U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

OFFICE OF HOUSING

SEP 19 2014

MEMORANDUM FOR: All Multifamily Hub Directors
All Multifamily Program Directors
All Multifamily Operations Officers

FROM: Benjamin Metcalf, Deputy Assistant Secretary,
For Multifamily Housing, HT

SUBJECT: Multifamily Better Buildings Challenge Incentive: Allowable Management Add-On Fees **REVISED**

Based on feedback received from stakeholders, I have provided a clarification to the initial memo, dated April 24, 1014, which is identified in italics below. We expect this will facilitate use of the Management Add-on Fee incentive. Please continue to follow the instructions at the end of this memo with respect to providing feedback on this and other policies designed to support participation by HUD assisted Owners/Agents in the Better Buildings Challenge.

The Department of Housing and Urban Development, in partnership with the U.S. Department of Energy and the White House, expanded the Better Buildings Challenge (BBC) to include multifamily residential buildings in December 2013. BBC participants have committed to reduce their portfolio energy and water usage by 20 percent within 10 years. The Office of Multifamily Housing Programs has established the subject Management Add-On Fee incentive to address one of the market and policy barriers that Owners/Agents experience in "greening" their properties and achieving the goal of the BBC. **Participation in this incentive is limited to only those Multifamily properties owned by BBC participants,** and applies to Identity-of-Interest, Independent Management Agents, and Owner-Managed BBC Multifamily Housing Projects. *This memorandum is not a departure from existing HUD guidance regarding management fees. While HUD establishes the maximum amount of management fee, HUD does not determine how the Management Agent spends the management fee, including if the Management Agent pays a third party with the fee. The Owner and Management Agent should determine how the management add-on fee will be utilized. For example, the Management Agent may pay all or a portion of the Management Add On Fee to a third party including, but not limited to, the BBC Multifamily Partner for performing the work outlined in this memorandum.*

The Management Add-On Fee incentive will help Owners/Agents pay for the additional cost of best practices in energy and water management. Given the BBC requirement for data reporting, this incentive will also help alleviate some of the cost barriers associated with participating in the BBC. Multifamily believes that this incentive will both encourage Owners/Agents to participate in the BBC and ease the financial barriers that Owners/Agents face in incorporating energy and water management best practices into their standard building operations and making energy improvements to their properties as needed.

Owners/Agents operating HUD-insured and HUD-assisted properties are paid a management fee for their services. In addition to the management fees derived from project income, special fees and add-on fees are designed to offset the cost of managing special conditions specific to the property and/or market, and are not a function of project rents or income. Additional information on add-on fees can be found in Chapter Three of HUD Handbook 4381.5, the Management Agent Handbook. The Multifamily Hub/Program Center (Multifamily Hub/PC) establishes a schedule of project characteristics/conditions that warrant add-on fees and a flat fee amount (per unit per month (PUPM)) for each characteristic/condition. Although add-on fees are determined by each Multifamily Hub/PC based on

local market and property conditions, the BBC-eligible Management Add-On Fees must be added to all Multifamily Hub/PC schedules upon the issuance of this memorandum. This guidance expands on the current add-on fee options available to Multifamily properties that are part of a BBC portfolio. **This guidance does not modify or replace current Multifamily Management Fee policy for non-BBC participants.**

With this guidance, the Department authorizes the use of Management Add-On fees for eligible expenses incurred by property Owners/Agents in support of achieving BBC goals for reducing energy and water consumption at participating properties. Part I of this memorandum sets forth the schedule of BBC-Eligible Management Add-On Fees. Part II describes the requirements for accepting and processing BBC-eligible Management Add-On fee requests. Appendix A of this memorandum includes a sample HUD-9839-A, Attachment 1 form providing an example of how to include these fees on the appropriate section of the HUD-9839-A and HUD-9839-B forms.

PART I: BBC-ELIGIBLE MANAGEMENT ADD-ON FEES

1. Categories of BBC-Eligible Management Add-On Fees: There are four categories of applicable fees, described below: Operations and Maintenance, Tenant Engagement, Data Collection, and Benchmarking.

(1) Development and implementation of a property-specific Green Operations and Maintenance (O&M) plan.
Applicable costs may include:
   a. Staff or third party cost of developing a property specific Green O&M plan (this may be for a one-time plan development or plan update);
   b. Training up property O&M staff, including costs associated with obtaining necessary professional certifications;
   c. Technical assistance associated with development and implementation of a Green O&M plan.

(2) Tenant engagement and education to encourage energy and water efficient behaviors and best practices.
Applicable costs may include:
   a. Development and update of educational materials and training for tenants, including both general best practices and building-specific information;
   b. Supplies for hosting tenant outreach events;
   c. Hiring a third party to help design and implement tenant-directed conservation programs;
   d. Developing incentives to encourage tenant behavior (i.e., non-monetary recognition, such as a "tenant of the month" certificate).

(3) Utility data collection, entry and/or technical support.
Applicable costs may include:
   a. Staff or third party costs to collect and input owner or tenant energy data, including obtaining tenant releases and fees to utility companies up to $100 per building/year;
   b. Technical support for data collection and analysis;
   c. Third party bill-pay services and utility bill auditing services.

(4) Installation and use of energy data benchmarking and/or reporting software.
Applicable costs may include:
   a. Benchmarking software acquisition and training;
   b. Procurement of third party service for energy benchmarking services, including fees for subscription services and vendor management costs incurred by Owner;
   c. Technical support for energy benchmarking programs.

2. Limitations to BBC-Eligible Management Add-On Fees: Each of the above four BBC-eligible Management Add-On fees may not exceed $1.00 PUPM, per the following schedule:

BBC-Eligible Management Add-On Fee 1: Operations and Maintenance	$1 /PUPM
BBC-Eligible Management Add-On Fee 2: Tenant Engagement	$1 /PUPM
BBC-Eligible Management Add-On Fee 3: Data Collection	$1 /PUPM
BBC-Eligible Management Add-On Fee 4: Benchmarking	$1 /PUPM

Furthermore, cumulative BBC-eligible Management Add-On Fees may not exceed $5,000/year per property.

PART 2: APPLICATION PROCESS

1. Requesting a BBC-Eligible Management Add-On Fee: Participating BBC Owners/Agents who wish to request an Add-On fee based on this memorandum must submit a revised Management Certification (Form HUD-9839-A, or B) to their local Multifamily Hub/PC office, by mail or electronically (e-mail) and list the requested fees under the Special Fees section of Attachment 1 of that form. Owners/Agents shall copy Multifamily Headquarters on their request, Attn: Lauryn K. Alleva (Lauryn.K.Alleva@hud.gov). However, Owners/Agents shall direct all questions regarding their request to the appropriate Multifamily Hub/PC office.

When completing Attachment 1 of the Management Certification, Owners/Agents must clearly distinguish any BBC-Eligible Management Add-On Fees from other special fees listed on the form. The time period covered by the BBC-eligible Management Add-On fee(s) shall be the shorter of 10 years or the end of the BBC period for the sponsor's portfolio, starting no earlier than 15 business days after the revised Management Certification is submitted to the Multifamily Hub/PC for review and approval. Additionally, Owners/Agents must include a copy of their BBC Partnership Agreement (this may be signed by the sponsor entity). Forms should be submitted to the applicable Multifamily Hub/PC for review. See Appendix A for an example of how to complete the Special Fees section of Attachment 1 when requesting any of the four BBC-eligible Management Add-On Fees (one-four add-on fees may be requested at once).

2. HUD Review Process: Multifamily Hub/PCs should complete BBC-eligible Management Add-On Fee reviews and issue a decision in writing to the Owner/Agent within 15 business days of receiving the revised Management Certification and Better Buildings Challenge Partnership Agreement. If the Owner/Agent does not receive written notice of the results of HUD's review within 15 business days, the Owner/Agent may begin collecting the requested Management Add-On Fees documented in the Management Certification under review. If the results of a HUD review completed after this date indicate that the requested Management Add-On Fees must be reduced or eliminated, these reductions will take effect on the date that the decision is issued to the Owner/Agent by the Multifamily Hub/PC.

3. Appealing HUD's Decision: The Owner/Agent may appeal the results of a management fee review to the Multifamily Hub/PC Director. Appeals must be submitted in writing within 30 days after the date of HUD's decision letter. In the appeal, Owners/Agents must detail how their energy efficiency activities at the project satisfy the intent of one or more of the four categories of applicable fees: Operations and Maintenance, Tenant Engagement, Data Collection, and Benchmarking. If agents submit an appeal without the owner's signature, the agent must certify that the owner consents to the appeal. Owners/Agents may not collect the disputed Management Add-On Fee(s) during the appeal period, nor may any fees be collected retroactively, regardless of the decision. The Multifamily Hub/PC Director must issue a decision within 30 days of receiving the appeal request.

The Department will continue to evaluate this policy and will make adjustments as needed to support the goals of the BBC. Specifically, the Department is requesting feedback on the content and implementation of this incentive as it pertains to:

- The reasonableness of the BBC-Eligible Management Add-On Fee cap of $5,000/year per property to cover eligible activities.
- The timeframe for review and approval of BBC-Eligible Management Add-On Fee requests.
- Other potential activities performed by the Owner/Management Agent to achieve BBC goals that could be added to the BBC-Eligible Management Add-On Fees.

All feedback should be sent to the attention of Lauryn Alleva (Lauryn.K.Alleva@HUD.gov) in the Office of Multifamily Housing Programs.