MaineHousing
MAINE STATE HOUSING AUTHORITY

Replacement Reserve Account Guidance and Requirements

MaineHousing (MH) requires that a Replacement Reserve account be established and funded at project development with on-going deposits to help match future funds needed for replacement costs of existing major **capital items** throughout the property's life cycle.

MaineHousing's benchmark for MH financed properties is that a minimum threshold be maintained in the Replacement Reserve Escrow Account in the amount of $1,500 per unit for family projects and $1,000 per unit/bed for elderly and supportive housing projects at all times to ensure that adequate funding levels are available when emergency situations arise. However, this should be viewed as a general assessment, and Replacement Reserve funding needs may vary depending on project specific conditions.

Capital vs. Maintenance Operating Expense

Capital Expense – Major capital improvements/fixed asset replacements to maintain the physical integrity and upkeep of a property are typical allowable reimbursements from the Replacement Reserve Account. Traditional capital items include but are not limited to:

1. Replacement of refrigerators, ranges, and other major appliances in the dwelling units.
2. Replacement of kitchen and bathroom cabinets, sinks and counter tops, bathroom tubs, toilets, and doors (exterior and interior). Before beginning this work, please consult your Asset Manager to see if UFAS (Section 504)/ADA 2010 may apply.
3. Replacement of unit or common area flooring.
4. Major roof repairs, including major replacements of gutters, downspouts, related eaves or soffits, and replacement of roof shingles of full roof.
5. Major plumbing and sanitary system repairs.
6. Replacement or major overhaul of central air conditioning and heating systems, including cooling towers, water chilling units, furnaces, stokers, boilers, and fuel storage tanks.
7. Overhaul of elevator systems.
8. Major repaving/resurfacing/seal coating (sidewalks, parking lots, and driveways).
9. Repainting of the entire building exterior and common area spaces.
10. Extensive replacement of exterior siding or repointing (masonry exteriors).
11. Extensive replacement of exterior (lawn) sprinkler systems.
12. Replacement of Grounds maintenance equipment
13. Major repair of/or replacement of sprinkler and alarm systems including a comprehensive upgrade/replacement of all smoke detectors at the project
14. Capital Needs Assessments completed by Independent third party (no Identity of Interest) – use of RR limited to once every 5 years
15. Replacement windows
16. Accessibility improvements/upgrades

Requests for use of Replacement Reserves for new capital items or enhancements to a project will be considered on a case by case basis using one or more of the following criteria in eligibility determination:

- New item/enhancement results in enhancing the mortgage security
- Is necessary to comply with changes in local, state or federal laws
- New Item/Enhancement addresses tenant life safety concerns
- Use of Replacement Reserve for the new item/enhancement will not deplete the reserve account to inappropriate levels

Requests for the use of Replacement Reserve funds to pay for Reasonable Accommodation modifications will be considered on a case by case basis but will generally be viewed as an eligible use.

The use of Replacement Reserve funds to cover casualty losses or the insurance deductible related to property losses are not an allowable use of the funds in the account. Insurance deductibles must be paid from the property's operating account or by the owner. Exceptions to this will be considered on a case by case basis and may be granted if conditions require it and there are adequate funds available.

Maintenance Expense – any and all regular and recurring expenses associated with maintaining the physical integrity and upkeep of the property not otherwise considered a capital expense including unit turnover expenses. Maintenance items typically include:

1. Repainting of interior areas of projects, not including common area space.
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, sealing, and/or striping.
7. Caulking and sealing.
8. Window and screen repairs.
9. Purchase of maintenance tools and equipment such as lawn mowers or snow blowers that were never part of the project capital inventory.
10. Inspection/recharging/replacement of fire extinguishers.
11. Other items generally considered to be routine or scheduled maintenance.
12. Office equipment and furniture

Capital Improvements completed on a MaineHousing-funded project must meet the construction standards outlined in "MaineHousing's Design & Construction Manual for Existing Housing" located at:
https://mainehousing.com/docs/default-source/asset-management/manuals-guides/design-and-construction-manual-for-existing-buildings.pdf

Bidding Requirements

Owner/Managers must obtain three (3) bids for all contracts over $20,000. MaineHousing understands there may be instances when three bids cannot be obtained due to lack of adequate vendors/suppliers or infeasibility due to the severity of the issue/repair (emergency situations).

When three bids cannot be obtained, explanations/clarification should be submitted to MaineHousing clearly documenting the steps taken to obtain the bids. *Identity of Interest bidders must be disclosed and must obtain a minimum of two (2) other bona fide bids.*

Bids should be submitted to MaineHousing for review and approval prior to the awarding of any contract. Bids must clearly identify the scope of work and specifications for the job being bid on. The final job completion must meet MaineHousing standards as outlined in the Asset Management Design and Construction Manual for Existing Buildings.

For contracts less than $20,000, verbal or written estimates should be obtained and documented in a file at the property to support the expenses. Although not required for low cost jobs/items, it is a good business practice to obtain more than one estimate or perform price comparisons to ensure you are getting fair pricing that is consistent in the marketplace. Notwithstanding the contract dollar amounts, the following items **require** the review and approval of MaineHousing **before** a contract is awarded:

Floor covering change (from one type to another)
Doors/Window Replacement
Internal Communications Systems Change
Roof replacement/repair
Drainage Correction
Heating System Replacement/Conversion
Space Change
Foundation Repairs
Addition of Insulation
Concrete Replacement/Repair
Repaving and/or Sealing of Pavement
Water Leak issues
Paving Expansion
Venting and Moisture
Energy Improvements
Damage due to Fire/Water*
Siding Replacement/Change

*Note – MH recognizes that some situations may be emergency in nature and require immediate action without following the outlined protocol above. In those instances, the Owner/Manager must notify MH as soon after the occurrence as possible and provide an update of steps taken.

Replacement Reserve Account Use

For replacement reserve eligible items (items denoted as capital expenses above); once the work has been completed, Owners/Managers will need to submit an MD-130 request for authorization of use of replacement reserve funds along with any required supporting documentation (i.e. final invoice, materials lists, evidence of payment (cancelled check or check stub), Seen and Agreed to document

if applicable, and Final Lien Release) to eprocessing@mainehousing.org . The Request for Release of Restricted Funds (MD-130) form is located on the MaineHousing website at: https://mainehousing.org/docs/default-source/asset-management/forms/md-130-request.pdf

Approval of Replacement Reserve requests are at the discretion of MaineHousing and its use for items that are otherwise deemed eligible capital items may be denied due to lack of adequate reserve levels based on long-term capital need requirements and/or project cash flow or for failure to complete the work to MaineHousing standards.

MaineHousing strongly recommends MD-130 requests be submitted monthly, or quarterly at a minimum. Adopting this protocol will help ensure a more timely turnaround of the request by MH staff. Submissions held until year end may have a delay in turnaround due to increased volume received at MH as management companies close out the books. These delays could potentially impact the project's year-end audit. Reimbursement requests for use of Replacement Reserve for prior year expenses will not be approved after 60 days beyond the property's fiscal year end.

For completed jobs identified as not meeting MaineHousing specifications and the items are not easily correctable to industry standards, the following protocol has been adopted to address the issue:

- **First offense**: MaineHousing will call out the deficiency to management with a warning and reiteration that the standards must be followed. Unless serious and extensive variations to the standards are identified, the use of Replacement Reserve will be allowed with the first offense.

- **Second offense**: MaineHousing will not allow the use of Replacement Reserve to pay for the portion of the job deficient in meeting the MaineHousing standards.

Note: These offenses are reviewed on an owner/manager basis, not by property.

It is the responsibility of the Owner/Manager to ensure the workmanship of contractors hired to complete the work. The job site should be visited regularly to check the progress of the work; to ensure the quality of the workmanship; and to validate that the correct products are being utilized and applied. If MaineHousing identifies consistent failure on the part of the management company in performing its oversight function of physical plant activity at a property, the facts will be considered in the Management and Occupancy Review and impact the scoring of the applicable section of that review.

Noted recurrences of a contractor bidding work as meeting MH specs with the subsequent installation of inferior products is considered unacceptable. In addition, the subsequent billing at bid prices when inferior/cheaper products have been used is considered unethical. If the Owner/Manager continues to do work with a company identified as having repeated occurrences of either of these behaviors, MH at its discretion may implement additional oversight requirements of the work to be performed including review of material purchases before installation and additional oversight of the job during work in progress.

Capital Needs Assessments (CNAs)

Although not required, it is a best practice in the Industry for project owners/managers to hire a qualified Independent 3rd party contractor to complete a Capital Needs Assessment that covers a 20 year period for each of their projects. These CNAs should be updated no less than every 10 years with 5 year intervals being the industry best practice.

Copies of the completed CNAs shall be provided to MaineHousing for reference and may be used in evaluating the annual budget submissions for capital items. Replacement Reserves are an eligible use for this purpose.

Loans from the Replacement Reserve

On a case-by-case basis MaineHousing may approve a request by the Owner/Manager to borrow funds from the Replacement Reserve for other than eligible Replacement Reserve items that are necessary for/ benefit of the property. A defined repayment schedule will be established and executed between MaineHousing and the Owner. The amount of the loan against reserves may not exceed the reserve balance at the time of loan.