

Property Management

Long Term Thinking & Short Term Action



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Introduction

This Property Management Training Manual was created under a contract from the U.S. Department of Housing and Development. We have attempted to gather some of the better examples of property management procedures in the nonprofit world of affordable housing. We owe a debt of gratitude to the affordable housing industry in the San Francisco Bay Area, especially the California Housing Partnership Corporation, The John Stewart Company, Mid-Peninsula Housing Management Corporation and American Baptist Homes of the West. We would also like to acknowledge and thank the following people and organizations for allowing us to use their procedures and materials in this training manual:

- ▶ American Association of Homes and Services for the Aging
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EXERCISE #1

TAKING ON PROPERTY MANAGEMENT

You are a Property Manager for a small non-profit housing development organization. Your Board of Directors asks you to take a look at a 28 year-old, 50-unit multifamily property they want to purchase. The Board members are excited because the property is in excellent condition; it got a "Superior" rating on its last HUD inspection.

When you arrive at the property your first impression is that it's a bit shabby. Paint is peeling on the sunny side of the buildings. Landscaping is very rundown. Tree roots have pushed up walkways, creating tripping hazards. The roof appears to be in serious need of major repair.

While you're waiting in the office for the Site Manager to meet you, a resident comes in and talks to the part-time assistant. You overhear the resident say, "I can't come up with the rent this week, I'll bring it in the end of next week." The Assistant responds, "Yeah, that's what you said last week." After the resident leaves, the Assistant begins to complain to you how things would work differently "...if the manager took care of her business..." Before she can complete her sentence, the Site Manager comes into the office.

As you walk through the property with the Site Manager, she explains that they have a waiting list. They last took applications three years ago. There are currently five vacancies.

When you visit a unit that's ready for move-in, it strikes you as rundown, like the outside of the buildings. It has a shag carpet that is spotted and has some bleach stains on it. Paint on the windowsill is peeling and there are water spots in the corner of the ceiling.





You ask to see a recent monthly financial report. There is about \$8,000 in the operating checking account and \$25,000 in the Reserve for Replacement account. The bank holds property tax and insurance escrow accounts.

You go back to your office to prepare your presentation to the Board of Directors. Is this a property that you want to manage? Why? Why not? What changes would you want to make in operations?

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Chapter 1: When Does Property Management Begin?

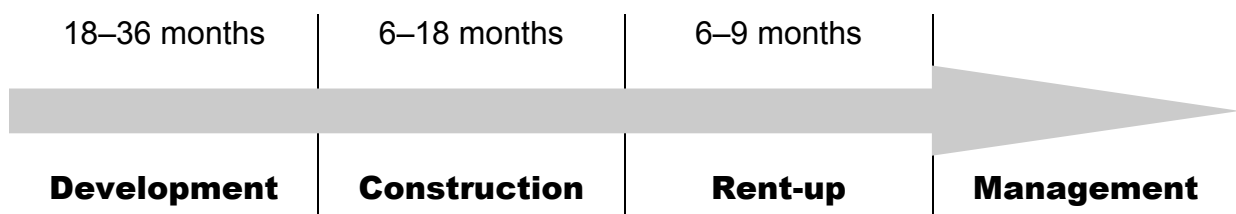
In This Chapter:

-  The role of property management in the design and planning of affordable housing.
-  Examples of ways in which property management professionals can participate in design decisions.
-  Recommendations for managing a smooth transition from development to marketing and managing affordable housing.
-  Tools for soliciting input from residents about design issues.

There are several stages in the life of an affordable housing property:

- ▶ Pre-construction development
- ▶ Construction
- ▶ Rent-up
- ▶ On-going management

TIME LINE



When does property management really begin?

Experienced property managers and developers can usually cite many examples of affordable housing projects that could have identified and avoided problems if skilled property management input was available at the early stages of development.

Nonprofit housing development can benefit from including property management in the design and planning of a new property or acquisition from the moment a project is conceived. If property management services are part of the organization, property management staff should be part of the team making decisions about what gets built. If an organization uses outside contractors to manage the portfolio, development staff should involve experienced property managers in reviewing building design and specifications before construction begins.

The following Section offers examples of areas in which property management can offer insight at an early stage of development and introduces development concerns to property managers. A model Checklist is included of information and materials that should be exchanged between development and property management staff prior to marketing.

About HOME :

The HOME Program, created under Title II (the Home Investment Partnership Act) of the National Affordable Housing Act of 1990, represents a historic affirmation of the Federal Government's commitment to providing decent, safe, and affordable housing for all Americans and to alleviating the problems of excessive rent burdens, homelessness, and deteriorating housing stock nationwide.

Design Standards

Architects may understand how to draw a project on paper so that a construction crew can build a building, but architects don't often experience managing one of the buildings they've designed. Design items that may have artistic appeal may be nightmares to maintain or operate.

This Section includes two examples of design standards developed through collaboration between property managers and development staff. The first example of standards, developed by the California division of Mercy Services Corporation, came out of a workshop in which property managers and project developers analyzed what worked best and worst at their properties, which designs were liked and which were not liked. Mercy Services

Corporation also asks residents what they like and don't like about the community in which they live. The questionnaire used to gather resident opinions about their new homes is included at the end of this Section.

The second example of specific design criteria comes from a written design plan developed at Mid-Peninsula Housing Corporation, another regional nonprofit housing developer. Once a design plan is established, it should be followed to the greatest extent possible and projects should be questioned when basic design requirements cannot be met.

If your organization does both housing development and property management, staff should work together and consult during the design phase of development.

About HOME :

The successful operation of HOME assisted rental housing begins with the development process: concept, research, design, underwriting, financing and construction. However it is when the project is completed where the real work of successful affordable housing begins. Ongoing maintenance and a steady tenant population help insure the long term availability of this asset as affordable housing.

DISCUSSION TOPICS

1. What is the mission of your organization?
2. What goals, other than compliance with rent and income limits, does your organization have for your properties? How are these goals communicated to property management staff? Do you have a procedure for evaluating how well properties are meeting your goals?
3. How does the development staff in your organization communicate important property information to property management staff? Is there a formal method of exchanging information?
4. Consider existing properties that you own or manage. What issues or problems can you identify that stem from decisions made during the development process? Could you or should you have been able to identify them at that time? Why were they not identified and addressed at that time?

EXHIBIT 1-1
MERCY SERVICES CORPORATION
DEVELOPMENT/MANAGEMENT MEETING

RECOMMENDATIONS:

A. Building Exterior:

A. Parking:

- i. Whenever possible provide at least one parking space per unit, especially in family housing.
- ii. An appropriate number of visitor, staff, and handicap accessible spaces should also be given consideration.
- iii. Garage clearance should be high enough to permit a hightop van or small truck access for passenger pick-up & return and moving.
- iv. Garage floors/concrete, parking areas should be sealed.
- v. Garages should be equipped with CO₂ Detectors/Fans.

B. Building Entrances:

- i. Double Doors are recommended for ease of access. Entrances should have cover/awnings for weather protection. Should be well lighted.

C. Patios/Balconies: There are two schools of thought:

- i. Depending upon their size, decks/balconies are often inappropriately used for storage, (i.e., bikes, housekeeping equipment, clotheslines, etc.), and should therefore be eliminated. Larger common outdoor space with picnic/recreational areas are preferable and can be better maintained by management.
- ii. Most residents use their balconies/decks appropriately for plants, flowers, outdoor furniture, and if permitted — barbecues. They provide more private outdoor space. Inappropriate use of patios/balconies for storage can be regulated through House Rules, etc.

D. Types of Windows:

- i. Ease of operation is primary. Casement windows with an accessible crank handle are best for disabled persons.
- ii. For Reduced Energy Consumption:
 - a. Thermal paned or double-glazed windows.
 - b. Good weather stripping.
 - c. Tinted glass on windows with Southern exposure in areas with temperature extremes. Outside vents that can be closed or regulated.

E. Siding/Stucco — Colors of Paint:

- i. Durability is primary factor. Paint should be for exterior use only and should stand up to varying weather conditions.
- ii. Less exterior colors for ease in making repairs or painting over graffiti
- iii. Stucco, the texture of which can be easily matched.
- iv. Use of Anti-Graffiti paint on areas that are easily accessible for vandals.

F. Roofing Materials:

- i. Durability, low maintenance, and ease of access are principle concerns.
- ii. Tile roofs are not recommended as tiles break and require excessive maintenance. A preference was mentioned for tar & gravel for repairs.
- iii. Roofs should not be too steeply pitched.
- iv. Flashing, gutters, and downspouts should be accessible and easily cleaned.

G. Landscaping:

- i. Durability is again a key factor, especially in family housing. Lawns, ground cover, plants, shrubs, & trees should be sturdy and suited to the local environment.
- ii. Lawns should be minimal. Attractive ground cover that does not require much maintenance is preferred.
- iii. Foundation plants should be appropriate for their location. They should not grow too large nor have a root structure that could damage the building foundation, sidewalks, drains or sewer systems.
- iv. Wood Chips are not recommended especially for family housing. Chemical treatment of wood chips in play areas is also a concern.
- v. Good irrigation systems that can be effectively and easily programmed can greatly reduce the overall cost of landscape maintenance.
- vi. Space for the development of a community garden is appreciated.
- vii. Hedges and shrubbery are preferred natural barriers to fencing and walls.
- viii. Trees that do not shed nuts, berries, fruit, bark, etc. are preferred. They should also have a sturdy root structure so as not to fall.

H. Playgrounds:

- i. Should be "age appropriate."
- ii. The use of chemically treated wood chips should be prohibited. Sand also creates problems as it is often used by cats as a litter box and gets tracked everywhere.
- iii. Basketball courts were highly recommended as low cost and enjoyed by a majority of people. Play structures need to be evaluated by management along with the developers while a property is under construction to determine the best type of equipment for population of a property and the neighborhood in which it is located.

I. Outdoor Common Areas:

- i. Picnic areas with permanent tables, benches, & barbecues are appreciated
- ii. Outdoor furniture should be durable. Wood furniture requires maintenance in the form of weather preparedness — sealing.
- iii. Walls and Fences: Should be attractive — high enough for security without creating a prison-like environment. Again, natural fencing/barriers in the form of hedges and shrubs are preferred.

B. Building Interior:

J. Common Areas:

- i. Lobby/Reception Area:
 - a. Reception Desk should be centrally located and large enough for desk clerk and necessary office equipment; counter should be low enough to provide clear visibility to front entrance; doors should be able to be operated from reception desk for security purposes.
 - b. Flooring should be ceramic or vinyl tile rather than carpet for ease of maintenance and durability.
 - c. Wall Sconces are more attractive than overhead lighting; although florescent lighting is preferred for energy efficiency
 - d. Lobby & Mail Room areas need not be large. More should be devoted to Community Rooms and Offices.
 - e. Furniture should be sturdy, as durable as possible, and not too heavy to be moved. It should also have firm supportive seating covered in attractive printed vinyl rather than cloth for easy cleaning.
 - f. Paint/Wallpaper should be washable/durable.
- ii. Office Space:
 - a. Should be centrally located adjacent to the lobby.
 - b. Should be separate to provide privacy for interviews, social service etc.
 - c. Should be large enough for necessary office equipment, (i.e., desks, files, copier, computer, fax, storage cabinets, closets, etc.)
 - d. Should *not* have windows easily accessed from the street for security.
 - e. Should be carpeted for noise reduction.

- iii. Community Room:
 - a. Should be large enough for the majority of the residents to gather in one place for programs, events or emergencies.
 - b. Florescent overhead fixtures or wall sconces are preferred.
 - c. Flooring should be durable vinyl tile.
 - d. Storage closets and cabinets should be ample for folding chairs, recreational supplies, seasonal decorations, etc. They should be able to be locked.
 - e. Windows and exhaust fans should provide adequate ventilation
 - f. Community Kitchens should be simple and accessible.
 - g. Furniture (i.e., tables and chairs) should be versatile: lightweight and durable to provide flexibility in room arrangement. Chairs should be stackable with arms for added support for seniors/disabled persons when standing or sitting.
- iv. Public Restrooms:
 - a. Should be adjacent to lobby, office space, community room, & laundry
 - b. Should be equipped with motion sensitive lighting.
 - c. Janitor's closet should also be in close proximity.
 - d. Clean-outs for drains should be easily accessible.
- v. Halls:
 - a. Wall sconces are preferred to ceiling fixtures.
 - b. Paint should be washable; light colors.
 - c. Carpeting should be multi-colored, darker in shade, tight loop pile.
 - d. Some natural light should be provided whenever possible.
 - e. Color coordination in halls should vary from floor to floor.

- vi. Maintenance Workshop/Janitor Closet/Storage:
 - a. It is vitally important that a workroom with ample lighting, electrical outlets, and space for shelving for power tools, hand tools and supplies be provided for maintenance staff.
 - b. Janitor's closets should have easy access to hot & cold faucets for filling and draining cleaning equipment; should be large enough to store buckets, mops, and cleaning utensils.
 - c. A store room adjacent to the maintenance shop or janitor's closet should allow for storage of vacuums, buffers, extractors, wet-vacuums, cleaners, etc. as well as janitorial supplies — paper products, bags, cleaning products, etc.
- vii. Laundry Rooms:
 - a. Large top-loading washers are preferred to front loaders except when one is required for handicap accessibility.
 - b. There should be at least as many dryers as washers.
 - c. Wash basins & folding tables are appreciated.
 - d. There seemed to be a 50/50 trade-off regarding purchasing or leasing equipment; more income when purchased, but also maintenance and coin collection responsibilities; less income when leased, but little to no maintenance responsibilities.

C. Apartments:

K. Entrances/Doors:

- i. Recessed doors with grocery/mail shelf add individuality and convenience.
- ii. Locks and handles/knobs, (i.e., hardware) should be of high quality. They get a lot of wear especially in family housing and frequently need to be replaced.
- iii. Door bells/knockers and visitor identification windows (i.e., "peep holes") should be low enough for shorter persons to use. Doorbells that are integrated into these units are often not very loud and frequently malfunction.

- L. Foyers/Halls/Stairs:** should have vinyl tile/linoleum; wall sconce lighting in locations accessible for residents to replace; guest/utility/linen closet(s); and paint should be durable and washable.

M. Living Areas/Bedrooms:

- i. Carpet: multi-colored, medium shade, loop pile; no light colored cut-pile carpeting.
- ii. Paint: washable, eggshell finish; heavily textured walls & ceiling difficult to patch/match.
- iii. Closets: sliding doors with double tracks or hinged swinging door for walk-in closets; metal racks & shelf organizers work well as long as they are well mounted and have regular clothes poles for hangers.

N. Dining Areas:

- i. Vinyl tile or linoleum floors are recommended and preferred by residents over carpeting especially in family housing.
- ii. Wall sconces are preferred to overhead hanging or ceiling fixtures.

O. Kitchens/Baths:

- i. Some administrators expressed a preference for vinyl tile rather than linoleum floors for ease in making repairs. Most kitchens and baths are relatively small, however, and when damage has occurred they generally need to be replaced in their entirety. Patterns of vinyl tile are often discontinued when they need to be replaced or they have discolored and the entire floor may require replacement. Inexpensive lightweight linoleum, however, is often damaged when appliances are moved.
- ii. Wood cabinets should be well finished and sealed to prevent water damage and cracking especially on lower cabinets beneath sinks; hinges should be sturdy especially on lower cabinets that get more use; handles/knobs should be added to doors and drawers for handicap accessibility.
- iii. Paint should be extremely durable and washable.
- iv. Exhaust fans should have outside ventilation whenever possible rather than simply recirculate air.
- v. Bathrooms with windows or skylights are preferable to inside bathrooms.
- vi. All faucets and fixtures should be of as high quality as possible so as to allow for heavy use, repairs, and available replacement parts.
- vii. Overhead florescent lighting was recommended; All light fixtures should be placed in locations accessible to residents for replacement.
- viii. Tubs with one-piece fiberglass surrounds are preferable to ceramic tile.
- ix. Horizontal Mini-Blinds are preferable to drapes or vertical blinds especially in family housing; drapes may continue to work in senior housing.
- x. Appliances: a preference was mentioned for side by side refrigerators for handicap accessible units, all should be frost-free; washers/dryers & dishwashers in family units have been particularly popular.

D. Building Security:

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- P. Entry System: should be easily programmable by maintenance staff; several entry doors should not open simultaneously on the system — results in security risk; Entry systems that rely upon a resident's phone line can be problematic if a resident does not have, nor does not intend to acquire a phone. The property is responsible for giving residents equal access to admitting visitors, guests, etc. In such a situation the cost of providing a phone line for the entry system would have to be absorbed by the property.
- Q. Buildings should be wired for additional video cameras/monitoring devices.
- R. Locks/hardware should be sturdy and easily serviced.
- S. Stairwells with exterior exits only are a security problem especially if the elevator is not operating. Residents do not have access to the floors of the building and often resort to propping doors open to enter and leave the building.
- T. Exit doors should be wired for security alarms for monitoring purposes.
- U. Emergency Generators should operate a sufficient amount of lighting, office & service equipment, and elevator (or at least return it to the ground floor and open doors).
- V. Motion Detectors on lights in laundry rooms, restrooms, and appropriate common areas are energy efficient and provide security.
- W. Universal Life-Line Service is recommended over the automatic installation of Emergency Pull Cords in senior housing.
- E. Other Considerations;**
 - X. Thermostats — no timers
 - Y. Roof Exhaust Fans — good insulation/isolation from units and quiet operation.
 - Z. Different administrators have had different experiences with various elevator companies. It would be good to know the area representatives for a particular company and find out their track record for the vicinity in which a property is being developed.
 - AA. Handicap Accessible Units: No high cabinets; sliding shelves; side by side refrigerators; roll-in showers; lower sinks and counters; locate on first floor.

EXHIBIT 1-2
MID-PENINSULA HOUSING COALITION GUIDELINES FOR A BUILDING PROGRAM

Landscaping

Functional Guidelines:

Plantings:

- ▶ Landscaping is very important to the look and comfort of the development.
- ▶ Provide a rich variety of plants, trees, corner flatwork, and grass and bark areas.
- ▶ Use a combination of perennials and annuals, citrus and evergreens.
- ▶ Preserve existing trees where possible, especially natives.
- ▶ Use trees to shade, deaden sound within courtyards or from sources outside development, screen grounds from prevailing winds, break up parking areas.
- ▶ Typically, landscape designers and cities require more trees than is practical.
- ▶ Anticipate mature size; avoid crowding trees.
- ▶ Plant new trees a minimum of 5 feet away from buildings.
- ▶ Plant annual color spots as selected by Owner/Management.
- ▶ Group together those plants with similar water requirements.
- ▶ For resident and guest safety, avoid placing planting in ways that creates hiding places, obscure entries or paths.

Irrigation:

- ▶ Watering system must support new growth without over-watering.
- ▶ Do not locate heads where the public can easily damage.
- ▶ Drip irrigation is preferred (to reduce spraying and ponding, installation cost, unsafe protrusions.)
- ▶ Avoid watering pavement and buildings.
- ▶ Provide water source at barbecue, if appropriate.
- ▶ Provide water source at trash enclosure.
- ▶ Provide hose bibs at each private patio.
- ▶ Stake irrigation heads to prevent continual breakages.
- ▶ Separate irrigation from domestic water.
- ▶ Avoid installing heads near pedestrian traffic.

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NOTE: Landscape architects typically include excessive numbers of heads in their irrigation schemes; after plantings have matured somewhat and following review with Management, as many as or third of the heads may be removed.

Community Gardens:

- ▶ Works best with non-working and agrarian-working populations.
- ▶ Segregate planting areas as appropriate for the resident population.
- ▶ Include hose bibs.
- ▶ Consider short fences to segregate semi-private areas and enclose.
- ▶ Install raised beds (at not lower than 10 inches), depending on population

Recreation Areas:

- ▶ Consider various options based on development size and population type.

Benches:

- ▶ Secured to concrete.
- ▶ Typically backless.
- ▶ Located at tot lots and recreation areas.
- ▶ Grouped to encourage community activity; located at children's playgrounds, barbecues, community center, laundry, away from unit windows.

Miscellaneous Landscape Items:

- ▶ Sturdy, fixed trash receptacles.

Bike Racks:

- ▶ Ideally located near community room, office, and/or mailboxes.
- ▶ Locate within visibility of users' units.
- ▶ Place under cover where possible.
- ▶ Provide bike storage lockers only if required by local jurisdiction.
- ▶ Provide simple "u" bolts or racks for bike parking at community room, at patios, or at entry stairs; use prefabricated concrete blocks with tracks and eyebolts.

Retaining Walls:

- ▶ Use sparingly avoiding exposed rough concrete elevations; prefer contoured land.

Community Patio:

- ▶ Charcoal barbecue is optional; non-gas, fixed barbecue units.
- ▶ Light area.
- ▶ Provide places to sit and eat.
- ▶ Provide some covered area.

Maintenance Room

Functional Guidelines:

- ▶ The Maintenance Room is the in-house workshop for general maintenance, and must have:
 - Steel storage shelves for tools, building materials, equipment, etc.,
 - Lockable closet for valuables,
 - Flammables storage cabinet (for paint) 44"H x 43"W x 18",
 - Work bench,
 - Heavy duty utility sink,
 - Storage for earthquake and other emergency supplies.
- ▶ A wide entrance such as double doors is preferred. A roll-up door (garage door) plus a standard door is an option when the roll-up is accessible by pick-up truck.
- ▶ Provide small desk area (preferably a clean area) with desk created by suspending a door or countertop over two file cabinets.
- ▶ Provide good natural and artificial lighting;
- ▶ Provide windows with screens.
- ▶ Provide good sound insulation, particularly if adjoining a housing unit.
- ▶ Provide good ventilation.
- ▶ Provide central heat (and air conditioning, depending on climate.)
- ▶ Maintenance Room should be accessible (with lockable door) to reception area and bathroom.
- ▶ Locate development punchdown phone box in maintenance room.

Specifications:

- ▶ Floor: Broom finish concrete; slope to drain.
- ▶ Finish: Sheetrock and tape; painting optional.
- ▶ Lighting: 4-foot fluorescent ceiling fixtures.
- ▶ Electrical outlets: three over workbench (220 amps); additional outlets at regular intervals. Two 220V outlets.
- ▶ Doors: Heavy-duty metal clad with heavy-duty hardware.
- ▶ Telephone lines.
- ▶ Security alarm system connects to Manager's office, and Manager's unit. A box may be in Maintenance room. Security system is not monitored.
- ▶ Pin-up board and dry erase.

Laundry

Functional Guidelines:

- ▶ The central laundry facility is intended for the use of all residents.
- ▶ Ideally, it is located within direct view of manager's office, and with tot lot nearby, visible from inside.
- ▶ Typically, the laundry is separate from community areas; if adjacent, it has separate entry.
- ▶ Provide operable window with screen.
- ▶ Provide floor drain.
- ▶ Central heating is optional.
- ▶ Fully accessible.
- ▶ It is equipped with:
 - Coin operated machines at a rate of one washer/gas dryer per 10 family units; 15 per senior unit. One front-loading washer/dryer ADA accessible. Allow for short venting runs for dryer. Provide 4" clearance behind washers.
 - Gas hot water heater.
 - Storage space for janitorial materials and equipment.
 - Wall-hung folding table with heavy-duty support.
 - Hanging racks
 - Slop sink.
- ▶ Machines and financing for central laundry facilities are provided by an apartment laundry service; the service should be consulted during design development and later during construction.
- ▶ Some developments have individual unit laundries rather than centralized laundry.

Specifications:

- ▶ Floors: Good quality sheet vinyl and vinyl cove base.
- ▶ Walls: Medium-knockdown texture, semi-gloss latex enamel paint.
- ▶ Counter: High-pressure laminate supported with 2X4 knee braces (painted.)
- ▶ Door: Keyed for every resident's key plus a dead bolt for manager's key; automatic closer; D-series heavy-duty Schlage lever hardware.
- ▶ Lighting: Ceiling fluorescents with higher than average lumens.
- ▶ Ventilation: Heavy-duty direct output fan. Window with screen. Signage: "Residents' Use Only" and hours.
- ▶ Appliances rented from and provided by laundry service.

EXHIBIT 1-3

**Preparing for a Transition Planning Meeting
Development to Management**

A Transition meeting should occur at least six months prior to obtaining the Certificate of Occupancy and include the development project manager, the construction manager (owner's rep,) property manager or management agent, and the sponsor staff performing asset management functions. It may also be helpful to include the architect and/or support service coordinator, depending on the nature of the project.

Topics:

1. Neighborhood and Community Relationships
2. Resident Selection and Eligibility
3. Physical (Building) Information
4. Financial and Regulatory Information

1. Neighborhood and Community Relationships

Information

- Identify community supporters and vocal opponents (homeowner's associations, neighborhood groups, city staff and immediate neighbors)
- Social and economic issues raised by community
- Community-based organizations in area
- Area businesses
- Police contact
- Neighborhood Watch
- Gangs
- Incidence of graffiti

2. Resident Selection and Eligibility

Information

- Owner's mission
- Target population
- Plan to qualify tenants
- Other gatekeepers to resident selection (e.g. housing authorities, social services)
- Tax Credit deadlines
- Rent levels
- Utility allowances
- Unit composition

Documents

- Demographic information
- Consolidated Plan
- Minutes for neighborhood meetings
- Neighborhood surveys
- Copies of press articles
- Minutes for City Council, Planning Commission, others
- City government contacts
- Police reports
- Plans for volunteer security
- By-laws and mission statement
- Marketing Plan
- Management Plan
- Resident Selection Criteria
- Income /rent limits
- Loan documents and regulatory agreements
- Tax credit application
- Approved rental agreement
- Rent up cash flow estimate
- Relocation plan
- Market studies

3. Physical (Building)

Information

- Square footage
- Zoning
- Historical
- Amenities
- Alert to unresolved contract issues
- Schedule walk through with contractor to familiarize with building systems
- Construction completion date
- Types of materials, prices, quantities, estimated useful life
- Disclosures from seller
- Toxic information
- Fire/emergency plan
- Service plan

Documents

- As-built drawings, floor plans
- Materials binder
- Contact list for contractor, architect
- List of subcontractors
- Emergency phone numbers (fire alarm, security, sprinklers)
- Key schedule
- Warranties and manuals
- Schedule of warranty periods
- Service warranties and contracts (security, fire suppression, landscape, laundry, elevator)
- Insurance policy
- Tax bills
- Purchase and sale agreement
- Permits
- Notice of completion
- Punch list
- Utility contacts, water, sewer, gas, electric, waste management

4. Financial and Regulatory Information

Information

- Reserve account funding and assumptions for use (replacement, operating, other)
- Debt service
- Vacancy rate assumptions
- Contractual obligations
- Personality quirks of lender(s)
- Promises made
- Reporting and compliance requirements
- Terms
- Repayment penalties
- Refinancing options
- Residual receipts
- Disbursement schedule
- Tax opinion
- Responsibilities of partners (GP/LP)
- Pay-in schedule and requirements (certified rent rolls and other initial operating certifications)
- Buy back terms
- Legal issues re: partnership
- Tax Credit compliance

Documents

- Cost certification/Form 8609 (tax credits)
- Most current pro forma
- Loan documents
- Regulatory agreements
- Research on comparative projects in area
- Correspondence between partners relevant to relationship
- Operating cost estimates
- Inflation assumptions
- Applications
- Limited Partnership agreement (amended and restated)
- Partnership Management Agreement
- Key contacts (attorneys, CPAs, investor reps)

**EXHIBIT 1-4
RESIDENT PROPERTY REVIEW QUESTIONNAIRE**

The staff at Mercy Housing wants to know how you feel about your home. Please take a few minutes to respond to the following questions. We shall be using the information to improve the quality of our communities.

About Your Apartment

Please read the statements listed below. Use the following number scale to indicate how much you agree or disagree with these statements. Circle the corresponding number.

1= Strongly Agree 2 = Agree 3 = Neither Agree nor Disagree 4 = Disagree 5 = Strongly Disagree

1. Carpet and Flooring

- ▶ The carpet and flooring in my apartment is long lasting and of high quality. **1 2 3 4 5**
- ▶ The carpet and flooring in my apartment is easy to clean. **1 2 3 4 5**

Please explain, adding any other comments you may have about your carpet and flooring:

2. Storage/Closets

- ▶ The storage in my apartment meets my needs. **1 2 3 4 5**

Please explain, adding any other comments you may have about your storage requirements:

3. Noise

- ▶ The noise level near my apartment is acceptable to me. **1 2 3 4 5**

Please explain, adding any other comments you may have about noise:

Chapter 1: When Does Property Management Begin?

1= Strongly Agree 2 = Agree 3 = Neither Agree nor Disagree 4 = Disagree 5 = Strongly Disagree

4. Bathroom

- ▶ The bathroom in my unit meets my needs **1 2 3 4 5**

Please explain, adding any other comments you may have about your bathroom:

5. Kitchen and Appliances

- ▶ My kitchen meets my needs. **1 2 3 4 5**
- ▶ My appliances meet my needs **1 2 3 4 5**

Please explain, adding any other comments you may have about your kitchen and appliances:

6. Room Size

Now, please think for a moment about the rooms in your apartment. Which areas of the apartment, if any, do you wish were bigger? Please rank from 1 to 6 which room you would most want to enlarge, (#1 being your first choice, etc.)

- | | | | |
|-------------------|-------|------------|-------|
| ▶ Bedroom | _____ | ▶ Kitchen | _____ |
| ▶ Living Room | _____ | ▶ Bathroom | _____ |
| ▶ Storage/Closets | _____ | | |

Some things you like, dislike or would like to change about your apartment may not have been listed above. Please think for a moment, then list some other things you would like us to know about your apartment. Please be specific.

Chapter 1: When Does Property Management Begin?

About the Building

Listed below are statements about different parts of the building. Please evaluate them using the same scale.

1= Strongly Agree 2 = Agree 3 = Neither Agree nor Disagree 4 = Disagree 5 = Strongly Disagree

1. Laundry Room

- ▶ The location of the laundry room works well for me. **1 2 3 4 5**
- ▶ The machines in the laundry room meet my needs. **1 2 3 4 5**

Please explain, adding any other comments you may have about the laundry room:

2. Outdoor Space

- ▶ I/we use the outdoor space often. **1 2 3 4 5**
- ▶ The outdoor space meets my/our needs. **1 2 3 4 5**

Please explain, adding any other comments you may have about the outdoor space:

3. Parking

- ▶ The parking for the complex meets my needs. **1 2 3 4 5**

Please explain, adding any other comments you may have about parking for the complex:

4. Lobby and Mail Area

- ▶ The lobby and mail area works well for my household. **1 2 3 4 5**

Please explain, adding any other comments you may have about the lobby and mail area:

Chapter 1: When Does Property Management Begin?

1= Strongly Agree 2 = Agree 3 = Neither Agree nor Disagree 4 = Disagree 5 = Strongly Disagree

5. Trash

- ▶ Trash disposal in my building is easy. **1 2 3 4 5**

Please explain, adding any other comments you may have about trash disposal:

6. Security

- ▶ I feel secure in my building and in my apartment. **1 2 3 4 5**

Please explain, adding any other comments you may have about the building:

7. Common Areas/Community Room

- ▶ The Community Room(s) are adequate for the needs of my household. **1 2 3 4 5**

Please explain, adding any other comments you may have about the common areas:

Some things you like, dislike or would like to change about your apartment may not have been listed above. Please think for a moment, then list some other things you would like us to know about your apartment. Please be specific.

About the Neighborhood

Now, using the same scale, please evaluate the following statements about your neighborhood.

1= Strongly Agree 2 = Agree 3 = Neither Agree nor Disagree 4 = Disagree 5 = Strongly Disagree

1. Shopping

- ▶ It is easy for me to shop for food and other necessary items in the neighborhood. **1 2 3 4 5**

Please explain, adding any other comments you may have about shopping:

2. Services and Activities

- ▶ My family participates in neighborhood activities. **1 2 3 4 5**
- ▶ My family gets social service needs met in the neighborhood. **1 2 3 4 5**

Please explain, adding any other comments you may have about neighborhood services and activities:

3. Safety

- ▶ I feel safe in the neighborhood. **1 2 3 4 5**

Please explain, adding any other comments you may have about neighborhood safety:

4. Transportation

- ▶ The public transportation in my neighborhood works well for me. **1 2 3 4 5**

Please explain, adding any other comments you may have about transportation:

Some things you like, dislike, or would like to see changed about your neighborhood may not have been listed above. Please think for a moment, then list some other things you would like us to know about the neighborhood. Please be specific.

Chapter 2: Financial Planning

In This Chapter:



What is an operating pro forma?



An overview of the budget planning process, including a timeline for budget preparation, sample chart of accounts and budget preparation instructions.



An overview of operating and replacement reserve accounts, including suggestions for conducting a replacement reserve analysis and a “useful life” table.

any financial decisions are made during the development process that will affect the long-term well-being of a property. In this Section, we discuss concerns relating to Pro formas, operating budgets and Operating and Replacement Reserves.

Pro Forma

The pro forma is the financial plan produced early in the development of an affordable housing community that analyzes the expenses and financing for the construction, acquisition and on-going operation of a property. Every pro forma should include an Operations Section that estimates rental income, operating expenses, debt payments and reserve funding for a 10 to 20 year period. The operating pro forma does this by estimating future income and expense trends. Operating pro forma assumptions can create cash flow problems by being overly optimistic about these future trends.

Operating costs are estimated by developers by looking at similar properties in similar locations and reviewing available cost standards. In this Section, you'll find the 2000 HUD Standards for Section 202 and Section 811 Operating budgets as one example of an available cost standard. There is also an example of the Texas Department of Housing and Community Affairs Database on Average Operating Expenses for Low Income Housing Tax Credit Properties.

About HOME :

When HOME funds are used to develop affordable rental housing there are a number of considerations related to financial planning. HOME assisted units must remain affordable to low-income tenants which can challenge property managers who must maintain necessary cash flow while providing decent, safe and sanitary housing for qualified tenants.

The HOME Program affects the financial viability of a project by restricting rents to High and Low HOME Rents. Understanding the impact of HOME restricted rents on project income is key to financial planning and effective property management.

Property management staff should provide input on how income and expenses of a property will vary according to the property's location, design and the population served. They can remind developers to consider the expenses of marketing and start up costs for office and maintenance operations, items that are often overlooked or underestimated in development and initial operating budgets. Property Management can provide valuable information on variable costs such as staffing, utilities and maintenance. Property management can assess the ability of the targeted market population to pay the rents, both at initial occupancy and projected for the future life of the property. Property management can review the adequacy of the reserve funding.

EXHIBIT 2-1
LAUREL GARDENS APARTMENTS OPERATING PRO FORMA

LAUREL GARDENS APARTMENTS		Profoma											
15-YEAR CASH FLOW		Version: INVESTOR REQUEST FOR PROPOSALS											
ASSUMPTIONS													
Rent Increase:	2.50%												
Expenses Increase:	3.50%												
Reserve Increase:	3.50%												
		1993	1994	1995	1997	1998	1999	2000	2001	2002	2003	2004	2005
GROSS POTENTIAL INCOME - RESIDENTIAL		457,982	469,442	481,178	493,207	505,537	518,176	531,130	544,409	558,019	571,969	586,268	
HUD Interest Reduction Payment		53,004	53,004	53,004	53,004	53,004	53,004	53,004	53,004	53,004	53,004	53,004	
Misc. Income		6,100	6,253	6,409	6,569	6,733	6,902	7,074	7,251	7,432	7,618	7,809	
Vacancy Loss - Residential	5.0%	(23,205)	(23,785)	(24,379)	(24,989)	(25,614)	(26,254)	(26,910)	(27,583)	(28,273)	(28,979)	(29,704)	
Vacancy Loss - Commercial	0.0%	0	0	0	0	0	0	0	0	0	0	0	
GROSS EFFECTIVE INCOME		493,891	504,914	516,211	527,792	539,661	551,828	564,298	577,081	590,182	603,612	617,377	
TOTAL EXPENSES		262,002	271,172	280,663	290,486	300,653	311,176	322,067	333,340	345,007	357,082	369,580	
LAND LEASE		30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	
OPERATING RESERVE		0	0	0	0	0	0	0	0	0	0	0	
NET OPERATING INCOME		201,889	203,742	205,548	207,305	209,008	210,651	212,231	213,741	215,176	216,530	217,797	
TOTAL SERIES A DEBT SERVICE		135,088	134,906	134,713	134,510	134,294	134,066	133,824	133,569	133,299	133,013	132,711	
SURPLUS CASH		66,801	68,836	70,835	72,795	74,714	76,586	78,406	80,172	81,877	83,517	85,087	
Debt Service Coverage Ratio		1.49	1.51	1.53	1.54	1.56	1.57	1.59	1.60	1.61	1.63	1.64	
DISTRIBUTION OF CASH FLOW													
Supplemental Operating Reserve		0	0	0	0	0	0	0	0	0	0	0	
remaining CF		31,801	32,611	33,342	33,991	34,551	35,017	35,382	35,642	35,789	35,816	35,716	
Deferred Developer Fee		31,801	32,611	33,342	33,991	34,551	35,017	35,382	35,642	35,789	35,816	35,716	
remaining CF		0	0	0	16,537	34,551	35,017	35,382	35,642	35,789	35,816	35,716	
Interest on Deferred Developer Fee		0	0	0	16,537	5,407	5,407	5,407	5,407	5,407	5,407	5,407	
remaining CF		0	0	0	0	29,144	35,017	35,382	35,642	35,789	35,816	35,716	
GP Partnership Management Fee - Current		0	0	0	0	15,000	15,000	15,000	15,000	15,000	15,000	15,000	
GP Partnership Management Fee - Deferred		0	0	0	0	14,144	20,017	20,382	5,457	0	0	0	
General Partner	50.00%	0	0	0	0	0	0	0	0	0	0	0	
Limited Partners	50.00%	0	0	0	0	0	0	0	0	0	0	0	
OPERATING RESERVE BALANCE													
Previous Balance		85,000	85,000	88,400	91,936	95,613	99,438	103,415	107,552	111,854	116,328	120,982	125,821
Deposit to Reserve		0	0	0	0	0	0	0	0	0	0	0	
Interest on Reserve	4.0%	0	3,400	3,536	3,677	3,825	3,978	4,137	4,302	4,474	4,653	4,839	5,033
Withdrawal from Reserve		0	0	0	0	0	0	0	0	0	0	0	
Ending Balance		85,000	88,400	91,936	95,613	99,438	103,415	107,552	111,854	116,328	120,982	125,821	
REPLACEMENT RESERVE BALANCE													
Previous Balance		85,000	120,000	161,025	204,959	251,962	302,204	356,708	415,400	478,226	545,194	616,318	691,591
Deposit to Reserve		35,000	36,225	37,463	38,805	40,163	41,539	43,024	44,530	46,068	47,701	49,371	51,099
Interest on Reserve	4.0%	0	4,800	6,441	8,198	10,078	12,088	14,253	16,586	19,111	21,811	24,691	28,755
Withdrawal from Reserve	-75.0%	0	0	0	0	0	0	0	0	0	0	(257,511)	
Ending Balance		120,000	161,025	204,959	251,962	302,204	356,708	415,400	478,226	545,194	616,318	691,591	

Exhibit 2-2

U.S. Department of Housing and Urban Development

Special Attention of

All Multifamily Hub Directors
All Multifamily Hub Program Center Directors
All Project Managers
All Field Office Directors

Notice H 03-26

Issued: December 1, 2003
Expires: December 31, 2004

Cross References
Handbook 4571.2 (811)
Handbook 4571.3 REV-1 (202)

SUBJECT:

Fiscal Year 2003 Annual Operating Cost Standards – Section 202 Supportive Housing for the Elderly and Section 811 Supportive Housing for Persons with Disabilities Programs

Attached are the Operating Cost Standards (OCS), which HUD Office staff should use for calculating the annual per person/per unit Amount of a Project Rental Assistance Contract (PRAC) when making Fiscal Year 2003 subsidy fund reservations for Capital Advance applications under the subject programs.

These Standards have been updated using the National Consumer Price Index (CPI) of housing changes for 2002. Each HUD Office should adjust these Standards downward to accommodate any lower cost area with its jurisdiction when locally developed cost data so indicate.

Historically, some areas significantly exceed the National CPI average. To assure that those areas are not precluded from program participation, each HUD Office noted below is authorized to adjust its annual OCS by up to the additional percentage shown: Chicago – 8.2 percent; New York – 19.7 percent; Philadelphia – 5.5 percent; Los Angeles – 9.2 percent; San Francisco – 39.6 percent; and Seattle – 18.7 percent.

To determine the total amount of an annual PRAC, multiply the OCS by the number of residential spaces in a group home or by the number of revenue-producing units in either an independent living facility or an elderly project. For the six cities listed above, the result thus obtained would be multiplied by part or all of the additional percentage, as needed.

In accordance with the waiver authority provided in the Fiscal Year 2003 HUD Appropriations Act (Pub.L.107-73), the Secretary is waiving the following statutory and regulatory provisions in the FY 2003 Program SuperNOFA for the Section 202 (68 FR 21921) and Section 811 (68 FR 21937) Programs (as published in the Federal Register on April 25, 2003):

The term of the PRAC is reduced from 20 years to a minimum term of 5 years. The Department anticipates that, at the end of the contract terms, renewals will be approved subject to the availability of funds. In addition to this provision, the Department will reserve PRAC funds based on 75 percent rather than 100 percent of the current OCS for approved units in order to take into account the average tenant contribution toward rent.

Should you have questions, please contact Flossie Romero at (202) 708-3000, Extension 2610.

John C. Weicher, Assistant Secretary for
Housing – Federal Housing Commissioner

Attachments

Distribution: W-3-1,

FISCAL YEAR 2003 Operating Cost Standards
Sections 202 and 811

	BOSTON HUB			MINNEAPOLIS HUB
Boston	\$ 5,740		Milwaukee	4,184
Hartford	5,408		Minneapolis	4,463
Manchester	4,365			FT. WORTH HUB
Bangor	4,492		Ft. Worth	3,852
Burlington	4,379		Albuquerque	3,767
Providence	5,348		Lubbock	3,714
	NEW YORK HUB		Houston	3,826
New York City	6,498		Little Rock	3,299
	BUFFALO HUB		New Orleans	3,438
Buffalo	4,574		Shreveport	3,548
Albany	4,684		San Antonio	3,534
	PHILADELPHIA HUB			KANSAS CITY HUB
Charleston	4,297		Des Moines	3,743
Newark	5,625		Kansas City	4,184
Camden	5,100		Topeka	3,686
Pittsburgh	4,162		Omaha	3,767
Philadelphia	5,127		Oklahoma City	3,548
Wilmington	4,741		Tulsa	3,657
	BALTIMORE HUB		St. Louis	4,409
Baltimore	4,463			DENVER HUB
Richmond	3,991		Denver	4,076
Washington	4,545		Casper	3,462
	GREENSBORO HUB		Fargo	3,462
Columbia	3,549		Helena	3,767
Greensboro	3,852		Salt Lake City	3,574
	ATLANTA HUB		Sioux Falls	3,438
Atlanta	3,630			SAN FRANCISCO HUB
San Juan	3,549		Honolulu (Guam)	5,348
Louisville	3,852		Reno	4,322
Knoxville	3,548		Phoenix	3,767
Nashville	3,410		Sacramento	4,796
Memphis	3,630		San Francisco	5,348
	JACKSONVILLE HUB			LOS ANGELES HUB
Jacksonville	3,518		Los Angeles	4,992
Miami	3,765		San Diego	4,627
Tampa	3,326		Santa Ana	4,992
Birmingham	3,549			
Jackson	3,657			
	CHICAGO HUB			SEATTLE HUB
Chicago	4,322		Anchorage	7,631
Indianapolis	4,101		Portland	3,991
	COLUMBUS HUB		Boise	3,881
Cincinnati	4,129		Seattle	4,242
Cleveland	4,601		Spokane	4,156
Columbus	4,076			
	DETROIT HUB			
Detroit	4,598			
Grand Rapids	3,826			

Budgeting

Preparation of initial operating budgets should be done carefully, as should preparation of all annual budgets. Realistic income and expense expectations should be used to prepare the operating budget.

The HUD Chart of Accounts, in the following Section, is the standard budget for most HUD funded projects. Many states and local governments also use the HUD Chart of Accounts, while banks and other funders may use a more simplified budget with fewer line items. Even if you're not required to use a HUD Chart of Accounts, reviewing all the line items in a complete Chart of Accounts can help ensure that no major expenses are being left out of budget planning. Preparing careful footnotes clearly describing the assumptions used in estimating income and expenses enables others to review your budgets and provide meaningful oversight.

The budgeting process, whether during the development phase or during on-going operations, should start early enough to collect all necessary information. A sample timeline for budget preparation is included in this Section.

The annual budgeting process should include:

- ▶ interviewing site staff to obtain their input
- ▶ review of the past 12 months operating expenses
- ▶ verification of annual contract amounts
- ▶ completion of annual site plan (sample in this section)
- ▶ completion of staffing plan
- ▶ finally, drafting the budget.

Operating expense review should carefully analyze the following areas:

- ▶ energy and trash disposal cost;
- ▶ inventory and purchasing controls;
- ▶ comparison of material and equipment lifespans;
- ▶ cost efficiency of contracted services and equipment leases;
- ▶ maintenance operations, taking into account anticipated move-outs, estimated turnover time, staff time for the management of major improvements or replacements, work order completion, and staff training.

EXHIBIT 2-3
HUD CHART OF ACCOUNTS

	Previous Year Audit	Year to Date (No. of Months:)	Proposed Budget
5000 INCOME			
5100 Rent			
5200 Vacancy Loss			
5300 Elderly & Congregate Services Income			
5400 Interest Income			
5910 Laundry Income			
5920 Tenant Charges (Late Fees/ Damages)			
5990 Other Misc. Income			
Total Income			
6000 PROJECT EXPENSES			
ADMINISTRATIVE EXPENSE			
6210 Advertising			
6310 Office Salaries			
6311 Office Supplies			
6312 Office Rent			
6320 Management Fee			
6330 Manager's Salary			
6331 Administrative Rent Free Unit			
6340 Legal Expense			
6350 Audit Expense			
6351 Bookkeeping/Accounting			
6370 Bad Debts			
6390 Miscellaneous Admin. Expense			
Total Administrative Expense			
UTILITIES EXPENSE			
6420 Fuel Oil/Coal			
6450 Electricity			
6451 Water			
6452 Gas			
6453 Sewer			
Total Utilities Expense			

Chapter 2: Financial Planning

	Previous Year Audit	Year to Date (No. of Months:)	Proposed Budget
<i>OPERATING & MAINTENANCE EXPENSE</i>			
6510 Payroll			
6515 Supplies			
6520 Contracts			
6521 Oper. & Maint. Rent Free Unit			
6525 Garbage & Trash Removal			
6530 Security Payroll/Contract			
6531 Security Rent Free Unit			
6546 Heating/Cooling Repairs			
6548 Snow Removal			
6570 Vehicle & Maint. Equip. Operation & Repairs			
6590 Misc. Oper. & Maintenance			
Total Operating & Maintenance Expenses			
<i>TAXES AND INSURANCE</i>			
6710 Real Estate Taxes			
6711 Payroll Taxes			
6720 Property & Liability Insurance			
6721 Fidelity Bond Insurance			
6722 Worker's Compensation			
6723 Employee Benefits			
6790 Miscellaneous Taxes, Licenses, Permits & Insurance			
Total Taxes and Insurance			
6800 FINANCIAL EXPENSES			
6900 SERVICE EXPENSES			
TOTAL OPERATING EXPENSE			
NET INCOME			
<i>DEBT AND RESERVE SERVICE</i>			
▶ Mortgage Principle			
▶ Replacement Rsv. Funding			
▶ Operating Rsv. Funding			
Total Debt and Reserve			
INCREASE (DECREASE) IN CASH			

EXHIBIT 2-4
HUD CHART OF ACCOUNTS
FOOTNOTES

5000 Revenue Accounts

5100 Rent Revenue - Gross Potential:

- 5120 *Rent Income -- Apartments or Member Carrying Charges (COOPS).* Gross rent potential less tenant assistance payments for all residential units (including nonrevenue producing units).
- 5121 *Tenant Assistance Payments.* Tenant assistance payments received or earned by the project.
- 5140 *Rent Income — Stores and Commercial.* Gross rental income expectancy from stores, offices, rented basement space or other commercial facilities.
- 5170 *Garage and Parking Spaces.* Gross potential rental income from all garage and parking spaces.
- 5190 *Rent Income — Miscellaneous.* Gross rental income expectancy not otherwise described above.

5200 Vacancies - Accounts 5220 through 5290. Rental income lost through vacancy of an apartment unit, revenue-producing space or equipment.

5300 Elderly and Congregate Services Income. Revenues received other than rents for services provided to tenants (e.g., meals, grants for services). Service-related expenses are charged to accounts in the 6900 series.

5400 Financial Revenue. Interest income received or accrued from invested project cash and Funded Reserves.

5900 Other Revenue:

- 5910 *Laundry and Vending Revenue.* Project revenues received from laundry and vending machines owned or leased by the project.
- 5920 *Tenant Charges.* Charges assessed to tenants for rent checks returned for insufficient funds, for late payment of rents, damages, fees paid by tenants for cleaning of an apartment unit (other than regular housekeeping services) and forfeited Security Deposits (credited only when the tenant security deposit is deposited to the project operating account).
- 5990 *Other Revenue.* Project revenues not otherwise described in the above revenue accounts. If necessary, agents should subdivide the account into specific revenue accounts numbered 5991 through 5999.

6000 Project Expense Accounts.

6200 and 6300 Administrative Expenses

- 6210 *Advertising and Marketing.* Cost of advertising the rental property.
- 6250 *Other Renting Expense.* Miscellaneous expenses related to the rentup of vacant units. Charges to this account may include reasonable payments to third parties for referring new tenants to the project, the cost of credit and eviction background checks or any allowance given tenants in lieu of rent (e.g., providing a new tenant a week's free rent in exchange for cleaning and painting the unit).
- 6310 *Office Salaries.* Salaries paid to office employees (other than the manager) responsible for the front-line operation of the project regardless of whether the employee works on site or in the agent's office. Front-line responsibilities include for example, taking applications, verifying income and processing maintenance requests. The account does not include salaries paid to occupancy, maintenance and regional supervisors who carry out the agent's responsibility for overseeing or supervising project operations and personnel. These salaries are paid from the management fee. This account also does not include the project's share of payroll taxes (Account 6711) or other employee benefits (Account 6723) paid by the project.
- 6311 *Office Supplies.* Office expense items such as supplies, postage, stationery, copying and cost of telephone and answering service.
- 6312 *Office or Model Apartment Rent.* Rental value of an apartment, otherwise considered potentially rent-producing, but used as the project office or as a model apartment.
- 6320 *Management Fee.* Cost of management agent services contracted for by the project. This account does not include charges for bookkeeping or accounting services paid directly by the project to either the management agent or another third party.
- 6330 *Manager or Superintendent Salaries.* Salaries paid to a resident manager or superintendent.
- 6331 *Administrative Rent Free Unit.* Contract rent of any rent free unit provided an administrative employee which would otherwise be considered revenue producing.
- 6340 *Legal Expense.* Legal fees incurred on behalf of the project (as distinguished from the mortgagor entity), e.g., for eviction procedures.
- 6350 *Audit Expense.* Auditing expenses incurred by the project that are directly related to HUD requirements for audited financial statements and reports. This account includes the auditor's charge for preparing the mortgagor entity's Federal, State and local tax returns. This account does not include the cost of routine maintenance or review of the project's books and records.
- 6351 *Bookkeeping Fees/Accounting Services.* Cost of bookkeeping fees or automated accounting services not included in the management fee but paid to either the agent or a third party.
- 6370 *Bad Debts.* Records by journal entry the amount of tenant accounts receivable the agent estimates uncollectible at the end of the accounting period.

6390 *Miscellaneous Administrative Expenses.* Administrative expenses not otherwise classified in the 6300 series. If necessary, agents should subdivide the account into specific accounts numbered 6391 through 6399.

6400 Utilities Expense: Costs of utility charges billed the project.

6500 Operating and Maintenance Expenses:

- 6510 *Payroll.* Salaries of janitors, groundskeepers and other maintenance employees employed by the project.
- 6515 *Supplies.* Cost of janitor, grounds, repair and decorating supplies.
- 6520 *Contracts.* Cost of janitorial, cleaning, exterminating, grounds, repair, elevator maintenance or decorating contracts the owner or agent executes with third parties on behalf of the project.
- 6521 *Operating and Maintenance Rent Free Unit.* Contract rent of any rent free unit provided a maintenance employee which would otherwise be considered revenue producing.
- 6525 *Garbage and Trash Removal.* Cost of removing garbage and rubbish from the project. The account does not include salaries paid to janitors who collect the trash.
- 6530 *Security Payroll/Contract.* Project's payroll costs attributable to the protection of the project or the costs of a protection contract that the owner or agent executes on behalf of the project.
- 6531 *Security Rent Free Unit.* Contract rent of any rent free unit provided security personnel which would otherwise be considered revenue producing.
- 6546 *Heating/Cooling Repairs and Maintenance.* Cost of repairing and maintaining heating or air conditioning equipment owned by the project. Agents should capitalize repairs of significant amounts that extend the useful life of the equipment.
- 6548 *Snow Removal.* Cost of removing snow from project sidewalks and parking areas.
- 6570 *Vehicle and Maintenance Equipment Operation and Repairs.* Cost of operating and repairing project motor vehicles and maintenance equipment.
- 6590 *Miscellaneous Operating and Maintenance Expenses.* Cost of maintenance and repairs not otherwise classified in the 6400 and 6500 account series. If necessary, agents should subdivide the account into specific accounts numbered 6591 through 6599.

6700 Taxes and Insurance:

- 6710 *Real Estate Taxes.* Payments made for real estate taxes of the project.
- 6711 *Payroll Taxes (Project's Share).* Project's share of FICA and State and Federal Unemployment taxes.
- 6720 *Property and Liability Insurance (Hazard).* Cost of project property and liability insurance.
- 6721 *Fidelity Bond Insurance.* Cost of bonding project employees who handle cash.
- 6722 *Worker's Compensation.* Cost of worker's compensation insurance for project employees.
- 6723 *Health Insurance and Other Employee Benefits.* Cost of any health insurance and other employee benefits paid and charged to the project.

6790 *Miscellaneous Taxes, Licenses, Permits and Insurance.* Taxes, licenses, fees or insurance expenses not otherwise classified in the 6700 series.

6800 Financial Expenses:

6810 *Interest on Bonds Payable.* Interest paid or accrued on bonds issued to construct or permanently finance the project.

6820 *Interest on Mortgage Payable.* Interest paid or accrued on a mortgage issued to construct or permanently finance the project.

6830 *Interest on Notes Payable.* Interest and discounts paid on long term notes.

6840 *Interest on Notes Payable.* Interest and discounts paid on short term notes.

6850 *Mortgage Insurance Premium/Service Charges.* Payments to the mortgagee for insurance on the mortgage.

6890 *Miscellaneous Financial Expense.* Financial expenses not otherwise classified in the 6800 series. If necessary, agents should subdivide the account into specific financial expense accounts numbered 6891 through 6899.

6900 Nursing Homes/Assisted Living/Board & Care/Other Elderly Care Expenses.

The 6900 series of accounts record expenses directly related to special services provided the tenant (e.g., food, recreation supplies, salaries of resident services staff.)

EXHIBIT 2-5
BUDGET PREPARATION TIME LINE
FOR FISCAL YEAR END 12/31

8/20	Accounting prints general ledger Estimate the current year's 12 months expenses based on 6 to 8 month's actual costs. Review expense for the final month's of the prior year to account for any late year, one-time costs.
8/21	Distribute to sites
8/23–9/14	Sites collect data and prepare draft of budget with footnotes
9/15–9/25	Supervisors review and approve salary or staff changes
9/25	To Director for approval
9/30–10/20	Input into agency format & finalize budget notes
10/21	To Board of Directors for approval
10/31	Submit to regulatory agency

- 1) Budgets submitted to partners & lenders no later than 60 days prior to end of fiscal year (FYE)
- 2) Rent increase notices to residents one month prior to effective date of increase

Note: (1) & (2) may vary dependent upon agency requirements.

EXHIBIT 2-6
BUDGET PREPARATION INSTRUCTIONS

In preparing your budget, begin with annualizing your current year's expenses. Then, please take care to do the following:

- 1) Review general ledger thoroughly. Look for expense errors and notify accounting of error corrections.
- 2) Call all utility companies (gas, electric, water, garbage) to confirm any potential increases. Note on budget worksheet that you have called and why or why not you are budgeting any increases or decreases.
- 3) Complete Annual Site Plan.
- 4) Look at current redecorating schedule. Attach next year's redecorating schedule to site plan.
- 5) Attach any copies of estimates received for planned major expenses to explain dollar amounts.
- 6) Review your tickler file for budget notes you have dropped in throughout the year.
- 7) Speak to your maintenance supervisor about what he/she would like to replace, repair, or install in the coming year. On major items, one rough estimate is sufficient to plan a budget.
- 8) Be sure to explain all expenses on worksheet. After collecting all data, submit to your Supervisor, attaching all of the following:
 1. Budget Worksheet
 2. Footnotes
 3. General Ledger
 4. Annual Site Plan
 5. Redecorating schedule for all units (highlight units included in site plan)
 6. Long range spending plan
 7. Any written estimates

**EXHIBIT 2-7
ANNUAL SITE PLAN**

Site: _____ Date: _____

Manager: _____

Signature

Maintenance: _____

Signature

PHYSICAL — EXTERIOR			
DESCRIPTION EXTERIOR ITEMS	COMMENCEMENT OF WORK	ESTIMATED COST	ACCOUNT CODE
PAINTING:			
PAVING:			
FENCING:			
CONCRETE WORK:			
LANDSCAPE:			
ROOFING:			
CLEANING: (i.e., Powerwash):			
ELECTRICAL:			
OTHER:			

PHYSICAL — INTERIOR			
DESCRIPTION <i>(attach next year's redecorating schedule)</i>	# OF UNITS OR TYPE OF WORK	DATE OF WORK OR PURCHASE	ESTIMATED COST
PAINTING:			
CARPET:			
VINYL:			
DRAPES:			
PLUMBING (describe):			
OTHER:			
OFFICE			
REDECORATING:			
EQUIPMENT (describe):			
SHOP			
EQUIPMENT (describe major purchases):			

ENERGY SAVINGS			
DESCRIBE			
ENERGY AUDIT <i>(when):</i>			
RATE AUDIT:			
FIXTURE AUDIT:			
	WHAT	COST	ESTIMATED PG&E REBATE
FIXTURE REPLACEMENT:			
	INSTALLATION DATE	COST/ TYPE	ESTIMATED REBATE
TOILETS <i>(Water Saver):</i>			
OTHER:			
RESIDENT RELATIONS <i>(planned or in-progress)</i>			
DESCRIBE			
TENANT ASSOCIATION PLANS:			
NEWSLETTERS:			
SOCIAL EVENTS:			
EDUCATIONAL PROGRAMS:			

Reserves

Reserve funding requirements are often set by the banks, government agencies and others providing funding or financing for affordable housing. The formulas used for setting the funding requirements for reserves vary among funders. Some financiers require both an operating and a replacement reserve. Property Managers should be aware of assumptions made by developers on how and when reserves will be used. Operating Reserves may be funded to provide a safety net for unanticipated operating expenses or income shortfalls. The operating reserves may also be intended to be used to cover a future financial event such as re-financing, buying out partnerships or filling the gap caused by loss of subsidies. If the Operating Reserves are spent to cover unanticipated expenses, they may not be available to use as originally intended.

Long range property replacement or improvement planning helps establish an adequate monthly reserve deposit. Property administrators should review the property's Capital Improvement/Replacement Plan annually to update work completed and adjust the timing and costs for future scheduled work. This plan normally spans 10 years and will include replacement costs for major replacement items (see this Section.) In the preparation or update of this plan consideration should be given to:

1. Life Cycle costing. Compare the initial cost of equipment and materials with the cost of other makes and styles that may last longer or require less expensive upkeep.
2. Staffing evaluation. Assess the skills of the site maintenance staff to decide which work can be done in-house and what will need to be contracted out.
3. Energy efficient equipment and materials. The cost of replacement can often be recouped in 2 to 5 years with the resulting energy savings. Rebate programs may be available locally.
4. Remodeling needs. What will it take to avoid obsolescence and remain competitive in the local rental market?

Reserve needs will vary according to the size of units, quality of rehabilitation work done and materials used and the type of residents served. Older properties, especially, will have variation in reserve needs.

EXHIBIT 2-8

STEPS IN COMPLETING A REPLACEMENT RESERVE ANALYSIS

BASIC REPLACEMENT RESERVE ANALYSIS (FOR NEW BUILDINGS)

1. Using physical inspections, the Replacement Reserve analysis forms and equipment life expectancy charts, prepare a complete list of all the items that will need to be replaced on the property.
2. Using the equipment life expectancy charts or information from vendors, determine the life expectancy of each item. It is useful to divide the analysis charts into items in individual units and items for common areas. The life expectancy of the carpet in an apartment will be very different from the carpet in the lobby.

In determining life expectancy, each owner and manager will have his or her own standards for what is acceptable in appearance. The quality of the materials used will affect life expectancy. The manager should be aware if government regulatory agencies monitoring the property have their own set of standards that must be followed.

You can assume a longer life expectancy for replacement items of which the property has a number, for instance unit carpets. While you may want to replace all of them within a certain time period, chances are that many will still be serviceable when that time is reached. If a manager were to wait another year or two to replace some carpets, it would generally not affect the health and well-being of residents. In comparison, when it comes to estimating the life expectancy of an item like a hot water boiler, it is better to be conservative. When the boiler finally dies, you don't have the option of waiting to replace it.

3. Find the cost of replacing each item. These costs can be obtained from contractors and vendors. Building contractors often have access to annually updated pricing reference books like *Whitestone Building Maintenance and Repair Cost*. You may want to include an inflation factor in calculating the cost. Assuming that inflation will increase costs by 2% to 3% should ensure that sufficient money is saved to take care of needs. In the simple Replacement Reserve Analysis, an inflation factor is not included, assuming that inflation will be offset by interest earned on the Reserves.
4. Once you have this information gathered, you can calculate how much you will have to save each month to pay for the replacement when it is needed.

Using the Replacement Reserve Analysis charts, let's calculate the cost of replacing carpet using different assumptions on life expectancy.

No.	Item	1. Life Expectancy When New	2. Quantity	3. Unit Price	4. Total Replacement Cost (#2 x #3)	5. Per Year Set Aside (#4 ÷ #1)
	Carpet	5 yrs	50	\$1000	\$50,000	
	Carpet	6 yrs	50	\$1000	\$50,000	
	Carpet	7 yrs	50	\$1000	\$50,000	
	Carpet	8 yrs	50	\$1000	\$50,000	
	Carpet	9 yrs	50	\$1000	\$50,000	

You can see how delaying the replacement reduces the annual amount required to fund the reserve. However, being overly optimistic on Life Expectancy can contribute to a growing list of deferred maintenance.

- Track planned expenditures for at least the next five years, estimating the annual draw on replacement reserves. Ideally, this analysis should be extended for a period covering 20 years since many of the more expensive items will need replacement between years 10 and 20 and savings for those replacements should begin today.

EXHIBIT 2-9
RESERVE REPLACEMENT ITEMS

The following items are generally considered by agencies to qualify for replacement reserve reimbursements:

Appliances

Ranges
Refrigerators
Dishwashers
Laundry Washers and Dryers
Garbage Disposals
Exhaust Fans

Interior Decorating

Carpet
Floor Tile
Drapes, Shades, Blinds
Cabinets
Electrical Fixtures
Furniture

Exterior

Doors
Windows
Roofing, Shingle, Tile, etc.
Gutters & Downspouts
Storm Windows & Doors
Sprinkler System
Concrete Walks and Curbs
Painting

Plumbing

Toilets & Valves
Bathtubs & Sinks
Kitchen Sinks
Fixtures
Plumbing System

Air Conditioning Equipment

Motors & Fans
Individual Units
Compressors
Chillers

Heating System

Stokers
Oil Burners
Gas Furnaces
Valves & Pumps
Baseboard Heaters
Boilers

Hot Water System

Individual Storage Tank
Central Heating System

EXHIBIT 2-10

FNMA USEFUL LIFE TABLES			
	Family Development	Elderly Development	Action
SITE SYSTEMS			“Action” equals replace unless otherwise noted
NOTE: 50+ = “long-lived” systems: EUL based on location and use-specific conditions			
Basketball Courts	15	25	
Built Improvements (playground/site furniture)	20	20	
Catch Basin	40	40	
Cold Water Lines	40	40	
Compactors	15	15	
DHW/Supply/Return	30	30	
Dumpsters	10	10	Fence only
Dumpster Enclosures	10	10	
Earthwork	50+	50+	
Electrical Distribution Center	40	40	
Emergency Generator	15	15	
Fencing			
Chain link	40	40	
Wrought iron	50*	50+	
Stockade/Basketweave	12	12	
Post and rail	25	25	
Gas Lines	40	40	
Heating Supply/Return	40	40	
Incinerators	50+	50+	
Irrigation System	30	30	
Lift Station	50	50	
Mail Facilities	10	10	
Landscaping	50+	50+	
Parking			
Asphalt	25	25	Resurface
Gravel	15	15	Resurface
Pedestrian Paving	15	15	Resurface
Bituminous	15	15	
Concrete	30	30	
Retaining Walls			
Concrete	20	20	Fill cracks/Repaint
Masonry	15	15	Fill cracks/Repaint
Wood	15	15	Replace
Stone	15	15	Fill cracks/Repaint
Roadways			
Asphalt (Sealing)	5	5	Seal
Asphalt	25	25	Resurface
Gravel	15	15	Resurface (grade and gravel)
Sanitary Treatment	40	40	
Site Electric Main	40	40	
Site Gas Main	40	40	
Site Lighting	25	25	
Site Power Distribution	40	40	
Site Sanitary Lines	50+	50+	
Site Sewer Main	50+	50+	
Site Water Main	40	40	
Storm Drain Lines	50+	50+	
Swimming Pool — deck	15	15	Resurface deck
mechanical equipment (filter/pump/etc).	10	10	
Tennis Courts	15	15	Resurface
Transformer	30	30	
Water Tower	50+	50+	

EXPECTED USEFUL LIFE TABLE			
	Family Development	Elderly Development	Action
MECHANICAL/ELECTRICAL			
NOTE: 50+ = "long-lived" systems: EUL based on location and use-specific conditions			
Central Unit Exhaust, roof mounted	15	15	
Chilled Water Distribution	50+	50+	
Chilling Plant	15	25	
Compactor	15	15	
Cooling Tower	25	25	
Electrical Switchgear	50+	50+	
Electrical wiring	50+	50+	
Elevator, Controller/Dispatcher	15	20	
Elevator, Cab	15	20	Rebuild interior
Elevator, Machinery	30	30	
Elevator, Shaftway Doors	20	30	Replace gibs and rollers
Elevator, Shaftways			
Hoist rails, cables, travelling equipment	25	25	
Hydraulic piston and levelling equipment	25	25	Re-sleeve piston
Emergency Call Alarm System, Station	15	15	
Emergency Generator	35	35	
Emergency Lights	10	10	Battery operated
Evaporative Cooler	15	15	
Fire pumps	20	20	Pump motor
Fire Suppression	50+	50+	Piping
Gas Distribution	50+	50+	Piping
Heat Sensors	15	15	
Heat Risers and Distribution	50+	50+	
Heating Water Controller	15	15	
Hot and Cold Water Distribution	50	50	
HVAC			
Cooling Only	15	15	
Heat Only	15	15	
Heating and Cooling	15	15	
Master TV System	15	15	
Outdoor Temperature Sensor	10	10	
Sanitary Waste and Vent System	50+	50+	
Sewage Ejectors	50	50	
Buzzer/Intercom, central panel	15	15	
Smoke & fire detection system, central panel	15	15	
Sump pump			
Residential	7	7	Replace
Commercial	15	15	Replace motor
Water softening and filtration	15	15	
Water tower	50+	50+	
Boiler Room Equipment			
Blowdown and Water Treatment	25	25	
Boiler Room Pipe Insulation	With boiler	With boiler	
Boiler Room Piping	With boiler	With boiler	
Boiler Room Valves	15	15	Repack valves
Boiler Temperature Controls	With boiler	With boiler	
Boilers			
Oil-fired sectional	22	22	
Gas or dual-fuel-fired sectional	25	25	
Oil- gas- or dual-fuel-fired package, low MBH	30	30	

EXPECTED USEFUL LIFE TABLE			
	Family Development	Elderly Development	Action
MECHANICAL/ELECTRICAL (continued)			
Oil- gas- or dual—fuel-fired package, high MBH	40	40	
Gas-fired atmospheric	25	25	
Electric	20	20	
Bottled Gas Storage	20	20	
Building Heating Water Temperature Controls			
Residential	12	12	
Commercial	15	15	
Combustion Air			
Duct with fixed louvers	50+	50+	Replace
Motorized louver and duct	25	25	Replace motor
Make-up air	25	25	Replace fan/preheater
Compressors	15	15	
Condensate and Feedwater			
Feedwater only (Hydronic)	10	10	
Condensate and feedwater (Steam)	With boiler	With boiler	
DHW Circulating Pumps	By size	By size	
DHW Generation			
Tank Only. dedicated fuel			
Exchanger in Storage Tank	10	10	
Exchanger in boiler	15	15	
External Tankless	15	15	
Instantaneous	15	15	
DHW Storage Tanks	10	10	
Small (up to 150 gallons)			
Large (over 150 gallons)	12	12	Replace
Domestic Cold Water Pumps	7	7	Point tank lining
Fire Suppression	15	15	
Flue Exhaust	50+	50+	
Free Standing Chimney	With boiler	With boiler	
Fuel Oil Storage	50+	50+	
Fuel Transfer System	25	25	
Heat Exchanger	25	25	
Heating Water Circulating Pumps	35	35	
Line Dryers	By size	By size	
Motorized Valves	15	15	
Outdoor Temp Sensor	12	12	
Pneumatic Lines & Controls	10	10	
Purchased Steam Supply Station	30	30	
Solar Hot Water	50+	50+	
	20	20	Replace collector panels

EXPECTED USEFUL LIFE TABLE			
	Family	Elderly	
	Development	Development	Action
BUILDING ARCHITECTURE			
NOTE: 50+ = "long-lived" systems: EUL based on location and use-specific conditions			
Appurtenant Structures			
Porches	50	50	Paint at 5 years
Wood Decks	20	20	Paint at 5 years
Storage Sheds	30	30	Paint at 5 years
Greenhouses	50	50	
Carports	40	40	
Garages	50+	50+	
Basement Stairs	50+	50+	
Building Mounted Exterior Lighting	6	10	
Building Mounted HID Lighting	6	20	
Bulkheads	30	30	
Canopies			
Wood/Metal	40	40	Replace
Concrete	20	20	Re-roof
Ceilings, exterior or open	5	5	Paint
Chimney	25	25	Point
Common Area Doors (fire/hall/closet/etc)	50+	50+	
Common Area Floors			
Ceramic/Quarry tile/Terazzo	50+	50+	Replace
Wood (strip or parquet)	30	30	Replace portion/sand and finish
Resilient flooring (tile or sheet)	15	15	Replace
Carpet	7	7	Replace
Concrete	50+	50+	Replace
Common Area Railings	50+	50+	
Common Area Ceilings			
Concrete/Drywall/Plaster	50+	50+	Replace (Paint 5-8 years)
Acoustic Tile	20	20	Replace
Comas Area Countertop & Sink	20	20	
Common Area Dishwasher	15	15	
Common Area Disposal	5	5	
Common Area Walls	50+	50+	Replace (paint 5-8 years)
Exterior Common Doors			
Aluminum and Glass	30	30	Door only
Solid Core (wood or metal)	25	25	Door only
Automatic	15	30	Door and mechanism
Exterior Stairs			
Wood	30	30	Replace
Filled Metal Pan	20	20	Replace
Concrete	50+	50+	Replace
Exterior Unit Doors	25	25	
Exterior Walls			
Aluminum siding	15	15	Prep and Paint
Brick or Block	40	40	Repaint
Brownstone/Stone Veneer	20	20	Waterproof and caulk
Glass Block	15	15	Recaulk
Granite Block	40	40	Repaint
Metal/Glass curtain wall	10	10	Recaulk
Precast concrete panel	15	15	Recaulk
Vinyl siding	30	30	Replace
Wood shingle, Clapboard, Plywood, Stucco	5	5	Prep and paint/stain
Fire Escapes	40	40	Resecure
Foundations	50+	50+	

EXPECTED USEFUL LIFE TABLE			
	Family	Elderly	
	Development	Development	Action
BUILDING ARCHITECTURE			
(continued)			
Hatches/Skylights			
Access hatch	30	30	
Smoke hatch or skylight	50+	50+	
Insulation/Wall	50+	50+	
Interior Lighting	25	25	
Interior Railings	50+	50+	
Kitchen Cabinets	20	20	
Local HVAC			
Electric fan coil	20	20	
Electric Heat/Electric AC	15	15	
Gas furnace with split DX AC	20	20	
Heat pump w. Supplementary electric	15	15	
Heat pump, water source	20	20	
Hydronic fan coil	30	30	
Hydronic heat/electric AC	20	20	
Mail Facilities	10	30	
Parapet Wall	50+	50+	
Penthouse	25	25	New door and painting
Public Bathroom Accessories	7	7	
Public Bathroom Fixtures	15	15	
Radiation			
Hydronic (baseboard or freestanding)	50	50	
Electric baseboard	25	25	
Electric panel	20	20	
Railings Roof	10	10	Paint
Refrigerator, common area	15	15	
Residential Glass Doors			
Sliding	15	15	
Atrium/French	30	30	
Roof Covering			
Aluminum Shingles	40	40	
Asphalt Shingles	20	20	New gutters
Built-up (BUR)	20	20	
Membrane	20	20	
Metal (preformed)	40	40	
Slate, Tile, Clay, or Concrete Shingles	50+	50+	
Wood Shingles	20	20	
Roof Drainage Exterior (gutter and fascia)	25	25	Paint
Roof Drainage Interior (Drain covers)	50+	50+	Replace
Roof Structure	50+	50+	
Slab	50+	50+	
Service Doors	25	25	
Soffits			
Wood/Stucco/Concrete	5	5	
Aluminum or Vinyl	25	25	
Stair Structure	50+	50+	
Storm/Screen Doors	7	15	
Storm/Screen. Windows	20	20	
Waterproofing Foundation	50+	50+	
Window Security	40	40	
Windows (Frames and glazing)	30	30	
Wood floor Frame	50+	50+	

EXPECTED USEFUL LIFE TABLE			
	Family Development	Elderly Development	Action
DWELLING UNITS			
Note: 50+ = "long-lived" systems; EUL based on location and use-specific conditions			
Bath Accessories	10	15	
Bath Fixtures (Sink, toilet, tub)	20	20	
Closet Doors	10	20	
Countertop and Sink	10	20	
Dishwasher	10	15	
Disposal	5	8	
Electric Fixtures	20	20	
Hallway Door	30	50	Door only
Heat Detectors	20	20	
Interior Door	30	50	Door only
Interior Stairs	50+	50+	
Kitchen Cabinets	20	25	
Living Area Ceilings			
Concrete/Drywall/Plaster	50+	50+	Replace (Paint at 5-8 years)
Acoustic Tile	20	20	
Living Area Floors			
Ceramic/Quarry Tile/Terrazo	50+	50+	Replace
Wood (strip or Parquet)	30	30	Replace portion/sand and finish
Resilient Flooring (tile or sheet)	15	20	Replace
Carpet	7	10	Replace
Concrete	50+	50+	Replace
Living Area Walls	50+	50+	Replace (Paint at 5-8 years)
Local HVAC			
Electric fan coil	20	20	
Electric Heat/Electric AC	15	15	
Evaporative Condensor ("swamp cooler")	20	20	
Gas furnace with split DX AC	20	20	
Heat pump with supplementary electric	15	15	
Heat pump, water source	20	20	
Hydronic fan coil	30	30	
Hydronic heat/electric AC	20	20	
Range	15	20	
Rangehood	15	15	
Refrigerator	15	15	
Smoke/Fire Detectors	10	10	
Unit Air Conditioning (Window)	15	15	
Unit Electric Panel	50+	50+	
Unit Level Boiler	25	25	
Unit Buzzer/Intercom	20	30	
Unit Level DHW	10	10	
Unit Level Hot Air Furnace	25	25	
Unit Radiation			
Hydronic or Steam (baseboard or freestanding)	50	50	
Electric baseboard	25	25	
Unit Vent/Exhaust	15	15	
Unit Wiring	99	99	
Vanities	20	20	
Window Covering	3 - 20	3 - 25	

EXERCISE #2

**CANASTA PARK
RESERVE FOR REPLACEMENT ANALYSIS**

No.	Item	1. Life Expectancy When New	2. Quantity	3. Unit Price	4. Total Replacement Cost (#2 x #3)	5. Per Year Set Aside (#4 ÷ #1)
1	Boiler	25 yrs	1	\$60,000	\$60,000	\$2,400
2	Carpet	5 yrs	100	\$1,200	\$120,000	\$24,000
3	Gutters/downspouts	15 yrs	1	\$5,000	\$5,000	\$333
4	Wall heaters	10 yrs	100	\$250	\$25,000	\$2,500
4	Intercom	10 yrs	1	\$4,000	\$4,000	\$400
6	Office copier	5 yrs	1	\$2,000	\$2,000	\$400
7	Exterior painting	6 yrs	1	\$30,000	\$30,000	\$5,000
8	Parking lot paving	6 yrs	1	\$8,000	\$8,000	\$1,333
9	Range	15 yrs	100	\$400	\$40,000	\$2,666
10	Refrigerator	8 yrs	100	\$500	\$50,000	\$6,250
11	Roof	10 yrs	1	\$20,000	\$20,000	\$2,000
12	Window mini-blinds	5 yrs	100 sets	\$150	\$15,000	\$3,000

1. Based on this bare bones Replacement Reserve Analysis, estimate the amount of money that would need to be saved each year in order to completely pay for these replacement items?
2. If this property is putting aside \$3,000 a month into the Replacement Reserve Account, will they have enough money set aside to fully pay for the replacement of these items?
3. What steps could this organization take to improve their planning for Replacement expenses?
4. What items might be scheduled for phased replacement?

Chapter 3: Regulatory Agreements

In This Chapter:



Summary of HOME Program Requirements.



Tools and samples for managing multiple regulatory requirements including: loans, grants and tax credits.



Clear guidance on setting up systems for managing multiple regulatory requirements including a property compliance book/filing system and property compliance calendar.

As money to build or acquire affordable housing grows harder to find, developers have become very creative in putting together financing packages which may include bank loans, tax credit syndication, HOME loans, “soft second” mortgages, grants and other sources of money to complete the project. Each of these sources of funds usually has a regulatory agreement or loan document that explains what the borrower/recipient owes the funder/lender in return for the money. It is important to know what requirements the funder has concerning the setting of rents, income restrictions, reserve funding, insurance, reporting and prior approval. Properties can have layered financing requiring varying rent structures and reporting requirements.

This Section includes an Exhibit covering basic HOME Program compliance requirements. For further information on compliance requirements under the HOME Program, HUD’s Office of Community Planning and Development provides a number of publications helpful to managers of HOME funded properties. Two of the most useful publications for the property manager are, “Asset Management: Strategies for the Successful Operation of Affordable Rental Housing” and “Technical Guide for Determining Income and Allowances for the HOME Program.” Both are available through HUD’s Community Connections Information Center. See the Resources Section for ordering information.

To understand your obligations to the providers of funds, it is useful to prepare a summary of the requirements of each funder and a calendar of annual compliance requirements. In this Section, you will find a model for preparing Loan Summaries from the LISC publication, “A Guide to the Roles and Responsibilities of Asset Management,” available from the LISC Organizational Development Initiative Office, 733 3rd Avenue, 8th Floor, New York, NY 10017, (212) 455-9325. (Order form in Resources Section.)

The following Section also includes examples of Compliance Calendars for tracking compliance requirements for Individual and Multiple Properties. In addition to the annual compliance needs, someone within the housing organization will need to track major financial events effecting the property, such as loan refinancing or payoffs, loss or changes in subsidies, or the dissolution of tax credit partnerships. Long-range tracking is sometimes forgotten. If an organization depends on third party property management agents, this type of financial planning is not usually included in a boilerplate management contract.

It is important to gather together all the documents that govern a property and prepare a summary of pertinent information in the documents with a key to where information is located. This can best be done when regulatory documents are first reviewed. This is sometimes overlooked when a property moves from the development phase to occupancy stages. Final documents should be culled from prior versions and copies included in asset or property management files. These files should be maintained during the life of a property. A listing of the types of documents that would be included is shown in the Sample Contents of a Property Compliance Book.

If your property has a complicated mix of multiple funding sources, you will find it useful to maintain a compliance map. A compliance map will help you identify how many units are designated as necessary for each funding sources and track those designations as people move in and out of the property or have substantial changes in income. A sample compliance Map is included in this Section.

EXHIBIT 3-1

HOME PROGRAM REQUIREMENTS

<p>Income Eligibility</p>	<p>Program Rule 90% of the initial resident households throughout the Participating Jurisdiction (PJ) must have household incomes below 60% AMI.</p> <p>Project Rule All households in HOME-financed units must have gross incomes at or below 80% AMI <u>and</u> At properties with 5 or more HOME assisted units, at least 20% of households must have gross incomes at or below 50% AMI</p> <p>PJ's may set income limits more stringent than HOME program requirements.</p>
<p>Annual Income Calculation</p>	<p>PJs set the definition of annual income and may choose from three definitions: HUD Section 8, Census Long Form or IRS adjusted gross income. Review of source documents are required for initial income certifications.</p> <p>Gross incomes are used to determine eligibility for the HOME program. See "Technical Guide for Determining Income and Allowances for the HOME Program" or www.Hud.gov/offices/cpd for calculation guidance.</p>
<p>Annual Income Recertification</p>	<p>Household incomes must be re-determined annually. The PJ determines the level of diligence required in completing a recertification. PJs may require: review of source documents, a Resident Statement and Certification or a written statement from a government agency providing benefits. If either of the latter two methods are allowed, income certification with source documents is required at least every 6 years.</p>
<p>Over Income Households</p>	<p>Over Income Households If a household's annual income at recertification exceeds 80% AMI, they are considered over income. Maximum rents for HOME-assisted units under the Low Income Housing Tax Credit program are governed by the Tax Credit Program.</p>

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<p>Over Income Households (continued)</p>	<p>Fixed Units An over income household's rent may be increased to the lesser of the amount payable under state or local law or 30% of the household's adjusted income.</p> <p>Floating Units An over income household must pay 30% of their adjusted income for rent and utilities but the rent may not exceed market rent for comparable, unassisted units in the neighborhood. The unit is no longer considered HOME-assisted and the next available unit must be rented to a HOME-assisted household.</p>
<p>Changes from Low to High income or High to Low income</p>	<p>Low to High If a Low HOME rent household's income increases but does not exceed 80% AMI, the unit becomes a High HOME rent unit. The next available unit must be designated a Low HOME rent unit.</p> <p>High to Low If a High HOME rent household's income decreases to 50% AMI, the unit may be counted as a Low HOME rent unit.</p> <p>Neither process should increase the number of HOME-assisted units.</p>
<p>Rent Requirements</p>	<p>High HOME Rents Are the lesser of HUD Section 8 Fair Market Rents (FMRs) for the local market <u>or</u> 30% of 65% AMI.</p> <p>Low HOME Rents No greater than 30% of 50% AMI <u>or</u> 30% of the household's adjusted monthly income <u>or</u> if project-based subsidies are in effect, the rent allowable under the subsidy program.</p> <p>PJ's may set rent limits lower than HOME program requirements.</p>
<p>Utility Allowances</p>	<p>Maximum rents must include a deduction for a utility allowance as determined by the PJ, the local public housing authority <u>or</u> proposed by the owner and approved by the PJ.</p>
<p>Fixed and Floating Units</p>	<p>The Program Administrator or Property Owner must select "fixed" or "floating" units at the time of project commitment.</p> <p>Fixed Units The specific units that are HOME-assisted are designated and never change.</p>

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	<p>Floating Units The units that are designated as HOME-assisted may change over time, as long as the total number of HOME-assisted units remains constant.</p>
Miscellaneous Provisions	<p>Owners of HOME-assisted rental units may not refuse to lease to any household solely based on their receipt of Voucher subsidy assistance.</p> <p>Affirmative marketing is required for all properties of 5 or more units.</p> <p>Income and rent limits are adjusted annually. New limits can be obtained at www.Hud.gov/offices/cpd or from your local PJ.</p> <p>There are many useful HOME forms and checklists available to assist HOME grantees and subrecipients to meet the regulatory requirements of the program. These forms are available at http://www.hud.gov/offices/cpd/affordablehousing/library/forms/index.cfm#ren</p> <p>There are also sample HOME Monitoring Tools available at: http://www.hud.gov/offices/cpd/affordablehousing/training/checkup/performance/monitoringtools.cfm</p>

Adapted from material in “Asset Management: Strategies for the Successful Operation of Affordable Rental Housing,” a publication of the U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Affordable Housing Programs. Prepared by ICF Consulting and The Compass Group.

**EXHIBIT 3-2
SUMMARY OF LOAN, GRANT, SUBSIDY, OR EQUITY
TERMS AND REQUIREMENTS**

Project: _____

Type: Loan Grant Subsidy Equity

TERMS

Source	
Original Amount	\$
Initial Funding Date	
Term (if applicable)	
Maturity or End Date (if applicable).	
Interest Rate (if applicable)	
Variable Rate?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not Applicable
<i>If yes:</i>	
index	
margin	
change date	
Life cap	
Monthly Payment (if applicable).	
Due date	
Grace period	
Late fee amount	
Deferred Payment Loan:	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not Applicable
<i>If yes: terms:</i>	
Balloon Date & Amount (if applicable)	
Extension Option	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not Applicable
<i>If yes: what?:</i>	

Other Comments:

CONDITIONS & REGULATORY REQUIREMENTS

Source	
Maximum Entry Income Eligibility	
Maximum Recertification Income Levels <i>(if applicable)</i>	
Maximum Rent Levels	
Maximum Rent Increases	
Minimum Lease Term	
Operating Reserves	
Replacement Reserves	
Special Socio-Econ Conditions for Applicants	
Insurance Coverage	
Reports	
Quarterly Occupancy	
Quarterly Financial	
Annual Occupancy	
Annual Financial	
Annual Audit	
Annual Certification	
Eviction Conditions	
Management Agent Approval	
Site Review / Inspections	
Security Deposit Limit	

Other Comments:

**EXHIBIT 3-3
PREVAILING LOAN, GRANT, SUBSIDY OR EQUITY
CONDITIONS & REGULATORY REQUIREMENTS**

Project: _____

Type of Requirement	Controlling Program or Source	Requirement
Maximum Entry Income Eligibility Limits (% of median)		
Maximum Recertification Income Levels (if applicable)		
Maximum Rent Levels		
Maximum Rent Increases		
Minimum Lease Term		
Operating Reserves		
Replacement Reserves		
Special Socio-Economic Conditions for Residents		
Insurance Coverage		
Eviction Conditions		
Management Agent Approval		
Security Deposit Limits		

Other Comments: