



U.S. Department of Housing and Urban Development

Office of Public and Indian Housing

Special Attention:

NOTICE: PIH 2001-29 (HA)

State and Area Office Directors of Public Housing;

Director, Section 8 Financial Management Center;

Issued: August 8, 2001

Section 8 Public Housing Agencies; Secretary's

Expires: December 31, 2002

Representatives; State and Area Coordinators

Cross References:

Subject: Fiscal Year 2001 Financial Management Requirements for Section 8 Moderate Rehabilitation Program (Mod Rehab) Housing Assistance Payments (HAP) Contract Expirations.

1. **PURPOSE** - This Notice provides instructions on financial procedures for implementing Notice PIH 2001-13, Fiscal Year (FY) 2001 and 2002 Renewal of Expiring Section 8 Moderate Rehabilitation (Mod Rehab) Housing Assistance Payments Contracts (HAP), dated April 6, 2001. This Notice updates PIH Notice 2000-17 (April 18, 2000), PIH Notice 99-46 (November 5, 1999), and PIH Notice 99-14 (February 24, 1999), Financial Management Program Requirements for the Moderate Rehabilitation Program.
2. **BACKGROUND** - Notice PIH 2001-13 provides instructions for implementing Section 524(b)(3) of the Multifamily Assisted Housing Reform and Affordability Act of 1997, Pub. L. 106-74, (MAHRA). The original statutory provisions governing Section 8 Mod Rehab contract renewals were codified at Section 524(a)(2) of MAHRA, Pub. L. 105-65. Section 531 of HUD's Fiscal Year 2000 Appropriations Act, Pub. L. 106-74, however, amended Section 524(a)(2), in part by creating a new Section 524(b)(3), the implementation of which is the subject of Notice PIH 2001-13.
3. **SUMMARY OF CHANGES** - The following bullets provide a brief explanation of the changes contained in Notice 2001-13, which are further explained in paragraphs 4 - 6, below:
 - a. **Mod Rehab Renewals.** Effective October 1, 2000, the new requirement increases the mod rehab rents to 120% of the existing fair market rents for purposes of determining renewal rents. This notice provides for retroactive payments to owners where mod rehab renewal rents for expirations during the period of October 1, 2000 thru April 30, 2001 are the lower of the existing contract rents (adjusted by the operating cost adjustment factor (OCAF), the comparable market rents; and the mod rehab rents.
 - b. **Combining Multiple HAPs and Multiple Stages of a Single HAP.** This change permits the combination of (a) multiple HAP contracts that cover different parts of the same property that expire on the same date into a single HAP contract, and (b) multiple stages, expiring in the same fiscal year, of a single HAP contract to expire on a single expiration date.

c. ~~Enhanced Replacement Vouchers.~~ Mod Rehab families are afforded the same tenant protections as families covered under PIH Notice 2001-10: Conversion of Regular Housing Choice Vouchers to Enhanced Vouchers for Families affected by Section 8 Project-based Housing Assistance Payment (HAP) Contract Terminations and Expirations (Including Moderate Rehabilitation Contracts) in Federal Fiscal Years (FYs) 1995, 1996, 1997, 1998, and 1999.

3. ~~APPLICABILITY~~ - This Notice provides the procedures for the renewal and replacement of expiring Mod Rehab HAP contracts that are not eligible for mortgage restructuring. (Properties eligible for mortgage restructuring are those multifamily housing projects covered in whole or in part by a contract for project-based assistance and financed by a mortgage insured or held by HUD under the National Housing Act with rent levels that exceed the rents of comparable properties.)

This Notice is not applicable to the Section 8 Moderate Rehabilitation Single Room Occupancy (SRO) Program. HUD'S Office of Community Planning and Development (CPD) will issue separate guidance.

Housing authorities should be advised that a renewal contract may be executed only where the expiring contract document is available to HUD for HAP inspection.

4. ~~GENERAL PROCEDURES~~ - All Mod Rehab HAP contracts expiring during the period covered by this Notice will either be renewed as Mod Rehab assistance or replaced with tenant-based vouchers.

Eligible HAP contracts that are renewed for an additional 12 months will have contract rents set at the lesser of:

- (i) existing contract rents, adjusted by the OCAF. When applying the OCAF, the PHA must use the most recently published factors. You may access the OCAF schedule at "<http://www.hud.gov/fha/mfh/ocaf/pdf>";

(ii) the mod rehab fair market rents, i.e., 120% of existing fair market rent (FMRs), less any amounts for tenant-purchased utilities; or

(iii) comparable market rents for the market area.

For expiring HAP contracts where units are not eligible or owners choose not to renew, replacement tenant-based assistance will be in the form of housing choice vouchers.

Estimated Renewal and replacement funds for the entire fiscal year will be provided at the beginning of the fiscal year. The Section 8 Finance Division will estimate the split for renewal versus replacement needs based on prior years' mod rehab assignments and then forward these funds to the Financial Management Center (FMC). Any adjustments to these assignments will be made at the request of the FMC.

5. ~~REVIEW OF HAP CONTRACTS EXPIRING BETWEEN OCTOBER 1, 2000 AND APRIL 30, 2001.~~

As set forth in PIH Notice 2001-13, owners with Mod Rehab HAP contracts that expired during this period who renewed using the FY 2000 procedures in PIH Notice 98-62, may be eligible for retroactive payments of renewal rent increase if the Mod Rehab FMR, i.e., 120% of the current Existing Housing FMR, was the lowest of the three possible rent amounts. If this is the case, the public housing agency (PHA) must recompute the renewal costs for HAP contract expiration for this period, and forward this written information to their local Hub or HUD Public Housing Program Center for verification. Upon verification of the higher rents, the information will be sent to the FMC in order to process any additional funds to be paid retroactively to the owner as well as to increase the required budget authority (BA) for the remainder of the renewal term.

The additional funds will be made available from the following sources in the order specified:

- Mod Rehab BA and Reserves. Available BA and program reserves from the PHA's Mod Rehab funding increment in excess of current year budgeted requirements will be accessed first for these purposes; and
- Amendment Funds. If the BA and reserves are inadequate to cover the increase, the FMC should then submit a request for Amendment funds to the Section 8 Finance Division in Headquarters. Funds will be provided from the Amendment account subject to the availability of Amendment funds.

The amount of retroactive payment to the owner will equal the difference between the original renewal rent and the revised amount

multiplied by the number of months that the renewal contract has been effective by the number of units under contract. For example: the original contract of 10 units expired November 30, 2000 and was renewed at \$450 effective December 1, 2000. If the analysis indicates that the new rent is \$460, as of July 1, 2001 the rent will increase accordingly and the owner will be due a retroactive payment of \$700.00 (\$10 x 10 units x 7 months). The retroactive amount due will be made as a one-time payment to the owner. If the PHA requires additional funds to make this payment, a budget revision must be submitted to the FMC for the additional payment.

6. ~~COMBINING MULTIPLE HAPS AND MULTIPLE STAGES OF A SINGLE HAP.~~
 Starting with FY 2002 expirations (i.e., 10/1/01 through 9/30/02), at the owner's request: (a) multiple HAP contracts that cover different parts of the same property and that expire on the same date may be combined into a single HAP contract, and (b) multiple stages, expiring in the same Federal fiscal year, of a single HAP contract may be combined so that the HAP contract expires on a single expiration date.

A. Multiple HAP Contracts Covering the Same Property. In some cases, multiple HAP contracts expiring on the same date cover one or more units within the same property. At the request of the owner, the PHA may combine various HAP contracts into one contract. The HAP contracts are combined by creating a new line under the same increment and subsequent HAPs.

Example a:

MD300MR0001: Expiring HAPs

Line	HAP	Units	Expiration Date
001	001	2	10/31/01
	002	1	10/31/01
	003	1	10/31/01
	004	1	10/31/01

MD300MR0001: Renewal for Combined HAPs

Line	HAP	Units	Expiration Date	Renewal Effective and Expiration Dates	Ren'l Term (months)
002	005	5	10/31/01	11/01/01 - 10/31/02	12

B. Multiple Stages Expiring in the Same Fiscal Year. To combine

the renewal of multiple stages, the expiration dates of the earlier stages must be aligned with the latest expiring stage. To accomplish this, the PHA must provide an owner with a short-term renewal of the earlier expiring stages with an expiration aligned with the latest expiring stage. The earlier stages will then be combined into a single renewal stage with the latest expiring stage for a full 12-month term.

Note: The procedures contained in Notice PIH 2001-13, Section 4, for prorating the Operating Cost Adjustment Factor (OCAF) when calculating the renewal rents for short-term renewals must be followed.

Example b:

A PHA has five HAP stages expiring and the owner has agreed to combine stages into a single renewal HAP contract. The following example explains how the stages should be aligned, and then subsequently combined.

MD400MR0001: Stages

Line	HAP	Stage	Units	Expiration Date
001	001	001	10	10/31/01
	001	002	15	12/31/01
	001	003	20	12/31/01
	001	004	25	03/31/02
	001	005	30	10/01/02

MD400MR0001: Short Term Renewal/Alignment of Stages

Line	HAP	Stage	Units		Renewal Effective and Expiration Dates	Ren'l Term (months)
002	001	001	10		11/01/01 - 03/31/02	5
	001	002	15		01/01/02 - 03/31/02	3
	001	003	20		01/01/02 - 03/31/02	3

Note: Stage 4 was not included since the earlier stages will be combined with stage 4 when they all expire on 3/31/02. Stage 5 is not combined because the expiration date occurs in FY 2003.

Stages 001 - 004 will be renewed together on the next sequential line and combined into one stage upon their now common expiration date:

MD400MR0001: Renewal for Combined Stages

Line	HAP	Stage	Units	Expiration Date	Renewal Effective and Expiration Dates	Ren'l Term (months)
003	001	001	70	03/31/02	04/01/02 – 03/31/03	12

7. ~~PROCESSING RESPONSIBILITIES~~ - The individual procedures to be performed by administering PHAs, HUD Public Housing Hub or Program Center and the FMC are described below.

HOUSING AUTHORITY

Each PHA has the responsibility for: a) notifying owners of the renewal requirements in Notice PIH 2001-13 as well as this Notice; b) assessing whether eligible owners choose to renew or not; c) determining whether owners wish to combine HAPs and stages beginning in Fiscal Year 2002; and determining the correct renewal contract rent. It is important that the HA remember that combining stages and HAPs will be done only if the owner wishes to do so.

The contract rents for renewed Mod Rehab HAP contracts will be determined by the PHA under the requirements in Part 8. Renewal Rent Levels, of HUD Notice PIH 2001-13. For each HAP renewal the HA will use the example format on pages 7 and 8 of Notice PIH 2001-13 to determine the lowest of the three rent levels, i.e., the renewal rent, of each unit size. The completed rent analysis for each HAP renewal should then be sent to the HUD Hub/Program Center, attention Public Housing Director. The remainder of the HAP contracts expiring in the given quarter, but not receiving renewal assistance will be replaced with housing choice vouchers. Each PHA will be contacted by the HUD Field Office to confirm the total number of units being renewed and replaced.

For any Mod Rehab properties that are eligible for mortgage restructuring whose HAP contracts are expiring within the reporting period, the PHA should follow the instructions in Notice PIH 2001-13, paragraphs 7. A and B, for reporting to the Multifamily Program Center under the Office of Housing. Because the Section 8 Finance Division under the Office of Public and Indian Housing (PIH) must account for all the expirations, however, the PHA should also at this time copy the HUD Hub/Program Center of Public Housing (PH) on the information provided to the Multifamily Program Center on Mod Rehab properties eligible for mortgage restructuring.

HUD FIELD OFFICES

The HUD Public Housing Hub/Program Center will be responsible for reviewing the renewal/replacement information from the PHA and forwarding it back to the FMC on the expiration worksheet provided for this purpose. The field office will go on to ensure that the PHAs renew or replace the appropriate HAP contracts (as requested by eligible owners) and all expiring units are identified as such.

The rent analysis for each HAP renewal should be checked to ensure the accuracy of the HA's analysis arriving at the lowest of current contract rents, 120% of the existing FMR or comparable rents for each unit size. The correct renewal rent and associated utility allowance will then be forwarded back to the FMC on the expiration worksheet, which will also be used to confirm with the PHA that the total number of units expiring will be either renewed as Mod Rehab or replaced with vouchers.

FMC

The Finance Division will estimate Mod Rehab renewal and replacement needs and assign funding at the beginning of the fiscal year. The FMC will collect information from each Hub/Program Center on HAP contracts to be renewed for 12 months, and confirm the total number of units being replaced. The FMC will process the renewal and replacement funds and forward an annotated summary of that activity back to the Finance Division in Headquarters on a quarterly basis.

8. ~~NOTIFICATION TO HOUSING AUTHORITIES/HUD FIELD OFFICES~~ - Upon processing of the renewal and replacement funds, the FMC will send a notification letter (with Notice of renewal and amended voucher ACC for replacements) to the PHA, and notify the corresponding HUD Public Housing Hub or Program Center.

The HUD Hub/Program Center will have the responsibility to follow up with each PHA to ensure that renewal HAP contracts are executed in a timely manner. A copy of each renewal contract may be maintained at the Field Office, however; the PHA must send a copy back to the FMC.

9. ~~FURTHER INFORMATION~~

Any questions regarding this notice should be addressed to the Section 8 Finance Division of the Office of Administration and Budget/CF0, at (202) 708-2934.

/s/

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Assistant Secretary for Public and
Indian Housing