

452 – SUPPORTIVE HOUSING BUDGET GUIDE POLICY

This policy provides guidance regarding the completion of the annual budget process for CSH (Community Supportive Housing) developments and MR Developments that are required to submit an annual budget to the Authority. The following topics will be covered:

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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. A detailed timeline identifying the timeframe required for achieving the appropriate budget calculations and submissions follows:

Aug 1st – **Begin collecting utility sampling data.** **Note:** MR developments do not submit utility sampling, because the MR developments pay for all utilities.

Prior to Sept 30th – MR *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 451A) to the tenants, if necessary.

- Post the notice (MSHDA Mgmt 451A) in three conspicuous places and send to all non-market rate residents prior to the September 30th.
- Residents must receive at least 30 days notice to comment on the Request for Increase.
- **Note:** Do not include MSHDA moderate units on the Section 236 posting documents.

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

Oct 1st to Oct 31st – **Assigned Asset Manager (AM) reviews MR 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 1st – MR *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, if a rent increase is submitted.

Nov 1st – **Budget packages are due to MSHDA.** *Applies to all programs, except MR Section 236 developments.*

Nov 1st to Nov 30th – **Assigned AM reviews and finalizes all development budgets,** if the budget submission is complete.

Prior to Dec 1st – **MSHDA sends a copy of the approved budget to the management agent.**

Dec 31st – *Only applies to CSH developments.* **Management Agreements and Management Agreement Addendums are due.** *MR developments do not have Management Agreements.*

Jan 1st – **The management agent implements the approved budget.**

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** fiscal year 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.

Where to Submit Budget Documentation

The following two items must be completed by the designated due dates in order to meet the submission deadline.

1. Submit an electronic copy of the completed excel workbook (Mgmt 452A, Identity of Interest disclosure forms, and utility forms (if applicable)) to the 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., 3rd Floor
P.O. Box 30044
Lansing, Mi 48909

Budget Submission Requirements

In addition to submitting a completed electronic copy of the Supportive Housing - Budget Form 452A, 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 452A** – *Applies to both MR and CSH developments.* SH - Budget form (revised 8/2011) 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 452A line items** – *Applies to both MR and CSH developments.* Notes describing the anticipated income and expenses being budgeted for each line item on the 452A 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 452A form refer to the “Supportive Housing - Budget Form #452A 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 452A form flagged as “Yes”.
- A “**Budget Notes**” reference in the detailed explanation in “Supportive Housing - Budget Form #452A Tab Instructions” section below.

3. **Owner’s Utility Certification to MSHDA**

- *For MR 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 MR Section 8 Developments*, including Section 8 Preservation Pass-Thru and Paid off Developments, the Utility Certification form is NOT a required submission with the budget process, only the approved rent schedule needs to be submitted with the budget.
- *For all CSH MSHDA program developments*, Moderate, HOME – Use the MSHDA Mgmt 451C2 form to certify utilities sampled.

4. **Utility Allowance Calculation – Summary** (MSHDA Mgmt 451B). *This form is not a requirement for all MR Section 236 and Section 8 developments in conjunction with the budget submission process. [MR developments do not perform utility sampling, since the developments pay for the all the rental unit utilities.] MR Section 8 developments must submit the latest Rent Schedule approved by the MSHDA Quality Assurance Analyst, Andrew Uzzle with the budget submission documents. Refer to the 451 - Utility Sampling and Rent Schedule policy.*

5. **Verification of PHA Utility rates** – *Required for all developments with Project Based Vouchers (PBV).* PBVs use the administering Public Housing Agency’s (PHA) published utility rate for each PBV designated unit. If the PBV is administered by a local PHA, then submit verification of the PHA’s published utility rates.

6. **Proposed Rent Schedule** – *Applies to both MR and CSH developments.* Proposed Rent Schedule (MSHDA Mgmt 450D1 through 450D3). *MR Section 8 developments*

must submit the **latest MSHDA approved rent schedule**. MR 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.

7. **Identity of Interest Disclosure** – *Applies to both MR and CSH developments.*
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.
8. **Current Service Contracts** – *Applies to both MR and CSH developments.* 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.
9. **Management Agreement (MSHDA Mgmt 401-CSH)** – *Applies to CSH only.*
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 31st 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.
10. **Pension Plan Evidence** – *Applies to both MR and CSH developments.* 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.

11. **Market Analysis** – *Applies to CSH developments and on rare occasions where a rent increase exists on a MR Section 236 development. This does not apply to MR Section 8 development.* 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.
12. **Letter from owner** - *Applies to both MR and CSH developments.* 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 MR Section 236 developments only, including Section 236 decoupled and Section 236 with Tax Credits:

13. **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. Complete and sign the form. Unaudited numbers for the current year are acceptable.
14. **Notice of Request to Increase Maximum Permissible Rents** - (MSHDA Mgmt 451A): Provide a copy of the posted notice to residents regarding any pending rent increase. Note a reduction in utility allowance requires a posting and submission of the form 451A, even if the rent amount does not change.
15. **Resident comments** – If applicable, provide resident comments regarding a pending rent increase or utility allowance decrease.
16. **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.
17. **Excess Income Report** – Provide the most recent copy of the development’s Excess Income Report (HUD-93104).
18. **Owner Certification** – Provide a signed copy of the Owner Certification of Purchasing Practices and Reasonableness of Expenses (MSHDA Mgmt 450D).

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. The MSHDA Budget template is posted on the MSHDA website at http://www.michigan.gov/mshda/0,4641,7-141-8002_47708-177125--,00.html. The Supportive Housing budget template includes the following tabs for all developments:

- Summary (*Applies to CSH only*);
- CSV-CSH (*Applies to CSH only*);
- CSV-MR (*Applies to MR only*);
- 452A (*Applies to both MR and CSH*);
- Rent Schedule (*Applies to both MR and CSH*) – The applicable rent schedule will be displayed depending on development selected.
- Electric – Family (*Applies to CSH only*);
- Electric – Elderly (*Applies to CSH only*);
- Gas – Family (*Applies to CSH only*);
- Gas – Elderly (*Applies to CSH only*);
- Cert (*Applies to both MR and CSH*) – The applicable owner certification will be displayed depending on development selected;
- I of I (*Applies to both MR and CSH*).

When an MR development is selected, the utility tabs disappear, because the tabs are not part of the MR Section 8 development budget submission process. All utilities for MR developments are development paid.

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

1. Specific development in cell F1 of the **452A tab**,
2. Budget line items on the **452A** tab to generate an acceptable budget for the development.
3. Unit rent information to generate the Gross Rent Potential amounts on the “**...Rent Sch**” tab, if applicable.

*For CSH developments with units **NOT assigned Project-Based Vouchers (PBV units use the administering Public Housing Agency utility allowances)**, continue with the following steps, by entering the applicable information into the yellow shaded fields on the following tabs:*

4. **Summary tab**,
5. **Utility sampling tabs** (Electric – Family and Gas – Family or Electric – Elderly and Gas – Elderly) – Enter the utility sampling data received from the residents in the appropriate fields as necessary, and
6. “**...Cert**” tab, if applicable.

Summary Tab – For CSH developments only, do NOT submit this tab as part of the budget submission. For all other developments with tenant paid utilities, 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 #452A Tab Instructions (*Applies to both MR and CSH*)

Budgets must be prepared by the management agent and submitted to the Authority on the customized MSHDA Form #452A using the instructions outlined in this section. The appropriate tabs will appear in the workbook based on the development name selected on the summary tab.

452A 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 be entered into this column.

Previous 12 Months Expenditures – Enter the total accumulated Monthly Income and Expense (MIE) data from the previous year’s July MIE through the current year’s June MIE data submitted during the MIE process.

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”.
Variance = Proposed Budget minus Previous 12-Months Expenses divided by the 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”. Variance = Proposed 20xx Budget minus 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 452A 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.

452A Rows

Below is a description of each line item row on the 452A 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** (*Applies to both MR and CSH*) - 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. Carry the Grand Total Annual Rent Potential number over to this line item.
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** (*Applies to both MR and CSH*) – Project the amount of rent revenue lost due to existing lease rent restrictions (lease variances). For example, rent increases effective after January 1st 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** (*Applies to CSH only*) – 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 **Bad Debt/Former Residents** (*Applies to CSH only*) – 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.

- 1d **Marketing Rent Concessions** (*Applies to CSH only*) - 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. Record income lost due to any marketing rent concessions.

Other Income

- 2a **Late Charges** (*Applies to CSH only*) - Multiply the late charge times the anticipated number of occurrences to project the amount for the budget year.
- 2b **Laundry & Carport Income** (*Applies to CSH only*) - Project the development's portion of income received from common area laundry facility and carport rentals.
- 2c **Commercial Income** (*Applies to CSH only*) – Project rent collected from commercial space covered by a master lease.
- 2d **Subsidies/Grants** (*Applies to CSH only*) – Project subsidy or grant funds received; i.e. CMH, 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** (*Applies to CSH only*) - 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** (*Applies to MR Section 236 developments only*) - Obtain this figure by multiplying the surcharge amount found on the most recent Excess Income Report by 12. Record the amount of excess income approved by HUD to be retained by the owner for limited purposes.
- 2h **Personal Care Rate/AFC** (*Applies to MR only*) – Project this amount by multiplying the personal home care rate times 12 months times the number of applicable units where residents are receiving personal home care payments.

Subtract out the portion of the payments paid toward rent and recorded in 1- Gross Rent Potential. Only include boarding and other services from Supplemental Security Income (SSI) issued by the Social Security Administration (SSA) in this line item.

- 2i **Program Funds** (*Applies to MR only*) - Project the amount of funds to be received from federal, state, and community agencies to fund resident programs and services. For example, food stamps and human services programs. **Budget Notes** - Include a breakdown of the names of the program funding sources and the amount received from each source.
- 2j **Bad Debt Recovery** (*Applies to CSH only*) – Project any rent payments received for bad debt/former residents previously written off on Line Item 1c.
- 2k **Other** (*Applies to both MR and CSH*) - 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 6a through 6k of the budget.
- Depreciable items or capital expenditures must be budgeted in Line item FA of the budget (*Applies to both MR and CSH*).
- 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 MR Section 8 development cannot be budgeted as this is an expense of the seller.

- Congregate care service expenditures cannot be budgeted.

4a **Management/Administration Fees** (*Applies to both MR and CSH*) – For CSH developments, if the development owner approves the fee on the Management Agreement or Addendum A of the Agreement, this item should always be budgeted at the management fee amount identified in the agreement. Calculate the fee by multiplying the total number of units in the development (including non-ACC and employee units) times the 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. **Budget Notes** are required.

4b **Marketing Payroll** (*Applies to CSH only*) - Project the reimbursement of gross salaries of staff used exclusively for marketing or commissions paid to outside agents.

4c **Administrative Employee Payroll** (*Applies to both MR and CSH*) – Project the reimbursement of gross salaries of all full and part-time office staff, including the human services coordinator. MR Developments include resident managers and housekeeping, food preparation, program aides, and transportation. 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.

4d **Employer Payroll Taxes** (*Applies to both MR and CSH*) – 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 (4b), administrative staff (4c), maintenance staff (6a), janitorial staff (6b), and grounds staff (6d). The cost of an unemployment tax audit must be included in this line item.

4e **Employee Benefits & Insurance** (*Applies to both MR and CSH*) – Project the cost of the employer's contribution for Authority-approved pension plans for on-site staff, health care, life insurance, fidelity bond coverage when allowed under the Authority's Employee Dishonesty/Crime Policy, vehicle and any other Authority-approved insurance costs not currently being escrowed.

4f **Worker's Compensation** (*Applies to both MR and CSH*) – 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.

- 4g **Advertising** (*Applies to CSH only*) - Project development advertising through newspapers, radio, television, exhibits, leaflets, brochures, signs, banners, etc. as well as advertising for staff vacancies.
- 4h **Legal Expense** (*Applies to both MR and CSH*) - 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. Supportive documents should clearly establish the average number of cases expected during the forthcoming year. Exclude the cost of unusually high expenses associated with nonrecurring lawsuits experienced in the past.
- 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.
- 4i **Office & Telephone** (*Applies to both MR and CSH*) - Project the costs of office supplies and computer maintenance. Also, 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.
- 4j **Audit Fees** (*Applies to both MR and CSH*) – Project the cost of preparing the annual certified audit. This item cannot exceed the maximum fee set for the budget year on developments with Section 236, Section 8, and Moderate Rehabilitation program funding. Any charge in excess of the maximum published rate is a cost to the owner of the development. 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.
- 4k **Credit Reports** (*Applies to CSH only*) – Project the cost paid for resident credit reports, home visits and criminal checks. The management agent should evaluate the development’s current waiting list and marketing conditions to determine the projected credit report expense.
- 4l **Human Services Program** (*Applies to CSH only*) - 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.
- 4m **Miscellaneous** (*Applies to both MR and CSH*) – 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 (which are not allowed at Section 8/236 developments) and mileage for on-site staff.

Utilities (Applies to both MR and CSH)

Line items 5a to 5c 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 on any conservation actions planned in the budget notes.

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.

5a **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
Electric					
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. 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.

5b **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.

5c **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
Gas					
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.

Operating & Maintenance

- 6a **Maintenance Payroll** (*Applies to both MR and CSH*) – 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.
- 6b **Janitorial Payroll** (*Applies to both MR and CSH*) – Project the reimbursement of the gross salary of both full and part-time janitorial staff for both unit and common area cleaning.
- 6c **Grounds Maintenance Payroll** (*Applies to CSH only*) – Project the reimbursement of the gross salaries of both full and part-time grounds staff.
- 6d **Supplies & Materials** (*Applies to both MR and CSH*) – Project the cost of supplies and materials used for development operations and services. For example, the expense of detergents, cleaning compounds, soap products, disinfectants, brooms, mops, toilet paper, paper products, teaching supplies, light bulbs, etc.
- 6e **Food** (*Applies to MR only*) – Project the cost of the preparation and purchase of food for the residents.
- 6f **Transportation** (*Applies to MR only*) – Project the costs of transportation of residents to and from any activity and the cost of service, operation, payments and insurance, **if the vehicle insurance is not escrowed with MSHDA.**

- 6g **Snow Removal** (*Applies to CSH only*) – Project snow removal contracts and/or supplies and non-capitalized equipment related to the removal of snow and ice.
- 6h **Lawn Maintenance** (*Applies to CSH only*) – 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.
- 6i **Development Repairs & Maintenance** (*Applies to both MR and CSH*) – Project the costs of non-capitalized expenses related to materials and purchased labor costs for the regular maintenance of the development’s assets. Major repairs to the property will be included under the Fixed Assets portion of the budget and MIE. The following are examples of expenditures to include:

Building and components – such as decks, awnings, siding, roofs, doors, windows, storage sheds, lighting systems, security systems and equipment, etc.

Common areas – such as common area repairs, painting, renovation, cleaning, or replacement costs.

Electrical – such as electrical repairs, interior lighting replacements or repairs, electrical maintenance supplies, generator repairs, and any scheduled payments for calling in an electrician.

Elevators – such as elevator repairs, routine elevator maintenance supplies, and any scheduled payments for calling in an elevator repair person.

Exterior cycle painting/waterproofing – such as costs for exterior cycle painting and waterproofing and supplies.

Furniture and fixtures – such as appliances, floor coverings, tubs, sinks, cabinets, toilets, water heaters, window treatments, common area furniture and pictures, etc.

Heating and air conditioning – such as common area boiler inspections, replacements and repairs to heating/cooling systems, service contracts for heating and air conditioning equipment, etc.

Maintenance equipment – such as trucks, snow removal equipment, lawn mowers, power tools, etc.,

Office equipment – such as desks, files, computers, development-specific software, typewriters, copiers, calculators, communication equipment, etc.

Parking lot and concrete – such as contracted cleaning, sealing and striping, sidewalk and road repairs, etc.

Pool - such as maintenance contracts for pool repairs, routine pool maintenance supplies and any scheduled payments for calling in a pool repair person.

Plumbing – such as routine plumbing maintenance supplies, replacements or repairs to plumbing, and any scheduled payments for calling in a plumber.

- 6j **Unit Repairs and Maintenance** (*Applies to both MR and CSH*) – Project the cost of non-capitalized expenses related to the materials and purchased labor costs for the regular maintenance of the development’s rental units. Major repairs to units will be included under the Fixed Assets portion of the budget and MIE. The

following are examples of expenditures to include:

Electrical – such as electrical repairs, lighting replacements or repairs, electrical maintenance supplies, and any scheduled payments for calling in an electrician.

Furniture and fixtures – such as appliances, floor coverings, tubs, sinks, cabinets, toilets, water heaters, window treatments, etc.

Heating and air conditioning – such as replacements and repairs to heating/cooling systems, service contracts for heating and air conditioning equipment, etc.

Plumbing – such as routine plumbing maintenance supplies, replacements or repairs to plumbing, and any scheduled payments for calling in a plumber.

Unit turnover tasks - such as painting and wall papering vacant units, painting supplies, wallpapering and paint removal materials, cleaning vacant units, flooring replacement and repair, etc.

- 6k **Miscellaneous Operating and Maintenance** (*Applies to both MR and CSH*) – Project **non-capitalized** costs not specifically identified on another line item. Offset the amount of damages collected from residents.

Other Expenses

- 7a **Property Taxes** (*Applies to both MR and CSH*) – This field is not budgeted. Tax escrow payments are budgeted on line item E1-D.

- 7b **Property & Liability Insurance** (*Applies to both MR and CSH*) – This field is not budgeted. Insurance escrow payments are budgeted on line item E2-D.

- 7c **Mortgage Interest** (*Applies to both MR and CSH*) - 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. If applicable, include Section 236 Decoupled mortgage interest from both the first and second mortgages on this line item.

- 7d **Other Interest** (*Applies to both MR and CSH*) - Project other interest expense, not including monthly mortgage interest.

- 8 **Total Expenditures** – The form auto-calculates this field.

- 9 **Income Minus Expenditures** - The form auto-calculates this field.

Escrow 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, Capital Needs Assessment (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 (*Applies to both MR and CSH*) – 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 (*Applies to both MR and CSH*) - 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 (*Applies to both MR and CSH*) – 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 (*Applies to both MR and CSH*) – 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 DCE Principal Withdrawal (*Applies to both MR and CSH*) – Project the estimated DCE Principal funds that will be disbursed based on the anticipated property improvements planned for the upcoming budget year.

E5-W DCE Interest-Withdrawal (*Applies to both MR and CSH*) – 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.

E6-W ORC-Withdrawal (*Applies to both MR and CSH*) – Project the estimated Operating Reserve Cash Escrow funds that will be disbursed based on the operational needs of the development.

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 (*Applies to both MR and CSH*) – 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 E7-D.**

E9-W Miscellaneous Special Escrow-Withdrawal (*Applies to both MR and CSH*) – 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 (*Applies to both MR and CSH*) – Project the amount of deposits to any other MSHDA-held escrow accounts.

E10-W Other Escrow-Withdrawal (*Applies to both MR and CSH*) – Project the amount of withdrawals to any other MSHDA-held escrow account.

Net Escrows - The form auto-calculates this field.

FA Fixed Asset Additions (*Applies to both MR and CSH*) – Project the value of **capitalized** improvements directly related to all land improvements, major structural updates or repairs, new maintenance or office equipment, and/or furniture and fixtures. The following are examples of items to include:
Land improvements – such as *capitalized* sidewalks, roads, fences, landscaping shrubs and trees, lawn sprinkler system, playground equipment, etc.
Building & Components – such as *capitalized* decks, awnings, siding, roofs, doors, windows, storage sheds, lighting systems, heating/cooling systems, security systems and equipment, etc.
Maintenance Equipment – such as *capitalized* trucks, snow removal equipment, lawn mowers, power tools, etc.
Office Equipment - such as *capitalized* desks, files, computers, development-specific computer software, typewriters, copiers, calculators, communication system equipment, etc.
Furniture and Fixtures – such as *capitalized* appliances, floor covering, tubs, sinks, cabinets, toilets, air conditioning units, water heaters, window treatments, common area furniture and pictures, etc.

Financing Activities

F1 Mortgage Principal Payments (*Applies to both MR and CSH*) – 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 **Contributions/Advances** (*Applies to both MR and CSH*) – 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.**
- F3 **Allowable Distributions** (*Applies to CSH only*) – 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.
- F4 **Other Loan Payments** (*Applies to both MR and CSH*) – 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.**

Deduct Financing Activities – The form auto-calculates this field.

Net Surplus or Deficit Budget - The form auto-calculates this field.

Instructions for Completing the Identity of Interest Tab

IOI tab (*Applies to both MR and CSH*) – 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 (*Applies to both MR and CSH*) – 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

452A – SH - Budget Form

Forms and Policy Referenced

Utility Sampling and Rent Schedule Policy and related forms

450B – Identity of Interest Disclosure

450C – Identity of Interest Certification

450D – Certification of Purchasing Practices and Reasonableness of Expenses

Attachments Referenced

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