

SUMMARY:

Described is the Authority's policy regarding the management fees paid to all management agents managing Authority-financed, non-HUD insured housing developments.

MANAGEMENT FEES:

PURPOSE - Authority-approved management fees are paid to compensate management agents for services performed under the Authority-approved Management Agreement. The management fee compensates the management agent for the services necessary to manage, operate and maintain the development on a day-to-day basis in accordance with sound property management practices. These services include, but are not limited to:

- Designing and supervising the procedures and systems needed to effectively operate the development;
- Recruiting, hiring, training and supervising staff;
- Monitoring development operations and analyzing problems; and
- Providing reports on development operations.

NOTE: Management agents may also negotiate a premium management fee with the development's owner(s) based on compliance with the Authority's "Premium Management Fee Guidelines".

The Authority-approved management fee and the premium management fee are the sole compensation that a management agent is entitled to receive from development operations. **Any costs not identified in the policy as management fee or operating fee costs should be paid for out of allowable distributions.**

CALCULATION OF MANAGEMENT FEE - The Authority reviews the management fees annually to determine if they should be adjusted. Management fee adjustments are calculated as follows:

- Obtain the Midwest Consumers Price Index inflation rate percentage (including shelter) from the Washington Regional Office of the Consumers Price Index.

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- Apply the Consumers Price Index inflation rate percentage to the previous year's management fee to determine the management fee increase.

EFFECTIVE DATE OF PAYMENT OF MANAGEMENT FEES - The effective date of payment of management fees is determined through the yearly budget process. The management fee approved by the owner and the Asset Managers in the annual budget will be the maximum fee that can be paid to the management agent. The new management fee is effective with the first month of the new budget year.

PAYMENT OF MANAGEMENT FEES - The management fee is a per unit, per year amount payable in twelve (12) equal monthly payments on the first day of each month. Management fees **cannot** be paid or accrued until the effective date in the "Term of Agreement" section of the Authority-approved initial Management Agreement.

Unpaid management fees must be reported on Schedule B of the Monthly Income & Expenditure Report.

PRIORITY OF PAYMENT - As outlined in the Management Agreement, management fees must be paid **after** mortgage/escrow payments and all development undisputed, non-identity of interest-vendor payables.

Management Fees can be paid as follows:

Identity of Interest Management Agent: Management fees cannot be paid to an Identity of Interest management agent when there are non-Identity of Interest accounts payables over **90 days**, unless an "Accounts Payable Action Plan" is approved by the Authority.

An "Accounts Payable Action Plan" must contain all of the following items:

- A schedule listing the outstanding accounts payable at the time of the request;
- A payment plan evidencing pay-off of all outstanding payables with an estimated pay-off date;
- Evidence of owner contributions including but not limited to:

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- a) Cash contribution;
- b) Operating Assurance Escrow;
- c) Pledge of LD Payment; or
- d) Documentation of any vendor discounts for early pay-off.

Approval of an approved "Accounts Payable Action Plan" can be revoked at any time by the Authority, if the Authority determines the following:

- The owner or management agent have failed to meet their obligation under the "Action Plan; or
- The development continues to experience problems with non-vendor accounts payable that may result in liens filed against the development.

If there are vendor payables over **90 days** during a month and management fees have been paid, the management agent must submit the following items with the MIE:

- Cover letter providing detailed explanation as to why the management fees were paid prior to vendor payables over **90 days**; and
- A copy of the vendor invoice.

The explanation will be reviewed on a case-by-case basis by the assigned Asset Manager. Based on the review, the management fee may be required to be repaid or a warning letter may be issued.

Non-Identity of Interest Management Agent: Management fees may be paid to a non-identity of interest management agent as an ordinary account payable.

**IDENTITY OF
INTEREST VENDORS
OF THE MANAGING
AGENT:**

Services/supplies provided by Identity of Interest vendors of the management agent can be reimbursed from the development's operating



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account if each expenditure is accounted for with a vendor invoice and:

- **The charges are for necessary site-specific operating expenses, and**
- **The charges do not exceed the amounts ordinarily paid for such services/supplies;**

VIOLATIONS OF MANAGEMENT FEE POLICY:

The following steps will be taken if disallowed expenses are paid from a development's operating account:

- **Notification of Violation:** A notification of violation letter will be sent to the management agent by the assigned AM. The letter will advise the management agent of the violation. The management agent will have 30 days to reimburse the development's operating account for the disallowed expense and provide the Authority with verification of the reimbursement.
- **Warning Letter:** If the management agent does not satisfactorily respond to the notification of violation, the Asset Management Division's Financial Analyst will send a warning letter. The warning letter will notify the management agent that a material default will be declared in 30 days if the violation is not corrected. A material default will result in the loss of the Premium Management Fee and possible further action by the Authority.
- **Material Default:** If the violation is not corrected within 30 days of the warning letter, the Asset Management Division's Financial Analyst will issue a material default letter to the management agent and the owner. This letter will be sent by certified mail. A copy of the material default letter will also be sent to the Authority's Intake Officer. The management agent will have 30 days from the receipt of the material default notice to cure the default.

The Authority reserves the right to withhold or suspend management fees, if a material default has not been corrected within the Authority-approved time frame. This process is outlined in the Management

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Agreement.

**CENTRAL OFFICE
EMPLOYEES (COE):**

A Central Office Employee (COE) is defined as an employee who receives a portion of their wages and/or benefits from the management fee. All central office employee functions must be paid from the management fee.

However, a COE may be used to temporarily replace an on-site staff person. The pay rate charged can be at the salary rate of the central office employee, even if this rate is higher than the on-site staff person replaced.

**COE BILLING RATES
TO DEVELOPMENT'S
OPERATING ACCT.:**

The billing rate for central office employee services cannot exceed the actual compensation rate paid to the central office employees for central office duties. The billing rate for the services can only include the following items:

- Salary;
 - Fringe benefits (i.e. health insurance, pension plans, etc.);
 - Employer payroll taxes; and
 - Worker's Compensation.
- Reimbursement for travel expenses for central office employees must be based on the actual mileage from the central office/home base to the development and return. The mileage rate for travel cannot exceed the standard mileage rate published by the IRS.
 - **If a temporary replacement period exceeds 3 months, the management agent must notify the assigned MSHDA AM of the following information**

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about the temporary replacement:

- **Anticipated return date of the on-site staff person; and**
- **Detailed action plan to resolve the temporary replacement situation.**

The management agent's explanation will be reviewed for reasonableness on a case-by-case basis by the assigned Asset Manager. The Asset Manager will also review the financial status of the development and make a recommendation to the Supervisor for approval/disapproval of the plan.

NOTE: All COE expenses must be recorded in MIE Line Item 4b – Premium Management Fee with detailed explanation of the position temporarily replaced and the period of the replacement.

COSTS PAID FROM MANAGEMENT FEES:

The following costs must be paid from the management fee:

- **Central Office Employees** - The salaries, fringe benefits, recruiting, hiring and training costs for the following employees:
 - Executive management staff that serve as overall policy and decision-making authorities;
 - Accountants, bookkeeping staff, clerical staff and contractual employees;
 - Property management staff who monitor and **oversee** the

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development operations by visiting the development, supervising,, analyzing and evaluating staff performance by reviewing resident files, office procedures **and the physical condition of the development** for compliance with company standards and federal/state requirements; and

- Employer payroll taxes and pension plans for central office staff, as well as the cost of auditing the pension plans and the cost of unemployment tax audits.
- **Central Office Duties/Responsibilities & Contractual Services** - All costs associated with the following items:
 - Cost of recruiting, selecting, testing, hiring, initial/ongoing training and supervising of central office employees, including any contractual services related to the above;
 - The cost of recruiting, selecting, testing, hiring, initial training and supervision of on-site staff, including any contractual services related to the above;
 - The costs of ensuring the development is staffed during normal business hours;
 - The cost of **any** training of central office and on-site staff **performed by management agent staff**;
 - The cost of training development staff for skills not directly related to job performance;
 - Cost of updating employee manuals, forms, policies and procedures and cost of resident file audits;
 - Telephone charges, cellular phones and pagers, travel to the development, meals, entertainment and hotel rooms of supervisory and central office staff, including those temporarily assigned to a development;
 - All central office and site employee perks, i.e. gifts, parties, flowers, club memberships (unless the items are disclosed and approved by the Authority as part of the development's on-site payroll line item);

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- Cost of calculating security deposit interest and processing resident security deposit refund checks;
 - Costs associated with preparing and processing checks;
 - Cost of using consultants or technical experts to provide advice or make recommendations to the management agent in carrying out their responsibilities regarding advice on financial investment, insurance coverage, pension planning, marketing or product research;
 - Costs of preparing Utility Allowance information and grant applications;
 - Cost of correspondence regarding physical inspections, annual certified audit, budget, resident complaints and general correspondence from central office staff;
 - Cost of completing applications for new vendors;
 - Cost of bid negotiation, **bulk buying**, issuance and oversight of purchase orders and contracts unless approved in advance by the Authority in writing;
 - All association/membership dues or fees for central office employees and all political contributions; and
 - Management agent's office building costs.
- **Accounting & Bookkeeping Costs** - Establishment and operation of an accounting/bookkeeping system and internal management control procedures. All costs associated with preparation and processing of the following items:
 - Payroll, including check disbursements and any associated costs; processing fees **or service fees for writing payroll checks, payroll tax returns, etc.**;
 - **Costs of oversight/monitoring and approval of program compliance, i.e. Subsidy billings, TRACS, special claims, Excess Income Reports, etc.**;

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- **Letter of credit costs;**

- **Costs associated with preparing Mortgage payments;**

- MIE and any other special financial reports; processing of invoices including check disbursements and resolution of invoice discrepancies;

- Maintenance of subsidiary ledgers for accounts receivable/payable; bank reconciliations; monthly journal entry preparation; general ledger review and analysis;

- Initial and on-going training of central office and on-site staff on accounting systems and accounting software.

- Development budgets, including rent increases and utility allowance requests;

- Annual Certified Audit and Pre-Closing Audit work papers; and

- Reserve and escrow draws.

- **Computer-Related Costs** - Central office computer hardware and software, maintenance, computer technician/support and training costs;

- **Penalties, Loss of Income & Lawsuit Damages** - All penalties and loss of income resulting from management agent's performance, including lawsuit damages; e.g.
 - Damages relating to employee or resident discrimination not covered by insurance policy;

 - All losses of rental income, increases in operating expenses or financial deficits resulting from the management agent's failure to perform any and all of the duties necessary to the proper management and marketing of the development; and

 - Penalties and late charges as outlined in the management agreement.

NOTE: Structuring of mortgage modifications, workouts and

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sale transactions cannot be paid from the development's operating account. These costs are generally considered an expense to the owner.

COSTS PAID FROM DEVELOPMENT'S OPERATING ACCOUNT:

The following costs can be paid from the development's operating account:

- **On-Site Staff** - All costs associated with the following items:
 - Salaries, fringe benefits and commissions, advertising, background/criminal and credit checks for on-site staff; e.g. administrative, maintenance, janitorial, marketing, security and on-site contractual employees; and
 - Employer payroll taxes and Authority-approved pension plans for on-site staff, as well as the cost of auditing the pension plans and the cost of unemployment tax audits.

- **On-Site Staff Duties/Responsibilities** - All costs associated with the following items:
 - Preparation of subsidy billings, including special claims and Excess Income Reports;
 - Preparation and processing of resident applications, certifications and worksheets;
 - Collection and deposit of rent, bad debt collection, other resident charges and processing of inventory checklists; and
 - Processing Notices to Quit and Lease termination notices.

- **Computer-Related Costs** - Development computer hardware and software and computer maintenance costs.

- **Other Eligible Development Expenses** - All costs associated with the following items:
 - Cost of on-going and specialized training courses **performed by vendors other than the management**

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company relating to TRACS, Tax Credits, ADA, Fair Housing and HUD/ MSHDA-approved programs for on-site employees;

- Employee or resident discrimination insurance premiums and Worker's Compensation costs;
- Travel expenses incurred by on-site development staff in performing development-related responsibilities;
- Miscellaneous development office expenses, i.e. envelopes, postage, copy paper, computer supplies and development checks, record storage;
- Cost of day-to-day development operations; e.g. advertising, on-site telephone and Internet charges, legal expenses, utilities, **maintenance and grounds inspections conducted by development staff; HVAC, electrical and plumbing inspections;** general building and grounds maintenance including contracts;
- Cost of using consultants or technical experts to provide advice or make recommendations in highly technical areas such as the correction of structural/engineering problems or health/safety issues;
- Cost of using a consultant to evaluate site staff marketing skills and performance;
- Cost of State-Certified Appraiser to perform Market Rent Comparisons for Section 8 rent increases;
- Allowable fees; e.g. management fees, Premium Management Fees, Annual Certified Audit fees, Tax Credit monitoring fees, Trustee Bond Fees **(NOTE: Tax Credit Cost Certification Audit Fees and Mortgagors' and Contractors' Cost Certification Fees cannot be paid from the development's operating account);**
- Debt service, real property taxes/PILOT and assessments, hazard, liability, umbrella, boiler insurance premiums, fidelity bond premiums, development vehicle and equipment insurance premiums, Replacement Reserve escrow payments and any other escrows or reserves required by the Regulatory Agreement;

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- Other development taxes; e.g. Single Business Tax;
- Allowable Distributions;
- Interest expenses for the repayment of MSHDA-approved loans and/or owner advances;
- Comprehensive Needs Assessment costs;
- Bank card fees so residents may pay rent with a credit card; and
- Directors' and Officers Insurance Policy for non-profit owned developments.

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