

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 September 23, 2020

Staff requests Board approval to submit the following documents to HUD for the Agency's eight RAD-PBRA Projects, to adjust the contract rents effective January 1, 2021:

- 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 (McDonough Homes) are attached as examples. The table on the following page shows the adjusted contract rents for all of the projects. This is the first year the Agency is required to submit these documents to HUD and it will be an annual requirement in the future.

HUD issues new Operating Cost Adjustment Factors (OCAF) annually for each state to determine annual contract rents for Housing Assistance Payment (HAP) contracts for eligible Multifamily Project-Based Rental Assistance (PBRA) Projects. The calculation is complex, 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 2020 OCAF was published on November 22, 2019 and is applicable for contracts with an anniversary date of February 11, 2020 or later. Minnesota's 2020 OCAF is 2.5%, which is higher than the 2.0% factor on which the RAD Financing Plan was based.

The table below shows the changes in Gross Potential Rent for each RAD-PBRA project in 2021 due to the 2020 annual 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	2020 OCAF Adjusted Gross Potential Rent	Increase in Gross Potential Rent
McDonough	\$6,306,912	\$6,464,585	\$157,673
Hamline Hi-Rise	4,164,048	4,268,149	104,101
Edgerton Hi-Rise	4,804,464	4,924,576	120,112
Roosevelt	3,126,360	3,204,519	78,159
Mount Airy	6,496,128	6,658,531	162,403
Exchange Hi-Rise	2,375,208	2,434,588	59,380
Ravoux Hi-Rise	3,890,484	3,987,746	97,262
Dunedin Terrace	5,303,844	5,436,440	132,596
TOTAL	\$36,467,448	\$37,379,134	\$911,686

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 annual Utility Allowance analysis and Rent Schedule. HUD staff have allowed some flexibility on this during our RAD conversion year. As described in a related agenda item, the Utility Allowance analysis process was quite extensive and will result in significant reductions in Utility Allowances. That necessitated more in-depth discussion with HUD staff on how the Utility Allowance revisions will be implemented. Due to this, HUD staff recommended that we submit the Rent Adjustment Worksheet and related “Certificate of Cost Reasonableness” independent of the Utility Allowance analysis and Rent Schedule.

Annual OCAF adjustments are one of the primary benefits of converting 3,836 rental subsidies from the Low Income Public Housing program to Project-Based Rental Assistance under HUD’s Rental Assistance Demonstration program. 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 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 2.5% OCAF adjustment this year (0.5% higher than budgeted) would result in approximately \$3.3 million additional net cash flow over the life of the twenty year contract.

JMG/AJH/FAH

Attachments: Operating Cost Adjustment Factor (OCAF) Rent Adjustment Worksheet
Certification as to Purchasing Practices and Reasonableness of Expenses

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 McDonough, CHAP 1	MN46RD00009	RAD CONVERSION
Project Address:	1544 Timberlake Road, St. Paul, MN 55117-3946		
Project Owner	Public Housing Agency of the City of St. Paul		
FHA Project No.	DUNS Number		
n/a			
Total Units in Project:	Total Section 8 Units In Project		
5992	592		
Date of Submission:	Date Received by HUD:		

Step 1:

Calculate the current Section 8 Rent Potential for EXPIRING contracts

(A)	(B)	(C)	(D)
Unit Type and Contract and/or Stage	# of Units	Current Section 8 Contract Rents	Current Section 8 Rent Potential (B x C)
1	35	563	19705
2	8	707	5656
2	262	707	185234
3	1	1009	1009
3	168	1009	169512
4	12	1182	14184
4	78	1182	92196
5	14	1360	19040
5	14	1360	19040
			0

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

525,576.00

(F) Annual Section 8 Rent Potential for Expiring Contracts

6,306,912.00

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)	6,306,912.00
(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)	6,306,912.00
(N)	OCAF Adjustment	1.025
(O)	Annual Expiring Section 8 Rent Potential Attributed to Operations Multiplied by Published OCAF (M x N)	6,464,584.80
(P)	Adjusted Contract Rent Potential (L + O)	6,464,584.80
(Q)	Lesser of (P) or Comparable Rent Potential From Rent Comparability Study	6,464,584.80
(R)	Increase Factor (Q ÷ F)	1.025

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	35	\$ 563	\$ 577	\$ 6,925	\$ 242,372
2	8	\$ 707	\$ 725	\$ 8,696	\$ 69,569
2	262	\$ 707	\$ 725	\$ 8,696	\$ 2,278,378
3	1	\$ 1,009	\$ 1,034	\$ 12,411	\$ 12,411
3	168	\$ 1,009	\$ 1,034	\$ 12,411	\$ 2,084,998
4	12	\$ 1,182	\$ 1,212	\$ 14,539	\$ 174,463
4	78	\$ 1,182	\$ 1,212	\$ 14,539	\$ 1,134,011
5	14	\$ 1,360	\$ 1,394	\$ 16,728	\$ 234,192
5	14	\$ 1,360	\$ 1,394	\$ 16,728	\$ 234,192
0	0	\$ -	\$ -	\$ -	\$ -

I (We) hereby certify that the statements and representations contained in or accompanying this instrument are true, accurate and complete to the best of my (our) knowledge and belief.

Project Name: St. Paul PHA McDonough Homes DUNS: _____

Owner's Name: Public Housing Agency of the City of St. Paul

Owner's signature: _____ Date: _____

WARNING: Any person who knowingly presents a false, fictitious, or fraudulent statement or claim in a matter within the jurisdiction of the U.S. Department of Housing and Urban Development is subject to criminal penalties, civil liability, and administrative sanctions, including but not limited to: (i) fines and imprisonment under 18 U.S.C. §§ 287, 1001, 1010 and 1012; (ii) civil penalties and damages under 31 U.S.C. § 3729; and (iii) administrative sanctions, claims, and penalties under 24 C.F.R parts 24, 28 and 30.

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