

Budget Based Rental Adjustments

North Tampa Housing Development Corporation

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Session Instructor

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Introduction

- The goal of this session is to provide an overview of the Budget Based rental adjustment process in accordance with the HUD 4350.1, Ch. 7.
- Following this session, you should be able to submit a complete budget request that will provide sufficient operating funds for your property for the upcoming year.



Agenda

- Budget Objectives
- Guides for Processing a Budget
- PBCA Role and Owner/ Agent Role
- Complete Package Requirements
- Line Item information
- Section 8 Renewal Guide Revisions
- When to use Old or New Debt
- Budget Worksheet
- Processing of an Appendix 5
- Utility Analysis



Budget Objective

HUD/NTHDC Objective

- To Ensure Viability of the Property
- To Ensure Owner's Interest is Protected
- To Allocate Sufficient Income to Support Operating Expenses
- To Ensure Decent, Safe, and Sanitary Housing
- To Support the Secretary's Objective of Maintaining Sufficient Housing Stock



Regulatory Guidance

- [HUD Handbook 4350.1 Chapter 7 - Processing Budgeted Rent Increase](#)
- [HUD Handbook 4350.1 Chapter 4 - Reserve Fund for Replacement](#)
- [Section 8 Renewal Guide](#)
- HUD Website - www.hud.gov
- HUDClips Website - www.hudclips.org
- PBCA Website - www.NTHDC.org



PBCA Role in Processing Budget Based Rent Increases

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Funding Renewal Reminders

- 180 days before funding expiration, NTHDC will send a reminder letter to the Owner/Agent.
- If the package is not received within 120 days before funding expiration, the CCS will follow up with the Owner/Agent.
- Central Contract Specialist (CCS) will continue to follow up with the Owner/Agent until the package is received.



Review for Complete Package

- Review eligibility and completeness.
- Contract Specialist communicates with owner/agent regarding additional information.
- NTHDC contacts HUD on pre-approval line items (e.g. Reserve for Replacement changes).

Budget Analysis

- Reasonableness
- Audited vs. Owner's Proposed
- Analyzing Supporting Documentation
- Review of prior year's budget (if applicable)
- Tenant Comments
- Analysis of Financial Status (Reserve for Replacement & Residual Receipts)



Budget Analysis

- If the preliminary evaluation of the budget submission concludes that additional information is required to complete the analysis, the Owner/Agent will receive a letter from NTHDC requesting further information/documentation and the Owner/Agent will be given ten (10) calendar days to respond.
- If no information is provided, NTHDC will continue processing.



Budget Analysis

- If the Owner/Agent's percentage increase request is significantly less than what the budget supports, NTHDC will follow up with the Owner/Agent for an explanation to verify sufficient funding is being requested.
- This also may include following up with the HUD Project Manager (PM) to ensure the site receives the increase necessary to operate the property.



Over 5% Increase

- Any rent adjustment increase over 5% requires HUD approval.
- The package is sent to the HUD PM along with the NTHDC recommendation for the final HUD review and approval.



Preliminary Approval Package

Preliminary Approval Letters

- Rent Adjustment approved percentage with new rents
- Final approved Budget Worksheet (HUD-92547-A) detailing all approved expense figures.
- Utility Allowance approval
- Provides the owner/agent the opportunity to appeal the decision

Rent Schedules

- Need to be executed by owner or authorized signatory
- Do not voucher for the new rents until a final package is received with NTHDC signatures



Final Approval Package

Once funding is reserved and executed by HUD and signed Rent Schedules are received from the Owner/Agent, then NTHDC will forward the following:

- A final approval letter detailing the rent increase and implementation date.
- A final executed Rent Schedule and Exhibit A.



Appeals

1st Level – NTHDC

- Submit within 30 days of the date on the preliminary letter.
- The Appeal will be reviewed by NTHDC staff that was not involved with the initial processing of the budget request.

2nd Level - HUD

- Submit within 30 days of the date on the NTHDC appeal response letter to the HUD PM for that property.



Owner/Agent Responsibility During Processing

- Respond quickly to any additional information requests.
- Sign the Rent Schedules and send back to NTHDC as quickly as possible.
- Once the final executed Rent Schedule is received from NTHDC, implement the new rents in a timely manner.



Complete Package Requirements

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Complete Package Requirements

- Cover Letter
- HUD Budget Worksheet (HUD-92457-A)
- A brief statement explaining the basis for any increase in the expense line items that exceed 5% and \$500.
- Copy of 30-day notice to tenants
- Owner's Certification Regarding Purchasing Practices and Reasonableness of Expenses
- Energy Conservation Plan (236 & BMIR Only)



Complete Package Requirements

- Signed HUD-9250 Form, if increase is being requested in the Reserve for Replacement deposit amount.
- Utility Analysis for projects with a Utility Allowance
 - NTHDC requires a minimum sample of 5 units or 10% of each unit type, whichever is greater.
- HUD-91186-A - One-Year Service Coordinator Budget for properties with SC position not funded by a grant (thereby included in budget expenses).



Supporting Documentation

- Line items increasing more than 5% **and** \$500 require an explanation **and** documentation.
 - Documentation *may* include: copies of invoices, bills, contracts or estimates.
- New line items not included in the prior year's budget require an explanation and supporting documentation



Miscellaneous Line Items

Itemized List Required for the following line items regardless of the increase:

- 6390 Misc. Admin Expenses
- 6590 Misc. Operating and Maintenance Expenses
- 6790 Misc. Taxes, Lic., Permits and Insurance
- 6890 Misc. Financial Expenses

**Copies of invoices may be requested for a substantial increase.



Section 8 Renewal Guide Revisions

Issued 4 /17/2009:

- Section 7-9 also confirms that HUD will recognize new debt (e.g. debt service) in a budget-based rent increase request for Preservation properties
- Section 16-3 explains that the budget submitted with an Option 4 renewal is calculated using the debt service tied to the original mortgage



When to Use Current or Old Debt

Budget Based Rent Adjustment	
Current (New) Debt Service	<ul style="list-style-type: none"> • 236 Decoupled as addressed in HUD notice H00-8 • OAHP Restructure (Option 3) Mortgage remains FHA insured • Capital Repairs for NP as outlines in Ch. 15 of the Section 8 Renewal Guide. • PD/PDSA property purchased at foreclosure. • Contract renewed under Option 2 • Option 5 where original is paid off. 4350.6 Ch. 11 section 11-7C.3
Original Debt Service	<ul style="list-style-type: none"> • Option 1 • Option 4 • Option 5 Original Loan is not paid off.



Utility Analysis Requirements

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Utility Analysis Requirements

- The Utility Allowance provided to the tenants must be evaluated annually by the O/A.
- NTHDC requires the O/A to submit a Utility Analysis with each rent adjustment request.

Utility Analysis Requirements

- The Analysis must identify the type of utilities covered by the utility allowance (e.g. gas for heating).
- State whether any utility rate increases or decreases were implemented during the past 12 months or are expected to be implemented during the next 12 months and the amount of those increases or decreases.
- State how any energy conservation initiatives have or will impact consumption.



Utility Analysis Submission

- The minimum sample size is 10% of each unit type or five units, whichever is greater.
- NTHDC will adjust the Utility Allowance based on the analysis provided. This may result in either an increase or decrease in the approved UA figures.
- If the difference in the UA is less than 10% from current, no change will be made unless specified by the owner.



Budget Worksheet 92547-A

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Budget Worksheet 92547-A

Completed Budget Worksheet (HUD form 92547-A)

- Most recent audited financial figures in the audited column
- For any property not insured by HUD, the owner must certify and submit the financials
- Year to date actual expenses in the un-audited column
- Projected figures for the requested budget year in the last column
- Form must be signed and dated
- The categorization of line items can be found in the HUD Chart of Accounts. (Industry User Guide for FASS).



Budget Worksheet 92547-A

subsidized rental projects. The Department formulated the processes by which owners could request increases. The requirement for tenant participation in the rent increase process, which is included in Section 202(b) of the HCD Amendments of 1978, necessitated that the Department design procedures to give consideration to tenant comments. The information gathered is not of a confidential nature. The information is required in order to obtain benefits

Project Number		Name of Project			
012EHXXX		XYZ Apartments			
Description of Account	Acct.No.	Statement of Profit/Loss FY-06	Current FY (no. of mos. 5)	Budget from (11/07) to (11/08)	
Rental Income 5100	Rent Revenue - Gross Potential	5120	207,491	200,871	210,687
	Tenant Assistance Payments	5121	631,122	615,152	632,061
	Rent Revenue - Stores and Commercial	5140			
	Garage and Parking Spaces	5170			
	Flexible Subsidy Revenue	5180			
	Miscellaneous Rent Revenue	5190			
	Excess Rent	5191			
	Rent Revenue/ Insurance	5192			
	Special Claims Revenue	5193			
	Retained Excess Income	5194			
Total Rent Revenue Potential at 100% Occupancy	5100T	838,613	816,023	842,748	
Vacancies 5200	Apartments	5220	(3,583)	(3,437)	(3,000)
	Stores and Commercial	5240			
	Rental Concessions	5250			
	Garage and Parking Spaces	5270			
	Miscellaneous	5290			
	Total Vacancies	5200T	(3,583)	(3,437)	(3,000)
Net Rental Revenue (Rent Revenue less Vacancies)	5152N	835,030	812,586	839,748	
Income 5300	Nursing Homes/ Assisted Living/ Board & Care/ Other Elderly Care/ Coop/ Other Revenues	5300			
Financial Revenue 5400	Financial Revenue -Project Operations	5410	211		200
	Revenue from Investments-Residual Receipts	5430	356		
	Revenue from Investments-Replacement Reserve	5440	3,217	2,507	



Basic Calculation Methodology for Budget Based Rent Adjustments

1. Calculate Allowed Expenses
 - A. (Administrative- 6200/6300, Utilities-6400, Operating & Maintenance-6500, Taxes & Insurance-6700, Nursing Home/Assisted Living, etc - 6900)
2. Calculate Reserve for Replacement, Debt Service, Returns/Distribution and Management Fees
3. Calculate Total Cash requirement by adding RfR, Debt Service & Returns into Allowed Expenses
4. Calculate Rent Potential by adding Mgt Fees to Total Cash requirement.
5. Derive an Increase % based on current Rent Potential and newly calculated Rent Potential



What is the Purpose of the Appendix 5?

- Box A – Computation of Debt Service
- Box B – Distribution Computation
- Box C – Total Cash Computation
- Box D – Calculation of Management & Vacancy Factors
- Box E – Rent Potential Computation
- Box F – Increase Percentage Calculation
- Box G – Calculation of Market Rent Potential/Ratio
- Box H – Unit Rent Computations



Appendix 5- Header Box

PROJECT NAME:	<input type="text"/>	FHA#	<input type="text"/>	Total Units	<input type="text" value="0"/>
AGENT:	<input type="text"/>	FEE:	<input type="text"/>	(CAPPED) Yes = 1 & No = 0	<input type="text"/>
MORTGAGE:	<input type="text"/>	REPLACEMENT COST OR APPRAISED VALUE (207, 221D4, 231)	<input type="text"/>	PUPM Cap	<input type="text"/>
Section of Act	<input type="text" value="202"/>	Debt Service Rate	<input type="text"/>		
Non-Profit Yes, No	<input type="text" value="Yes"/>				
.....					
MODIFIED MORTGAGE (Y / N) (If yes) Debt service (P & I & MIP)	<input type="text"/>	UNDER WORKOUT (Y / N) If yes w / o Payment	<input type="text"/>		
		Ending Date	<input type="text"/>		
			mm / dd / yyyy		
INITIAL EQUITY: (If NP, Total Initial Equity = 0) (236 & 221(d)(3) ONLY)	<input type="text" value="0"/>	Percent Increase Requested	<input type="text" value="0.00%"/>		

Note: The Appendix 5 shown above is the NTHDC version created using the 4350.1 Ch. 7



Box A-Debt Service Computation for all Properties

Purpose of Box A:

To calculate Debt Service that will later be added to Allowed Expenses in Box C.

Please Note: Debt is added in Box C as Financial Expenses-6800 are excluded from initial calculation of Allowed Expenses



Box A-Debt Service Computation for all Properties

BOX "A"

DEBT SERVICE COMPUTATION FOR ALL PROPERTIES

Debt Svc. ALL Properties

0.00

Budget Based Rent Adjustment	
Current (New) Debt Service	<ul style="list-style-type: none"> • 236 Decoupled as addressed in HUD notice H00-8 • OAHP Restructure (Option 3) Mortgage remains FHA insured • Capital Repairs for NP as outlines in Ch. 15 of the Section 8 Renewal Guide. • PD/PDSA property purchased at foreclosure. • Contract renewed under Option 2 • Option 5 where original <u>is</u> paid off. 4350.6 Ch. 11 section 11-7C.3
Original Debt Service	<ul style="list-style-type: none"> • Option 1 • Option 4 • Option 5 Original Loan is <u>not</u> paid off.



Box A-Processing Considerations for 202's

- $202/207/221/231 = (\text{Replacement Cost} + \text{Working Capital}) \times \text{Debt Service Rate}$ _____
(Projects not deregulated)
Working Capital = 2 percent mortgage

Note: Appendix 5 erroneously calls for 2% Working Capital for 202's. HUD has provided guidance that 2% is to be accounted for in Box C line titled "Return Net Income"



Box B-Distribution Computation

BOX "B"	DISTRIBUTION COMPUTATION			
236 / 221(d)(3) = Initial Equity	0	x	0.06	0
207 / 231 / 221(d)(4) = Allowance calculated in conjunction with Debt Service	0	x	You cannot claim BOTH items	
	<u>INCOME RESERVE (NON-PROFITS)</u>			
236 NP = Annual Debt Service	0	x	0.06393	0
221(d)(3) NP = Annual Debt Service	0	x	0.05263	0



Box C-Rent Potential Computation

Purpose of Box C:

To calculate Total Cash requirement by adding Allowed Expenses to Reserves, Debt Service and Return/Income Reserve



Box C-Rent Potential Computation

BOX "C"	RENT POTENTIAL COMPUTATION	
ALLOWED EXPENSES	0	(Administrative- 6200/6300, Utilities-6400, Operating & Maintenance-6500, Taxes & Insurance-6700, Nursing Home, etc - 6900)
LESS MANAGEMENT	0	(-) (Line Item 6320 – Management Fee Expense)
TOTAL ALLOWED EXPENSES	0	= Total Allowed Expenses
PLUS:		
RESERVES + (Line Item 1320 – Annual Reserve for Replacement Dep. Required) + From Box A above	0	Replacement Reserve from Budget Sheet
DEBT SERVICE	0	
Return / Net Income Reserve (Box B above OR 2% of D.S. if 202)	0	USE FIGURE FROM BOX B OR ENTER 2% X ANNUAL DEBT SVC. For a 202 NP**
TOTAL CASH LESS MANAGEMENT	0	**This line item must be \$0 for 202 NP where the original mortgage, replacement cost and debt service rate are available and the debt service was calculated automatically by the worksheet which contains the correct formulas related to net income reserve.



Box D-Management/Vacancy Factor

Purpose of Box D:

To calculate the Management and Vacancy Factors based on property type and Management Certification; to be used later in Box E



Box D-Management/Vacancy Factor

BOX "D"

MANAGEMENT/VACANCY FACTOR

1. AUTHORIZED MANAGEMENT FEE	= 1-Management Fee%	0.00%	(1)
2. ALLOWED VACANCY PERCENT	= 1-Allowed %	0.00%	Enter allowed percent:
FACTOR = #1 x #2		0.00%	

0% From HUD-92264

Always 0% for 100% Sec. 8 202. Must review 92264 HUD form for all other properties. If 92264 is unavailable default to 5% vacancy factor. *** Please note that you should use 5% for any elderly housing sites that have an FHA # with SH. SH properties are not 100% S8 because they were LMSA (see 4350.1 Ch. 7-39)

(1) PUPM Cap (Yes = 1 & No = 0)	See Management Certification	0
If yes Fee = 0		
Allowed PUPM	\$	-



Box E-Rent Potential Computation

Purpose of Box E:

To derive Rent Potential based on Total Cash requirement and Management and Vacancy Factors



Box E-Rent Potential Computation

BOX "E"

RENT POTENTIAL COMPUTATION

1 (No PUPM Cap)

RENT POTENTIAL = Total Cash / Factor (Box D above)

= Total Cash (Box C – “Total Cash Less Management”) /Factor (Box D*) + (PUPM Management Fee x 12 x Number of Units)

2 (PUPM Cap)

RENT POTENTIAL = Total Cash/Factor + (PUPM Management Fee x 12 x Number of Units)

0



Box F-Percentage Increase Calculation

Purpose of Box F:

To reduce Rent Potential by amount of income from other sources and to derive an Increase Percentage



Box F-Percentage Increase Calculation

BOX "F" PERCENTAGE INCREASE CALCULATION

1 RENT POTENTIAL	0	From BOX "E" 2	(Box E) (-)	
2 Less Other Income	0	(5140: Stores; and Commercial + 5170: Garage and Parking + 5410: Financial Revenue + 5910: Laundry and Vending)		
3 Residual Receipts Offset	0	Enter Residual Receipts amt. from Balance Sheet ⁽⁼⁾		0
4 Authorized Potential	0			
5 Monthly Potential (Authorized potential / 12)	0	AUTH POTENTIAL	Monthly potential = (Authorized Potential/12)	
		Current Rent Potential	From Current Rent Schedule	Use Current Rent Potential from Rent Schedule---all units
6 PERCENTAGE INCREASE:	0.00%	Non-S8 Rent Potential	0	Any non-contract units NOT included on Rent Schedule
		Total Rent Potential	0	



Box G-Market Rent Potential

Purpose of Box G:

To calculate a Market Rent Ratio to be applied to Market Rents in 236 properties



Box G-Market Rent Potential

BOX "G"

MARKET RENT POTENTIAL (236's ONLY)

Annual HUD Subsidy (Interest Reduction Payment)



Mortgage X Factor on Appendix 4C of 4350.1, Chapter 7

+ AUTHORIZED ANNUAL RENT POTENTIAL (BOX "F")

From BOX F 0

= NEW ANNUAL MARKET RENT POTENTIAL

0

MARKET RENT RATIO

0.00%

New Annual Market Rent Potential/ Authorized Annual Rent Potential



Box H-Unit Rent Computation

Purpose of Box H:

To calculate new Contract and Market rents based on the derived Increase Percentage and Market Rent Ratio



Questions???

