

# Renewals, Rent Adjustments and Budgets

North Tampa Housing Development Corporation

**SAHMA Florida State Meeting**

**April 20, 2011**

**Jacksonville, FL**



# Session Instructor

Layla Hayavi

Training and Compliance Manager

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, Owners 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”.



# Benefits of Long Term HAP Contracts

- Preserve Nations Affordable Housing Stock
- Increased Owner Distributions
  - For Profit Owner's -Surplus Cash

# Optimizing Rental Increases

North Tampa Housing Development Corporation



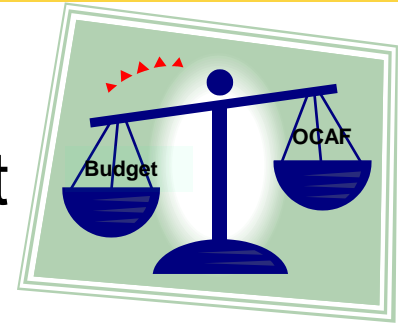
# Budget vs. OCAF

- The 2011 Florida OCAF Factor is 2.7%
- 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
- 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.

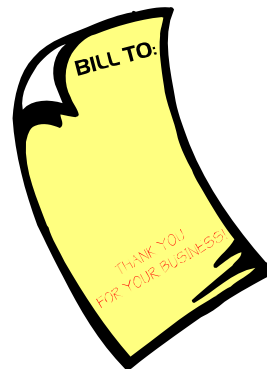


# Providing Supporting Documentation

- 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/or 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



# Pension Plan Expenses

North Tampa Housing Development Corporation



# Pension Plan Expenses



- HUD Notice 11-08 amends HUD Handbook 4381.5 REV- 2 Section 6.38 e(2)
- Only permanent, front-line employees who work full-time at the project (i.e., more than 20 hours per week) may participate. Temporary or part-time on-site employees are not eligible. Also, rotating employees working at more than one project are not eligible unless they qualify as a full-time employee at one project.

# Pension Plan Expenses

- The projected cost of employer contributions to be paid out of project funds may not exceed ten percent of the base pay of eligible employees.
- The employee is to be vested ownership of no less than 20% of the employer's contribution each year until fully vested. Employees must be fully vested after five full years of employment.



# Pension Plan Expenses

- Budget Based rent adjustments, Line item # 6723, must allow contributions to retirement accounts if the owner can document that the employee works more than 20 hours per week and performs front line services at a single project or at various projects (rotating or floating)



# Pension Plan Expenses

## Example:

Jane Doe works as an assistant site manager at multiple Section 8 properties. She spends 20 hours per week at Delray Apartments and 10 hours per week at Singleton Apartments. HUD will fund her retirement account as follows:

- 50% of the funds will come from the Delray Apts. Operating budget
- 25% of the funds will come from the Singleton Apts. Operating budget
- HUD will not fund the remaining 25% because Jane Doe does not work a total of 40 hours.



# DUNS Requirements

North Tampa Housing Development Corporation





# DUNS Requirements

- HUD Notice 11-01
- Deadline for submitting DUNS and CCR Registration Certification has passed, however HUD has stated that HAP payments will continue to be made to owners who are still working to obtain a DUNS number.
- Certifications should be sent to HUD Jacksonville, Eleanor Hammonds or Monette Johnson

# 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???

