

D. Annual Operating Budget

The Annual Operating Budget is a financial projection of the operations for the upcoming fiscal year. It reflects the best judgment of the owner and management agent concerning the anticipated expenditures to be incurred and income to be received. As a planning tool and financial control aid, the budget process involves: (1) establishing performance objectives; (2) comparing actual performance against established objectives; (3) determining reasons for deviations from objectives; and (4) taking corrective action to improve performance.

Sixty (60) days prior to both initial occupancy and the commencement of each fiscal year, the management agent is required to submit to the property's Financial Analyst an annual operating budget in the required PHFA format. The fiscal year ending date will be determined by the owner. The number of months to be included in the initial operating budget will be based on initial occupancy. The property's Financial Spreadsheet should be used as the basis for preparing the initial budget.

A sample of the required PHFA Budget form is shown in Appendix 2 or at www.phfa.org. On the initial annual operating budget, only Column 3, New Annual Budget, should be completed. All subsequent budgets should be submitted with Columns 1 through 3 completed. Column 1, Current Year Budget, reflects the PHFA approved operating budget for the current fiscal period. Column 2, Current Year Projection, records the current actual operations to date, plus a projection for the remaining months, of the current fiscal period. Column 3, New Annual Budget, reflects the determination by the owner and management agent of the project operating income and expenses for the upcoming year. Budgets that are received that do not follow this PHFA-approved format will be returned for proper completion.

When completing the budget workbook, the Name of Development and PHFA No. only need to be entered on the Budget form. This information will automatically fill in on each schedule (tab) of the workbook. All schedules (tabs) of the workbook must be completed. When entering amounts to the Budget form, you will notice as you enter your Current Year Projection amounts to column 2, all of the account number boxes will turn to a red color. After entering the New Annual Budget amounts in column 3, only those account number boxes where the line has a +/-10% variance over the Current Year Projection will remain red. Line items of the budget that have +/-10% variances will require explanations for the variances on the Variances tab. The account numbers for these particular line items will be displayed in red, as explained above. Once explanations for the variances are provided on the Variances tab (additional information on this tab can be found on pages 2 through 3 of these instructions), the account numbers on the Budget form will change to green to signal that explanations for the variances were provided.

Since the Annual Operating Budget must be submitted before the close of the current year, income and expenditures for the remaining months of operations must

be estimated in order to complete Column 2 of the budget. These estimates should be verified for reasonableness by comparing them to the prior year's actual expenditures during the same months. A comprehensive review of the current period expenditures should be made. Investigation of unusual variations between actual expenditures and budgeted expenditures should disclose if adjustments are required in the New Annual Budget.

In addition to the Budget form, the Agency also requires that the following tabs in the budget workbook be completed:

- The Payroll Worksheet schedule must be completed to include all employees for the property. If employees are paid an hourly rate, include the number of hours, hourly rate, and the total (hours x rate) in the Salary/Total box. If the employee is paid a salary, simply include their total salary in the Salary/Total box. In the percentage box, include the amount of time the employee works at the property. The Total for Property box will then automatically calculate and the total payroll per category will carry over to the appropriate line item on the budget. You will need to enter amounts for Administrative Rent Free Unit, Payroll Taxes, Workers' Compensation, and Health Insurance and Employee Benefits directly on the budget as applicable.
- The Reserve for Replacement Withdrawals schedule must include the item, the account number where it is included on the budget (please select an account number from the dropdown list), and the amount. The total will automatically carry over to line 75 on the budget. Please be sure that all amounts included on this schedule are also included on the Budget form on the lines of their corresponding account numbers. Please note that the Agency will not budget for any Reserve for Replacement withdrawals within a property's first five (5) years of operations.
- The Capital Improvements / Equipment schedule must include a description of the item and the amount. The total will automatically carry over to line 81 on the budget. If the capital improvement is to be funded from the Reserve for Replacement, the item must also be included on the Reserve for Replacement Withdrawals schedule. Please choose the Capital Improvements / Equipment Purchases (account number 1420) option from the dropdown list on that schedule.
- The Miscellaneous Administrative Expense schedule must include a detailed listing of the items included in this category. The total will automatically carry over to line 26 on the budget.
- The Variances schedule should be completed for any line item that has a red box in the Explanation column. These items have a +/-10% variance between the Current Year Projection and the New Annual Budget amounts. Once an

explanation is entered, the red in the box will disappear. In addition, please provide an explanation for any line item that has a New Annual Budget amount but no Current Year Projection amount (+100% variance). A red explanation box will not be generated for this kind of variance, but the account should still have an explanation entered. Explanations are not required for the first year of operation, as there is no Current Year Projection for any budget line item. Explanations can be entered for any line item if desired. Budgets submitted with unexplained +/-10% variances will not be accepted by the Agency and will be returned for proper completion.

- A Rent Schedule must be completed for all properties. Additional Rent tabs are provided in case extra lines are needed. The totals on the additional tabs will carry over to the first Rent tab. Please fill in all applicable boxes on the schedule. If listing unit numbers individually, please provide this information in the first column. Provide the number of bedrooms and number of units. Be sure to enter the Current Tenant Paid Rent per Unit, the New Tenant Paid Rent per Unit, and select from the dropdown list the month in which the new rent amount will be effective (1=Jan., 2=Feb., etc.). Enter the Utility Allowance and Rental Assistance, if applicable. If O (Other) is chosen as the Rental Assistance Source, an explanation of the source is required in the box found in the bottom right-hand corner of the Rent Schedule. The Maximum Allowable Housing Expense amount should come from the most recent rent chart for the applicable program. The Targeted Rent Level and the Unit Type should be selected from the dropdown list (see explanation of Target rent levels below*). All other columns will automatically calculate. The Grand Total line of the Total Annual Rental Income – Budget will carry over to line 1 of the Budget form. **Please note that Section 8 properties do not need to provide a breakdown between the Tenant Paid Rent and Rental Assistance.** Units with all of the same characteristics (the same rent amounts, number of bedrooms, etc.) can be grouped together on one line with the rent amount entered under New Tenant Paid Rent and January (1) selected as the effective month. **Please note that properties with PHFA numbers having prefixes of N or O must list each unit on a separate line of the Rent Schedule.**

***Target Rent Level dropdown box options:**

- 20%: Units income and rent restricted at or below 20% AMI.
- 20%/40%: 20% units income and rent restricted at or below 40% AMI
- 20%/50%: 20% units income and rent restricted at or below 50% AMI
- 20%/60%: 20% units income and rent restricted at or below 60% AMI
- 40%: Units income and rent restricted at or below 40% AMI
- 50%: Units income and rent restricted at or below 50% AMI
- 60%/50%: Units income restricted at or below 60% AMI, but rent restricted at or below 50% AMI
- 60%: Units income and rent restricted at or below 60% AMI
- 80%: Units income and rent restricted at or below 80% AMI
- MR: Market Rate

The following section provides detailed instructions for the completion of the budget:

- Line 1 This line item is the gross Rental Income amount for the fiscal year. The amount will automatically carry over from the Rent Schedule.
- Line 21 This line will automatically calculate to be the maximum allowable Management Fee amount. The calculation is based on the Management Agent Fee percentage entered in column D on line 21. If the Management Fee is not based on a percentage of income, instead, calculate the correct dollar amount and then calculate a percentage of total income based on that amount.
- Line 26 A schedule is included for Miscellaneous Administrative Expenses. The total will automatically carry over from the supplemental schedule.
- Line 54 This line item is the Real Estate Tax Escrow deposits for the fiscal year. If the Agency does not hold the Escrow, this should be the estimated tax expense.
- Line 55 This line item is the Insurance Escrow deposits for the fiscal year. If the Agency does not hold the Escrow, this should be the estimated insurance expense.
- Line 59 This line item is the total Mortgage Interest and Principal for the fiscal year.
- Line 74 This line item is the Reserve for Replacement deposits for the fiscal year.
- Line 75 This line item is the estimated Reserve for Replacement withdrawals for the fiscal year. The amount will automatically carry over from the supplemental schedule.
- Line 76 This line item is the Painting and Decorating Reserve deposits for the fiscal year, if applicable.
- Line 77 This line item is the estimated Painting and Decorating Reserve withdrawals for the fiscal year, if applicable.
- Line 78 This line item is estimated Operating Reserve withdrawals for the fiscal year, if applicable.

- Line 79 This line item is estimated FSSP Escrow withdrawals for the fiscal year, if applicable.
- Line 80 This line item is for Other Reserve withdrawals for the fiscal year, if applicable.
- Line 81 This line item is the estimated Capital Improvements and Equipment Purchases for the fiscal year. The total amount will automatically carry over from the supplemental schedule.

The budget is to be submitted to the owner for approval prior to submission to PHFA. When necessary, PHFA may consult the owner regarding budget content. All inquiries by PHFA, whether to the owner or management agent, should be addressed as expeditiously as possible to ensure a timely completion of the budget review.

The budget workbook file must be submitted via e-mail. The e-mail should be sent to the Financial Analyst currently assigned to the property. The e-mail address is the person's first initial and last name @phfa.org. If you are uncertain who is assigned to the property, please call 717/780-3819 for assistance. The e-mail should include the name and phone number of the person who prepared the budget so that he or she can be contacted with any questions. No signature page is required to be completed for initial submission via e-mail.

PHFA will review the operating budget submitted for each property. Any adjustments made by PHFA will be highlighted and reflected in Column 4 with a letter referencing the adjustment in Column 5. Columns 4 and 5 are hidden columns that will be shown on the returned, reviewed budget. The referenced adjustments, if any, are on the bottom of the third page of the Budget form. The final PHFA adjusted budget will be returned via e-mail. After receipt of the final adjusted budget, a budget confirmation must be e-mailed to the Agency. Properties with Section 8 financing from PHFA must complete and sign the Section 8 Property – Budget Confirmation form. This form is provided as an attachment to the final budget e-mail. A PDF file copy of the signed form must be e-mailed to the Financial Analyst assigned to the property. All other properties must send an e-mail response confirming receipt and review of the finalized budget. The e-mail must include the following language: "I/We are confirming that I/we have received and reviewed the budget year Annual Operating Budget for property name, PHFA# from Pennsylvania Housing Finance Agency on date." Please include your name and title in the e-mail. The e-mail should be sent to the Financial Analyst assigned to the property. The approved annual operating budget (Column 4) must be used on all quarterly operating reports for the upcoming reporting year. No changes in budgeted figures are to be made without written approval by PHFA.

Should the management agent determine that the annual operating budget cannot be submitted by the required date, a letter requesting an extension should be addressed to the Financial Analyst assigned to the property.