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Preparation of a Comprehensive Property Budget

Tuesday, July 29, 2014 2:15 - 3:15

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LeadingAge Florida's 51st Annual Convention and Exposition
July 27 - 31, 2014

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What is the Purpose of a Budget

- All To ensure viability of the project
- To ensure the owner's interest is protected
- To ensure sufficient operating income is available
- To ensure decent, safe, and sanitary housing
- To ensure the Secretary's objective of sufficient housing stock being available

What is a Budget Submission

A submission of documents supporting a request for funds adequate to operate a project.

Note: This does not mean a budget will always determine an increase is necessary. A budget submission could show the funds adequate to operate a project are actually lower than what the project is already receiving which could result in a reduction of rents.

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Can I Submit a Budget

What are the terms of your contract?

- If Pre-MAHRA, does your contract allow for a budget submission?

If Post-MAHRA, what option are you?

- 1A – Budget not allowed
- 1B – Budget not allowed
- 2 – Budget allowed
- 3A – Budget allowed
- 3B – Budget not allowed
- 4 – Budget allowed (RCS Required)
- 5 – Review use agreement

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Can I Submit a Budget

MAHRA?	Reference	Contract/Language	Eligible for a Budget?	
			Contract Renewal	Rent/Adjustments/ Funding Expiration Date
Pre MAHRA	Original HAP Contract (Rent Adjustment Section)	"Review or Budgeted Operating Expenses"		YES
		"Cost Analysis/ Certification"		YES
		"Annual Adjustment Factor"		NO
		"Automatic Adjustment Factor"		NO
Post MAHRA	1 - Mark Up to Market	Mark Up To Market	NO	NO
	2 - Rents at or Below Market	Basic	YES	YES
	3a - Referral to OAHP	Basic	NO	YES
	3b - Referral to OAHP	Full Mark To Market	NO	NO
	4 - Exception Project	Basic	YES (Lesser Of Test)	YES
	5 - Demonstration or Preservation Projects	Preservation	Review Use Agreement	Review Use Agreement
	6 - Opt Out	No Contract	NO	N/A

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OCAF vs. Budget

- If eligible, what percentage increase would your project require to effectively operate?
 - Will an OCAF increase fulfill this requirement?
 - Look at your AFS from last year
 - Compare your expenditures to your income
 - What is the best financial decision for your property?



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When *Must* I Submit a Budget

There are a few times when you are required to submit a budget:

- When renewing under an Option 4 where you are required to submit a Lesser-Of-Test
- When the contract language of a Pre-MAHRA HAP contract states a budget is required
- When the Use Agreement for an Option 5 states a budget is required
- If HUD insured and you want to increase the market rents, typically the only way to do so is through the submission of a budget

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Complete Package Requirement

HUD Documents

- Budget Worksheet
- Certification Regarding Purchasing Practices
- Energy Cons. Plan (236 & BMIR)
- Service Coordinator Budget*
- 9250

Owner Created Docs

- Cover Letter
- Brief Statement explaining Any Increase in expense line items*
- Utility Analysis

Tenant Notification

- 30 Day Tenant Notice
- Certification as to Compliance with Tenant Comment Procedures

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Other Budget Documents

- Zero Debt Service Certification (If applicable)
- Verification of Debt Service for PD/PDSA and Properties who do not submit AFS to HUD.
- Signed and Approved RHS Budget (If applicable)
- Reserve for Replacement deposit information if no HUD-held loan.
- RCS (If applicable)

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Other Budget Documents

- Owner/Agent certification of funds to cover shortfall or revision of their request when the approved budget supports an increase larger than the amount requested by the O/A.
- Debt Service Savings Agreement.
- Audited Financial Statement Data, AFS by an Independent Auditor (CPA/ Accounting Firm) when not required to submit to HUD, or supporting documentation for each expense line item when no audited financial data is available.

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Cover Letter

- Provide any and all information that is imperative to the processing of the budget that may help NTHDC make determinations
- State the proposed effective date
- State the percentage increase you are requesting
- Summarize the reasons why a rent increase is needed
- Describe the project's physical condition and any improvements that have been budgeted for. The letter may refer to the reasons stated in the Notice to Tenants or elaborate on those reasons. (The main reasons stated in the letter must be the same as the main reasons state in the Notice to the Tenants, if in fact the project is subject to tenant comment procedures)
- Identify any proposed change in services, equipment, charges and the reason(s) for the change

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Completed Budget Worksheet

- [HUD Form 92547-A](#)
- The form must not be expired (current exp. 12/31/2014)
- Form must be signed and dated

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Budget Worksheet

Budget Worksheet Income and Expense Projections

U.S. Department of Housing
and Urban Development
Office of Housing
Federal Housing Commissioner

OMB Approval No. 2502-0324
(exp. 12/31/2014)



Public reporting burden for this collection of information is estimated to average 1.5 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. This agency may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number.

This information is collected in accordance with Title II of the National Housing Act which requires that HUD regulate rents for certain cooperative and subsidized rental projects. The Department formulated the processes by which owners could request increases. The requirement for tenant participation in the rent increase process, which is included in Section 202(b) of the HCD Amendments of 1978, necessitated that the Department design procedures to give consideration to tenant comments. The information gathered is not of a confidential nature. The information is required in order to obtain benefits.

Project Number		Name of Project		
Description of Account	Acct.No	Statement of Profit/Loss FY__	Current FY (no. of mos.)	Budget from () to ()
Rental Income 5100	Rent Revenue - Gross Potential	5120		
	Tenant Assistance Payments	5121		
	Rent Revenue - Stores and Commercial	5140		
	Garage and Parking Spaces	5170		
	Flexible Subsidy Revenue	5180		
	Miscellaneous Rent Revenue	5190		
	Excess Rent	5191		
	Rent Revenue/ Insurance	5192		
	Special Claims Revenue	5193		
	Retained Excess Income	5194		
	Total Rent Revenue Potential at 100% Occupancy	5100T		
	Vacancies 5200	Apartment	5220	
Stores and Commercial		5240		
Rental Concessions		5250		
Garage and Parking Spaces		5270		
Miscellaneous		5290		
Total Vacancies		5200T		
	Net Rental Revenue (Rent Revenue less Vacancies)	5152N		
Income 5300	Nursing Homes/ Assisted Living/ Board & Care/ Other Elderly Care/ Coop/ Other Revenues	5300		
Financial	Financial Revenue, Project Operations	5410		

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HUD Pre-Approval Line Items

- For projects with a new service coordinator position (Line 6900), a service coordinator budget must be submitted to HUD for approval each time a budget increase is requested
 - Note: A grant funded Service Coordinator will not be included in a budget submission
- Any change (increase or decrease) to the amount deposited into the Reserve for Replacement (Line 1320) requires HUD approval and a new HUD-9250 form

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Supporting Documentation

- An increase of more than 5% or \$500 requires an explanation and documentation
- New line items not included in the prior year budget require an explanation and supporting documentation
- Laundry and Vending Revenue (Line 5910) If you lease your equipment you must list this revenue
- An itemized listed is needed for all “Miscellaneous” line items.
- Contracts Line item #6520

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Supporting Documentation

- Current (past 12 months of data) copies of contracts, invoices, bills or estimates. Dated notice of an increase from a utility company, insurance provider, etc.
- Analysis and backup documentation of how the projected expenses were estimated.
- Explanation of what specific expense increased and why.

Supporting Documentation

An itemized list for the following accounts regardless if an increase is requested:

- 1.6390 – Miscellaneous Admin Expenses
- 2.6590 – Miscellaneous Operating and Maintenance Expenses
- 3.6790 – Miscellaneous Taxes, Licenses, Permits and Insurance
- 4.6890 – Miscellaneous Financial Expenses

For example, if you are claiming a total of \$1,000 on line 6390, you must itemize each expense such as \$600 for postage, \$300 for stationary and \$100 for copying expenses

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Payroll Analysis

Include current salaries, projected salaries, benefits and payroll taxes to support the following accounts:

- 6310 – Office Salaries
- 6330 – Manager/Superintendent Salaries
- 6510 – Janitor/Cleaning Payroll
- 6530 – Security Payroll Contract
- 6351 – Bookkeeping Fee
- 6204 – Management Consultants
- 6711 – Payroll taxes (Project's share)

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PAYROLL ANALYSIS

6310 Office Salaries						
Name	Title	Current Total Salary	% Applied to	Current Amount Charged to	Amount Charged to With Est 4% Inc	FICA (With Est 4% Inc)
	Assistant Director/Housing Manager	\$78,373.28	75%	\$58,779.96	\$58,779.96 (No 4% Inc)	\$4,496.67
	Housing Clerk	\$27,996.03	2%	\$559.92	\$582.32	\$44.55
TotalOffice					\$59,362.28	\$4,541.21
Line 6310						
6351 Bookkeeping Fees /Accounting Services						
John G. Cruikshank CPA				\$3,900.00	\$3,900.00 (No 4% Inc)	\$0.00
ARCO Management Corporation				\$4,200.00	\$4,200.00 (No 4% Inc)	\$0.00
Total					\$8,100.00	
Line 6351						
6510 Maintenance Payroll						
Name	Title	Current Total Salary	% Applied to	Current Amount Charged to	Amount Charged to With Est 4% Inc	FICA (With Est 4% Inc)
	Maintenance Supervisor	\$52,293.42	5%	\$2,614.67	\$2,719.26	\$208.02
	Maintenance Mechanic	\$46,332.12	30%	\$13,899.64	\$14,455.62	\$1,105.86
	Maintenance Laborer	\$33,956.19	82%	\$27,844.08	\$28,957.84	\$2,215.27
	Maintenance Laborer	\$37,654.82	36%	\$13,555.74	\$14,097.96	\$1,078.49
	Overtime (Based on 2012 Actual)			\$2,876.44	\$2,991.50	\$228.85
TotalMain					\$63,222.18	\$4,836.50
Line 6510						
Total Payroll						\$9,377.71
Taxes Line 6711						

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Tenant Notification

The following applies to all properties with the exception of Section 207, 213, 234, 231, 220, 221(d)(4), 202s assisted under Part 885 and Co-ops:

Copy of Notice to the Residents

- Where applicable, a copy of the Notice to Tenants annotated to show where and how the Notice was distributed (e.g., posted, mailed, hand carried)
- Notice must show reason(s) for the requested increase and the tenant's right to contact HUD within 30 days
- Notice to residents must follow the exact format listed in the 4350.1, Chapter 7, CFR – 245.310

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Date of Notice

Take notice that on [date] we plan to submit a request for approval of an increase in the maximum permissible rents for [name of apartment complex] to the United States Department of Housing and Urban Development (HUD). The proposed increase is needed for the following reasons:

- 1.
- 2.
- 3.

The rent increases for which we have requested approval are:

Bedrooms	Present rent ¹		Proposed increase ¹		Proposed rent ¹	
	Basic	Market	Basic	Market	Basic	Market
5	\$	\$	\$	\$		\$
0						
1						
2						
3						
4						

¹ Separate columns for basic and market rent should be used only for projects assisted under sec. 236 of the National Housing Act. In addition, in projects with more than 1 type of apartment having the same number of bedroom but different rents, each type should be listed separately.

➡ A copy of the materials that we are submitting to HUD in support of our request will be available during normal business hours at [address] for a period of 30 days from the date of service of this notice for inspection and copying by tenants of [name of apartment complex] and, if the tenants wish, by legal or other representatives acting for them individually or as a group.

➡ During a period of 30 days from the date of service of this notice, tenants of [name of apartment complex] may submit written comments on the proposed rent increase to us at [address]. Tenant representatives may assist tenants in preparing those comments. (If, at HUD's request or otherwise, we make any material change during the comment period in the materials available for inspection and copying, we will notify the tenants of the change or changes, and the tenants will have a period of 15 days from the date of service of this 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). These comments will be transmitted to HUD, along with our evaluation of them and our request for the increase. You may also send a copy of your comments directly to HUD at the following address: United States Department of Housing and Urban Development [address of local HUD field office with jurisdiction over rent increases for the project], Attention: Director, Housing Management Division, Re: Project No. [Name of Apartment Complex].

➡ HUD will approve, adjust upward or downward, or disapprove the proposed rent increase upon reviewing the request and comments. When HUD advises us in writing of its decision on our request, you will be notified. If the request is approved, any allowable increase will be put into effect only after a period of at least 30 days from the date you are served with that notice and in accordance with the terms of existing leases.

[Name of mortgagor or managing agent]

(b) The mortgagor must comply with all representations made in the notice. The materials to be made available to tenants for inspection and copying are those specified in § 245.315.

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Tenant Notification

- **Copy of Comments from Residents and Owner Evaluation of Comments**
 - All comments from residents received by the owner must be reviewed, evaluated and responded to by the owner
 - The comments, summary of the owner's review and evaluation of the comments, and the owner's response to the comments must be submitted with the rent adjustment

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Tenant Notification

- **Owner certification that proper notice was provided to the tenants**
 - Per the 4350.1, Chapter 7, Appendix 2, the owner must complete this document certifying he provided proper notice to the tenants and provided the full comment period of 30 days
 - The certification must be dated no less than 30 days following the Notice to Tenants

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OWNER'S CERTIFICATION AS TO COMPLIANCE WITH TENANT COMMENT
PROCEDURES IN 24 CFR 245 (FORMERLY IN 24 CFR 401)

Project Name _____ FHA or Non-Insured
Project No. _____

Acting on behalf of
the Project Owner, I certify that project management has taken
ALL of the actions listed below.

- 1) Distributed a Notice to Tenants, in the forms and manner required by 24 CFR 245.310 and 245.410. (24 CFR 245.410 applies only if a reduction in utility allowances is proposed.)
- 2) Took reasonable steps to assure that any posted Notices remained intact and in legible form for the full comment period required by 24 CFR 245.
- 3) Made all materials submitted to justify the increase available during normal business hours in a place reasonably convenient to project residents.
- 4) Honored any resident's request to inspect those materials.
- 5) Reviewed and evaluated all comments received from project residents or their authorized representatives.
- 6) Examined all materials submitted to HUD/the State Agency in support of the rent increase request.

I also certify, that all information submitted with my rent increase request is true, correct and complete.

WARNING: 18 U.S.C. 1001 provides, among other things, that whoever knowingly and willingly makes or uses a document or writing containing any, false, fictitious, or fraudulent statement or entry, in any matter within the jurisdiction of any department or agency of the United States, shall be fined not more than \$10,000 or imprisoned for not more than 5 years, or both.

Signed by:

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Additional Requirements

- An executed copy of the **Owner's Certification Regarding Purchasing Practices and Reasonableness of Expenses**
- **A status report on the project's implementation of its current Energy Conservation Plan**
 - This applies only to Section 236 and BMIR projects, projects that receive rent supplement assistance, and projects that converted from rent supplement to Section 8.

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Additional Requirements

- If the owner wishes to increase the RfR deposit, the request must be submitted to HUD in writing.
- Any change in the Reserve for Replacement deposit must be approved by HUD via HUD-9250

NOTE: Generally, the R for R is considered adequately funded if balance is \$1000/ Unit

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Additional Requirements

Do you have any questionable expenses such as a large painting project, purchase of equipment that may be a reserve for replacement (RfR) item, security issues, etc.?

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Utility Allowance Analysis

- 10% sample of each bedroom size or at least 5 units.
- Must identify the types of utilities covered in the Utility Allowance (Gas, Electricity etc.)
- State whether utility rate increases or decreases were implemented in the past 12 months and if the rates are expected to change over the next 12 months.

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Utility Allowance Analysis

- All decreases (regardless of the \$ amount or %) in the Utility Allowances must be approved by HUD. If you have processed a utility analysis where you have determined that a decrease is necessary, NTHDC will forward the information to the assigned HUD Project Manager for review and approval.
- The O/A must implement any change to the Utility Allowance regardless of the amount or percentage of the change.

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RCS

- Option 2 – Required at renewal and at the 6th, 11th, and 16th rent adjustments depending on the length of the contract (A valid RCS must always be active or a new RCS will be required even if the site has not reached their 6th, 11th, or 16th rent adjustment)

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RCS

- Option 4 – **As of 10/15/2012**, an RCS is required ONLY when submitting a budget-based rent adjustment, NOT a contract renewal

NOTE:

- Increase is capped at RCS
- Cost of RCS should be considered in whether or not you should request a budget-based rent adjustment
- Cost of RCS can be included as an expense on the budget

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202 Refinance

- If you are going through a refinance, it is crucial that we know ahead of time, so that we can get the debt service figures correct.
- Debt Service Savings
 - Owners may not list DSS as a project expense, however eligible expenses may be included in the appropriate account #.
 - Capital Items may be included in the Reserve Analysis.

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Common Issues

- Not submitting packages at least 120 days before contract or funding expiration date.
- Cover letter does not include all correct verbiage
 - Missing increase percentage requested is often left off
- Certification documents not signed, dated or completely filled in by the authorized individual

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Common Issues

- Payroll analysis missing or not done correctly/clearly
- Expired forms
- Not providing a complete tenant notification notice with a 30 day tenant comment period
- Not including the correct HUD 9624 form with a contract renewal submission

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Common Issues

- Requesting a random amount under Miscellaneous expenses for unforeseen nominal expenses (remember this must contain an itemized list)
- Listing an item under Miscellaneous expenses as “petty cash”
- Listing the cost of parties, BBQ’s, donuts, complimentary calendars, etc. under Miscellaneous line items

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Common Issues

The recommended increase for a budget isn't just the difference between the current total rent potential and the project's total cash requirements. It involves a multitude of factors:

- Debt Service Owner calculates differs from NTHDC Calculation
- Vacancy expense NTHDC approves differs from O/A's (Line item # 5220)
- Management Fee NTHDC approves differs from O/A's (line item # 6320)
- Distribution & Net Income Reserve Calculations
- Bad Debts

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Best Practices

- Keep copies of all contracts on file and keep receipts/invoices throughout the year to allow for easy compilation of documents to submit to NTHDC which can be easily reviewed
- Respond to requests for additional information as quickly as possible.
- Obtaining utility bills early. Stressing the importance of this to the tenants
- Submit your package on time

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Narrative Explanations

Expenses

6203 – Conventions and Meetings – Represents travel and training. \$ 155 represents travel and is based on 2012 actual plus 5% inflationary increase. Travel includes mileage reimbursement for President for travel to and from administrative office and \$200 represents training. Actual expense for training in 2012 was \$0. We do not have any training planned, but will attend training if opportunity arises.

6210 – Advertising and Marketing – Based on 2012 actual plus an estimated 5% inflationary increase.

6310 – Office Salaries – Represents 75% salary allocation for Assistant Executive Director/Housing Manager and 2% salary allocation for Clerk. Salary raises have not been discussed, but estimated 4% increase for the Housing Clerk is built in.

6311 – Office Expenses - Represents share of expenses such as office supplies, telephone, cell phones, Internet service. Costs are prorated based on number of units over Federal Public Housing, State Public Housing and portion of the expenses is 27%. Estimate is based on 2012 actual plus an estimated 5% inflationary increase.

6320 – Management Fee – Represents 6% of anticipated rental income.

6340 – Legal Expenses – Project – Represents share of contractual legal expense. Cost is prorated based on number of units over Federal Public Housing, State Public Housing portion is 45%. Estimate is based on actual contract amount of \$ 42,500. This is the same amount as 2012.

6350 – Audit Expenses – Represents contract price for annual audit, plus \$1,100 fee for preparation of Form 990. This is the same amount as 2012.

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4350.1 Ch. 7 Proposed Changes

- No longer allow a 2 percent contingency reserve for projects owned by nonprofits or those projects once owned by nonprofits but which have been sold to limited dividend partnerships.
- Allow nonprofit owned projects with 100 percent Section 8 to include a vacancy rate of 3 percent in the budget.
- Allow small projects to include a vacancy loss rate of 5 percent and partially assisted project to use a vacancy loss rate of 7 percent in the budget submission.

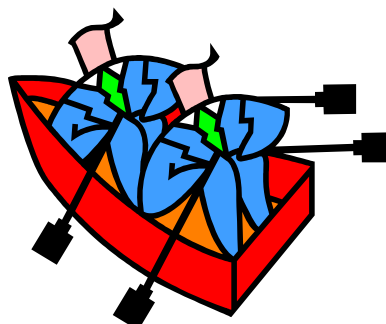
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Final Thought...

It is crucial that we work together to get you the budget increase you need in order to operate your property adequately.

Our goal is to make sure you have the funding you need to.



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Questions???



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