

MEMORANDUM NO. 06-10-04 MF-112

To: SDHDA Owners/Management Agents

From: Vona Johnson, Director
Rental Housing Management

RE: Rent Increases for Budgets Due November 1

Date: October 11, 2006

As you know, in 1995 the requirements for Automatic Adjustment Factor (AAF) rent increases changed, thereby eliminating the previous policy of allowing Automatic Adjustment Factor increases to Section 8 New Construction properties. This change in policy has had a tremendous negative impact on properties financed by SDHDA since many have not had a rent increase since that time.

After much discussion concerning the negative impact to both the financial and physical condition of properties with HUD, they have agreed to allow us to use a new formula in calculating rent increases. The new formula is based on the Initial Difference between the actual rent and the existing Fair Market Rents (FMR) at the time the properties were completed as well as a reasonable operating budget necessary to maintain the property.

For this reason, we are asking that as you prepare your budget for submission on November 1, you take into consideration what your actual costs would be if you were able to operate the property properly rather than in the restricted rent mode in which we have been operating during recent years.

The list of properties for which at least some of the units should expect an increase is attached. Please prepare your increased budget projections only for those properties which are included on this list. If you have other properties that are struggling, but are not on this list, we will need to determine other alternative solutions to that problem at a later time. Note that your budget still must be approved by SDHDA staff within the rent reasonableness test that we must apply as well as the cost reasonableness test that we have always applied.

You will be notified as to what your actual increased rent will be once your budget is approved. As a part of this process, you must complete an updated Utility Allowance Analysis, which I recommend that you begin immediately. Remember, you will be required to give all tenants the proper 30 days notice of rent increase, so we must have your proposed budget by November 1 if you want your approved budget by December 1 in order to give proper notice. If budgets are approved later than that time, the rent adjustments will be delayed in the approved budget accordingly. (For example, if your budget is not approved until January 1, you would then need to give notice by February 1 for a March 1 effective date and your costs and rents will be adjusted accordingly.)

If you have any questions, please feel free to contact your Housing Management Officer.

VJ:bt

Attachments

P:\am-c\management\sdhda\rents\rent increase memo.doc