



## ***Oregon Housing and Community Services***

### **Reserve for Replacement Table of Contents**

SECTION 1: OVERVIEW .....	3
1. Authority through Loan Documents and HUD .....	3
2. Authority through OHCS Finance Committee.....	3
3. Applicable OHCS Programs.....	3
4. Purpose of Reserve for Replacement .....	3
SECTION 2 DEFINITIONS .....	3
1. Capital Items .....	3
2. Extraordinary Repair or Maintenance.....	4
3. Loan Documents .....	4
4. Management Agreement.....	4
5. Reserve for Replacement “Account” .....	4
6. Reserve for Replacement “Job” .....	4
7. Reserve for Replacement “Project” .....	4
SECTION 3: MINIMUM BALANCE REQUIREMENT .....	5
1. Section 8 .....	5
2. Risk Sharing.....	5
3. Elderly/Disabled .....	5
SECTION 4: ACCEPTABLE USE FOR ACCOUNT FUNDS.....	5
SECTION 5: EXTRAORDINARY REPAIRS AND MAINTENANCE .....	6
SECTION 6: EMERGENCY REPAIR.....	6
SECTION 7: REQUEST TO RELEASE FUNDS GENERAL INFORMATION .....	7
1. Compliance with Loan Documents.....	7
2. Bids and Estimates Over \$10,000 .....	7

3. Account Balance Below the Minimum ..... 7

4. 30 Days to Complete Request ..... 7

SECTION 8: PROCESS TO REQUEST RELEASE OF FUNDS..... 7

SECTION 9: INCREASES TO THE ACCOUNT..... 8

SECTION 10: SUSPENSION OF MONTHLY DEPOSITS..... 8

SECTION 11: INVESTMENT OF ACCOUNT FUNDS ..... 8

EXHIBIT A – RESERVE FOR REPLACEMENT ITEMS..... 9

Section A-1: ELIGIBLE REPLACEMENT ITEMS ..... 9

Appliances..... 9

Interior Decorating..... 9

Exterior..... 9

Plumbing ..... 10

Air Conditioning Equipment..... 10

Heating System..... 10

Miscellaneous ..... 10

Section A-2: INELIGIBLE RESERVE FOR REPLACEMENT ITEMS ..... 11

Equipment and Fixtures ..... 11

Plumbing ..... 11

Interior Decorating..... 11

Electrical..... 11

Miscellaneous ..... 11



## **Oregon Housing and Community Services**

### **Reserve for Replacement**

#### **SECTION 1: OVERVIEW**

**1. Authority through Loan Documents and HUD**

Department Loan Documents, and HUD 4350.3, HUD 4350.1 (if applicable)

**2. Authority through OHCS Finance Committee**

Finance Committee Motion dated April 28, 2006 which adopted as policy “that Borrowers have five years to establish a two year balance in the replacement reserve account, determined by the initial deposit amount x 24 months; that the annual replacement reserve amount will inflate each year at 3%; and, that no maximum amount shall be determined. The policy is to be implemented immediately, with existing projects in the portfolio receiving notification of the 3% inflation to the reserve account to begin January 2007.” (See attached Motion).

**3. Applicable OHCS Programs**

All multi-family housing projects financed through bond issuance by Oregon Housing & Community Services (the “Department”), with the exception of the Conduit Program (Pass-Through Revenue Bond Program).

**4. Purpose of Reserve for Replacement**

A Reserve for Replacement is established to assure sufficient funds are available to pay for Operating Expenses, Loan and other obligations, including the maintenance of required reserve and escrow accounts before break-even occupancy and to fund extraordinary maintenance or repair and the replacement of Capital Items.

#### **SECTION 2 DEFINITIONS**

**1. Capital Items**

Capital Items “shall mean any personal or real property and improvements, including, but not limited to real estate, fixtures, machinery, appliances, stock or furniture with a value or replacement cost exceeding \$1,000,” unless otherwise defined in the Loan Documents.

If Capital Items are not defined in the Loan Documents, use the following definition:

Capital Items shall mean any personal or real property and improvements, including, but not limited to real estate, fixtures, machinery, appliances, stock or furniture with a value or replacement cost exceeding \$500.

**2. Extraordinary Repair or Maintenance**

Extraordinary repair or maintenance is the maintenance or repair that will result in extending the life of the item for five years or more.

**3. Loan Documents**

Loan Documents shall mean the Project's loan documents, including, but not limited to, the Promissory Note, Trust Deed, Regulatory Agreement, Loan Agreement, Management Agreement, Commitment Letter, Side Letter (if any), and State Housing Council Write-Up.

**4. Management Agreement**

Management Agreement shall mean a management agreement between the Borrower and a management agent, as approved by the Department, or between Borrower and the Department, if Borrower is acting as the management agent for the Project. The agreement will identify the terms, conditions and covenants that must be adhered to in a reasonable prudent business manner.

**5. Reserve for Replacement "Account"**

Reserve for Replacement Account (Account) is an account established upon the first mortgage payment, and is under the control of the Department, with the Department or in a depository designated by the Department. The Borrower must maintain a specified level of reserves in the Account by making deposits as designated in the Loan Documents. Requests for disbursements from the Account can only be made with the written approval of the Department.

**6. Reserve for Replacement "Job"**

A reserve for replacement "Job" includes replacement of item(s) that individually would not qualify for reimbursement from the Account, but are completed within 14 days for the same unit, which shall cause the item(s) to qualify for reimbursement.

Example: Unit 1 had the stove, dishwasher, and a toilet replaced. Individually these items do not qualify for reimbursement, but as a "Job" they provide adequate replacement cost to be eligible.

**7. Reserve for Replacement "Project"**

A reserve for replacement "Project" includes replacement of item(s) that individually would not qualify for reimbursement from the Account, but are covered under one

contract or invoice within a 90-day period, which shall cause the item(s) to qualify for reimbursement.

Example: Units 1, 3, 5, 6, and 9 received replacement dishwashers. Individually the dishwashers did not qualify for reimbursement, but as a “Project” they provide adequate replacement cost to be eligible.

### **SECTION 3: MINIMUM BALANCE REQUIREMENT**

#### **1. Section 8**

Minimum balance of 24 times the monthly Reserve for Replacement deposit

#### **2. Risk Sharing**

Minimum balance of 24 times the monthly Reserve for Replacement deposit

#### **3. Elderly/Disabled**

Minimum balance of 12 times the monthly Reserve for Replacement deposit

##### Elderly/Disabled with Minimum Balance in Loan Agreement

There are eleven (11) projects that have minimum balance language in their Loan Agreement. The language may be similar to: “HCS may disapprove a request if the balance in the account is less than an amount equal to 12 monthly payments to the account, plus any insurance deductible required.”

Unless there are circumstances requiring a larger minimum for a project, apply the minimum balance requirement as set forth above. The projects affected include:

- Bridgewood Rivers
- Deerfield Village
- Emerald Valley ALF
- Eugene Hotel
- Forest Grove Beehive
- Fountain Plaza
- Juniper House
- Lancaster Village
- Meadow Creek Village (ALF)
- Rackleff House
- Villas of McMinnville

### **SECTION 4: ACCEPTABLE USE FOR ACCOUNT FUNDS**

The acceptable use of the Account (unless otherwise defined in the Loan Documents) is (see Exhibit A):

- Future replacement of Capital Items;

- Replacement of parts if:
  - (a) The part increases the original estimated life of the fixture or appliance by at least five years; or
  - (b) The part qualifies for replacement as described in the Loan Documents; or
  - (c) It is more cost effective to repair the fixture or appliance than it is to replace it and it meets the requirements of the Loan Documents; and
- Extraordinary repairs or maintenance
- Replacement qualifies as a reserve for replacement “job” or “project” (see Definitions above).

## **SECTION 5: EXTRAORDINARY REPAIRS AND MAINTENANCE**

Extraordinary maintenance or repair is maintenance or repair that will result in extending the life of the item for five years or more.

Improvements to enhance livability or to increase the project’s value or to improve the marketability of the development, such as the following:

- Purchase of a van to make transportation more readily available to the residents;
- Addition of a solarium or activity room to an existing facility;
- Purchase or addition to playground equipment;
- Improvement of the security system;
- Construction of a greenhouse for the residents;
- Remodeling of units to increase their livability and marketability; and
- Improvement of the access to the development or its visibility to make the development more marketable (e.g. new signs, etc.).

Examples of repairs or maintenance items necessary for the routine upkeep of property or equipment that are not considered extraordinary are described in Exhibit A.

## **SECTION 6: EMERGENCY REPAIR**

If the repair is an emergency, the Department may grant verbal approval (i.e. over the telephone or via e-mail). An emergency replacement or repair item must relate to the following:

- (a) Requires immediate action to remedy;
- (b) Threatens the safety or well being of the tenant(s) or the property; and
- (c) The cause could not have been foreseen by a reasonable and prudent business person in the same or similar situation, such as a tree blowing over in a strong wind crushing a roof; a pipe bursts and causes flooding; the failure of a heating system, etc.

Payment of an emergency repair will be made upon receipt of supporting documentation. In addition, the Department may also request additional documentation indicating what portion, if any, of the repair will be covered by insurance.

## **SECTION 7: REQUEST TO RELEASE FUNDS GENERAL INFORMATION**

### **1. Compliance with Loan Documents**

Insure that request is in compliance with all documents including the Loan Agreement, Regulatory Agreement, and the Management Agreement. The Management Agreement defines the expense authority given the management agent. If request exceeds this authority, written approval from the designated owner must accompany the request.

### **2. Bids and Estimates Over \$10,000**

The Department requires three bids/estimates if the expense will exceed \$10,000.00, unless otherwise approved the Section Manager. The Department may request alternative estimates from third parties if the cost appears inconsistent with comparable costs. The Department will review the bids prior to issuing written approval/denial of the request.

### **3. Account Balance Below the Minimum**

If the request to release will decrease the Account balance below the required minimum balance, the Section Manager must approve it.

### **4. 30 Days to Complete Request**

All requests for release of Account funds shall be reviewed and completed by the Department within 30 days of receipt of a complete request. The only exception will be requests that require in-depth analysis due to the technical nature of the request or the volume of the request. Incomplete requests may be returned to Owner and/or Agent for completion.

## **SECTION 8: PROCESS TO REQUEST RELEASE OF FUNDS**

The following list includes the requirements to release funds:

- (a) Owner and/or Agent must submit request in writing;
- (b) Request must include invoices dated within the last 12 months;
- (c) Description of the Capital Item, extraordinary repair or maintenance, or improvement item;
- (d) The cost of the Capital Item, extraordinary repair or maintenance, or improvement item;
- (e) Specific unit numbers, when applicable; and
- (f) Justification that the item is either an extraordinary repair or a maintenance replacement of a Capital Item (or is an improvement item).

**SECTION 9: INCREASES TO THE ACCOUNT**

Account deposits may be increased as allowed in the Loan Documents. The Department Finance Committee approved a motion to increase the Account at an annual inflation rate of 3% effective January 2007 (see Section 1, above). Implementation has been delayed due to vacancies and the freeze of median incomes. The account will be reviewed annually and if determined appropriate by the Department, the increase will be implemented.

Owners should review the adequacy of the account on an ongoing basis. The Owner and/or Agent should periodically perform an analysis of the Account.

**SECTION 10: SUSPENSION OF MONTHLY DEPOSITS**

Requests to suspend deposits to the Account may be made by the Owner when the balance has reached the amount stated in the Loan Documents. Once the balance drops below that amount, the Borrower shall resume monthly deposits until the balance again equals the amount stated in the Loan Documents.

**SECTION 11: INVESTMENT OF ACCOUNT FUNDS**

Account funds must be fully insured by the FDIC or invested in direct obligations of the federal government satisfactory to the Department. When the balance in the Account exceeds the minimum level required by the Loan Documents or \$100,000, whichever is less, the Borrower may direct the Servicer to invest a portion of the funds, subject to Servicer's approval. Further information concerning the investment of funds, the Department's Servicer should be contacted.

**EXHIBIT A – RESERVE FOR REPLACEMENT ITEMS**

**Section A-1: ELIGIBLE REPLACEMENT ITEMS**

When submitting for reimbursement the total cost of the following items may include labor and **must meet or exceed a minimum of \$500.00, or the amount specified in the Loan Documents.** These submissions may have items batched together as long as the submission is for a **single “Job” or “Project” (see Definitions), not a collection of randomly completed repairs/replacements.**

**\*\*These items are exempted from (do not need to meet or exceed) the minimum total cost.**

<b>Eligible Replacement Items</b>	<b>Estimated Life Range (Years)</b>
<b>Appliances</b>	
Air Conditioners in Units (must be professionally installed)**	10 –15
Dishwashers (must have been installed originally)	10 –15
Exhaust Fans	8 –10
Laundry Washers and Dryers	10 –15
Ranges**	8 –15
Refrigerators**	10 –12
Water Heaters in Units**	7 –15
<b>Interior Decorating</b>	
Cabinets and Countertops (entire kitchen and bath)	15 –20
Carpet	5 – 10
Drapes, Shades, Blinds, Rods	5 – 20
Doors	15 – 20
Electrical Fixtures	20 – 25
Floor Tile and Vinyl	10 – 15
<b>Exterior</b>	
Asphalt – Resurfacing	10 – 15
Asphalt – Sealcoating	5 – 10
Concrete Walks and Curbs	15 – 25
Doors	15 – 20
Downspouts, Gutters, Roofing, Shingles, Tile, etc	15 – 25
Painting	5 – 10
Siding	15 – 20
Sprinkler System	20 – 25
Storm Windows and Patio Sliders	15 – 20
Windows	15 – 25

<b>Eligible Replacement Items</b>	<b>Estimated Life Range (Years)</b>
<b>Plumbing</b>	
Bathtubs	20 – 25
Bathroom Sinks	20 – 25
Fixtures	30 – 40
Kitchen Sinks	25 – 30
Plumbing Systems	40 – 50
Toilets, Valves, etc.	20 – 25
<b>Air Conditioning Equipment</b>	
Chillers	5 – 10
Compressors	5 – 10
Fans, Motors, etc. (central air systems only)	10 – 15
<b>Heating System</b>	
Baseboard Heaters (entire unit)	15 – 25
Boilers	20 – 30
Central Heating System	5 – 15
FWA Gas Furnaces	15 – 20
Pumps, Valves, etc.	15 – 20
<b>Miscellaneous</b>	
Computer System – Initial Set-Up (excludes upgrades)	5 – 10
Copiers, Fax Machines, etc.	5 – 20
Elevator	20 – 30
Energy Conservation Items	5 – 30
Safety/Security Systems	15 – 20
Smoke Detectors	15 – 25
Swimming Pools	15 – 25

**Section A-2: INELIGIBLE RESERVE FOR REPLACEMENT ITEMS**

The following items are **INELIGIBLE** for reserve for replacement reimbursement, unless the Loan Documents specifically allow for reimbursement (i.e., “painting and decorating”):

<b><u>Ineligible Replacement Items</u></b>
<b>Equipment and Fixtures</b>
Golf Carts
Tools
Vacuum Cleaners
Weight Room Equipment
<b>Plumbing</b>
Plumbing Materials (including hoses, cesspool/septic system maintenance, etc.)
Toilet Seats (unless replacing entire toilet)
<b>Interior Decorating</b>
Interior Painting (including supplies such as paint rollers, masks, putty knives, etc.)
Molding Replacement (unless necessary because of floor or carpet replacement)
<b>Electrical</b>
Replacement of Breakers, Switches, Outlets, etc.
<b>Miscellaneous</b>
Asphalt Patching
Landscaping Supplies and Shrubbery
Re-keying Locks
Roof Maintenance (i.e., moss removal, installation of zinc strips, etc.)