

SSAM –OPERATING BUDGET GUIDE

This policy provides guidance regarding the completion of the annual budget process for each small scale asset development required to submit an annual budget to the Authority. The following topics will be covered:

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Budget Submission Timeline

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Purpose of Budgeting

Each year, developments receiving MSHDA financing must submit a budget of anticipated income and expenses for the upcoming fiscal year. This provides a measurement against which annual financial statements can be compared to help judge the ongoing financial health of each property.

This process involves:

- Anticipating income based on the updated rent schedule and any potential increases or decreases in rents.
- Projecting the upcoming year's income and expenses based on the previous year's financial activity and anticipated changes in operations at the development.
- Explaining significant variances between the current budgeted number and the previous year's financial activity.

Budget Submission Timeline

The annual budgeting process follows a strict schedule in order to meet all reporting requirements and statutes. Below is the detailed timeline identifying the timeframe required for achieving the appropriate budget calculations and submissions.

Oct 1st – Budget packages are due to MSHDA.

Oct 1st to Nov 30th – Assigned AM reviews and finalizes all development budgets, if the budget submission is complete.

Prior to Dec 1st – MSHDA sends a copy of the approved budget to the management agent.

Jan 1st – The management agent implements the approved budget.

Where to Submit Budget Documentation

The following two items must be completed by the designated due date.

1. Submit an electronic copy of the completed excel workbook to the MSHDAassetmgt@michigan.gov mailbox.
 - The e-mail must have a subject line that reads [Budget Year, Development Name, MSHDA #]. For example, Budget 2012, Accurate Apartments, #999.
 - The file name must be [MSHDA #.xls] and the file must be saved in an Office 2003 format. Office 2007 and 2010 users will have to select the proper format when saving.
2. Submit hard copies of all the required documents listed in the 'Budget Submission Requirements' section below to:

Ms. Michelle Locher
Michigan State Housing Development Authority
735 E. Michigan Ave., 3rd Floor
P.O. Box 30044
Lansing, MI 48909

Budget Submission Requirements

In addition to submitting a completed electronic copy of the Budget Form, developments must submit a budget document package with the following documents.

1. **Signed copy of the MSHDA SSAM Budget Review Sheet** with the signature page on top. The owner or a management company representative must sign the budget form to validate the numbers.
2. **Detailed notes of the Budget Review Sheet line items** – Notes describing the anticipated income and expenses being budgeted for each line item on the Budget Review Form are encouraged. Detailed notes should include mathematical computations and supportive documents assist in explaining the full financial picture to the assigned Asset Manager, which helps create a smooth budgeting process.

At a minimum, detailed budget notes must be included for each line item with:

- A 20% (*and* greater than \$500) variance exists between the proposed budget amount and the previous 12-month expense;
 - The “Variance Requires Detail” column of the Budget form flagged as “Yes”;
 - A “**Budget Notes are required**” reference in the detailed explanation in “Budget Review Form” section below.
3. **Letter From Owner** - If there is a budget deficit, the owner must describe a plan to fund the budget deficit. If the owner intends to fund a deficit budget, the deficit amount should be budgeted in Line Item F4 - Related Party/Affiliate Contributions/Advances with an appropriate explanation in the budget detailed notes.
 4. **Proof of Insurance/Property Tax Payment** – Each development must include proof of property insurance and the most recently paid property tax billing receipt.

Instructions for Completing the Budget Review Sheet Tab

The Rent Schedule and Utility Certification tabs are located on the same spreadsheet template with the Operating Budget. Budgets must be submitted to the Authority using either the customized MSHDA Budget Template or an internal form. If a third party form is to be submitted, all the items described below must be included and the instructions utilized.

Columns - Below is a description of the data in each column of the budget form:

Previous 12-Months Expenditures – Total the previous year’s July through the current year’s June data in this column.

Proposed 20xx Budget – Enter in the development’s estimated total annual income and expenses for the upcoming budget year in each line item of this column.

* Use the previous 12-month's amounts to estimate the upcoming calendar year's income and expenses. Adjust your calculations for unusual income and expenditures incurred during the previous 12-months or anticipated for the upcoming budget year.

Variations of Greater than 20% - This column calculates the percentage of variance between the "Proposed 20xx Budget" amount and the "Previous 12-Month Expenses". $\text{Variance} = \frac{\text{Proposed Budget} - \text{Previous 12-Months Expenses}}{\text{Previous 12-Month's Expense amount}}$.

Variance Requires Detail - This column calculates if the variance is greater than 20% AND \$500. If the column displays a "YES" in the row, an explanation of variance must be provided.

Rows - Below is a description of each line item row on the SSAM Budget Review form. Remember to project the total annual income and expenses for all budget line items based on the previous 12-month's income and expenditures. Adjust each line item for any anticipated changes expected during the upcoming budget year and provide an explanation or support documentation when the changes to a line item are significant (greater than 20% and \$500).

Income

Income

1 Gross Rent Potential - The rent schedule calculates the monthly and annual rent potential once all the development's units have been entered on the schedule. This amount auto-populates the SSAM Budget Review form.

Budget Notes are required - Include detailed calculations and documentation to support the rent potential amounts listed on the rent schedule. Do not include subsidy grants that support the operation of the development (e.g. development based subsidies).

1a Loss to Lease - Projected amount of rent revenue loss due to existing lease rent restrictions (lease variances). For example, rent increases effective after January 1st will not receive the maximum gross rent until the month the rent increase becomes effective for the unit.

Budget Notes are required - Include a unit by unit breakdown of the amount of lease variance.

1b Vacancy Loss - Project vacancy rates based on the previous 6 months and adjust for any projected increase or decrease during the budget year. Record rental income lost due to vacant units during the month.

1c Non-Rental Unit - Project the rental income lost due to rent-free unit(s) occupied by on-site staff. Refer to the governing documents and addenda for the allocation of non-rental units.

- 1d **Bad Debt/Former Residents** – Project the rental income lost due to residents who have vacated units and owe money to the development in excess of security deposits as of the end of the reporting month based on the previous 12-month’s average.
- 1e **Marketing Rent Concessions** - Project the amount based on the previous 12-month’s data and adjust for any significant projected increase or decrease during the budget year. Provide documentation to support any adjustments to the previous 12-months amount. Record income lost due to any marketing rent concessions.

Other Income

- 2a Other Income – includes Late Charges, Interest Income, Subsidy, etc. for the upcoming year.
- 2b **Bad Debt Recovery** – Project any rent payments received for bad debt/former residents previously written off on Line Item 1d.
- 2c **Other** – Project miscellaneous income, if any. **Budget Notes are required.**
- 3 **Total Income** – The form auto-calculates this field.

Expenditure Line Items

Administrative

- 4 **Management Fees** – The management fee line item can only be used if a third party management company is in place. Otherwise, projected expenses should be entered into the appropriate line item below. **Budget Notes are required.**
- 5 **Marketing** - Project development advertising through newspapers, radio, television, exhibits, leaflets, brochures, signs, banners, resident referrals, etc. as well as advertising for staff vacancies.
- 6 **Administrative** – Project the costs of salaries of all full and part-time office staff, payroll taxes, pension plans, etc. Also include all media and office expenses. **Budget Notes are required.**
- 7 **Miscellaneous** – Project the cost of newsletters, bank charges, training sessions, charitable contributions and other items provided to residents. Also include third party accounting costs, credit reports, background checks, etc. **Budget Notes are required.**

Utilities

- 8 **Electricity** – Enter the development paid and common area electric utility costs based on the amount on the previous 12-month’s electric costs. Provide an explanation for any variance from the 12-months expense amount.
- 9 **Water & Sewer** – Enter the development paid water & sewer utility costs. Include any increase in the actual water and sewer for the previous 12-months by the local water department’s projections for the upcoming budget year. **Water and sewer costs are considered operating expenses of the development and should not be charged to the residents.**
- 10 **Fuel** – Enter the development paid and common area fuel utility costs based on the amount on the previous 12-month’s fuel costs. Provide an explanation for any variance from the 12-months expense amount.
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Operating & Maintenance

- 11a **Maintenance** – Project the costs of the gross salary of maintenance staff, janitorial & supplies, and grounds (including lawn & snow removal) **Budget Notes are required.**
- 11b **Building & Components** – Project the costs of structural repairs, maintenance equipment, office equipment, furniture & fixtures, painting, cleaning, HVAC, plumbing, electrical, etc.
- 11c **Other** – Project unit costs, maintenance supplies and any other unit contractual costs not specifically identified elsewhere. Offset the amount of damages collected from residents.
- 12 **Misc. Operating Expense** – Project any other miscellaneous expense not categorized elsewhere in the expense section of the SSAM Budget Review Form. **Budget Notes are required.**
- 13 **Property Taxes** – Project the property tax expense.
- 14a **Mortgage Interest** – Multiply the latest Monthly Statement of Activity interest amount by 12 to project the mortgage interest expense, if any.
- 14b **Other Interest** – Project other interest expense, not including monthly mortgage interest.
- 15a **Property & Liability Insurance** – Project the property and liability insurance expense.
- 15b **Employee Health Benefits** – Project the development’s contribution for staff hospitalization, dental and vision insurance, include any costs for flexible spending accounts, etc.
- 15c **Other** – Project vehicle and equipment insurance, employee or resident discrimination insurance, etc. **Budget notes are required.**
- 16 **Total Expenditures** – The form auto-calculates this field.

Financing Activities

- F1 **1st Mortgage Principal Balance** – Multiply the latest Monthly Statement of Activity principal amount by 12 to project the mortgage principal balance paid for the budget year, **if any**.
- F2 **Delinquent Mortgage Principal** – Project the repayment of any delinquent mortgage principal payments.
- F3 **Other Loan Balance** – Project the repayment of loans from all reserve accounts, repayable energy loans, Second/Third mortgage payments, etc. **Budget notes are required.**
- F4 **Related Party/Affiliate Contributions/Advances** – Project any related party/affiliate contribution/owner money advanced to the development to fund operating deficits or to support operating needs –AND – any anticipated repayments. Repayments are to be entered as a negative number. **Note: Include detailed descriptions of the contributions/advances and the anticipated repayment schedule in the budget notes.**

Miscellaneous Activities

- M1 Replacement Reserve Minimum Funding – Enter the upcoming year’s funding for the Replacement Reserve described in the Regulatory Agreement.
- M2 Property Tax Receipt – Check this box and include a copy of the most recent property tax payment receipt to verify that taxes are being paid.
- M3 Proof of Insurance – Check this box and include a copy of the current proof of property insurance to verify that the property is insured.

Forms

- SSAM Budget Form *Attachment D*