

# Understanding SRO

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The Single Room Occupancy (SRO) program is authorized by Section 441 of the McKinney-Vento Homeless Assistance Act. Under the program, HUD enters into Annual Contributions Contracts with public housing agencies (PHAs) in connection with the moderate rehabilitation of residential properties that, when rehabilitation is completed, will contain multiple single room dwelling units. The PHAs make Section 8 rental assistance payments to participating owners (i.e., landlords) on behalf of homeless individuals who rent the rehabilitated dwellings. The rental assistance payments cover the difference between a portion of the tenant's income (normally 30%) and the unit's rent, which must be within the fair market rent (FMR) established by HUD.

Rental assistance for SRO units is provided for a period of 10 years. Owners are compensated for the cost of some of the rehabilitation (as well as the other costs of owning and maintaining the property) through the rental assistance payments. To be eligible for assistance, a unit must receive a minimum of \$3,000 of rehabilitation, including its prorated share of work to be accomplished on common areas or systems, to meet housing quality standards (HQS). Assistance provided under the SRO program is designed to bring more standard SRO units into the local housing supply and to use those units to assist homeless persons. The SRO units might be in a rundown hotel, a Y, an old school, or even in a large abandoned home.

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## **SRO Terms**

This section is intended as a general overview of key SRO terms. The terms will be discussed in greater detail throughout this guidance.

### **Annual Contributions Contract (ACC):**

A written agreement between HUD and the PHA, whereby HUD agrees to provide annual contributions to the PHA to cover the housing assistance payments that the PHA will provide to a project owner. The ACC runs for 11 years.

### **Agreement to Enter Into a Housing Assistance Payments Contract (AHAP):**

A written agreement between the PHA and the owner that, upon satisfactory completion of rehabilitation in accordance with the requirements of the AHAP, the PHA will enter into a Housing Assistance Payments Contract with the owner. The AHAP must be executed prior to beginning rehabilitation.

### **Housing Assistance Payments (HAP) Contract:**

A written contract between a PHA and the owner for the purpose of providing housing assistance payments to the owner on behalf of an eligible individual. The HAP Contract runs for 10 years.

### **Housing Assistance Payment:**

The rental assistance payment made by the PHA to the owner of a unit under lease by an eligible individual, as provided in the HAP Contract. The payment is the difference between the Contract Rent and the tenant's rent.

### **Contract Rent:**

The total amount of rent specified in the HAP Contract as payable to the owner.

### **SRO Housing:**

A residential property that includes multiple single room dwelling units. Each unit is for occupancy by a single eligible individual. The unit need not, but may, contain food preparation or sanitary facilities, or both.

### **Form of Assistance**

Under the HAP Contract, an owner is entitled to a specified rent for assisted units. i.e., the contract rent. While the only type of assistance the owner may receive from HUD is rental assistance payments, these payments actually cover the costs of owning, operating, and maintaining a project and compensate the owner for eligible rehabilitation performed.

First, a monthly **base rent** is established to cover costs such as acquisition debt service, utilities paid by the owner, insurance, taxes, routine maintenance, and a reserve for replacement. Applicants must determine whether the base rent for assisted SRO units is reasonable in

relation to the rents being charged for comparable unassisted units, taking into account the location, size, type, quality, amenities, maintenance of the units, and management as well as not in excess of rents currently being charged by the same owner for comparable unassisted units. The maximum base rent for the SRO program is derived by multiplying the 0 BR Section 8 Existing Housing FMR by .75 (the SRO FMR) and, if applicable, subtracting the allowance for tenant-paid utilities. FMRs are published each year by HUD in the [Federal Register](#).

The **maximum contract rent** an owner may receive is 120% of the SRO FMR minus the allowance for tenant-paid utilities. Thus, the additional 20% of rent an owner may receive (the 20% is the difference between the Section 8 Existing Housing FMR and the Moderate Rehabilitation FMR) is used to reimburse the owner for rehabilitation costs—i.e., the creation of more decent, safe and sanitary SRO housing for the homeless—not other owner expenses.

To calculate the **actual contract rent**, an applicant adds the monthly debt service for **eligible rehabilitation** costs to the base rent.

## Term of the Assistance

An eleven-year ACC is signed by the PHA with HUD. After the ACC is signed, the PHA and owner sign an AHAP and the owner has 12 months from the date of ACC execution to complete rehabilitation on the project. Once the rehabilitation is completed and the PHA inspects the units to ensure compliance with Housing Quality Standards (HQS), a 10-year Housing Assistance Payments (HAP) Contract is signed between the PHA and project owner.

## Eligible Participants

The McKinney Act requires that first priority for occupancy of SRO units be given to homeless individuals. However, HUD will also provide rental assistance for homeless individuals currently residing in units who are eligible for Section 8 assistance.

Additionally, at least 25% of the units proposed for assistance must be vacant at the time of application so that a significant portion of those served are homeless individuals. An application that has a vacancy rate lower than 25% will be rejected. Finally, when current occupants vacate assisted units, these units must be filled with homeless individuals identified through the recipient or owner's continuing outreach effort.

Depending on the circumstances arising from the rehabilitation, current residents who are not eligible for Section 8 assistance may remain in the building (but without HUD assistance) or may receive relocation payments and assistance. Because relocation requirements are complex, please contact the Field Office Relocation Specialist or an experienced government relocation agency in the planning stage of your application.

## Homeless Persons

Homeless persons are those who:

- Are sleeping in places not meant for human habitation, such as cars, parks, sidewalks, and abandoned buildings;
- Or are sleeping in emergency shelters.

This includes persons who ordinarily sleep in one of the above places but are spending a short time (30 consecutive days or less) in a hospital or other institution.

## Other Homeless Persons

Persons are also considered to be homeless if they:

- Are graduating from transitional housing specifically for homeless persons; or
- Are being evicted within the week from private dwelling units and
  1. no subsequent residences have been identified; and
  2. they lack the resources and support networks needed to obtain access to housing; or
- Are persons being discharged within the week from institutions in which they have been residents for more than 30 consecutive days; and
  1. no subsequent residences have been identified; and
  2. they lack the resources and support networks needed to obtain access to housing.

Not all persons being evicted from private dwelling units or all persons being discharged from institutions are homeless. Applicants who propose to serve these populations must make clear in their applications that they (a) understand that persons are eligible only if they have no subsequent residence identified and lack the resources and support networks needed to access to housing and (b) propose to serve only eligible persons. Applicants that are selected for funding will be required to have documentation of how it was determined that such persons did not have the resources or support network needed to obtain housing.

In summary, a person is homeless if, without the HUD assistance, they would have to spend the night in a shelter or in a place not meant for human habitation.

The intent of these policies is to help persons who lack shelter. The Department administers other programs to serve persons who are poorly housed or need supportive housing but are not homeless, such as HOME, public housing, Community Development Block Grants, and Supportive Housing for Persons With Disabilities. Contact your HUD field office for more information about those programs.

## Eligible Structures

With regard to structures, the following requirements apply:

- The structure may be of any type, but when rehabilitation is completed, the unit must meet the definition of SRO housing. SRO housing is defined as a residential property that includes multiple single room dwelling units. Each unit is for occupancy by a single eligible individual. The unit need not, but may, contain food preparation or sanitary facilities, or both.
- Efficiency units are also eligible, but the contract rent charged for these units may not exceed the Moderate Rehabilitation SRO FMR minus the allowance for tenant- paid utilities, if applicable. Under no circumstances are 1-bedroom units eligible for assistance.
- Each assisted unit in the structure must require a minimum of \$3,000 of rehabilitation, including its prorated share of work to be accomplished on common areas or systems, to meet HQS.
- Following rehabilitation, the units must meet HUD HQS as specified in 24 CFR [882.804\(b\)](#).

- Ineligible properties include: (a) units that are receiving Federal funding for rental assistance or operating costs under other HUD programs; (b) nursing homes; (c) penal, reformatory, medical, or mental health institutions; (d) owner-occupied units; and (e) housing located in the Coastal Barrier Resource system designated under the Coastal Barriers Resource Act.

## **Rehab Costs**

An eligible rehabilitation cost is one which may be amortized through the contract rents. In many cases, the amount of rehabilitation that can be amortized under the Moderate Rehabilitation SRO FMR cap is less than the total eligible rehabilitation costs. In these cases, applicants must fund the additional costs with non-debt instruments (e.g., a grant).

Ineligible rehabilitation costs may not be amortized through the contract rents under any circumstances. Applicants must fund ineligible rehabilitation costs with non-debt instruments.

## **Eligible Rehabilitation Costs**

A unit must require a minimum of \$3,000 of rehabilitation, including its prorated share of work to be accomplished on common areas or systems, to meet HQS. The \$3,000 expenditure per unit includes the cost of materials and labor to perform the required rehabilitation.

All rehabilitation items required to upgrade units to decent, safe, and sanitary condition to comply with HQS must be accounted for before other eligible rehabilitation items may be amortized through the contract rents. Once all HQS-required rehabilitation is accounted for, an applicant may allow other reasonable and necessary rehabilitation costs to be amortized.

## **Examples of Ineligible Costs**

An applicant may not amortize the following rehabilitation costs:

- Luxury items such as swimming pools.
- Contingency fees. An owner may set aside grants or other funds as a contingency reserve. However, this amount may not be amortized through the contract rents. Applicants and owners should note that 24 CFR 882.408(d) does allow for increases in the contract rent to account for unforeseen rehabilitation costs.
- Costs attributable to owner labor (i.e., direct work or supervision of the work).
- Costs associated with the ongoing operation of a project. For instance, an owner might want to employ a security guard, given the location of many SROs. The salary of the guard would be an ongoing expense, and as such, covered by the base rent allowance rather than as a rehabilitation cost.
- Any rehabilitation on units other than SROs or efficiency units.

## **Note on Reasonableness of Costs**

The Department reserves the right to reduce rehabilitation costs which are clearly unreasonable. For instance, rehabilitation debt service for real estate taxes which accrue during construction is an eligible cost. However, an applicant would have to prorate these tax costs when a structure contains unassisted units. In case where there were unassisted units and the applicant amortized the entire tax amount, the Department would reduce this amount.

## **Housing Quality Standards**

The HQS set acceptable conditions for interior living space, building exterior, heating and plumbing systems, and general health and safety.

Prior to execution of the HAP Contract, the PHA must inspect the units to be occupied to ensure that rehabilitation has been performed in accordance with the terms of the AHAP and that HQS requirements are met. Additionally, after HAP Contract execution, the PHA is required to inspect the units on an annual basis.

Applications that propose changing present unit size configuration (e.g., dividing an existing room into two SRO units) should keep in mind that, although HQS do not specify a minimum SRO unit size, the PHA must determine that the SRO unit is of adequate size and arrangement for its intended function (i.e., the available space does not hinder furniture placement and the normal use of space).

## **Resident Occupancy Requirements**

The initial lease between a participant and an owner must be for at least one year. Any renewal or extension of the lease term may not extend beyond the remaining term of the HAP Contract.

An owner may not terminate or refuse to renew the lease except on the following grounds:

1. Serious and repeated violation of the terms and conditions of the lease;
2. Violation of applicable Federal, State or local law; or
3. Other good cause. Recipients and owners should be as lenient as possible, so that assistance is terminated only for the most serious violations. The SRO program is serving a homeless population; therefore, a restricted reading of the good cause standard is appropriate.

In terminating assistance to a participant, the recipient must provide a formal process that recognizes the rights of individuals receiving assistance to due process of law.

All evictions must be carried out through the judicial process under State and local law.

## **Determining the SRO Rental Payment**

The amount that is awarded is based on the calculation described in "[Eligible Rehab Costs](#)". The actual subsidy that the SRO program will provide for a specific unit is based on the difference between the contract rent (actual rental cost of the unit) and the rent paid by the tenant of that unit.

### **Contract Rent**

The contract rent must be no more than the Moderate Rehabilitation SRO FMR minus the allowance for tenant-paid utilities. To establish the actual Contract Rent, the applicant must first establish the Base Rent, which must be reasonable in relation to comparable unassisted units and may not exceed rents currently being charged by the same owner for comparable unassisted units. The Base Rent maximum is 75% of the Section 8 Existing Housing FMR for

a 0-bedroom (the SRO FMR) unit minus the allowance for tenant paid facilities. Once the base rent is established, debt service for eligible rehab costs is added to derive the Contract Rent."

## Tenant Rent

Some of the contract rent will be paid by participants. Participants must pay rent in accordance with section 3(a) of the Housing Act of 1937. Under section 3(a), each participant must pay as rent the highest of:

- 30 percent of monthly adjusted income;
- 10 percent of monthly income;
- If receiving payments for welfare assistance from a public agency and a part of such payments, adjusted in accordance with actual housing costs, is specifically designated by such agency to meet housing costs, the portion of such payments which is so designated; or
- \$25.00 to \$50.00 a month as specified by the PHA.

Although many participants will not have an income when they enter the program, it is not unreasonable to expect that, through supportive services, many would at some point become employed or would be receiving income support payments.

The participant's income must be examined initially to determine the amount of rent payable and must be reexamined at least annually.

## SRO Subsidy per Unit

The following example illustrates the relationship among the SRO rental assistance, the contract rent, and the tenant rent:

Contract rent for SRO unit	\$ 325 month
Tenant rent payment	-75 month
SRO rental payment	<b>\$ 250 month</b>

SRO assistance makes up the difference between the tenant's contribution and the contract rent.

## Application Process

The application process consists of a threshold review, rating, ranking, conditional selection, submission of additional information, and funding award.

Applications must be submitted by all applicants by the application deadline established in the NOFA.

Applicants that are conditionally selected as a result of the rating and ranking process will be required to submit additional information that will be used to ensure that technical requirements are met prior to execution of an ACC. This will include information on site control, financial resources, and rehabilitation costs, as well as base rent and contract rent calculations.

An applicant may choose to apply for SRO assistance for more than one site. To do so, a separate Exhibit 4 must be submitted in the application for each site for which assistance is requested. No city or urban county may have projects receiving a total of more than 10 percent of the assistance to be provided under the program. Additionally, no project will be approved for more than 100 assisted units.

## SRO Project Development

After the application process is complete, there are several other critical steps leading to HAP Contract execution and the occupancy of assisted units by tenants.

### Annual Contributions Contract (ACC) Execution

A PHA must submit the following to the Field Office for review and approval prior to ACC execution:

1. An Equal Opportunity Housing Plan and Certification.
2. A proposed Schedule of Allowances for Tenant-Furnished Utilities and Other Services.
3. If applicable, proposed variations to the acceptability criteria of the Housing Quality Standards (HQS).
4. The fire and building codes applicable to each project. Please note that the [McKinney Homeless Assistance Act](#) requires the installation of sprinklers to protect all major spaces in each building, hard-wired smoke detectors, and other fire and safety improvements required by State and local law.
5. An Administrative Plan, including:
  - a. Procedures for establishing tenant outreach;
  - b. A HUD-approved policy governing temporary relocation; and
  - c. A mechanism to monitor the provision of supportive services.
6. Estimates of Required Annual Contributions.

### Environmental Review

The SRO program is governed by the environmental regulations at [24 CFR part 58](#), which provide that a responsible entity, usually the unit of general local government within which the project is located, must complete the environmental review and a [HUD Form 7015.15](#) (Request for Release of Funds and Certification). The recipient is responsible for submitting the form to HUD with a cover letter requesting the release of funds. Until HUD has approved the Request for Release of Funds, the recipient may not commit any funds for acquisition or rehabilitation costs for the project.

### Agreement to Enter Into Housing Assistance Payments Contract (AHAP)

The AHAP establishes that, upon satisfactory completion of the rehabilitation in accordance with the AHAP provisions, the PHA will enter into a HAP Contract with the owner. An AHAP must be executed before beginning any rehabilitation. The PHA must perform a number of critical tasks before the AHAP may be executed, including:

- Inspecting the structure to determine specific work items which need to be accomplished to bring the units to be assisted up to HQS or other standards approved by HUD;
- Conducting a final feasibility analysis and determining whether cost-effective energy-conserving improvements can be added;

- Ensuring that the owner adequately prepares work write-ups and cost estimates;
- Determining initial base and contract rents;
- After firm commitments for financing and a contractor are obtained, determining whether the costs can be covered by the original contract rents and, where a project contains more than 50 units to be assisted, submitting the base and contract rent calculations to the HUD Field Office for review and approval in sufficient time for execution of the AHAP in a timely manner;
- Confirming that the per unit \$3,000 minimum amount of HQS-required rehabilitation is met;
- Determining the eligibility of any current tenants, and selecting the units to be assisted; and
- Discussing with the owner the various financing options available and approving all financing terms in accordance with program standards.

## **HAP Contract Execution**

When rehabilitation for a project is completed, the PHA must inspect the units to be assisted to determine that the units have been completed in accordance with the AHAP and meet the HQS or other standards approved by HUD. Upon PHA acceptance of the units, the HAP Contract may be executed between the owner and the PHA. The HAP Contract effective date must be no earlier than the PHA inspection which provides the basis for accepting the units.

All units must be under an AHAP, rehabilitated, and under HAP Contract within 12 months of the execution of the ACC with HUD. If this 12-month period is going to be exceeded, the PHA must request an extension of the rehabilitation and leasing schedule.

The initial contract rents established at AHAP can be increased prior to HAP execution only for the following reasons:

1. When the actual, certified costs of rehabilitation are more than estimated due to unforeseen factors beyond the owner's control;
2. When the PHA approves changes in financing;
3. When the actual relocation payments made by the owner to temporarily relocate individuals varies from the cost estimated in the AHAP contract rent calculation;
4. When necessary to correct errors in the computation of base and contract rents to comply with HUD requirements;
5. When, during rehabilitation, work items which (A) could not have been reasonably anticipated or are necessitated by a change in local codes or ordinances and (B) were not listed in the work write-up approved by the PHA are subsequently required and approved by the PHA. In these cases, the PHA must review and approve the new items and recalculate the rents accordingly. A PHA may approve exception rents of up to 110% of the Moderate Rehabilitation SRO FMR. Additionally, a Field Office may approve exception rents of up to 120% of the Moderate Rehabilitation SRO FMR for these costs.

## **Annual and Special Adjustments**

The SRO program provides for annual adjustments to the base rent to account for inflation over the 10 years of the HAP Contract. Annual adjustments should provide the owner with a sufficient rent to operate and maintain the property during the HAP Contract.

Additionally, HUD may approve special adjustments to reflect the increases in the actual and necessary expenses of owning and maintaining a unit which have resulted from substantial

general increases in real property taxes, utility rates, and assessments and utilities not covered by regulated rates. A special adjustment may also be approved by HUD when HUD determines that a project is located in a community where drug-related criminal activity is generally prevalent, and the project's operating, maintenance and capital repair expenses have substantially increased primarily as a result of the prevalence of such drug-related activity.

The availability of annual and special adjustments means that the actual amount provided by HUD to the PHA may exceed the original rental assistance reservation amount. Section 8 amendment money makes up any difference between the original fund reservation and the actual amount of assistance provided by HUD.