

NATIONAL HOUSING LAW PROJECT
MULTIFAMILY DEMONSTRATION PROGRAM

HOW TO REVIEW
RENT INCREASE PROPOSALS
FOR
HUD SUBSIDIZED HOUSING



JUNE 1980

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Berkeley, California

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INTRODUCTION

This manual is designed to assist you in reviewing proposed rent increases in HUD-assisted housing projects. It also suggests courses of action that may be taken in situations where rent increases are disputed.

The manual will be of use primarily to residents, to tenant organizations, to the Boards of Directors of resident-owned housing cooperatives, and to the Boards of Directors of nonprofit organizations which provide housing for low- and moderate-income people under the HUD program.

These groups have a common interest in providing decent housing for low- and moderate-income people. Unfortunately, many tenant organizations and Boards of Directors simply do not have the skills to analyze and determine the need for rent increases proposed by management or a management company. By studying this manual and making use of the sources of assistance listed in it, they will gain a better understanding of how project operating costs can (and should) be controlled.

For simplicity, much of this manual refers to "tenants" and "managers." But those of you on Boards of Directors have a duty in your dealings with management firms to be as concerned about the rent levels as the tenants themselves.

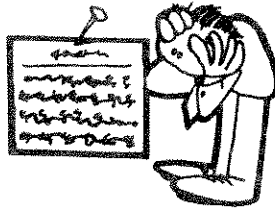
This manual contains information and detailed suggestions for reviewing a rent increase proposal. Sometimes it may help to get legal or accounting help. The manual gives you suggestions for finding such help.

ACKNOWLEDGMENTS

The Multifamily Demonstration Program wishes to acknowledge the sources from which information contained in this manual was derived. Much of the material is adapted from a handbook currently being prepared by the National Housing Law Project for Legal Services attorneys. Much of the information on HUD's rent increase requirements was derived from an article by Sidney Chesnin et al on Federal Housing Programs (Illinois Institute for Continuing Education; Chicago, 1978).

Appendix A is almost entirely derived from a handbook prepared by Georgia Legal Services programs and the Atlanta Legal Aid Society, entitled "Subsidized Rental Housing Handbook" (June, 1979). Any errors or oversimplifications which have resulted from adapting often complex legal and financial materials for use in this manual are the responsibility of the author.

I. GENERAL CONSIDERATIONS



I. GENERAL CONSIDERATIONS

• • • What Is Rent?*

In HUD projects, the rents paid for each apartment must provide enough cash to cover the costs of running the project, including taxes, mortgage payments, maintenance costs and staff salaries. Under the Section 8 and Rent Supplement programs, part of the rent is paid by the federal government. The tenant's share is based on his/her income and the government pays the rest. For example, the total rent on an apartment may be \$300. A low-income tenant on Section 8 or Rent Supplement may only have to pay \$100. In this example, the government pays the remaining \$200.

Some tenants make the mistake of thinking that their share of the rent - which may be quite low - is the total apartment rent. They need to understand what the total rent is, so they can understand what level of service to expect. If you live in an apartment where the total rent is \$300, you should be getting the same kind of service as any other person in a \$300 apartment somewhere else. It is the total amount of the rent that is important, not the sources of that rent.

*-In co-ops, the term "carrying charges" is usually used instead of "rent." Co-op members should generally assume the term "rent" refers also to "carrying charges."

• • • Why Do Rents Go Up?

We all know that the cost of just about everything is going up. The costs of running HUD housing are also rising. Managers of this housing are allowed to pass on the increased costs through rent increases. It has become common in most projects to have rent increases about once a year.

Mortgage payments, a large portion of total project costs, are fixed. In California, tax increases are also limited, since Proposition 13 was passed. Therefore, while project expenses and rents will rise, they should rise at a rate significantly less than the general inflation rate.

Unfortunately, not all rent increases are reasonable. Many managers, in good faith, add items to budgets which are not really necessary or are not realistic in terms of actual need. Others deliberately find ways to "pad" their budgets, and they often convince HUD, which has to approve the rent increase, that they really need the money. The result is, in many cases, that rents are unnecessarily high. The tenants often see no improvement in services as a result of these rent increases. In many cases, in fact, the level of service and the condition of the buildings may even get worse.

• • • What Effect Will the Rent Increase
Have on Residents?

The federal government has four basic subsidized housing programs to assist low- and moderate-income people. These are:

- Section 236
- Section 8
- Rent Supplement
- Section 221(d)(3) BMIR

Some of these programs protect the residents from the full effect of rent increases. It is not unusual for one project to have several programs: for example, in a Section 236 project, some tenants may also be assisted with Rent Supplement, some with Section 8, and some may only receive Section 236 subsidy. The effect of a rent increase may be different for each group.

In order to figure the effects of a rent increase on your project, two steps must first be taken:

- Find out which government programs your project has, and what the requirements of the program are.
- Estimate the effect of the increase on residents under each program.

The staff in your project office should be able to tell you all the programs your project has, and how many residents are assisted by each. Also, they should have

a copy of the rent increase rules. If they don't know or won't help, your local HUD office can give you this information.

Appendix B to this manual contains a detailed explanation of how to figure rents for residents who are on these programs.

As a general rule of thumb, the rent increase will not affect the share of the rent paid by tenants on Section 8. The share paid by some tenants receiving Rent Supplement will go up; other Rent Supplement tenants will receive no increase in their payments. All tenants not receiving Section 8 and Rent Supplement are likely to be affected by the increase.

As you can see, rent increases will affect different people different ways, depending on the HUD programs. Often it is hard to get Section 8 residents, for example, to take much interest in fighting a rent increase, because it will not affect the amount of rent they pay. Similarly, Board members may have to be reminded that their purpose in operating the housing development includes the provision of affordable housing rather than merely paying the mortgage and other bills on time.

• • • What Is the Condition of the Project and
What Services Are Provided?

Even those residents whose rent shares will not be affected by a rent increase should be concerned if

living conditions are bad. Board members should be similarly concerned. Unfortunately, there are many HUD projects where living conditions are terrible. Residents have to deal with roaches, rats, sewer back-ups, poor heating, leaky roofs and similar problems. Sometimes these are caused because the project was not designed or built properly; sometimes because the buildings have been poorly maintained. In order to make repairs, the manager will probably seek a rent increase, so the residents end up paying the cost of putting things right. Besides reviewing any such request very carefully, residents and the Board should independently ensure that the manager is efficiently and properly using existing rental income.

Frequently, project residents do not get the services which should be provided. In most projects the owner or Board contracts with a management company to provide management services. The manager is paid (out of the rents) to provide 24-hour emergency maintenance service, to hire qualified staff to do the office and maintenance work, and to provide them with proper supervision. Often the manager agrees also to provide certain social services for the residents. The manager's job is to run the project for the benefit of the residents. All too often, management companies fail to provide the agreed-upon services, and residents find

themselves living in poorly run projects. Obviously, this should be of concern to the Board as well as project residents.

Checklists are provided on the following pages to assist you in evaluating the condition of your project. If you determine that your project is in poor condition and/or you are not getting needed services, you will probably want to challenge the rent increase. Even in projects where all residents receive Section 8 assistance, challenging a rent increase is a good way to bring bad conditions to the attention of HUD. Boards of Directors who do their own evaluation or learn from their residents that their project is not providing adequate housing will probably want to consider denying or reducing the rent increase and changing the management.

REVIEW OF PROJECT CONDITION

ITEM	RATING*	COMMENTS
Public Roadways		
Drives, parking areas		
Signs (project name office)		
Office area		
Lawns		
Plantings		
Walks, steps, ramps, stairwells		
Fences, walls, gates		
Balconies, patios		
Trash collection stations		
Recreational areas and equipment		
Outside drainage		
Lighting		
Building exteriors, (siding, stucco, wood trim, drainpipes, crawl spaces, vents)		
Windows and doors		
Commercial areas, incl. laundries		
Maintenance and storage areas		
Community buildings		
Roofs, gutters, downspouts		
Fire equipment		
Utility meters		
Antenna(s)		
Safety or health hazards		
Litter		
Damage by pets		
Extermination program		
Apartment walls, doors, ceilings		
Floors, floor coverings		
Ranges, refrigerators, disposalls, air conditioners		
Plumbing fixtures		
Electrical fixtures		
Heaters		
Security systems		
Elevators		

* When rating, use U for Unsatisfactory; S for Satisfactory; and G for Good

REVIEW OF SERVICES PROVIDED AND
RESIDENT SATISFACTION

	YES	NO	COMMENTS
Are you satisfied with the housing provided at this development?			
Are project rules strictly enforced?			
Do you feel that management cooperates with the residents?			
Are your maintenance requests promptly attended to?			
Are the office staff courteous and helpful?			
Are project staff properly trained and supervised?			
Do you know the procedure for making any grievances known to management?			
Are you afraid for your security in any part of this development?			
Are all essential social services provided?			
Is there a regular project newsletter or similar means of communication?			
Are community facilities (laundry rooms, Rec. rooms) available to tenants operational?			
Are all other promised services being provided?			

• • • What Improvements Are Promised as a Result of the Rent Increase?

Project managers often promise improvements in the condition of the project or in the services provided in order to persuade HUD to grant them a rent increase. Many times they do not come through with their promises. Conditions get worse, not better.

Resident organizations and Boards of Directors should carefully review earlier promises made by management. Were they fulfilled? Do the same things appear each year on the "Rent Increase Notice" but never get done? The Board and residents should consider creating checklists with clear compliance dates when reviewing such promises.

• • • What Is Your Project's Rent Increase History?

Anyone concerned about a rent increase should consider a project's rent increase history. For most projects in recent years you will find regular increases roughly once a year, with or without corresponding improvements. Occasionally, you will come upon a project that has had very infrequent rent increases. Often such projects are co-ops, where the resident Board may be under great pressure to keep costs down and avoid increases. The same is often true of elderly projects, with many residents on fixed income. Usually the only place costs can be cut is in building

maintenance, and so if the project has not had an increase for a year or two, you will want to determine if more money is really needed in order to maintain the buildings and services. A rent increase (or money from some other source) may be necessary.

• • • What Type of Ownership Does Your Project Have?

In deciding how to go about challenging or voting on the need for a rent increase, you will want to determine and understand what type of ownership you are dealing with. Project owners fall into three main types:

- Nonprofit Corporations
- Cooperative Corporations
- Limited Partnerships

Nonprofit Corporations are usually community groups (churches, unions, and the like) which form corporations to sponsor housing for lower income people. Many nonprofits are good, active, concerned owners. Some, however, become inactive, and leave everything to their managers, which may cause problems for the residents. As their name implies, nonprofits cannot make a profit from owning a housing complex.

Co-ops are tenant-owned housing developments. Each year, the residents elect a Board of Directors to run the project for them. In co-ops too, it is not uncommon for some Boards to become inactive, and leave

everything to management. Often managers of co-ops go out of their way to discourage resident activity, so that really it is the manager, again, who runs the show! Like nonprofits, co-ops cannot make any profit from the housing they own.

Limited Dividend Owners (usually partnerships) are private investors who are allowed a limited return of 6% per year on the money they have invested in the project (usually 10% of the total project cost). However, they are not permitted to take this 6% if they have been cited for improper maintenance or if they have failed to make the mortgage payments.

It is important to know what kind of Board you are or what kind of owner you are dealing with. Limited dividend owners may be in a position to invest more money in the project for needed improvements, and an increase in rents may be avoided. Nonprofit and co-op Boards should be sensitive to resident concerns and may be receptive to tenant pressure for improved management and living conditions.

● ● ● What Assistance Is Available?

Residents and Boards who are considering challenging a proposed rent increase will have to do a lot of work in order to document their case. The following sources of assistance may be available to them:

- tenant associations
- nonprofit or co-op board members
- Legal Services or other attorneys
- HUD officials
- HUD manuals and other publications
- local accountants
- local business schools
- community organizations
- other housing managers in the area
- local politicians

● Tenant associations (particularly those which have successfully challenged rent increases before) may be a valuable source of help. Your local legal services people or community organizations may be able to put you in touch with active tenant groups in your area.

● Nonprofit and co-op board members usually sympathize with project residents and should be able to assist with both documentation and special skills.

● Since legal issues are likely to be involved, residents may need to contact their local Legal Services office or other sympathetic attorneys.

● HUD officials can sometimes be helpful: contact the Loan Management branch of your HUD office and ask for the person who services your project (check in the telephone directory under United States Government, Department of Housing and Urban Development). Ask the HUD servicer to send you HUD manuals for the programs used in your

project, and the HUD Management Handbook (#4351.1) and HUD's Insured Project Servicing Handbook (#4350.1).

- Because it is usually necessary to analyze a lot of financial reports, a financial expert can be very helpful; in many communities there is an organization called Accountants for the Public Interest, which sometimes offers services at no cost.

- Help can sometimes be obtained from community organizations which are actively trying to improve neighborhood conditions.

- Managers of other well-run, neighborhood housing projects may also be willing to assist, especially if they have hopes of some day managing your project. They are often good sources of information on the costs of typical project purchases. And local council people (or people running for public office) may also be willing to lend a hand.

- ● ● Summary

This section has dealt with general considerations facing those who wish to challenge a proposed rent increase. Even if you have concluded that your project is in good shape and well managed, you should still examine the rent increase proposal carefully. You may find that the manager has included items that are not necessary, or that some money is being used for the wrong purposes.

The next sections summarize HUD's requirements and procedures for rent increases, provide detailed review guidelines, and recommend various courses of action.

II. HUD REQUIREMENTS AND
PROCEDURES FOR RENT
INCREASES



II. HUD REQUIREMENTS AND PROCEDURES FOR RENT INCREASES

● ● ● What Are HUD's Requirements?

When a project owner or manager decides that a rent increase is necessary, he or she must follow certain HUD procedures which guarantee residents the right to challenge the proposed rent increase.

These are:

- The project owner or management must give written notice to the tenants of intent to request approval from HUD of an increase in the maximum permissible rents at least 30 days before such a request is filed.
- Materials to be submitted to HUD in support of the application must be made available for inspection and copying by tenants 30 days before the request is filed.
- After HUD has determined whether to approve or deny the application it will inform the project's owners or management in writing of the reasons for its decision. These reasons must be provided to the tenants.
- If HUD approves a rent increase, the project owner or manager must give the residents a 30-day notice of the rent increase.

The notice of intent to seek a rent increase must contain certain information, including:

- the date of the notice and the date on which the application will be filed;
- reasons for the increase, which are limited to increases in operating expenses and taxes over which the owner has no effective control;
- a schedule of present and proposed rents;
- the location of materials to be submitted in support of the application in order that they be available for tenant inspection and copying; and
- an explanation that tenants may submit comments to the project or directly to HUD.

● ● ● Posting Requirements

The format of the notice must follow a specified model and the notice must be mailed or delivered to each tenant, or " ... posted in at least three conspicuous places within each structure or building in which the affected dwelling units are located as well as in a conspicuous place at the address where the materials in support of the proposed rent increase are to be made available to tenants ..."

● ● ● Tenant Inspection

At the same time the notice is posted, project management must make available to HUD and to tenants at " ... a place reasonably convenient to tenants in the project during normal business hours ..." the materials

to be submitted in support of the rent increase. These materials must include an independently audited Statement of Profit and Loss, Form HUD 92410, for the most recently ended accounting year; an unaudited statement for any additional period of four months or more; and a narrative statement of the reasons for the requested increase.

• • • Submission to HUD

At the end of the comment period, management must submit to HUD any revisions in its materials, all tenant comments (and any comments on them by management), and a certification that HUD's requirements have been followed.

• • • HUD's Decision

Notice to tenants of HUD's decision and the reasons for it must be delivered or posted in the same manner as the notice of intention to seek the increase.

On the next page is an example of a properly prepared rent increase notice.

NOTICE TO RESIDENTS OF INTENTION TO FILE AN
APPLICATION TO HUD FOR AN INCREASE IN THE
MAXIMUM PERMISSIBLE RENTS

February 25, 1980

Take notice that on March 31, 1980, we plan to file an application for approval of an increase in the maximum permissible rents, for Dolly Madison Gardens, 701 Wood Creek Rd., Anytown, U.S.A., with the United States Department of Housing and Urban Development (HUD). The proposed increase is needed for the following reasons:

1. Increase in utility costs
2. Increased grounds and landscaping costs
3. Increased interior maintenance costs
4. Increased reserve fund requirements

The rent increases for which we will apply are:

BEDROOMS	PRESENT RENT		PROPOSED INCREASE		PROPOSED RENT	
	Basic	Market	Basic	Market	Basic	Market
0	\$213	\$276	\$32	\$42	\$245	\$318
1	252	327	38	49	290	376
2	289	375	44	56	333	431
3	324	420	49	73	382	483
4	357	463	54	70	411	533
5	358	464	54	70	412	534

Copies of the materials that we intend to submit to HUD in support of our application will be available during normal business hours at Dolly Madison Gardens, 701 Wood Creek Rd., Anytown, U.S.A. (Rental Office), for a period of thirty (30) days from the date of this notice for inspection and copying by residents of Dolly Madison Gardens and, if the residents wish, legal or other representatives acting for them individually or as a group.

During a period of thirty (30) days from the date of this notice, residents of Dolly Madison may submit written comments on the proposed rental change to us at The Palm Management Company, 12 Broadway, Othertown, U.S.A. Resident representatives may assist residents in preparing these comments. (The inspection and comment period will be extended to give residents five (5) days to inspect and comment on any materials to be submitted in support of the application that are not available to the residents during the first 25 days of the 30-day period.) These comments will be transmitted to HUD, along with our evaluation of them and our application for an increase. You may also send a copy of your comments directly to HUD at the following address:

United States Department of Housing and Urban Development
P.O. Box 1234
Anytown, U.S.A.
Re: Dolly Madison Gardens - Project No. 456-78910

DO NOT PHONE - WRITTEN COMMENTS ONLY

HUD will approve or disapprove the proposed rental change upon reviewing the application and comments. When HUD advises us in writing of its decision on our application, you will be notified at least thirty (30) days before any allowable increase is put into effect, in accordance with the terms of existing leases.

Those residents currently receiving Section 8 Housing Assistance Payments will continue to pay 25% of their adjusted gross monthly income as their tenant contribution to rent. Accordingly, they will be unaffected by this rent increase except in cases where they are due for recertification and their income has changed.

Because Dolly Madison has the benefit of Rent Supplement Assistance wherein the resident pays on 25% of his adjusted monthly income, many of the residents will not be affected by the proposed increase; the maximum effect on the resident would be only 30% of the increase. New minimum rents, under the Rent Supplement Program, will be \$74 (Studio), \$87 (1-BR), \$100 (2-BR), \$112 (3-BR), \$123 (4-BR), and \$124 (5-BR).

PALM MANAGEMENT COMPANY, 12 Broadway, Othertown, U.S.A.

Once a rent increase notice has been posted you will need to find out if it follows HUD's requirements.

● ● ● Common Owner/Manager Mistakes

Owners and managers often make mistakes when they post rent increases. Typical mistakes are:

- They fail to properly deliver or post the notices. The notices must be posted in three conspicuous places in each building affected, and must remain there, in readable form, for 30 days. Or they must be delivered to each individual resident.
- They fail to include the required information.
- They fail to use the proper kind of notice
- They fail to make copies of the materials they sent to HUD to support the rent increase proposal available to the residents. The materials must be in a convenient place and available for residents to inspect and copy them. They must remain there for 30 days.
- They fail to give residents 30 days notice before putting an approved increase into effect.

If management or the owner does not follow proper procedures, the residents, tenant council or their representatives should write, immediately, to the director of the local HUD office. The letter should point out the

mistakes that were made and ask HUD to require posting of a new notice. (A sample letter will be found on page 22.) By doing this, additional time will be available to study the need for and to work on the challenge to the rent increase.

• • • Common Tenant-Board Mistakes

Tenants and Boards often make mistakes in responding to rent increases. Typical mistakes are:

- They fail to submit written comments in the required time period.
- They fail to challenge improper procedures.
- They assume HUD knows the project and will act in their best interest, when in fact HUD people mostly have contact only with managers.
- They are not persistent in making demands of HUD. HUD people have big workloads, and tend to respond best to "squeaky wheels."
- They are too longwinded in their letters and calls to HUD. HUD people respond best to concise, factual, businesslike communication.

• • • A Note on Co-ops

Co-ops are excluded from the HUD requirements for posting rent increases. HUD assumes that resident-owned cooperatives will follow similar procedures to those outlined above in notifying residents of proposed increases in their monthly carrying charges.

• • • Summary

HUD has specific requirements for posting rent increases which must be followed: If managers make mistakes in posting rent increases, tenants can ask HUD to require a new notice to be posted. Boards of Directors have the authority to demand that management follow the proper posting procedures. Co-ops are excluded from HUD's posting requirements.

SAMPLE LETTER TO HUD ABOUT POSTING VIOLATIONS

Date

Mr. John Doe
Supervisor, Anytown Area Office
Department of Housing and Urban
Development
P.O. Box 1234
Anytown, U.S.A.

RE: Happy Valley Apartments
Anytown, U.S.A.
FHA Project No. 123-4567

Dear Mr. Doe:

It has come to the attention of the Tenants Association (or Board of Directors*) of Happy Valley Apartments that Palm Management Company is seeking HUD's approval for an increase in maximum permissible rents for Happy Valley Apartments. Palm Management has not followed HUD requirements in posting this increase (or, the Board has not approved the proposed increase).

Specifically:

1. Palm failed to deliver, mail or post notice of the proposed rent increase, as required. A notice was tacked in one place only - the project office door.
2. As the attached copy of the notice shows, it contains serious defects, particularly:
 - (a) The heading of the notice fails to state: "NOTICE TO TENANTS OF INTENTION TO FILE AN APPLICATION TO HUD FOR AN INCREASE IN MAXIMUM PERMISSIBLE RENTS."
 - (b) The notice states that the application for approval of an increase has been submitted to HUD, instead of indicating that the application will be submitted after the required 30-day posting notice.
 - (c) The notice fails to set out the required schedule of proposed rent increases.

*-It should not normally be necessary for a Board of Directors to write HUD regarding improper posting. Boards of Directors who understand their role as owners will simply instruct their managers to comply with HUD's posting requirements.

- (d) Copies of the materials submitted in support of the rent increase request were not available to tenants in a place reasonably convenient to the tenants in the project. Tenants were told that they were available in Othertown, which is 50 miles away.
- (e) Tenants were not allowed to copy these materials.

The tenant association (or Board) demands that HUD require Palm to initiate a new notice procedure in compliance with HUD regulations, to notify the tenants of the increase, to make available the required supporting materials for inspection and copying, and to solicit and consider tenant comments.

Thank you for your prompt attention.

Very truly yours,

Mrs. Millie Johnson
President
Happy Valley Concerned
Tenants' Association
(or, Board of Directors)

cc: Mr. John Palmer
Palm Management Company

III. GETTING THE REQUIRED DOCUMENTATION



III. GETTING THE REQUIRED DOCUMENTATION

Tenants can, and have, convinced HUD that rent increases are unwarranted. Concerned Boards of Directors have fired management companies after careful review of rent increase proposals has convinced them that management is not doing its job. Before either of these can happen, you must document your case.

• • • What Documentation Do You Need?

Tenants should start assembling the needed information as soon as the 30-day comment period begins. The owner or manager is required to provide certain documentation with the rent increase package; other information is available if you know how to get it. Board members should be documenting such information on a regular basis, for example, in Board meeting minutes.

From Management

The HUD rules require the manager to make available to the tenants, during the comment period, all the documentation she/he supplies to HUD. This will include:

- an audited Profit and Loss Statement
- the written notice to the tenants
- a written statement giving the reasons for the rent increase

As a Board member, you also have a right to receive such information.

It may also include:

- a written statement describing the general condition of the project,
- a list of the existing equipment and services presently provided,
- a justification of any unusual expenses or increases in expenses: for example, a notice of increased taxes or insurance, or a notice that water and sewer charges are to go up.

Some managers will provide other information upon request, and the Board can always ask for special reports on specific matters.

From the Owner

Additional information may often be obtained from the project owner or Board. A good private owner or Board of Directors will keep a file of information about the project.

Concerned tenants should seek an early meeting with the owner, and ask for copies of needed materials. If the owner is cooperative, residents might seek to form a joint committee to review the proposed increase. If the owner is not responsive, the next step may be to get the needed information from HUD. Always remember you only have 30 days in which to take action, so don't let too much time slip by while you talk with the owner. Similarly, concerned Board members should ask to meet with management before the rent

increase is approved or announced. They should encourage tenant input into the decision as to the need for rent increases.

From HUD

A lot of useful information is usually available at your local HUD office. The following may be particularly helpful:

- the most recent management review report [HUD Form 9834B] (which gives HUD's evaluation of the quality of the management operation);
- the annual HUD physical inspection report [HUD Form 2470] (which reviews the condition of the buildings and grounds);
- the most recent audit report (which reviews the financial condition of the project);
- monthly financial reports [HUD Form 93480] (which HUD requires for some projects);
- the most recent HUD rental computation forms [HUD Form 92547];
- the rent schedule [HUD Form 92458];
- the regulatory agreement (which is an agreement between the owners and HUD spelling out the owner's rights and duties);
- flexible subsidy applications (if any).

Much other useful information probably exists in the HUD files, especially in the correspondence file. However, tenants and Board members do not automatically have the right to examine all the HUD files; they must take special steps to obtain needed information.

• • • How Do You Get Information From HUD?

Some local HUD offices will make all project files available upon an informal request. Some may require a simple written request. Other HUD offices require you to file a formal Freedom of Information Act Request (FOIA). You need to do this as quickly as possible, because the time for comment on the rent increase request is limited to 30 days from the date of notice. Your request should list all information you are likely to need, because HUD may only be willing to give you the things you specifically ask for. Remember too, that the HUD files are often large and badly organized, so that finding documents and making needed copies may take a lot of time. Note too that you may have to pay for any copies you make. Your FOIA request should be as broad as possible, so that you can look at all available file material. Note that the FOIA request should be sent to the HUD Regional Information Center as well as to your local office. You may have to renew the FOIA request from time to time, so that you can go back and check on correspondence about the rent increase. An example of an FOIA request will be found on page 29.

• • • How Do Boards of Directors Get Information?

Co-op and nonprofit Boards should not normally have to go to HUD for information. As project owners they have a right to all information about their project and should demand it from management. Failure or refusal of management to supply requested information in a reasonable time should make the Board think about interviewing new management companies.

SAMPLE OF FORMAL FOIA REQUEST

Date

TO: Information Center
Region XV, Dept. of Housing
and Urban Development
P.O. Box 33333
Othertown, U.S.A.

Freedom of Information
Officer
Anytown Area Office
P.O. Box 1234
Anytown, U.S.A.

Pursuant to the Freedom of Information Act, 5 U.S.C. §552, and HUD regulations, 24 C.F.R. §15, on behalf of John Smith, 310 East 91st Street, Apt. 9, Anytown, U.S.A., and the Concerned Tenants Association of Broadwood Apartments, I request to view and thereafter be supplied with photocopies, as I designate, of the below-described material in the possession of HUD: any and all HUD documents currently on file with HUD relating to the Broadview Apartments, FHA Project #678-9101, including but not limited to all:

- (a) documents relating to the 1979 request for rent increase, and relating to all other rent increases since 1976;
- (b) management review reports [HUD form 9834B];
- (c) physical inspection reports [HUD form 2470];
- (d) all financial statements and audit reports for 1976-1979;
- (e) monthly financial reports [HUD form 93480];
- (f) HUD rental computation forms [HUD form 92547] for 1976-79;
- (g) rent schedules [HUD form 92458];
- (h) maximum income and occupancy limits form [HUD form 3144];
- (i) the regulatory agreement;
- (j) occupancy reports for the years 1976-1979;
- (k) the recent flexible subsidy application.

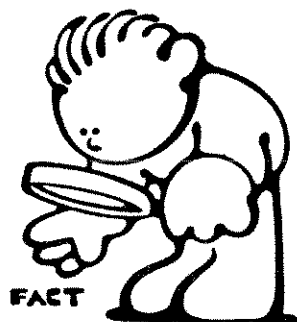
By law, HUD must advise this office of whether or not it will comply with this request within ten (10 days). Direct all responses to this request to the undersigned.

Representative, Tenants
Association

• • • Summary

Tenants have only 30 days from the time the rent increase is posted to assemble their documentation and take action. Certain information is required by HUD to be provided by management. Other documentation may be obtained from management, from the owner or Board of Directors, or from HUD. Often it is necessary to file a formal request in order to obtain information from HUD. Boards of Directors should not normally have to seek information from HUD; they should demand it from management.

IV. REVIEWING THE RENT
INCREASE PROPOSAL



IV. REVIEWING THE RENT INCREASE PROPOSAL

Now that you have gathered as much information as possible, you can begin your serious review of the rent increase proposal. Because there is so much to do and so little time, it is best to develop an organized approach. The following approach is suggested:

- Review your documentation to see if there are instances of serious violations by management or the owners.
- Do a detailed review of the proposed budget, comparing it with the profit-and-loss statement and other documents you have obtained.

● ● ● How to Review for Serious Violations

HUD staff are not permitted to grant a rent increase without checking whether there are serious violations under the regulatory agreement. Such problems must be resolved with the owner of the project before a rent increase can be granted. Some irregularities may also come to light which are violations of the management agreement (a contract the manager signs with the owner and HUD), and these, too, may be enough to hold off a rent increase. Other practices may not violate these agreements but may indicate sloppy management and poor business practice. The following are some of the most commonly found violations, each of which will be discussed:

- maintenance violations
- incorrect leases
- incorrect admissions practices
- discrimination against children
- excessive charges to new residents
- security deposit violations
- inadequate recordkeeping
- improper distribution of dividends
- some identity of interest firms
- incorrect billing of time
- improper payment of fees or salaries
- improper vacancy reporting
- failure to seek bids

This section will first look at common violations of the regulatory agreement.

● ● ● Violations of the Regulatory Agreement

Not all regulatory agreements are the same. They vary depending on the type of owner. Obtain a copy of the regulatory agreement for your project from the manager or HUD files, or ask the HUD servicer to send you the standard form for your kind of project. You may want to get an attorney to review it with you. The most common regulatory agreement violations include the following:

● Maintenance Violations

You already have a good idea of the project's condition. You should also look at the most recent HUD

Physical Inspection Reports, on which a HUD engineer will have listed his findings. If there has been no recent inspection, demand one. Physical Inspection Reports should be prepared each year, so by going back a year or two, you will get an idea whether the condition of the project is getting worse. Also look at the latest HUD Management Review Report; this will give you the HUD servicer's rating of the project's physical condition, and will include any recommendations to management for improvement. If you are a Board member, you should definitely talk to residents regarding their complaints and ask the manager for a list of recent complaints and action taken.

If you feel there are serious maintenance violations, prepare a detailed list. Ask residents to supply you with written statements of the problems in and around their apartments. If you think there may be violations of local building codes, check with your city's Building Inspection Department for the exact requirements. If City Inspectors say they know of code violations in your project, be sure to add this information to your list. If you have serious concerns about health or safety violations, ask for an inspection by the city.

- Failure to Use the Correct Form of Lease

You can obtain the correct lease from HUD. If the HUD files contain a recent Occupancy Review Report, it will usually indicate if the wrong lease is being used.

- Failure to Give Priority for Admission to Low- and Moderate-Income Families With Certificates of Eligibility as Displaced Families

This may be hard to determine unless someone in your organization knows of a qualified person who was rejected, at a time when a less-well-qualified person was given an apartment.

- Discrimination Against Families With Children

Proving this again requires knowledge of rejected applicants.

- Excessive Charges to New Residents

New residents may only be charged for the first month's rent plus a security deposit of not more than one month's rent. (NOTE: requirements for co-ops are different.)

- Failure to Keep the Security Deposits in a Separate Account, Which Must be Fully Funded

To verify this, check the Balance Sheet in the last Annual Financial Statement. Any deficiency will show up as a "liability" ("tenant security deposit liability") in excess of the "asset" ("tenant security deposit accounts").

- Failure to Maintain Books and Records in Proper Condition, as Required by HUD

Check the Annual Financial Statement again. Key places to look are the signed statement by the auditor (usually the first page) and the Notes in the back. If the auditor states that the statement is "unaudited" or adds other qualifications (phrases like "due to deficiencies in project records"), he may have been unable to audit the books properly because they were in poor condition. If the audit costs were excessively high this may also indicate bad records.

- Distribution (in Limited Dividend Projects) of the 6% Dividend when there are Outstanding Notices of Improper Maintenance, the Project is not making its Mortgage Payments, or the Replacement Reserve is not Fully Funded

There is no easy place to find this information. It is usually buried in the notes to the Financial Statement or Auditor's Report, or in one of the supplementary schedules.

● ● ● Other Violations

The following are common violations of the management agreement and/or questionable business practices.

- Identity of Interest Firms

Whenever contracts for project services are made with outside firms, it is useful to take a close look at the firm to determine whether any improper practices are occurring. In cases in which the managing agent and the outside firm have an identity-of-interest (i.e., ownership by the same parties), there is often grounds for abuse. For example,

special HUD audits have disclosed that managing agents contracting with identity-of-interest firms often charge more than the actual cost of the materials, labor, and overhead. In other situations, identity-of-interest firms have charged projects higher prices than would have been paid if there was competitive bidding for the job or service. Other identity-of-interest firms used project personnel such as the resident manager to perform the job and billed the project for the services. Despite these known problems, HUD has not stopped managing agents from dealing with identity-of-interest firms; nor must they disclose the existence of identity-of-interest firms; nor must they provide HUD with the authority to review the records of these firms.*

The failure of HUD to take the necessary action to even identify the identity-of-interest firms may present you with a difficult problem. Nevertheless, if you suspect foul play and the costs of the outside contracts are excessive for the services rendered, you should urge HUD to take the following steps. First, in the case where costs are excessive, you should challenge the rent increases until formal bids are obtained for services such as laundry, and lawn maintenance. Second, you should urge HUD to require managing agents to provide a schedule showing services and supplies to be furnished to the project by the identity-of-interest firm.

*-New HUD requirements are pending.

- Billing to Multiple Projects

Another item that you may confront when reviewing a request for a rent increase involves owners and managers who handle multiple projects. HUD's system does not normally permit comparison of the various budgets. The result is that there may be one manager for three projects and the individual is billed at 50% time instead of 33% time for each project. The only way you can attempt to discover this discrepancy is to review the prior rent increase applications for all of the projects or to ask the tenants their estimate of the amount of time that the individual spends with the project. This latter method, of course, has its limitations. For example, in the case of a bookkeeper, the tenants may have no knowledge.

Other items which are subject to duplicate billing are computer time (for preparing financial reports), and services from identity-of-interest firms (like lawn maintenance).

- Improper Payment of Fees or Salaries

You should also check to see whether or not any of the officers or directors of the ownership organization are receiving fees for supervision or management of the project. Such fees are not allowed without prior HUD approval. Co-op and nonprofit Board members may not receive fees or salaries for any work they do for the project.

● Improper Vacancy Reporting

Some owners and managers have been caught reporting apartments as vacant when in fact they are occupied. This way, they get to keep some of the rent themselves. In Section 8 projects, HUD will pay part of the rent on a vacant apartment; a dishonest owner or manager can report an apartment vacant and collect twice! The best way to check on this is to ask HUD for copies of recent monthly financial reports (Form 93480*), which list the number of vacancies on line 5. If you feel confident vacancies are being wrongly reported, challenge them!

● Failure to Seek Bids

Managers of HUD projects are required by the management agreement to obtain the lowest possible price for purchases and services, consistent, of course, with quality. In the case of major purchases, some HUD offices require copies of the bids, and sometimes even decide which should be accepted. But in many instances, purchases are made from a nearby supplier, and no bids are sought. The project thus often ends up paying higher prices than necessary. Often the failure to get bids is simple laziness; occasionally management staff may be getting kickbacks from suppliers. Boards of Directors and tenant organizations should demand that bids be let for all significant purchases, and that management compare prices on smaller items before making a purchase.

*-Form 93480 is not required for all projects.

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If you find any of the above violations, you will want to bring them to the attention of HUD (see COURSES of ACTION, p. 69). Going to HUD will not necessarily stop the rent increase, but it may reduce or delay it. The action taken by HUD will depend on the seriousness of the violations and, unfortunately, also on the attitude of the local HUD office.

As a Board member, you have additional duties if you find any of these violations. You should not only demand immediate correction and possibly terminate the management agreement. You should also determine whether the manager must repay any misspent funds (possibly requiring court action) and review more carefully the rent raise (repayment of funds might allow postponement of a rent increase).

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● ● ● How to Do Comparisons

In reviewing the proposed rent increase budget you will rely on two key documents: the explanations of cost increases or budget posted with the notice of the rent increase, and the previous year's "Profit and Loss Statement." You will also rely on common sense: Is the item or service needed? Is it in fact being provided? Managers often pad budgets with items they don't really

intend or need to provide. For example, one manager budgeted for two painters, but in fact never hired either one.

- The Profit and Loss Statement (also sometimes called "Statement of Operations") is always a part of the Audited Financial Statements, as is the co-op "Statement of Income and Expenses" (which provides the same information for co-op projects). Usually a special HUD form is used (see page 42).

- Rent Increase Budget

The budget posted with the rent increase varies in format. Usually local HUD offices tell managers how they want it done. Sometimes monthly figures are given, in which case you will have to multiply every number by 12 in order to get yearly figures you can compare with the "Profit and Loss Statement." Sometimes comparative numbers are given in columns - "Previous Year's Actual" and "Proposed Budget." If this has been done it may make your task easier. (A typical rent increase budget is shown on pages 44-45.)

- Comparing the Two

Each item listed is called a "line item," and each line item has a number. Compare each line item in the "Profit and Loss Statement" with the same number line item in the proposed budget. Note any major differences. Think about each item in relation to what you know goes

on at the project. For example, does the exterminating expense look high? Is regular extermination service in fact provided? You have a much better idea what services are really being provided than HUD does. You are in a position to ask questions and raise issues based on your inside knowledge.

SAMPLE STATEMENT OF PROFIT AND LOSS

HUD-97410
April 1974

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Form Approved
OMB No. 62-R1029

HUD USE ONLY

STATEMENT OF PROFIT AND LOSS

92558	92547	NAME	For The	Month Ending	Dec. 31, 1979
5000 - INCOME ACCOUNTS					
		5100 - RENT INCOME:			
1		5110-Houses		\$	-
1		5120-Apartments			244,632
		5121-Rent Supplement Payments			-
3		5130-Furniture & Equipment-Owned by Project for rent or lease			-
3		5140-Stores and Commercial			-
3		5150-Offices			-
3		5160-Basement			-
2		5170-Garage or Parking Spaces			-
		5190-Miscellaneous			-
		TOTAL RENT INCOME - POTENTIAL @ 100% OCCUPANCY			
		5200 - VACANCIES:			
1		5210-Houses	\$	-	
1		5220-Apartments			11,548
3		5230-Furniture & Equipment-Owned by Project for rent or lease			-
3		5240-Stores and Commercial			-
3		5250-Offices			-
3		5260-Basement			-
2		5270-Garage or Parking Spaces			-
		5290-Miscellaneous			-
		TOTAL VACANCIES			(11,548)
		NET RENTAL INCOME (Rent Income LESS Vacancies)			\$233,084
3		5300 - SERVICE INCOME:			879
		TOTAL SERVICE INCOME:			879
		5400 - FINANCIAL INCOME:			
3		5410-Interest Income	\$	-	
3		5420-Income From Investments			-
3		5430-Income From Sinking Fund			-
3		5490-Miscellaneous			-
		TOTAL FINANCIAL INCOME			-
3		5900 - OTHER INCOME:			-
		TOTAL OTHER INCOME			-
		TOTAL INCOME			\$233,963
6000 - PROJECT EXPENSE ACCOUNTS					
		6200 - RENTING EXPENSES:			
7	1	6210-Advertising	\$	-	
8	2	6220-Commissions			-
14		6230-Concessions to Tenants			-
14		6240-Alterations			-
		6290-Miscellaneous			-
		TOTAL RENTING EXPENSES			\$ -
		6300 - ADMINISTRATIVE EXPENSES:			
11	5	6310-Office Salaries	\$	4,183	
9	7	6311-Office Expense		5,284	
9	7	6312-Office Rent		-	
9	3	6320-Management Fee		10,977	
10	4	6330-Manager or Superintendent Salaries		14,149	
13	8	6340-Legal Expenses (Project)		1,833	
13	8	6350-Auditing Expenses (Project)		1,885	
12	6	6360-Telephone and Telegraph		1,040	
14		6370-Bad Debts		2,315	
15		6390-Miscellaneous		-	
		TOTAL ADMINISTRATIVE EXPENSES			\$41,666
		6400 - OPERATING EXPENSES:			
24	17	6410-Elevator Payroll	\$	-	
20	9	6411-Elevator Power		-	
18	11	6420-Fuel		-	
24	17	6421-Engineer Payroll		-	
24	17	6430-Janitor Payroll		-	
19	12	6431-Janitor Supplies		-	
24	17	6440-Bus Operator Payroll		-	
19	12	6441-Gasoline, Oil and Grease		-	
20	13	6450-Electricity		18,077	
21	14	6451-Water		4,023	
22	15	6452-Gas		9,219	
25	20	6460-Exterminating Payroll		-	
25	20	6461-Exterminating Supplies		-	
25	20	6462-Exterminating Contract		1,208	1,208
25	16	6470-Garbage and Trash Removal		-	3,582
23		6490-Miscellaneous		-	-
		TOTAL OPERATING EXPENSES			36,109
		TOTAL EXPENSES TO PAGE 2			\$77,775

Replaces FHA Form No. 2410, which is obsolete

See accompanying notes

SAMPLE STATEMENT OF PROFIT AND LOSS (cont'd.)

HUD USE ONLY		6000 - PROJECT EXPENSE ACCOUNTS (Continued)			
97553	92547	TOTAL EXPENSES FROM PAGE 1			\$ 77,775
		6500 - MAINTENANCE EXPENSES:			
24	17	6510-Protection Patrol	\$ -	\$ -	
24	17	6511-Protection Fee, Cost of Contracts	-	-	
24	17	6520-Grounds Patrol	-	-	
31	22	6521-Grounds Supplies and Replacements	5,650	5,650	
31	22	6522-Grounds Contract	-	-	
24	17	6530-Cleaning Payroll	16,710	-	
30	19	6540-Repairs Payroll	4,498	-	
30	19	6541-Repairs Material	5,849	27,057	
30	19	6542-Repairs Contract	-	-	
		6543-Repairs Extraordinary and Nonrecurring	-	-	
33	10	6550-Elevator Maintenance	-	-	
34	11	6551-Air Conditioning Repair and Maintenance	-	-	
29	18	6560-Decorating Payroll	-	-	
29	18	6561-Decorating Supplies	-	-	
29	18	6562-Decorating Contract	-	-	
34	19	6570-Motor Vehicle Repairs	-	-	
34	19	6580-Maintenance Equipment Repairs	-	-	
34		6590-Miscellaneous	-	-	
		TOTAL MAINTENANCE EXPENSES			32,707
		6600 - DEPRECIATION:		\$ 70,652	
		6620-Buildings	-	-	
		6630-Building Equipment - Fixed	-	-	
		6631-Alterations	-	767	
		6640-Building Equipment - Portable	-	383	
		6650-Furniture For Project Administrative Use	-	-	
		6651-Furniture & Equipment Project Owned for rental or lease	-	5,999	
		6660-Furnishings	-	-	
		6670-Maintenance Equipment	-	-	
		6680-Motor Vehicles	-	-	
		6690-Miscellaneous	-	-	
		TOTAL DEPRECIATION			77,801
		6700 - TAXES AND INSURANCE:			
36	28	6710-Taxes (List)	\$ 25,005		
37	29		5,531		
				30,536	
38	21	6720-Insurance		7,366	
		TOTAL TAXES AND INSURANCE			37,902
		6800 - FINANCIAL EXPENSES:			
47		6810-Interest on Bonds Payable	\$ -	73,375	
		6820-Interest on Mortgage Payable	-	-	
		6830-Interest on Notes Payable (Long Term)	-	-	
		6840-Interest on Notes Payable (Short Term)	-	-	
48		6850-Insurance on Mortgage	-	-	
		6890-Miscellaneous	-	-	
		TOTAL FINANCIAL EXPENSES			73,375
		6900 - SERVICE EXPENSES (List):			
			\$ -	-	
		TOTAL SERVICE EXPENSES			
		TOTAL COST OF OPERATIONS			\$ 299,560
		OPERATING PROFIT OR (LOSS):			< 65,597 >
		7100 - CORPORATE OR MORTGAGOR ENTITY EXPENSES:			
		7110-Officer Salaries	\$ -	-	
		7120-Legal Expenses (Entity)	-	-	
		7130-Federal Income Tax	-	-	
		7131-State Income Tax	-	-	
		7132-Other Taxes (Entity)	-	-	
		7133-Leased Furniture Expenses (Entity)	-	-	
		7190-Other Expenses (Entity)	-	-	
		TOTAL CORPORATE EXPENSES			
		NET PROFIT OR LOSS			< 65,597 >

SAMPLE RENT INCREASE BUDGET

VALLEY VILLAGE

SUMMARY BUDGET - 1981

Prepared 12/18/80

		Projected Total 1980	Budget 1981
<u>CASH REQUIREMENTS (USES OF FUNDS - detail attached)</u>			
<u>Account Series</u>			
6200 & 6300	Renting and administrative	\$ 43,000	\$ 48,000
6400	Operating	43,000	49,000
6500	Maintenance	40,000	43,000
6600	Taxes and insurance	40,000	41,000
	Total operating expenses	\$166,000	\$181,000
6820 & 2320	Mortgage payments	76,000	76,000
1320	Reserve fund contributions	4,000	4,000
1470	Maintenance equipment	-	8,000
2110	Accounts payable, prior year	→	5,000
	TOTAL CASH REQUIREMENTS	\$246,000	\$274,000
<u>SOURCES OF FUNDS</u>			
5100	Rent potential	\$250,000	\$270,000
5200	less vacancies	<10,000>	<9,000>
	Total rental income	\$240,000	\$261,000
5300	Laundry income, net	1,000	1,000
5400	Interest income - reserve funds	-	1,000
	Total operating sources of funds	\$241,000	\$263,000
2310	Notes payable - equipment purchase	-	8,000
	TOTAL SOURCES OF FUNDS	\$241,000	\$271,000
	CASH DEFICIENCY	<\$5,000>	<\$3,000>

*-Based on 11 months actual plus December estimates.

SAMPLE RENT INCREASE BUDGET

VALLEY VILLAGE

(100 Units)

Cash Requirements Line Item Budget

Prepared 12/18/80

	Budget 1980	Projected Total 1980	Budget 1981	Budgeted % Change
<u>Renting and Administrative</u>				
6200 Renting expense	\$	\$ 200	\$ 200	
6310 Office salaries	6,000	6,000	6,480	
6311 Office expense	1,000	2,000	2,200	
6320 Management fee (contract)	12,000	12,000	14,400	
6330 Manager salary (including rent)	15,000	15,000	16,200	
6340 Legal expenses	1,000	1,000	1,000	
6350 Audit fee	3,000	3,000	4,000	
6360 Telephone and answering service	1,000	1,200	1,320	
6370 Bad debts	2,000	2,400	2,000	
6390 Miscellaneous	1,000	200	200	
Total renting & administrative	\$ 42,000	\$ 43,000	\$ 48,000	+11.6%
<u>Operating</u>				
6450 Electricity	\$ 19,000	\$ 18,000	\$ 20,000	
6451 Water	3,200	5,000	5,000	
6452 Gas	15,000	14,000	16,800	
6462 Exterminating contract	1,000	1,000	1,200	
6470 Garbage & trash removal	4,800	5,000	6,000	
Total operating	\$ 43,000	\$ 43,000	\$ 49,000	+14.0%
<u>Maintenance</u>				
6522 Grounds contract	\$ 6,000	\$ 6,000	\$ 6,000	
6540 Repairs payroll	20,000	20,000	21,600	
6541 Repairs material	4,000	6,000	6,600	
6542 Repairs contract	5,000	4,000	4,000	
6561 Decorating supplies (including paint)	3,000	4,000	4,800	
Total maintenance	\$ 38,000	\$ 40,000	\$ 43,000	+ 7.5%
<u>Taxes and Insurance</u>				
6710 Property taxes	\$ 26,000	\$ 26,000	\$ 26,500	
6711 Payroll taxes and benefits	6,000	6,000	6,500	
6720 Property insurance	7,000	8,000	8,000	
Total taxes & insurance	\$ 39,000	\$ 40,000	\$ 41,000	+ 2.5%
TOTAL OPERATING EXPENSES	\$162,000	\$166,000	\$181,000	
6820 Mortgage payments	\$ 76,000	\$ 76,000	\$ 76,000	
2320 Reserve fund contributions	4,000	4,000	4,000	
1320 Maintenance equipment	-	-	8,000	
2110 Accounts payable	-	-	5,000	
TOTAL CASH REQUIREMENTS	\$242,000	\$246,000	\$274,000	+11.4%

● PUM Comparisons

Often the best guide to reasonableness for project (and other) expenses is to obtain the latest budget or Profit and Loss Statement of a similar (well-run) project, and do a per-unit per-month (PUM) comparison. To do this, divide each number by the number of units in the project, and then by 12. This will tell you what, on the average, it costs each tenant family each month for the services. If your project's costs are significantly higher than those of the other project, they should be questioned.

Example: For Project A, which has 130 units, total budgeted maintenance expenses are \$125,000

$$\$125,000 \div 130 = \$962$$

$$\$962 \div 12 = \$80$$

Project A residents pay an average of \$80 per unit per month for maintenance

Project B has 120 units. Total maintenance budget for the year is \$53,862

$$\$53,862 \div 120 = \$449$$

$$\$449 \div 12 = \$37$$

Project B residents pay an average of \$37 per unit per month for maintenance

In the above example, it could be that little maintenance is actually getting done at Project B. You can check this by looking and talking to residents. It could also be that Project A is paying far too much, or that Project A is in very bad condition and needs a lot of work.

The following is a discussion of the major line items, starting with Expenses (halfway down the first page of the Profit and Loss Statement).

• • • How to Review Project Expense and
Income Accounts

Renting Expenses (6200)

This is the amount spent for advertising and other costs related to renting up vacant apartments. If the project has had a lot of vacant units, renting expenses may be quite high. If there is always a waiting list of people anxious to move in to a project, then renting expenses should be low. Some managers put the cost of fixing up vacant units (painting, cleaning, etc.) under renting expense.

There are two things to look for here:

- (1) If the project has a lot of vacancies, perhaps renting expenses have not been used wisely, or are not high enough.
- (2) Compare the last year's actual renting expenses with those proposed by management in the rent increase proposal. Managers often include a high figure in the rent increase proposal and use it as a budget "cushion."

Administrative Expenses (6300)

These expenses include office salaries and expenses, management fees, telephone, legal and auditing costs, and bad debts.

- Office Salaries

Office salaries will probably increase somewhat as people get raises. The amount may include an allowance for costs of temporary help as needed to cover vacations and sick time of regular employees.

Check if the amount of salaries seems right for the number of people in the office. (Don't include the resident manager, whose salary is listed separately). Are all the people full-time? If part-time, how many hours do they work?

Office salaries vary in different communities. Office clerks usually get \$8,000-\$10,000 a year. Bookkeepers, depending on their experience, can get \$10,000-\$15,000, but most projects of under 200 units do not need a full-time bookkeeper. An assistant manager in a large project might also get \$10,000-\$15,000.

If you have good, capable staff, it is worth paying them well. If you are unhappy with the staff, you may wish to question their salaries. In either case, it will help if you check with other well-managed projects to find what their staff are paid.

- Office Expenses

Office expense covers costs like stationery, copy machine rental, and typewriter repair. These costs should not increase by more than the inflation rate.

- Management Fee

The management fee is based on rents. Managers usually get 5-7% of the rents they collect each month, both from HUD and from tenants. The fee is set up this way to encourage them to collect the rents. Whenever the rents go up, the fee, of course, does too. Therefore, managers have an obvious incentive to raise rents.

The fee covers costs of the management operation: the senior property managers and accounting staff and the management company's office overhead. This fee does not cover the day-to-day operation of your project, or the resident manager's salary. The management fee buys a service: "brainpower," expertise, supervision and backup. If management is not providing this service, the fee should be challenged.

- Manager or Superintendent Salary

A separate salary is usually paid to the resident manager or superintendent. Often the manager gets a free apartment as part of salary.

Small projects (less than 75 units) may have higher proportionate costs for resident managers than larger projects; you have one manager for 50 units or 100 units, but the 50-unit project has less rent money to pay her from. Managers of 100-150 unit projects often get salaries of \$10,000-\$15,000 plus housing; in larger projects, or projects with severe problems, good managers may earn more.

- Legal Expenses

Legal expenses are another item where costs can be controlled. A key question to ask is whether the expenditure is necessary. If the law firm does little more for the project than send out warning notices for nonpayment of rent, then you should object to the payment of legal fees for elementary tasks that can and should be performed by the resident manager. Also, residents should not have to pay for the management illegally trying to evict someone without good cause. Likewise, if legal expenses seem high, two questions need to be asked:

- (1) Were the previous year's expenses based on a one-time, high-cost lawsuit or other action that is not likely to be repeated?
- (2) Have any of the manager's or owner's legal expenses been charged to the project?

- Audit Expense

The audit expense really does not vary significantly with project size, but it should be comparable to similar projects. If substantially higher, more likely than not, it is the result of poor record-keeping. The project should not have to pay for the management's inability to keep proper records.

- Telephone Expense

Budgeted telephone costs should show an increase only when a known rate increase is expected, or if additional services - such as a night-time telephone answering service - are being provided.

If the management company office is far from your project, heavy telephone costs may be incurred as project staff will have to call the head office frequently. If the management company's office is in your project you will want to check to be sure you have not been billed for the management company's telephone expense. The management company should have a separate phone number, and none of its business calls relating to other projects should be charged to your project.

- Bad Debts

Bad debts are sometimes combined with vacancy losses. They are both loss of income to the project. However, they have different causes. Vacancy loss is caused by failure to re-rent empty apartments promptly.

Bad debt expenses are high for many projects. Nonpayment of rent is the major part. A high figure indicates either that tenants are experiencing income problems or that management needs to examine their tenant selection or rent collection policies. Often changes can be made to reduce bad debts.

Operating Expenses (6400)

Operating expenses include expenses for elevator, fuel oil, janitorial, utilities (electricity, water and sewer, gas), extermination, and garbage removal.

● Elevator and Janitorial Expenses

These are often contracted out. There should be evidence that bids were obtained.

● Gas and Electricity

Utility costs are increasing rapidly, and so the rent increase budget will include any known rate increases. If the project's utility expenses appear abnormally high, it may be due to inefficient project-supplied appliances, poor building design or construction (such as lack of insulation), or inadequate conservation practices.

Management should be taking steps to correct these problems through tenant education, and correcting defects (like caulking windows and adding insulation). Too often, managers get HUD approval instead to convert the utilities so that the tenants pay the bills, in return for a "utility allowance"* (lower rent). The tenants or Board should not accept such a change unless the buildings are first made energy efficient and the utility allowance is fair and reasonable.

*-Also called "Personal Benefit Expense" (PBE).

- Water and Sewer

Costs for water and sewer should go up only when rate increases are announced. Poor maintenance can add to these costs; one dripping faucet wastes thousands of gallons of water. Your municipal utility department can tell you if costs for your project are higher than average, and suggest ways to conserve water.

- Exterminating Expenses

Exterminating expenses vary significantly from project to project. The manager should be able to show evidence of taking bids for this service, and the contract with the selected exterminator should detail how many visits are to be made each week or month. Some projects have their maintenance staff provide pest control. If you question the cost of extermination in your project, look in the yellow pages under Pest Control and call a couple of places to get an idea of current costs for a project your size.

- Trash Collection

In some communities trash collection is a city service, paid for out of taxes, or billed separately. In others, a project has to contract with a private firm. It should be easy to find out the cost from the city or the contractor.

Maintenance Expenses (6500)

Maintenance expenses include the costs of grounds care, repairs, decorating and sometimes security services; also included is the payroll of the maintenance staff.

Maintenance is another area where cheating often goes on. If there is not good control over maintenance supplies, owners or employees may sometimes steal them. It is also not uncommon for managers and owners to use your project's supplies for some other property they own or manage. It may take some detective work to prove that this is going on.

● Protection

Protection or security expenses are somewhat rare among subsidized housing projects. They should be supported by a contract. Make sure the expenses are necessary and appropriate, considering the type and location of the project, as well as the nature of its security problems. Expenses for security personnel should be weighed against structural improvements that also may improve security, such as deadbolt locks, good lighting, and a central security door limiting access to the building.

● Grounds Supplies, Grounds Contractor

Expenses for the upkeep of the project grounds should be looked at closely. What is the actual

condition of the project grounds? Your own inspection, the annual physical inspection report, HUD's Management Review Report, will help you analyze management's figures. Grounds care is a favorite area for managers to use identity-of-interest companies. If you suspect this, urge HUD to ask for evidence that bids were let.

● Cleaning, Repairs and Decorating

This includes all the supplies necessary for these tasks: cleaning materials, repair parts, paint, etc. Again, in reviewing these expenses you will want to rely on your knowledge of what has been done in the past and HUD's most recent inspection forms.

Ordinary repairs may be made by on-site maintenance personnel, by outside contractors, or a combination of both. Examine both the total figure for all repairs and the expense figures for on-site payroll, contract work, and supplies. If the total repair figure is high in relation to similar projects in the area, the project could be overspending or paying the price for poor quality design or construction. You should request HUD to get an explanation from the landlord. On-site personnel may not be performing an adequate job, contract work rates may be high, or perhaps just a lot of work is needed to pay for deferred maintenance.

- Redecorating Expenses

These expenses may be broken out separately. Most projects try to stick to a schedule under which a certain percentage of units are redecorated annually. The cost of redecoration will depend upon the nature of the tenants' use and the quality of supplies used, but it should rarely exceed more than a couple of dollars per unit per month. Check to be sure that the redecoration is in fact being done.

- Extraordinary Repairs

Extraordinary repairs or one-time rehabilitation may be included in the landlord's operating budget. This is inappropriate in many cases where the expense is actually in the nature of a capital improvement. In other cases, you might want to urge that the cost be spread over the period of a few years. This would be true, for example, if the project exterior were painted every five years or new carpet was installed in many apartments. It might even be that certain items, for example, the carpet or appliance, should come from the reserve fund for replacements, which is specifically designed for such purposes (see pp. 59, 67).

Depreciation (6600)

You will find depreciation on the Profit and Loss Statement but not on the rent increase budget. You can ignore depreciation. It does not involve paying out money.

Taxes and Insurance (6700)

● Property Taxes

In HUD projects, the owner must pay a monthly amount for property taxes to the bank that holds the mortgage. The bank figures the "impounds," as they are called. Usually the amount they require is a bit higher than the actual taxes, so they will have a "cushion" in case of a tax increase.

If the property taxes have gone up, HUD will require the manager to provide evidence, such as a notice or bill, which will be available for you to examine. A big increase should be questioned; the owner should be urged to seek an adjustment. Some states give special tax benefits to elderly projects and co-ops, and you should, if possible, check that these have been claimed by contacting your local assessor's office.

Since Proposition 13 was passed, most property taxes in California have dropped (if the property has not changed hands). Often, project residents did not get rent reductions reflecting this change. Instead, project managers and owners found ways to raise expenses, so that residents paid the same rent, or even received rent increases. You should examine the Profit and Loss statements for 1979 (when Proposition 13 went into effect) and 1978, and make sure that the

tax reduction is shown. Then, if rents were not reduced, check what expenses were increased to use up the savings, and appeal to HUD for a reduction.

- Employer Payroll Taxes

Unemployment insurance, worker's compensation, and FICA often amount to over 15% of the project's payroll. As salaries increase, so will these items.

- Insurance Expenses

This covers insurance on the buildings, and, usually, a liability policy as well. It does not include insurance of your personal property. The cost of insurance has risen alarmingly in the past five years. The amount your project pays for insurance will depend on a number of factors, including type of construction, neighborhood, and number of insurance claims made. Many managers pay for fixing small amounts of fire or other damage out of project funds, rather than risking a claim which may send the insurance premium much higher. In some neighborhoods with a high incidence of fires, crimes and vandalism, it may be almost impossible to get insurance. Projects in this situation often have to buy very expensive insurance with very high deductibles (\$5,000-\$20,000). The best way to figure your insurance costs is on a PUM basis. There are projects in California paying anything from \$3.50 to \$25.00 PUM.

If your project's insurance costs seem high (say over \$10 PUM), you will want to question them. You need evidence that cost quotations were obtained from more than one insurance company. Sometimes an insurance agent can assist you in determining what is a reasonable cost for your neighborhood. Insurance is another area where managers sometimes receive kickbacks, or use their own identity-of-interest agencies.

Financial Expense (6800)

Financial expense consists of mortgage interest, and in certain projects, the mortgage insurance premium. Any large change in the total financial expense may reflect a mortgage modification. Mortgage modifications are sometimes made when a project is in serious financial difficulty and cannot meet all its expenses.

Service Expenses (6900)

Service expenses apply only to elderly and health care facilities and require a separate schedule. They include such items as meals and maid services.

Reserve Funds

Each project is required to make monthly payments to a replacement reserve fund. The amount to be paid will be found in the Regulatory Agreement. Occasionally, HUD permits increases in reserve fund payments. This money is used to replace major items like roofs and appliances. Co-ops are required to keep an

additional reserve, the general operating reserve, for emergency use. Payments to this reserve are usually 3% of the total budgeted expense.

A good, well-run project will have reserves available to meet unexpected replacement needs. If any reserve exceeds \$10,000, all or part of the money should be invested, so that the project can benefit from the interest income. Investing reserves is a rather complicated process, and many managers are too lazy to find out how to do it. You should raise this issue with HUD and insist that your project's reserves are properly invested.

- A Note on "Miscellaneous" Expenses

Any "miscellaneous" expenses listed should be questioned. There is seldom a need for a miscellaneous category.

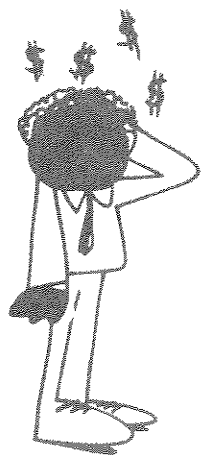
Income

When the manager makes up the rent increase budget, he figures the Income section last. He has to come up with a figure which will cover the total expenses. After figuring all the small amounts of income that will come from things like laundry concessions, parking, and perhaps interest, he comes to the big number - Gross Potential. This is the total amount expected from rents, and it will be increased to cover the increases in expenses. To the extent that expenses can be challenged and cut, rent increases can be reduced.

• • • Summary

As well as looking at all the documents relating to the project, you have completed an evaluation of the overall condition of your project and the quality of services provided. Sometimes you may conclude that your project is being run well, and that the proposed rent increase is reasonable. In other cases, you may think the increase is quite unreasonable, and decide to take the matter up with the management or HUD. The next chapter will tell you how to go about getting people to listen.

V. ALTERNATIVES TO
RENT INCREASE



V. ALTERNATIVES TO RENT INCREASE

• • • What Alternatives Are There?

Sometimes rent increases can be reduced or avoided if other money can be found to help pay bills. Sometimes funds can be found to assist low-income tenants in paying a necessary rent increase. Three kinds of funds may be available:

- additional rent subsidies to assist the tenants in paying a necessary rent increase;
- additional lump sum payments, such as "flexible subsidy" (from the government), a mortgage modification, or a "contribution" from the project owner;
- project reserves.

All of these should be considered. Some tenant groups and Boards of Directors have convinced HUD that rent increases should only be granted if additional subsidies can be found. In other cases the tenants and the project owner or Board have jointly worked to obtain flexible subsidy money.

The rest of this section will discuss the three alternatives.

• • • What Are Additional Rent Subsidies?

Additional rent subsidies can include:

- rent supplement

- Section 8 additional assistance
- RAP (Rental Assistance Program), and "tax and utility subsidy" [both for 236 projects only]
- Section 8 Existing Housing Assistance for tenants paying the basic rent.

Under each of these programs, the project owner enters into a contract with HUD. The contract provides that the tenant's rent will be a fixed percentage of family income (usually between 15 and 30 percent). The difference between the tenant's rent and the HUD approved rent is subsidized by HUD. Project owners certify the eligible tenants. Tenant eligibility under each of the programs is different. You need to be familiar with these eligibility requirements to avoid requesting additional rental subsidies for a project for which the tenants are ineligible. The requirements can be obtained from your local HUD office.

Also, before requesting additional subsidies for a project, you ought to find out what kind of additional rental subsidies the project currently receives. The kind and amount of subsidy received is important because certain rental subsidies cannot be mixed with others and there are maximums on the percentage of amounts certain rental subsidies may cover. For example, the rent supplement program cannot exceed

20% of the units in a Section 236 project unless the Secretary of HUD approves, and then the percentage is limited to 40%. In the Section 221(d)(3) program, however, the rent supplement program can be used for up to 100% of the units.

• • • What if Available Rent Subsidies Are
Not Being Fully Used?

Sometimes you will find that an owner or manager is not using available rent subsidies. A 100-unit project may have 20 rent supplement units, but only 10 may be used. Sometimes it is because the manager cannot find tenants who qualify, but often it is because no one has really made the effort to check if any existing residents qualify. Some managers play favorites with subsidies, giving them only to tenants they think are "good." Some owners decide they want to limit the number of poor people in the project, and deliberately choose not to use the subsidies.

What happens is that HUD takes away the subsidy money and uses it in another project.

If you discover rent subsidies are not being fully used, urge HUD to make the owner use them. In an attempt to help the tenants, Congress has directed HUD to assure that "project owners do not interfere with the efforts of tenants to obtain rent subsidies."

• • • How Do You Get Additional Rent Subsidies
From HUD?

There is, unfortunately, not enough subsidy money to assist all needy tenants. HUD has set some priorities so that the funds will be allocated fairly. For example, first priority for Section 8 additional rental assistance goes to projects with serious financial problems.

In order to persuade HUD to grant additional subsidies you will need to document the number of low income and elderly residents who are paying over 25-30% of their income for rent. If management is cooperative, this can be done by going through the project's tenant files. If not, the tenant association may have to go door to door, seeking the information.

Since the owner must formally make application for these funds, it is best if the owner or Board and the tenants can present a united front to HUD.

• • • What is "Flexible Subsidy"?

Flexible subsidy is a lump sum payment to assist in:

- financial and physical improvements to the project;
- improving project management;
- maintaining the low/moderate income character of a project.

First priority is given to projects in danger of mortgage default or foreclosure.

Second priority is to projects with financial or management problems.

Third priority is to projects in danger of developing severe problems in the next three to five years.

In the case of limited dividend projects, the owner must be willing to contribute some cash himself (one-half to one-third of the flexible subsidy amount). Nonprofit and co-op Boards may be asked to provide services instead of cash.

Finally, the project owner must agree to develop a plan to improve project management (called a MIO plan), and to preserve the project for low- and moderate-income people for the life of the mortgage.

Many owners do not want to take on these obligations and will have nothing to do with flexible subsidy. Other owners have obtained thousands of dollars to make needed project improvements.

• • • What Is a Mortgage Modification?

Project owners can also seek a mortgage modification. Usually, part of the mortgage payments can be "deferred" for a year, making extra cash available each month, and then spread over the rest of the mortgage.

• • • What Are Owner Contributions?

In limited partnership projects the wealthy owners can sometimes be persuaded to invest additional money in the project. They may prefer this as an

alternative to foreclosure, which would certainly hurt their investment and tax benefits.

If there are code violations or any other violations of the regulatory agreement, tenants should also ask HUD to prevent payment of the 6% dividend to limited dividend owners. This money can then be used to make project improvements.

• • • How Can Project Reserves Be Used?

Other sources of funds may be found within the project itself. The first of these sources is the so-called residual receipts account. This account contains miscellaneous funds remaining after the project pays all of its debts and any allowable dividends. HUD will occasionally be willing to release these funds to offset the effect of a rent increase. Not all projects have a residual receipts account.

Co-ops may have a general operating reserve which can be used, with HUD permission.

A third source of funds is the project's reserve for replacements. Money is accumulated in a reserve account in anticipation of the need to replace capital improvements and fixtures. Disbursements from the reserve account may occur only with the consent of HUD. Use of the reserve fund to forestall a rent increase is of limited effect because although such use may provide

temporary relief, eventually the funds will have to be replaced through increased rent collections in the future.

• • • Summary

This section has suggested a number of possible alternatives to rent increases, as well as some ways to relieve the burden of necessary rent increases.

The alternatives to rent increases should all be carefully considered and discussed with management. You could explain to management, for example, that by obtaining additional rent subsidies from HUD they will be guaranteeing a regular source of income to the project, as well as assisting a needy tenant. Additional rent subsidies are the best alternative, when available, for they are long-term sources of money and help the tenants. Both flexible subsidy and use of the reserves are "one-time" solutions only.

VI. C O U R S E S O F A C T I O N



VI. COURSES OF ACTION

• • • Where Do We Go From Here?

A resident association or Board of Directors may, after careful review, conclude that the project is well managed and the rent increase justified. But in many cases, residents will want to prepare a letter or petition to HUD opposing the rent increase, and a Board of Directors may decide to reject the proposed rent increase.

• • • Action by Board of Directors

In a well-run nonprofit or co-op project it should not be necessary for tenants to go to HUD. The Board of Directors will have done its own review essentially similar to that done by the tenants, and may refuse to approve the rent increase. The Board may direct management to reconsider the proposed increase. If severe violations have been discovered, management will probably be fired and a better company hired. A good Board of Directors will encourage tenants to attend and participate in the meetings where these kinds of decisions are made.

Unfortunately, some nonprofit and co-op boards do not perform their duties diligently. In these cases, if tenant requests to meet with the Board are unsuccessful, project residents may be forced to petition HUD. This frequently occurs where there is no open communication between Board and residents. Boards who hold secret

meetings and fail to consider residents' concerns are not fulfilling their obligations to the community, and efforts should be made to educate or to replace them.

● ● ● Preparing a Letter or Petition to HUD

The letter or petition should deal with the two general issues we have covered:

- Are there violations under the regulatory agreement (such as improper maintenance)?
- Are the claimed increases in expenses justified?

The document should state the facts clearly, and end with a list of actions the tenants want HUD and the project owners to take prior to approving any increase. Tenants should demand a meeting with HUD officials, the owners, and management to discuss the issues raised in the letter or petition. Most HUD offices respond to requests for such meetings. An example of a letter to HUD is shown on pages 73-75.

● ● ● Writing Individual Comments

Individual tenants should be encouraged to write to HUD and the project management during the 30-day comment period, stating their views on the proposed increase.

In both individual comments and the letter to HUD, you should avoid talking about personal or family problems - concentrate on the facts!

• • • Taking Other Actions

Other actions can be used to ensure that HUD and management take the tenants' petition seriously. These include:

- media coverage about project conditions
(TV, newspapers)
- letters to the newspapers
- letters to Congressional representatives
(very effective)
- letters to the Secretary of HUD in
Washington
- legal action/withholding of rent.
- Media Coverage

Media coverage can be an effective way of making the community aware of your problems. TV stations and newspapers will often send a crew to cover a tenant meeting, especially if you call them in advance and tell them the kind of issues that are likely to be raised.

• Letters to the Newspapers

Residents should be encouraged, where appropriate, to write letters to the newspapers complaining of project conditions.

• Letters to Congressional Representatives

Letters to Senators and Congressmen can be very effective in getting results. An inquiry from Congress will really make local HUD people take your comments

seriously, since they are required to give top priority to a response.

- Letters to the Secretary of HUD

Although probably less effective than letters to Congress, letters to the Secretary of HUD may help in getting your case heard.

- Legal Action

Legal action, including withholding of rent, must, of course, depend on the recommendation of your attorney. Many attempts to challenge HUD's decision on rent increases have been unsuccessful; however, in a couple of recent cases the tenants have won.

- ● ● Summary

A number of courses of action have been suggested for Boards, tenant groups and individual tenants to follow when they oppose a rent increase.

On the following pages is an example of a letter to HUD about a rent increase. Note the amount of work the tenants have done to come up with facts to back up their claims. Note also that the letter looks business-like; wherever possible, find someone to type your letters to HUD, since handwritten letters are often difficult to read and to copy.

SAMPLE LETTER TO HUD

Mr. John Doe, Director
Anytown Area Office
U.S. Department of Housing and
Urban Development
P.O. Box 1234
Anytown, U.S.A.

Date (Within 30
days of posting
of rent increase
notice)

Re: Happy Valley Apartments
Anytown, U.S.A.
FHA Project No. 123-4567

Dear Mr. Doe:

We, the concerned tenants association of Happy Valley Apartments, are writing to protest the proposed rent increase averaging \$59 per unit, posted by Palm Management on May 1, 1980. We demand that you reject this increase for two reasons:

1. Palm Management is not complying with all the requirements of the Regulatory Agreement.
2. The proposed increases are not justified.

1. Violations of the Regulatory Agreement

Maintenance Violations. Happy Valley Apartments are not being properly maintained. Specifically:

Roof Leaks: Seventeen of the 42 apartments have experienced severe roof leaks during the past two winters. Two of the apartments are vacant because they are unliveable. Palm Management has patched the roofs, but the leaks continue. We believe the roofs of at least 4 buildings need to be replaced.

Grounds Care: The project grounds are in terrible condition, due to the failure to water, fertilize or mow the lawns. Most of the shrubbery is dead. We invite you to visit the project and inspect the grounds for yourself.

Interior Maintenance: Interior maintenance is very poor. In four apartments, the bathroom floors are rotted, due to water leaks. One resident has had no hot water for three weeks. None of the apartments, which are 8 years old, has ever been repainted. The maintenance man, who is supposed to be full-time, spends more than

half his time working on other apartments owned by Palm Management. It often takes a week or more to get a response to a maintenance request.

Improper Charges to Tenants: Palm Management charges a cleaning deposit of \$100 in addition to the security deposit and the first month's rent. We believe this is illegal and a violation of the Regulatory Agreement.

2. Unjustified Rent Increase Proposal

Palm Management is asking for an unreasonably large rent increase. We have reviewed their proposed budget carefully, and offer the following comments on the individual line items:

Vacancy Loss: Palm Management estimates a 7% vacancy loss. Given the current housing shortage, there is no reason for any of these apartments to be vacant. However, it often takes Palm Management 3 to 6 weeks to prepare an apartment for a new tenant. The tenants should not have to pay for incompetent maintenance work.

Management Fees: We do not understand what Palm Management does for its management fee. We never see anyone from management at the project, and most of the time the resident manager's office is closed.

Legal Expense: Legal expense of \$4,000 is too high for a 42-unit project! We note that the amount spent last year, according to the Profit and Loss Statement, was \$3,698. The year before it was \$1,741. We believe Palm Management is basing this year's figure on some expenses which were unusual and should have been paid by management; specifically, the lawsuit won by a former resident manager, who claimed she had not been paid for all the overtime she had worked.

Maintenance Salaries: We note that the budget includes a salary of \$12,000 for a full-time maintenance man. We question this because, as noted above, the maintenance man spends less than 50% of his time on our project.

Grounds Expenses: We question the expense of \$6,000 for the grounds care contract with ABC Lawn Care. ABC has done a poor job of maintaining our lawns, and we see little likelihood of improvement. We wish to point out, also, that ABC is owned by Mr. John Palmer, President of Palm Management. We think this contract should be put out for bids.

Real Estate Taxes: We note, from reviewing the past two years' financial statements, that property taxes dropped by more than half, following passage of our new state law reducing property taxes. However, our rents were not reduced. Instead, Palm Management used the \$15,000 "windfall" to convert the gas meters from "master" meters to individual meters. We believe this was an improper use of these funds.

Insurance: We believe that \$7,000 is excessively high for property insurance for 42 units in this neighborhood. A neighboring project, Broadview Manor, which has 50 units pays only \$3,500. We feel part of the high cost may be the poor appearance of Happy Valley. We also note that the insurance agent is Mr. Harold Palmer, brother of Mr. John Palmer. We request HUD to insist on competitive bids for insurance.

We request a meeting with you and Mr. Palmer to discuss these issues, at the earliest opportunity. You may address your reply to:

Mrs. Millie Johnson, President
Happy Valley Concerned Tenants Association
301 Happy Valley Court
Anytown, U.S.A.

Telephone: 765-4321

We attach copies of a petition containing 33 tenant signatures supporting this protest and of statements by tenants regarding inadequate maintenance services.

Sincerely,

Mrs. Millie Johnson
President
Happy Valley Concerned
Tenants Association

cc: Mr. John Palmer
Palm Management Company

APPENDIX A
FIGURING RENTS FOR THE HUD PROGRAMS

EFFECT OF RENT INCREASES ON RESIDENTS*

This section will outline the various ways rent is calculated under four rent subsidy programs: 221(d)(3), 236, Rent Supplement and Section 8 Set-Aside. Remember to make sure that you have verifications for all income and deductions, so that all computations are accurate.

SECTION 221(d)(3) BMIR** RENT

In a 221(d)(3) BMIR apartment complex, rents are set by the government according to bedroom size. There is also a limit set on the amount of income a family may have to be eligible for this housing. (This is called the Area Income Limit.)

To figure out your rent, you will first have to find out what the maximum income limits are for the project. Then you compute your adjusted income to see if it is less than the set limit.

TO FIND OUT YOUR ADJUSTED ANNUAL INCOME

1. List your family's monthly income for all regular sources. Do not include the earnings of any member of the family who is under the age of 21, unless they are "head of household or spouse."

ENTER IT HERE _____

*-Much of the material in this section has been taken from the "Subsidized Rental Housing Handbook," prepared by Georgia Legal Services Programs/Atlanta Legal Aid Society.

** -Below Market Interest Rate.

2. MULTIPLY THIS FIGURE BY 12 TO GET YOUR GROSS ANNUAL INCOME.

ENTER IT HERE _____

3. SUBTRACT COSTS for child care, for children under 13, or custodial care for a family member who cannot care for himself where the care is needed so that a member of the family can work.

ENTER THESE COSTS HERE _____

4. SUBTRACT continuing costs, such as medical expenses, which are spent by a member of the family because of a permanent disability or a long-term illness.

ENTER THEM HERE _____

5. FIGURE YOUR ANNUAL ADJUSTED INCOME:

Put your yearly income (para. 2) here:

\$ _____

Put your total deductions (3 + 4) here

\$ _____

Subtract your deductions from your income

ENTER IT HERE _____

This is your annual adjusted income.

6. If your annual adjusted income is lower than the AREA INCOME LIMIT, then you are eligible for an apartment at the BMIR rent.

If at a later date your family income increases over the amount of the area income limit, your rent may be increased only up to 20% above the BMIR rent.

INCOME RECERTIFICATION

Incomes in 221(d)(3) BMIR projects are usually recertified every two years. At this time, individual rent payments may go up, down, or stay the same, depending on the resident's income.

EFFECT OF RENT INCREASE

Any time a rent increase is granted, all the residents not receiving additional Section 8 or Rent Supplement assistance will be affected.

SECTION 236 RENT

There are two rental charges for each unit according to bedroom size: the Basic Rental charge and the Fair Market Rental charge. The basic charge is a minimum charge which reflects the government subsidy; the Fair Market Rent is a maximum rent which is figured as if there was no subsidy. The rental charged to a tenant family is the greater of the Basic Monthly Rent or 25% of the family's adjusted monthly income, but never more than the Fair Market Rent.

To find 25% of your adjusted monthly income:

1. Take your total monthly income (before taxes) from all regular sources, such as wages, social security, AFDC or child support. DO NOT include the earnings of any member of the family who is under the age of 21, unless they are a head-of-household or spouse.

ENTER IT HERE _____

2. Multiply this figure by 12 to get your Gross Annual Income.

ENTER IT HERE _____

3. Figure out 5% (1/20) of your total income.

ENTER IT HERE _____

4. Subtract \$300 for each person living with the family who is under 21.

ENTER THE TOTAL HERE _____

5. Figure your YEARLY ADJUSTED INCOME:

Put your yearly income (para. 2) here:

\$ _____

Put your total deductions (3 + 4) here:

\$ _____

Subtract your deductions from your income:

ENTER IT HERE _____

6. Divide your Annual Adjusted Income (para 5) by 12 to get your Adjusted Monthly Income.

ENTER IT HERE _____

7. Divide your monthly income figure by 4.

ENTER IT HERE _____

Your rent will be this figure, or the basic Monthly Rental charge - whichever is greater. However, if at some time this figure is higher than the Fair Market Rental Charge, you will pay no more than the Fair Market Rental Charge.

INCOME RECERTIFICATION

If you live in a 236 project, you are probably familiar with the annual recertification. Depending on your income, your rent payment may go up, down, or stay the same. An increase in rent as a result of recertification is not the same as a project-wide increase.

EFFECT OF RENT INCREASE

When a project-wide rent increase occurs, both the "basic" and the "fair market" rents increase. This will normally affect all residents, unless they are getting additional assistance through Section 8 or Rent Supplement.

RENT SUPPLEMENT

The Rent Supplement Program is available in some 236 complexes, and also in some 221(d)(3) and elderly complexes. Because there is only a limited amount of rent supplement funding available, many complexes have a small percentage of units committed for this program. You

should check with the project manager to see if the apartment complex is receiving rent supplement funds.

The rent supplement program has certain requirements. To qualify for this program, individuals or families should be one of the following: 1) sixty-two (62) years of age or over, or physically handicapped; 2) displaced by government action; 3) occupants of sub-standard housing; 4) occupants of housing destroyed by disaster; and 5) a family whose head is on active armed forces duty. In addition, applicants must be low income and have limited assets.

TO COMPUTE RENT SUPPLEMENT

1. Take your monthly gross (before taxes) income from all sources. DO NOT include earnings of minors under age 21.

ENTER IT HERE _____

2. Multiply this figure by 12 to get your Gross Annual Income.

ENTER IT HERE _____

3. Subtract \$300 for each minor, except the tenant or spouse.

ENTER THE TOTAL HERE _____

4. Subtract costs for child care, for children under 13, where the care is needed so that a member of the family can work.

ENTER THE TOTAL HERE _____

5. Subtract continuing costs, such as medical expenses, which are spent because of a permanent disability or long-term illness.

ENTER THE TOTAL HERE _____

6. Figure your YEARLY ADJUSTED INCOME:

Put your yearly income (para. 2) here:

\$ _____

Put your total deductions (para. 3, 4, 5) here: \$ _____

Subtract your deductions from your income.

ENTER IT HERE _____

This is the amount which you will pay as rent. The difference between your rent and the approved Market Rent for the apartment is paid by the federal government (HUD) as a "rent supplement." In some cases, your rent may not exactly equal the 25% figure. The supplement may not be more than 70% or less than 10% of the rent for the unit. So there is actually a maximum and minimum rent. If the set rent for the unit is \$100, then your rent must fall between \$30 and \$90. For example, if 25% of your income equals \$22, then you will pay \$30, because that is the minimum rent approved for your apartment.

INCOME RECERTIFICATION

Income recertification is required annually, except for the elderly, who are exempt from recertification.

EFFECT OF RENT INCREASE

Project-wide rent increases may affect those on Rent Supplement because the government will pay no more than 70% or less than 10% of the rent. The residents affected will be those for whom 30% of the rent is higher than 25% of their income, and those for whom 25% of their income is lower than 10% of the rent. Since the rent supplement program serves low income, very needy people, even a very small increase may cause severe hardship.

SECTION 8 SET-ASIDE CONTRACT RENT

HUD establishes a Fair Market Rent including a utility allowance for each size apartment. To figure your correct rent (CONTRACT RENT) under the Section 8 set-aside program:

1. Take your Total Monthly Income from all regular sources. Do not count income of a full time student or person under 18 unless he or she is head of the household. Do not count foster child care payments or scholarships for tuition, books and fees.

ENTER IT HERE _____

2. Multiply by 12 to get Annual Family Income.

ENTER IT HERE _____

3. Subtract \$300 for each person under 18 or who is a full time student.

ENTER IT HERE _____

4. Add up all your medical expenses for the year, including medical insurance premiums. (This may be verified by a Doctor's letter or receipts.) From this total subtract 3% of your total annual income. Then subtract any balance from the total at (3) above.

Annual total medical costs: _____

Subtract 3% of the Total Annual
Income: _____

ENTER EXCESS MEDICAL EXPENSES HERE _____

5. Subtract annual cost of caring for children under age 13 or of disabled or handicapped household members if this care payment is necessary so a family member can hold a job.

ENTER IT HERE _____

6. Take your annual income (para. 2) and subtract your deductions (para. 3, 4, 5).

ENTER IT HERE _____

7. Divide your adjusted income (para 6) by 12 to get your adjusted monthly income.

ENTER IT HERE _____

8. Divide adjusted monthly income by 4.
This is your Gross Family Contribution.

If your family qualifies as a large, very low income family, a very large, lower income family, or a family with exceptional medical or other expenses, multiply your adjusted monthly income by 15% to get the gross family contribution. (These terms vary according to a community's median income.)

9. A Utility Allowance is set by HUD for each size apartment. This utility allowance is subtracted from your gross family contribution and the net figure equals your monthly Contract Rent. In all cases where your allowance is greater than your contribution, you are entitled to receive a "rent credit" payment from the management for the difference when you pay for your utilities directly to the utility company.

INCOME RECERTIFICATION

Income recertification is required on an annual basis.

EFFECT OF RENT INCREASE

Project-wide rent increases will not normally affect residents who are on Section 8.

APPENDIX B

STEPS FOR REVIEWING A RENT INCREASE PROPOSAL

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STEPS FOR REVIEWING A RENT INCREASE PROPOSAL

STEP 1

FIND OUT WHICH GOVERNMENT PROGRAMS
YOUR PROJECT HAS.

STEP 2

ESTIMATE THE EFFECT OF THE INCREASE ON
RESIDENTS UNDER EACH PROGRAM.

STEP 3

EVALUATE THE CONDITION OF THE PROJECT
AND THE SERVICES PROVIDED.

STEP 4

CONSIDER WHETHER THE IMPROVEMENTS
PROMISED, IF ANY, MAKE SENSE, AND ARE
LIKELY TO BE PUT INTO EFFECT.

STEP 5

EVALUATE THE RENT INCREASE HISTORY OF
YOUR PROJECT.

STEP 6

FIND OUT WHAT TYPE OF OWNERSHIP YOUR
PROJECT HAS.

STEP 7

INVESTIGATE WHAT SOURCES OF ASSISTANCE
ARE AVAILABLE TO YOU.

STEP 8

DETERMINE WHETHER THE OWNERS OR MANAGEMENT
HAVE FOLLOWED THE REQUIRED PROCEDURES,
AND TAKE ACTION IF THEY HAVE NOT.

STEP 9

GET THE REQUIRED DOCUMENTATION.

STEP 10

REVIEW THE DOCUMENTATION FOR INSTANCES OF
SERIOUS VIOLATIONS.

STEP 11

DO A DETAILED REVIEW OF THE PROPOSED
BUDGET, COMPARING IT WITH THE PROFIT-AND-
LOSS STATEMENT AND OTHER DOCUMENTS YOU
HAVE OBTAINED.

STEP 12

CONSIDER THE ALTERNATIVES TO A RENT INCREASE.

STEP 13

DETERMINE YOUR COURSE OF ACTION IF THE RENT
INCREASE IS UNJUSTIFIED OR TOO HIGH, AND
ACT UPON IT.