

June 9, 2015

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

Re: Preston Park FY 2015/16 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:** The conclusion of the Roofing Project took place this year, and garage motion sensor lights were installed in between each driveway. Replacement of all front and back doors, and all windows in the community will be complete on/before June 1.
- 2) **Safety Improvements:** Oven flue vents previously noted for repair were addressed. Concrete work at 704/706 Brown was completed. Repairs and repaving at two additional locations along Brown Court is scheduled for June.
- 3) **Tree Trimming:** Bids have been received for tree trimming throughout the community, and should begin in June.
- 4) **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.
- 5) **Green Initiatives:** The community continues to implement water and energy saving programs inspired by Alliance's own Focus Green Initiative. As a condition of the sale of the property, all toilets, showerheads, and faucet aerators were replaced with water conscious devices. Additional 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, including installation of rain sensors, will reduce the amount of water usage throughout the community, and evolve into cost savings for**

residents as we work in conjunction with Paul Lord at Marina Coast Water.

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 housing that is essential to 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. With the approval of the FORA Board, on June 1, 2015 a rental increase of 2.4% was implemented for all residents (with the exception of households on the Below Market Program).

As shown in Attachment B, the proposed budget assumes that no change in rental rates takes place, and results in a 2.8% decrease in Total Income (\$171,087). This large decrease is mainly due to the absence of \$300,000 that was transferred in from the Capital account in order to conduct the Toilet Conservation project in January 2015. The FORA Board approved this project and the transfer of funds in December 2014. The variance of Total Income from the Approved 2014/2015 Budget to the Estimated Actuals for the same period is \$22,896; a decrease in revenue of 0.4% and mainly attributed to the delay in approval for a rental increase. Revenue generated from Month to Month rental fees as well as a \$25 per pet charge for newer households continues to compound and Cleaning/Damage Fees are expected to be slightly higher than in the previous year.

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 5.29.15 (Attachment C) are smaller in square footage than units at Preston Park, and many do not offer the specialized features including in-home laundry 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).

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
Upgraded/Luxury - Two BR	\$1,750 - \$2,300*
Three Bedroom	\$2,035 - \$2,060
Upgraded/Luxury - Three BR	\$2,035 - \$2,060

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

Expenses

Expenses as outlined in **Attachment B** include Operating Expense projections and **variances** from the FY 2014/15 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 2015/16 are **21.0%** lower than the estimated actual expenses for FY 2014/15 (**\$407,476**). 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 **repairs and upkeep** for maintenance vehicles.

Owner Distributions

In accordance with the request received by the FORA Executive Officer, the proposed budget assumes the deferral of Owner Distributions to FORA for the month of July 2015 in addition to the deferral of distributions due to FORA for the months of May and June 2015. Repayment of the distributions will be made to FORA upon sale or transfer to new ownership unless otherwise resolved by FORA. This constitutes a deferral in the payment of \$435,981.

All distributions owed to the City of Marina will be paid without delay and in accordance with the last 3 fiscal year budgets.

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 at the end of May 2015 as approved in the 2014/15 FY include:

- 1) Exterior Unit Windows - \$845,000
- 2) Exterior Unit Doors - \$200,000

2015/2016 FY Capital Improvement Program

Alliance Residential staff members have been working closely with the City of Marina to formulate a budget that can be readily adopted by the Council upon execution of the Sale Agreement, as well as facilitate completion of all necessary Capital Projects (**Attachment B**). Top priority projects include:

- 1) Exterior Building/Flashing Repairs - \$2,100,000**

**NOTE - This project is also referred to as "Moisture Intrusion Project" and specifically addresses moisture entry where the garage roof flashing meets the exterior stucco in two story townhomes within Preston Park. In March 2015 the FOR A Board approved \$500,000 to be utilized for repairs from the 2014/2015 FY Budget, with the intention of approving an additional \$500,000 to be utilized in the 2015/2016 FY. At the same time, \$200,000 was approved to be spent painting the portion of the property that received repairs in the 2014/2015 FY, and another \$200,000 for the remainder of the painting in 2015/2016. As the progression of the sale of Preston Park exceeded the timeframe for work to begin, the project was put on hold until final sale. Most recently it has come to our attention that the project must take place in its' entirety in order for funding to be secured for the purchase to proceed. In addition, recent bids for this project have been received and are in excess of \$2.1M. Therefore in the 2015/2016 FY Budget that is being presented we are asking for approval of this project and to delay all other Capital projects until the 2016/2017 FY and beyond.

Capital Reserves Fund

In accordance with the 2015 reevaluation of the Replacement Reserves Study conducted in April 2008, Alliance recommends a minimum reserve withholding of \$2,725.03 per unit per year during the 2015/16 fiscal period. **Please refer to Attachment B.** This withholding would ensure that the asset holds adequate reserves to complete the Moisture Intrusion project, and allow for emergency replacement of appliances and carpeting/vinyl.

Management Assessment

In accordance with the December 2012 budget approval, Management has been directed to provide detailed information regarding Leasing and Maintenance services provided to residents and prospects. Alliance Residential utilizes an independent source (Kingsley Associates) to monitor and gauge resident satisfaction throughout the company portfolio (**Attachment D for Q4 2014 and Attachment E for Q1 2015**).

Alliance Residential staff members have been working with the Tenants Association to draft a Handbook for distribution to residents. The majority of the document is complete, with minimal changes still to be made in a small number of sections.

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 (408) 396-8341.

Regards,

Katie Edwards
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:

- B. FY 2015/16 Budget Revenue Summary
- B. FY 2015/16 Budget Highlights of Operating Expenses
- B. FY 2015/16 Budget Document
- B. Capital Improvement Plan/Reserve Withholding
- C. May 2015 Market Survey and Backup Documents
- D. **Q4 2014** Kingsley Community Report
- E. **Q1 2015** Kingsley Community Report