

## **Budget Based Rent Increase Timelines**

### **PURPOSE OF NOTICE**

The purpose of this notice is to inform Section 8 property owners and their management agents that effective July 1, 2008, Michigan Multi-family Asset Managers (MMAM) will be enforcing fixed timelines for processing budget-based rent increase submissions.

### **BACKGROUND**

Per the Section 8 Renewal Policy Guidebook, property owners are required to submit their contract renewal requests no later than 120 days before the property's Section 8 contract expires and projects that are on multi-year contracts are required to submit their multi-year rent adjustment requests no later than 120 days before the contract anniversary date.

Not all properties are required to submit budget-based rent increase requests to MMAM. Some owners have the option of submitting an OCAF-based rent increase request instead of a budget-based rent increase request. However, as part of the contract renewal process, owners who opt to renew their Section 8 contract under option 4 are required to submit a budget as part of the "lesser of (OCAF or budget) test".

### **PROBLEM**

Some owners or their management agents are taking excessive amounts of time in providing documentation to support their budget-based rent increase request and the completion of the process may not occur within the 120-day period provided for in the Section 8 Renewal Policy Guidebook. If a budget-based rent increase is not completely processed within the allowed 120-day period, the renewal of the Section 8 contract may be delayed which could result in interruptions in Section 8 subsidy payments to the property. This could create a financial hardship for the property and jeopardize HUD's interest.

### **ADMINISTRATIVE ACTION**

Based on discussions between HUD staff, MSHDA and MMAM, the following Administrative Action has been established.

Effective July 1, 2008:

- 1) MMAM will be enforcing fixed timelines for the processing of budget-based rent increase submissions. Owners and/or their management agents will now only be allowed a fixed 30 calendar day period to provide requested documentation once the property's budget-based rent increase submission package is reviewed and documentation is requested by MMAM. This Administrative

Action does not preclude MMAM from completing the process of any budget-based rent increases in a shorter period but limits the budget-based rent increase process to only allow 30-calendar days for submission of the requested documentation.

2) When a budget-based rent increase submission package is received by MMAM, MMAM will review the package for completeness. If necessary, MMAM will request documentation to support certain line items in the owner's original submission. Upon review of the original submission, and the determination that additional information is needed, MMAM will notify the owner and or management agent that additional information or documentation is required to complete the review of the submission. MMAM will also notify the owner or management agent that they have 30 calendar days from the date of the letter to provide the requested documentation. MMAM's initial correspondence requesting additional documentation will start the fixed 30-calendar day response period. Since the time frame for response is fixed, owners and management agents must understand that owners or management agents who respond quickly and provide the requested information will have a greater opportunity to provide support for their submission because they will have more opportunities to resolve the questioned items.

After the fixed 30 calendar days allowed for response has occurred, MMAM will consider the submission complete. MMAM will then complete the processing of the request based on the information it has received at that time, which may not include support for all questioned items. It should be noted that MMAM may use lower amounts in processing the budget-based rent requests for items not properly documented pursuant to HUD directives, and this could result in a rent decrease. MMAM at its discretion or in counsel with or at the direction of HUD may provide the owner/management agent additional processing time over the 30 calendar days if extenuating circumstances exist.

3) Owners and management agents must understand that in some cases, the failure of the owner or agent to provide adequate supporting documentation (such as Debt Service and Utility Allowance documentation) can impede the ability of MMAM to calculate the new Contract Rents. In such cases, MMAM may return the submission to the management agent/owner for completion or MMAM will inform HUD of the situation and seek guidance as to how to proceed and/or request assistance in obtaining the information from the owner or agent. It should be noted that in these cases it is possible that HUD will impose sanctions against the owner and/or the management agent.

4) MMAM will notify owners and management agents of any rent decision utilizing the current protocol in place.

5) This action does not change the fact that owners will be allowed to submit an appeal in accordance with HUD Handbook 4350.1 Rev-1.

6) MMAM will continue to be proactive in handling the contract renewal process. MMAM will provide owners and management agents with reminder notifications, by phone, fax or email. In addition, submission requirements checklists corresponding to each renewal option will be posted on the MMAM website at [www.mmam.net](http://www.mmam.net). The website also provides links to many relevant HUD handbooks and notices. Owners and agents should avail of this tool in preparing renewal and adjustment submissions.

7) Since June 1, 2000, MSHDA/MMAM has provided, at least of an annual basis, training workshops which cover the Contract Renewal/Adjustment process for owners/management agents. These workshops were offered either through industry (such as MAHMA and MAHSA) sponsored conferences or MSHDA/MMAM/HUD sponsored training sessions. Effective July 1, 2008, in an effort to increase the efficiency and effectiveness of the contract renewal and rent adjustment process and decrease the stress on owners and management agents, MSHDA/MMAM will be offering, at least twice a year, a workshop directed at owners or management agents whose properties will be subject to a contract renewal request during the next upcoming six months. Owners and management agents are encouraged to have staff responsible for the contract renewal or rent adjustment process attend.

## PROPERTY OWNER AND MANAGEMENT AGENT RESPONSIBILITIES

Owners and management agents are responsible for preparing and submitting timely and accurate budget-based rent increase submissions no later than 120 days before the Section 8 contract expires. They are also responsible for being responsive to MMAM in providing adequate documentation as noted in the Section 8 Renewal Policy Guide and/or HUD Handbook 4350.1 Rev-1.

In an effort to make this process as effective as possible, MSHDA and MMAM provide the following information, tips and guidelines which the owner or management agent staff should take into account in handling this process:

1. If you have any questions about the contract renewal or multi-year rent adjustment process, please refer to the Section 8 Contract Renewal Guidebook posted at the HUD website at <http://www.hud.gov/offices/adm/hudclips/> and at MMAM's website at [www.mmam.net](http://www.mmam.net). For questions on the processing of budget-based rent adjustments, please refer to HUD Handbook 4350.1 Chapter 7: *Processing Budget Based Rent Increases*. This handbook can also be accessed at the websites above.
2. Each time you renew under Option 4, you will be subject to "the lesser of OCAF or budget" test. Therefore, you will need to submit a budget with your renewal request. However, please note that if you feel that the Section 8 rents at your property are below market, you might be eligible to renew under either Options 1 or 2. This would allow the property to avoid being subject to the "lesser of OCAF or budget" test. Please refer to the Section 8 Renewal Policy Guidebook for further information. You can also contact MMAM staff for additional assistance. The primary contact person at MMAM for renewal and adjustment questions is Kyle Barber, who can be reached at (517) 267-9277 ext 233 or by email at [kyle.barber@mmam.net](mailto:kyle.barber@mmam.net)
3. If you are required to submit a Rent Comparability Study with your renewal or adjustment submission please plan ahead so that your submission can be received by MMAM no later than 120 days prior to the contract expiration.
4. Please provide your contact email and/or fax to MMAM with your renewal or adjustment submission to facilitate expeditious exchange of information with MMAM.
5. Additional items you should note regarding budgets are as follows:
  - a. Section 202 properties that are 100% Section 8 are processed with a 0% vacancy factor. Any vacancy percentage other than 0% has to be approved by HUD.
  - b. RHS Section 515 properties need to submit an RHS approved budget with their rent increase request.
  - c. If the budget reflects a decrease in any revenue line items, please provide a detailed explanation of the line item change.
  - d. Budgeted Expenses and Debt Service:
    - i. Expenses: All expense line items that are increasing by 5% or more since the property's most recent audited financial statement must be documented. Documentation can be in the form of contracts, bids, invoices, etc.
    - ii. Payroll: Please provide a breakdown of the payroll accounts. For assistance in providing this information, MMAM has prepared a payroll analysis form which can be found on the MMAM website at [www.mmam.net](http://www.mmam.net).
    - iii. Miscellaneous Expenses: All miscellaneous expenses (administrative, operating, taxes/insurance, or financial) need to be broken down in detail and

- explained. To expedite processing, please provide a copy of the general ledger reflecting the most recent 12 months of expenses.
- iv. Resident Expenses: Expenses for tenant parties, food, flowers, etc. are not allowed as part of the operating budget.
  - v. Utilities: If increasing by 5% or more, please provide copies of the most recent 12 months of invoices and/or any additional documentation to support the increase. Please note that newspaper articles projecting increases in rates are not considered acceptable forms of documentation of rate increases.
  - vi. Debt service: Please provide an amortization schedule and the latest mortgage statement
  - vii. Reserve for Replacement: Any eligible Reserve for Replacement items should not be included in the operating expenses.
  - vii. Service Coordinator: If service coordinator expenses are included in the budget, please specify the amounts and in which accounts the expenses are classified and included. MMAM requires HUD approval of the inclusion of the service coordinator expense in the budget. If the property has a service coordinator grant to offset its service coordinator expenses, please include the service coordinator grant in account # 5300 of the revenue section of the budget worksheet and the service coordinator expenses in account #6900 in the expense section of the budget worksheet.
- e. Prepayment or Refinancing: If the property is going through a prepayment of its loan or a refinancing, please indicate this in the renewal or adjustment submission. To expedite the process, please provide both the old and new debt service with the submission.
- f. Utility Allowance: Properties are required to perform a utility allowance analysis when submitting a budget.
- i. If the analysis indicates that utility allowances are changing less than 10% from the current amounts, and you do not wish to change them, then you may submit a signed statement certifying that a utility allowance analysis has been performed and the utility allowances are not changing by 10% or more.
  - ii. If the analysis indicates the change is less than 10% and you would like to have the utility allowance amounts adjusted, you may, at your discretion, submit the analysis for review and approval.
  - iii. If the utility allowance change is 10% or more, you are required to submit the entire utility allowance analysis with your budget. The following items are required as part of the submission of a utility allowance analysis:
    1. A summary supporting the proposed change to the utility allowance. The summary must address the following issues:
      - a. Identify the type of utilities covered by the utility allowance (e.g., gas for heating).
      - b. State whether any utility rate increases or decreases were implemented during the past 12 months or are expected to be implemented during the next 12 months and the amount of those increases or decreases.
      - c. State how any energy conservation initiatives have or will impact consumption.
    2. Analysis worksheet/spreadsheet showing average utilities paid per year for each unit type.
    3. Recommendation of new utility allowance per unit type.
    4. Back up documentation (Invoices from the utility company that include 12 consecutive months of usage) for each unit type. Minimum requirement for backup documentation is a 25% sampling of each unit type or a minimum of ten (10) whichever is greater.