

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL**REPORT TO COMMISSIONERS****FROM JON M. GUTZMANN
EXECUTIVE DIRECTOR****REGARDING** RAD-PBRA/Multifamily Housing
Operating Cost Adjustment Factor (OCAF) and
Rent Adjustment Worksheet**DATE** August 24, 2022

Staff requests Board approval to execute and submit the following documents to HUD for each of the Agency's eight RAD-PBRA Projects¹, to increase the contract rents by 3.2% effective January 1, 2023:

- Operating Cost Adjustment Factor (OCAF) Rent Adjustment Worksheet; and
- Certification as to Purchasing Practices and Reasonableness of Expenses.

Copies of the documents for one RAD-PBRA Project (Hamline, Front and Seal Hi-Rises) are attached as examples. These documents must be submitted to HUD each year.

As explained below, applying the OCAF increases the eight projects' Gross Potential Rent by \$1,147,639 in 2023. The table on the following page shows the adjusted contract rents for all of the projects.

HUD issues new OCAFs annually for each state, to allow project owners to increase annual contract rents for Housing Assistance Payment (HAP) contracts for eligible Multifamily PBRA Projects. The OCAF is determined by a complex calculation based on three years of reported data from nine expense categories, including salaries and benefits and utility expenses, as reported by project owners in Annual Financial Statements (AFS) submitted to HUD. The 2022 OCAF was published on October 4, 2021 and is applicable for contracts with an anniversary date of February 11, 2022 or later. The anniversary date for the PHA's PBRA HAP contracts is

¹ Properties converted to Project-Based Rental Assistance under HUD's Rental Assistance Demonstration program

January 1, so the 2022 OCAF applies to contract rents in 2023. Minnesota’s 2022 OCAF is 3.2%, which is 1.2% higher than the 2.0% factor on which the RAD Financing Plan was based.

The table shows the changes in Gross Potential Rent for each RAD-PBRA project in 2023 due to the 2022 OCAF adjustment, based on current actual contract rents. Gross Potential Rent (GPR) is the calculated maximum amount of rental income from tenant rent and HAP payments that can be generated by a property. After adjustments for vacancy loss and collection loss, the result is the Project’s Net Rental Income.

Project Name	Current Gross Potential Rent	2023 OCAF Adjusted Gross Potential Rent	Increase in Gross Potential Rent
McDonough	\$6,620,811	\$6,831,535	\$210,724
Hamline Hi-Rise	4,369,269	4,509,510	140,241
Edgerton Hi-Rise	5,042,086	5,204,748	162,662
Roosevelt	3,282,100	3,307,742	25,642
Mount Airy	6,817,960	7,038,199	220,239
Exchange Hi-Rise	2,492,510	2,569,866	77,356
Ravoux Hi-Rise	4,084,015	4,216,863	132,848
Dunedin Terrace	5,564,695	5,742,622	177,927
TOTAL	\$38,273,446	\$39,421,085	\$1,147,639

Agency staff have been in frequent contact with the HUD Multifamily Minneapolis Field Office staff regarding the OCAF adjustment submission requirements. The OCAF adjustment should be requested 120 days prior to the HAP contract anniversary date, and supplemented by the following three documents for each Project:

- Annual Utility Allowance analysis;
- Rent Schedule; and
- Annual authorization increasing the Reserve for Replacements contribution.

The OCAF adjustment is not dependent on changes to Utility Allowances or annual contributions to the Reserve for Replacements, and PHA staff are still working with local HUD staff to determine the final adjustments needed to both of these. Due to this, HUD staff recommended that we submit the OCAF Rent Adjustment Worksheet and related “Certificate of Cost Reasonableness” independent of these three items. Staff anticipate presenting these three supplemental items to the Board for consideration at the September 28, 2022 meeting.

Annual OCAF adjustments are one of the primary benefits of converting 3,836 rental subsidies from the Low Income Public Housing program to PBRA through RAD. In contrast to the annual fluctuations in appropriations for public housing, Congress has approved full funding for these rental assistance contracts (most with private property owners) every year. To date there have been no reductions (pro-rations) of the subsidies below the amounts set by the contracts and annual OCAF adjustments. Therefore the PHA, like other PBRA project owners, can carry out both short- and long-term financial planning. The RAD Financing Plan remains the guiding document for the Agency’s operations, based on an assumed 2.0% annual OCAF adjustment each year. If all other estimates used in the Financing Plan remained the same, the 3.2% OCAF adjustment this year (1.2% higher than budgeted) would result in approximately \$7.37 million additional net cash flow over the remainder of the twenty year contract. After incorporating the OCAF rate changes in 2021, 2022 and the proposed 2023 OCAF rate adjustment, the change in net cash flow over the 20-year contract period is an increase of \$13.4 million compared to the original Financing Plan.

WW/LAF

Attachments: Operating Cost Adjustment Factor (OCAF) Rent Adjustment Worksheet
Certification as to Purchasing Practices and Reasonableness of Expenses
Gross Potential Rents Comparison
Cumulative Projected Net Cash Flow

OCAF Rent Adjustment Worksheet

**U.S. Department of Housing and Urban Development
Office of Housing**

OMB NO. 2502-0587 (exp. 04/30/2017)

Multifamily Section 8 Contracts

Public reporting burden for this collection of information is estimated to average 45 minutes 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 information is required to obtain benefits. HUD may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number.

Title V of the Departments of Veterans Affairs and Housing and Urban Development and Independent Agencies Appropriations Act of 1988 (P.L. 106-65, 111 Stat. 1384) authorizes the FHA Multifamily Housing Mortgage and Housing Assistance Restructuring Program. HUD implemented a statutory permanent program directed at FHA-insured multifamily projects that have project-based Section 8 contracts with above-market rents. The information collection is used to determine criteria eligibility of FHA-insured multifamily properties for participation in the Mark to Market program and the terms on which participation should occur. The purpose of the program is to preserve low-income rental housing affordability while reducing the long-term costs of Federal rental assistance. While no assurances of confidentiality are pledged to respondents, HUD generally discloses this data only in response to a Freedom of Information request.

Project Name:	St. Paul PHA Hamline, Front, Seal Chap 2 MN46RD00003	RAD CONVERSION
Project Address:	777 Hamline Avenue North, St. Paul, MN 55104	
Project Owner	Public Housing Agency of the City of St. Paul	
FHA Project No.	SAM UN IQUE ENTITY IDENTIFIER #/ EXPIRATION:	
	n/a	
Total Units in Project:	Total Section 8 Units In Project	
	479	476
Date of Submission:	Date Received by HUD:	

Step 1:

Calculate the current Section 8 Rent Potential for EXPIRING contracts

(A) Unit Type and Contract and/or Stage	(B) # of Units	(C) Current Section 8 Contract Rents	(D) Current Section 8 Rent Potential (B x C)
1	476	765	364,140.00
			0.00
			0.00
			0.00
			0.00
			0.00
			0.00
			0.00
			0.00
			0.00

(E) Monthly Expiring Section 8 Contract Rent Potential
(Total of column D)

364,140.00

(F) Annual Section 8 Rent Potential for Expiring Contracts
(E x 12)

4,369,680.00
4,369,680.00

Step 2:

Calculate Increase Factor Adjusted by OCAF for Expiring contracts

(G)	Total Annual Rent Potential For Non-Expiring Section 8 Contracts	
(H)	Total Annual Rent Potential For Non-Sec. 8 Units	0.00
(I)	Total Annual Project Rent Potential (F + G + H)	4,369,680.00
(J)	Expiring Section 8 Portion of Total Project Rent Potential (F ÷ I)	1.00
(K)	Total Annual Project Debt Service	
(L)	Annual Expiring Section 8 Share of Debt Service (J x K)	0.00
(M)	Annual Expiring Section 8 Potential Less Expiring Sec. 8 Share of Debt Service (F - L)	4,369,680.00
(N)	OCAF Adjustment	1.032
(O)	Annual Expiring Section 8 Rent Potential Attributed to Operations Multiplied by Published OCAF (M x N)	4,509,509.76
(P)	Adjusted Contract Rent Potential (L + O)	4,509,509.76
(Q)	Lesser of (P) or Comparable Rent Potential From Rent Comparability Study	4,509,509.76
(R)	Increase Factor (Q ÷ F)	1.032

Step 3:

Calculate OCAF Adjusted contract Rent Potential for Expiring Section 8 contracts ONLY

(S)	(T)	(U)	(V)	(W)	(X)
Unit Type and Contract and/or Stage	# Units	Current Contract Rents	OCAF Adjusted Rent (R x U)	Annual Adjusted Rent (V x 12)	Adjusted Annual Rent Potential (T x W)
1	476	765	\$ 789.00	9468	4506768
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0

(Y) Annual Adjusted Rent Potential of the Expiring Contracts(s)
(total Column X):

4,506,768

CERTIFICATION AS TO PURCHASING PRACTICES AND
REASONABLENESS OF EXPENSES

Project Name _____ FHA or Non-insured
Project No. _____

Acting on behalf of, _____, the
Project Owner, I certify that ALL of the following statements are
true.

- 1) The project is obtaining utilities at the lowest rates available.
- 2) The project has received or requested any tax relief for which it is eligible and management has analyzed the project's property tax bills and appealed any assessments which appeared unreasonable.
- 3) Amounts paid to individuals or companies having an identity-of-interest with the owner or the management agent were not excess of the costs that would have been incurred in making arms-length purchases on the open market.
- 4) Management has exerted reasonable effort to take advantage of discounts and has credited the project with all discounts, rebates or commissions received with respect to purchases, service contracts and other transactions made on behalf of the project.
- 5) Management has obtained contracts, materials, supplies and services, including the preparation of the annual audit, on terms most advantageous to the project and at costs not in excess of amounts ordinarily paid for comparable contracts, materials, supplies and services in the area in which such services, supplies, or materials are furnished.
- 6) Management has solicited verbal or written cost estimates, as necessary to comply with the Paragraphs 3 through 5 above. Management has documented the reasons for accepting other than the lowest bid and will make the documentation available to HUD, upon request.

WARNING:

- o 18 U.S.C. 1001 provides, among other things, that whoever knowingly and willingly makes or uses a document or writing containing any false, fictitious, or fraudulent statement or entry, in any matter within the jurisdiction of any department or agency of the United States, shall be fined not more than \$10,000 or imprisoned for not more than 5 years, or both.

- o 12 U.S.C. 1715z-4 provides in part: "Whoever, as an owner of a property which is security for a mortgage (covering multifamily housing, as defined in the regulations of the Secretary) or as a stockholder beneficial owner ... trust ... or as an officer, director or agent of any such owner (1) willfully uses or authorizes use of any part of the rents or other funds derived from the property covered by such mortgage in violation of a regulation ... (2) willfully and knowingly uses or authorizes the use, while such mortgage is in default, of any part of the rents or expense ... shall be fined not more than \$5,000 or imprisoned not more than 3 years or both

Signed by:

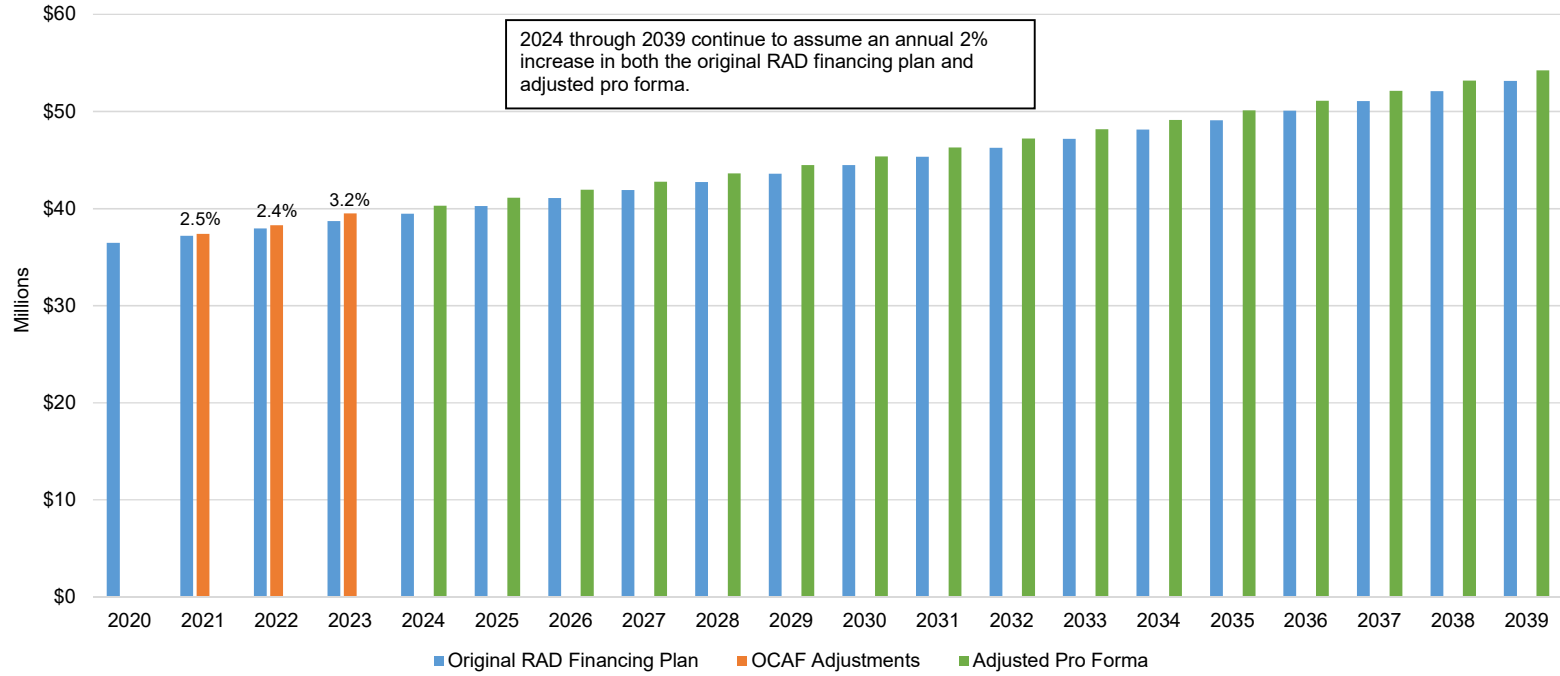
Name

Title

Signature

Date

Gross Potential Rents



Cumulative Projected Net Cash Flow

