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September 1, 2015

Dear Valued Client:

I thought I'd take this opportunity to update you on a couple of issues concerning your rental property in Fresno and Madera Counties. Also, attached are your reports for August 2015.

As I'm sure you'll note, the attached look different from previous months. Also, some of you might wonder: Where's my rent Check?? As stated in previous letters, we have wanted to be able to send you your funds by electronic means. To do that, we had to make significant improvements to our business. In an effort to provide you the best service and manage your properties efficiently and effectively we invested in new and more powerful Property Management software. It's been a challenging couple of months in the transition. Hopefully, the new reports are easy for you to understand. Please call/email if you have questions about the new format.

So...for those of you who completed and returned the ACH form we sent you (the pink one) your August funds are in your bank account. The attached reports show the normal income/expense data items and the amount sent. If you haven't sent in the ACH authorization form you can do it anytime and we'll make the change. If you've misplaced it and need another one, just call the office and we'll send you another form. If you change your mind and DO NOT want us to deposit your check, please send us notice to cancel the ACH deposit.

Please understand, the transition is still a work in progress. Although we're working VERY hard to make sure all data is correct there may be some errors. Please call/email if you have any questions or note anything incorrect. We appreciate your understanding as we move forward.

In addition to allowing the ACH depositing of your funds, the new software will eventually give us some extra capabilities. One neat feature is that your tenants will soon be able to electronically send us their rent payments, either from their bank or from a local/designated convenience store. The rent would still have to be paid on time but this could/should reduce some late/NSF payments and eliminate the need for tenants to purchase money orders. This would only apply to those tenants with bank/checking accounts AND a debit card. Another potential benefit of the new software will allow you to have on-demand access to your statements through the internet. Once the Owner's Portal is activated (sometime early next year) you will have on-line access to current and past statements. Eventually, we will eliminate paper reports for those requesting it.

OK, enough about our improvements and on to the update of laws, rules, and policies affecting your rentals.

Potentially, the most serious law change is the attack by our legislators on California's Prop 13. It's sometimes referred to as the Split-Roll Tax. This is an effort to change how property tax is assessed. Currently, under Prop 13 (enacted by a vote of the people over 40 years ago), property tax assessments are based on the assessed value of a property when it is sold (essentially the sale price). The yearly tax increase cannot exceed more than 2% of the previous years' tax. Many of the State's elected officials see a potential windfall of up to \$9 billion ADDITIONAL tax dollars if they can change the current law to eliminate commercial property from the Prop 13 provisions. This will allow them to re-assess properties EACH year. They are planning a full attack/effort by both getting signatures for a ballot measure AND introducing legislation to change Prop 13. Expect to see something about this on a State-wide ballot in 2016. Originally, their plan is to allow yearly assessments (read: INCREASED Property Taxes) for commercial properties only.

Candidly, we're not sure if this will apply to multi-family (apartment) properties or not. Having said that, as a long-term Californian watching many state-wide taxes increase, I am VERY concerned about incrementalism. Once a NEW tax is implemented and many people get used to it, I am very apprehensive that politicians may slowly, over time, make the tax increase apply to other income producing properties. It may eventually apply to all rentals. If you agree with any/most/all of my previous analyses please let your elected officials know your views and share this with your friends/colleagues, especially when it comes time to vote. If you don't agree with my analysis, disregard the previous 2 paragraphs.

Client Letter

September 4, 2015

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Next topic concerns PG&E and City/County bills for utilities. Some of you may have received Shut-off Notices for Non-payment, etc. Please rest assured that we are paying all appropriate bills, utility and otherwise. With our many properties, we send, literally, hundreds of checks out each month to the various utility companies/municipalities. While the money sent the utilities' comes out of your account (appropriately) it often is applied to the wrong account at the other end. We monitor this carefully and contact the utility companies as necessary to ensure that the utilities are not turned off and the money is properly applied.

Also, speaking about utility bills. Several of our properties in Homeowner Associations (and, surprisingly, in the Pinedale area and other County locations) have unusual billing requirements. Sometimes, they require the water, sewer, and/or garbage bills to remain in the Owners' name. When this situation arises we sometimes include it in the rent and sometimes back-charge the tenant for these charges. The point I'm trying to make is that if the tenant is billed separately, it's always in arrears. If this applies to your property, you'll see the bill paid on the Expense Distribution (check register) report but when the tenant pays the charge it zeros out the expense on the Cash Flow page. We show the tenant's payment that way (as a negative expense) to avoid having the funds show up as income to you. Hope that makes sense.

When a departing tenant moves out, we charge them for most/any changes in condition from when they moved in AND any rent or tenant charges incurred while they occupied your property. Hopefully, their Security Deposit money will cover those charges. They are sent an accounting of the charges (usually our estimates) and, if money is still owed, told that we will send their account to a Collection Agency if they do not respond or make arrangements to (and) pay the balance. If they do not respond or pay the agreed upon amount they are sent to a local Collection Agency. Over the years we're lucky if we recover 25-30% of the amounts owed. Unless you tell us otherwise we will send the "balances owed" files to the collection agency for them to attempt to collect. Their fees range from 25-50%, depending on the level of collection actions required. They will also file a judgement so that it shows up on the tenant's credit report. The agency we use (Capital Collections) is affiliated with the local eviction attorney (Steve Hrdlicka) we use. For those tenants being evicted, the judgement is automatic.

The last thing I want to mention concerns the internet sites Zillow/Trulia. These, and several others, post their estimates for rental rates and home-sale values. We do use many of these sites for posting our vacancies but find their estimates for comps are too inflated for the real world. My experience is that they are often wrong on the actual values of rentals and sales. I bring this up because some of you quote these sites as authority for what you feel your rental is worth. We push the envelope as far as we feel appropriate to keep your property from becoming or remaining vacant.

I'll continue to write notes on your reports to try to explain anything unusual. I again apologize for my bad handwriting. I write big so you have a better chance of understanding what I'm trying to say. My intent is always to try to answer your question(s) before you ask them and explain any anomaly or unusual entries.

We thank you for your business and pledge to continue to manage your property as if it were our own. We are thankful for the confidence you've shown in our company. Please call, write, or email me any questions.

Sincerely,

Terry A. Fox, CPM®

Owner/Broker

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Enclosures/TAF:ck