



BARNSTABLE COUNTY HOME CONSORTIUM

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TO: Advisory Council members
FROM: Paul Ruchinkas, Michelle Springer
DATE: November 14, 2013
RE: Rental Project Monitoring Fees

Background:

As I reported last month, the revised August 23, 2013 HOME regulations allow HOME jurisdictions to charge rental project monitoring fees for developments for which HOME funds were committed on or after August 23, 2013. The HUD guidance is that the monitoring and inspection fees must be included in the operating budget as part of the underwriting analysis for the project and must be based upon the average actual cost of monitoring HOME-assisted rental property. Finally, the jurisdiction must document how it made that cost determination.

The following is a summary of the primary rental project monitoring responsibilities that the Consortium must perform:

- On-site inspection within one year of project completion. This includes both a property/unit inspection and a file review of tenant income eligibility, rents, leases, and affirmative marketing/tenant selection procedures.
- Annual desk review of tenant incomes and rents for all HOME assisted units on all HOME assisted rental developments.
- Annual desk review of the financial status of all HOME assisted rental projects. This is a new HOME requirement and only for those developments with 10 or more units. Consortium staff has been reviewing all projects, regardless of size, for the last three years and will recommend that this practice continue. Owners may submit either audited financial statements or management generated statements.
- On site property/unit inspection and file inspection at least once every three years on all HOME assisted rental developments. The prior regulations required annual on-site visits on projects of 26 or more units; every two years for 5-25 unit projects; and every three years for 1-4 unit projects. Jurisdictions will now have the ability to determine how often



they monitor rental projects although again it must be at least once every three years. The new regulations require that all the units and files be inspected for projects with from 1-4 HOME assisted units. HUD will issue guidance on the appropriate sample size for projects with five or more HOME units although no fewer than four units and files will need to be inspected. Currently, we have inspected about 20-25% of the HOME units and files during on-site visits; therefore, there will be more files to review and units to inspect under the new regulations.

During this past year (FFY 2012) the Consortium was responsible for monitoring 50 HOME assisted rental developments that included 384 HOME units. Over the last three years Michelle has averaged about 15 on site monitoring visits per year. The Consortium has typically added three new rental projects with 25-30 more HOME units every year. With the reduction in HOME funding over the last two years it is likely that only two new projects per year will be completed. As a result of the reduction in HOME funding and the maximum of 10% of the funding allowable for administrative expenses, we have had to reduce the hours of staff time devoted to administrative tasks, including monitoring, from 27 to 18.5 hours per week.

I want to note that the amount of on-site monitoring visits would be even greater had we not used copies of DHCD monitoring reports (13 annual reports and 5 reports that are done every other year) in lieu of our on site visits. Technically, as the Consortium does not have an executed agreement with DHCD's monitoring agent, HUD would say that we cannot rely on these reports and should be going out ourselves; however, it does not make sense for two HOME jurisdictions (us and DHCD) to make separate visits to look at the same information. We will have discussions with DHCD to see if it is possible for us to be a party to their monitoring agreements in order to fulfill the letter of the HOME regulations.

Staff's best estimate of the amount of time it spent directly monitoring the 50 HOME assisted projects over the past year was about 4.25 hours per project. This time included the desk reviews of incomes, rents, and finances and the on-site file reviews; it did not include the on-site physical property inspections that were conducted by a contracted inspector. Please also note that we did not include time spent on researching or clarifying HOME specific income eligibility or other monitoring related issues that would apply to all projects. The total of staff wages, overhead, and other indirect costs that could be attributed to direct project monitoring was therefore about \$11,865. Dividing that amount by the 384 HOME units results in a direct monitoring expense of almost \$31 per HOME unit. The low income housing tax credit monitoring fee that DHCD charges to projects is \$30 per tax credit unit.

The expense charged by our contracted property and unit inspector is \$45 per unit with a \$15 per unit fee for any unit that fails and needs to be re-inspected. This fee may change once HUD institutes its new inspection standards and

protocols; however, that will not likely take effect until January 2015 at the earliest.

Recommendation:

Annual Monitoring Fee: \$30 per HOME assisted unit, to be adjusted by the Advisory Council as needed no more than annually.

Property Inspection Fee: Reimbursement for the actual costs of inspection.

Until we adopt the overall policies and procedures for risk-based on site monitoring that are required by July 24, 2014, staff recommends the following interim on site file and physical property inspection schedule for projects for which funds were committed on/after August 23, 2013:

TOTAL # OF UNITS IN PROJECT	INSPECTION FREQUENCY	NOTES
1-10	Every Year	Change to Every 2 Years for Projects with 2 Consecutive Years of Satisfactory Reports*
11-25	Every 2 Years	
26+	Every 3 Years	

*Satisfactory Reports- Physical Inspection- no unit re-inspections needed; On Site File Review- no Findings issued; Financial Reports- no cash flow or excessive vacancy issues.

Please note that we will use our current monitoring schedule for the FFY 2012 year that ended June 30, 2013, and whatever new monitoring schedule we finally adopt will go into effect for the monitoring that will start in August 2014.

Rationale for Recommendation:

Staff's experience has been that the smaller projects have been the ones that have generated the most concerns from a compliance perspective as well as from an overall financial risk perspective as the smaller projects have less margin of error to accommodate either greater than expected vacancies or expenses in any particular year. We have found that the larger (26+ units) projects that HOME now requires us to monitor on site annually have had few, if any, compliance issues. Including the six projects either underway or to which we have committed funding to the current list of 50 rental projects, the following is how the proposed on site monitoring schedule would be distributed:

TOTAL # OF UNITS IN PROJECT	# OF PROJECTS
1-10	22
11-25	16
26+	18

The monitoring fee would become a new operating expense that projects would need to carry. For projects that have the maximum of 11 HOME assisted units, the likely maximum annual monitoring fee would be \$630 (\$330 for desk/file review + \$300 for property inspections of 6 units). This would add about \$57 per unit per year to the operating budget. As the average property management expense in projects funded over the last 3-4 years has been \$7,000 per unit per year, staff suggests that this expense would be able to be carried with minimal impact upon the debt service coverage and would not require additional sources of funding.

Although an annual monitoring fee can only be charged to new projects and will result in a very modest amount of revenue over the next few years, there will be a continued increased monitoring workload as new rental projects come on line every year; therefore, staff recommends adoption of the proposed fee schedule in order to provide a modest amount of additional revenue for the Consortium's administrative expenses in order to provide for some additional hours to fulfill our monitoring obligations.