Vermont Housing Finance Agency (VHFA) monitors the physical and financial viability of all multifamily housing projects it has funded on an ongoing basis. It has been the practice that the VHFA limit distributions of surplus cash and review and approve all withdrawals from replacement reserve accounts prior to allowing funds to be withdrawn. Under certain conditions outlined below, VHFA’s requirements have been modified in the amount of cash distributions allowed and in the process of making withdrawals from replacement reserves when the following conditions are met:

1) **Debt Coverage Ratio of 1.05** must be demonstrated in a property’s audited annual financial statements calculated as Net Operating Income divided by the total of all hard debt payments.

2) **Minimum Operating Reserve Balance** must be equal to at least four months Audited Operating Expenses including Debt Service and Budgeted Replacement Reserve Deposits (plus any additional deposits made to achieve the required balance as indicated in the current CNA or an alternative plan as approved by VHFA).

3) **Replacement Reserve** deposit contributions must be made and consistent with the recommendations of a current third party Capital Needs Assessment (CNA) to ensure there are sufficient funds available to meet the immediate and projected capital needs of the project through at least year 15. Projects are required to update a CNA once every five years as outlined in the jointly published VHFA, Vermont Housing Conservation Board and Vermont Department of Housing and Community Development Capital Needs Assessment Guidance Memo (link provided below).


4) **Project cash flows and accumulated operating cash balances** must demonstrate a trend of financial viability. The Agency may take into account anomalies in any given year that are not expected to reoccur.

5) As part of VHFA’s annual audit review, VHFA may make adjustments for maintenance items paid for from replacement reserves and reduce the net operating expenses accordingly.

6) **Surplus Cash shall be calculated as follows:**
   Using the annual audited financial statements, Operating Cash Balance **Plus** Operating Reserve (including Working Capital), and Tax and Insurance Escrow **Less** four months operating expense, accounts payable, tax & insurance escrow liability, prepaid rents, replacement reserve underfunding and accrued interest on hard debt. **Plus** excess replacement reserve balance amounts, excess tenant security deposits and receivables due from HUD and/or other related parties.
Sponsors with projects meeting these criteria may request VHFA’s review of the project’s most recent financial statements and if approved, these revised changes will be implemented with a formal Letter of Agreement.

1) **Distributions of surplus cash may be authorized** by VHFA once per year consistent with the above requirements in conjunction with VHFA’s review and approval of the audited financial statements. The amounts of surplus cash to be distributed shall be limited to no more than 80% of available surplus cash, and consistent with any requirements and/or restrictions imposed by United States Department of Agriculture Rural Development, Housing and Urban Development Regulations and any Housing Assistance Payment Contract. (VHFA does not assume responsibility for interpreting other restrictions that may be imposed by Partnership Agreements and leaves that responsibility to the General Partner(s)).

2) **Withdrawals from Replacement Reserves** shall not require VHFA’s review and approval with each disbursement provided the above requirements are met based on VHFA’s review and approval of the audited financial statements. Project owners will be required to provide VHFA with a report of all disbursements from Replacement Reserves made during the prior fiscal year in conjunction with submission of the year-end audited financial statements.