

## **450 - BUDGET GUIDE POLICY**

This policy provides guidance regarding the completion of the annual budget process for each development required to submit an annual budget to the Authority. The following topics will be covered:

### **Purpose of Budgeting**

### **Budget Submission Timeline**

### **Where to Submit Budget Documentation**

### **Budget Submission Requirements**

### **Instructions for Completing the MSHDA Budget Template**

### **Budget Form #450A Tab Instructions**

#### **450A Columns**

#### **450A Rows**

#### **Income Line Items**

#### **Expenditure Line Items**

### **Instructions for Completing the Identity of Interest Tab**

### **Forms and Attachments**

### **Purpose of Budgeting**

Each year, developments receiving MSHDA or American Recovery and Reinvestment Act (ARRA)-financing must submit a budget of anticipated income and expenses for the upcoming fiscal year. This provides a measurement against which Monthly Income and Expense (MIE) statements can be compared to help judge the ongoing financial health of each property.

This process involves:

- Anticipating income based on the updated rent schedule and any potential increases or decreases in rents.
- Projecting the upcoming year's income and expenses based on the previous year's financial activity and anticipated changes in operations at the development.
- Explaining significant variances between the current budgeted number and the previous year's financial activity.

### **Budget Submission Timeline**

The annual budgeting process follows a strict schedule in order to meet all reporting requirements and statutes. Timely submission of a complete budget package is a Premium Management Fee factor. Below is the detailed timeline identifying the timeframe required for achieving the appropriate budget calculations and submissions. The timeline includes all possible steps from the various development types with an *italicized* reference at the beginning of each description identifying which developments should be concerned with each date.

**Aug 1<sup>st</sup>** - *All developments, except Section 8 developments, including Section 8 Preservation Pass-Through and Section 8 Paid-off developments.* **Begin collecting utility sampling data.**  
**Note:** Section 8 development utilities are submitted and reviewed 60 days prior to the HAP contract anniversary date, so utility collection should begin at least 120 days prior to the HAP contract anniversary date.

**Prior to Sept 30<sup>th</sup>** – *Section 236 developments only, including Section 236 decoupled and Section 236 with Tax Credits.* **Send the Notice of Request to Increase in Maximum Permissible Rents** (MSHDA Mgmt 451A1) to the tenants.

- Notify the residents according to the Code of Federal Regulations (CFR) 245.15. Post the notice (MSHDA Mgmt 451A1) in three conspicuous places and send to all non-market rate residents prior to the September 30<sup>th</sup>.
- Residents must receive at least 30 days notice to comment on the Request for Increase.
- **Note:** Do not include MSHDA moderate units on the notices to residents.

**Oct 1<sup>st</sup>** – *Section 236 developments only, including Section 236 decoupled and Section 236 with Tax Credits.* **Budget packages are due to MSHDA.**

**Oct 1<sup>st</sup> to Oct 31<sup>st</sup>** – **Assigned Asset Manager (AM) reviews Section 236 developments' budget materials, including any resident comments received.** The AM review of comments must not begin prior to 30 days from the actual posting date of the Notice of Request to Increase in Maximum Permissible Rents (MSHDA Mgmt 451A).

**Prior to Nov 1<sup>st</sup>** - *Section 236 developments only, including Section 236 decoupled and Section 236 with Tax Credits.* **MSHDA sends a copy of the approved budget and rent schedule to the management agents and HUD.** HUD has the right to approve or disapprove the rent schedule within 30 days.

**Nov 1<sup>st</sup>** – *All other developments, such as MSHDA programs (i.e. Moderate, 80/20, 70/30, Taxable Bond, 1% Tax-Exempt, TEAM and Neighborhood Preservation Program) and Section 8 developments, including Section 8 Preservation Pass-Through and Section 8 Paid-off developments.* **Budget packages are due to MSHDA.**

**Nov 1<sup>st</sup> to Nov 30<sup>th</sup>** – *MSHDA program developments, including Section 8, Section 8 Preservation Pass-Through and Section 8 Paid-off developments.* **Assigned AM reviews and finalizes all development budgets,** if the budget submission is complete.

**Prior to Dec 1<sup>st</sup>** – *MSHDA program developments, including Section 8, Section 8 Preservation Pass-Thru and Section 8 Paid-off developments.* **MSHDA sends a copy of the approved budget to the management agent.**

**Dec 31<sup>st</sup>** – *All developments.* **Management Agreements and Management Agreement Addendums are due.**

**Jan 1<sup>st</sup>** – *All developments.* **The management agent implements the approved budget.** If HUD disapproves a *Section 236 (including Section 236 decoupled and Section 236 with Tax*

*Credits*) rent schedule, the notification to residents and the implementation of the anticipated rent increase must be withdrawn until HUD approval is received.

**New Developments:** Developments must submit an operating budget for the next fiscal year after the mortgage cut-off date occurred. If the cut-off date occurs after September in a year, a feasibility budget could be used for the first year of operation, but MSHDA recommends quickly completing the Asset Management budget process to improve accuracy in reconciling with MIE submissions. For example, if mortgage cutoff occurred in August **2011**, a **2012** budget must be submitted. **Note:** Preserved developments are still required to submit budget packages to MSHDA.

**30 days prior to implementing a rent increase** – The management agent MUST notify the residents of a rent increase consistent with the resident lease terms. *Section 8 developments* must notify residents when an approved rent increase resulting from a decrease in utility rates is implemented. For example, a utility rate decrease for March 1<sup>st</sup> requires residents to receive notice per statute of the pending rent increase by February 1<sup>st</sup>.

### **Where to Submit Budget Documentation**

The following two items must be completed by the designated due dates in order to achieve the premium management fee budget factor for a development.

1. Submit an electronic copy of the completed excel workbook (with MSHDA Mgmt forms 450A through 450D and 451A through 451D3, if applicable) to the [MSHDAAssetmgt@michigan.gov](mailto:MSHDAAssetmgt@michigan.gov) mailbox.
  - The e-mail must have a subject line with [Budget Year, Development Name, MSHDA #]. For example, Budget 2012, Accurate Apartments, #999.
  - The file name must be [MSHDA #.xls] and the file must be saved in an Office 2003 format. Office 2007 and 2010 users will have to select the proper format when saving.
2. Submit hard copies of all the required documents listed in the ‘Budget Submission Requirements’ section below to:

Ms. Susan Hengesbach  
Michigan State Housing Development Authority  
735 E. Michigan Ave., 3<sup>rd</sup> Floor  
P.O. Box 30044  
Lansing, Mi 48909

### **Budget Submission Requirements**

In addition to submitting a completed electronic copy of the Budget Form 450A, developments must submit a budget document package with the following documents. The list includes all

possible documents from the various development types with an *italicized* reference after each item when the document only pertains to a specific development type's submission.

1. **Signed copy of the MSHDA Mgmt 450A** (Budget form – revised 8/2010) with the signature page on top. The owner or a management company representative must sign the budget form to validate the numbers.
2. **Detailed notes of the 450A line items** – Notes describing the anticipated income and expenses being budgeted for each line item on the 450A form is encouraged. Detailed notes should include mathematical computations and supportive documents assist in explaining the full financial picture to the assigned Asset Manager, which helps create a smooth budgeting process. For a description of every line item on the 450A form refer to the “Budget Form #450A Tab Instructions” section below.

At a minimum, budget notes must be included for each line item with:

- A \$2,000 **and** 20% variance exists between the budgeted amount and the current 12-month expenses;
- A physical needs item expensed that will be funded from an escrow account; and
- An Identity of Interest expenditure.
- The “Variance Requires Detail” column of the 450A form flagged as “Yes”.
- A “**Budget Notes**” reference in the detailed explanation in “Budget Form #450A Tab Instructions” section below.

Additionally, the following development groups must also provide detailed notes for the following line items:

Section 8 Preservation Pass-through Developments:

- 17c: Interest Income;
- 20a: Trustee Bond Fees; and
- 20b: Regulatory Fees

Sec. 236 Decoupled Developments:

- F3: Loan Repayment;
- 17a: Mortgage Interest; and
- F1: Mortgage Principal

3. **Owner’s Utility Certification** to MSHDA
  - The budget template automatically identifies the appropriate form to be included in the budget submission based on the development selected. Refer to the Utility Schedule and Rent Schedule Policy for more details.
  - *For Section 8 Developments*, including Section 8 Preservation Pass-Thru and Paid off Developments, this form is NOT a required submission with the budget process, only the approved rent schedule needs to be submitted with the budget.
4. **Utility Allowance Calculation – Summary** (MSHDA Mgmt 451B). Required for all Section 236 and MSHDA/ARRA-financed developments. *Not applicable for Section 8*

*developments in conjunction with the budget submission process. Section 8 developments must submit the latest Rent Schedule approved by the MSHDA Quality Assurance Analyst, Andrew Uzzle with its budget submission. Refer to the 451 - Utility Sampling and Rent Schedule policy.*

5. **Proposed Rent Schedule** – Proposed Rent Schedule (MSHDA Mgmt 450D1 through 450D3). *Section 8 developments, including Section 8 Preservation Pass-Through and Paid-off Developments* must submit the **latest MSHDA approved rent schedule**. Section 8 rents and utilities are NOT reviewed and approved by the Asset Manager as part of the budget review process.

Refer to the 451 - Utility Sampling and Rent Schedule policy for more information about the completion of sampling and submission requirements. When determining the new rent amounts, consider the competing rents in the market area. Rents should not be excessively high in relation to comparable housing alternatives or excessively low. They should ensure the continued stable operation of the development.

6. **Identity of Interest Disclosure** – Provide a complete list of all Identity of Interest vendors with the budget using the MSHDA Mgmt 450B form for each vendor. This information is included in the budget template; refer to “Instructions for Completing the Identity of Interest Tab” section of this policy for detailed instructions on completing the “IoI” tab. **All identity of interest vendors must receive (re-)approval in order to begin to contract or continue to contract with each development for goods and/or services in 2012.** If during the budget year, an Identity of Interest Disclosure (MSHDA Mgmt 450B) is required, reopen the budget template and make the necessary corrections to update the identity of interest template or create a new form. If one of the following changes occurs in the previous identity of interest disclosure and approval, re-approval of the vendor is required:

- A change in Identity of Interest vendor or management agent, **or**
- An increase in the amount being charged by a previously submitted Identity of Interest vendor disclosure form. New bids must be submitted if the increased amount exceeds 10% of the previously approved Identity of Interest Disclosure.

7. **Current Service Contracts** – If there is a \$2,000 and 20% variance between the proposed budget amount and the previous 12-month expenses (July to June), provide copies of all current service contracts for the development indicating amounts and note the contract in the budget details.
8. **Management Agreement (MSHDA Mgmt 401)** – Complete and sign three copies of the Management Agreement for approval by MSHDA. After MSHDA approval, two copies will be returned for the Owner and Management Agent’s records.

The Management Agreements must be submitted to the Authority by December 31<sup>st</sup> of the current year. The Development’s budget must include the correct amount of management and premium management fees listed in the Agreement. When possible, submit the Management Agreement with the budget packages.

9. **Pension Plan Evidence** – If your management company is not on the List of Management Agents with MSHDA-approved Pension Plans (MSHDA Mgmt 450 Attachment 1), provide evidence of an Authority approved pension plans for on-site staff.
10. **Market Analysis** – Provide a market analysis, if the year-to-date vacancy at the time of budget preparation exceeds 5% - or - there is a proposed rent increase, which exceeds 5% of the current rents. *This requirement does not apply to Section 8 developments.*
11. **Letter from owner** - If there is a budget deficit, the owner must describe a plan to fund the budget deficit. **If the owner intends to fund a deficit budget by reducing the management fees, the full amount of the management fees should be budgeted in Line Item 4a and the deficit amount should be budgeted in Line Item F4 - Related Party/Affiliate Contributions/Advances with an appropriate explanation in the budget detailed notes.**

### **Section 236 forms**

*The forms listed in numbers 12-17 are required on Section 236 developments only, including Section 236 decoupled and Section 236 with Tax Credits:*

12. **HUD Budget Worksheet** – Income and Expense Projections (Form HUD-92547-A): this form is located at: [http://portal.hud.gov/hudportal/documents/huddoc?id=DOC\\_20715.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_20715.pdf). Complete and sign the form. Unaudited numbers for the current year are acceptable.
13. **Notice of Request to Increase Maximum Permissible Rents** - (MSHDA Mgmt 451A1): Provide a copy of the notice to residents regarding any pending rent increase. Note a reduction in utility allowance requires a notice and submission of the form 451A1, even if the rent amount does not change.
14. **Resident comments** – If applicable, provide resident comments regarding a pending rent increase or utility allowance decrease and the Owner or Agent’s evaluation of the comments.
15. **Retain Excess Income** – If applicable, provide a copy of HUD’s approval letter or the management agent’s request letter to retain excess income. Otherwise provide a copy of the letter requesting approval to retain excess income. Requests to retain excess income should be submitted to the Local HUD Field Office.
16. **Excess Income Report** – Provide the most recent copy of the development’s Excess Income Report (HUD-93104).
17. **Owner Certification** – Provide a signed copy of the Owner Certification of Purchasing Practices and Reasonableness of Expenses (MSHDA Mgmt 450C).

### **Instructions for Completing the MSHDA Budget Template**

The following instructions offer a guide to the management agents and owners in preparing the annual Operating Budgets on the MSHDA Budget template.

**Customized Budget Templates** - Each management agent will receive a customized Budget 450A form with the MSHDA or American Recovery and Reinvestment Act (ARRA)-financed developments managed by its company. Customized templates should be e-mailed within two weeks of the issuance of the Budget Guide Policy. The customized budget template includes the following tabs:

- Summary;
- 450A;
- Electric – Family;
- Electric – Elderly;
- Gas – Family;
- Gas – Elderly;
- Cert (applicable owner certification will be displayed depending on development selected);
- Rent Schedule (applicable rent schedule will be displayed depending on development selected).

Upon receiving the budget template, the management agent should verify all the developments they manage are available from the drop down list on the Summary tab, cell E3. Section 8 developments selected will cause the Electric – Family, Electric – Elderly, Gas – Family, Gas – Elderly, Cert, and Rent Schedule tabs to disappear. *The utility tabs are not part of the Section 8 development budget submission process. A generic utility submission form for Section 8 utility submissions may be found on the MSHDA website.*

Begin completing the budget template for each of developments managed, by entering the:

1. Specific development in cell E3 of the **Summary tab**,
2. Yellow shaded fields on the **Summary tab**,
3. Utility sampling data received from the residents in the appropriate **utility sampling tab** (Electric – Family and Gas – Family or Electric – Elderly and Gas – Elderly),
4. Yellow shaded areas on the “**...Cert**” **tab**,
5. Unit rent information to generate the Gross Rent Potential amounts on the “**...Rent Sch**” **tab**, and
6. Budget line items on the **450A** tab to generate an acceptable budget for the development.

**Summary Tab** – *For Section 8 developments, do NOT submit this tab as part of the budget submission.* For all other developments the utility tabs (Summary, Electric-Family, Electric-Elderly, Gas-Family, Gas-Elderly, and Certification) must be completed as part of the budget process. **Refer to the “451 – Utility Sampling and Rent Schedule Policy” for more information regarding the utility and rent schedule tabs.**

## **Budget Form #450A Tab Instructions**

Budgets must be prepared by the management agent and submitted to the Authority on the customized MSHDA Form #450A utilizing the instructions outlined in this section. After selecting the desired development name on the summary tab, the 450A tab should populate with income and expense data.

**450A Columns** - Below is a description of the data in each column of the budget form:

**20xx Budget** – The previous year’s Authority approved (i.e. 2011) Annual Operating Budget numbers should auto-populate this column.

**Previous 12 Months Expenditures** – The previous year’s July through the current year’s June data submitted during the Monthly Income and Expense (MIE) process is totaled in this column. To recalculate a field, take the previous year’s July through December MIE amounts and add them to the current year’s January through June MIE amounts for each row.

**Proposed 20xx Budget** – Enter in the development’s estimated total annual income and expenses for the upcoming budget year in each line item of this column.

\* Use the previous 12 month’s amounts to estimate the upcoming calendar year’s income and expenses. Adjust your calculations for unusual income and expenditures incurred during the previous 12 months or anticipated for the upcoming budget year.

**Adjustments by MSHDA** - Leave this column blank. MSHDA staff record adjustments to budget items in this column.

**MSHDA Approved Budget** - Leave this column blank. MSHDA-approved budget amounts are calculated based on adjustment amounts entered and appear in this column.

**Variations of Greater than 20%** - This column calculates the percentage of variance between the “Proposed 20xx Budget” amount and the “Previous 12-Month Expenses”.  $\text{Variance} = \frac{\text{Proposed Budget} - \text{Previous 12-Months Expenses}}{\text{Previous 12-Month's Expense amount}}$ .

**Variations of Greater than \$2000** – This column calculates the dollar variance between the “Proposed 20xx Budget” and the “Previous 12-Month Expenses”.  $\text{Variance} = \text{Proposed 20xx Budget} - \text{Previous 12-Month Expenses}$ .

**Variance Requires Detail** – This column calculates if the variance is greater than 20% AND \$2000. If the column displays a “YES” in the row, **the management agent must provide an explanation of the variance in the “Detailed Notes of the 450A Line Items” of the budget submission requirements.**

**NOTE:** Developments processed under the Authority's Threshold Requirements for Preservation of Section 8 Developments must follow the operating budget requirements established at closing.

**450A Rows**

Below is a description of each line item row on the 450A form. Remember to project the total annual income and expenses for all budget line items based on the previous 12-month's income and expenditures. Adjust each line item for any anticipated changes expected during the upcoming budget year and provide an explanation or support documentation when the changes to a line item are significant (greater than a 20% and \$2000 change). Line items with a "**Budget Notes**" reference require a detailed explanation regardless of the significant change standard (20% or \$2,000).

## **Income Line Items**

### **Income**

- 1 **Gross Rent Potential** - More is covered in the "Utility Sampling and Rent Schedule Policy" regarding this item. The rent schedule calculates the monthly and annual rent potential once all the development's units have been entered on the schedule. This amount auto-populates the 450A form.  
**Budget Notes** – Include detailed calculations and documentation to support the rent potential amounts listed on the rent schedule. Do not include subsidy grants that support the operation of the development (e.g. development based subsidies).
- 1a **Loss to Lease** – Projected amount of rent revenue loss due to existing lease rent restrictions (lease variances). For example, rent increases effective after January 1<sup>st</sup> will not receive the maximum gross rent until the month the rent increase becomes effective for the unit.  
**Budget Notes** – Include a unit by unit breakdown of the amount of lease variance.
- 1b **Vacancy Loss** – Project vacancy rates based on the previous 6 months and adjust for any projected increase or decrease during the budget year. Record rental income lost due to vacant units during the month. Vacancy claim adjustments for Section 8 developments, when paid by the Authority or insurance claims for lost rent, i.e. fire, should be netted against the vacancy loss. **Note:** Do not record the 80% vacancy loss claim as a receivable.
- 1c **Non-Rental Unit** – Project the rental income lost due to rent-free unit(s) occupied by on-site staff. Refer to the governing documents and addenda for the allocation of non-rental units. *For Section 8 developments*, units not included in the ACC, are NOT entered in the Gross Rent Potential, so do not record the loss of rent income from these units on this line item. Refer to line item 2i for income earned on non-ACC units.
- 1d **Bad Debt/Former Residents** – Project the rental income lost due to residents who have vacated units and owe money to the development in excess of security deposits as of the end of the reporting month based on the previous 12 month's average.
- 1e **Marketing Rent Concessions** - Project the amount based on the previous 12 month's data and adjust for any significant projected increase or decrease during the budget year. Provide documentation to support any adjustments to the previous 12-months amount. ***Section 8 developments can not budget or give marketing rent concessions. Section***

**236 development rent concessions must be approved by HUD; submit HUD approval with budget details.** Record income lost due to any marketing rent concessions.

### **Other Income**

- 2a **Late Charges** - Multiply the late charge times the anticipated number of occurrences to project the amount for the budget year.
- 2b **Laundry & Carport Income** - Project the development's portion of income received from common area laundry facility and carport rentals.
- 2c **Commercial Income** – Project rent collected from commercial space covered by a master lease.
- 2d **Subsidies/Grants** – Project subsidy or grant funds received; i.e. Small Size Loans, Security Loans, HOME Loans, Amenity Loans, HODAG or subsidy grants that support the operation of the development (resident-based subsidies are included in Gross Rent Potential). **Note:** MSHDA development-based subsidies are not included in Gross Rent Potential and should be entered on this line item.
- 2e **Interest Income** - Project income derived from interest earned on savings deposits, investment certificates, security deposits (where applicable) and trustee-held escrow accounts (including Section 8 Preservation Pass-through developments). **Note:** Do NOT include a projection of interest to be earned on MSHDA-held reserves.
- 2f **Interest Income (MSHDA-Held Escrows)** – This line item is NOT included in the budget projection process. Income earned from MSHDA-held escrows, ie. Tax & Insurance Escrows, Replacement Reserve, DCE Interest, ORC, Operating Assurance Reserve, Operating Deficit, Miscellaneous Escrows, etc. is recorded on this line of the Monthly Income and Expense statements.
- 2g **Excess Rental Income** - Obtain this figure by multiplying the surcharge amount found on the most recent Excess Income Report by 12 (applicable to Section 236 developments only). Record the amount of excess income approved by HUD to be retained by the owner for limited purposes.
- 2h **Bad Debt Recovery** – Project any rent payments received for bad debt/former residents previously written off on Line Item 1d.
- 2i **Other** – Project miscellaneous income. For example, cable, club house rental, air conditioner unit rentals, Section 236 Interest Reduction Subsidy, non-refundable pet or other fees, human services programs, sales proceeds, income from non-ACC units, NSF fees and rent from telecommunications tenants. **Budget Notes** are required.
- 3 **Total Income** – The form auto-calculates this field.

### **Expenditure Line Items**

## **Expenditures**

Management agents may use their discretion to classify and record expenses as either routine maintenance expenses (non-depreciable) or capital expenditures (depreciable). The method of depreciation and rationale for classifications must follow standard accounting principles and practices. **However, once an item is classified as either non-depreciable or depreciable, the item must continue to be reported with the same classification unless formally changed. Changing accounting methods and practices within an established fiscal period or periods is not allowed without formal declaration as required by IRS regulations.**

- Non-depreciable operating and maintenance items must be budgeted in Lines 11 through 15 of the budget.
- Depreciable items or capital expenditures must be budgeted in Lines FA2-FA6 of the budget.
- The projected physical needs of the development including item, quantity, cost and anticipated escrow funding source must be detailed in the specific budget line items.
- The cost of an audit used to establish the selling price for preservation of a Section 8 development cannot be budgeted as this is an expense of the seller.
- Congregate care service expenditures cannot be budgeted.

4a **Management Fees** – If the development owner approves the fee on the Management Agreement/Addendum A of the Agreement, this item should always be budgeted at the maximum management fee. Calculate the fee by multiplying the total number of units in the development (including non-ACC and employee units) times the maximum management fee set for the budget year. Refer to the MSHDA Mgmt 450 Attachment 2 for the maximum fees set for the budget year.

The management fee cannot exceed the maximum amount. This line item should be set at the maximum, because the current management agent may not manage the development throughout the complete budget year. **Budget Notes** are required.

4b **Premium Management Fees (PMF)** – If the development owner approves the fee on the Management Agreement/Addendum A of the Agreement, this item cannot exceed the maximum premium management fee. Calculated by multiplying the total number of units in the development (including non-ACC and employee units) times the maximum premium management fee set for the current calendar year. Refer to the MSHDA Mgmt 450 Attachment 2 for the maximum fees set for the upcoming budget year.

This per unit fee is applied to the current calendar year's PMF being earned, which will be paid if approved in the upcoming budget year. For example, the PMF for 2011 was \$70, which was paid to the management company for PMF earned during 2010, but approved and paid during the 2011 budget/calendar year. **Budget Notes** are required.

- 4c **COE Expenses** – Project the COE salaries and travel expenses in this line item. **Budget Notes** - The following information must be included for each COE position, if known at the time of the budget preparation:
- A detailed explanation of the position being temporarily replaced;
  - The period of time of the replacement.
  - Pay-rate of the replacement employee.
- 5a **Advertising** - Project development advertising through newspapers, radio, television, exhibits, leaflets, brochures, signs, banners, etc. as well as advertising for staff vacancies.
- 5b **Marketing Payroll** - Project the reimbursement of gross salaries of staff used exclusively for marketing or commissions paid to outside agents.
- 5c **Other** - Project resident referral, other marketing fees or costs and Rent Comparability Study for determining Annual Adjustment Factor for Section 8 developments.
- 6 **Legal Expense** - Project professional services relating to the development's operations; i.e., serving notices, bonding, eviction proceedings, real estate tax appeals, etc. Any court costs or legal fees paid by residents should be off-set in this line item. Do not include the cost of the Legal Opinion letter required for the Annual Certified Audit on this line item **Note:** Any legal expenses incurred in the sale or the proposed sale of the development or the partnership interest cannot be paid from development operations.
- 7a **Administrative Payroll** – Project the reimbursement of gross salaries of all full and part-time office staff, including the human services coordinator. If a position is vacant, identify the vacant position in the budget notes. The notes should also list the employees' names, position description, number of hours, hourly rate, and the total salary including bonuses for each position/employee.
- 7b **Temporary Administrative Services** - Project the cost of employment agency administrative staff. **Note:** Do not include development-paid staff on this line item.
- 7c **Employee Pension Plans** – Include the cost of the employer's contribution for **Authority-approved** pension plans for on-site staff and the cost of auditing these pension plans. If the Authority has not recorded approval of the employee pension plan (refer to the MSJDA Mgmt 450 Attachment 1), submit a record of the approval with the budget.
- 7d **Employer Payroll Taxes** – Project the reimbursement of all employer payroll taxes (i.e. FICA, FUTA, and Unemployment Agency payments). Also include the taxes paid by the employer on behalf of marketing staff (5b), administrative staff (7a), maintenance staff (11a), janitorial staff (12a), grounds staff (13a), and security staff (15d). The cost of an unemployment tax audit must be included in this line item.
- 7e **Taxes Other** – Project the development's Michigan Business Tax and any other development-related taxes (except Real Estate Taxes).

- 7f **Telephone** – Project local and long distance telephone charges, telephone equipment rental and internet charges. Pager and cellular services used by on-site staff are eligible expenses.
- 7g **Office** - Project office supplies, computer maintenance and non-capitalized office equipment and development-specific computer software.
- 7h **Auditing** – This item cannot exceed the maximum fee set for the budget year on developments with Section 236, Section 8, and Moderate Rehabilitation program funding. Refer to the MSHDA Mgmt 450 Attachment 2 for the budget year maximum fee amounts. The cost of the Annual Certified Audit’s legal opinion letter must be included on this line item.
- 7i **Credit Reports** – Project the cost paid for resident credit reports, home visits and criminal checks.
- 7j **Human Services Program** - Project the cost of Human Services programs that directly benefit the residents. For example, holiday dinners, parties, teen activities, cable TV, toddler programs and recreation/entertainment-related activities.
- 7k **Miscellaneous** – Project the cost of newsletters, coffee, bank charges, approved seminars or training sessions for on-site employees, charitable contributions and other items provided to residents not included in human services. Also included are Tax Credit monitoring fee/inspection fees (not allowed at Section 8/236 developments) and mileage for on-site staff.

**Utilities**

Line items 8 to 10 require an estimate of development utility expenses. Consider whether energy conservation measures will be undertaken in the upcoming budget year to reduce expenses; provide a detailed explanation in the budget notes, if planned.

Below are charts of commercial utility rates for the major utility suppliers in Michigan. Developments not lying in the jurisdiction of one of these major companies should contact their utility supplier’s office to inquire about rate projections for the upcoming budget year. Any data received from an unlisted utility supplier should be included with the budget detailed notes.

- 8 **Electricity** – Project development paid and common area electric utility costs.

**ELECTRIC RATES**

Company	2012 Rate	% Chg From 2011 Rate	2012 Serv. Charge	% Chg From 2011 SC	2012 Class
<b>Electric</b>					
Consumers Energy Company	\$ 0.1537	6.59%	\$ 15.00	-24%	GS
Detroit Edison	\$ 0.1334	3.09%	\$ 12.81	0%	D3
American Electric Power	\$ 0.0950		\$ 13.20		Medium Gen.

Company	2012 Rate	% Chg From 2011 Rate	2012 Serv. Charge	% Chg From 2011 SC	2012 Class Service (sec.)
Upper Peninsula Power Co.	\$ 0.1892	3.22%	\$ 14.00	-7%	C-1
Upper Peninsula (Iron River)	\$ 0.1669	10.09%	\$ 14.00	0%	C-2
Colverland (Edison Sault)	\$ 0.1191	5.31%	\$ 7.40	-31%	G-1
Lansing Board of Water & Light	\$ 0.1393	49.30%	\$ 17.98	-36%	No. 3

**Note:** The above are informal estimates of electric rates for the major utility companies to be used for the 2012 budgets. (source-psc web site). They do not represent an official statement regarding utility rate increases under consideration by the Public Service Commission.

9 **Water & Sewer** – Project development paid and common area water & sewer utility costs. Include any increase in the actual water and sewer for the previous 12 months by the local water department’s projections for the upcoming budget year. If an irrigation system is being installed, account for the potential increase in water consumption.

10 **Fuel** – Project development paid and common area fuel utility costs.

#### GAS RATES

Company	2012 Rate	% Chg From 2011 Rate	2012 Service Charge	% Chg From 2011 SC	2012 Class
<b>Gas</b>					
Consumers Energy Company	\$ 1.0304/ccf	7.39%	\$ 10.50	0%	Multi-Dwell. A-1
Michigan Consolidated Gas (MCG Co.)	\$ 0.9621/ccf	0.20%	\$ 25.00	0%	2A Class II
SEMCO Energy Gas Co.	\$ 0.8126/ccf	2.23%	\$ 13.84	12%	GS-I
SEMCO- Battle Creek	\$ 0.8659/ccf	4.63%	\$ 13.84	-32%	GS-I
WPS Michigan- Mich. Gas Utilities Corp.	\$ 0.8375/ccf	-0.26%	\$ 33.00	0%	RMF-CII

**Note:** The above are informal estimates of gas rates for the major utility companies to be used for the 2012 budgets. (source-psc web site). They do not represent an official statement regarding utility rate increases under consideration by the Public Service Commission.

11a **Maintenance Payroll** – Project the reimbursement of the gross salary of both full and part-time maintenance staff. For example, staff that maintains site mechanical equipment, pool attendants and staff that perform other maintenance-related work. If a position is vacant, identify the vacant position in the budget notes. The notes should also list the employees’ names, position description, number of hours, hourly rate, and the total salary including bonuses for each position/employee.

11b **Temporary Maintenance Services** – Project the cost of employment agency maintenance staff. **Note:** Do not include development-paid staff on this line item.

- 12a **Janitorial Payroll** – Project the reimbursement of the gross salary of both full and part-time janitorial staff for both unit and common area cleaning.
- 12b **Temporary Janitorial Services** – Project the cost of employment agency maintenance staff. **Note:** Do not include development-paid staff on this line item.
- 12c **Janitorial Supplies** – Project supply costs related to regular janitorial maintenance. For example, detergents, cleaning compounds, disinfectants, brooms, mops, toilet paper, light bulbs, etc.
- 13a **Grounds Maintenance Payroll** – Project the reimbursement of the gross salaries of both full and part-time grounds staff.
- 13b **Temporary Grounds Services** – Project the cost of employment agency grounds staff. **Note:** Do not include development-paid staff on this line item.
- 13c **Snow Removal** – Project snow removal contracts and/or supplies and non-capitalized equipment related to the removal of snow and ice.
- 13d **Lawn Maintenance** – Project lawn care contracts and/or supplies related to on-site lawn maintenance. For example, trees, fertilizer, weed killers, shrub and lawn trimming, and all other non-capitalized items related to grounds maintenance.
- 13e **Parking Lot/Concrete Repairs** – Include the cost of routine maintenance and upkeep of the parking lot, sidewalks, concrete; i.e. contracted cleaning, sealing/stripping, etc. Major repairs and property updates may require escrowing of funds in a special escrow. Refer to line item E-9D.
- 14a **Land Improvement** – Project costs of **non-capitalized** improvements directly related to or added to the land. For example, sidewalks, roads, fences, landscaping shrubs and trees, lawn sprinkler system, playground equipment, etc.
- 14b **Building & Components** – Project the costs of **non-capitalized** major structural repairs or additions. For example, decks, awnings, siding, roofs, doors, windows, storage sheds, lighting systems, heating/cooling systems, security systems and equipment, etc.
- 14c **Maintenance Equipment** – Project the costs of **non-capitalized** trucks, snow removal equipment, lawn mowers, power tools, etc.
- 14d **Office Equipment** – Project the costs of **non-capitalized** desks, files, computers, development-specific computer software, typewriters, copiers, calculators, communication system equipment, etc.
- 14e **Furniture & Fixtures** – Project the cost of **non-capitalized** non-structural components of a building. For example, appliances, floor covering, tubs, sinks, cabinets, toilets, air conditioning units, water heaters, window treatments, common area furniture and pictures, etc.

- 14f **Painting Units** – Project the costs of unit turnover and cycle contracted painting, wall papering, painting supplies, wallpaper and paint removing material, etc.
- 14g **Cleaning Units** – Project the cost of contractual vacant unit cleaning (not janitorial staff).
- 14h **Heating and Air Conditioning** – Project the costs of unit or common area boiler inspections, replacements and repairs or service contracts for heating and air conditioning equipment.
- 14i **Plumbing** – Project the costs of unit or common area maintenance contracts for plumbing, routine plumbing maintenance supplies, replacements or repairs and any scheduled payments for calling in a plumber.
- 14j **Electrical** – Project the costs of unit or common area maintenance contracts for electrical repairs, interior lighting replacements or repairs, routine electrical maintenance supplies, generator repairs, and any scheduled payments for calling in an electrician.
- 14k **Pool Maintenance** – Project the costs of maintenance contracts for pool repairs, routine pool maintenance equipment and supplies, and any scheduled payments for calling in a pool repair person.
- 14l **Elevator** – Project the costs of maintenance contracts for elevator repairs, routine elevator maintenance supplies, and any scheduled payments for calling in an elevator repair person.
- 14m **Exterior Cycle Painting/Waterproofing** – Project the cost of exterior cycle painting and waterproofing costs. Developments are recommended to perform this process every five years. The costs may be covered in the CNA or if no CNA exists the development can setup a Miscellaneous Special Escrow account.
- 14n **Common Area Costs** – Project common area repairs, painting, renovation, cleaning or replacement costs.
- 14o **Other** – Project unit costs, maintenance supplies and any other unit contractual costs not specifically identified elsewhere. Offset the amount of damages collected from residents.
- 15a **Vehicle & Equipment Operating Expense** – Project vehicle and equipment operating expenses such as permits, rentals, licenses, gasoline, oil, lubricants, and upkeep of vehicles and equipment.
- 15b **Exterminating** – Project exterminating contracts and, when applicable, supplies and equipment for use by on-site staff.
- 15c **Rubbish Removal** – Project the contract amount for all rubbish removal.

- 15d **Security Payroll** – Project contracted security service or reimbursement of the gross salaries of security staff.
- 15e **Other** – Project **non-capitalized** security-related items. For example, fire extinguishers, smoke detectors, monitoring charges, uniforms, city inspection fees and permits, miscellaneous operating expenses, non-capitalized exterior costs, Comprehensive Needs Assessment (CNA), and deferred developer fees. **Note:** Expenses associated with a development’s MSHDA security loan must be expensed on the appropriate line item.
- 16a **Property Taxes or PILOT Expense** – Project the property tax or PILOT expense. **Note:** Do not include monthly deposits to the tax escrow deposit account.
- 16b **Other** – Project personal property taxes and municipality assessments. Project the Pass-Through Program non-profit distributions pursuant to the Regulatory Agreement.
- 17a **Mortgage Interest** – Use the mortgage amortization statement to determine the upcoming budget year’s total interest expense. If the amortization statement is unavailable multiply the latest Monthly Statement of Activity interest amount by 12 to project the mortgage interest expense. Include Section 236 Decoupled mortgage interest from both the first and second mortgages on this line item.
- 17b **Other Interest** – Project other interest expense, not including monthly mortgage interest.
- 17c **Section 8 Preservation Pass-Thru Program Bond Interest** – Project the Section 8 Preservation Pass Through program bond interest paid to trustees.
- 18a **Property & Liability Insurance** – Project the MSHDA-approved property and liability insurance expense. **Note:** Do not include monthly deposits to the insurance escrow deposit account.
- 18b **Employee Health Benefits** – Project the development's contribution for staff hospitalization, dental and vision insurance, include any costs for flexible spending accounts, etc.
- 18c **Worker’s Compensation** – Project Worker's Disability Compensation Insurance and the cost of the Worker's Compensation audit. The cost of the worker's compensation is determined by multiplying the percentage cost of worker's compensation (supplied by The Unemployment Agency) by the gross salary of each employee or employee group. This percentage varies depending on the job classification of the employee.
- 18d **Other** – Project vehicle and equipment insurance, employee or resident discrimination insurance, fidelity bond coverage where allowed under the Authority's employee dishonesty/crime policy and any other Authority-approved insurance costs not included in item 18a.
- 19 **Excess Income Payment** - If the owner did not request or receive HUD approval to retain excess income, include the same amount shown on line 2g here. If owner has

requested and/or received approval to retain excess income, record the expenses on the appropriate line items.

- 20a **Section 8 Preservation Pass-Thru Trustee Bond Fees** – Project bond fees paid to a trustee to establish and manage Section 8 Pass-Thru bonds.
- 20b **Section 8 Preservation Pass-Thru Regulatory Fees** – Project the Section 8 Preservation Pass-Through Program Regulatory Fee expense.
- 20c **ARRA Regulatory Fees** – Project fees paid to MSHDA for the Asset Management services provided in reference to ARRA-funded developments.
- 21 **Total Expenditures** – The form auto-calculates this field.

### **Escrows Activities**

Project anticipated deposits and withdrawals from each of the development’s escrow accounts for the upcoming budget year. When budgeting, assess the physical needs of the development to determine how major expenses and the required escrow deposits will be funded. Consider the latest annual physical inspection, CNA and the age and life expectancy of the development's buildings and components. Based on this assessment, determine which funding sources to use and how to balance the escrow funding with the operational needs of the development. ***Be aware that budget approval does not represent pre-approval of the use of escrow funds.***

- E1-D **Tax Escrow-Deposit** – Use the “Forecast Due” amount on the MSHDA tax analysis, unless the development successfully appeals the tax amount or obtains a tax abatement. If the MSHDA projection is inaccurate, submit documentation from the tax assessor confirming the new amount with the budget package.

Use the “Forecast Due” amount on the MSHDA tax analysis for the PILOT amount unless proof can be provided that the PILOT projected for the next calendar year is different than the amount forecasted on the MSHDA tax analysis. **Budget Notes** – If amount is different from the forecast, provide documentation from the tax assessor confirming a new tax escrow amount.

- E2-D **Insurance Escrow-Deposit** - Use the “Forecast Due” amount on the MSHDA insurance analysis unless the development is “shopping” insurance companies to reduce the cost. **Budget Notes** – If the MSHDA projection is inaccurate, submit a copy of the most current insurance bill and a copy of the cancelled check, if you already paid the bill.

**Note:** Property & Liability insurance premiums that are paid directly from the development’s operating account must be included in this line item for the monthly insurance escrow deposit. In order to receive reimbursement, management agents must provide applicable MSHDA Finance Division staff with copies of the most current insurance bill and a copy of the cancelled check as soon as the insurance premium has been paid.

- E3-D **Replacement Reserve-Deposit** – Budget deposits according to the CNA completed by On-Site Insight, if applicable. If operations can not support the CNA amount, at a very

minimum for all developments, multiply the Gross Rent Potential (including rent contributions and subsidies) for the previous budget year by the replacement reserve factor, noted in the development's regulatory agreement, carried out four decimal places. **Budget Notes** are required.

- If no CNA has been completed for a development, the amount on line E3-D is outlined in the development's regulatory agreement. The typical methods for calculating the annual replacement reserve deposit are:
  - A replacement reserve factor (carried out four decimal places) multiplied by last year's approved Gross Rent Potential (including rent contributions and subsidies),
  - The greater of the amount above or a certain percentage over last year's deposit, or
  - A flat amount.
- If the development has a CNA-Plan 1 only, budget the amount shown as "Required Annual Contributions" for this budget year as noted in the CNA plan 1. If the development has a CNA Plan 2, the amount budgeted will be the minimum of the "Required Annual Contributions" and up to the amount of the "Cumulative RR Needs" amount as noted in the Replacement Reserve Analysis, which will be sent to the management agents under separate cover.
- Section 236 developments approved to retain excess income to increase Replacement Reserve deposits must budget the approved excess income amount as a deposit to this line item.

**E3-W Replacement Reserve-Withdrawal** – If a CNA has been completed by On-Site Insight, use the CNA as a guide to project Replacement Reserve withdrawal for the upcoming budget year. **All items listed in the CNA can be budgeted from Replacement Reserve, unless the CNA indicates the item should be paid from operations.** If a CNA has not been completed, include the estimated Replacement Reserve funds that will be disbursed during the year based on the list of projected physical needs of the development. **Budget Notes** are required.

**E4-W ORC-Withdrawal** – Project the estimated Operating Reserve Cash Escrow funds that will be disbursed based on the operational needs of the development.

**E5-W DCE Principal-Withdrawal** – Project the estimated DCE Principal funds that will be disbursed based on the anticipated property improvements planned for the upcoming budget year.

**E6-W DCE Interest-Withdrawal** – Project the DCE Interest funds that will be disbursed during the year based on the anticipated physical needs of the property for the upcoming budget year. DCE interest must be budgeted (if required) to offset one-half of a full 6, 7 or 8% L. D. payment or to offset a deficit budget. **Budget Notes** are required.

**Note:** Agents/owners should operate the development financially independent of the DCE by using the current year's rents to support the current year's expenses. However,

the agent may consider budgeting the full DCE interest income to keep rents low in poor rental markets or to avoid vacancies.

- E7-W **Operating Assurance-Withdrawal** – Project the Operating Assurance funds that will be disbursed for operating needs.
- E8-W **Operating Deficits-Withdrawal** – Project the anticipated withdrawals for operating deficits for the upcoming budget year. Refer to the Operating Deficit Reserve (ODR) cash flow projection schedule for the annual planned deficit and anticipated ODR withdrawal.
- E9-D **Miscellaneous Special Escrow-Deposit** – Project the amount of deposits for special MSHDA-held reserve accounts; i.e. exterior painting/staining, asphalt, etc.; and repayable subsidy payments. **Note: Major budgeted items such as asphalt repairs and exterior painting MUST be escrowed with the Authority and shown on LINE E9-D.**
- E9-W **Miscellaneous Special Escrow-Withdrawal** – Project the anticipated withdrawals from special MSHDA-held reserve accounts; i.e. exterior painting/staining, asphalt repairs, resale repair escrow, etc.
- E10-D **Other Escrow-Deposits** – Project the amount of deposits to any other MSHDA-held escrow accounts.
- E10-W **Other Escrow-Withdrawal** – Project the amount of withdrawals to any other MSHDA-held escrow account.

### **Fixed Assets**

Project anticipated purchases, sales, or improvements to the developments fixed assets for the upcoming budget year. When budgeting, assess the physical needs of the development to determine what fixed asset accounts will be affected. **Note: major structural repairs or additions require approval from MSHDA before work commences.**

- FA2 **Land Improvements** – Project the value of capitalized improvements directly related to or added to the land. For example, sidewalks, roads, fences, landscaping shrubs and trees, lawn sprinkler system, playground equipment, etc.
- FA3 **Building & Components** – Project the value of capitalized major structural repairs or additions. For example, decks, awnings, siding, roofs, doors, windows, storage sheds, lighting systems, heating/cooling systems, security systems and equipment, etc.
- FA4 **Maintenance Equipment** – Project the value of capitalized trucks, snow removal equipment, lawn mowers, power tools, etc.
- FA5 **Office Equipment** – Project the value of capitalized desks, files, computers, development-specific computer software, typewriters, copiers, calculators, communication system equipment, etc.
- FA6 **Furniture & Fixtures** – Project the value of capitalized non-structural components of a building. For example, appliances, floor covering, tubs, sinks, cabinets, toilets, air

conditioning units, water heaters, window treatments, common area furniture and pictures, etc.

FA7 **Other** – Project the value of capitalized items not included in the above categories, for example, service vans, etc.

### **Financing Activities**

- F1 **1<sup>st</sup> Mortgage Principal Balance** – Use the mortgage amortization statement to determine the upcoming budget year’s total principal paid. If the amortization statement is unavailable multiply the latest Monthly Statement of Activity principal amount by 12 to project the mortgage principal balance paid for the budget year. Include Section 236 Decoupled mortgage principal on the first mortgage only.
- F2 **Delinquent Mortgage Principal** – Project the repayment of any delinquent mortgage principal payments.
- F3 **Other Loan Balance** – Project the repayment of loans from all reserve accounts, repayable energy loans, Second/Third mortgage payments, Section 236 Decoupled second mortgage principal, etc. **Note: Resale proceeds to repay the DCE Interest, DCE Principal or Replacement Reserve must be budgeted in this item.**
- F4 **Related Party/Affiliate Contributions/Advances** – Project any related party/affiliate contribution/owner money advanced to the development to fund operating deficits or to support operating needs –AND – and any anticipated repayments. Repayments are to be entered as a negative number. **Note: Include detailed descriptions of the contributions/advances and the anticipated repayment schedule in the budget notes.**
- F5 **Related Party/Affiliate Contributions/Advances** – Include any related party/affiliate contribution/owner money advances and repayments not included in line item F4.
- F6 **Allowable Distributions** – Project the limited dividend payment pursuant to the Regulatory Agreement. If not budgeted limited dividend payments may be paid, if the terms and conditions of the Regulatory Agreement are met. **Budget Notes** are required.

The following additional items should be considered when budgeting allowable distributions:

- Do **NOT** budget more than one year’s annual L.D. amount.
- Do **NOT** include the HOME loan portion of the distribution. (HOME loan portions of distribution are reported on F7).
- Do **NOT** budget L.D. payments when a small size/security loan is budgeted.
- Most Section 236 and some Section 8 have limitations on the amount of the annual L.D. payment that can be budgeted. Where a limitation exists and the owner budgets

the full annual L.D. payment, they must budget DCE Interest to cover the difference between the limited and the full L.D. amount.

- The 70/30 program requires that the mortgagor expend \$1 of development income to provide new services, training or rental assistance for very low income households for every \$3 of approved L.D. payment.

## Instructions for Completing the Identity of Interest Tab

**IOI tab** – Answer the question, “Does an Identity of Interest relationship exist at the above development?”

- If ‘No’, the tab refreshes to display the Identity of Interest Certification (MSHDA Mgmt 450C). Complete the signature block fields, then print and sign the form.
- If ‘Yes’, the tab refreshes to request the number of identity of interest vendors and a list of the vendor names. Enter each identity of interest vendor name in order to create a separate identity of interest disclosure.

**IOI-1 through IOI-10 tabs** – Depending on the number of identity of interest vendors entered on the IoI tab, the template will create the necessary number of IoI-[#] tabs to generate individual identity of interest vendor approval request forms. For each request form complete the following fields:

*Federal ID#* - Enter the federal employer identification number in this field.

*Contact Name* – Enter the vendor’s primary contact person.

*Street Address* – Enter the street number, name, suite, etc where the vendor’s main office is located.

*City* – Enter the city where the vendor’s main office is located.

*State* – Enter the state where the vendor’s main office is located.

*Zip* – Enter the zip code where the vendor’s main office is located.

*Owner’s Name (printed)* – Enter each owner’s name

*Type of Ownership* – Enter the ownership interest each person has in the company. For example, sole proprietor, general partner, limited partner, etc.

*List of Current Officers Names* – Enter the names of the current company officers.

*Titles* – These are pre-entered, but may be changed if the officers have different titles.

*Description of Goods\Services Provided* – Enter a detailed description of the goods and services planned to be provided by the company to the development.

*Contract Effective Date* – Enter the date, which the contract is intended to start.

*Contract End Date* – Enter the anticipated date the contract will expire. Contracts can last up to a maximum of four years.

*MIE Line Item* – Enter a list of the Monthly Income and Expense (MIE) line items where the contracted goods and services will be expensed.

*# Units/ # of Occurrences* – Enter the anticipated number of times the product or service will be used, if applicable.

*Cost per unit/ occurrence* – Enter the individual cost for each use of the product or service, if applicable.

*Total Cost by Unit/ Occurrence* – This field calculates the number of units/occurrence multiplied by the cost per unit/occurrence for each MIE line item.

*Set Cost of Contract* – Enter the total contract amount for the specified MIE line item, if the per cost or per occurrence breakdown of the expense is not applicable.

*Total Cost* – This field sums the Total Cost by Unit/Occurrence amount with the Set Cost of Contract amount.

*Total Contract Amount* – This field sums the total cost of all the MIE line items broke down in the above grid.

Bookkeeper's and Accountants –

*Names* – Enter the name of each bookkeeper and accountant that works for the vendor.

*Address* – Enter the primary work address where the bookkeeper or accountant works.

Certification of No Cost – If the identity of interest vendor provides its services at no cost to the development, have the vendor representative sign this section as certification. This allows the Identity of Interest Disclosure to be submitted with out bids.

Review the certification of the identity of interest rules and complete the signature block fields, then print and sign the form.

## **Forms and Attachments**

450A – Budget Form

450B – Identity of Interest Disclosure

450C – Identity of Interest Certification

450D – Certification of Purchasing Practices and Reasonableness of Expenses

### Attachments

450 Attachment 1 – List of Management Agents with MSHDA-Approved Pension Plans

450 Attachment 2 – Annual Fees and Interest

450 Attachment 3 – Identity of Interest Rule

**List of Management Agents with MSHDA-Approved Pension Plans  
August 2010**

1<sup>st</sup> City  
Affinity Property Management  
AIMCO  
Altman Management  
Amurcon Management  
Associated Management  
Avon Hills Consumer Housing Cooperative  
Central Michigan Non-Profit Housing  
Centrum Management  
Continental Management  
Cremco  
First Housing  
Heritage Property Management  
Huntington Management  
Independent Management Services  
KMG Prestige  
Keystone Property Management  
Lockwood Property Management  
Lord's Management Group  
Management Resources Development  
Management Systems  
Medallion Management, Inc.  
Michigan Capital Management  
Midwest Management Company  
National Church Residences  
PK Housing & Management Company  
PM Group Management  
Premier Property Management  
Presbyterian Villages of Michigan  
Professional Property Management Company  
Professional Property Services  
Republic Management Corporation  
TPM, Inc.  
The Shoreline Corporation  
Wingate Management Corporation - Boston  
Wingate Management Corporation - Southfield

### Annual Fees and Interest

Below is a summary of the fees allowable for the calendar year.

Year	Maximum Management Fee	Maximum Premium Management Fee	Section 236 & Section 8 Maximum Audit Fee
2012	\$478 PUPY	\$73 PUPY	\$11,400
2011	\$461 PUPY	\$70 PUPY	\$11,000
2010	\$456 PUPY	\$69 PUPY	\$10,850

PUPY = Per Unit Per Year

## **IDENTITY OF INTEREST WITH VENDORS TO AUTHORITY OR ARRA-FINANCED DEVELOPMENTS**

### **PART 10.**

#### **R 125.201 Applicability**

Rule 201. The rules contained in this part shall apply to all transactions that involve the supply of goods and services to authority-financed housing developments between the owners or the management agents of the developments and vendors who supply goods or services to those developments.

#### **R 125.202 Identity of interest; "member of the family" defined.**

Rule 202. (1) Any contractual relationship between either an owner or management agent and a vendor described in subrule (2) of this rule shall constitute an identity of interest.

(2) An identity of interest shall exist if any of the following conditions occurs:

(a) Either the owner or management agent, or any officer, director, stockholder, partner, or joint venturer or either the owner or management agent, has a financial interest in the vendor.

(b) Either the owner or management agent, or any officer, director, stockholder, partner, or joint venturer of either the owner or management agent, is also an officer, director, stockholder, partner, or joint venturer of the vendor.

(c) Either the owner or management agent, or any officer, director, stockholder, partner, or joint venturer of either the owner or management agent, is also the vendor.

(d) A member of the family of either the owner or management agent, or of any officer, director, stockholder, partner, or joint venturer of either the owner or management agent, is the vendor or an officer, director, stockholder, partner, or joint venturer of the vendor or has a financial interest in the vendor. For purposes of this part, "member of the family" means any person who is related to the party in question by blood, marriage, or operation of law.

#### **R 125.203 Requirements for conducting business with identity of interest vendors.**

Rule 203. Owners and management agents shall conform to all of the following requirements when conducting business with vendors with whom there is an identity of interest:

(a) Both the owner and management agent shall inform the authority division of management and reinvestment of any proposed vendor with whom there is an identity of interest. Such notification shall be submitted concurrent with submission of the development operating budget, but at least once per year.

(b) The owner and management agent shall submit a certified disclosure for each proposed vendor with whom there is an identity of interest which lists the names of all of the following persons:

(i) All owners and managers of vendors that are sole proprietorships.

(ii) All copartners or general partners of vendors that are copartnerships or limited partnerships.

(iii) All joint venturers of vendors that are joint ventures.

(iv) All directors, officers, and shareholders of vendors that are corporations.

(c) The certified disclosure shall list, for each person described in subdivision (b) of this rule the names of the individuals involved with the owner or management agent with whom there is an identity of interest and the extent or degree of such identity of interest. The certified disclosure shall also contain other information as the authority shall require, such as the following:

(i) Federal tax identification number of all vendors with whom there is identity of interest.

(ii) The location of all offices that contain business records of the vendors with whom

there is an identity of interest.

(iii) The names and addresses of the bookkeepers and accountants of the vendors with whom there is an identity of interest.

(d) The certified disclosure shall be submitted on such form as shall be designated by the authority and shall be submitted together with the submission described in subdivision (a) of this rule, or if the proposed vendor is not listed on such submission, at the time the owner or management agent requests approval to contract with a proposed vendor with whom there is an identity of interest.

(e) The owner and management agent shall submit, together with its certified disclosure, a copy of the organizational documents for each proposed vendor with whom an identity of interest is shared.

(f) The authority shall have the right to audit the books of the vendor with whom there is an identity of interest to determine whether amounts paid to identity of interest vendors were reasonable and whether there has been compliance with applicable restrictions on return. The owner, management agent, and proposed vendor shall acknowledge the authority's right to conduct such an audit in the certified disclosure.

(g) Both the owner and management agent shall submit, to the authority, a request for approval to use a proposed vendor with whom there is an identity of interest. Neither the owner nor management agent shall contract for goods or services from any vendor with whom there is an identity of interest until the proposed vendor and contract amount is approved by the Authority. If an owner or management agent enters a contract for goods or services beyond the goods or services previously approved by the authority, or if the contract price increases beyond the prices previously approved by the authority, then an additional approval shall be obtained.

(h) The authority may, upon a request from the owner or management agent and after review of the disclosure required pursuant to the provisions of subdivisions (b) to (f) of this rule, determine that the identity of interest between the owner and agent is insignificant. If such a determination is made, the owner and management agent need not comply with the provisions of subdivision (i) of this rule.

(i) Unless compliance with this subdivision is excused pursuant to the provisions of subdivision (h) of this rule, all requests for approval of proposed vendors shall be accompanied by a detailed explanation of the goods or services to be provided by the proposed vendor and not less than 3 bids for such goods and services. The 3 bids shall include a bid from the vendor with whom there is an identity of interest.

(j) Requests for approval of a proposed vendor shall be submitted concurrent with the submission of the development operating budget and any other time that the owner or management agent wishes to contract with a vendor with whom there is an identity of interest. However, a proposed vendor and contract amount need be approved only one time per operating year per development, unless the vendor supplies goods or services beyond the goods or services previously approved by the authority or the contract price increases beyond the prices previously approved by the authority.

R 125.204 Sanctions; "excessive costs" defined.

Rule 204. (1) If an owner or management agent is found to be in violation of these rules concerning identity of interest, the authority, or the officers or employees to whom it shall delegate authority, may impose the following sanctions in addition to any other remedies available through contractual documents or at law or equity:

(a) On the first occurrence of a violation, either or both of the following sanctions may be imposed:

(i) The owner or management agent may be required to reimburse the development operating account for all excessive costs, as determined by the authority, incurred as a result of

the contract with the vendor with whom there is an identity of interest.

(ii) The owner and management agent found to be in violation may be prohibited from using any vendor with whom there is an identity of interest for a period of 1 year.

(b) For each violation after the first, the following sanctions may be imposed, as applicable:

(i) The owner or management agent may be required to reimburse the development operating account for all excessive costs, as determined by the authority, incurred as a result of the contract with the vendor with whom there is an identity of interest.

(ii) If the violation involves a vendor who has an identity of interest with the management agent, then either or both of the following sanctions may be imposed:

(A) The management agent's management agreement may be terminated and a new management agent shall be hired.

(B) The vendor who shares the identity of interest with the management agent may be barred from doing business with other authority-financed developments managed by the same management agent.

(iii) If the violation involves a vendor who has an identity of interest with the owner, then the owner and its management agent may be prohibited from doing business with the particular vendor at the development in question for a period of 5 years.

(2) As used in this rule, the term "excessive costs" means all costs which would not have been incurred by the development if the owner or management agent, or both, had exercised reasonable business judgment and obtained only those goods and services reasonably necessary for operation of the development at competitive prices.

## **451 – UTILITY SAMPLING AND RENT SCHEDULE POLICY**

This policy provides guidance regarding the sampling of utility bills, the completion of the utility allowance calculations, and the compilation of the annual rent schedule. All developments, except Section 8 developments complete this process in conjunction with the annual budget submission. The following topics will be covered:

### **Utility Allowances Overview**

#### **Utility Submission Timeline**

#### **Utility Submission Requirements**

#### **Utility Sampling Process**

#### **Utility Allowance (UA) Calculations**

##### **Section 236 UA Calculation**

##### **Section 8 UA Calculation**

##### **MSHDA Programs UA Calculation**

#### **Utility Sampling Form Instructions**

##### **Summary Tab**

##### **Electric-Family, Electric-Elderly, Gas-Family, Gas-Elderly Tabs**

##### **Certification Tab**

#### **Governing Regulations**

#### **Consumers Energy - Updated Electric and Gas Rates**

#### **Rent Schedule Instructions**

#### **Rent Limits**

#### **Rent Schedule Tab**

##### **Section 236 Rent Schedules**

##### **Section 8 Rent Schedules**

##### **MSHDA/ARRA-Financed Rent Schedules**

#### **Forms and Attachments**

### **Utility Allowances Overview**

An annual review of utility bills paid by residents helps provide a reasonable allowance to development residents for the potential costs of monthly utilities. This process should be performed at the same time as the annual analysis of rents to determine if a rent increase/decrease will occur for the upcoming year. The updating of utility allowances may also affect the rent amounts and thus the total gross rent potential earned for budgeting purposes.

Utility Allowance information (calculations or approved amounts) must be submitted with the development's annual budget submission for all MSHDA programs, *except Section 8*. To prepare for the annual sampling requests, an "Authorization to Release Utility Data" should be included with each residents initial lease signing and each lease renewal. See Attachment 1 for sample Authorization to Release Utility Data form.

The sampling process has evolved in the past year to achieve uniformity in utility sampling for as many programs as possible throughout MSHDA. MSHDA has attempted to standardize the sampling process for the MSHDA, Section 8, Section 236, and Low-Income Housing Tax Credit (LIHTC) programs in order to reduce confusion around the utility allowance process.

### **Utility Submission Timeline**

The timeline for submitting utility updates varies based on the program involved, but breaks into two due dates:

- Section 236, including Section 236 decoupled and Section 236 with Tax Credits and MSHDA/American Recovery & Reinvestment Act (ARRA)-financed developments: Due at the time the development budget is due.
- Section 8 developments – Due 90 days prior to their HAP anniversary date to the **Quality Assurance Analyst** (Andrew Uzzle), not to their assigned Asset Manager.

If submitted and approved timely and 30 days notice of any rent increase has been provided to the residents, the approved utility allowances and rent schedules become effective on:

- **January 1<sup>st</sup>** – For all programs, except Section 8 and Section 8 preservation pass-through developments, implement utility allowance changes on January 1<sup>st</sup> or for MSHDA programs when the new rents are implemented.
- **On HAP anniversary date** – For Section 8 developments only (including section 8 preservation pass-through & Section 8 paid-off developments), implement utility allowance changes on the HAP anniversary date.

### **Utility Submission Requirements**

Under the Utility Sampling Form Instructions section of this policy is a more detailed description of the submission forms. When updating or providing verification of a development's utility allowance, the following information must be submitted:

1. **Utility Allowance Calculation Form – Summary** – Provide an electronic and paper copy.
2. **Electric-Family, Electric-Elderly, Gas-Family, Gas-Elderly Tabs** – Provide an electronic copy only.
3. **Owner's Certification** – Provide an electronic and **signed** paper copy.

4. **Owner's Utility Certification** to MSHDA -
  - *For all MSHDA program, Moderate, 80/20, 70/30, Taxable Bond, 1% Tax-Exempt, TEAM and Neighborhood Preservation Program development* – use the MSHDA Mgmt 451C2 form.
  - *For Section 236 Developments, including Section 236 decoupled and Section 236 with Tax Credits* – use the MSHDA Mgmt 451C1 form. **Note:** The Owner Certification must be dated 30 days after the Posting Letter date.
  - *For Section 8 Developments, including Section 8 Preservation Pass-Thru and Paid off Developments* – Use the MSHDA mgmt 451C1 form. **Note:** The Owner Certification must be dated 30 days after the Posting Letter date.
5. **Rent Schedule** – Provide an electronic and paper copy of the appropriate schedule.
6. **Copies of Resident Utility Invoices** used in the sampling calculations - *For Section 8 developments only.* Note: the last month of the bills sampled must occur within 6 months of the submission date. For example, if a development has a HAP anniversary date of September 1<sup>st</sup> and submits the utility update request by the June 1<sup>st</sup> deadline, then the utility bills sampled must include at least the December utility bills of the previous year to be a valid sampling.
7. **Notice to Request Increase in Maximum Permissible Rents** – (MSHDA Mgmt 451A1): *For Section 236 developments only.* If applicable, provide a copy of the notice to residents regarding any pending rent increase and/or utility decrease.
8. **Notice to Request to Decrease Utility Allowances** – (MSHDA Mgmt 451A2): *For Section 8 developments only.* If applicable, provide a copy of the notice to residents regarding any pending rent increase.
9. **Resident Comments** – *For Section 236 and Section 8 developments only.* If applicable, provide a copy of resident comments regarding a pending rent increase or utility allowance decrease and the Owner or Agent's evaluation of the comments.
10. **Verification of PHA Utility rates** – *For all developments with Project Based vouchers.* Project Based Vouchers (PBV) use the administering Public Housing Agency's (PHA) published utility rate for each PBV designated unit. If the PBV is administered by a state or local PHA, then submit verification of the PHA's published utility rates.
11. **Verification of Rural Development (RD) Utility rates** – *For all developments with RD funded units.* Developments with RD funding use RD rental rates and utilities. Submit verification of RD's approved rental rates and utilities for the RD units.

## Utility Sampling Process

The Budget workbook (customized for each management agent) includes four (4) worksheets for entering utility bill information, along with a summary worksheet and a Utility certification form. The following requirements must be met **for each unit type**:

- Collect a sample of gas and/or electric bills on the greater of 5 units or 25% of the units.
- If there are five (5) units or less, collect a sample of 100% of the units.
- Units without 12 full consecutive months of occupancy sampling data are not eligible to be included in the sampling calculation.
- Samples for all units must be within the same date range.
- Obtain the 25% sampling of gas and/or electric **resident utility invoices** from the utility companies at the development for Auditor or Asset Manager (AM) review. *Section 8, including Section 8 preservation pass-through & Section 8 Paid-off developments must submit a copy of the resident utility invoices with their utility allowance update paperwork for approval.*
- Utility bill amounts should be used, but if the utility company will only provide consumption data (Consumer's Energy has some area where this occurs), then the billed amount may be calculated based on consumption data and the published utility rate in this policy for entry into the worksheet.

Other questions which have arisen relating to utility sampling are:

- Bills less than a \$1 must be included in the sampling as at least \$1/month. If a monthly billing amount on an *occupied* unit is \$0 or a credit is received, insert \$1 in the month and then subtract the \$1 (plus the credit amount, if there was a credit) from another month's billing amount of the same resident in order maintain the same annual average.
- Different units within a unit type may be used for electric sampling than the units used for gas sampling as long as the 25% sampling is achieved for each unit type.
- Employee units may be used as part of the sampled units for the calculation.
- If the sample size for a specific unit type does not meet the minimum sample size required (25%, 5 units, or a 100% sampling for 1 to 4 units), the previous year's utility allowance will be used.
- Project-Based Voucher units may be used when sampling utilities, regardless of the requirement that all project based voucher units must use the PHA allowance when determining the rent limit on the units.
- Utility rates for Consumers Energy have been included in the budget policy in case the billing amounts cannot be captured. Prior to using the consumption amounts to determine the utility allowance, the management agent should contact Janice Baird at [jabaird@cmsenergy.com](mailto:jabaird@cmsenergy.com) to request resident billing information. MSHDA is not aware of any other utility company denying the release of billing information with the proper authorization form.

## **Utility Allowance (UA) Calculations**

The worksheet adds up each resident's full twelve months of bills and generates a monthly average rate. A standard deviation is generated based on all the average billing amounts. Any average billing amount outside of the standard deviation is dropped from the total utility sampling amount and an average of the monthly billing amounts within the standard deviation range is generated. Multiple monthly averages could be dropped from the final utility allowance calculation. Below are the individual program calculation requirements:

### **Section 236 UA Calculation**

This includes Section 236 de-coupled and Section 236 with tax credit developments.

- If the utility allowances resulting from the sampling increase by any amount, the utility allowances must be revised. The AM will notify the Agent/Owner of the approved utility allowances in the budget approval letter.
- If the utility allowances resulting from the sampling decrease by any amount, the utility allowances must be revised and the residents must be given a 30-day advance written notice and the ability to comment on the utility decrease, which may generate an increase in the tenant portion of the rent. The AM will notify the Agent/Owner of the approved utility allowances in the budget approval letter.
  - Notice to Residents – Follow the CFR 245.15 for proper posting and delivery requirements. The development may use the completed MSHDA mgmt 451A1 form identifying the proposed utility allowance decreases and/or rent increases at the property to inform the residents of the changes requested. This notice to the tenants must occur prior to September 30<sup>th</sup>.

### **Section 8 UA Calculation**

This includes Section 8 Preservation Pass-Through developments & Section 8 paid-off developments.

- If the utility allowances resulting from the sampling increase by any amount, the utility allowances must be revised. The Quality Assurance Analyst, Andrew Uzzle will notify the Agent/Owner of the approved utility allowances in the rent schedule approval letter.
- If the utility allowances resulting from the sampling decrease by any amount, the utility allowances must be revised, and the residents must be given a 30-day advance written notice and the ability to comment on any proposed utility allowance decrease for all units at the property. This notice must occur 30 days prior to the utility change submission date.
  - Notice to Residents – Follow the CFR 245.15 for proper posting and delivery requirements. The development may use the completed MSHDA mgmt 451A2 form identifying the proposed utility allowance decrease at the property to inform the

residents of the changes requested. This notice to the tenants must occur 30 days prior to submission.

### **MSHDA Programs UA Calculation**

This includes 80/20, 70/30, Taxable Bond, TEAM, 1% Tax- Exempt, and NPP Developments.

- If the utility allowance resulting from the sampling increases or decreases by any amount, the utility allowances must be revised and the residents must be given a 30-day advance written notice of any rent increase. The AM will notify the Agent/Owner of the approved utility allowances in the budget approval letter.

### **Utility Sampling Form Instructions**

**Summary Tab** – Enter the following fields:

*Name of Electric Co:* Identify what utility company supplies electricity to the development residents.

*Name of Gas Co:* Identify what utility company supplies gas to the development residents.

*Elec. (Electric) Rate:* Identify the electric rate used to calculate the billing amounts. Only important if consumption data is used to generate the billing amount.

*Service Chg (Charge):* Identify the service charge used to calculate the billing amounts. Only important if consumption data is used to generate the billing amount.

*Gas Rate:* Identify the gas rate used to calculate the billing amounts. Only important if consumption data is used to generate the billing amount.

*Commodity Chg (Charge):* Identify the commodity charge used to calculate the billing amounts. Only important if consumption data is used to generate the billing amount.

*12-month Sample Period:* Identify the months used for sampling the electric and gas bills.

*Effective Date:* Identify the date, which the new utility allowances become effective.

*Number of Units:* Identify the unit mix breakdown for the development under both the electric and gas tables. The numbers of units are used to generate the sampling size and set the minimum amount of billing samples required in order for the utility sampling tabs to generate an average dollar/unit/month amount.

*Current Utility Allowance:* Enter the amount of the current utility allowance amount.

**Electric-Family, Electric-Elderly, Gas-Family, Gas-Elderly Tabs** - Under each of the unit types identified on the Summary tab, Number of units fields, enter a complete 12 months of billing data for at least the required number of units identified in the “25% of Total Units.” The sampling tabs will accept more than the sample size units designated, if more than the required number of units were sampled. Enter the following fields for each sample unit:

*Unit # or Address:* Identify the sample resident’s unit location (number of address).

*Current Tenant Name:* Identify the sample resident’s name.

*Mo 1 through Mo 12:* Identify the billing amount for each of the 12 months sampled.

Along the top of each utility sampling tab is a summary of the totals and averages generated by the utility samples entered.

**Certification Tab** – The required form for the “Owner Utility Certification to MSHDA” tab appears based on the development selected on the summary tab, cell E3. Complete the following fields, which may appear as data entry fields on the development’s owner utility certification:

- Rent Increase Effective:* Enter the date when the rent change becomes effective.
- HUD Project #:* Identify the HUD Project Number of the development, if applicable.
- Location:* Identify the address of the development.
- Name:* Type the name of the owner (signer).

\*Print and sign the form for the hard copy submission to MSHDA.

**Governing Regulations**

The specific regulations governing utility rate adjustments are identified below:

- Section 8: CFR\* 880.610; CFR 245.10; CFR 245.405(a); CFR 245.410; CFR 245.415; and CFR 245.425
- Section 236: CFR 245.10; CFR 245.310; CFR 245.330; CFR 405(a); CFR 245.410; CFR 245.415; CFR 245.425; and 245.435 (non-insured projects).
- MSHDA Programs (LIHTC): <http://edocket.access.gpo.gov/2008/pdf/E8-17268.pdf> - IRS Regulations Section 42 updated July 29, 2008.

\* CFR means Code of Federal Regulations

**Consumers Energy - Updated Electric and Gas Rates**

This information is only available in case a development is only able to capture consumption data from Consumer’s Energy. Prior to using only the consumption data the Management Agent should contact Janice Baird ([jabaird@cmsenergy.com](mailto:jabaird@cmsenergy.com)) at Consumer’s Energy to request resident billing information.

**ELECTRIC**

Projected **2012** electric rate fees:

- 1) Family Rate                      3 or more persons averaging 500 kwh/mo
- 2) Senior Rate                      2 or less senior averaging 300 kwh/mo

	FAMILY	SENIOR
Consumers Energy Company	\$.1230/kwh +\$8.50/mo. service charge	\$.1141/kwh +\$8.50/mo. REP & service charge

## GAS

Projected **2012** gas rate fees:

- 1) Commodity Charge – total charge per mcf
- 2) Monthly residential service charge – applicable to individually metered units

	Family and Senior
<b>Consumers Energy Company</b>	
Commodity Charge	10.304/mcf
Class I Residential Customer Service Charge (R.C.S.C.)	\$10.50 mo.

For developments not lying under the jurisdiction of Consumer's Energy, the individual utility offices should be contacted and billing amounts requested for the previous 12 months.

### Rent Schedule Instructions

When determining rents for the upcoming year, consider the following questions to decide whether the development rent can increase:

- Can the rental market absorb a rental increase? How much?
- Will the vacancy loss increase or decrease? What is the past trend?
- Does the development have a waiting list of eligible applicants?
- Have the rents historically been kept substantially lower than comparable housing? Why? Should the rents continue the trend?
- What is the current financial condition of the development?
- Is the development financially on track with the current year's budget? Are there any anticipated changes in expenses in the upcoming year?
- Is the development able to fund long-term reserves such as replacement reserves?
- Can the development perform repairs as required by the MSHDA Annual Physical Inspection and/or the CNA?
- Has the owner been informed and provided input on the intended rent adjustments?

### Rent Limits

Completing the rent schedule requires close attention to the limits placed on rents by the governing documents, such as the regulatory agreement, tax credit agreements, and program rules.

Rent limits can be found on the MSHDA website at the following link:

[http://www.michigan.gov/mshda/0,1607,7-141-8002\\_26576\\_26582-76409--,00.html](http://www.michigan.gov/mshda/0,1607,7-141-8002_26576_26582-76409--,00.html).

Determining the Rent Limits – The rent limits are defined within each development’s Regulatory Agreement. Follow the steps below to help determine the proper rent limits for the development:

1. Find the ‘Rental Restrictions’ (not the Qualifications based on Income) defined in the Regulatory Agreement.
2. Review the website above to find the correct rent limit schedule.
3. Open the Rent Limit schedule and find the county in which development resides.
4. If the Regulatory Agreement contains:
  - Similar language to “...assuming occupancy of one and one-half persons per bedroom...” then reference the “By Bedroom” section of the rent limits schedule to determine the rent limits for the specified unit type.
  - Similar language to “...assuming occupancy of one person per bedroom...” then reference the “By Size” section of the rent limits schedule to determine the rent limits for the specified unit type.
  - No language regarding the occupancy, then refer to the year the mortgage originated.
    - Developments originating in 1996 and prior would have been required to employ the “By Size” schedule for rent limits unless otherwise stated in the regulatory agreement.
    - Developments originating in 1997 and later are required to employ the “By Bedroom” schedule for rent limits unless otherwise stated in the regulatory agreement.
  - Housing Development Action Grant (HODAG) language, then the rent limits are set by the municipality, which provides the HODAG.

The following tips will also help when completing the rent schedule:

- The maximum rent limits are the maximum gross rent a household may pay for rent and utilities combined for a specific rental unit type.
- Always use the most restrictive rents when multiple programs must be enforced at a development. For example, a unit is funded by both LIHTC and HOME funds, the LIHTC rent limit equals \$600 and the HOME limit equals \$500. Use the HOME rent limit for this unit.
- HOME units should be separated from similar units to identify the proper application of rent limits for each unit type and the total number of HOME units at the development.
- If you are unsure of what rents apply, review the regulatory and/or other controlling document where rent limits are established. If you are still unsure talk with the assigned Asset Manager or a Tax Credit representative from the Authority.
- Project-Based Voucher units should be separate from other similar units on the rent schedule, because the rents and utility allowances will be issued by the Public Housing Agency (PHA) administering the project based vouchers.

- Rural Development (RD) funded units must be separated out on the rent schedule, because the rents and utilities are issued by the United States Department of Agriculture – Rural Development (USDA-RD).
- A subsidy amount paid by a PHA may be allowed to exceed the rent limit reflected on the rent schedule.
- Project-based and tenant based vouchers can exceed the LIHTC rent limit as long as some portion of subsidy is being paid on the specified unit.
- Tenant-based vouchers cannot exceed the HOME rent limits. Enhanced or “sticky” vouchers are considered tenant-based vouchers.
- Project based vouchers (subsidy amount) can exceed the HOME rent limit, if the tenant’s rent portion does not exceed the HOME rent limit.
- Project-based and Tenant-based voucher households always use the PHA utility allowance amounts. MSHDA’s PHA issued utility allowance can be found at the following link: [http://mshdahousing.org/hcvppm/?page\\_id=182](http://mshdahousing.org/hcvppm/?page_id=182).

### **Rent Increases at Section 236 Developments**

If an increase is planned at a Section 236 development, follow the notification and request for approval process identified under the Utility Allowance (UA) Calculations, Section 236 UA Calculations section of this policy.

### **Rent Schedule Tab**

The required rent schedule tab appears based on the development selected on the Summary tab, cell E3. Complete the rent schedule to present the desired rents for the upcoming year and project the annual rent potential to be used during the budget process.

Each rent schedule calculates the monthly and annual rent potential for the various units at a development. All units should be included on each rent schedule that will be used for budget purposes. This guarantees the maximum gross rent potential is accurate before accounting for reductions in income due to Loss to Lease, Vacancy Loss, Non-Rental Unit, Bad Debt/Former Resident, and Market Concessions.

**Section 236 Rent Schedules** – The schedule automatically calculates Market Rate Rent Ratio and uses the basic rent to determine the gross rent potential. The Gross Rent Potential calculation multiplies the basic rent by the number of units for each unit type and if moderate units exist, multiplies the moderate units by the number of units for each moderate unit type and adds this product to the total.

**Section 236 Definitions –**

*Basic Rent* – The lowest rent rate that can be charged in order to maintain operations.

*Market Rent* – Basic Rent times the Market Rent Ratio. The highest rent rate that can be charged and remain within the highest HUD determined rent for the area in which development resides.

*Market Rent Ratio* – Total annual basic rent potential plus the annual interest reduction subsidy divided by the total basic rent potential. The product of the equation should be carried out to four decimal places (.0000).

Complete the following highlighted fields on the Section 236 rent schedule:

*Total ACC Units*: Enter the number of units covered by an Annual Contributions Contract.

*HUD Contract/Project #*: Enter the HUD designated number for the development.

*Owner*: Enter the name of the development owner.

*Rent Effective Date*: Enter the begin date of the rents entered on the rent schedule.

*Rent Restriction (based on 1.5 per bedroom)*: Enter “Yes” if the rent limits are based on one and one-half persons per bedroom, otherwise enter “No”.

*Annual Interest Reduction Subsidy*: Enter the total interest reduction subsidy amount for the year.

*Market Rate Rent Ratio*: This field should auto fill as you complete the rent schedule. The calculation for this field can be found in the definitions.

For each unit type, enter the following fields to generate the total annual Gross Rent Potential:

*Bedroom #/Size*: Enter the number of bedrooms in the specified unit.

*# Units*: Enter the number of units at the development with the designated unit size and rent amount.

*Basic Rent*: Enter the basic rent amount from the prior year’s approved rent schedule.

*Market Rent*: Enter the market rent amount from the prior year’s approved rent schedule.

*Utility Allowance*: Enter the current utility allowance allocated to the unit type. This should match the utility amount on the previous year’s approved rent schedule.

*Basic Rent Increase*: Enter the amount requested for the upcoming year’s increase to basic rent.

*Maximum County Gross*: Enter the maximum gross rent amount allowed in the county for the identified unit.

*Utility Allowance*: Enter the newly calculated utility allowance for the upcoming budget year.

For each Moderate unit types, enter the following fields to generate the total Gross Rent Potential:

*Bedroom #/Size*: Enter the number of bedrooms in the specified unit.

*# Units*: Enter the number of units at the development with the designated unit size and rent amount.

*Moderate Rent*: Enter the moderate rent from the prior year’s approved rent schedule.

*Moderate Rent Increase:* Enter the requested amount for the upcoming year's increase to the moderate rent rate.

**Section 8 Rent Schedules** – Occasionally, Section 8 developments have set aside units which are not part of the ACC units. These units should be included on the rent schedule, but the rent amounts should not be completed and added into the rent potential calculation. The Gross Rent Potential calculation multiplies the contract rent entered by the number of units for each unit type and if moderate units exist, multiplies the moderate units by the number of units for each moderate unit type and adds this product to the total.

Complete the following highlighted fields on the Section 8 rent schedule:

*Bedroom #/Size:* Enter the number of bedrooms in the specified unit.

*Unit Type:* Enter the type of unit; in most cases this may be copied from the previous year's rent schedule. Unit type definitions:

- E2/E3 – Elderly Mid-rise Apartments,
- E5 – Elderly High-rise,
- AE – Apartment Elderly,
- AW – Apartment Walkup,
- SD – semi-detached,
- TH – Townhouse,
- H – handicap/disabled,
- MR – Mentally disabled.

*# Units:* Enter the number of units at the development with the designated unit size and rent restriction percentage and rent amount.

*Rent:* Enter the new annual rent amount requested.

*Utility Allowance:* Enter the newly calculated utility allowance for the upcoming year.

For each Moderate unit types, enter the following fields to generate the total Gross Rent Potential:

*Bedroom #/Size:* Enter the number of bedrooms in the specified unit.

*Unit Type:* Enter the type of unit units at the development with the designated unit size and rent amount.

*Moderate Rent:* Enter the moderate rent from the prior year's approved rent schedule.

*Moderate Rent Increase:* Enter the requested amount for the upcoming year's increase to the moderate rent rate.

**MSHDA/ARRA-Financed Rent Schedules** – Review the development's Regulatory Agreement before implementing any rent increases. The Regulatory Agreements generally state that the current residents cannot receive a rent increase over 5%. Vacant unit rents can be increased by more than 5% if the market can bear the increase and if the rent increase does not conflict with any program rent restrictions. Provide detailed notes regarding the gross rent calculation with all budget submissions. The Gross Rent Potential calculation multiplies the contract rent entered by the number of units for each unit type. Resident-based subsidies are included as part of this calculation, since the resident based subsidy supplement individual's rent payments. Development based subsidies and subsidy grants which support the development operations are not included in the Gross Rent Potential calculation.

Complete the following highlighted fields on the rent schedule:

*Rent Restriction (based on # in household):* Enter “Yes” if the rent limits are based on one person per bedroom, otherwise enter “No”.

*Rent Restriction (based on 1.5 per bdrm):* Enter “Yes” if the rent limits are based on one and one-half persons per bedroom, otherwise enter “No”.

For each unit type, enter the following fields to generate the total annual Gross Rent Potential:

*Bedroom #/Size:* Enter the number of bedrooms in the specified unit.

*# Units:* Enter the number of units at the development with the designated unit size and rent restriction percentage and rent amount.

*Rent Restrict %/Unit Type:* Enter the rent restriction percentage, i.e. 30, 40, 50, or 60. Identify the unit type, such as HOME (HH – high HOME, LH – low HOME), PBV, etc.

*2011 Rent:* Enter the current rent being charged for the unit. This should match the amount on the previous year’s rent schedule.

*Utility Allowance:* Enter the current utility allowance allocated to the unit type. This should match the utility amount on the previous year’s rent schedule.

*Rent Increase:* Enter the amount of any rent increase planned for the upcoming budget year.

*Max County Gross Rent:* Enter the current rent limit designated for the specified unit type. Rent limits are posted on the MSHDA website at:

[http://www.michigan.gov/mshda/0,1607,7-141-8002\\_26576\\_26582-76409--,00.html](http://www.michigan.gov/mshda/0,1607,7-141-8002_26576_26582-76409--,00.html)

*Utility Allowance:* Enter the newly calculated utility allowance for the upcoming budget year.

## **Forms and Attachments**

- 451A1 – Notice of Request to Increase Permissible Rents
- 451A2 – Notice of Request to Decrease Utility Allowances
- 451B – Utility Allowance Calculation Summary
- 451C1 – Owner Utility Cert for Sec 236
- 451C2 – Owner Utility Cert for Sec 8 or MSHDA
- 451D1 – Section 236 Rent Schedules
- 451D2 – Section 8 Rent Schedules
- 451D3 – MSHDA Programs Rent Schedules

### Attachment

- 451 Attachment 1 – Example of Authorization to Release Utility Data

**NOTICE OF REQUEST TO  
INCREASE MAXIMUM PERMISSIBLE RENTS**

**Date of Notice (Prior to September 30)**

On [date] , [name of development] management plans to submit a request for approval to increase the maximum permissible rents and/or to decrease the utility allowances to the Michigan State Housing Development Authority (MSHDA). The proposed rent increase and/or utility decrease is needed for the following reasons:

- 1.
- 2.
- 3.

The changes for which management has requested approval are:

Bedrooms	Present Rent		Proposed Increase		Proposed Rent		Present Utility Allowance	Proposed Utility Allowance
	Basic \$	Market \$	Basic \$	Market \$	Basic \$	Market \$		

(Tenant Notification and Rights on back.)

## **Tenant Notification and Rights**

For 30 days after the posting date of the notice, a copy of the materials submitted to MSHDA in support of this rent increase and/or utility decrease request will be available during normal business hours at [address] for inspection and duplication by residents of [name of development] and, if the residents wish, by legal or other representatives acting for them individually or as a group.

During the 30 day period after the posting date of the notice, residents of [name of development] may submit written comments on the proposed change to management at [address] . Resident representatives may assist tenants in preparing those comments. If, at MSHDA's request or otherwise, management makes any material change during the comment period in the materials available for inspection and duplication, management will notify the residents of the change or changes, and the residents will have a 15 day period from the date of the additional notice (or the remainder of any applicable comment period, if longer) in which to inspect and copy the materials as changed and to submit comments on the proposed rent increase and/or utility decrease. These comments will be transmitted to MSHDA, along with management's evaluation of the comments and the request for the change. Residents and resident representatives may also send a copy of their comments (with the development name clearly identified) directly to MSHDA at the following address: Michigan State Housing Development Authority, [MSHDA Lansing or Detroit office address] , Attention: [Assigned Asset Manager] .

MSHDA or the Department of Housing and Urban Development (HUD) may approve, adjust upward or downward, or disapprove the proposed rent increase and/or utility decrease upon reviewing the request and comments. When MSHDA advises management in writing of the decision on the request, the residents will be notified. If the request is approved, any allowable change will become effective in accordance with the terms of existing leases and only after the residents receive at least 30 days notice of the approved rent increase and/or utility decrease.

**NOTICE OF REQUEST TO  
DECREASE UTILITY ALLOWANCES**

**Date of Notice (30 days prior to the date of utility submission)**

On [date] , [name of development] management plans to submit a request for approval to decrease the utility allowance to the Michigan State Housing Development Authority (MSHDA). The proposed decreases have been requested, because our most recent sampling of resident utility bills has produced a decrease in the average utility rates.

The utility allowance decreases for which we have requested approval are:

<b>Bedrooms</b>	<b>Present Utility Allowance</b>	<b>Proposed Utility Allowance</b>
	<b>\$</b>	<b>\$</b>

(Tenant Notification and Rights on back.)

## **Tenant Notification and Rights**

For 30 days after the posting date of the notice, a copy of the materials submitted to MSHDA in support of the utility allowance decrease request will be available during normal business hours at [address] ] for inspection and duplication by residents of [name of development] and, if the residents wish, by legal or other representatives acting for them individually or as a group.

During the 30 day period after the posting date of the notice, residents of [name of development] may submit written comments on the proposed utility allowance decrease to management at [address] . Resident representatives may assist tenants in preparing those comments. If, at MSHDA's request or otherwise, we make any material change during the comment period in the materials available for inspection and duplication, management will notify the residents of the change or changes, and the residents will have a 15 day period from the date of the additional notice (or the remainder of any applicable comment period, if longer) in which to inspect and copy the materials as changed and to submit comments on the proposed utility allowance decrease. These comments will be transmitted to MSHDA, along with management's evaluation of the comments and the request for the utility allowance decrease. Residents and resident representatives may also send a copy of their comments directly to MSHDA at the following address: Michigan State Housing Development Authority [MSHDA Lansing or Detroit office address] , Attention: [Assigned Asset Manager] ].

MSHDA or the Department of Housing and Urban Development (HUD) may approve, adjust upward or downward, or disapprove the proposed utility allowance decrease upon reviewing the request and comments. When MSHDA advises management in writing of the decision on the request, the residents will be notified. If the request is approved, any allowable change will become effective in accordance with the terms of existing leases and only after the residents receive at least 30 days notice of the approved utility allowance decrease.