

# Renewals, Rent Adjustments and Budgets

North Tampa Housing Development Corporation

**NTHDC State Conference**

**July 20, 2010**

**Tampa, FL**



# Session Instructor

Shawn Steen

State Program Manager

North Tampa Housing Development Corporation

## Contact Information:

CGI Federal/NTHDC

4300 West Cypress Street

Suite 970

Tampa, FL 33607

Phone #: 813-554-1258 Fax #: 813-877-1412

Email: [shawn.steen@cgifederal.com](mailto:shawn.steen@cgifederal.com)



# Session Instructor

Layla Hayavi

Manager of Training and Compliance

North Tampa Housing Development Corporation

## Contact Information:

CGI Federal/NTHDC

4300 West Cypress Street

Suite 970

Tampa, FL 33607

Phone #: 813-554-1267 Fax #: 813-877-1412

Email: [layla.hayavi@cgifederal.com](mailto:layla.hayavi@cgifederal.com)



# Agenda

- Contract Renewal Options and Eligibility
- Optimizing Rental Increases
- Regulatory Update and recent HUD Policy Changes



# Contract Renewal Options



# Contract Options

- Option 1 – Mark up to Market
- Option 2 – Rents at or Below Market
- Option 3 – Referral to OAHP
- Option 4 – Exempt from OAHP
- Option 5 – Preservation/ Demonstration

# Which Option Do I Qualify For?

- The Contract Option that you qualify is dependant of various factors at your property, such as:
  - How your property is financed.
  - Company type and legal structure
  - Participation in certain Federal Funding Programs
  - The Section of the Act
  - Current Contract Rent



# Option 1 – Mark up to Market

Introduced as an emergency initiative to provide incentives for owners to renew their Section 8 contracts.

- Rents are marked up comparable market rents.
- Owners must be profit motivated or limited distribution.
- Must have a REAC score of 60 or above with no uncorrected EH&S violations.
- RCS must demonstrate that the comp market rents are at or above 100% of the FMR



# Option 2– Exempt from OAHP

- An RCS is required and must show that the current rents do not exceed the comparable rents.
- Current Debt Service is always used, regardless of the rent adjustment method.
- If your current rents exceed the comparable market rents, one of two things will happen:
  - A. You will be referred to OAHP and become an Option 3
  - Or;
  - B. Your rents will be reduced to the Comparables



# Be aware of the 5th Year Adjustment

- For Owner's who enter into long term contracts using the Basic Contract (attachment 11-2), your rents will be marked to the comparables in years 6, 11, 16, 21 etc...
- The adjustment may be positive or negative.

# Option 3- Referral to OAHP

- Applies to properties whose current rents exceed the comparables from the RCS and is otherwise eligible for entry into OAHP.
- Owners have the option of restructuring the mortgage.



# Option 4- Exempt from OAHP

- Properties “Exempt” from OAHP include:
  - Properties receiving State or Local financing.
  - 202/8 and 515/8
  - SRO Mod Rehab
  - Properties that **do not** have a HUD-held or FHA insured mortgage.

# Option 4- Exempt from OAHP

- At Contract Renewal, Owner's are subject to the "Lesser Of" test.
  - Rents will be set at the lesser of the OCAF or budget based.
- No RCS Requirement.
- Current Debt Service is used for the OCAF
- Original Debt Service is used for the Budget.

# Option 5- Preservation/Demonstration


- HUD is no longer conducting initial renewals under the Demonstration program.
- Preservation properties are those that participate in the LIPHRA and ELIHPA Programs.
- Preservation properties have their rents adjusted according to their “Plan of Action”.

# Optimizing Rental Increases

North Tampa Housing Development Corporation



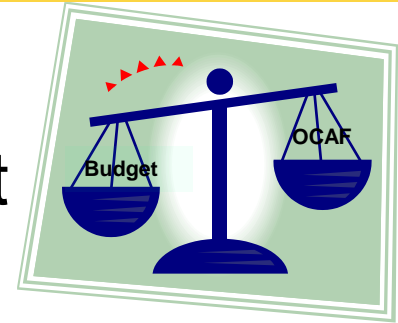
# Budget vs. OCAF

- The 2010 Florida OCAF Factor is 1.8% 
- If an OCAF rent increase is inadequate, consider submitting a Budget Based Rent Increase.



# Budget vs. OCAF

- Weigh the Pros and Cons of each Rent Adjustment type.



- Make considerations for the physical needs of the property.



- Evaluate your Reserve for Replacement Account and Deposits.



# Budget Based Rent Adjustment Tips

- Evaluate your budget well in advance of the 120 day submission deadline.



- Utilize the budget worksheet tool on the [www.nthdc.org](http://www.nthdc.org) website.

- Organize your back up documentation and Line Item Explanations.



- Understand How the Appendix 5 works.



# Budget Worksheet and Appendix 5

- Some Income line items are used to offset your approved Expenses.
  - #5140- Stores & Commercial, #5170- Garage & Parking, #5300- Nursing Home & Other Revenue, #5910- Laundry & Vending.
- Some Expense Line Items are re-calculated on the Appendix 5.
  - Management Fee
  - Debt Service
    - Interest
    - Principal



# Budget Worksheet and Appendix 5

- All Budget Calculations are made on the Appendix 5.



# Budget Worksheet and Appendix 5

Apart from the approved operating expense line items, there are other items to consider on the appendix 5.

- Debt Service
- Distributions
- Management Fee
- Residual Receipts Offset
- Vacancy Factor

# Budget Calculation Method

NTHDC Approved Operating Expenses (*Excluding Mgmt Fee and Debt Service*)

(+)

Debt Service Calculation

(+)

Eligible Distributions

(+)

Management Fee Calculation

(+)

Vacancy Factor (If applicable)

(-)

Residual Receipts Offset

(-)

Other Income

=

Authorized Rent Potential



# Budget Calculation Method

- In order for you to be able to calculate your proposed rents accurately, you need to know what figures NTHDC will use on the budget.
- If you request a smaller budget increase than what we calculate, your CCS will communicate with you regarding the budget shortfall.

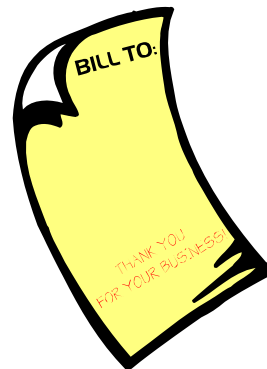
# Providing Supporting Documentation

- Evaluate Each line item.
- Compare the most recent Audited Figures to your budgeted figures.
- If what you are requesting is greater than 5% **and** \$500, you will need to supply supporting documentation.
- Documentation provided should match your request.



# Providing Supporting Documentation

- In General, we would like to see copies of bills, invoices, letters from service providers etc.
- Payroll line items require a breakdown of personnel
  - Name of employee
  - Job title
  - Gross Pay
  - Net Pay
  - Bonuses
  - Benefits
  - Part-time or Full-time
  - If position is shared with another property.



# Funding

- HUD and NTHDC want to ensure that each property has the sufficient funding to maintain and improve the management and physical condition of the property.
- It is of everyone's interest to ensure that properties do not operate at a deficit.

# Regulatory Update and Recent HUD Policy Changes



# Transportation Costs

North Tampa Housing Development Corporation



# Transportation Costs

- HUD HQ has instructed local HUD field offices to allow Budget expenses for Transportation costs for 202 “SH” and 202 “EH” Properties. This also applies to 202 properties who refinance, but have an active Use Agreement.
- Allowable budget expenses are limited.



# Transportation Costs

- Until a formal written policy is issued, NTHDC must obtain approval from HUD prior to allowing the expense on the budget.



# Tenant Participation

North Tampa Housing Development Corporation



# Tenant Participation

- Carol Galante Memo Dated 6/18/2010
- Enforcement of 24 CFR 245
- Tenants have a right to establish tenant organizations
- Agents must allow tenant organizations to pass leaflets and post in common areas.
- Tenants have the right to formulate responses to owners requests for rent increases.





# Tenant Participation

- Tenants have the right to respond to an owners request to convert from project paid utilities to tenant-paid.
- Owners must reasonably make available the use of community space for tenant organization meetings.
- HUD is working on developing a policy that will monetarily penalize an owner for non compliance of this memo.



# Upcoming Guidebook Changes

North Tampa Housing Development Corporation



# Section 8 Renewal Guide

## Anticipated Changes include:

- Owners submitting a budget under Option 4 will be able to use new debt service.
- Remove Ch. 16.
- Remove tenant notification requirements when owner requests an OCAF.
- Allow Non Profit owners to receive a distribution.

# HUD Handbook 4350.1 Ch. 7

## Anticipated Changes include:

- Elimination of 2% Reserve contingency for 100% 202/8
- Allow 202/8 projects to receive a vacancy %.
- Allows owners who have LIHTCs to budget for annual compliance reports
- Allow Non Profits to have a 6% of their initial equity included in the budget calculation.

# Questions???

