

Contract Renewal **Training With Your** **PBCA**

Contract Renewals

- Each year you should analyze the available renewal options and requirements to determine which best fits the property, as your property's situation or regulations may have changed since the last time your renewal request was submitted.
- The Contract Administrators strongly suggest not copying information from one renewal to another without researching the options and requirements. Your last renewal option may not be the same as your current renewal option. A different option may better suit your property. The CA can't tell you what option to renew under, it is an owner decision. The CA can explain to you the options and whether the property would qualify for a specific option, but it is the owner's ultimate decision.
- Along with researching the best option, the correct and current forms must be used. The Section 8 Renewal Guide lists the required items to be submitted for each option. The forms can be found on the HUD Form Resource website: <http://www.hud.gov/offices/adm/hudclips/forms/index.cfm>. Use the correct current forms before completing and submitting them.
 - ▶ *Section 8 Renewal Guidebook can be found on the HUD website - <http://www.hud.gov/offices/hsg/mfh/mfhsec8.cfm>*

Option 1 **Mark-Up-To-Market**

- ▶ **Initial/Subsequent Renewal Rents**
 - Market Rents
- ▶ **Comparison Study Required**
 - Yes
 - Study is good for five years
- ▶ **Contract Term**
 - 5-20 years
 - Subject to annual appropriations
- ▶ **Rent Adjustments**
 - OCAF
 - When the contract length is for more than 5 years: At the end of each 5 year period, rents are set to comparables

Option 2
Rents At or Below Comparable Market

- ▶ **Initial/Subsequent Renewal Rents**
 - OCAF or Budget
 - Rents cannot exceed comparable market rents
 - See Chapter 15 of the Section 8 Renewal Policy guide for Capital Repair Program and Transfer Program Requirements
- ▶ **Comparison Study Required**
 - Yes
 - Study is good for five years
- ▶ **Contract Term**
 - 1-20 years
 - Subject to annual appropriations
- ▶ **Rent Adjustments**
 - OCAF or Budget
 - Rents cannot exceed comparables
 - When the contract length is for more than 5 years: At the end of each 5 year period, rents are set to comparables

Option 3
OAHP Lite or Mark to Market

- ▶ **Initial/Subsequent Renewal Rents**
 - Market Rents (with or without debt restructuring)
- ▶ **Comparison Study Required**
 - Lite: Yes
 - M2M: No
 - M2M: Owner can certify rents are above market without study
 - Study is good for five years
- ▶ **Contract Term**
 - Lite: 0-12 months
 - Full: 1-20 years
- ▶ **Rent Adjustments**
 - Lite: OCAF or Budget
 - Rents cannot exceed comparables
 - Full: OCAF only

Option 4
Exception Properties
(These Ineligible For Debt Restructuring)

- ▶ **Initial/Subsequent Renewal Rents**
 - Lesser of Test Performed between OCAF and Budget
- ▶ **Comparison Study Required**
 - No
- ▶ **Contract Term**
 - 1-5 years
 - (HUD has discretion to renew for more than 5 years)
 - Subject to annual appropriations
- ▶ **Rent Adjustments**
 - OCAF or Budget

Option 5
Demo or Preservation Properties

- ▶ **Initial/Subsequent Renewal Rents**
 - HUD determined (Historic)
- ▶ **Comparison Study Required**
 - Demo Deals: Study required at the expiration of each 5 year period
- ▶ **Contract Term**
 - 1-20 years
 - Cannot exceed expiration of Use Agreement
 - Subject to annual appropriations
- ▶ **Rent Adjustments**
 - Demo Deals: OCAF
 - Preservation: Rents adjusted according to POA, Use Agreement and LIHPRA worksheet

Option 6
Opt-Out

- ▶ **Initial/Subsequent Renewal Rents**
 - Current residents who receive assistance will be given vouchers
- ▶ **Comparison Study Required**
 - No
- ▶ **Contract Term**
 - Vouchers will be provided for current residents who qualify
 - Subject to annual appropriations
- ▶ **Rent Adjustments**
 - None

Rent Comparability Study

- If you renew under one of the options that require a Rent Comparability Study (RCS), then you will need to submit it in accordance with Chapter 9 of the Section 8 Renewal Guide.
- If the contract is longer than 5 years, then at the end of each 5 year period you will need to submit an RCS. At that time the rents will be adjusted to the comparability study rents, this could result in either an increase or decrease.
 - To ensure contract rents are adjusted to comparables at the expiration of each 5 year period of a contract longer than 5 years, the owner must submit a RCS. If the project has an existing RCS that is not at the end of its 5-year life cycle, the owner will be required to obtain a new RCS for use in adjusting rents to comparables.
 - This will align the RCS and the 5-year period for the project for future fifth year adjustments.
 - Project Funds may be used to obtain this new RCS.

12 MONTH LETTER TO TENANTS

▶ **Section 11-4 of the Section 8 Renewal Policy Guide states:**

- Law. Section 8(c)(8) of the United States Housing Act requires that Owners give a one-year written notice to tenants and HUD of the contract's termination or expiration. The one-year notification must state the owner's intentions (i.e. to renew or not renew) at the time of the contract's expiration. A copy of the letter should be included with the renewal/ opt out request when submitted.

- Format. The notice must be:
 - Reviewed and approved by the PBCA to ensure they are consistent with the established requirements.
 - On the Owner's or duly authorized representative's letterhead and signed.
 - The notice must be served by direct delivery to each unit in the project or mailed to each tenant.
 - If the population of the property speaks a language other than English, Owners are strongly encouraged to provide the notification letter in the appropriate language(s). The cost of the translation of the letter is an eligible project expense.
- Content of Notification Letter. Owners must include certain information in a notification letter. In order to meet the legal requirements for notification, this Guide provides Owners with a sample one-year notification letter for use when an Owner intends to opt-out of the Section 8 project-based contract (see Appendix 11-1). Appendix 11-2 is HUD's sample one-year notification letter when an Owner intends to renew the Section 8 project-based contract.

You must ensure these 12 month letters are distributed to the tenants in a timely manner. For more information read Chapter 11 of the Section 8 Renewal Policy Handbook.

Budget Based Contract Renewals

▶ **Owner signature is required on all forms and contractual documents that indicate "owner signature".**

▶ **Cover Letter that summarizes the reason(s) why a rent increase is needed and the date the increase will be effective:**

- Describe the project's physical condition and any improvements that have been budgeted. The letter may refer to the reasons stated in the "Notice to Tenants", or elaborate on those reasons.
 - **NOTE: THE MAIN REASONS STATED IN THE LETTER MUST BE THE SAME AS THE MAIN REASONS STATED. IN THE "NOTICE TO TENANTS" IF THE PROJECT IS SUBJECT TO TENANT COMMENT PROCEDURES, 24 CFR PART 245.**
- The cover letter must also identify any proposed change in services, equipment or charges, and the reason for the change.

- ▶ **Contract Renewal Request Form [Attachment 3A-2; HUD-9624] and applicable Option Worksheet [Initial & Subsequent Renewals].**
- ▶ **OCAF Rent Adjustment Worksheet [Attachment 3B; HUD-9625 for Initial & Subsequent Renewals].**
- ▶ **Budget Worksheet [Form HUD-92547-A].**
 - Column [1] from the most recent Audited Financial Report's Profit & Loss Statement or Statement of Activities.
 - Column [2] current year-to-date actual figures [indicate inclusive dates], if 12 month figures are not provided the PBCA will annualize.
 - Column [3] estimate income and expenses for twelve months following the effective date of the proposed rent increase [contract funding year dates].

- ▶ Attachment 5 of the Section 8 Renewal Policy Guide is required when "Profit Motivated Projects" submit their first Budget-Based Rent adjustment under MAHRA guidelines, in conjunction with the HUD Handbook 4350.1 Chapter 7.
- ▶ Rent Schedule Form HUD-92458: Complete all Parts, except A, D & F.
- ▶ Statement confirming the contract/basic rents for non-Section 8 units.
- ▶ Debt Service – Owner must provide evidence of debt service. Debt service of an exception project will use the original insured mortgage debt service. If a property refinances with new FHA mortgage insurance the new debt service will be used. If the property receives approval to use debt service that does not fall into these categories, written documentation must be provided to the PBCA; or the PBCA will use the original debt service.

- ▶ **Statement explaining the reason for any increase in line item expense on the budget worksheet.**
 - In most cases, when the increase amounts to 5 percent or less, or less than \$500, there is no need to send additional documentation. Supporting information is required regarding salaries, flat fee and miscellaneous line items.
 - Detailed listing of staff whose salaries will be charged against the project's operating expense accounts. For each employee, the list must:
 - Document job titles, duties and number of hours worked at the property.
 - Document which line items the salaries and benefits are being expensed to on the budget worksheet.
 - Document Current and Proposed Salaries and Benefits.
 - When employees share responsibilities with other properties you must pro-rate salaries/benefits and provide an outline of exactly how the expense was computed.
 - Document which employees receive free or reduced rent and the unit size occupied.

- Detailed list of expenses for the following line items:
 - 6351 - Bookkeeping costs, centralized computer accounting systems, payroll processing fee
 - 6390 - Miscellaneous administrative expenses
 - 6520 - Contracts
 - 6590 - Miscellaneous operating and maintenance expenses
 - 6790 - Miscellaneous taxes, licenses, permits and insurance
 - 6890 - Miscellaneous financial expenses

- ▶ **Copy of "Notice To Tenants" of proposed rent increase letter, should be annotated to show where and how the Notice was distributed.**
- ▶ **A 150 day reminder letter is sent to the owners by the PBCA so that the proper tenant notifications are complete. Which gives the tenants the 30 day comment period prior to submitting the renewal package in the 120 day timeframe. The package is not complete until the 30 day comment period is up.**
 - Notice Format:
 - On the Owner's or duly authorized representative's letterhead and signed.
 - The notice must be served by direct delivery to each unit in the project or mailed to each tenant.
 - If the population of the property speaks a language other than English, Owners are strongly encouraged to provide the notification letter in the appropriate language(s). The cost of the translation of the letter is an eligible project expense.
 - If a decrease in the utility allowance is warranted, it is required to be addressed in the notice of proposed rent increase.
 - For High-rise building, owner must either "post" or "deliver" the notice to each tenant. The posting must be in three conspicuous places within each building and in one conspicuous place where the material supporting the owner's request will be available for tenant review and copying.
 - For all other types of projects, owners need to "deliver" the notice by mailing to each tenant or delivered directly to each unit.

- ▶ **Submit copies of all written tenant comments (if any) associated with the "Notice To Tenants" of proposed rent increase letter.**
- ▶ **Submit a mortgagor's (owner/agent) evaluation of the tenants' comments with respect to the request. Submit an executed copy of "Owner's Certification as to Compliance with Tenant Comment Procedures in 24 CFR Part 245".**
- ▶ **Executed copy of the Owner's Certification Regarding Purchasing Practices and Reasonableness of Expenses [Appendix 3].**

▶ **Tenant Utility Allowance:**

- A recommendation stating the amount(s) the tenant utility allowance should be set.
- Each Owner must submit a summary supporting a proposed change to the utility allowance. When a cumulative increase of 10% or more has occurred in residential rates the allowance must be adjusted. The recommended utility allowance should represent the owner(s) best estimate of the average monthly utility cost that an energy conscious resident will incur for the year.

▶ **Reserve for Replacement**

- Report from financial institution(s) to confirm the current Reserve for Replacement and Residual Receipts (if any) account balances (use to offset budget).
- Complete an analysis when a change in the monthly deposit to the Replacement Reserves is needed.

▶ **A signed “Agreement To Increase Replacement Reserve Deposit” [Appendix 6] - when a change in the deposit is contemplated as part of the rent increase request.**

▶ **Energy Conservation Plan**

- This may be:
 - (1) a narrative report coded to facilitate references to the plan, or
 - (2) copy of the plan annotated to show the current status of all items that were scheduled to be completed within sixty (60) days after the rent increase is proposed to be effective.

Note: THIS APPLIES ONLY TO SECTION 236 AND BMIR PROJECTS, PROJECTS THAT RECEIVE RENT SUPPLEMENT ASSISTANCE, AND PROJECTS THAT CONVERTED FROM RENT SUPPLEMENT TO SECTION 8.

For Help Click on the cell.

Rent Computation Worksheet

Date of Report	06/15/09	FHA #	121-121121	
Project Name	ABC 123 Property	Vacancy	2.5000%	
# Units	20	Regulated Rents	Y N	Y N
Section of Act	Non-Profit Y,N			
221d3	Y	Y		
202	N	N		
207				
				1
				1

Management Agent

Management Agent	ABC 124 Management	PUPM Cap (Y/N)	N
Fee	9.0000%	If yes Fee =	0.0000%
(Capped Y,N)	N	Allowed PUPM	\$0

Debt Service Calculations

Mortgage	\$0	Replacement Cost or Appraised Value	\$0
<small>(236,221(d)(3) and 202,811)</small>		<small>(207,221(d)(4), 231,202,811)</small>	
Annual Debt Service	\$0	Under Workout (Y/N)	N
Modified Mortgage (Y/N)	N	If Yes w/o Payment	\$0
		Ending Date	
Initial Equity	\$0	Debt Service Rate	
<small>(If NP, Total Initial Equity =0) 236 & 221 (d)(3) ONLY</small>		<small>(Line 5d 2264A)</small>	
Allowance calculated in conjunction with Debt Service	\$0		
<small>207/231/221(d)(4)</small>			

Budget Items

Allowed Expenses	\$89,138	Annual HUD Subsidy	\$0	Potential Monthly	\$6,400
Management Fee	\$8,466	<small>(Interest Reduction Payment)</small>			
Reserves	\$6,383	Previous Rent Schedule GR	\$76,800	Annual	\$76,800
Other Income	\$1,750				

Unit Descriptions

Unit Type	1BR	2BR	3BR	4BR	5BR
Current Unit Rent	\$320	\$0	\$0	\$0	\$0
Current Utility Allowance	\$0	\$0	\$0	\$0	\$0
Approved Utility Allowance	\$0	\$0	\$0	\$0	\$0
Number of Units	20	0	0	0	0