of the displacement with the presumption that if the work can be completed within six months, the relocation will be temporary. Other terms and conditions concerning temporary relocation may include, but not be limited to, offering the tenant the rental unit that the tenant has vacated, or a comparable rental unit satisfactory to the tenant within the building/complex, on a first right of refusal basis (subject to the rent increase) when the capital improvement is completed, providing the tenant with reasonable and documented costs of relocating the tenant to and from the temporary replacement rental unit and requiring the tenant to pay no more than the rent the tenant was paying at the time of displacement until the tenant re-occupies the rental unit or the comparable rental unit after the capital improvement is completed.

F. If the Program Administrator determines the landlord may take action to terminate the tenancy due to the length of time to complete the work or otherwise, the landlord shall provide relocation assistance to the tenant as provided in the City's Rent Stabilization and Other Tenant Protections Ordinance (Section 6-90.130., Santa Rosa Municipal Code).

G. For purposes of this Section of the Policy, a rental unit is comparable to the tenant's rental unit if both rental units are comparable in size, amenities and, as to a tenant who is disabled, accessibility to and from the rental unit.

12. Demolition Followed by Immediate Reconstruction

A. A landlord must file an RS-CIP with the Program Administrator, in a form as may be approved by the Program Administrator, when a landlord intends in good faith to demolish one or more rental units on the property and then immediately reconstruct one or more rental units on the same property. The RS-CIP submitted to the Program Administrator must demonstrate the landlord has obtained from the City and any other regulatory agency all necessary permits to demolish the rental unit(s) and to construct new rental units on the same property. The RS-CIP must indicate the proposed time frame when the landlord intends to terminate tenancies, begin and complete demolition and begin and complete construction of the new rental units.

B. The Program Administrator shall review the RS-CIP including the permits and determine whether the documentation is adequate and sufficient to approve the RS-CIP. The Program Administrator will provide the tenant(s) the opportunity to review the documents before making a decision. If the Program Administrator approves the RS-CIP, the Program Administrator shall notify the landlord and the tenant(s). If the Program Administrator does not approve the RS-CIP, the Program Administrator shall advise the landlord in what respects the RS-CIP is deficient.

C. After the Program Administrator has approved the RS-CIP, the landlord may take action to terminate the tenancy as provided by law. The notice to terminate the tenancy shall provide the tenant with at least 120 days to vacate, a statement the tenant is entitled to relocation payment and the amount thereof as provided in the City's Rent Stabilization and Other Tenant Protection Ordinance (Section 6-90.130, Santa Rosa Municipal Code), notice that the tenant has the right of first refusal to rent the new rental unit once built, and advise the tenant of the right to damages if the landlord does not demolish the rental unit(s) and immediately construct new rental units as set forth in the approved RS-CIP. The landlord shall provide the Program Administrator with a copy of the notice.

D. When the tenant vacates the rental unit, the landlord must obtain from each tenant the tenant's new address and other contact information (e.g., email address, phone number, etc.).

E. The landlord shall notify the Program Administrator when all rental units to be demolished have been vacated. The landlord must begin demolition within 60 days thereafter. The landlord must begin construction of the new rental unit(s) within 90 days following demolition of the units and, in the reasonable judgment of the Program Administrator, diligently complete construction of the new rental units.

F. If the landlord has demolished the rental units, started construction and completed construction of the new rental units as provided in subsection E of this Section 12, the new rental unit shall be considered exempt under the City's Rent Stabilization and Other Tenant Protections Ordinance (subsection A (2) of Section 6-90,020, Santa Rose Municipal Code). After the landlord has received a certificate of occupancy for the new rental unit, the landlord shall notify in writing all displaced tenants and provide such tenants with the right of first refusal to rent the new rental unit. A displaced tenant shall notify the landlord within 30 days whether the tenant chooses to rent the new rental unit.

G. If the landlord has not started demolition of the rental units within 60 days of the rental units having been vacated, the RS-CIP shall be null and void, the rental units shall continue to be subject to the Rent Stabilization and Other Tenant Protections Ordinance and the landlord must offer the rental units to the displaced tenants on a right of first refusal basis, at the lawful rent in effect at the time of the tenant's displacement. A displaced tenant shall notify the landlord within 30 days whether the tenant chooses to rent the new rental unit. The landlord will be liable to the tenant for any reasonable costs incurred in the tenant's re-renting the rental unit, notwithstanding the tenant's earlier receipt of relocation payments. The landlord shall not submit another RS-CIP based on demolition/immediate construction for 12 months.

H. If the landlord has demolished the rental units as provided in subsection E of this Section 12 but did not start construction and/or did not complete construction of the rental units as provided in subsection E of this Section 12, the RS-CIP shall be null and void. The new rental units (if constructed) will not be exempt under the City's Rent Stabilization and Other Tenant Protections Ordinance and the landlord must offer the rental units to the displaced tenants on a right of first refusal basis, at the lawful rent in effect at the time of tenant displacement, plus any annual allowable adjustments. A displaced tenant shall notify the landlord within 30 days whether the tenant chooses to rent the new rental unit. The landlord will be liable to the tenant for any reasonable costs incurred in the tenant's re-renting the rental unit notwithstanding the tenant's earlier receipt of relocation payments and the landlord shall also be liable to any tenant who was displaced from the rental property for actual and punitive damages, which action must be brought within three years of the tenant's displacement. Nothing in this subsection shall preclude a tenant from pursuing any additional or alternative remedy available under law including, but not limited to, general damages. A landlord shall not submit another RS-CIP based on demolition/immediate reconstruction for 12 months.

I. The landlord shall notify the Program Administrator of the names and contact information of all tenants to whom the right of first refusal was offered and whether such tenant exercised such right.

J. If there are more tenants who choose to exercise their right of first refusal than there are new rental units, the landlord shall notify the Program Administrator who will determine by lottery which tenants may rent the new rental units.