USDA Rural Development

United States Department of Agriculture

# Multi-Family Housing Program

**September 25, 2013**

## News Flash

### No Management Fee Increases in Fiscal Year 2014

USDA Rural Development will have **no management fee increases** in Fiscal Year 2014 (beginning October 1, 2013). The management rate fee in place for Fiscal Year 2013 will continue to be used.

The Procedure Notice to change the handbook is currently in clearance and the updated references to the fees will be posted to the Regulations web site soon.

Please contact your local USDA Rural Development office with any questions.

### Helpful Budget Preparation Reminders

The project budget should be prepared using historical expenses, and also taking into consideration any unusual circumstances. If there are any unusual circumstances, additional information should be provided to USDA Rural Development in the budget narrative, or "comment" column of the budget form.

**Budget Narrative:** **MUST** be submitted via MINC along with the reasonableness review documentation (HB-2-3560, Exhibit 4-3 and Exhibit 4-4). This includes an explanation for any variance of 10 percent or more.

**Capital Needs Assessment (CNA):** If the project has a CNA, prepare your capital budget and reserve account according to the approved CNA. See Unnumbered Letter dated 8/7/2012 Guidance on the Capital Needs Assessment Process for additional monitoring information.

**Liability Insurance:** See HB-2-3560, Chapter 3, 3.13 B. 1. – The insurer's limit of liability per occurrence for personal injury, bodily injury, or property damage under the terms of coverage **must be at least $1,000,000**. We are seeing instances where the general liability coverage is less than the $1,000,000 minimum. If this is the case on a property you manage, the coverage must be increased to at least $1,000,000. You will need to adjust the 2014 budget accordingly for the increase in premium.

- USDA Rural Development allows a deductible not to exceed $5,000 per occurrence.

**MINC Task Calendar:** Be sure you are using it for timely follow up and submissions of needed documents. The task calendar will provide you, by property, with information on items that are due, overdue, upcoming, open findings and tenant certification status. You must have Level 2 e-Auth access to view the task calendar.

**<u>O&M Contingency (Cushion):</u>** If needed, an O&M contingency of <u>up to 10 percent</u> can be budgeted. This should be shown on Part I, line #8. If your O&M cash is between 15 - 20 percent (or more) of your O&M expenses, or if you have transferred surplus O&M cash to the Reserve Account, then an O&M contingency of <u>up to 5 percent</u> can be budgeted. The operating cushion should not force the project rents above acceptable market levels, or cause surplus funds in the year-end unrestricted cash balances. You must provide an explanation regarding the percentage of vacancy allowance used in the budget preparation and the percentage of O&M contingency used in the budget preparation.

**<u>Rent Change:</u>** The Housing Act of 1949 limits rent increases on Section 514 and 515 properties to **no more than 10 percent a yea**r. If you are proposing a rent change, please provide USDA Rural Development with a copy of your supporting documentation (rent calculation worksheet and copy of HB Letter #203).

- If a rent change, and/or utility allowance change, is requested (increase or decrease), the borrower must submit budget documents to USDA Rural Development and notify tenants (HB Letter #203) of the requested rent change at least 90 calendar days prior to the start of the housing project's fiscal year.
- If no rent change, and/or utility allowance change, is requested, borrowers must submit budget documents for USDA Rural Development approval 60 calendar days prior to the start of the housing project's fiscal year.

**<u>Self-Evaluation/Transition Plan (SE/TP):</u>** When you are preparing the 2014 budget, you must take into consideration any SE/TP items that need to be corrected this year.

**<u>Servicing Workout Plan (SWOP):</u>**
If the project has an Agency-approved SWOP, prepare your budget in accordance with the approved SWOP. Borrowers must forgo and cannot recoup the annual return to owner for the budget year in which a work-out agreement is in effect.

**<u>Special Note Rate Rent (SNR):</u>** If a project is currently using an SNR, then borrowers must request changes to the SNR at the time of budget review. If the local market conditions have not changed since the SNR was implemented, then no change is made to the SNR. If the conditions have changed, then the SNR is changed accordingly. Please include in your budget narrative your review of the SNR and either its continued need, or requested change.

**<u>Utility Allowance Analysis:</u>** Follow HB-2-3560, 4.26 C regarding utility allowance analysis and provide documentation as indicated. **Note:** Documentation is needed, even if there is no change in utility rates. If utility costs have changed significantly (more than 15 percent), then it is required that you make a change to the utility allowance. If utility costs have changed 15 percent or less, then it is at the owner/manager discretion on if a change in utility allowance is warranted.

**<u>Vacancy Allowance:</u>** A vacancy allowance is considered reasonable if it does not exceed the previous three year's historical average; but it cannot exceed the following levels:

- For projects with 15 or fewer units, the historical vacancy rate is capped at 15 percent.
- For projects with more than 15 units, the historical vacancy rate is capped at 10 percent.
- In unusual circumstances when vacancy rates exceed caps, a workout plan must be submitted prior to receiving budget approval.

Indicate in either the budget narrative, or Part I, line #8 "Comment" column the historical vacancy rate used in the budget preparation.