Renewals, Rent Adjustments and Budgets

North Tampa Housing Development Corporation

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Session Instructor

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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

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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 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.
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

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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

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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

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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.
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???