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**Proposed Budget Training for Stakeholders**

Multifamily Housing

August 2022

# Form RD 3560-7 MFH Project Budget / Utility Allowance Proposed Budgets



# Defining Budget

## budget (bŭj'it)

*n.1. a.* An itemized summary of estimated or intended expenditures for a given period along with proposals for financing them

*b.* A systematic plan for the expenditure ...during a given period

"A budget tells us what we can't afford, but it doesn't keep us from buying it."

— William Feather

## Borrowers must submit annual proposed budgets to the Agency prior to the project's fiscal year

**Proposed budgets are planning documents that provide a picture of a project's financial operations for the coming year. They reflect:**

- Expected revenue and expenses - project feasibility
- Assures that funds are available to successfully operate the property
- Plans for maintenance, capital improvements and reserve account activity
- Return on investment (or return to owner), or a non-profit asset management fee
- Needed rent levels - basic rent and note rent
- Reasonable and customary costs to cover turnover costs and maintenance which should be in line with comparable properties in the market

# Information required for budget submission to be complete (HB 2 Exhibit 4-1)

- Form RD 3560-7 completed per the Instructions. For projects with 8 or more units, this form must be submitted through MINC
  - Operating budget for the fiscal year must include a budget narrative
- Utility allowance documentation
- HB Letter 203, Notice to Tenants of Proposed Rent and Utility Allowance Change (if applicable)
- Other information necessary to justify the proposed rent and/or utility allowance change request
- If property is requesting an increase deposit to the Replacement Reserve, a current approved Capital Needs Assessment (CNA) is required; and review of new deposit amount and rents should be done in conjunction with the budget review.

# Budget Narrative

## HB 2 Exhibit 4-1 and 4.14 B (5)

### **Written narrative must be submitted with the budget and must include the following:**

- A brief description of the project and key indicators of its overall status
- A statement of project compliance including any outstanding monitoring findings (can be found on your MINC Task Calendar) and the progress in addressing the problems
- An explanation of projected capital expenditures and reserve withdrawals, including accessibility items from the Transition Plan for the upcoming year and capital needs for the next three years
- A description of the project's overall financial status and important factors contributing to the changes. (vacancy, workout plan status, debt deferrals, servicing efforts). If the subtotal for any operating expense category exceeds the tolerance threshold of 10 percent, provide an adequate documentation that the expenses for the category are reasonable and necessary.
- Any other information necessary to justify the proposed rent or utility allowance change request.

***IMPORTANT*** – *The budget narrative must be completed, or the budget will be considered incomplete and returned for correction.*

# Schedule for Budget Submission

- 90 days prior to start of the borrower's fiscal year, if they are proposing a rent or utility allowance change
- 60 days prior to start of the borrower's fiscal year, if they are not proposing a rent or utility allowance change.
- Within 30 days of transmitted, the Agency must take action by approval or denial of the budget or contact the Borrower to request additional information or clarification.

# Late Budget Submissions

- ✓ The schedule provided for budget reviews relies on timely submission of budget documents by the borrower.
- ✓ If the borrower is tardy in submitting required documents, the Agency cannot ensure that all deadlines will be met.
- ✓ Late budget submissions may result in delaying the effective date of the proposed budget.
- ✓ If no budget is approved by the end of the project's fiscal year, the borrower must operate under the previously approved budget (referred to as a Carry-Over budget) until the Agency reviews and approves the new budget with a new effective date.



# Carry-Over Budgets

- If a budget for the new fiscal year is not entered in MFIS before the first day of the fiscal year:
  - a **Carry-Over** budget is automatically built from the most recent approved budget on the first day of the project's fiscal year by MFIS.
  - this is necessary if an acceptable budget is not presented to the Agency in time to be effective on the first day of the project's fiscal year and is operating under the current existing budget, which would then become the Carry-Over budget.
- This is not the norm, and should not be used in place of providing the Agency with a proposed budget, narrative, utility allowance documentation, etc.

# Resources to consider when submitting your proposed budget

- 7 CFR 3560 <https://ecfr.federalregister.gov/current/title-7>
- 3560 HB-2 <https://www.rd.usda.gov/resources/directives/handbooks>
- [FMI – 3560-7 MFH Project Budget](#)
- The property's management plan ([HB-2, 3.3](#) & [7 CFR 3560.102\(b\)](#))
- The property's loan agreement/loan resolution
- [Attachment 3-D](#), Costs & Services to be Paid from the Management Fee
- [Attachment 4-C](#), Allowable & Unallowable Project Expenses
- Recent site visits/inspections
- Capital Needs Assessment (if applicable)
- Section 504 Transition Plan (if applicable)

# Management Plan [7 CFR 3560.102(b)]

- ✓ Borrowers must develop and maintain
- ✓ Establishes systems and procedures at the project
- ✓ Ensure project operations comply with Agency requirements.
- ✓ Used by Agency for oversight of project operations & monitoring of project compliance
- ✓ Provide the Agency with information regarding site operations
- ✓ Items in the plan are noted in 3560 HB 2, Attachment 3-A

# Form RD 3560-7

## Part I – Cash Flow Statement

- ✓ Projects whether the property will generate enough revenues for all the cash needs for the proposed budget period
- ✓ Proposed Ending Cash Balance must be positive and not cause an unwarranted rent increase
- ✓ Proposed Ending Cash Balance should not exceed the TOTAL of:
  - 20% of total O&M expenses (Part I, Line 16);
  - + Amount of the proposed real estate taxes & insurance escrow;
  - + Any initial operating capital during the first 7 years

If an Ending Cash exceeds the total of the above items, it will be deemed to have excess/surplus cash.

# Form RD 3560-7, Multi-Family Housing Project Budget and Utility Allowance

USDA

Form RD 3560-7

(Rev. 05-06)

Position 3

## MULTIPLE FAMILY HOUSING PROJECT BUDGET/ UTILITY ALLOWANCE

FORM APPROVED

OMB NO. 0575-0189

PROJECT NAME		BORROWER NAME		BORROWER ID AND PROJECT NO.	
Loan/Transfer Amount \$		Note Rate Payment \$		IC Payment \$	
Reporting Period <input type="checkbox"/> Annual <input type="checkbox"/> Quarterly <input type="checkbox"/> Monthly	Budget Type <input type="checkbox"/> Initial <input type="checkbox"/> Regular Report <input type="checkbox"/> Rent Change <input type="checkbox"/> SMR <input type="checkbox"/> Other Servicing	Project Rental Type <input type="checkbox"/> Family <input type="checkbox"/> Elderly <input type="checkbox"/> Congregate <input type="checkbox"/> Group Home <input type="checkbox"/> Mixed <input type="checkbox"/> LH	Profit Type <input type="checkbox"/> Full Profit <input type="checkbox"/> Limited Profit <input type="checkbox"/> Non-Profit	The following utilities are master metered: <input type="checkbox"/> Electricity <input type="checkbox"/> Gas <input type="checkbox"/> Water <input type="checkbox"/> Sewer <input type="checkbox"/> Trash <input type="checkbox"/> Other _____	<input type="checkbox"/> I hereby request _____ units of RA. Current number of RA units _____ Borrower Account _____ <input type="checkbox"/> Cash

**COMMENTS - Note appropriate comments**

CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
{ - - }	{ - - }	{ - - }	{ - - }
{ - - }	{ - - }	{ - - }	{ - - }

**CURRENT BUDGET - Most recently approved budget.**

**PROPOSED BUDGET – initial budgets or the next fiscal years planned activity**

# PART I –Cash Flow Statement

1. Rental income must be based on full occupancy, including any rent change.

4. Laundry & Vending – review the management plan.

## PART I-CASH FLOW STATEMENT

	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS (YTD)
STARTING DATES>				
ENDING DATES>				
<b>OPERATIONAL</b>				
1. RENTAL INCOME				
2. RHS RENTAL				
3. APPLICATION FEES RECEIVED				
4. LAUNDRY & VENDING				
5. INTEREST				
6. TENANT				
7. OTHER				
8. LESS (VACANCY)				
9. LESS (ANTICIPATED FORFEITED SECURITY DEPOSITS)				
10. SUB-TOTAL				

7. Other Project Sources - If there is an amount entered, add a comment to explain.

8. Vacancy Rate based on 36-month history, not to exceed 15% with 15 units or less, or 10% if more than 15 units. If vacancy OVER these caps - must have an approved SWOP. If SWOP has been approved, vacancy will be based on approved workout plan.

9. Any incentive must provide supporting information in narrative and have Agency approval.

5. Reflect projected interest from the operating, T&I, and Reserve account.

6. Specify charges in the comments. Typically, do not include anticipated forfeited security deposits as project income.

# PART I –Cash Flow

11. Cash-Non-Project - sources not in the form of a loan. Add comment.

## NON-OPERATIONAL CASH SOURCES

11. CASH-NON PROJECT .....  
 12. AUTHORIZED LOAN (*Non-RHS*) .....  
 13. TRANSFER FROM RESERVE .....  
 14. SUB-TOTAL (11 thru 13) .....

	0.00	0.00	0.00
	0.00	0.00	0.00

15. **TOTAL CASH SOURCES** (*10+14*) .....

12. Any projected loan to property, including from a partner/owner; prior RD approval is required.

13. Carries over from Part III (Reserve account) line 7 and Part V Capital Budget column 2. This is automatically carried over in MINC & Vendor Software.

# PART I –Cash Flow

## OPERATIONAL CASH USES

16. TOTAL O&M EXPENSES (From Part II) .....	
17. RHS DEBT PAYMENT .....	
18. RHS PAYMENT (Overage) .....	
19. RHS PAYMENT (Late Fee) .....	
20. REDUCTION IN PRIOR YEAR P .....	
21. TENANT UTILITY PAYMENTS .....	
22. TRANSFER TO RESERVE .....	
23. RETURN TO OWNER/NP ASSET MANAGEMENT FEE .....	
24. SUB-TOTAL (16 thru 23) .....	0.00

16. Carried forward from Part II, Line 41.

17. Actual amount of RD annual debt payment.  
When an SNR is in effect, the amount of the mortgage payment under SNR should be noted in Column 4.

22. Must match with Loan Agreement/ Resolution or Servicing Workout Plan. This equals Part III, Line 2 .

23. Reflect the Return to Owner as per the amount shown on the Loan Agreement/ Resolution, unless RTO is not allowed due to a SWOP in place during the fiscal year.

23. 3560.68 (d) Nonprofit organizations are not eligible to take a ROI. With prior Agency approval, nonprofit organizations may use housing project funds to pay asset management expenses directly attributable to ownership responsibilities, as described in §3560.303(b)(1)(vii). Limited to no more than \$7,500 per project.



# PART I –Cash Flow

## NON-OPERATIONAL CASH USES

- 25. AUTHORIZED DEBT PAYMENT (Non-RHS) .....
- 26. ANNUAL CAPITAL BUDGET (*From Part III, Lines 4-6*) .....
- 27. MISCELLANEOUS .....
- 28. SUB-TOTAL (25 thru 27) .....
  
- 29. TOTAL CASH USES (24+28) .....

0.00	0.00	0.00	
0.00	0.00	0.00	

25. Debt repayment other than RD (i.e., Loan from General Partners, 3<sup>rd</sup> Party Loan, 538 Loan, etc.). Specify in comments (Ex. 538 Debt Service). Must have been approved by RD.

27. If Miscellaneous Cash Use is entered, there must be an explanation in Column 4 - Comment.

26. Carries forward from Part III Capital Budget, lines 4-6.

# PART I –Cash Flow

30. Is cash flow positive? A negative cash flow is permissible if borrower has sufficient cash carryover (Line 33) and it does not appear to represent a trend that cannot be corrected.

30. NET CASH (DEFICIT) (15- 29) .....	0.00	0.00	0.00
<b>CASH BALANCE</b>			
31. BEGINNING CASH BALANCE .....			
32. ACCRUAL TO CASH ADJUSTMENT .....			
33. ENDING CASH BALANCE (30+31+32) .....	0.00	0.00	0.00

31. **PROJECTED** cash on hand as of end of current fiscal year, including funds in the General Operating, Taxes & Insurance, & Petty Cash Accounts. **THIS IS NOT** current cash on hand figures.

33. Proposed Ending Cash must be positive and not cause an unwarranted rent increases.  
 Ending cash balance should not exceed the **total** of:  
 Approx. 20% of line 16. Part I (total O &M)  
 + Amount held for taxes and insurance  
 + Any 2% initial operating capital (HB2 Ch4)

# 3560-7 Part II Operating and Maintenance Expense Schedule 7 CFR 3560.303

## Allowable and unallowable project expenses.

Expenses charged to project operations **must be reasonable, typical, necessary and show a benefit to the residents of the property.** Services and expenses charged to the property must show value added and be for authorized purposes.

The practice to prorate a shared cost, or shared staff person who performs multiple tasks should be consistent from one year to the next for cost comparison purposes

## 3560-7 Part II Operating and Maintenance Expenses, continued 7 CFR 3560.303

(c) Priorities. The priority order of planned and actual budget expenditures will be:

- (1) Senior position lienholder, if any;
- (2) Operating and maintenance expense, including taxes & insurance;
- (3) Agency debt payments;
- (4) Reserve account requirements;
- (5) Other authorized expenditures; and
- (6) Return on owner investment (Return to Owner).

# Part II Operating and Maintenance Expense Schedule

*Capital expenses §3560.103(c) appear in part V.  
Turnover cost appear in operating maintenance and repair costs.*

4. Interior painting. Covering labor, materials, supplies, not covered by a contract and not considered major capital expenditures

PART II	SCHEDULE		PR	or (YTD)
	ACTUAL	BUDGET		
1. MAINTENANCE AND REPAIRS				
2. MAINTENANCE AND REPAIRS				
3. MAINTENANCE AND REPAIRS CONTRACT				
4. PAINTING				
5. SNOW REMOVAL				
6. ELEVATOR MAINTENANCE/CONTRACT				
7. GROUNDS				
8. SERVICES				
9. ANNUAL CAPITAL BUDGET				
10. OTHER OPERATING EXPENSES				
11. SUB-TOTAL MAINT. & OPERATING (1 thru 10)				

1 & 2. (1) For project maintenance and janitorial staff who maintain a project's buildings. (2) Supplies, such as light bulbs, carpet cleaner and similar items, not included in contracts.

8. Services include the expense of bed bug control. We may request a breakdown of cost if they are higher than normal.

9. Include normal unit turnover costs (i.e., replacement of carpet, appliances, etc.) This is from Part V-Operating

10. ITEMIZE! Provide Comments

# Part II Operating and Maintenance Expense Schedule

**12-16. Report only expenses paid by the project. Do not include utility costs paid by tenants.**

12. ELECTRICITY	If master metered check box on front.				
13. WATER					
14. SEWER					
15. FUEL (Oil/Coal/Gas)					
16. GARBAGE & TRASH REMOVAL					
17. OTHER UTILITIES					
18. SUB-TOTAL UTILITIES (12 Thru 17)		0.00	0.00	0.00	

**17. Other utilities not included above. Must identify in "Comments"**

**18. If utilities are included in rent, has there been a check with utility provider for any planned rate increases with an explanation in budget narrative.**

# Part II Operating and Maintenance Expense Schedule

19. Wage expense for site persons as described in Mgmt plan. This includes project's share of Service Coordinator salary/wages if paid as mgmt. staff. (see next slide for Service Coordinator info)

20. Must agree with approved Management Certification (3560-13). Fees based on revenue producing units @ 100% occupancy or based on average vacancy/occupancy (same as Part I, line 8).

23. Legal fees are for the project.

21. Audits required for For-Profit or Limited Profit if federal financial assistance is \$500,000 or more. And required for Non-Profit, State/Local Gov't and Tribes if federal financial assistance is \$750,000 or more.

22. Bookkeeping or Accounting— for supplies, such as notices, or typical bank charges. Electronic check readers are allowable expense. Costs of maintaining books are management fees.

25. Telephone expense for property, not management. Cell phones issued to on site personnel for project related work is allowable. Staff who oversee multiple properties is allowable and requires proration between properties.

24. Must advertise at least once during year per AFHMP; more if needed. Includes social media. If using free advertising, add a comment. Includes advertising for project staff.

- 19. SITE MANAGEMENT
- 20. MANAGEMENT
- 21. PROJECT AUDIT
- 22. PROJECT BOOKKEEPING/ACCOUNTING.....
- 23. LEGAL EXPENSE
- 24. ADVERTISING.....
- 25. TELEPHONE & A

# Service Coordination (Service Coordinator)

## What Is Service Coordination:

- Assesses tenant needs
- Identifies and links tenants to appropriate services
- Assists with resourcing free tenant services or additional funding sources for these types of services
- Educates tenants on the availability of supportive services

## What Is Not Service Coordination:

- Assisting with other administrative duties of the management agent or housing operations
- An activities or recreation coordinator
- Directly providing the supportive service
- Providing tenant services or tenant amenities



# FY 2023 Management Fee & Add-on fee for multiple subsidies

- Anticipate an **average** increase of \$7 for the PUPM management fee
  - Range from \$2 - \$10 increase (most increases are in the \$6-\$8 range)
  - FY2023 - Based on State's percentage increase of the 80% median family income in non-metro areas.
- Add-on fee for multiple layers of subsidy (with reporting requirements)
  - Regardless of the number of layered subsidies, the total add-on fee for this category is \$5.
  - Example:
    - If a Section 515 property has Section 8 and LIHTC subsidy layers with reporting requirements, the management agent can receive the \$5 add-on fee. (It's not \$5 x 2.)

# FY2023 – Remote Location definition (Management add-on fee)

- Add-on Fee for Remote Location:
  - Defined as properties located within the USDA Economic Research Service (ERS) Level 4 Frontier & Remote (FAR) Area codes
  - <https://www.ers.usda.gov/data-products/frontier-and-remote-area-codes/>
  - If the property does not suffer from difficulty retaining staff, obtaining services, or if management offices are located near the Level 4 FAR property, management should refrain from claiming this add-on fee.
  - These states do not have areas that meet the Level 4 FAR definition: Connecticut, Delaware, Indiana, Massachusetts, New Jersey, Ohio, Puerto Rico, Rhode Island, South Carolina, and the Virgin Islands
  - Properties in Alaska or Hawaii that are authorized to take the “off-road” management fee are not eligible to claim an additional add-on fee for remote location.
  - If property is not located in a Level 4 FAR area, and management can justify a remote location add-on fee, they may request an exception.

# Demonstration of USDA ERS – Level 4 FAR Codes

<https://www.ers.usda.gov/data-products/frontier-and-remote-area-codes/>



# Part II Operating and Maintenance Expense Schedule

26. Office supplies used exclusively by the project.

28. Training expense for site staff training. Does NOT include training of management agent's central office staff.

27. Office furniture & equipment used exclusively by the project.

26. OFFICE SUPPLIES.....

27. OFFICE FURNITURE & EQUIPMENT.....

28. TRAINING EXPENSE.....

29. HEALTH INS. & OTHER EMP. BENEFITS.....

30. PAYROLL TAX.....

31. WORKMAN'S C.....

32. OTHER ADMIN.....

33. SUB-TOTAL AD.....

29. For site staff. Health insurance & benefits for Management's central office staff's is not a project allowable expense.

Gross Rents is Line 1 of Part I

32. Other Admin Exp. – annual Guarantee Fee for combo 515 & 538 loans. The fee is NOT included in the interest rate (debt payment) on Part I, Line 25 (Authorized non-RHS debt). Add a comment.

33. Agency analysis is flagged if Administrative expenses exceed 23% of gross potential basic rents. Helpful to provide a comment or explain in narrative.

0.00

0.00

# Part II Operating and Maintenance Expense Schedule

34. REAL ESTATE TAXES .....				
35. SPECIAL ASSESSMENTS .....				
36. OTHER TAXES, LICENSES& PERMITS .....				
37. PROPERTY & LIABILITY INSURANCE .....				
38. FIDELITY COVERAGE INSURANCE .....				
39. OTHER INSURANCE .....				
40. SUB-TOTAL TAXES& INSURANCE (34 thru 39).....	0.00		0.00	

34. Includes all general real estate taxes for the property.

35. If applicable – special property tax assessments directly charged to the property.

37. Property & Liability Ins. – Annual premium for the property. Pro-rated cost if multi-year or blanket policy.

38. Fidelity Ins. – For on-site staff and owners. Coverage for central office staff is paid from management fee.

41. TOTAL O&M EXPENSES (11 +18+33+40)

0.00	0.00	0.00	
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If proposed expenses by subtotal category differ from last year's approved budget subtotals by 10% or more, a comment or narrative explanation is required.

# Part III – Account Budgeting Status

1. Estimated beginning balance for the proposed fiscal year. This is NOT the current reserve account balance, and it is not last year's ending balance.

2. Automatically transfers to Part I, line 22, and must match Loan Agreement/ Resolution or servicing workout plan.

PART III – ACCOUNT BUDGETING/STATUS				
	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
<b>RESERVE ACCOUNT:</b>				
1. BEGINNING BALANCE .....				
2. TRANSFER TO RESERVE .....				
TRANSFER FROM RESERVE .....				
3. OPERATING DEFICIT .....				
4. ANNUAL CAPITAL BUDGET ( <i>Part V - Reserve</i> ) .....				
5. BUILDING & EQUIPMENT REPAIR .....				
6. OTHER NON-OPERATING EXPENSES .....				
7. TOTAL (3 thru 6) .....	( 0.00 )	( 0.00 )	( 0.00 )	
8. ENDING BALANCE [(1 +2)-7] .....	0.00	0.00		

4. Annual Capital Budget. From Part V – Reserve.

7. This is automatically transferred to Part I, line 13.

# Part III Account Budgeting Status, continued

**GENERAL OPERATING ACCOUNT:\***

BEGINNING BALANCE .....  
ENDING BALANCE .....

**REAL ESTATE TAX AND INSURANCE ESCROW ACCOUNT:\***

BEGINNING BALANCE .....  
ENDING BALANCE .....

**TENANT SECURITY DEPOSIT ACCOUNT:\***

BEGINNING BALANCE .....  
ENDING BALANCE .....

*(\*Complete upon submission of actual expenses.)*

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NUMBER OF APPLICANTS ON THE WAITING LIST .....	<input type="text"/>	RESERVE ACCT. REQ. BALANCE .....	<input type="text"/>
NUMBER OF APPLICANTS NEEDING RA .....	<input type="text"/>	AMOUNT AHEAD/BEHIND .....	<input type="text"/>

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# Part IV – Rent Schedule and Utility Allowance

The spread between the rent for 1, 2, 3, etc. bedroom units is based on the same amount or percentage for each size, or square footage or spread on CRCU.

**B. PROPOSED RENTS - Effective Date:** \_\_\_\_\_

UNIT DESCRIPTION			RENTAL RATES			POTENTIAL INCOME FROM EACH RATE		
BR SIZE	UNIT TYPE	NUMBER	BASIC	NOTE RATE	HUD	BASIC	NOTE RATE	HUD
								0.00
								0.00
								0.00
								0.00
								0.00
PROPOSED RENT TOTALS:						0.00	0.00	
						BASIC	NOTE	

The rental rates in these columns are for the individual unit rate for Basic, Note, and HUD (if applicable) for each size and type of unit.

The potential income utilizes the individual unit rate x # of units x 12 months for each of the rental rates of Basic, Note and HUD (if applicable)

The total Basic Rent Potential Income agrees with Part I, line 1.

# Rent – Common questions

Do similar units have to have same rents?

- Rents must be established at the same rate for all similar units in the housing project.

Do my one-bedroom rents and two-bedroom rents have to change at the same rates?

- Changes in rental rates will apply to all units in a project. (HB 2 Chapter 4 Paragraph 4.14 (C))

## Note Rent

vs

## Basic Rent

Note rent is the rental charge established to cover expenses in the housing project's approved budget and the required loan payment set at the interest rate shown in the **promissory note**.

- **All** Section 515 and Off FLH properties are required to have a Note rent.
- **Must** be greater than Basic rent



Basic rent is the rental charge established to cover expenses in the housing project's approved budget and the required loan payment contained in the promissory note reduced by the interest credit agreement.

- **Only** Section 515 with Interest Credit (not all Section 515 have Interest Credit)
- Off FLH properties **do not** have basic rent – promissory note is already at 1%

# Rent Example - 40 revenue units (8 – 1-bedroom and 32 – 2-bedroom units)

Unit Size	Proposed Basic Rent	Proposed Note Rent
1 bedroom	\$690	\$845 (\$155)
2 bedroom	\$780	\$957 (\$177)

Subsidized Annual Loan Payment (1%)	Promissory Note Annual Loan Payment (2.5%)	Difference in Annual Loan Payments	Unit Per Month Difference	Difference Between Basic Rent & Note Rent
\$31,112.28	\$42,882.96	\$11,770.68	\$24.52	\$25/month

Unit Size	Basic Rent	Correct Note Rent
1 bedroom	\$690	<b>\$715 (\$25)</b>
2 bedroom	\$780	<b>\$805 (\$25)</b>

# Rents by Project Type

## HB-2, Exhibit 7-1

Project Type	Rents
Plan I Projects	Note Rent only
<b>Plan II Projects</b>	<b>Basic Rent and Note Rent</b>
HUD Section 8 & 515 Projects (without Interest Credit)	Note Rent and HUD Contract Rent
HUD Section 8 & 515 Projects (with Interest Credit)	Basic Rent, Note Rent, and HUD Contract Rent
Early Projects (pre-1968, direct loan & full profit)	Note Rent
Labor Housing - On Farm	No Rent or Note Rent (notes are at 1%)
Labor Housing - Off Farm	Note Rent (notes are at 1%)
Congregate Housing/Group Homes	Basic Rent and Note Rent
Cooperatives	Basic Rent and Note Rent

# HUD Rent

HUD contract rent is the rental charge established for housing receiving project-based Section 8 rental subsidies in accordance with 24 CFR part 880 or part 884, as applicable.

Tenant subsidy codes, per the project worksheet, would include subsidy codes “2”.



- HUD rents should not be lower than basic rent
- The Agency does not automatically accept HUD rent for Basic rent.

# BASIC rent versus NOTE rent versus HUD rent (Section 8 property with Interest Credit)

Basic/HUD \$500	Note \$650
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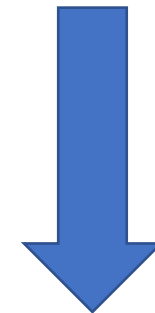
Basic \$500	HUD \$600	Note \$650
overage - \$100		

Basic \$500	Note/HUD \$675
overage - \$175	

Basic \$500	Note \$650	HUD \$675
overage - \$150		reserve deposit - \$25



More common  
Less common



# Low-Income Housing Tax Credit (LIHTC) Rent

Low-income housing tax credit (LIHTC) rent is the rental charge established in accordance with LIHTC requirements.

LIHTC program prohibits owners from charging tenant more than the agreed upon LIHTC rent in LIHTC units



- **When Basic Rent exceeds LIHTC rents, the borrower is responsible for funding any gap between Basic rents and LIHTC rents.**



# Special Note Rent (SNR) HB-3 Chapter 10 Section 6

A property suffering from vacancies due to market conditions may request a Special Note Rent (SNR), which sets Note rents at **less than the current Note rent but higher than Basic rent**, to attract or retain tenants whose income level would require them to pay more than Basic rent. (Plan II properties only.)



- SNR is part of a Workout Plan
- Must forgo return to owner for the duration of the SNR
- Borrowers request changes to the SNR at the time of budget review

# Additional Resources for Rents

- 7 CFR 3560 Subpart E – Rents
- HB-2-3560, Chapter 7
  - Exhibit 7-1 – Rents by Project Type
  - Exhibit 7-6 – Determining Overage in Section 8/515 Projects with Interest Credit – Examples
  - Exhibit 7-10 - Impact of Interest Credit Agreement on Ability to Cancel Interest Credit, Collect Overage, and Deposit Excess Funds in the Reserve Account
- HUD Section 8 Renewal Policy
  - Chapters 2, 6 & 14

# Rent Example - 40 revenue units (8 - 1 bedroom, 16 - 2 bedroom & 16 - 3 bedroom units) HUD Project-Based Section 8 Property

Unit Size	Current Basic Rent	Current Note Rent	Current HUD Rent
1 bedroom	\$640	\$680 (\$40)	\$640
2 bedroom	\$754	\$793 (\$39)	\$754
3 bedroom	\$953	\$980 (\$27)	\$953

- Rent changes by HUD must be reviewed and are not automatically approved.
- Only the amount of rent necessary to cover project expenses must be approved.

Subsidized Annual Loan Payment (1%)	Full Note Annual Loan Payment (5.75%)	Difference in Annual Loan Payments	Unit Per Month Difference	Difference Between Basic Rent & Note Rent
\$9,366.12	\$22,437.12	\$13,071.00	\$27.23	\$28/month

Unit Size	Proposed Basic Rent	Proposed Note Rent	Proposed HUD Rent (based on HUD contract)	Correct Basic Rent (based on proposed budget)	Correct Note Rent (based on proposed budget)
1 bedroom	\$637	\$643 (\$6)	<b>\$637</b>	<b>\$625</b>	<b>\$653</b>
2 bedroom	\$748	\$768 (\$20)	<b>\$748</b>	<b>\$739</b>	<b>\$767</b>
3 bedroom	\$948	\$953 (\$5)	<b>\$948</b>	<b>\$938</b>	<b>\$966</b>



# Part IV – Rent Schedule and Utility Allowance

**C: PROPOSED UTILITY ALLOWANCE - Effective Date:**

## MONTHLY DOLLAR ALLOWANCES

BR SIZE	UNIT TYPE	NUMBER	ELECTRIC	GAS	WATER	SEWER	TRASH	OTHER	TOTAL
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Enter the proposed Utility Allowance for the coming year.

**(for utilities that are paid by the tenant)**

**Documentation must be provided to either retain or change the Utility Allowance amount.**

- A 12-month sampling of tenant utility costs and will include a sampling of every size of unit.
- A 12-month average will be used for the calculation
- A summary of the calculations must be submitted to the Servicing Official
- Borrower provides documentation from utility company, if a rate change is expected
- Borrower must request a change if the proposed change is 10% or more from the current utility allowance.
- If no changes in utility costs – provide the 12-month sampling and document in budget narrative that no change in rates occurred in period being reviewed and/or public release from utility provider indicating no change in rates.

# Part V – Annual Capital Budget

Number of units planned for in this column.

## PART V - ANNUAL CAPITAL BUDGET

		Proposed Number of Units/Items	Proposed from Reserve	Actual from Reserve	Proposed from Operating	Actual from Operating	Actual Total Cost	Total Actual Units/Items
Appliances:								
	Range .....							
	Refrigerator .....							
	Range Hood .....							
	Washers & Dryers .....							
	Other: .....							
Carpet & Vinyl:								
	1BR .....							
	2BR .....							
	3BR .....							
	4BR .....							
	Other: .....							
Cabinets:								
	Kitchens .....							
	Bathrooms .....							
	Other: .....							
Doors:								
	Exterior .....							
	Interior .....							
	Other: .....							
Window Coverings:								
	List: .....							
	Other: .....							
Heating & Air Conditioning:								
	Heating .....							
	Air Condition .....							
	Other: .....							
Plumbing:								
	Water Heat .....							
	Plumb Fixt .....							

This Column will carry over to Part III, line 4.

This Column will carry over to Part II, line 9.

Unit turnover costs (carpeting, appliances, painting, etc.) would be entered/budgeted here as they are typically budgeted in the “Proposed from Operating” column.

## Part V Annual Capital Budget

### CAPITAL NEEDS ASSESSMENT (CNA) HB-2, 4.13 A.

- When a reserve account and contributions to the reserve account have been sized in accordance with an approved capital needs assessment, the reserve account funds are to be used to fund capital items as described in the plan.
- With a CNA, funding of the reserve is designed to match the timing and potential cost of needs - following the plan should limit the amount of funds required from operating sources to pay for capital needs.
- Reflect these improvements in Part V under Column 2 (Proposed from Reserve).
- An explanation should be provided if items are not completed in the years identified in the CNA

## Part V Annual Capital Budget, continued

- If an increase in Replacement Reserve annual deposit is requested, there must be an **approved** CNA to document future capital needs
  - Work with Servicing Specialist prior to proposed budget season to have CNA completed, reviewed and approved
  - CNA is completed with understanding there is NO 3<sup>rd</sup> party funding anticipated and NO rehab is anticipated
    - Utilize Agency “Addendum to the CNA Contract” and “CNA Statement of Work”
  - Servicing Specialist will utilize a resizing template to assist with the new annual deposit amount
  - Basic rents cannot exceed conventional rents for comparable units in the area
  - Communication and planning is key





# Most Common Reasons for Agency Staff to Contact Management during Proposed Budget Reviews

1. A comment or explanation was not provided on an “Other” or “Miscellaneous” line item.
2. Incorrect calculation of Basic or Note rent, or rent increase not applied equally among all unit types. Part I line 1 “Rental income” is not correctly calculated based on submitted rent schedule.
3. When there is a significant discrepancy between the budget submitted and last year’s proposed budget or the most recent yearend actuals. (example - \$0 budgeted for laundry but historically there has been significant laundry income)
4. A rent increase is proposed when the budget indicates there will be projected surplus cash at the end of the proposed fiscal year.
5. The proposed vacancy allowance does not correspond to the most recent 36-month average vacancy, and no comment or narrative explanation was provided.

# Most Common Reasons for Agency Staff to Contact Management during Proposed Budget Reviews

6. The proposed RHS Debt Payment does not equal 12 months of subsidized RD loan payments, and there is no approved loan deferral.
7. The proposed transfer to the Reserve Account does not match the Loan Agreement(s)/ Resolution(s); and there is no approved workout plan or Amendment to the Loan Agreement/Resolution increasing the annual reserve deposit.
8. Budget is projecting a negative cashflow and there is not sufficient (surplus) operating funds to account for the negative cashflow.
9. For tenant paid utilities, the 12-month utility allowance documentation was not provided. (this is needed even if there is no proposed change to the current utility allowance)
10. A workout plan is needed and has not been submitted to the Servicing Specialist for approval.

# Proposed Budget Training

**Questions should be sent to the Servicing Specialist assigned to your property.**

**If you are unsure who the property is assigned to, please visit  
<https://www.sc.egov.usda.gov/data/MFH.html>.**

**The listing includes the assigned specialist as well as the supervisor who can be contacted if the specialist is unavailable.**

**Thank you for listening!**



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