



# Budget Based Rent Adjustments for Project Based Section 8 Properties

November 2016

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California Affordable  
Housing Initiatives, Inc.

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# Housekeeping

- Please turn all cell phones to OFF or Silent.
- We'll have a Q&A at the end of each section
- Acronyms
  - OA = Owner and/or Agent for the Owner
  - POA = Plan of Action
  - PBCA = Performance Based Contract Administrator (CAHI/CGI)
  - RCS = Rent Comparability Study
  - UA = Utility Allowance or Utility Analysis
  - CAOM = Contract Administration Oversight Monitor (HUD)
  - HUD AE = HUD Account Executive
  - R4R/RfR = Reserve for Replacement
  - BBRA = Budget Based Rent Adjustment
  - M2C = Mark rents to Comparables
  - RAF = Rent Adjustment Funding
  - CR – Contract Renewal



# Agenda

- Who is CAHI/CGI
- HAP Contracts
- RCS
- BBRA
- Q&A
- Break
- BBRA Exercise
- Add-ons
- Q&A



# Who is CAHI & who is CGI?

- California Affordable Housing Initiatives, Inc. ("CAHI") was formed as an instrumentality of the Oakland Housing Authority to enhance, preserve, develop and administer housing for HUD-defined low and moderate income families and individuals in California.
- CAHI has CGI as its business-processing partner to perform many of the processing activities required under the Annual Contributions Contract (ACC).
- CAHI assumed contract administration duties for Northern California from HUD on October 1, 2004. The Northern California program encompasses 550+ properties.



# HAP Contracts



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# The Housing Assistance Payment (HAP) Contract

- The contract is called a Housing Assistance Payment Contract or, “HAP Contract”
- The HAP contract is for a term of 1 to 20 years, depending on a number of contributing factors.



# Contract Renewals

- A Contract Renewal is a continuation of an expiring Housing Assistance Payments Contract (HAP) under Section 8 of the United States Housing Act of 1937
- A contract renewal renews all provisions of the original contract with the possible exception of number of units under contract and rent adjustment methods going forward



# Contract Renewals

- The contract dictates the obligations of the owner and also HUD for maintaining a Multi-Family Section 8 Property
- The contract dictates the number of units, the type of units, the length of time the owner will be eligible for assistance payments and what the owner needs to do to continue to receive the payments
- The contract dictates how the owner implements Fair Housing, intake and recertification procedures



# MAHRA

## Multi-family Assisted Housing Reform and Affordability Act 1997

- Changed funding of HAP contracts
  - Before MAHRA contracts were funded for the **life of the contract**
  - After MAHRA contracts are funded **annually**
- Imposed comparability on owners
  - Pre-MAHRA comparability was limited
  - Post-MAHRA comparability was more widely required...also, exceptions were identified.



# MAHRA

## What Does This Mean to Me?

You must know whether a contract is pre- or post MAHRA to determine eligibility for the rent increase option the owner has selected.

With MAHRA came new rules.....you must know the difference between old rules and new rules.

Depending on the post MAHRA option you renewed under, it dictates the kinds of rent adjustments you are eligible for and requirements for an RCS.



# Pre-MAHRA (1999 and before)

- Rent Adjustment Options: Budget-based (BB), Annual Adjustment Factor (AAF), Special Adjustment (SA)
- Money allocated for the life of the contract
- Can ask for RA whenever they want as long as 12 months have passed



# Post-MAHRA (2000 and after)

- May be subject to RCS cap on rents
- Rent Adjustment Options: Budget Based (BB), Operating Cost Adjustment Factor (OCAF), AAF-if specified by Contract/Plan of Action
- Money must be allocated every year regardless of length of contract
- Must do RAF every year



# Subsequent Year Rent Adjustments

Option Type	PostMAHRA
Option 1	OCAF or M2C
Option 2	OCAF or BBRA or M2C
Option 3a	OCAF or M2C
Option 3b	OCAF only
Option 4	OCAF or BBRA
Option 5	Check POA and/or Use Agreement



# PreMAHRA vs. PostMAHRA

PreMAHRA	PostMAHRA
Money set aside one time for the life of the contract	Money set aside annually
Can only submit an AAF or BB	*Can submit OCAF or BBRA
Current contracts executed prior to 1999.	Any contract executed in 1999 or later
Can ask for rent adjustment at any time.	Must ask for rent adjustment 120 days prior to anniversary
RCS good for one year	Allowed only 1 RA per year
	RCS good for 5 years

Some post MAHRA option 5 properties may submit an AAF if specified by their Plan of Action.



# If you are contemplating a BBRA...

- Does my contract even allow it?
- What year am I in of my multi-year contract?
- Do I need an RCS?
- If I already have one, is it still 'good'?



# Rent Comparability Studies



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# Rent Comparability Study (RCS)

- It is a rent study
  - Compares your units, amenities, and property features to other properties in the vicinity.
  - What is the 'going rate' or 'market' charging for a comparable unit?
- Why Are They Necessary?
  - The Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA), was enacted on October 27, 1997.
  - This was a major change as MAHRA established new policies for the renewal of Section 8 project-based contracts *based on market rents instead of the Fair Market Rent* (FMR) standard.
  - Therefore, when determining rents at renewal time for most properties, a *comparability study that determines the Market Rents* is used as a cap.
- Where can I obtain an RCS?
  - CAHI does not recommend nor advise Appraisers; HUD has a list of approved Appraisers here: <https://entp.hud.gov/idapp/html/apprlook.cfm>

## Do I need an RCS?

- Short answer: Review the Contract Renewal Request Form posted on HUDCLIPS.
- Each Option includes a list of required documentation.....if an RCS is listed under the option you choose, then you must submit an RCS OR have an RCS which is still in effect to meet the “Complete Submission” requirements.
- For the purposes of today’s presentation on Budgets, you’ll most likely be under an Option 2 or Option 4 HAP contract.



## So Why is an RCS needed?

- First, so we have a level playing field.....O/A without a HAP contract can only expect to get rents in line with what the market will bear....by holding O/A with HAP contracts to the same standard, they do not get an unfair advantage in the marketplace.
- Second, it makes clear exactly how much of an increase is fair. The RCS compares, for the most part, apples to apples. It compares your units, amenities, and property features to other properties in the vicinity.



# RCS FYI...Good to Know

- An RCS is good for 5 years...
  - The year the study is done sets the comparables (your cap) for that year
  - In years 2-5, the comparables are adjusted by the published OCAF factor. So in effect, your comparables increase each year, thus moving the rent cap up.
  - If you already have an RCS, a contract renewal request cannot be for a term longer than remaining life of RCS (5-year cycles must match)
  - Any RCS completed because of a requirement by HUD is ***an eligible project expense.***
  - ***Owners MAY submit an additional RCS if they feel it will impact their rents, but this is NOT an allowable expense.***
  - For some options, a complete RCS ***may not be necessary.....***



# Submitting an RCS Lite

- A **complete RCS is NOT necessary** under certain circumstances. These are:
- Alternative #1
  - Option 2 ONLY: Owners may ask to renew without an RCS if the contract's current gross rent potential and proposed OCAF/ budget based renewal rent potential is less than 75% of FMR.



# Submitting an RCS Lite

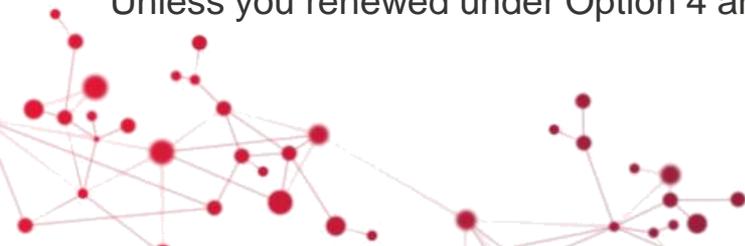
- Alternative #2
  - Option 2 ONLY: Owners of projects only partially-assisted with Section 8 may ask to use the non-Section 8 units in the Section 8 project to set the market rent ceiling if:
    - the proposed OCAF/ budget-based rent for each Section 8 unit type being renewed does not exceed the average rent charged for nearly identical, non-Section 8 units at the Section 8 project; and
    - the project meets all criteria set forth in Section 9-6 of Chapter 9 of the Section 8 Renewal Policy Guide.



# Why so much focus on RCSs??

- If you renewed under Option 4, you had to provide an OCAF and Budget. Your rents were set at the lesser of the two. You did not have to submit an RCS\*
- If you are in the subsequent years of your multi-year Option 4 contract, and you want a budget based rent adjustment, you need to provide an RCS!

\*Unless you renewed under Option 4 and had an FHA loan or are a HUD held project



# Budget Based Rent Adjustments



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# When to Submit a Budget

## Cost of Operations

- Have costs increased substantially enough that an OCAF increase will not cover expenses?

## Property's Financial Status

- Is the project having difficulty meeting the monthly financial obligations such as mortgage, taxes, insurance, and/or operating expenses?

## HUD Requirements

- Does the lesser-of-test apply?
- Does the contract allow for a BBRA submission?



# When to Submit a Budget (continued)

## Contract Renewal:

- Option 2: If submitting a BBRA, OCAF worksheet still required; if approved budget is less than OCAF, budget will likely not be approved.
- Option 4: Rent adjustment is determined via the Lesser of Test, therefore both OCAF and BBRA required for complete package.

## Rent Adjustment Funding:

- Auto-OCAF (Options 2 & 4 only): Option to reject Auto-OCAF and submit a complete package for a BBRA. If the BBRA > OCAF, but < RCS, then budget is approved. If, however, the BBRA < OCAF or BBRA > adjusted RCS, the BBRA is not approved, and OCAF adjusted rents awarded.



# Complete Package

- Owner's Cover Letter that briefly summarizes the reasons why a rent increase is needed, the desired percent of increase, and the date the increase will be effective, (Pre-MAHRA) and describes the projects' physical condition and any improvements that have been budgeted; also identifies any proposed change in services, equipment or charges and the reasons for the change.
- Budget Worksheet (HUD form 92547-A)
- Narrative and documentation for line items over 5% AND \$500



# Complete Package (continued)

- An executed copy of the Owner's Certification Regarding Purchasing Practices and Reasonableness of Expenses
- Utility Allowance Analysis (if applicable)
- Copy of Tenant Notice, i.e. 30 Day Notice to Tenants
  - **Per Northern Cal CAOM – NO EXCEPTIONS**
- Owner's certification as to compliance with tenant comment procedures, dated after the expiration of the 30 day tenant comment period.



# Complete Package (continued)

- A status report on the project's implementation of its current Energy Conservation Plan (only applies to 236, BMIR, or properties that converted from Rent Supplement to Section 8)
- HUD Form 9250 and analysis (five year minimum) for Reserve for Replacement if such an increase is contemplated as part of the rent increase request



# Budget Worksheet

## Complete Budget Worksheet (HUD form 92457-A)

- Most recent audited financial figures in the audited column
- 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



# Documenting Expenses

## 4350.1 Chapter 7 Paragraph 7-22C

- A brief statement explaining the basis for any increase in the expense line items on the budget work sheet. Generally, if an increase amounts to 5 percent or more, it must be documented. If the income or expense was estimated at the prior annual period's actual, or the increase is less than \$500, no explanation is required.
- PBCA reserves the right to ask for documentation for any line item, regardless of % change



# Examples of Supporting Documentation

- Current copies of contracts, invoices, bills or estimates
- Verification of changes in payroll, i.e. new hire
- Dated notice of an increase from a utility company, insurance provider etc.
- Analysis and backup documentation of how the projected expenses were estimated



# Common Errors

- Not submitting packages at least 120 days before contract or funding expiration date.
- Cover letter does not include all required language
- Not providing a complete tenant notification notice with a 30 day tenant comment period
- Non-Compliant Utility Analysis or no analysis when site has a UA
- Not signing documents



# Common Errors (continued)

- Be sure the project warrants a rent increase. Often budgets are submitted even though the current rent potential exceeds anticipated expenses.
- Line item justifications do not adequately indicate the need for the increase. (over 5% and \$500)
- Remember, the justification for increases over 5%/\$500 applies to the amounts listed on the most recent audited financial statement, not the current expenditures.
- Not using most recently published HUD budget worksheet; please verify the expiration date.



# Common Errors (continued)

- Service Coordinator not properly listed in line 6900 or approval from HUD has not been obtained
- Reserve for Replacement – A request for an increase in funding must be accompanied by an analysis, minimum of five years, of reserve needs.



# Budget-Based Increases

## First, the supreme source for information: HUD Handbook 4350.1, Chapter 7.

- This chapter provides very clear, good guidance on how to prepare and review budget-based rent increase submissions.
- Learning the information in this chapter can go a long way in streamlining your work.
- Submission requirements are included in this chapter.



# Budget Worksheet – What is it's purpose?

- To record three important pieces of data
  - What the ***Actual, Audited Costs*** were the previous year
  - What the current total costs are year to date
  - What the anticipated costs ***will be in the upcoming year***
- What do we do with this information?
  - We look at the ***Actual/Audited*** costs and compare them to what the O/A is asking for, then we look for ***reasons why they feel they need the increase/decrease.***



# The Budget Worksheet

## Budget Worksheet Income and Expense Projections

U.S. Department of Housing  
and Urban Development  
Office of Housing  
Federal Housing Commissioner

OMB Approval No. 2502-0324  
(exp. 12/31/2014)

Public reporting burden for this collection of information is estimated to average 1.5 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. This agency may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number.

This information is collected in accordance with Title II of the National Housing Act which requires that HUD regulate rents for certain cooperative and subsidized rental projects. The Department formulated the processes by which owners could request increases. The requirements 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			
Description of Account		Acct.No.	Statement of Profit/Loss FY__	Current FY (no. of mos. )	Budget from ( ) to ( )
<b>Rental Income 5100</b>	Rent Revenue - Gross Potential	5120			
	Tenant Assistance Payments	5121			
	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			
<b>Total Rent Revenue Potential at 100% Occupancy</b>	<b>5100T</b>				



# Budget Worksheet continued

Description of Account		Acct.No.	Statement of Profit/Loss FY__	Current FY (no. of mos. )	Budget from ( ) to ( )
<b>Utilities</b> <b>6400</b>	Fuel Oil/Coal	6420			
	Electricity	6450			
	Water	6451			
	Gas	6452			
	Sewer	6453			
	<b>Total Utilities Expense</b>	<b>6400T</b>			
<b>Operating &amp; Mainten. Expenses</b> <b>6500</b>	Payroll	6510			
	Supplies	6515			
	Contracts	6520			
	Operating and Maintenance Rent Free Unit	6521			
	Garbage and Trash Removal	6525			
	Security Payroll/Contract	6530			
	Security Rent Free Unit	6531			
	Heating/Cooling Repairs and Maintenance	6546			
	Snow Removal	6548			
	Vehicle & Maint. Equip. Oper. and Repair	6570			
	Misc. Operating & Maintenance Expenses	6590			
	<b>Total Operating &amp; Maintenance Expenses</b>	<b>6500T</b>			
	<b>Taxes and Insurance</b> <b>6700</b>	Real Estate Taxes	6710		
Payroll Taxes (Project's share)		6711			
Property and Liability Insurance (Hazard)		6720			
Fidelity Bond Insurance		6721			
Workmen's Compensation		6722			
Health Insurance & Other Employee Benefits		6723			
Misc. Taxes. Licen.. Permits. & Insurance		6790			



# How We Review the Budget Worksheet

- Is it Necessary?
  - Has the O/A shown that the increase is needed?
  - Has O/A provided support for the increase?
- Is it Reasonable?
  - Does the increase fall in line with what a reasonable person would pay? (What if it was your money and not HUD's....would you pay as much?)
  - Is it reasonable for the time, place and circumstances?



# Real Life Example

- “Reasonable” depends on circumstances.
- An owner of a pre-MAHRA contract submitted a Special Adjustment requesting a 300% increase in his insurance at the property.
- Can you think of ANY circumstance where this could be considered reasonable?



# The Result

This submission was **Approved** because:

- The property was located in Florida
- The submission was 7 months AFTER Katrina
- The owner submitted 3 bids for insurance. 300% was the lowest.
- At this time, the prevailing increase in insurance was around 600%.
- Some insurers even stopped providing insurance to homeowners in Florida.
- This **WAS** a reasonable, necessary expense.



# What is the Lesson?

- Any request that is *reasonable and necessary* will be approved.
- Reasonable and necessary only becomes *clear* when you have a complete picture of the issue.
- Detailed support/documents makes a determination easy; lack of support/documents makes a determination impossible.
- Just because they want an increase doesn't mean they need it.



# Processing

- We look at the budget as submitted and then use the Appendix 5 worksheet from HUD Handbook 4350.1, Chapter 7.
- This worksheet provides us with a valuable tool that compiles the O/A's revenue and expenses.
- It provides a snapshot of their financial condition and calculates a maximum allowable rent for their property.



# The Appendix 5

## How new rents are calculated



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# What is the Appendix 5?

- This is a calculation worksheet that considers a property's vacancy, distribution, management fee, debt service and other income in conjunction with budgeted expenses to determine what rent increase or reduction is needed to maintain current operations and services going forward.
- During processing, the worksheet, when complete, provides the ***maximum allowable rent increase*** or ***the level of decrease***.
- We are held to the maximum allowable rent increase even if what the owner requests is more.



# Basic Calculation Methodology for BBRAs

1. Calculate Allowed Expenses. (from the budget worksheet!)
2. Calculate Reserve for Replacement, Debt Service, Distribution and Management Fees.
3. Calculate Total Cash requirement by adding RfR, Debt Service & Distribution into Allowed Expenses.



# Basic Calculation Methodology for BBRAs

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



# How a Budget is Calculated

- Allowed Expenses (includes Administrative, Utilities, Operating and Maintenance, Taxes and Insurance).
- -- Less Management Fee
- + Reserves
- + Debt Service
- + Authorized Distribution (if applicable to property)
- = **Total Cash Need less Management Fees**



# How a Budget is Calculated (continued)

- After this amount is determined, we then calculate the “management/vacancy” factor. For example, if your management fee is 7.5% and you are allowed a vacancy rate of 5%, your management/vacancy factor will be calculated as follows (assuming the factor would be 100% for each management or vacancy factor if there was no fee involved):
  - Management Fee Factor = 92.5%
  - Vacancy Factor = 95.0%
  - Management (92.5%) x Vacancy (95.0%) = 87.88% management/vacancy factor
- This factor is now applied to the amount determined as Total Cash Less Management to determine the new rent potential.

(Total cash / factor = rent potential)

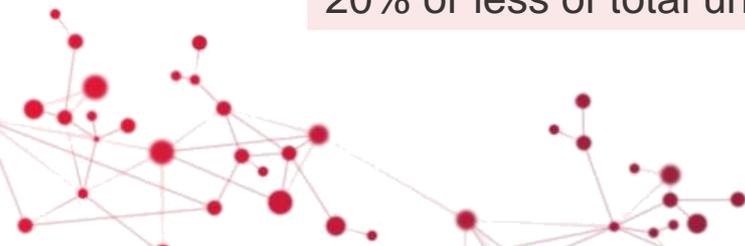


# How a Budget is Calculated (continued)

## How to determine Management Fee & Vacancy Rate:

- Management Fee: Per the current HUD approved Project Owner's/Management Agent's Certification (HUD Form 9839-B).
- Vacancy Rate:

Property Type	Vacancy Rate
100% Section 8	3%
Refinanced 100% Section 8	100% S8 to include 3%, unless lender docs require different
Projects with 50 or fewer units	5%
Assisted units at property = 20% or less of total units	7%



# How a Budget is Calculated (continued)

- Once rent potential is determined we reduce the amount by the other income generated by the property (again, from the budget worksheet).
- This results in the authorized potential. The authorized potential is compared to the current rent potential to determine the percentage increase.
- The percentage increase is applied to the current rents to determine the proposed rents.
- 236 rents are also adjusted by the increase.





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### Welcome to California Affordable Housing Initiatives, Inc.

This site was created to be a resource to Owners and Agents and Contract Administrators working to improve housing for Northern California communities. Each audience has a specific area with helpful links to information to help make your jobs easier. If you have any questions or would like to see information on this site that is not listed, click on the Contact Us link at the top right of this page

### Announcements

- [HUD Releases 2017 Fair Market Rents](#)  
Posted: 09/02/2016

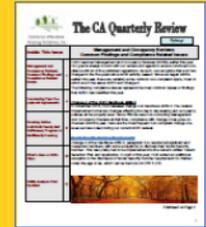
The 2017 FMRs have been posted to the Data Sets of HUD User. Fiscal year 2017 FMR's...
- [HUD Releases Updated UA FAQs](#)  
Posted: 09/02/2016

RHIIP Listserv Posting #360 August 29, 2016 On Monday, August 29, 2016, HUD issued v...
- [Housing Notice H-2016-08 Family Self Sufficiency Program in Multifamily](#)  
Posted: 08/29/2016

RHIIP Listserv Posting #359 August 26, 2016 On Friday, August 26, 2016,...
- [HUD Releases 2016 Fair Market Rents](#)  
Posted: 12/10/2015

The 2016 final FMRs have been posted to the Data Sets of HUD User. Fiscal year 2016 FMR&r...
- [HUD posted new Race and Ethnic Data Reporting Form HUD-27061](#)  
Posted: 12/02/2015

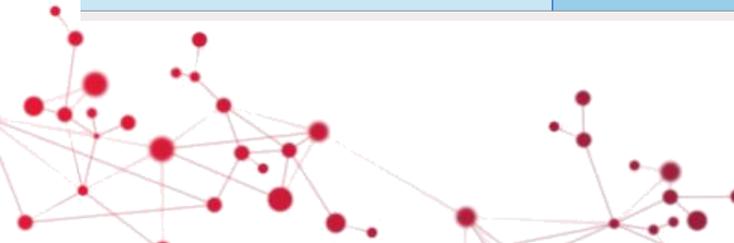
HUD has posted a new Race and Ethnic Data Reporting Form HUD-27061 This form must be maintai



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Select the appropriate option below to be provided with the documents that must be submitted to CAHI with your contract renewal request.

[Option 1A](#)

[Option 1B](#)

[Option 2](#)

[Option 3A](#)

[Option 3B](#)

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[Option 6](#)

[Early Termination of HAP Contract](#)

Please note that the documents contained in these packages are not all inclusive. Other documents may be required for the renewal option you select.

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Select the appropriate link below to be provided with the documents that must be submitted to CAHI with your rent adjustment request.

[Operating Cost Adjustment Factor](#)

[Annual Adjustment Factor, Part I](#)

[Annual Adjustment Factor, Part II](#)

[Budget Based Rent Adjustment](#)

[Mark to Comps](#)

Please note that the documents contained in these packages are not all inclusive. Other documents may be required for the rent adjustment type you select.

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## Knowledge Center

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Welcome to the Knowledge Center. This site was created to be a resource to Owners, Agents and Contract Administrators working to improve housing for California communities.

This section contains helpful links to CAHI and HUD Handbooks, Forms and Notices to help and assist you in administering the HUD Multifamily Housing Section 8 Project-Based Program. Please bookmark this page and return to it frequently.

If you have any questions or suggestions for additional information you would like to see added that is not listed, please contact us using the Contact Us page

HUD Handbooks	HUD Forms & Information	<b>Frequently Requested Documents</b>	Password Protected Sites
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### Management and Occupancy Review Forms

### Contract Renewal

### Rent Adjustments

### Vouchering and Special Claims

For access to all of HUD's translated documents visit HUD's Limited English Proficiency website at [HUD LEP](#)

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# Questions



# Practice Exercise Fraser's Ridge



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# Fraser's Ridge

What is our first step to process this budget request?

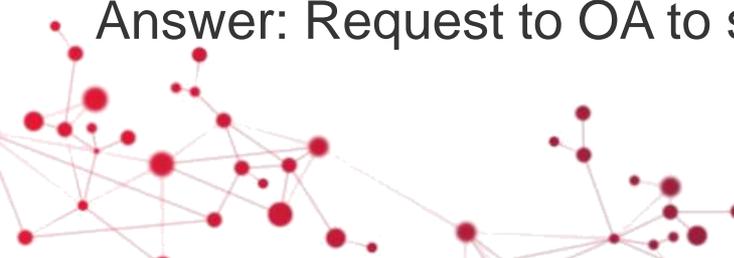
Answer: Check & receive a complete package.

What documents are missing?

Answer: Owner's Certification to Purchasing Practices, 30 Day Notice to Tenants, signed Owner's Certification to Compliance, Line Item documentation.

What is the next step?

Answer: Request to OA to submit this information.



# Fraser's Ridge

The OA has submitted additional information, so what is our next step?

Answer: Review for a complete package again.

What documents are missing?

Answer: Line Item documentation.

What is our next step?

Answer: Request to OA to submit the information.



# Fraser's Ridge

The OA has submitted additional information, so what is our next step?

Answer: Review for a complete package again.

What documents are missing?

Answer: None, we have a complete package.

What is our next step?

Answer: Finalize the budget numbers.



# Fraser's Ridge

To finalize the budget numbers, review the OA budget worksheet. For each line item that has a requested amount that is 5% AND \$500 above the audited amount, we must have supporting documentation.

Let's review one by one.

Final Determination:

Total Cash Requirement = \$698,031

Less Total Revenue = \$710,620

Net Cash Surplus (Deficiency) = \$12,589

Allowed Expenses =

\$414,240



# Fraser's Ridge – Appendix 5

## Box A: Debt Service Calculation

- Purpose is to calculate Debt Service that will later be added to Allowed Expenses in Box C.

---

BOX A	DEBT SERVICE COMPUTATION
	236 = Mortgage x .03034273 _____
	221(d)(3) = Mortgage x Debt Service Rate _____
	207/231 = Replacement Cost x Debt Service Rate _____ (Replacement Cost is new appraised cost)
	202/207/221/231 = (Replacement Cost + Working Capital) x Debt Service Rate _____ (Projects not deregulated)
	Working Capital = 2 percent mortgage

---

- \$20,190.14 x 12months = \$242,282



# Fraser's Ridge – Appendix 5

## Box B: Distribution Computation

- Purpose is to calculate Return on Distribution (for-profit) that will later be added in Box C.
- Non-profits no longer receive a 2% Income Reserve

BOX B	DISTRIBUTION COMPUTATION
	$236/221(d)(3) = \text{Initial Equity} \times .06$
	$207/231/221(d)(4) = \text{Allowance calculated in conjunction with Debt Service}$
	INCOME RESERVE (NON-PROFITS)
	<del><math>236 \text{ NP} = \text{Mortgage Payment} \times .06393</math></del>
	<del><math>221(d)(3) \text{ NP} = \text{Mortgage Payment} \times .05263</math></del>

- Distribution for Fraser's Ridge = \$0



# Fraser's Ridge – Appendix 5

## Box C: Rent Potential Computation

- Purpose is to calculate the Total Cash Allowed (less management)

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BOX C	RENT POTENTIAL COMPUTATION	
Allowed Expenses		414,240
less Management		<u>( 41,594 )</u>
Plus		
Reserves		42,000
Debt Service		<u>242,282</u>
Return/Net Income Reserve		<u>0</u>
Total Cash less Management		<u>656,928</u>

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# Fraser's Ridge – Appendix 5

## Box D: Management/Vacancy Factor

- Purpose is to calculate the allowed management/vacancy factor.

BOX D		MANAGEMENT/VACANCY FACTOR	
Authorized Management Fee	<u>93.68%</u>	% (1)	
Allowed Vacancy Percent	<u>97%</u>	(5% or 7%)	
Factor = (1 - Management Fee) x (1 - Vacancy)			90.87%
(1) PUPM Cap (Y/N)	<u>N</u>		
If yes Fee = 0			
Allowed PUPM	<u>57.77</u>		

- Authorized Management Fee: 100% - property's allowed Mgmt Fee
  - 100% - 6.32% = 93.68%
- Allowed Vacancy Percent: 100% - allowed factor
  - 100% - 3% = 97%
- Factor: Management Fee % x Vacancy %
  - 93.68% x 97% = 90.87%



# Fraser's Ridge – Appendix 5

## Box E: Rent Potential Computation

- Purpose of Box E is to derive Rent Potential based on Total Cash requirement and Management/Vacancy Factor; Box E combines the figures calculated from Boxes C & D.

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BOX E

RENT POTENTIAL = Total Cash divided by Factor (Box D above)

(No PUPM Cap) \$722,932

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

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- Rent Potential:  $\$656,928 / 90.87\% = \$722,932$



# Fraser's Ridge – Appendix 5

## Box F: Rent Increase Calculation

- Purpose is to determine percentage increase/decrease.

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BOX F	
1. RENT POTENTIAL	722,932
2. Less Other Income	( 1000 )
3. Authorized Potential	<u>721,932</u>
4. Monthly Potential (Authorized Potential/12)	<u>60,161</u>
5. Percent Increase (Authorized Potential - Current Potential divided by Current Potential)	<u>4.15%</u>

---

- Percent Increase: Authorized Potential / Current Potential
  - Authorized Potential = \$721,932
  - Current Potential = \$693,180
  - $\$721,932 / \$693,180 = 1.041479 = 4.15\%$

# Fraser's Ridge – Appendix 5

## Box G: Market Rent Potential (236's Only)

- Purpose is to calculate the “Market Rent Ratio” that will later be applied to the 236 Market Rents.

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BOX G	MARKET RENT POTENTIAL (236's ONLY)
Annual Subsidy (Interest Reduction Payment)	_____
Authorized Annual Rent Potential (BOX F)	_____
New Annual Market Rent Potential	_____
Market Rent Ratio (New Annual Market Rent Potential Divided by Authorized Annual Rent Potential BOX F )	_____

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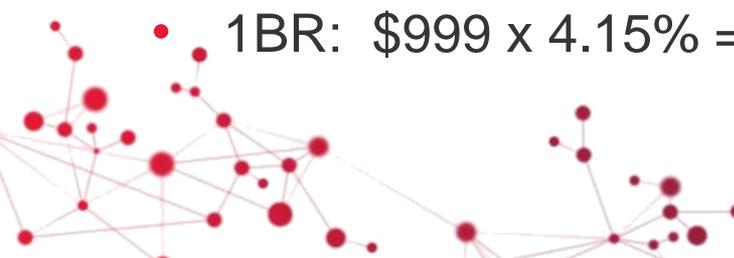
# Fraser's Ridge – Appendix 5

## Box H: Unit Rent Computations

- The new Section 8 rents and Non-Section 8/Section 236 (Basic) rents are increased/decreased by the percentage from Box F.

BOX H			
UNIT RENT COMPUTATIONS			
Unit type	0BR	1BR	
Current Unit Rent	854	999	
1 + % Increase	4.15%	4.15%	
Authorized Unit Rent	889	1040	

- Authorized Unit Rent:
  - 0BR:  $\$854 \times 4.15\% = \$35.45 + \$854 = \$889$
  - 1BR:  $\$999 \times 4.15\% = \$41.46 + \$999 = \$1040$



# Fraser's Ridge – Appendix 5

## Box H: Unit Rent Computations (con't)

- Market Rent (236) and Utility Allowances

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MARKET RENT (236 ONLY)

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Authorized Unit  
Rent

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Market Ratio

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New Market Rent

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UTILITY ALLOWANCES

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Current Utility  
Allowances

---

Approved Utility  
Allowances

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# Questions

