

**MASSHOUSING**  
**REPLACEMENT RESERVE DISBURSEMENT GUIDELINES**  
**Revised March 2018**

The Replacement Reserve escrow account is generally used to fund the replacement of building components considered to be capital items as well as major repairs. It is generally not intended for items that would be considered routine in nature.

These guidelines are intended to assist Owners and Management Agents (“Owners”) to determine eligible expenses and the documentation necessary to support a request for disbursement from the Replacement Reserve account. The Asset Management Department is responsible for the evaluation, processing, and approval of all Replacement Reserve disbursement requests.

Approval of disbursements from the Replacement Reserve account necessitates that certain criteria be met. Prior to considering the use of the account, Owners should review these guidelines, the approved management agreement, and the most recent capital needs study for the development. If the proposed item is not included in the attached list of Eligible Expenditures, Exhibit III, Owners should contact the Asset Manager for guidance prior to submitting a request for disbursement from the account. Disbursements from the Replacement Reserve account are typically made as a reimbursement to the development. However, MassHousing may make advances or direct payments to vendors if the financial condition of the development warrants such action as determined by MassHousing. We restate nonetheless, under normal circumstances payments from the Replacement Reserve account are considered a reimbursement activity.

The Owner shall obtain written approval from MassHousing for disbursements from the Replacement Reserve escrow prior to commencing work when the cost of the work including labor and materials, exceeds the threshold stated in the development’s management agreement, unless the work involves manifest danger to persons or property or is required to avoid suspension of any necessary services to the development. In cases where the work is required to avoid suspension of services to the development, the agent needs to contact the owner and MassHousing as soon as practicable.

Note: For loans under the MAP program, the HUD Regulatory Agreement requires that disbursements from the replacement reserve account can only be made after consent, in writing, of HUD, in its sole discretion, or as otherwise approved by HUD pursuant to the Program Obligations. Accordingly, HUD controls replacement reserve disbursements for loans that are closed under the MAP program. This limits the role of MassHousing to authenticating Form HUD 9250 and confirming that there are sufficient funds to cover the disbursement.

These guidelines comprise five sections:

- I. General Principles
- II. Documentation of Reimbursement Requests
- III. Eligible Items
- IV. Ineligible Items
- V. Loans and Advances from the Replacement Reserve Account

## **I. General Principles**

A capital expenditure either increases the value of the property or extends its viability. Renovation programs or significant improvements that preserve the physical integrity of the property are typically considered to be capital expenditures. Accounting rules expect most of these improvements to be capitalized and depreciated over their anticipated useful life. Such expenditures are the primary focus of the Replacement Reserve Guidelines.

MassHousing considers capital expenditures to include items that are material in amount and have a useful life that exceeds one year. Repairs are expenses that are less in amount, but are needed to keep the assets of the property in an operational condition. Repairs should be charged against operations on an annual basis.

Repair items should be paid from the operating funds of the property in order to preserve the replacement reserve escrow for major capital improvements. Owners ought to carefully assess requests in context of the property's capital improvement schedule, current replacement reserve escrow balance and funding level and the long-term needs of the development as described in the most recent capital needs study.

Owners should refer to the following principles prior to requesting reimbursement from the Replacement Reserve account.

- 1.) Owners are encouraged to submit Replacement Reserve requests on a quarterly basis. Requests may be processed on a more frequent basis to assist financially troubled developments, as phase payments for large capital improvement contracts, and/or because of other circumstances deemed appropriate by the Agency. Owners are discouraged from submitting a single annual disbursement request.
- 2.) Owners should periodically analyze the balance in their Replacement Reserve account considering the development's anticipated needs, their knowledge of the physical condition of the development, evaluations made by their agents, underwriting requirements and the results of applicable physical inspection reports and capital needs studies.

For all developments financed prior to December 2017, it is recommended that Owners maintain a minimum balance of one-year's annual obligation in the Replacement Reserve account unless otherwise approved by MassHousing. Owners of developments financed since December 2017, shall adhere to the annual funding levels identified in the Agency's Capital Needs and Replacement Reserve Policy dated December 1, 2017.

- 3.) Bidding and subsequent approval requirements are included in the Management Agreement. Bidding thresholds may be modified over time through memoranda from MassHousing. If the cost of emergency repairs and/or the cost of replacement items exceed the bidding and approval requirements included in the Management Agreement, Owners must notify the Asset Manager. On an exception basis, the Portfolio Manager may approve an advance release of funds based on the cash flow status of the property and the urgency of the work. In such cases, the request should include uniform specifications, at least three bids, and a narrative explaining the need for the advance.
- 4.) Large Scale Projects – At its discretion, MassHousing will consider requests from Owners to fund major capital improvements directly from the Replacement Reserve Escrow account if funding of the improvements from the development's operating account would severely restrict the development's operating cash flow. MassHousing may make advances or make direct payments to vendors if the financial condition of the development warrants such action as determined by MassHousing. In such cases, Owners would be required to submit the proposed contract to MassHousing prior to the Agency approving the Owner's request to fund the improvements directly from the Replacement Reserve account. Assuming that the contract for services was bid in accordance with the terms of the Management Agreement, and that payment terms are acceptable to the Asset Manager, MassHousing may under exceptional circumstances, disburse reserve funds directly to the vendor per the contract terms. Requests for progress payments must be presented with a signed certification, in a form acceptable to MassHousing, evidencing that the applicable percentage of work has been completed or that materials have been purchased in accordance with the contract documents. In addition, all change orders will require MassHousing approval.

In cases where a contract requires a deposit for materials or for project start up prior to the commencement of work, MassHousing will consider advancing the deposit from the Replacement Reserve account. Such a deposit however will be limited to the value of the materials or the value of the labor to be used in the work. We restate nonetheless, under normal circumstances MassHousing would rather not make direct payments from the Replacement Reserve to vendors.

- 5.) It is expected that all Replacement Reserve requests from the prior calendar year be submitted by the end of February of the following calendar year or two months following the end of the fiscal year.

- 6.) Owners are required to notify MassHousing of any insurance claims at the time of occurrence. In the event the property suffers damage that results in an insurance claim it is understood that advances may be necessary to address immediate needs until such a time as insurance proceeds are received. It is further understood that once the insurance proceeds are received, the Replacement Reserve account will be fully reimbursed for all related advances.
- 7.) Developments that are delinquent may not eligible for Replacement Reserve disbursements. However, the Portfolio Manager may determine that it is in the best interest of the development to approve a request for disbursement despite the delinquency.
- 8.) Whenever possible, capital improvements should take into consideration energy conservation measures to include Energy Star standards. We encourage Green Technology initiatives where affordable to a development's Replacement Reserve account and cost effective.

## **II. Required Documentation for Replacement Reserve Reimbursement Requests**

In order to process a disbursement from the Replacement Reserve account, Owners shall provide appropriate documentation for each request. MassHousing will make every effort to issue a reimbursement check to the Owner within 21 days of receipt, and any changes and/or disallowances to the request will be communicated to the Owner in writing. Appropriate documentation includes the following:

- 1.) A cover letter that reflects the full amount of the request and provides a brief description of the work.
- 2.) A spreadsheet that includes each item requested for reimbursement, inclusive of the following information:
  - Vendor Name
  - Invoice Number
  - Invoice Date
  - Check number
  - Amount Paid
  - Date paid
  - Building/ Unit Number
  - Brief description of the work

\*\*[See Exhibit A], Replacement Reserve Reimbursement Spreadsheet.

- 3.) Invoices submitted in the sequence of the spreadsheet and include the following:
  - Development Name
  - Unit number or location of work performed
  - Name of development and area or unit number where work was performed
  - Name and address of vendor
  - Vendor telephone number
  - Invoice number
  - Date of service/delivery date
  - Invoice total
  - Description of work/purchase
  - Pricing/Cost

- 4.) Proof of payment that includes the following:
- A fully completed management company processing stamp imprint that reflects the date of the check, check number, amount paid, initials indicating approval of the payment, and the internal chart of accounts number; or
  - A copy of the check register/check run report; or
  - A wire transfer record; or
  - A copy of the check.
- 5.) Total cost calculation for all sites and the method of allocation for purchases allocated among multiple sites.

Note: While not required, the attached Documentation Checklist [Exhibit B] is intended to assist Owners in completing the reimbursement package.

### **III. Eligible Expenditures**

Building components generally tend to fall into two categories: 1.) Items that are usually considered to be capital items and are eligible for reimbursement from the Replacement Reserve account and 2.) Items that are usually considered routine maintenance and are not eligible for reimbursement from the Replacement Reserve account.

These guidelines along with other relevant sources and HUD Handbooks will be referred to for guidance should questions arise regarding the eligibility of an item for reimbursement. Please contact the Asset Manager for further guidance regarding items not included in the list below.

Replacement Reserve eligible expenditures include, but are not limited to the following items:

- 1.) Replacement of refrigerators, ranges, and other major appliances in the dwelling units.
- 2.) Replacement of kitchen and bathroom sinks and countertops, bathroom tubs, water closets and interior and exterior doors.
- 3.) Major roof repairs, including major replacements of gutters, downspouts and related eaves or soffits.
- 4.) Major plumbing and sanitary system repairs.
- 5.) Replacement or major overhaul of central air conditioning and heating systems, including cooling towers, furnaces, temperature controls, boilers, and fuel storage tanks.
- 6.) Major overhaul of elevator systems.
- 7.) Major repaving/resurfacing/seal coating of sidewalks, parking lots and driveways.
- 8.) Major repainting of the building exterior and interior common areas.
- 9.) Extensive replacement of siding.
- 10.) Extensive replacement of exterior (lawn) sprinkler systems.
- 11.) Replacement of or major repairs to a swimming pool.
- 12.) Projects involving finished floors, floor tile and floor coverings, which are not “routine maintenance” in nature.

- 13.) Significant replacement of windows, including glass, jambs, casing, sash, aprons and sills.
- 14.) Significant upgrading or replacement of fire alarm systems, components and fire stop systems.
- 15.) Certain payables. e.g. to avoid utility shut off “in extreme cases”.
- 16.) Consultations with Engineering, Architectural and other professional firms for design services, bid preparation and third-party construction monitoring of capital projects.
- 17.) Capital Needs Study.
- 18.) Common area refurbishment and renovation.
- 19.) Fencing replacement projects.
- 20.) Maintenance Vehicles (trucks, plows, heavy-duty lawn mowing equipment). MassHousing must approve these requests in advance.
- 21.) Commercial Space Upgrades and Build Out Costs – Under normal circumstances it is expected that the commercial tenant will assume the costs. In exceptional circumstances such as adverse market conditions, the Agent may request MassHousing approval in advance to cover costs related to commercial space build out and upgrades. Such a request will be considered in the context of other capital need priority demands on the Replacement Reserve account.



#### **IV. Examples of Ineligible Expenditures**

Expenditures that are typically considered routine maintenance items are normally not eligible for reimbursement. However, exceptions may be made under certain circumstances. If you have questions related to the eligibility of a particular item, please contact the Asset Manager for further guidance.

Typical ineligible expenditures include, but are not limited to:

- 1.) Repainting of units.
- 2.) Replacement of range burners, bibs, oven elements, controls, valves, wiring, etc.
- 3.) Replacement of dwelling unit air conditioning components such as fan motors and window unit compressors.
- 4.) Minor repairs to central air conditioning and heating systems such as valve replacements and the cleaning of boiler interiors.
- 5.) Minor roof repairs, including minor repairs to gutters and downspouts.
- 6.) Minor paving repairs.
- 7.) Routine caulking and sealing repair.
- 8.) Routine window and screen repairs.
- 9.) Purchase of maintenance tools and equipment.
- 10.) Purchase of minor office equipment such as calculators, postage meters and date stamp machines.
- 11.) Inspection/recharging/replacement of fire extinguishers.
- 12.) Model unit furnishings.
- 13.) Interest or late-payment charges.
- 14.) Other items generally considered to be routine maintenance and supplies.

## **V. Loans and Advances from the Replacement Reserve Escrow Account**

Upon receipt of a written request from the Owner, the Manager of Asset Management may approve advances and loans from the Replacement Reserve account to supplement operating income of a development under extraordinary circumstances. Such circumstances may include (a) a delay in subsidy payments and (b) emergency payment of debt service, utilities, taxes, insurance.

The loan will be formalized by a written repayment agreement and will bear an interest rate of zero percent. In cases where an advance is necessary to cover a delay in subsidy payments, the advance will be repaid upon receipt of the subsidy payment. See attached sample repayment agreements: Exhibit C, Agreement to Repay Funds Advanced From the Replacement Reserve account for Subsidy Shortfall, and Exhibit D, Agreement to Repay Loan from Replacement Reserve.

**Exhibit A**

**Replacement Reserve Reimbursement Spreadsheet**

<b>Vendor</b>	<b>Invoice Number</b>	<b>Invoice Date</b>	<b>Check Number</b>	<b>Amount Paid</b>	<b>Date Paid</b>	<b>Building Number</b>	<b>Description of Work</b>

**Exhibit B**

**DOCUMENTATION CHECKLIST  
FOR REPLACEMENT RESERVE REIMBURSEMENT REQUESTS**

<b>REQUIRED ITEMS</b>		
<b>1. COVER LETTER</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>2. SPREADSHEET WHICH INCLUDES:</b>		
Vendor Name	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Invoice Number	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Invoice Date	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Check Number	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Amount Paid	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Date Paid	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Building / Unit Number	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Brief description of work	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>3. ARE THE INVOICES IN THE ORDER OF THE ITEMS LISTED ON THE SPREADSHEET?</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>4. INVOICES WHICH CONTAIN THE FOLLOWING INFORMATION:</b>		
Name of the development	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Unit Number of Building	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Name and Address of Vendor	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Telephone Number of Vendor	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Invoice Number	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Date of Service or delivery date	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Amount of invoice	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Description of work / purchase	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Price / Cost	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>5. PROOF OF PAYMENT</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<ul style="list-style-type: none"> <li>a) Processing stamp which includes the check number; amount paid, internal chart of account number, and approvers initials, or</li> <li>b) Copy of check register/check run report, or</li> <li>c) Wire transfer record, or</li> <li>d) Copies of cancelled checks</li> </ul>		

**Exhibit C**

**MASSHOUSING  
AGREEMENT TO REPAY FUNDS ADVANCED FROM REPLACEMENT RESERVE  
FOR SUBSIDY SHORTFALL**

WHEREAS \_\_\_\_\_ (Owner or the Partnership) is the owner of a development known as \_\_\_\_\_ MHFA# \_\_\_\_\_ located in \_\_\_\_\_, and

WHEREAS under the terms of a Regulatory Agreement dated \_\_\_\_\_ between the Owner and MassHousing (the Agency), Owner is required to establish and maintain a reserve fund for replacements in an escrow account controlled by the Agency (the Replacement Reserve Account), and

WHEREAS Owner wishes to transfer a portion of said funds, in the amount of \_\_\_\_\_, to the operating account of said development for the purpose of \_\_\_\_\_, which use is other than a generally permitted use for said reserves, [or causes the balance in the reserves to be less than that necessary to meet the anticipated future needs of the development] and

WHEREAS the Owner agrees to redeposit such funds in the Replacement Reserve Account on the following terms:

One payment in full of \$ \_\_\_\_\_ dollars upon receipt of the approved Section 8 Voucher amount for the month of \_\_\_\_\_, which sum includes interest of the unpaid balance of 0 percent per year.

NOW THEREFORE, MassHousing approves the proposed transfer and repayment of such funds and gives its consent to the release of said funds under the above referenced terms and conditions,

And the parties FURTHER AGREE that

No General or Limited Partner of the Owner shall have any personal liability hereunder, and the Agency shall look only to the assets of the partnership for such payment or performance of this agreement.

AGENCY:

\_\_\_\_\_ Date: \_\_\_\_\_  
Manager of Asset Management  
MassHousing

OWNER: \_\_\_\_\_ Date: \_\_\_\_\_

**Exhibit D**

**MASSHOUSING  
AGREEMENT TO REPAY LOAN FROM REPLACEMENT RESERVE**

WHEREAS \_\_\_\_\_ (Owner or the Partnership) is the owner of a development known as \_\_\_\_\_ MHFA# \_\_\_\_\_ located in \_\_\_\_\_, and

WHEREAS under the terms of a Regulatory Agreement dated \_\_\_\_\_ between the Owner and the MassHousing (the Agency), Owner is required to establish and maintain a reserve fund for replacements in an escrow account controlled by the Agency (Replacement Reserve Account), and

WHEREAS Owner wishes to use a portion of said funds, in the amount of \$ \_\_\_\_\_, for the purpose of \_\_\_\_\_, and.

WHEREAS the Owner agrees to redeposit such funds in the Replacement Reserve Account on the following terms:

Payment made in full of \$ \_\_\_\_\_ dollars upon positive cash flow, which sum includes interest of the unpaid balance of -0- percent per year. For the purpose of this agreement "positive cash flow" shall mean for each calendar year the amount shown as a gain or as a positive amount on the "Net Available for Equity" line (F.C.-1 line 80) of the standard Agency reporting from required to be submitted to MassHousing with the annual audit. Payment of the loan is to be made annually, subject to MassHousing approval, after its reconciliation of the development's annual audit.

It is agreed no distribution will be allowed or paid from project funds until the repayment of the Replacement Reserve loan is made in its entirety.

NOW THEREFORE, MassHousing approves the proposed disbursement and repayment of such funds and gives its consent to the release of said funds under the above referenced terms and conditions,

AND the parties FURTHER AGREE that

No General or Limited Partner of the Owner shall have any personal liability hereunder, and the Agency shall look only to the assets of the partnership for such payment or performance of this agreement.

AGENCY

\_\_\_\_\_  
Date: \_\_\_\_\_  
Manager of Asset Management  
MassHousing

OWNER: \_\_\_\_\_ Date: \_\_\_\_\_

## **Addendum I**

### **Process Changes**

Management companies should submit replacement reserve reimbursement requests by either sending an email to MassHousing, using the following email address: [ReplacementReserveMailbox@MassHousing.com](mailto:ReplacementReserveMailbox@MassHousing.com) or by mailing the request to the attention of Rental Management administrative staff.

Once the submission is received, it is logged in, assigned a tracking number, and forwarded to the assigned asset manager via email. A confirmation email acknowledging receipt is sent to the management company with the tracking number and name of the assigned asset manager. The asset manager will process the request within 14 business days of receipt in order to ensure reimbursement within 21 days.

Upon receipt of the request the asset manager reviews the submission to determine completeness and, if required, requests additional information. The additional information is needed within 3 days. If not received within 3 days the request is either partially approved or returned to the management agent for resubmission.

Once the asset manager has reviewed the request, an email is sent to the agent explaining his or her decision to approve, deny or partially pay the requested amount. The approved package is then forwarded to Loan Servicing for payment.