

# DEVELOPMENT COST ESCROW (DCE) POLICY

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## Purpose of Development Cost Escrow

This policy provides guidance regarding the Development Cost Escrow accounts and distribution of funds from those accounts.

*Development Cost Escrow (DCE) Principal* – This account is held by MSHDA and provides funding for amenities or design modifications that will increase the value of the development. In certain cases, the DCE principal account may assist with the payment of operational expenses.

*DCE Interest* – This MSHDA-held account may be used for funding operational expenses in a similar manner as the Operating Reserve Cash (ORC) account.

## Contributions to DCE accounts

*DCE Principal* – The initial contribution was funded from a portion of the mortgage loan proceeds.

*DCE Interest* – Contributions come from interest earned on the ongoing investment of DCE principal and accumulated DCE interest funds.

Funds on deposit in the DCE accounts are invested by the Authority’s Finance division and remain in control of the Authority until disbursement. Interest earned on the funds deposited in the DCE accounts, if any, accumulate in the DCE interest account.

## Eligible Expenses

*DCE Principal funds* – With approval from MSHDA’s Asset Management (AM) division, DCE principal funds may be used to pay for:

1. Development amenities or design modifications that provide:
  - Necessary or desirable improvements for marketing the development.
  - Reduction in the maintenance costs over a substantial portion of the mortgage term.
  - Benefits to a substantial percentage of the residents of the development by providing necessary or desirable social services that may improve health, educational opportunities, security and/or general welfare of such residents.
  - Important contributions to the livability of the development.
2. Operational expenses which maintain the fiscal and physical integrity of the development after other available funding sources have been exhausted.

*DCE Interest funds* – May be used to pay for development operating expenses (as described in the 460 – MIE Guide Policy, Expenditure Line Item descriptions) based on the priority set forth in the Management Agreement under Section 5m – Expense Management. Eligible expenses include:

- Payments to maintain the fiscal and physical integrity of the development, including items not eligible for reimbursement from the Replacement Reserve Escrow.
- Expenses/payables projected to come due without operating funds being available in the next 30 days.
- One month’s Gross Rent Potential (for site retention).
- Limited Distribution payments as permitted by the development’s regulatory agreement.

## Requests for Disbursements from DCE Accounts

*DCE Principal* – When the Owner/Agent is considering an amenity or design modification to a development, the Owner/Agent should proceed with the following actions:

1. Initiate contact with the assigned Asset Manager who will help coordinate a meeting with an AM Construction Analyst staff member.
  - The Construction Analyst will facilitate the exchange of ideas about the development’s purpose for improvement and the Authority’s interests in

verifying that the desired modification meets the intended goals and design standards.

2. After this communication, the Owner/Agent should be able to proceed forward with capturing bids for the pre-approval process.
  - Refer to the Replacement Reserve Policy – Bid Information for details regarding capturing the necessary bid information and submitting bids for pre-approval.
  - Pre-approvals are required for all amenity or design modifications when the Owner/Agent plans to use DCE Principal funds.
3. Upon receipt of the pre-approval, the Owner/Agent may begin the construction process.
4. Upon completion of the work, the Owner/Agent submits a written request to disburse funds from the DCE Principal account for eligible expenses.
  - The funds will not be disbursed until the work invoices are submitted, but other payment arrangements may be negotiated with the AM division. For example, if a contractor would like partial payment to begin the construction process and no other funds are available to place the down payment, DCE principal funds may be used. Requests for DCE principal disbursement must include the following:
    - An explanation of the use of the funds.
    - The pre-approval letter.
    - A completed DCE Draw Request (MSHDA Mgmt. 502A) form.

*DCE Interest* – The Owner/Agent must submit a written request for DCE Interest disbursement to the assigned Asset Manager on the DCE Draw Request (MSHDA Mgmt. 502A) form in order to receive DCE Interest funds. If the request exceeds the maximum allowable draw amount, provide an explanation of the anticipated operational need.

## **Mortgage Loan Prepayment**

Upon payment in full of the Mortgage Loan, the disbursement of excess funds is governed by the legal documents.

## **Forms**

502A – Reserve Draw Request Form