RENT SCHEDULE POLICY

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Rent Schedule Overview

An annual revision of the rent schedule provides an adjustment of rents to accommodate changes in maximum rents and utility allowances. This process begins with the sampling of past utility costs described in the Utility Sampling policy and includes adjustments to rent amounts due to utility changes and the release of new maximum rents for the Low Income Housing Tax Credit (LIHTC), HOME, and Section 8 programs.

If a rent increase/decrease will occur for the upcoming year, this affects the gross rent potential for budgeting purposes and occurs in conjunction with the budget submission process for MSHDA-financed developments. Section 8 developments are the exception to this rule as the rent schedule of Section 8 developments must be updated annually in conjunction with the HAP contract renewal process.

Review Process Timeline

For all developments, an update of the rent schedule needs to be completed in conjunction with the utility allowance update process that occurs prior to budget submission or the HAP anniversary date (Section 8 developments).

October 1st – All developments must submit an updated rent schedule with the annual budget submission. Section 8 developments submit the rent schedule in effect at the time of budget submission.

Submission Requirements

Listed below is a list of the forms required with the rent schedule update:

1. **Rent Schedule** – Provide an electronic copy of the appropriate schedule(s). The rent schedule form is part of the budget template for non-Section 8 developments and the type of schedule is automatically selected based on the development chosen. Multiple unit breakdowns on the rent schedule may be required, depending on a development's unit mix include the following rent schedules:
   - MSHDA proposed rent schedule,
   - MSHDA approved rent schedule for applicable Section 8 units/developments,
   - Approved PHA rents and utilities for rent schedule with Project-Based Voucher units,
   - HUD approved rent schedule (HUD-92458) for applicable Section 8 units/developments,
   - Rural Development (RD) approved rent schedule for applicable RD units.

2. **Rent/Utility Change Notice (MSHDA Mgmt. 453F)** – *For Section 236 developments only*. Provide an electronic copy of the posted notice. The notice is included in the budget template for electronic submission.

3. **Tenant Comments –** *For Section 8 and 236 developments only.* If applicable, provide an electronic copy of tenant comments regarding a pending rent increase and the Owner's or Agent's response to the comments.

4. **Certification of Compliance (With Tenant Comments Procedures)** – *For Section 236 developments only.* Provide an electronic copy of the signed Certification of Compliance (MSHDA Mgmt. 453D) if the development requests a rent increase.

5. **Certification of Purchasing Practices (And Reasonable Expenses)** – *For Section 236 developments only.* Provide an electronic copy of the signed Certification of Purchasing Practices (MSHDA Mgmt. 453E), if the development requests a rent increase.

Rent Schedule Planning

When determining rents for the upcoming year, consider the competing rents in the market area. Rents should not be excessively high in relation to comparable housing alternatives or excessively low. They should ensure the continued stable operation of the development. Management should consider the following questions to decide whether the development rent can increase:

- Can the rental market absorb a rental increase? How much?
- Will the vacancy loss increase or decrease? What is the past trend?
- Does the development have a waiting list of eligible applicants?
- Have the rents historically been kept substantially lower than comparable housing? Why? Should the rents continue the trend?
- What is the current financial condition of the development?
- Is the development financially on track with the current year's budget? Are there any anticipated changes in expenses in the upcoming year?
- Is the development able to fund long-term reserves such as replacement reserves?

- Can the development perform repairs as required by the MSHDA Annual Physical Inspection and/or the CNA?
- Has the owner been informed and provided input on the intended rent adjustments?

Rent Limits & Unit Breakdowns

Completing the rent schedule requires close attention to the limits placed on rents by the governing documents, such as the regulatory agreement, tax credit agreements, and program rules. These documents also provide a breakdown of the unit sizes and types that should be listed on the rent schedule.

Rent limits can be found on the MSHDA website at the following link: MSHDA Website.

The links on the page contain both income and rent limits but may only be identified as income limits.

Determining the Rent Limits – The rent limits are defined within each development's Regulatory Agreement. Follow the steps below to help determine the proper rent limits for the development:

1. Find the 'Rental Restrictions" (not the Qualifications based on Income) defined in the Regulatory Agreement.
2. Review the website above to find the correct rent limit schedule.
3. Open the Rent Limit schedule and find the county in which development resides.
4. If the Regulatory Agreement contains:
   - Similar language to "…assuming occupancy of one and one-half persons per bedroom…" then reference the "By Bedroom" section of the rent limits schedule to determine the rent limits for the specified unit types.
   - Similar language to "…assuming occupancy of one person per bedroom…" then reference the "By Size" section of the rent limits schedule to determine the rent limits for the specified unit types.
   - No language regarding the occupancy, then refer to the year the mortgage originated.
     - Developments originating in 1996 and prior would have been required to employ the "By Size" schedule for rent limits unless otherwise stated in the regulatory agreement.
     - Developments originating in 1997 and later are required to employ the "By Bedroom" schedule for rent limits unless otherwise stated in the regulatory agreement.
   - Housing Development Action Grant (HODAG) language, then the rent limits are set by the municipality, which provides the HODAG.

The following tips will also help when completing the rent schedule:

- **Maximum rent limits** – the maximum gross rent a household may pay for rent and utilities combined for a specific rental unit type. If you are unsure of what rents limits apply, review the regulatory and/or other controlling document where rent limits are established. If you are still unsure talk with the MSHDA assigned Asset Manager or a Compliance representative.

- **Multiple Program Rent Limits** – Always use the most restrictive rents when multiple programs must be enforced at a development. For example, a unit is funded by both LIHTC

and HOME funds, the LIHTC rent limit equals $600 and the HOME limit equals $500. Use the HOME rent limit for this unit.

- **Subsidy Amounts** – A subsidy amount paid by a Public Housing Agency (PHA) may be allowed to exceed the rent limit reflected on the rent schedule, because rent limits are a limit on the amount of rent a tenant may pay, which is typically a percentage of the rent when subsidies are included.

- **Rural Development (RD) funded units** – Must be separated out on the rent schedule because the rents and utilities are issued by the United States Department of Agriculture – Rural Development (USDA-RD). If RD assistance is received by a building, all rent-restricted units in the building must use the utility allowance under the RD method.

- **HOME units** – Must be separated from similar units to identify the proper application of rent limits for each unit type and the total number of HOME units at the development.
  - ➢ On the rent schedule, HOME units *must* use the utility allowance calculated by sampling instead of the PHA allowance, even when overlapped with project or tenant-based voucher units.
  - ➢ If *all* HOME units overlap with project-based voucher (PBV) or tenant-based voucher (TBV) units and utility sampling would only be required to provide a utility allowance for recording the HOME units on the rent schedule, the PBV utility allowance amounts may be entered on the rent schedule. Thus, 100% of the HOME units are paired with a PBV or TBV unit.

- **Tenant-based vouchers –** Can be identified as part of the rent schedule unit breakdown but are not required to be itemized.
  - ➢ Rents **cannot** exceed the HOME rent limits.
  - ➢ Enhanced or "sticky" vouchers are considered tenant-based vouchers.

- **Project-Based voucher units** – Must be separate from other similar units on the rent schedule because the rents will be issued by the PHA administering the project-based vouchers. Project based voucher units paired with HOME units:
  - ➢ Must include the Section 8 subsidy in the rent calculation.
  - ➢ May exceed the Low HOME rent limits
  - ➢ May **not** exceed the High HOME rent limit, even if the tenant's rent portion plus utilities does **not** exceed the High HOME rent limit.

- **Project-based and Tenant-based vouchers** – Share the following similar rules:
  - ➢ Use the voucher program rent amounts unless the rent plus utility allowance exceeds the High HOME Rent limit.
  - ➢ Rents can exceed the LIHTC rent limit if some portion of subsidy is being paid on the specified unit.
  - ➢ Use the PHA utility allowance unless the voucher overlaps with HOME units. See HOME units bullet point above for further clarification of what allowance to place on the rent schedule when overlap occurs.

- **MSHDA's PHA issued utility allowance –** Can be found at the MSHDA Utility Allowance webpage.
  - ➢ Select the link under "Utility Allowance Effective [date]" to access the latest PHA Utility Allowances.

➢ Scroll through the regional schedules to find the region applicable to the county where the development resides.
➢ Use the bottom right hand corner table to calculate the total resident paid utility allowance amount for each bedroom size unit at the development.

Rent Schedule Template Instructions

The required rent schedule tab appears in the budget template based on the development selected on the Summary tab, cell E3. Complete the rent schedule to present the desired rents for the upcoming year and project the maximum annual rent potential to be used during the budget process.

Each rent schedule calculates the monthly and annual rent potential for the various unit types at a development. All unit types should be included on each rent schedule that will be used for budget purposes. This guarantees the maximum gross rent potential is accurate before accounting for reductions in income due to Loss to Lease, Vacancy Loss, Non-Rental Unit, Bad Debt/Former Resident, and Market Concessions line items. Rent schedule entry fields are shaded in yellow on each schedule.

MSHDA-Financed Rent Schedules

Review the development's Regulatory Agreement before implementing any rent increases. The Regulatory Agreements typically state that the current residents cannot receive a rent increase over 5%. Vacant unit rents can be increased by more than 5% if the market can bear the increase and if the rent increase does not conflict with any program rent restrictions. Provide detailed notes regarding the gross rent calculation with all budget submissions. The Gross Rent Potential calculation multiplies the contract rent entered by the number of units for each unit type. Resident-based subsidies are included as part of this calculation since the resident-based subsidy supplement individual's rent payments. Development based subsidies and subsidy grants which support the development operations are **not** included in the Gross Rent Potential calculation.

Complete the following highlighted fields on the rent schedule:
  Rent Restriction (based on # in household): Enter "Yes" if the rent limits are based on one person per bedroom (by size), otherwise enter "No".
  Rent Restriction (based on 1.5 per bdrm): Enter "Yes" if the rent limits are based on one and one-half person per bedroom (by bedroom), otherwise enter "No".
  Last Contract Rent Adj Date (PBV Only) – For developments with project-based vouchers enter the date of the last rent adjustment.
  HAP Anniversary Date (PBV Only) – For developments with project-based vouchers, enter the anniversary date of the HAP contract.

Funding Sources – Identify the program funding sources used to fund the construction or rehabilitation of the development. The funding sources help identify the program rent limits and utility allowance parameters that need to be considered when determining the rents and utility allowances entered on the rent schedule.
*Yes/*No – Does the program limitations for MSHDA, Tax Credits, HOME, 1602, and/or TCAP funds apply at the development?
Expiration Date – Enter the date that the specified program restrictions end at the development.

Project Based Vouchers – In between the development header fields and the rent schedule are tracking fields for project-based voucher units. The Project Based Vouchers fields will be auto filled from Housing Choice Voucher program data but may be edited.

For each unit type, enter the following fields to generate the total annual Gross Rent Potential:

Bedroom #/Size: Enter the number of bedrooms in the specified unit.

Special Units: Select the one of the following special unit types, if applicable:
- HAP – Housing Assistance Payment contract units.
- PBV – Project-based voucher units.
- RAD – Rental Assistance Demonstration units.
- RD – Rural Development units.
- TBV – Tenant-based voucher units.

 # Units: Enter the number of units at the development with the designated unit size and rent restriction percentage and rent amount.

Rent Restrict %/Unit Type: Enter the rent restriction percentage, i.e. 30, 40, 50, or 60. Identify the unit type, such as HOME (HH – high HOME, LH – low HOME), PBV, etc.

20XX Rent: Enter the current rent being charged for the unit. This should match the amount on the previous year's rent schedule.

Utility Allowance (current year): Enter the current utility allowance allocated to the unit type. This should match the utility amount on the previous year's budget rent schedule.

Rent Increase: Enter the amount of any rent increase planned for the upcoming budget year.

Max County Gross Rent: Enter the current rent limit designated for the specified unit type and county.

Utility Allowance (budget year): Enter the newly calculated utility allowance for the upcoming budget year.

Notes - Near the bottom of the form you will find a notes field for additional comment, if necessary.

Section 8 Rent Schedules

Occasionally, Section 8 developments have set aside units which are not part of the ACC units. These units should be included on the rent schedule, but the rent amounts should **not** be completed and added into the rent potential calculation. The Gross Rent Potential calculation multiplies the contract rent entered by the number of units for each unit type and if moderate units exist, multiplies the moderate unit rents by the number of units for each moderate unit type and adds this product to the total.

Complete the following highlighted fields on the Section 8 rent schedule:

Bedroom #/Size: Enter the number of bedrooms in the specified unit.

Unit Type: Enter the type of unit; in most cases this may be copied from the previous year's rent schedule. Unit type definitions:
- E2/E3 – Elderly Mid-rise Apartments,
- E5 – Elderly High-rise,
- AE – Apartment Elderly,
- AW – Apartment Walkup,
- SD – Semi-Detached,
- TH – Townhouse,
- H – Handicap/disabled,

- MR – Mentally disabled.

 # Units: Enter the number of units at the development with the designated unit size and rent restriction percentage and rent amount.

Rent: Enter the new annual rent amount requested.

Utility Allowance: Enter the newly calculated utility allowance for the upcoming year.

For each *Moderate* unit types, enter the following fields to generate the total Gross Rent Potential:

Unit Type: Enter the size and unit type for each specified group of units at the development with the differing unit sizes and rent amounts.

 # Units: Enter the number of units with the designated unit type.

Moderate Rent: Enter the moderate rent from the prior year's approved rent schedule.

Moderate Rent Increase: Enter the requested amount for the upcoming year's increase to the moderate rent rate.

Section 236 Rent Schedules

The schedule uses the basic rent to determine the gross rent potential. The Gross Rent Potential calculation multiplies the basic rent by the number of units for each unit type and if moderate units exist, multiplies the moderate unit rents by the number of units for each moderate unit type and adds this product to the total.

Section 236 Definitions

Basic Rent – The lowest rent rate that can be charged to maintain operations.

Market Rent – Basic Rent times the Market Rent Ratio. The highest rent rate that can be charged and remain within the highest HUD determined rent for the area in which development resides.

Market Rent Ratio – Total annual basic rent potential **plus the annual interest reduction subsidy** divided by the total basic rent potential. The product of the equation should be carried out to four decimal places (.0000).

Section 236 Type – Various types of Section 236 developments exist:

- Decoupled Basic = Market,
- Decoupled with set Values for Market, and,
- Decoupled with Tax Credits or HOME

Depending on the type of Section 236 development the rent schedule will require different entry fields.

Section 236 Entry Fields

Complete the following fields on the Section 236 rent schedule:

Total ACC Units: Enter the number of units covered by an Annual Contributions Contract.

HUD Contract/Project #: Enter the HUD designated number for the development.

Owner: Enter the name of the development owner.

Rent Effective Date: Enter the begin date of the rents entered on the rent schedule.

Rent Restriction (based on 1.5 per bedroom), if applicable: Enter "Yes" if the rent limits are based on one and one-half persons per bedroom (by bedroom), otherwise enter "No".

Annual Interest Reduction Subsidy: **Not applicable** since Decoupled Section 236 developments no longer receive Interest Reduction Payments.

Market Rate Rent Ratio, if applicable: This field should auto fill as you complete the rent schedule. The calculation for this field can be found in the Sec 236 definitions above.

PBV Unit Mix – In between the development header fields and the rent schedule are tracking fields for project-based voucher units. The Project Based Vouchers fields will be auto filled from Housing Choice Voucher program data but may be edited.

For each unit type, enter the following fields to generate the total annual Gross Rent Potential:

PBV Units: Identify if the line item units contain project-based vouchers.

BRS/Rent Res: Enter the bedroom size of the specified unit and the rent restriction percentage. E.g. 1 bed 60% or studio 50%.

 # Units: Enter the number of units at the development with the designated unit size and rent amount.

Basic Rent: Enter the basic rent amount from the prior year's approved rent schedule.

Market Rent: Enter the market rent amount from the prior year's approved rent schedule.

Utility Allowance: Enter the current utility allowance allocated to the unit type. This should match the utility amount on the previous year's approved rent schedule.

Basic Rent Increase: Enter the amount requested for the upcoming year's increase to basic rent.

Maximum County Gross Rent, if applicable: Enter the current rent limit designated for the specified unit type and county.

Utility Allowance: Enter the newly calculated utility allowance for the upcoming budget year.

For each *Moderate* unit types, enter the following fields to generate the total Gross Rent Potential:

Bedroom #/Size: Enter the number of bedrooms in the specified unit.

 # Units: Enter the number of units at the development with the designated unit size and rent amount.

Moderate Rent: Enter the moderate rent from the prior year's approved rent schedule.

Moderate Rent Increase: Enter the requested amount for the upcoming year's increase to the moderate rent rate.

Rent Increases at Section 236 & Section 8 Developments

If a rent increase is planned, residents must be given a 90-day advance written notice and at least a 30-day period to comment on the rent increase. This process mirrors the utility decrease posting process. The AM will notify the Agent/Owner of the approval of any rent increase in the budget approval letter. For more details refer to the Utility Sampling Policy (Utility Allowance (UA) Calculations section, Section 8 and Section 236 UA Calculation subsection).

Forms & Attachments

453A – MSHDA Programs Rent Schedules
453B – Section 8 Rent Schedules
453C – Section 236 Rent Schedules
453D – Certification of Compliance (With Tenant Comment Procedures)
453E – Certification of Purchasing Practices (And Reasonable Expenses)
453F – Rent-Utility Change Notice