



Rent Increase Application Under

Just and Reasonable Guidelines

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JUST AND REASONABLE RENT INCREASE

The Rent Stabilization Ordinance (RSO) of the City of Los Angeles was designed to protect tenants from excessive rent increases while allowing landlords a reasonable return on their investments. Under the RSO, there are two types of increases: those NOT requiring approval, such as the annual rent increase and increases for additional tenants, and those increases that require departmental approval, such as capital improvements, seismic work and rehabilitation, and **Just and Reasonable (J & R) rent increases.**

Under the RSO, a J & R application may be filed with a **\$25.00 filing fee.** (You may apply for an exemption from the filing fee if your annual earnings are no more than 50% of the median income in the Los Angeles area. Section 246.05 of the Guidelines.) The J & R procedure is based on maintenance of profitability, a principle that has been upheld as one of the ways to demonstrate a landlord is receiving a Just and Reasonable return. The Los Angeles J & R guidelines allow an increase in rent when a landlord's current year's **Net Operating Income (NOI)** is less than his/her base year's NOI **adjusted for inflation.** For example, assume during the base year the landlord had a fifteen thousand dollar (\$15,000) NOI, with 100% inflation to the current year. If during the current year the landlord **did not** receive a NOI of at least thirty thousand dollars (\$30,000), the landlord is eligible for a J & R increase. While an applicant may only desire to increase the rent on some of the units on the property, all calculations performed in doing the analysis (income and expense) are based upon all the units on the property.

The base year for a J & R rent increase is 1977. If the financial information for 1977 is not available, a landlord may substitute the base year with the first year following 1977 for which records are available. Landlords who did not own the rental property in 1977 must use the 1977 NOI of the landlord of record in 1977. If the information is not available, a landlord may substitute as base year, the first year following 1977 for which records are available. If no financial records are available from a previous landlord, the current landlord is eligible to apply for a J & R rent increase **only when the landlord has two complete years of operating income and expenses.** The first year's NOI for such landlords is the base year and the current year is the year prior to the year in which the J & R Application is filed.

According to the Rent Adjustment Commission's J & R guidelines, the landlord's operating expenses are determined, in part, by adding management and administrative expenses; adjustment for landlord performed services; operating expenses which include expenses for: supplies, heating, electricity, water and sewer, gas, building services and other operating expenses; maintenance expenses including security, grounds maintenance, maintenance and repairs, painting and decorating; taxes and insurance expenses including: real estate taxes, other taxes, fees and permits, and insurance; service expenses; and other payroll expenses.

Mortgage payments, depreciation expenses, interest expenses and expenses which are reimbursed or were eligible for reimbursement are NOT considered part of Operating Expenses (Section 241.10 of the Guidelines).

Gross Total Income (GTI) is determined by adding actual rental unit income, garage and parking income, stores and offices income, and miscellaneous income. **When operating expenses are subtracted, the remaining income is NOI.**

A landlord is eligible for a J & R rent increase only if the current year NOI is less than the base year NOI adjusted for inflation. However, to ensure that no landlord suffers a net operating loss because of the RSO, a rent increase can be granted for a landlord to reach a break-even NOI (excluding depreciation and interest). Market rents are not considered in determining a property's eligibility for an increase. The analysis is based solely on an individual property's NOI.

The attached copy of the Application for Rent Increase under Just and Reasonable Guidelines incorporates the amendments to the Guidelines adopted by the Rent Adjustment Commission which became effective September 1, 2005. A checklist has also been provided to assist you in correctly completing the application form.

The Comparative Profit and Loss Statement used for determining NOI, is based upon IRS Schedule E form. All sections of the application must be completed.

For additional information regarding J & R rent increases under the RSO, please contact the Rent Stabilization Division, Public Information Section at (866) 557-7368.

Marcella DeShurley, Director
City of Los Angeles
Rent Stabilization Division

**THE CITY OF LOS ANGELES
LOS ANGELES HOUSING DEPARTMENT
RENT STABILIZATION DIVISION**

JUST AND REASONABLE INCREASE APPLICATION CHECKLIST

- ___ Attach the **\$25.00 filing fee**. Make a check or money order payable to the "City of Los Angeles - RSD".
- ___ Provide complete tenant address information for each tenant listed. This includes the complete mailing address, present rent, proposed rent increase and proposed new rent (Page 5 of Application).
- ___ Application is signed and dated by the owner/owner's legal representative.
- ___ Application is prepared written in black/blue ink or typed.
- ___ Each relevant blank of the Comparative Profit and Loss Statement is filled in.
- ___ If 1977 is not used as the base year on the Profit and Loss Statement, **include a detailed statement as to why not**, attempts made to retrieve 1977 data and any evidence of said attempts (ie emails, title report, list of numbers called with dates).

Attach copies of the following:

- ___ Current Business Tax License/Exemption **and** Rent Stabilization Registration Certificate.
- ___ Complete rent schedules for Base and Current years for all Tenants. (Month/Year of Base/Current years must be the same 12 month period).
- ___ Copy of IRS Form Schedule E (for an Individual) or IRS Form 8825 (for a Partnership) or Operating Statement for Base **and** Current Year.
- ___ Provide proof of income for the Current Year.
- ___ Organize invoices, receipts, proof of payment (ie. canceled checks) for all Expenses claimed by Base/Current year and then by Category outlined in the application's *Comparative Profit and Loss Statement* form.
- ___ Property tax assessment and proof of payment for base year and current year (i.e. Current Year of 2016 submit copies of tax statements for 2015 which included 01/01/16-06/30/16 and 2016 which included 07/01/16-12/31/16 and cancelled checks for each portion of the tax attributable to your Current Year).
- ___ Provide copies of all Utility Bills and Proof of Payment for each.
- ___ Provide Insurance Declaration Page and Proof of Payment.

IF THE REQUESTED DOCUMENT(S) IS/ARE NOT AVAILABLE, PLEASE INCLUDE A STATEMENT EXPLAINING WHY EACH DOCUMENT IS NOT AVAILABLE.

**CITY OF LOS ANGELES
RENT ADJUSTMENT COMMISSION**

**PRICE LEVEL ADJUSTMENT FOR JUST AND REASONABLE
RENT INCREASE APPLICATIONS**

As stated in the Rent Adjustment Commission's Guidelines, the base year shall be 1977 when the financial information for that year is available. In the event that the 1977 financial information is not available, and where the unavailability of such records can be substantiated by clear and convincing evidence, a J & R applicant may substitute as a base year the first year following 1977 for which records are available.

The **Price Level Adjustment** for the Base Year, as referred to in the Rent Adjustment Commission's Just and Reasonable (J&R) Guidelines, shall until further notice be as follows:

1. For property owners filing J&R applications using a calendar year for both the base year and the most recent year, the Price Level Adjustment (PLA) will be based on the authorized annual automatic rent increase permitted each year on or after July 1, as detailed on the Price Level Adjustment Calendar Matrix accompanying this application.
2. If a property owner regularly uses a fiscal year accounting system (as defined by the Internal Revenue Service) as opposed to a calendar year, the Price Level Adjustment will be based on the weighted average of the permitted annual automatic increase(s) during the twelve months of the owner's fiscal year.

EXAMPLE: CALENDAR YEARS 1977 - 1989

- A. By way of example, if the landlord is using 2010 as the base year and 2015 as the current year, the landlord shall be allowed an 8.00% Price Level Adjustment to the Net Operating Income of the Base Year (4 yrs @ 1%, 1 yr @ 2%, 1 yr @ 3%).
- B. If the Net Operating Income in 2010 was \$20,000, the PLA would be \$1,600 and added to \$20,000. If the property did not have a Net Operating Income of \$21,600, in calendar year 2015, the owner would be eligible for a J&R rent increase.

Written questions on the Price Level Adjustment and the J&R Guidelines should be addressed to the Rent Adjustment Commission staff, P.O. BOX 57398, Los Angeles, CA 90057-0398. For further information, call the Rent Stabilization Division, Public Information Section at (866) 557-7368.

Type or print legibly. The complete name and address of each tenant must be provided as mailing labels will be made from this portion of the application. **DO NOT** use "ditto marks" or add the word "same" after the address of the first tenant on the list.

Landlord Name: _____ Mailing Address: _____ _____ City State Zip Code	Office Phone: _____ Area Code Telephone No. Home Phone: _____ Area Code Telephone No.
FILE NO: Do not write in this space	Assessor's Parcel Number:
List all tenant names and addresses who would receive a rent increase, if this application is approved.	Fill in the specific rent information for each unit. Input Increase from box (65).
Name: _____ Address: _____ City: _____ Zip: _____	Present Rent: \$ _____ Increase: \$ _____ New Rent: \$ _____
Name: _____ Address: _____ City: _____ Zip: _____	Present Rent: \$ _____ Increase: \$ _____ New Rent: \$ _____
Name: _____ Address: _____ City: _____ Zip: _____	Present Rent: \$ _____ Increase: \$ _____ New Rent: \$ _____
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Name: _____ Address: _____ City: _____ Zip: _____	Present Rent: \$ _____ Increase: \$ _____ New Rent: \$ _____
Name: _____ Address: _____ City: _____ Zip: _____	Present Rent: \$ _____ Increase: \$ _____ New Rent: \$ _____

IF MORE SPACE IS NEEDED, ATTACH ON SEPARATE SHEET
 Attach copies of income and expense source documents if available.
 If unavailable include an explanation as to the reason(s) for the missing documents.

COMPARATIVE PROFIT AND LOSS STATEMENTS

Guideline References	ITEM	BASE YEAR starting _____ (Month) (Year) write January 1977 or oldest calendar year of record for which a full twelve months of financial information is available or an alternative fiscal year as permitted by the Guidelines	CURRENT YEAR starting _____ (Month) (Year) write January and most recent calendar year for which a full twelve months of financial information is available or an alternative fiscal year as permitted by the Guidelines
		INCOME	
241.03	Actual Rental Income	(6) \$ _____	\$ _____ (7)
241.04	Garage/Parking Income	(8) _____	_____ (9)
241.05	Stores/Offices Income	(10) _____	_____ (11)
241.06	Adjustment for Below Market Rental	(12) _____	_____ (13)
241.07	Miscellaneous Income	(14) _____	_____ (15)
241.02	GROSS TOTAL INCOME	(16) _____ Add (6) thru (14)	_____ (17) Add (7) thru (15)
EXPENSES			
241.11	Mgt./Adm. Expenses	(18) _____	_____ (19)
241.12	Adjusted Mgt./Adm. Self-Labor Expenses	(20) _____ (18) & (20) combined limited to 7% of (16)	_____ (21) (19) & (21) combined limited to 7% of (17)
241.13	Operating Expenses		
	a) Supplies	(22) _____	_____ (23)
	b) Heating	(24) _____	_____ (25)
	c) Electricity	(26) _____	_____ (27)
	d) Water & Sewer	(28) _____	_____ (29)
	e) Gas	(30) _____	_____ (31)
	f) Building Services	(32) _____	_____ (33)
	g) Other Operating Expenses	(34) _____	_____ (35)
241.14	Maintenance Expenses		
	a) Security	(36) _____	_____ (37)
	b) Grounds	(38) _____	_____ (39)
	c) Maintenance/Repair	(40) _____	_____ (41)
	d) Painting/Decorating	(42a) _____	_____ (43a)
	e) Self-Labor	(42b) _____	_____ (43b)
241.15	Taxes & Insurance		
	a) Real Estate	(44) _____	_____ (45)
	b) Other Taxes Fees/Permits	(46) _____	_____ (47)
	c) Insurance	(48) _____	_____ (49)
241.16	Services	(50) _____	_____ (51)
241.17	Other Payroll	(52) _____	_____ (53)
241.11 - 241.17	TOTAL EXPENSES	(54) _____ Add (18) thru (52)	_____ (55) Add (19) thru (53)
241.01	NET OPERATING INCOME (NOI)	(56) _____ Subtract (54) from (16)	_____ (57) Subtract (55) from (17)
IF LOSS USE BRACKETS < >			

- (58) \$ _____ 242.04/243.04 **PRICE-LEVEL ADJUSTMENT**
Multiply amount in box (56) by percentage permitted in current RAC Price-Level Adjustment Matrix.
- (59) \$ _____ 242.04 **BASE YEAR NET OPERATING INCOME (NOI) PLUS PRICE LEVEL ADJUSTMENT:**
Add box (56) and box (58).
IF LOSS USE BRACKETS < >
- (60) \$ _____ 242.03 **CURRENT YEAR NET OPERATING INCOME (NOI) OR LOSS:**
Input amount from box (57).
IF LOSS USE BRACKETS < >
- (61) \$ _____ 242.06 **COMPARISON OF ADJUSTED BASE YEAR NOI (59) WITH CURRENT YEAR NOI (60).**
Subtract box (59) from box (60). If Adjusted Base Year NOI (59) is less than Current Year NOI (60), Landlord is NOT eligible for a J & R Rent Increase.

SPECIAL CIRCUMSTANCES FOR A LANDLORD SUFFERING A NET LOSS IN BOTH CURRENT YEAR AND IN THE BASE YEAR.

(62) < \$ _____ > 244.00/244.02 **CURRENT YEAR NET OPERATING LOSS**
This box is to be filled in only if a landlord suffered a Net Operating Loss in both the base year and the current year.
If current year is profitable or if base year was profitable insert N/A.

DETERMINING THE RENT INCREASE FOR EACH INDIVIDUAL RENTAL UNIT

- (63) _____ 245.02 **TOTAL UNITS ON PROPERTY**
Include all units, even those for which an increase has not been requested.
- (64) \$ _____ 245.02 **ANNUAL J & R RENT INCREASE FOR EACH INDIVIDUAL RENTAL UNIT**
Divide box (61) [or box (62) if NOL] by box (63)
- (65) \$ _____ 245.02 **MONTHLY J & R RENT INCREASE**
Divide (64) by 12 for monthly increase per rental unit.

ADD THE AMOUNT IN BOX (65) TO THE CURRENT LEGAL RENT IN EACH UNIT FOR WHICH A J & R RENT INCREASE IS REQUESTED. IF THIS APPLICATION IS APPROVED, THE RENT MAY BE INCREASED BY THIS AMOUNT. COMPLETE ALL NECESSARY INDIVIDUAL CALCULATIONS ON TENANT ROSTER.

JUST AND REASONABLE GUIDELINES

Rent Adjustment Commission Guidelines 240.00
Amended Effective September 1, 2005

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6400 Laurel Canyon Blvd., #610
North Hollywood, CA 91606

2130 E. 1st Street #2600
Los Angeles CA 90033

690 KNOX ST., SUITE 125
LOS ANGELES, CA 90502

1910 Sunset Blvd., #300
LOS ANGELES, CA 90026

1645 CORINTH AVE.
SUITE 104
LOS ANGELES, CA 90025



CITY OF LOS ANGELES

JUST AND REASONABLE GUIDELINES

Rent Adjustment Commission Guidelines, Section 240.00 Amended Effective September 1, 2005

240.00 GUIDELINES TO BE USED BY HEARING OFFICERS FOR DETERMINING A JUST AND REASONABLE RETURN

DEFINITIONS:

The following words and phrases, whenever used in these Guidelines, shall be construed as defined in this section. Words and phrases not defined herein shall be construed as defined in the Rent Stabilization Ordinance.

Appeals Board: Three or more members of the Rent Adjustment Commission acting as an Appeals Board. (LAMC 151.07 B4c)

Base Year: As more fully described in Sections 242.00 and 243.00, the Base Year is either 1977 or the earliest year for which a property's financial records are available.

Current Year: The most recent calendar or fiscal year prior to the date of the Just and Reasonable application.

Department: The Los Angeles Housing + Community Investment Department of the City of Los Angeles.

LAMC: Los Angeles Municipal Code.

Net Operating Income: As described in Section 241.01, the figure arrived at by subtracting the property's Operating Expenses from the Total Gross Income.

Operating Expenses: As more fully described in Sections 241.09 thru 241.18, these are the expenses incurred operating the property. Operating Expenses do not include debt service expense or depreciation unless the debt service relates to financing obtained prior to June 1, 1978 and if it contains either a balloon payment or variable rate provision.

Ordinance: The Rent Stabilization Ordinance of the City of Los Angeles (LAMC 151.00 et. seq.).

RAC: Rent Adjustment Commission of the City of Los Angeles consisting of members who are neither landlords nor tenants of residential rental property. (LAMS 151.03)

Total Gross Income or Gross Income: As more fully defined in Sections 241.02 thru 241.07, this is all of the income generated by the property for which the application has been filed, before deducting Operating Expenses.

240.01 The Ordinance as amended, and Regulations and Guidelines promulgated by the RAC, contain a number of provisions which normally assure a Just and Reasonable return on rental units subject to the ordinance. These provisions include:

- A. Automatic annual rent increases
- B. Vacancy decontrol
- C. Exemption of luxury apartment units

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- D. Pass through of capital improvement costs
- E. Pass through of rehabilitation work costs
- F. Pass through of special assessment costs
- G. Adjustments for units with seasonal rents
- H. Increases based on additional persons occupying a unit
- I. Pass through of costs of conversion to individual utility meters
- J. Special utility increases in master-metered buildings
- K. Primary Renovation

240.02 The Ordinance authorizes Hearing Officers to grant rent increases or surcharges where the maximum rent or maximum adjusted rent does not constitute a Just and Reasonable return in accordance with such Guidelines as the RAC may establish.

240.03 The RAC presumes that the net operating income received up to May 1978 provided landlords with a Just and Reasonable return on their rental units, unless there is clear and convincing evidence to the contrary. In most cases the automatic increases allowed by the Ordinance and the property tax savings resulting from Proposition 13 provide sufficient additional operating income to landlords to maintain at least the same net operating income they experienced in 1977 adjusted by an inflation factor. However in some cases landlords may have incurred reasonable operating expenses which exceed the rent increases allowed by the Ordinance and the tax savings resulting from Proposition 13. Therefore, landlords who have had such reasonable increased operating expenses shall be able to maintain the same level of net operating income as they experienced in 1977, plus a Price Level Adjustment as determined by the RAC from time to time.

241.00 DETERMINATION OF THE NET OPERATING INCOME

241.01 Net Operating Income is determined by subtracting the annual Operating Expenses from the property's Total Gross Income.

241.02 Total Gross Income is determined by adding the following:

- A. Actual Residential Unit Income
- B. Garage and Parking Income
- C. Store and Office Income
- D. Adjusted Income for Below Market Rental
- E. Miscellaneous Income

241.03 Actual Residential Unit Income is the total annual income received from all the dwelling units in the rental complex.

241.04 Garage and Parking Income is the additional income received for parking services in the garage or parking spaces on the grounds of the rental property.

241.05 Store and Office Income is the total annual income received from any stores or offices located on the rental property. If income from stores or offices is reported in the Base

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Year but not in the Current Year, then such reported income will be eliminated in computing the Base year's net operating income.

241.06 Adjusted Income for Below Market Rentals is an amount representing the difference between the actual rent collected and what the landlord could have collected if the units had been rented at their full market value. Examples of below market rents include but are not limited to units occupied by the landlord, the landlord's family, or the unit of a resident manager. The below market rent is determined by the rent level of the highest comparable unit in the rental complex. Where there is no exact comparable unit, the below market rent is determined on the basis of the highest rent for a unit in the same rental complex, adjusted for differences in size, amenities, etc. Where there is no comparable rental unit within the complex, the rent of a comparable unit in the immediate neighborhood may be used. The burden of proof is on the applicant to establish a reasonable basis for estimating the below market rent.

- A. In the Base Year a landlord is permitted to make an upward adjustment of Gross Income only for a unit occupied by the landlord, landlord's family, or by a manager, agent, or employee where, in the Base Year, either no rent was charged or a rent level below that of a comparable unit can be demonstrated.
- B. In the Current Year, a landlord must make an upward adjustment in the Gross Income for any unit occupied by the landlord, the landlord's family or by a manager, agent, or employee where the unit is rent-free or where the rent is lower than the rent in the building for a comparable unit.
- C. In addition, the Current Year Gross Income must be adjusted upward to reflect lost rent or below market rents for units permanently removed from rental housing use.

241.07 Miscellaneous Income is determined by adding all actual revenues received from such sources as maid services, gas and electricity sold to tenants, commissions from telecommunication and/or cable services, laundry and vending machines, signs on the building or property of the rental complex, air conditioning charges, special charges for the use of amenities, income from oil, gas, or other minerals on the rental complex property, location use payments by motion picture or television production companies, special rentals for occasional use of recreating rooms or other common areas, any interest derived from tenant money held as security deposits, and any income derived from the operations of the rental complex.

241.08 Vacancies in both the Base Year and the year for which the application is made are not calculated. However, in cases where the Hearing Officer finds unusual vacancy patterns, the Hearing Officer will have the discretion to adjust the Gross Total Income where the vacancies have been the result of a landlord withholding rental units from the market.

241.09 Operating Expenses are determined by adding the following:

- A. Management and Administrative Expenses
- B. Adjustment for landlord performed services
- C. Operating Expenses for:

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- 1) Supplies
 - 2) Heating Expenses
 - 3) Electricity
 - 4) Water and Sewer
 - 5) Gas
 - 6) Building Services
 - 7) Other Operating Expenses
- D. Maintenance Expenses including:
- 1) Security
 - 2) Grounds Maintenance
 - 3) Maintenance and Repairs
 - 4) Painting and Decorating
- E. Taxes and Insurance Expenses including:
- 1) Real Estate Taxes
 - 2) Other Taxes, Fees and permits
 - 3) Insurance
- F. Service Expenses
- G. Other Payroll Expenses

241.10 In determining operating expenses, all debt service expense, depreciation and expenses for which a landlord has been reimbursed or was eligible for reimbursement but failed to obtain reimbursement must be excluded.

241.11 Management and Administrative Expenses include: Wages of Administrative Personnel, including agency fees for administrative services and the use value of any rental unit offered in compensation for such services calculated according to Section 241.06 above, advertising of rental units, legal costs involving operation of the property, auditing fees for the operation of the rental complex, fees and dues in professional property management organizations except that if the landlord owns more than one rental complex, such expenses must be apportioned among the rental complexes owned, telephone and building office expenses used for rental operations and office supplies, but excluding:

- A. Advertising for the sale of condominiums or for the sale of the rental property as a whole;
- B. Legal and auditing costs engendered by the purchase or sale of the rental complex;
- C. Legal costs resulting from the legal defense of the landlord from criminal charges filed against the landlord by local, state, or federal authorities or litigation costs stemming from judgments or settlement agreements demonstrating the landlord's liability for



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injuries or damages due to the landlord's failure to maintain the property in a habitable conditions, or legal fees incurred by the landlord in challenging the legality of the Ordinance or the RAC's Guidelines.

241.12 An adjustment of Management and Administrative Expenses shall be allowed where the landlord performs management or administrative functions of self-labor in operating and / or maintaining the property. In addition to the actual Management and Administrative Expenses listed in Section 241.11 above, where the landlord performs such services, the landlord may calculate an expense figure representing the value of such unpaid management and administrative services. However, the total cost of Management and Administrative Expenses including the foregoing adjusted expense cannot exceed 7% of the Total Gross Income as described in Section 241.02 above.

When the landlord performs different services in the Base Year and the Current Year, an adjustment will be allowed for such differences to the extent that the landlord shall document the amount of such differences. In the event that administrative services (including legal and auditing) are performed by a relative of the landlord, the landlord must obtain written evidence of competitive bids for these services, and the cost for such services must be completely documented. However, as detailed above, in no event shall the costs of Management and Administrative Expenses exceed 7% of the property's Total Gross Income.

241.13A Operating Expenses include:

- 1) Supplies, including janitorial services, light bulbs, uniforms for employees, etc.
- 2) Heating Expenses include coal or oil used for heating the building.
- 3) Electricity Expense includes all landlord-paid electricity for both rental units and common area.
- 4) Water and Sewer Expenses include all landlord-paid expenses for the rental complex.
- 5) Gas includes all gas charges paid by the landlord for both rental units and common areas.
- 6) Building Services include expenses for window washing, lobby directory, exterminating, rubbish removal, TV antenna service, cable, and/or telecommunication services.

241.13B Operating Expenses do not include:

- 1) Penalties and Late Fees imposed by the Ordinance
- 2) Penalties and Fines imposed by any governmental agency for the failure or delay in paying taxes and fees or for illegal activities committed by or culpably not prevented by the landlord and for the failure by the landlord to maintain the property in a safe and habitable condition.
- 3) Prohibitions by the City or State against the landlord passing though otherwise eligible operating expenses or capitalized Capital Improvement expenditures; (for example, following administrative hearings where the landlord has been denied expense pass-



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through rights due to inclusion in the City's Rent Escrow Account Program (REAP) or Rent Reduction Program, or the State's limitations on tax deductions to owners of "substandard" properties).

- 4) Self-Labor expenditures unless the landlord meets the conditions imposed by RAC Regulations 211.07.
- 5) Costs for which a landlord has already received a rent increase based on the Capital Improvement Regulations (RAC Regulation 210.00 et seq.) or other RAC regulations.

241.14 Maintenance Expenses include:

- A. Security Expenses such as wages of any security personnel, contracted security expenses, door guards, and the operating costs of security equipment.
- B. Grounds Maintenance Expenses include wages of groundskeepers, gardeners, plant materials, external building lighting, sidewalk, and parking lot maintenance costs.
- C. Maintenance and Repairs include all general maintenance and repair both inside and outside the building, elevator maintenance, plumbing and electrical service, fire protection and smoke detector servicing, plastering and masonry repair, carpentry, heating and/or air conditioning repair, roofing and tuck pointing.

However, Capital Improvements are not annual expenses. Landlords who did work which constitute Capital Improvements under the RAC's Guidelines must capitalize such expenses in accordance with the following:

- 1) If the work required a permit from the Department of Building and Safety and consisted of one or more of the following:
 - a) The replacement of existing water or gas supply lines, the replacement of existing drain waste lines, or the installation of additional new supply or waste lines;
 - b) The replacement of electrical wiring or circuits, the replacement of an electrical service panel, or the addition of new wiring or circuits;
 - c) The replacement or upgrading of a heating, ventilation, or air conditioning (HVAC) system or the replacement, upgrading, or initial installation of an elevator system;
 - d) The addition, modification or improvement to the foundation or the structure (including the roof) that exposed the building frame or compromised the building's security, weather protection or fire protection; or
 - e) The abatement of hazardous materials, such as but not limited to lead-based paint and asbestos, in accordance with the applicable federal, state and local laws.

The cost associated with the above must be amortized over a period of fifteen years (180 months) and the landlord may only charge six and two thirds percent (6.67%) in the year such expense occurred and for the next successive fourteen years until fully amortized.

- 2) For all other work which constitutes a Capital Improvement, such expenses must be capitalized on the basis of a five-year (60 months) Amortization and only one-fifth

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of the total expenses may be charged in the year such an expense occurred and for the next successive four years until fully amortized. In the event there were capital expenditures in the 1977 base year or in any of the four years prior to 1977 (1973-1976), the capitalized value of the capital improvement expenditures (20% for each year must be carried into the Base Year as a capitalized expense). The same capitalization requirement applies to Base Years from 1978 through 1982. In the event an applicant uses an alternative Base year of 1983 or later, the applicant must include as a capitalized expense 20% of the cost of any capital improvements approved by the Department in any of the four years immediately preceding the alternative Base year.

- D. Painting and Decorating include all costs including wages and materials, and contracted labor painting and decorating the interior or exterior of the building, including the cost of paint, wallpaper, brushes, wall washing and replacement costs related to floor covering, draperies, and light fixtures all of which will be amortized as in subsection (C) above.
- E. A landlord who is a licensed contractor may include as an expense any self-labor costs connected with capital improvement, rehabilitation, or maintenance work by fully complying with the self-labor provisions of RAC Regulation 211.07 and RAC Regulation 251.06 which state that:
 - 1) If labor for work which requires a permit under the Los Angeles Municipal Code is provided by the landlord, the landlord's family member, or the landlord's agent or employee, such labor costs are not allowable unless the person contracting to perform the work is a state licensed contractor for the type of work performed. Proof of state licensing must be included with the application. In addition, the landlord must submit a minimum of two estimates or bids by non-related licensed contractors specifying both material and labor cost. Labor costs on these bids must be identified by the type of labor performed, the number of hours to perform the work, and the rate paid for the work.

Documented time cards must be submitted for all work performed by the landlord, family member, agent or employee.

- 2) If labor for work which does not require a permit under the Los Angeles Municipal Code, nor the services of a state licensed contractor, is provided by the landlord, the landlord's family member, or the landlord's agent or employee, such labor costs are allowable if documented time cards are submitted for all work performed by the landlord, family member, agent or employee. Documented time cards must specify the number of hours spent on each task and identify the specific building on which the work was performed. In addition, for work costing over \$200.00, the landlord must submit a minimum of two estimates or bids, by non-related contractors, specifying both material and labor costs.

241.15 Taxes and Insurance include:

- A. Real Estate Taxes which include all local or state taxes as well as non-capitalized assessments.

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- B. Other Taxes, Fees and Permits such as the Rent Registration fee, Systematic Code Enforcement Program Fee, City of Los Angeles Gross Receipts tax, personal property taxes, applicable to the property, franchise and business taxes, sign and permit fees, etc.
- C. Insurance including all one-year charges for fire, liability, theft, boiler explosion, rent fidelity bonds, and all insurance premiums except those paid to FHA for mortgage insurance or employee benefit plans. Whenever a premium is multi-year, it must be pro-rated to all applicable years.

241.16 Service Expense includes the annual cost of maintaining recreational amenities such as saunas, gymnasiums, billiard rooms, pools, Jacuzzis, and tennis courts. Such costs include payroll, contractual services, materials and supplies, and minor non-capitalized equipment replacement. Improvements qualifying as Capital Improvements must be amortized as described in Section 241.14C above.

241.17 Other Payroll Expense includes any payroll expenses not included in any of the categories previously listed, such as janitors, maids, elevator operators, telephone switchboard operators, and rental agents.

241.18 Operating expenses must be reasonable. Whenever a particular expense exceeds normal industry standards in the Base Year or in the Current Year for which the application for a rent increase is made, the Hearing Officer shall determine whether the expense is reasonable. In cases where the Hearing Officer determines that a particular expense is unreasonable, the Hearing Officer shall adjust the expense to reflect the normal industry range for that year. The Hearing Officer shall indicate the reason for such an adjustment in the determination.

241.19 In case the financial data necessary for preparing the Net Operating Income may have or has been lost or are unavailable, the landlord applying for a Just and Reasonable rent increase must be prepared to supply or assist fully the Department or RAC in obtaining such financial data as may be available in records kept by the landlord, accountants, tax preparers, bookkeepers, escrow companies, real estate brokers or agents, former owners, etc. The failure of a landlord to supply such records or to assist the Department or RAC in obtaining such records as may exist shall be factors that will be used in determining if there is "clear and convincing evidence" as required in Sections 243.02, 243.02, 243.02A or elsewhere where the Net Operating Income must be supplied.

242.00 DETERMINATION OF ELIGIBILITY FOR RENT INCREASES PURSUANT TO THE 1977 BASE YEAR FORMULA

242.01 The Base Year shall be 1977 when the financial information for that year is available.

242.02 Determine the 1977 Net Operating Income.

242.03 Determine the Current Year Net Operating Income in accordance with the provisions of Sections 241.01-241.07. The Current Year shall be the most recent calendar or fiscal year prior to the date of the application.

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- 242.04** Add to the Net Operating Income for 1977 the Price Level Adjustment according to the formula published on the Price Level Adjustment Calendar Matrix maintained by the Department.
- 242.05** The Net Operating Income from the Current Year is compared to the 1977 Net Operating Income plus the Price Level Adjustment:
- A. If the Current Year Net Operating Income is larger than the 1977 Net Operating Income plus the Price Level Adjustment, the landlord is ineligible for a Just and Reasonable rent increase based on this formula.
 - B. If the Current Year Net Operating Income is less than the 1977 Net Operating Income plus the Price Level Adjustment, the landlord is eligible for a rent increase that will allow the Current Year Net Operating Income to equal the 1977 Net Operating Income plus the Price Level Adjustment.
- 242.06** Landlords who did not own the rental property in 1977 shall use the 1977 Net Operating Income of the landlord of record in 1977 if the financial information is available.
- 243.00** **DETERMINATION OF ELIGIBILITY FOR RENT INCREASES WHEN 1977 NET OPERATING INCOME AND EXPENSE INFORMATION IS NOT AVAILABLE**
- 243.01** In the event that the 1977 financial information is not available, and where the unavailability of such records can be substantiated by clear and convincing evidence, a Just and Reasonable applicant who was the landlord of record in 1977 may substitute as a Base Year the first year following 1977 for which records are available.
- 243.02** In the case of a new landlord who did not own the rental property in 1977 and where 1977 records are not available from a previous landlord, the present landlord may, when the unavailability of the 1977 records can be substantiated by clear and convincing evidence, substitute as a Base Year the first year following 1977 for which a previous landlord's records are available.
- 243.03** In the event that no financial records are available from a previous landlord, the current landlord is eligible for a Just and Reasonable rent increase only when the landlord has two complete years of operating income and expenses. The first year Net Operating Income for such landlords will be the Base Year.
- 243.04** Repealed by the RAC on March 17, 2005.
- 243.05** The Current Year Net Operating Income is subtracted from the Base Year Net Operating Income plus the Price Level Adjustment.
- 243.06** If the Current Year Net Operating Income is larger than the Base Year Net Operating Income plus the Price Level Adjustment, the landlord is ineligible for a Just and Reasonable rent increase based on this formula.
- 243.07** If the Current Year Net Operating Income is less than the Base Year Net Operating Income plus the Price Level Adjustment, the landlord is eligible for a rent increase that will allow

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the Current Year Net Operating Income to equal the Base Year Net Operating Income plus the Price Level Adjustment.

244.00 EXCEPTION FOR CIRCUMSTANCES WHERE A LANDLORD IS SUFFERING A NET OPERATING LOSS

244.01 To ensure that no landlord suffers a net operating loss because of the provisions of the Ordinance, the Hearing Officer shall grant a rent increase sufficient for a landlord to reach a break-even point in the Current Year for which the application is made.

244.02 All the criteria contained in Sections 241.00 through 241.18 shall be followed.

245.00 DETERMINATION OF THE RENT INCREASE FOR EACH INDIVIDUAL RENTAL UNIT

245.01 The rental increase permitted is determined by using one of the following listed formulas:

A. The 1977 Base Year (Sections 242.00 - 242.06)

B. When the 1977 Base Year Data is not available (Sections 243.00 - 243.07)

C. The Net Operating Loss Circumstance (Sections 244.00 - 244.02)

245.02 To obtain the rent increase for each rental unit at the property, the dollar amount the total rent can be raised according to one of the above 3 formulas is divided equally by the number of rental units in the property. This is the annual increase for each unit. To obtain the periodic increase (monthly, weekly, etc.) The annual unit increase is divided by the frequency of the rental payments. For example: if paid monthly the annual increase is divided by 12; if paid weekly the annual is divided by 52. The result of these calculations is the dollar amount the rent can be raised in each rental unit. The legal rent used in these calculations is the current rent at the time of the application provided this rent does not exceed the amount permitted by the Ordinance and any Regulations or Guidelines issued by the RAC.

245.03 No rent increase granted pursuant to the above shall be construed to permit landlords to raise their rents in violation of any terms or provisions of a written lease.

246.00 PROCEDURES FOR LANDLORDS APPLYING FOR A JUST AND REASONABLE RENT INCREASE (LAMC 151.07 B3)

246.01 Landlords should examine carefully the Guidelines to be used by Hearing Officers for determining a Just and Reasonable return (Section 240.00 et seq. above). The conditions covering eligibility for a Just and Reasonable return are listed in those sections which describe the various alternative methods available to the property owner. The property owner should also examine the Guidelines for Appeals to the RAC (Section 248.00 et seq. below) which describe appeals from the decision of a Hearing Officer and the special circumstances where the standards described in Section 240.00 et seq. may be applicable.

246.02 Landlords are advised to examine the most current Price Level Adjustment Calendar Matrix.

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- 246.03** Before a landlord may increase rents on the basis of Just and Reasonable Guidelines, the landlord must first obtain the written approval of a Hearing Officer or the RAC. (LAMC 151.07 B1)
- 246.04** The landlord may request a Just and Reasonable increase by completing the City's standard "Application for Rent Increase under Just and Reasonable Guidelines." Either the Comparative Profit and Loss Statement form, which is a part of the application, or "Schedule E" from the Federal tax return for the relevant year (s) may be used. The completed application shall be delivered to the City of Los Angeles in accordance with instructions given on the application. (LAMC 151.07 B1, B3)
- 246.05** There is a \$25 fee for filing an application for a Just and Reasonable rent increase. (LAMC 151.07 B3a). Very low-income landlords can be exempted from the \$25 filing fee by filing an indigence exemption form which is available from the Department. (LAMC 151.14 C)
- 246.06** The landlord may not collect any rent increase based on a Just and Reasonable application until such time as the Hearing Officer approves the request. Such increase may not go into effect until after compliance with statutory notice requirements.
- 246.07** In no case will the Hearing Officer authorize a rent increase beyond the amount requested by the landlord in the application. (LAMC 151.07B3d)
- 246.08** In the event that an application lacks the required documents or that there are major errors in the mathematical computations showing the individual rent increases, the application will be returned to the landlord with an explanation as to why the application cannot be accepted. (LAMC 151.14 A)
- 246.09** If an application is returned by the Department because of error or missing documents, the landlord may re-submit the application without an additional filing fee after correcting the error or obtaining the necessary documents. (LAMC 151.14 A)
- 246.10** Photocopies of all relevant documents must be attached to the completed application.
- 246.11** Whenever a Just and Reasonable rent increase application has been accepted for processing and at a later date it is determined that the application lacks complete documentation and/or required information, the case may be suspended prior to the hearing for a 30 day period commencing upon the date of mailing the notification to the landlord of the documentation and/or information needed. If at the end of this 30-day period the requested information has not been supplied, the application will be denied without prejudice. The landlord may re-submit the application without an additional filing fee after obtaining the necessary documents or information.
- 246.12** In no event will an application for a rent increase be considered until the landlord has established that the rental units for which an increased rental is sought have been duly registered as required by law. (LAMC 151.05A)
- 246.13** Landlords should submit photocopies rather than original documents. Materials attached to the application will not be returned to the landlord. However, the landlord must, upon request by the Department, show to the Department or to a Hearing Officer the original

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document from which a photocopy was made. (LAMC 151.07 A2a)

247.00 PROCEDURES AFTER THE LANDLORD SUBMITS AN APPLICATION

247.01 The Department will notify each tenant listed in the landlord's application that the landlord has requested a Just and Reasonable rent increase. The notification will include the amount of the proposed increase and the landlord's justification for the request. (151.07)

247.02 Both the landlord and the tenants will be notified of the public hearing at which the determination will be made on the landlord's application. The hearing will take place neither less than ten days nor more than forty-five days after the date of mailing such notice.

247.03 The Department will prepare an analysis of the application for the Hearing Officer. The analysis will summarize the information supplied by the landlord. It will also note any errors and missing information and indicate any points where the application may be in conflict with the RAC guidelines. A copy of the analysis will be sent to the applicant and all other affected parties. The sole purpose of the analysis will be to facilitate the hearing. The analysis is not binding on the Hearing Officer.

247.03A Repealed by the RAC on March 17, 2005.

247.04 Both landlords and tenants may offer documents, testify, or provide written declarations of evidence as may be pertinent. The Hearing Officer shall hear and receive all evidence submitted by any party at the hearing. (LAMC151.07 B3c)

247.05 Either the landlord or the affected tenant (s) may challenge, in writing or at the hearing, any portion of the Department's analysis of the application.

247.06 If the landlord and/or affected tenant (s) did not receive the Department's analysis in time to prepare a response, the Hearing Officer may continue the hearing for a reasonable amount of time to allow for the submission of written responses and/or to prepare oral testimony, subject to the time limit set forth in RAC Regulation 247.09, unless the applicant is willing to waive the time limit.

247.07 Unless a continuance has been granted, if the applicant fails to appear at a scheduled hearing, the Hearing Officer will render a decision based on the application, evidence contained in the administrative record, and/or evidence, if any, presented at the hearing.

247.08 If at the hearing the landlord fails to present documentation or information requested by the Department before or during the hearing, the hearing may be continued no more than 30 days. If the landlord does not supply the requested documentation and/or information by the new hearing date, the Hearing Officer shall render the decision based on the application and whatever evidence is available at the close of the hearing.

247.08A All evidence, written and oral, submitted at the hearing will be under oath. (LAMC 151.07 B3a)

247.09 A determination with written findings will be made by a Hearing Officer within 75 days of the filing of an application. Any suspension for purposes of obtaining additional infor-

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mation pursuant to Section 246.11 will not be included in computing the 75 days. The determination may be for less than the amount requested (LAMC 151.07 B3d). If the Hearing Officer determines the decreased Net Operating Income in the Current Year is likely to be permanent, the Hearing Officer shall grant a permanent rent increase that will become part of the Maximum Adjusted Rent. If the Hearing Officer determines that the decreased Net Operating Income is caused by expenses in the Current Year which are extraordinary and as such unlikely to re-occur, the Hearing Officer shall grant an increase for one year only. Such a limited increase is to be considered a surcharge, and will not become part of the Maximum Adjusted Rent. In the event a surcharge would exceed \$55.00 per month, the Hearing Officer shall extend the length of time for collecting the surcharge at a rate of \$55.00 per month until the full amount is recovered.

- 247.10** The Department will mail copies of the Hearing Officer's findings to the landlord and tenants. The determination will be final unless an appeal is filed with the RAC within 15 days of mailing of findings. (LAMC 151.07 B3e)
- 247.11** Upon approval by a Hearing Officer, a Just and Reasonable rent increase or surcharge can go into effect after the landlord has complied with statutory notice requirements, regardless of the filing of an appeal to the RAC.
- 248.00** **PROCEDURES FOR APPEALING THE DECISION OF A HEARING OFFICER TO THE RAC APPEALS BOARD (LAMC 151.07 B4)**
- 248.01** An appeal of the determination of the Hearing Officer must be made on the form prescribed by the Department. An appeal must be accompanied by a \$50 filing fee. Very low-income tenants and landlords can be exempted from the \$50 filing fee by filing an indigence exemption form which is available from the Department. (LAMC 151.07 B4a, 151.14 C)
- 248.02** The appeal must state specifically why the appellant is entitled to an appeal hearing. The grounds for an appeal are:
- A. Error committed by the Hearing Officer, or;
 - B. Abuse of discretion committed by the Hearing Officer, or;
 - C. The existence of new, relevant information which was not submitted to the Hearing Officer at the time of the initial determination due to mistake, surprise, inadvertence, or excusable neglect, and which information would have affected the determination of the Hearing Officer if it had been submitted earlier.
- 248.03** Repealed by the RAC on March 17, 2005.
- 248.04** If the decision of the Hearing Officer is appealed to the Appeals Board and documentation and/or information previously requested of the landlord has not been included with the application for an appeal hearing, the Appeals Board may continue the case for a 30 day period commencing upon the date of mailing to the landlord during which the landlord may submit the requested documentation and/or information. If at the end of this 30-day period, the landlord has not supplied the documentation and/or information, the Appeals

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Board shall hear the appeal on the basis of the record compiled by the Hearing Officer and any additional evidence which the Appeals Board may elect to accept at the appeal hearing.

- 248.05** The filing of an appeal by a tenant will not delay the rent increase approved by the Hearing Officer. If the tenant appeal is successful, the landlord must forthwith refund any rent increases collected on the basis of the Hearing Officer's determination. (LAMC 151.07 B4a)
- 248.06** Prior to the appeal hearing, Department staff may communicate with the landlord, the tenants, the previous owner, or persons connected to any firm or agency indicated in the documentation supplied by the landlord or appellant to verify the contents of such documentation or the absence of documentation. Such individuals may also be invited to testify at the appeal hearing.
- 248.07** The Department will prepare an analysis of the appeal for the Appeals Board. A copy of the analysis will be sent to the appellant and all affected parties.
- 248.08** Both landlord and/or the affected tenant (s) may challenge, in writing or at the hearing, any portion of the Department's analysis.
- 248.09** Repealed by the RAC on March 17, 2005.
- 248.10** Landlords and tenants will be notified of the appeal hearing at least ten days prior to the date set for the appeal hearing. (LAMC 151.07 B4c)
- 248.11** The hearing and the determination by the Appeals Board will take place within 60 days of the expiration of the 15-day appeal period or within such extended period of time as may be mutually agreed upon by the appellant and the designated Appeals Board, provided by RAC Regulation 247.10. (LAMC 151.07 B4c)
- 248.12** If the landlord and/or affected tenant (s) did not receive the Department's analysis in time to prepare a response, the RAC may continue the hearing a reasonable amount of time to allow the submission of a written response and/or to prepare oral testimony, subject to the time limit set forth in RAC Regulation 248.11, unless the appellant is willing to waive the time limit.
- 248.13** Unless a continuance has been granted, if the appellant fails to appear at a scheduled appeal hearing the Appeals Board will render a decision based on the application, the appeal, evidence contained in the administrative record, and/or evidence presented at the hearing.
- 248.14** If at any time there is new evidence presented on the appeal the Appeals Board may, at its discretion, refer the matter to a Hearing Officer to receive, analyze and report back the findings of said hearing, subject to the time limit set forth in RAC Regulation 248.11, unless the appellant waives the time limit.
- 248.15** All testimony at the hearing shall be under oath. (LAMC 151.07 B3a)

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- 248.16** The Appeals Board may affirm, modify or reverse the determination of the Hearing Officer. It may modify or reverse such determination only upon making written findings setting forth specifically either (i) wherein the action of the hearing officer was in error or constituted an abuse of discretion, or (ii) that the new information not available at the time of the hearing upon which the appellant relies, and supporting its own determination. (LAMC 151.07 B4d)
- 248.17** If the Appeals Board modifies or reverses the decision of the Hearing Officer, it shall set forth specifically how the Hearing Officer was in error or what constituted an abuse of discretion. (LAMC 151.07 B4d)
- 248.18** The Appeals Board decision shall be concurred in by a majority of the Appeals Board hearing the appeal. (LAMC 151.07 B4d)
- 248.19** A copy of the Appeals Board's written findings will be mailed to the landlord and all affected tenants. (LAMC 151.07 B4d)
- 248.20** If the Appeals Board fails to act within the time limits set by the ordinance, the decision of the Hearing Officer becomes final.
- 248.20A** Upon approval by the Appeals Board, a Just and Reasonable rent increase or surcharge can go into effect after the landlord has complied with statutory notice requirements.
- 248.21** There is no administrative appeal from the decision of the Appeals Board.

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