



## FAQ – Budgets

### **Q: What is the timeline for a property to submit their first operating budget?**

**A:** Assuming a property submitted their funding application in October 20x6, the following timeline would apply:

Example: January 20x7 - Property receives funding approval

April 20x7 – Firm Commitment is issued

October 20x7 – Lease Up begins (Use FIN 117 –Lease Up Cost Breakdown)

20x8 – Cost Certify, Reach 90% occupancy (Use Form 2013 budget)

20x9 – Submit 1st year Operating budget for the following period by November 15, 20x9;

Eligible for first rent increase

### **Q: How Do I submit my budget, and how do I know if I am required to submit a budget?**

**A:** Budgets are to be submitted in MHDC’s Asset Management Reporting System (AMRS). The following properties must submit a budget:

- Funding received by MHDC or HOME, with or without Tax Credits and 13 or more units; majority of the units are not covered by a HAP contract.
- Tax Credit Only property with 13 units or more
- Rural Development combined financing with MHDC in 1<sup>st</sup> Position; 13 units or more regardless of whether there is a HAP contract.

### **Q: How do I access MHDC’s Asset Management Reporting System?**

**A:** Management companies must identify one individual to function as System Administrator for their managed properties, and submit a request for login credentials for AMRS. The request must come from an approved contact and contain complete contact information, including a valid email address. When approved, the System Administrator will be sent a system-generated email to set up login credentials. This individual will then be responsible for managing user permissions in AMRS and for maintaining user contact information at their management company.

### **Q: What required information should be entered online?**

**A:** AMRS will automatically populate two prior year audits if submitted timely. MHDC requires budgets to include the current fiscal year expenses to date; and the budget for the next fiscal year. Budgets cannot be entered if the previous year’s annual financial statement have not been submitted through AMRS.

### **Q: How many months should I use when reporting actual fiscal year expenses?**

**A:** MHDC would like the property to provide a minimum of nine months of actual expenses. Enter the first day of the property’s fiscal year as the start date, and the last day of the actual expense period as the end date. AMRS will automatically annualize these expense based on the end date.

### **Q: What if some "Current Fiscal Year to Date" expenses will not be recorded on our internal financial statement until year end?**

**A:** MHDC’s requires all properties to use accrual accounting. MHDC realizes that some properties use cash basis reporting throughout the year and convert to accrual accounting at year end. Items that are not reported on your internal financial statement at budget submission but are required by MHDC, must be reasonably estimated. Reporting \$0 because the amount has not been paid is not acceptable.

**Q: What does “Requires Breakdown” mean?**

**A:** MHDC requires a detailed breakdown of Office Expenses, Operating and Maintenance Payroll Expense, Operating and Maintenance Supplies and Contracts, Vacant Unit Preparation, and all Miscellaneous Expenses. A detailed breakdown of all miscellaneous expenses is required.

**Q: How is Gross Potential Rent (GPR) determined?**

**A:** This account includes MHDC approved rents charged at 100% occupancy. The amount can be calculated by taking the total of the last approved rents per unit times the twelve months. Approved rents for newer properties can be found in the Regulatory Agreement, Land Use Restriction Agreement, HUD Rent Schedule Low Rent Housing Form HUD-92458, or MHDC’s most recent Schedule II if a rent increase has been approved since the property’s inception. Rents should NOT be netted.

**To calculate GPR for a property with 56 one-bedroom units where rent = \$450 per unit:**

\$450	Current rent
X 56	number of 1BR units
25,200	Rental revenue per month
X 12	months in period
<u>\$302,400</u>	<b>Gross potential rent (GPR)</b>

**To calculate Net Rental Revenue:**

\$302,400	Gross potential rent (GPR)
(15,000)	Apartment vacancy ①
(5,000)	Rental concessions ②
(3,000)	Loss to lease ③
<u>\$279,400</u>	<b>Net rental revenue</b>

**NOTES**

- ① Defined as GPR lost through vacancy of an apartment unit.
- ② Defined as the amount of rental concessions (i.e., free rent, discounts) allowed in connection with tenant leases.
- ③ Defined as GPR lost due to the time of the expiration of tenant leases (i.e., rent increase effective date = Jan 1, 202x, tenant lease expires Apr 1, 202x = 3months of rents lost to lease.

**Q: Can I request a rent increase at the same time I submit my budget?**

**A:** Yes - the rent increase request window is open from **October 1<sup>st</sup> – December 31<sup>st</sup>**. During the budget process, AMRS will recognize that the requested amount exceeds your current MHDC approved gross potential rent amount, and will ask whether or not you want to submit a rent increase. Answering yes will pull up a rent increase packet with all the fields that are needed to submit a rent increase. If you answer no, AMRS will warn you that the deadline to submit a rent increase is **December 31<sup>st</sup>**. All active properties must submit rent increase requests in AMRS, no matter how many units they have. MHDC will not accept rent increase requests that have been mailed.

**Q: Are we still allowed to request up to a 7% rent increase?**

**A:** All budget based rent increase reviews will follow current rent review process, and the 7% cap still remains. Budget based reviews will still be required for any rent request greater than 2%. Elderly properties will be capped at greater of 2% or the previous year’s COLA. There will no longer be a separate Tax Credit Only or MHDC Loan rent increase policy. Properties can request a 2% rent increase without the need for a budget based/DCR review. Properties requesting a 2% rent increase will still be subject to a compliance review. The average of 12 months of reported occupancy will be the criteria MHDC uses instead of the most recent three months.

**Q: How should management fees be calculated for budget purposes?**

**A:** For budget purposes only, MHDC allows management fees to be budgeted assuming 100% occupancy or the maximum management fee.

**Q: What type of expenses should be included in Vacant Unit Preparation?**

**A:** Vacant Unit Preparation Costs should include all maintenance costs that are associated with making a vacant unit ready for occupancy, and that doesn't qualify for reimbursement from Replacement Reserves. Examples include minor repairs, vinyl, painting, and cleaning.

**Q: Where should I budget capital expenditures that will be requested from replacement reserves?**

**A:** Capital expenditures should not be budgeted in the operating section of the budget. All capital expenditures eligible to be requested from replacement reserves should be budgeted in the Non-Property expense section of the budget. Please use account number 7180. Please refer to the eligible replacement reserve items list in the Replacement Reserve section of MHDC's website.

**Q: Will our properties annual Replacement Reserve payment be increased 3% again?**

**A:** Yes – MHDC will increase annual replacement reserve escrow deposits by 3%, so include this increase the budget for the upcoming year. Replacement Reserves for properties that have 12 units or less will be automatically increased 3% during MHDC's escrow analysis period.

**Q: How do I avoid MHDC's follow-up questions regarding my budget?**

**A:** Please make sure explanations are clear and detailed, and avoid using the various miscellaneous accounts as much as possible. Make sure explanations pertain to the correct year, and If an item pertains to more than one account, split the amount accordingly. When it is necessary to use a miscellaneous account please provide a detailed breakdown of at least 90% of the balance.

**Q: What does "Non-Compliance Status" mean?**

**A:** Non-Compliance Status occurs when a project fails to submit any information as prescribed under the Regulatory Agreement or to respond to any MHDC inquiry within the allotted time frame. Lack of response to MHDC's request is a direct violation of the Regulatory Agreement. MHDC will not process any future requests (replacement reserve withdrawal, rent increases, surplus cash, etc.) from a project until the non-compliance issue is resolved. Once the non-compliance issue is resolved, the project is put on a 90 day waiting list before their request can be processed.

**Q: What does \* denotes required field" mean?**

**A:** MHDC has identified certain expense accounts that should be reported for all properties regardless of development size, financing, and geographic region. At minimum, \$0 must be entered if this account truly does not apply to the property. A follow-up question may be asked by MHDC for further clarification.