

VHFA INSTRUCTIONS TO THE OPERATING BUDGET PROJECTION

Please read these instructions in their entirety before starting to prepare your budget.

The VHFA Operating Budget Projection Form 805 can be found on our website (<https://www.vhfa.org/rentalhousing/forms-documents>). Click Operating Budget Projection under Asset Management – Financial Requirements to enjoy the convenience of a minimum of data entry and the ease of automatic calculation. (Formulas and links are embedded to speed your budget preparation.) Completed forms should be submitted via Teams.

Budgets are due on (or before) **60 days prior to the end of the fiscal year**, unless another date has been jointly agreed upon. Budgets are reviewed on a first-come, first-served basis; early submissions are always welcome. When your budget is approved, a VHFA Management Officer will initial, date and send a copy to you.

The following instructions explain the Operating Budget Projection Form. Please be sure to complete the Budget Projection Form 805, Supplement One, Supportive Service Budget and Supportive Service Plan for Properties providing Social or Elderly services. Please also remember to complete information at the top of the form – e.g. Year ending, Project Name, Location and Number of units. This is especially important with electronic submissions.

A. OPERATING INCOME

1. GROSS RENT POTENTIAL

- a. 5120 Tenant Rent Contribution: Anticipated portion of rent collected directly from the tenant. This should be an estimate based on current tenant contributions.
- b. 5121 Housing Assistance Payments: Anticipated amount of subsidy requisitioned from the property's contract administrator or PHA.
- c. 5140 Commercial Rent: Anticipated rent collected on VHFA-approved commercial space. This may be the community space rented to social organizations or space originally constructed for commercial use.
- d. Total Rent Potential: Auto-calculated field that totals categories 1a-c.

2. FINANCIAL REVENUE

- a. 5490 Investments / Interest: Anticipated unrestricted interest generated from invested project operating cash such as savings accounts, NOW accounts, C.D. accounts or other unrestricted accounts. Do not include security deposit or Replacement Reserve interest.
- b. Total Financial Revenue: Auto-calculated field that totals 2a.

3. OTHER REVENUE

- a. 5910 Laundry: Anticipated income derived from laundry machines.
- b. 5970 Gifts: Anticipated income derived from gifts or donations.
- c. 5990 Miscellaneous: Any other anticipated income that should be credited to the property, such as tenant utilities paid to owner, tenant lockout or maintenance fees, etc.
- d. Total Other Revenue: Auto-calculated field that totals categories 3a-c.

4. ADJUSTMENTS

- a. 5220 Vacancy Loss - Rents: For elderly units, use a figure of at least 1 percent (1%) of Total Rent Potential. If the project is family housing or will have been in operation less than six months, use a figure of at least 2 percent (2%). Non-Section 8 projects should use the pro-forma figures or recent rental history in estimating rent loss. *Please identify which percentage you use.*
 - b. 5240 Vacancy Loss - Commercial: Use a figure equivalent to no less than 5 percent (5%) of total rent potential.
 - c. Total Adjustments: Auto-calculated field that totals categories 4a-b.
- 5. TOTAL INCOME**: Auto-calculating field that sums Gross Rent Potential and Other Income, minus Adjustments.

B. OPERATING EXPENSES

1. ADMINISTRATIVE EXPENSES

- a. 6203 Conventions & Meetings: Anticipated expense associated with conventions.
- b. 6204 Management & Consultants: Anticipated expenses incurred as a result of utilizing management consultants for administrative related activities, i.e. programming.
- c. 6210 Advertising & Marketing: Anticipated cost of advertising the rental property.
- d. 6310 Office Salaries: Anticipated salaries paid to office employees responsible for the front-line operation of the project regardless of whether the employee works on-site or in the agent's office (do not include resident manager). This does not include Workmen's Compensation or payroll taxes.
- e. 6311 Office Expenses: Anticipated office rent, supplies (postage, stationary, copying, etc.) and utilities for the office (telephone, internet bills, etc.).
- f. 6320 Management Fee: Fees are approved on a project-by-project basis and are based on management performance and cash flow. Increases in management fees above last year's approved fees may be proposed with the owner's approval and as long as your budget has a debt coverage ratio ("DCR") of at least 1.05 and there are no unresolved audit findings or Management and Occupancy Reviews issues. Additionally, the property's most recent audited DCR must be greater than 1.00 if you are proposing an increase above the previously approved management fee. All management fees are subject to VHFA's final approval.
- g. 6330 Manager or Superintendent Salaries: Salaries paid to a resident manager or superintendent. This does not include Workmen's Compensation, Health or other benefits or payroll taxes. This can include the contract rent of any rent-free unit provided to a resident manager or superintendent which would otherwise be considered rent producing.
- h. 6340 Legal Expenses: Legal fees or services incurred on behalf of the project (i.e. legal fees for eviction procedures, etc.).

- i. 6350 Audit Expense: Auditing expenses incurred by the project that are directly related to requirements from HUD/VHFA. This does not include costs of routine maintenance or review of the project's books and records.
- j. 6351 Bookkeeping Fees / Accounting Services: Cost of bookkeeping fee, accounting or computing services not included in the management fee, but paid to either the agent or a third party.
- k. 6390 Miscellaneous Administrative Expenses: Any other expenses that should be credited to the property (i.e. TRACS, Tax Credit fees, telephone, training, condo fees, etc.). Include investor service fees.
- l. Total Administrative: Auto-calculated field that totals categories 1 a-k.

NOTE: Computer, TRACS software, photocopier purchases and other similar non-annually recurring expenses should NOT be included as line item expenses. Please include them as part of the Capital/Extraordinary Expenditures on Line F.

2. ELDERLY &/or SOCIAL SERVICE EXPENSE

- a. 6990 Other Service Expenses (Social Services): This is an opportunity to use project operating funds toward the cost of supportive social services for the elderly or families. These services include: service coordination, congregate meals, transportation, and home health care services. **A Social Service Plan is required and must be submitted with the budget, along with Supplement Two.** The plan should detail what services are being provided, by whom and the frequency.
- b. Total Elderly or Social Service Expense: Auto-calculated field that totals category 2a.

3. UTILITY EXPENSES

- a. 6420 Fuel: Anticipated cost of oil, propane, kerosene, or wood. If electric heat is separately billed, enter your heating cost here.
- b. 6450 Electricity: Anticipated cost excluding units that are individually-metered where the tenant pays the cost of utilities.
- c. 6451 Water: Anticipated cost of water use.
- d. 6452 Fuel (Gas): Anticipated cost of gas fuel.
- e. 6453 Sewer: Anticipated cost of sewer use, including septic pump-outs, but not septic system repairs.
- f. Total Utility: Auto-calculated field that totals categories 3a-e.

4. MAINTENANCE EXPENSES

- a. 6510 Payroll (Maintenance, Grounds, Repairs): This includes anticipated payroll for maintenance staff, grounds care and repairs. Also include the value of the rental unit if a person on payroll lives in a subsidized unit, partially or fully rent-free, as part of their compensation.
- b. 6515 Supplies: Anticipated cost of repairs, janitorial, grounds and painting supplies.

- c. 6520 Contracts: Anticipated cost of contract fees for grounds care, exterminating, repairs, elevator maintenance, painting costs when contracted to another party, etc.
- d. 6525 Garbage & Trash Removal: Anticipated cost of removing rubbish and recycling.
- e. 6546 HVAC Repairs / Maintenance: All anticipated expenses for heating, ventilating and air conditioning systems including contract repairs and service, front-line maintenance and the cost of parts.
- f. 6548 Snow Removal: Anticipated cost of snow plowing, snow shoveling, sanding and salting roads and walkways.
- g. 6570 Vehicle & Maintenance Equipment Operation & Repair: Records the anticipated cost of project motor vehicles and maintenance equipment.
- h. 6590 Miscellaneous Operating & Maintenance Expense: Includes any anticipated costs that do not fit into another maintenance expense category, such as Fire alarm/emergency calls, other Utilities, utility monitoring systems, water, sewer and electrical system costs, etc.
- i. Total Maintenance: Auto-calculated field that totals categories 4a-h.

NOTE: Non-annually recurring maintenance expenses such as exterior painting or paving an entire parking area and driveway should NOT be included here as a line item expense. Please include these amounts and similar expenses on the Capital Expenditures Line Item F of the 805 Budget Form.

5. TAXES & INSURANCE

- a. 6710 Real Estate Tax: Anticipated cost of property tax assessments.
- b. 6711 Payroll Taxes: The project's share of FICA, State and Federal Unemployment taxes.
- c. 6720 Property Insurance: Anticipated cost on an insurance policy covering hazard, liability, property and rent loss coverage.
- d. 6722 Workmen's Compensation: Anticipated cost of workman's compensation insurance for employees of the project.
- e. 6723 Health Insurance & Other Benefits: Anticipated cost of any health insurance and other employee benefits paid to employees of the project. This does not include contract rent of any rent-free unit provided to a resident manager or superintendent.
- f. 6790 Miscellaneous Taxes, Permits, Licenses, Insurance: Includes anticipated costs that do not fit into another tax & insurance expense category, such as \$250 annual fees, etc.
- g. Total Taxes & Insurance: Auto-calculated field that totals categories 5a-f.

6. FINANCIAL EXPENSE

- a. 6820 Principal and Interest on Mortgage: This category is to be used to indicate VHFA principal and interest only.
- b. 6830 Other Notes Payable: This category is to be used to indicate principal and interest for all loans other than VHFA loans that are subject to repayment.

- c. 6890 Miscellaneous Financial Expense: Any legitimate project expense for which no category has been provided, such as land lease payments or mortgage insurance premiums (MIP), including HUD Risk Share premiums. (Include investor service fees in other administration above.)
 - d. Total – Financial Expenses: Auto-calculated field that totals categories 6a-d.
7. **TOTAL COST OF OPERATIONS**: Auto-calculated field that totals Administrative, Utility, Maintenance, Taxes & Insurance and Financial Expense categories.
- C. **OPERATING PROFIT/(LOSS)**: Auto-calculating field that subtracts Total Cost of Operations from Total Income.
- D. **RETURN ON EQUITY**: Enter no more than the maximum annual amount allowed under the Regulatory Agreement or other controlling documents.
- E. **NET PROFIT/(LOSS)**: Auto-calculating field that subtracts Return on Equity from Operating Profit/(Loss).
- F. **TOTAL CAPITAL EXPENDITURES**: Review the Capital Needs Assessment (CNA) for the current year, noting any items that need to be completed. Non-annually recurring Capital Expense items should be included here as a line item expense. Then, look at the items identified as needing replacement or repair in the current fiscal year. Carefully consider the financial capacity of the property, particularly reserves and escrows, in prioritizing the Capital Expenditures that you have identified. The sum of these identified Capital Expenses should be entered as the Total Cost per Year for the current fiscal year.
- G. **REPLACEMENT RESERVE**: The amount of the deposit must be sufficient to meet the capital needs of the project. The minimum amount of the deposit is to be adjusted annually as per the Regulatory Agreement. However, if the Capital Needs Assessment, which should be reviewed annually indicates that the deposits are not sufficient to meet the needs of the project the deposit amount must be adjusted appropriately.

NOTE: Please be advised that budget approval of capital expenditures is **not** a substitute for our usual review and approval process for withdrawal of funds from the Replacement Reserve account. Remember that three (3) written bids are required for work in excess of \$7,500.

Please be sure to include the name of the person who prepared the budget, their e-mail address and phone number and date forms were completed before submitting.

SUPPLEMENT ONE

RENT CALCULATION

Please Note: If you download Form 805 and are completing it in Excel, Total Rent by Bedroom Size, Total Monthly Contract Rents and Total Annual Rent Potential will be calculated for you electronically.

Please remember to include the current Utility Allowances and date the Utility Allowances were implemented i.e. effective date.

VACANCY RATE

Enter the Vacancy Rate for the property for the fiscal year based on the last 12 month's experience.

ESSENTIAL MAINTENANCE PRACTICES SECTION

Please indicate when you have last submitted your Compliance Statements, or when you anticipate doing so for this fiscal year. If this is not applicable, please indicate whether the project was built after 1978 or if the project is exempt under law. For more information on VT law and other lead paint regulations please visit www.LeadSafeVermont.org.

SUPPORTIVE SERVICE BUDGET

If your budget includes anticipated expenses in the Elderly or Social Services category, you are required to provide Income and Expense figures for categories provided on this form. Be sure to specify any "Other" income or expenses as indicated on the form. Please give a brief description of the services provided in the narrative box.

SUPPORTIVE SERVICE PLAN

If your budget includes anticipated expenses in the Elderly or Social Services category, please provide answers to questions on Supportive Service Plan.