

Community Development Authority of the City of Madison  
Financial Policies

Last Updated 3/07/2018

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## Section 500 General Administrative Policies

### 500.10.20190314 – CDA Financial Policies

#### **I. Purpose and General Statements of Intent**

This policy establishes regular review of the CDA Financial Policies and delegates limited authority from the CDA Board to the CDA Finance Subcommittee.

#### **II. Background and Related Policies**

Madison General Ordinance 3.17(7) reaffirms the CDA Board's authority to create rules and regulations as it deems necessary in the performance of its functions. Further, the Board may delegate powers and duties as it deems proper.

Under its Bylaws, the CDA shall have a Finance Subcommittee pertaining to the financial condition of the CDA and the properties it owns and operates. The Bylaws permit subcommittees to exercise any powers delegated by the Board.

#### **III. Definitions**

##### A. Financial Policy

A financial policy defines the Board's intent for the administration and stewardship of CDA resources. Financial policies are generally recommended by the Finance Subcommittee to the Board for approval. In the CDA, these policies are identified by policy numbers in the 500 and 600 ranges.

#### **IV. Policy**

##### A. Financial Policy Approval

In the exercise of its duties, the Finance Subcommittee shall recommend financial policies to the CDA Board for approval as needed. Financial policies approved by the Board will be assigned a policy number in the 500 range for general financial matters and in the 600 range for procurement.

##### B. Financial Policy Review

Approved financial policies shall be reviewed by the Finance Subcommittee for reauthorization every four years ("Policy Review"). Financial policies under review shall remain in effect until the Policy Review is complete.

Following the Policy Review, the policy and any revisions shall be recommended by the Finance Subcommittee to the Board for approval.

The CDA Board retains the authority to create, modify, or discontinue any financial policy at its discretion notwithstanding the Policy Review schedule.

##### C. Administrative and Typographical Updates

If administrative or typographical updates to a policy are needed between Policy Reviews, the Board delegates authority to the Finance Subcommittee to approve such changes.

**D. Absence of CDA Policies**

In the absence of a CDA policy, federal, state, and City of Madison statutes and policies, in order of priority, shall apply.

**V. Examples**

None.

**VI. References**

- Bylaws of the Community Development Authority of the City of Madison
- Madison General Ordinance 3.17(7)

**VII. Creation**

March 14, 2019 (Proposed)

**VIII. Last Review**

None.

**IX. Next Review**

2023

## 500.65.20190314 – CDA General Fund

### **I. Purpose and General Statements of Intent**

This policy establishes the purpose and appropriate uses of the CDA General Fund.

### **II. Background and Related Policies**

The functions of the CDA are divided between two divisions: the Housing Authority and CDA Redevelopment. CDA Redevelopment is charged with addressing deteriorating areas through redevelopment activities including assisted housing development and management, neighborhood revitalization, housing finance and rehabilitation, and urban renewal.

The CDA General Fund supports the administrative activities of CDA Redevelopment.

### **III. Definitions**

#### **A. Contract for Services**

The CDA is authorized by Madison General Ordinance 3.17 and §66.1335, Wis. Stat., to act as the housing and redevelopment authority for the City of Madison. The CDA is a separate body, corporate and politic, that acts as the agent of behalf of the City in neighborhood and housing rehabilitation programs. The operational and financial relationship between the City and the CDA is outlined in the Contract for Services, Materials, and Equipment (Contract for Services).

#### **B. Tax Incremental Financing (TIF)**

Tax Incremental Financing is a tool that the City of Madison uses to fund public infrastructure, promote development opportunities, and expand the tax base. Funding is secured by diverting future property tax revenue increases, or “increments”, in a defined district to these purposes. For example, future property tax increments in a neighborhood may be committed to the renovation of an affordable housing development.

#### **C. Limited Liability Corporation (LLC)**

See Policy 530.65 for the definition.

#### **D. Managing Member**

See Policy 530.65 for the definition.

### **IV. Policy**

The CDA General Fund supports five purposes:

- General administrative activity of CDA Redevelopment
- Revenue bond repayments
- Maintenance of undeveloped real estate
- Limited-duration redevelopment activities
- Limited Liability Corporation (LLC) managing partner activities

The following policy clarifies each of these purposes and provides additional administrative guidance.

## A. General Administrative Activity

To effectively and efficiently fulfill its mission, CDA Redevelopment coordinates administrative and strategic directions across its activities. Expenses related to these activities should be billed to the General Fund. The following are examples of expenses that would generally be considered appropriate for this activity:

- Expenses related to the operation of the CDA Board and CDA Finance Subcommittee as permitted by Wis. Stat. 66.1333(3)(6), Wis. Stat. 66.1335(2)(d), Madison General Ordinance 3.17(3), and CDA Bylaws.
- Supplies needed by staff in the execution of their duties.
- Audits of CDA finances. A portion of the annual CDA audit cost should be reimbursed by all CDA properties. Audits of individual LLCs should be billed to the LLC.
- Staff training and conferences on topics that are relevant to the CDA mission and operations.
- Salaries and benefits of redevelopment staff or interns employed by the CDA.
- Salaries and benefits for City of Madison employees supporting the general operation of the CDA.

The administrative work of the CDA is primarily conducted by City of Madison staff. Consistent with the Contract for Services and Madison General Ordinance 3.17(8)(d), the CDA compensates the City for services rendered by staff. City of Madison employee time spent on general administrative functions should be billed to the General Fund. In general, it is preferable for City of Madison employees to record actual hours worked or use a payroll allocation based on a recent time study to bill the CDA. City of Madison employee overtime should be billed to the City of Madison and not to the CDA.

## B. Revenue Bond Repayment

The CDA may support redevelopment projects by issuing tax-exempt revenue bonds for low-income rental housing. The bonds are limited-obligation for the CDA and are payable with revenues from the supported project.

The CDA may also issue lease revenue bonds for redevelopment in the context of TIF. In this arrangement, the CDA owns the property that is leased to the City and then subsequently leased to a private developer. An example is the Monona Terrace (Hilton) parking project.

The assets, liabilities, and transactions for issuing and paying bonds should be reflected in the General Fund.

## C. Maintenance of Undeveloped Real Estate

The CDA may hold vacant properties before redevelopment activities begin. Holding costs, like mowing and snow removal, are paid from the General Fund. The CDA General Fund should not pay holding or utility costs for properties owned by an LLC or the City of Madison.

## D. Limited-Duration Redevelopment Activities

The CDA may engage in redevelopment activities that are limited in duration, generally less than three years. These activities should be captured in the General Fund.

Ongoing redevelopment activities with a longer anticipated duration should be added to the chart of accounts as a separate subfund.

#### **E. LLC Managing Partner Activities**

The CDA forms LLCs with development firms to own, develop, construct, rent, maintain, and operate affordable housing projects. Revenues and expenses associated with the CDAs role as the managing member of an LLC are housed in the General Fund. Policy 530.65 addresses this activity in greater detail.

#### **F. Legacy Activities**

Some existing activities in the CDA General Fund may no longer be in compliance with this policy. As reasonable effort permits, these activities should be moved into compliance with the policy.

#### **G. Annual Budget**

An annual budget for the General Fund shall be presented to CDA Finance Subcommittee for recommendation to the CDA Board. Anticipated capital expenses should be included in the budget. A balance sheet should also accompany the budget for the Finance Subcommittee's information.

### **V. Examples**

None.

### **VI. References**

- Wis. Stat. 66.1333
- Wis. Stat. 66.1335
- Madison General Ordinance 3.17
- Contract for Services, Materials, and Equipment
- Bylaws of the Community Development Authority of the City of Madison
- Policy 530.65 Limited Liability Corporation Management Fee
- Policy 530.67 CDA-Owned Property Administrative Allocation

### **VII. Creation**

March 14, 2019 (Proposed)

### **VIII. Last Review**

None.

### **IX. Next Review**

2023

## Section 520 Commercial Space

### 520.10.20190314 – Commercial Lease Approval

#### **I. Purpose and General Statements of Intent**

This policy clarifies the roles of the CDA Board, staff, and property management companies in approving and renewing commercial leases and agreements for space owned by the CDA.

This policy does not apply to commercial space owned by an LLC.

#### **II. Background and Related Policies**

Wisconsin Statute authorizes the CDA chairperson, or the vice chairperson in the absence of the chairperson, and the executive director, or the assistant director in the absence of the executive director, to execute on behalf of the authority all contracts, notes and other forms of obligation when authorized by at least 4 of the commissioners of the authority to do so. [Wis. Stat. 66.1333(5)(a)6]

#### **III. Definitions**

##### A. Space Use Agreement

A space use agreement allows a current property tenant or other party to rent interior commercial space for no more than 48 hours or on a month-to-month term. For example, a vacant unit may be used by a community organization for a craft fair.

##### B. Temporary Land Use Agreement

A temporary land use agreement allows a current property tenant or other party to use exterior space for no more than 48 hours. For example, a tenant may use a portion of a parking lot for its annual picnic.

##### C. Agreement

For the purpose of this policy, an Agreement refers to either a Space Use Agreement or Temporary Land Use Agreement.

##### D. Lease

A Lease refers to all contracts for the use of property that are not Agreements and would be considered leases as that term is commonly used.

##### E. Limited Liability Corporation (LLC)

See Policy 530.65 for the definition.

#### **IV. Policy**

##### A. Leases or Agreements

Except as outlined in Subsections B and C, all new Leases and Agreements and renewals thereof must be approved by a CDA Board resolution and signed by the Board Chair and Executive Director.

**B. Leases or Agreements for Less than Three Years and 3,000 Square Feet**

Leases and Agreements and renewals thereof for less than three years and for less than 3,000 square feet may be signed by the CDA Board Chair and Executive Director without a CDA Board resolution. In the absence of the Chair, the Vice Chairperson may sign the lease. In the absence of the Executive Director, the Assistant Director may sign the lease. Executed Leases and Agreements shall be communicated to the Board during the Secretary's report.

**C. Agreements at Properties with a Property Manager**

A property manager may sign Agreements after receiving approval from the CDA Asset Manager, pursuant to a valid property management agreement. Reasonable compensation for this activity should be defined in the property management agreement. Revenue from agreements should be included in the property's quarterly financial reports to the Board.

Agreements may include recurring use for up to eight months. For example, a single temporary land use agreement may include recurring weekly farmers markets in a parking lot during the summer months.

All agreements on CDA property shall require a certificate of insurance.

**V. Examples**

None.

**VI. References**

Wis. Stat. 66.1333(5)(a)6

**VII. Creation**

March 14, 2019 (Proposed)

**VIII. Last Review**

None.

**IX. Next Review**

2023

## Section 530 Cost Allocation and Administrative Overhead

### 530.65.20190314 – Limited Liability Corporation Management Fee

#### **I. Purpose and General Statements of Intent**

This policy provides guidance to CDA staff when managing limited liability corporation (LLC) agreements for affordable housing. Specifically, the policy conveys the Board's intent for management fees received by the CDA as the LLC managing member. This policy only applies to CDA Redevelopment properties.

#### **II. Background and Related Policies**

The CDA enters into LLC agreements to develop affordable housing under the Low-Income Housing Tax Credit Program. The CDA is currently the managing partner in two redevelopment LLCs:

- Burr Oaks Senior Housing, LLC
- Allied Drive Redevelopment, LLC

The CDA is also a managing partner in two Housing Authority LLCs related to the Truax development, but this policy does not apply to those properties.

#### **III. Definitions**

##### A. CDA General Fund

See Policy 500.65 for a description of the CDA General Fund.

##### B. Limited Liability Corporation (LLC)

An LLC is a corporate structure created between multiple partners as a separate and distinct legal entity. The CDA forms LLCs with development firms to own, develop, construct, rent, maintain, and operate affordable housing projects. The LLC has a Managing Member and an Investor Member.

##### C. Managing Member

The Managing Member is responsible for managing the affairs of the LLC after construction is completed. The responsibilities of the Managing Member include directing the business of the LLC, monitoring the management of the property, supervising the Management Agent, maintaining appropriate financial records and reports, following sound business practices, and communicating with stakeholders. The Managing Member receives a management fee from the LLC for fulfillment of these duties. In redevelopment LLCs, the CDA is the Managing Member.

##### D. Investor Member

The Investor Member is responsible for monitoring the Managing Member's operational results, reviewing audited financial statements and tax returns, and an annual review of the property's condition. Generally, the Investor Member receives a management fee from the LLC for fulfillment of these duties. However, the Investor Member primarily benefits from federal low-income housing tax credits.

#### E. Low-Income Housing Tax Credits (LIHTC)

LIHTC support the development costs of low-income housing by allowing the Investor Member to take a federal tax credit equal to a percentage of the cost incurred for development of the low-income units in a rental housing project. The program is administered by the Wisconsin Housing and Economic Development Authority (WHEDA).

#### F. Management Agent

A Management Agent, often a property management company, handles the day-to-day activities of a property and interface directly with tenants. The company is selected by and directly accountable to the LLC through the Managing Partner. The property management agreement details the relationship between the property management company and the LLC.

### **IV. Policy**

This policy creates a distinction between the financial activity of the CDA as a Managing member and the financial activity of the CDA as a Management Agent. Recognizing this distinction, management fees received by the CDA as the Managing Member should be posted to the CDA General Fund as development fees.

In general, Managing Member expenses will primarily be salaries and benefits. If a portion of a City of Madison or CDA employee's time is allocated for the administrative functions of the Managing Member, it should be billed to the General Fund. If a City of Madison or CDA employee is billing actual hours worked on administrative functions of the Managing Member, the time should be billed to the General Fund with a reason code identifying the property.

All financial activity generated by the CDA in the role of Management Agent should be captured in an account separate from the CDA General Fund.

### **V. Examples**

None.

### **VI. References**

Policy 500.65 CDA General Fund

### **VII. Creation**

March 14, 2019 (proposed)

### **VIII. Last Review**

None.

### **IX. Next Review**

2023

## 530.67.20190314 – CDA-Owned Property Administrative Allocation

### **I. Purpose and General Statements of Intent**

This policy establishes guidance for allocating general administrative costs incurred by the CDA to CDA-owned properties. This policy does not apply to properties under the CDA Housing Authority.

### **II. Background and Related Policies**

The General Fund has historically been financed from two sources: redevelopment fees and limited liability corporation (LLC) management fees. Redevelopment fees are recognized when the CDA acts as a developer on a property. This revenue is only generated when the CDA redevelops a property.

LLC management fees recognize the costs associated with managing the operations of a property LLC. This activity is specifically addressed in Policy 530.65.

Recognizing the need to support ongoing expenses and salaries in the General Fund, this policy establishes administrative allocations from CDA-owned properties to the General Fund. This policy currently applies to the following properties: Monona Shores and the Village on Park.

Consistent with Policy 500.65, the routine administrative activities of these properties, including staff time, should be allocated to a fund other than the CDA General Fund.

### **III. Definitions**

#### **A. CDA General Fund**

See Policy 500.65 for a description of the CDA General Fund.

#### **B. CDA-Owned Property**

The CDA may enter into a variety of property management and ownership structures (e.g., limited liability corporations). A CDA-Owned Property is a property under the sole ownership of the CDA in fulfilling its mission as a Redevelopment Authority. A CDA-Owned Property may be managed by a property management company.

### **IV. Policy**

#### **A. Residential Property**

The annual CDA General Fund budget recommended to the Board shall propose a per-unit administrative allocation. The allocation applies to all units, both leased and vacant.

Generally, the per-unit administrative allocation should be comparable across residential properties. A higher allocation may be charged to a property undergoing significant redevelopment or renovation.

#### **B. Commercial Property**

The annual CDA General Fund budget recommended to the Board shall propose an administrative allocation per square foot of commercial space. The allocation applies to all space, both leased and vacant.

Generally, the administrative allocation should be comparable across properties. A higher allocation may be charged to a property undergoing significant redevelopment or renovation.

### C. Rate Considerations

In developing rates, the cost of City staff time billed to the CDA General Fund should be considered. Further, it is appropriate to consider the long-term recuperation of costs associated with the purchase and development of the property.

Generally, the administrative allocation should be comparable to the management fee for LLCs as the purposes are analogous (see Policy 530.65).

### D. Timing

The administrative allocation shall be transferred to the CDA General Fund at the end of the second and fourth quarters. Properties should transfer the allocation regardless of the property's cash position at the time of the transfer.

### V. Examples

None.

### VI. References

- Policy 500.65 CDA General Fund
- Policy 530.65 Limited Liability Corporation Management Fee
- Policy 530.85 Public Housing Cost Allocation Plan

### VII. Creation

March 14, 2019 (proposed)

### VIII. Last Review

None.

### IX. Next Review

2023

## 530.85.20190314 – Housing Authority Cost Allocation Plan

### I. Purpose and General Statements of Intent

The purpose of this cost allocation policy is to summarize, in writing, the methods and procedures that the CDA will use to charge direct costs and to allocate indirect costs to various programs, grants, contracts, project, and/or asset management project (AMP).

### II. Background and Related Policies

The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, or Uniform Guidance (2 CFR 200), establishes the principles for determining costs of grants, contracts and other agreements with the Federal Government.

### III. Definitions

#### A. Direct Costs

Direct costs are those that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy [2 CFR 200.413 (a)].

#### B. Indirect Costs

Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular grant, contract, program, or amp. Only costs that are allowable, in accordance with the Uniform Guidance, are to be charged to programs administered by the CDA.

### IV. Policy

The CDA follows US generally accepted accounting principles (GAAP) and uses the accrual basis of accounting. The general approach of the CDA in allocating costs to particular grants and programs is as follows:

- All allowable direct costs are charged directly to the grant or program.
- All allowable direct costs incurred in the Public Housing Program are charged directly to the amp where the cost was incurred.
- Allowable direct costs that can be attributed to more than one program are prorated individually as direct costs using a base most appropriate to the particular cost being prorated.
- All other allowable general and administrative costs (costs that benefit all programs and departments that cannot be attributed to a specific program or department) are allocated to programs, grants, projects, amps, etc. using a base that results in an equitable distribution.

The following summarizes the procedures that are used by the Community Development Authority to allocate costs.

**A. Service Types (Administration, Tenant Services, and Maintenance, and Capital Fund)**

The current chart of accounts has four service types. Costs are allocated to the most appropriate service within the grant, program, project or amp. Below are the service type definitions:

1. **Administration.** All allowable costs incurred to administer federally funded programs and grants. In the public housing program, asset management fees and allowable Central Operating Cost Center (COCC) expenses are considered administrative expenses. Example: Investigative services, Office supplies, Postage, administrative staff wages.
2. **Tenant Services.** All allowable costs incurred as a result of providing a direct service (not administrative function) to residents or program participants. Example: All costs expensed to Multifamily Service Coordinator and ROSS grants.
3. **Maintenance.** All allowable costs incurred to maintain CDA owned properties. Example: Maintenance staff wages, repair and maintenance supplies, and utilities.
4. **Capital Fund.** All allowable costs charged directly to the Capital Fund Grant Program. Example: Paving contract for Truax Park Apartments.

**B. Salaries**

Allocated based on time spent on each program or grant. Salaries and wages are charged directly to the program for which work has been done using a default payroll allocation.

Overtime and premiums are allocated based on actual time spent on each program, grant, or amp. When an employee works overtime that benefit more than one program, grant, or amp the default payroll allocation will be used.

Fringe Benefits (Health Insurance, Dental Insurance, Wage Insurance, WI Retirement System, FICA, and Workers Compensation) are allocated using the employee’s default payroll allocation.

Vacation, holiday, sick leave, and all other leave benefits are allocated using the employees default payroll allocation.

Documentation of time spent on each program is calculated using one of the following methods:

| <b>Staff Work Category</b>        | <b>Work Location</b> | <b>Service Type</b> | <b>Allocation Method</b>   |
|-----------------------------------|----------------------|---------------------|--|
| 1. Administrative Staff           | Site Offices         | Administration      | Allocation follows number of units per amp to total units managed by that site office.   |
| 2. Admissions & Eligibility Staff | Central Office       | Administration      | Manager reviews workload of staff on an as needed basis and updates default payroll allocation to accurately reflect time spent on each program. |
| 3. Section 8 Staff                | Central Office       | Administration      | All salaries are allocated to the Section 8 program.   |
| 4. Service Coordinators           | Site Offices         | Tenant Services     | All salaries are allocated to the appropriate grant program.   |

| <b>Staff Work Category</b>           | <b>Work Location</b> | <b>Service Type</b> | <b>Allocation Method</b>   |
|--------------------------------------|----------------------|---------------------|--|
| 5. Maintenance Staff                 | Site Offices         | Maintenance         | All Maintenance Staff document time spent at each AMP on their timesheets. Salaries and wages are charged directly to the AMP for which work was done. Default payroll allocation for leave time follows unit count percentages. |
| 6. Housing Authority Program Manager | Central Office       | Administration      | Allocation follows Example 2 below.  |
| 7. Modernization Grants Manager      | Central Office       | Administration      | Allocation follows total number of units managed by the CDA. The Public Housing portion of this allocation is charged to the COCC and covered by the Capital Fund Admin Fee.   |

**C. Office Expenses and Supplies (including office supplies and postage)**

Allocated based on usage. Expenses used for a specific program or grant funded activity will be charged directly to that program or grant. Costs that benefit more than one program or department will be allocated based on the ratio in Example 1 or 2.

**D. Printing (including supplies, maintenance, and repair)**

Expenses are charged directly to the program or amp that benefits from the supply or service. Costs that benefit all or more than one program or amp will be allocated based on the ratio in Example 1 or 2.

**E. Utilities**

Allocated based on usage and charged directly to the appropriate amp.

**F. Professional Services Costs (including consultants, investigative services, waste removal services, elevator repair, etc.)**

Allocated to the program benefiting from the service. All professional service costs are charged directly to the program for which the service was incurred. Costs that benefit one program or amp will be charged directly to that program or amp. Costs that benefit more than one program or amp will be allocated based on the ratio in Example 1 or 2.

**G. Professional Security Services**

Allocated to the appropriate amp based on the number of amp units benefiting as a percentage of total units. Security services are considered administrative expenses.

**H. Telephone/Communications**

Fax lines, cell phone lines, and telephone lines are charged directly to the program, grant, or amp if readily identifiable. Other telephone or communication expenses that benefit all or more than one program, grant, or amp will be allocated based on the ratio in Example 1 or 2.

#### I. Travel Costs

All travel costs (local and out-of-town) are charged directly to the program, grant, or amp for which the employee works. If the employee spends time on more than one program or grant, the default payroll allocation will be used. Travel costs that benefit all or more than one program, grant or amp will be allocated based on the ratio in Example 1 or 2.

#### J. Conference and Training Costs

Allocated to the program, grant, or amp benefiting from the training or conference. Costs that benefit all or more than one program, grant, or amp will be allocated based on the ratio in Example 1 or 2.

#### K. Insurance

Insurance needed for a particular program is charged directly to the program requiring the coverage. Property insurance is charged directly to the amp receiving the coverage. Other insurance that benefits all or more than one program or amp will be allocated based on the ratio in Example 1 or 2. Insurance is an administrative expense.

#### L. Audit

Identifiable direct audit costs are charged directly to the program or grant. Audit costs that benefit all programs (or funds) are allocated based on the ratio of each programs expenses to total expenses audited. Audit fees are considered administrative expenses. [24 CFR 990.190 (d); 24 CFR 905.200 (b)(16)].

#### M. Taxes & PILOT

Identifiable direct taxes or PILOT costs are charged directly to the amp or project and are considered administrative expenses.

#### N. Inter-Departmental Charges (from City of Madison Departments)

Expenses are charged directly to the program, grant, project, or amp that benefits from the service. Expenses that benefit more than one program, grant, project, or amp are allocated based on the ratio in Example 1 or 2.

#### O. COCC Asset Management & Bookkeeping Fees

A direct expense charged directly to the amp or property. The CDA sets the asset management and bookkeeping fees annually during the budget process by comparing the current fee to the HUD approved maximum fee amount for the market location and assessing expenses in the Central Operating Cost Center (COCC). Fees are calculated by multiplying the set fee times the occupied units per month and are charged directly to the amp or project as an administrative expense. [24 CFR Part 900].

#### P. Other Costs

Other joint costs will be allocated on a basis determined to be appropriate to the particular costs. Costs are charged directly to programs that benefit from the supply or service. Costs that benefit all or more than one program, grant, project, or amp will be allocated based on the ratio in Example 1 or 2.

## V. Examples

### A. Public Housing AMPs & Multifamily Properties - \$50,000 Example Expense

- Costs that benefit all Public Housing amps are allocated to the amp based on the ratio of each amp's total units, as follows:

| AMP                  | Total Units | %           | Amount Allocated    |
|----------------------|-------------|-------------|---------------------|
| 200 – East LIPH      | 166         | 21%         | \$ 10,401.00        |
| 300 – West Scattered | 129         | 16%         | \$ 8,802.71         |
| 300 – Romnes         | 168         | 21%         | \$ 10,526.32        |
| 400 – Triangle LIPH  | 224         | 28%         | \$ 14,035.09        |
| 500 – Truax Phase 1  | 71          | 9%          | \$ 4,448.62         |
| 600 – Truax Phase 2  | 40          | 5%          | \$ 2,506.27         |
| <b>Total</b>         | <b>798</b>  | <b>100%</b> | <b>\$ 50,000.00</b> |

- Costs that benefit only units managed by one Site Office are allocated to the amps or property benefiting from the supply or service based on the ratio of each amp/property's units to total managed units, as follows:

| Site Office | AMP/Property         | Total Units | %           | Amount Allocated   |
|-------------|----------------------|-------------|-------------|--------------------|
| East        | 200 - East LIPH      | 166         | 60%         | \$29,963.90        |
|             | 500 - Truax Phase 1  | 71          | 26%         | \$12,815.88        |
|             | 600 - Truax Phase 2  | 40          | 14%         | \$7,220.22         |
|             | <i>Total</i>         | <i>277</i>  | <i>100%</i> | <i>\$50,000.00</i> |
| West        | 300 - Romnes         | 168         | 56%         | \$28,282.83        |
|             | 300 - West Scattered | 129         | 44%         | \$21,717.17        |
|             | <i>Total</i>         | <i>297</i>  | <i>100%</i> | <i>\$50,000.00</i> |
| Triangle    | 400 - Triangle LIPH  | 224         | 66%         | \$33,038.35        |
|             | Parkside Apartments  | 95          | 28%         | \$14,011.80        |
|             | Karabis Apartments   | 20          | 6%          | \$2,949.85         |
|             | <i>Total</i>         | <i>339</i>  | <i>100%</i> | <i>\$50,000.00</i> |

3. Costs that benefit all Public Housing and Multifamily units are allocated to the AMP or property based on the ratio of each AMP/Property's units to total units, as follows:

| <b>AMP or Property</b> | <b>Total Units</b> | <b>%</b>    | <b>Amount Allocated</b> |
|------------------------|--------------------|-------------|-------------------------|
| 200 - East             | 166                | 18%         | \$ 9,090.91             |
| 500 – Truax Phase 1    | 71                 | 8%          | \$ 3,888.28             |
| 600 – Truax Phase 2    | 40                 | 4%          | \$ 2,190.58             |
| 300 – West Scattered   | 129                | 14%         | \$ 7,064.62             |
| 300 – Romnes           | 168                | 18%         | \$ 9,200.44             |
| 400 - Triangle         | 224                | 25%         | \$ 12,267.25            |
| Parkside Apartments    | 95                 | 10%         | \$ 5,202.63             |
| Karabis Apartments     | 20                 | 2%          | \$ 1,095.29             |
| <b>Total</b>           | <b>913</b>         | <b>100%</b> | <b>\$50,000.00</b>      |

**B. All Programs - \$50,000 Example Expense**

1. Costs that benefit all programs are allocated to the program based on a ratio of each program's FTEs, as follows:

| <b>Program</b>                   | <b>FTE</b>   | <b>%</b>    | <b>Amount Allocated</b> |
|----------------------------------|--------------|-------------|-------------------------|
| Public Housing                   | 24.26        | 54%         | \$ 26,777.04            |
| Multifamily Housing:<br>Parkside | 6.10         | 13%         | \$ 3,355.41             |
| Multifamily Housing: Karabis     | 3.04         | 7%          | \$ 6,732.89             |
| Section 8                        | 11.90        | 26%         | \$ 13,134.66            |
| <b>Total</b>                     | <b>45.30</b> | <b>100%</b> | <b>\$ 50,000.00</b>     |

**VI. References**

2 CFR 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

**VII. Creation**

May 16, 2018

**VIII. Last Review**

None.

**IX. Next Review**

2023

## Section 535 Reserves and Cash Balances

### 535.65.20190314 – Redevelopment Property Reserve Policy

#### **I. Purpose and General Statements of Intent**

This policy establishes guidance on appropriate reserves for CDA Redevelopment Authority properties. It further defines a process for managing and authorizing the use of accumulated reserves.

#### **II. Background and Related Policies**

Consistent with its mission, the CDA owns and manages residential and commercial properties. As a responsible steward of these properties, the CDA accumulates reserves to maintain, repair, and replace the building structure, capital, and mechanical systems.

Housing Authority properties are governed by federal requirements and are not subject to this policy.

#### **III. Definitions**

##### **A. Capital Expenses**

See Policy 540.10 for additional information about capital expenses.

##### **B. Limited Liability Corporations (LLCs)**

See Policy 530.65 for additional information about LLCs.

##### **C. Operating Reserves**

Operating Reserves are readily available funds that can be used to support regular operations in the event of an unanticipated loss of revenue (e.g., unexpected loss of tenants) or an increase in expenses (e.g., high snow removal and utility costs during a heavy winter). These funds should be unrestricted, which means that there should be no planned uses in the future.

##### **D. Replacement Reserves**

Replacement Reserves are used to replace property components that will wear out or require replacement before the building. Examples of typical expenses include roof replacements, extensive renovation of a bathroom, overhaul of a heating system, and major parking lot repairs. Cash is added to the replacement reserve each month to pay for future expenses, and the accumulated balance is restricted to these purposes.

Regular maintenance, like broken light bulbs and furnace filters, are generally paid from the operating budget and not replacement reserves.

##### **E. Working Capital Account**

After capital projects (e.g., roof replacements, heating system replacements) are approved, funding is transferred from the Replacement Reserves to the Working Capital Account. Expenses for the projects are drawn from the Working Capital Account.

## **IV. Policy**

### **A. Operating Reserves**

CDA properties, residential and commercial, shall maintain an operating reserve equal to at least four months of operating expenses and debt service.

Operating reserve balances for each property shall be presented to the CDA Finance Subcommittee with the annual operating budget recommendation. Staff shall report on properties below their required operating reserve target at the quarterly Finance Subcommittee meetings.

Operating Reserves shall be maintained in a restricted account that is separate from unrestricted operating funds.

The use of Operating Reserves requires authorization from the Executive Director and appropriate budget authorization.

### **B. Replacement Reserves**

The monthly Replacement Reserve rate shall be established for each property based on an assessment of anticipated replacement expenses over ten years. For residential properties, the rate shall be expressed per unit. For commercial properties, the rate shall be expressed per square foot. The rate shall be included in the recommended annual budget for each property.

Replacement Reserves shall be maintained in a restricted account that is separate from unrestricted operating funds.

The planned use of Replacement Reserves shall be presented to the Board for approval with the annual budget. Following Board approval and with authorization from the Executive Director, the anticipated annual expenses from Replacement Reserves shall be transferred to a Working Capital Account. All expenses for approved projects shall be billed against the Working Capital Account.

Because of the financial relationship with the City of Madison, detailed in Policy 600.70, the Working Capital Account will generally be the City's financial system.

### **C. Emergency Use of Reserves**

The Executive Director, or designee in the event of the Executive Director's absence, may authorize emergency use of operating reserves or replacement reserves when following the Emergency Purchase Procedures in Policy 600.65.

### **D. Limited Liability Corporations**

The CDA serves as a Managing Member and Management Agent of LLCs created to fulfill its mission. The reserve structure and requirements for an LLC are defined in the Operating Agreement. Any requirements established in the Operating Agreement supersede this policy.

### **E. Lender Requirements**

When financing a property, lenders may establish reserve requirements as a condition of a loan or mortgage. Requirements established in the property's financing supersede this policy.

**V. Examples**

None.

**VI. References**

Policy 536.70 CDA-Owned Property Cash Balance Policy

**VII. Creation**

March 14, 2019 (proposed)

**VIII. Last Review**

None.

**IX. Next Review**

2023

## 536.70.20190314 – CDA-Owned Property Cash Balance Policy

### **I. Purpose and General Statements of Intent**

This policy provides guidance on the appropriate level of cash managed by a property management company at a redevelopment property owned by the CDA. This policy does not apply to properties under the CDA Housing Authority.

### **II. Background and Related Policies**

The CDA may contract with a property management company for the day-to-day operations of a CDA-owned property. The property management company collects rent and other revenues, resulting in the accumulation of cash over time. The cash is held in bank accounts outside of the direct management of the City treasury.

Some properties currently owned by the CDA were formerly under a limited liability corporation (LLC). Under an LLC, these properties functioned as distinct financial entities. When full ownership is transitioned to the CDA, the property may have significant cash balances or financial practices that should be brought into compliance with this policy.

Under the Contract for Services, the City of Madison provides the CDA with financial services. The City currently manages CDA funds for a variety of properties, projects, and services.

### **III. Definitions**

#### **A. CDA-Owned Property**

See Policy 530.67 for a definition.

#### **B. Limited Liability Corporation**

See Policy 530.65 for additional information about limited liability corporations.

#### **C. Replacement Reserves**

See Policy 535.65 for additional information about replacement reserves.

#### **D. Contract for Services**

See Policy 500.65 for a definition.

### **IV. Policy**

For CDA-owned commercial and residential properties, the combined sum of cash in unrestricted operating accounts outside of the City treasury should not exceed \$250,000. Cash in excess of \$250,000 shall be transferred to the City and credited to a property-specific CDA sub fund.

Checks from a property should be mailed directly to the City Finance Department. Electronic transfers from the property should originate from the Finance Department. CDA asset managers should not receive checks or initiate cash transfers from the property during the balance transfer process.

If a property is regularly generating revenue that exceeds the \$250,000 limit, quarterly cash transfers should be established with the Finance Department.

## **V. Examples**

None.

## **VI. References**

- Contract for Services, Materials, and Equipment
- Madison General Ordinance 3.17
- Wis. Stat. 66.1335
- Wis. Stat. 66.1333
- Policy 530.65 Limited Liability Corporation Management Fee

## **VII. Creation**

March 14, 2019 (Proposed)

## **VIII. Last Review**

None.

## **IX. Next Review**

2023

# Section 540 Capital Projects, Costs, and Dispositions

## 540.10.20190314 – Capitalization Policy

### I. Purpose and General Statements of Intent

- To establish and implement controls necessary to protect the assets of the Community Development Authority (CDA), record assets in compliance with federal, state, and municipal rules and regulations, and generally accepted accounting principles (GAAP).
- To provide guidelines and parameters necessary to allow the enforcement and implementation of the CDA's capital policies; and to provide a sound basis for accurately valuing the CDA's assets.
- To ensure funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

### II. Background and Related Policies

The CDA considers some items capital assets that the City of Madison considers ordinary repair/maintenance items such as roof replacements, HVAC, plumbing, and any other items as defined in this policy. Care must be taken to distinguish between costs that materially increase the value or useful life of a capital asset and ordinary repairs and maintenance.

### III. Definitions

The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, or Uniform Guidance (2 CFR 200) defines capital assets as tangible or intangible assets used in operations having a useful life of more than one year which are capitalized in accordance with GAAP. Capital assets include:

- Land, buildings (facilities), equipment, and intellectual property (including software) whether acquired by purchase, construction, manufacture, lease-purchase, exchange, or through capital leases; and
- Additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations or alterations to capital assets that materially increase their value or useful life (not ordinary repairs and maintenance) [2 CFR 200.12].

### IV. Policy

#### A. Capitalization Threshold and Procedure

The CDA establishes \$5,000 per unit as the threshold amount for minimum capitalization. All capital assets costing less than \$5,000 per unit should be expensed in CDA financial statements. Capital assets with an economic useful life of 12 months or less are required to be expensed for financial statement purposes, regardless of the acquisition or production cost.

All capital assets are recorded at historical cost as of the date acquired.

#### B. Inventory of Capital Assets

All CDA capital assets are assigned an asset ID number maintained by the City of Madison Accounting Department. A physical inventory of all capital assets must be taken and the results reconciled with the property records at least once every two years.

### C. Disposition of Capital Assets

The CDA will notify the City of Madison Accounting Department when disposing of any capital asset.

All equipment will be disposed of in accordance with Uniform Guidance (2 CFR 200). Equipment means tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds \$5,000 [2 CFR 200.33].

When original or replacement equipment acquired with HUD funds is no longer needed for the original project or program or for other activities currently or previously supported by HUD, the CDA will request disposition instructions from HUD even if it is fully depreciated for accounting purposes.

### V. Examples

None.

### VI. References

- For definitions and all other matters related to capitalization of assets refer to the City of Madison Capitalization, Depreciation, & Amortization Policy.
- 2 CFR 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

### VII. Creation

August 3, 2018

### VIII. Last Review

None.

### IX. Next Review

2022

## 540.85.20190314 – Statement of Significant Amendment/Modification Capital Fund Program

### **I. Purpose and General Statements of Intent**

The 2013 Capital Fund Final Rule [2 CFR 905.300] and the Capital Fund Guidebook state that a Public Housing Authority (PHA) must include basic criteria that the PHA will use for determining a significant amendment or modification to the Capital Fund Program (CFP) 5-Year Action Plan. The Community Development Authority of the City of Madison (CDA) Statement of Significant Amendment or Modification for the Capital Fund Program is below.

### **II. Background and Related Policies**

None.

### **III. Definitions**

None.

### **IV. Policy**

The following are considered significant amendments or modifications to the CFP 5-Year Action Plan as required under 24 CFR § 905.300 (b)(1)(iii):

- proposed demolition;
- proposed disposition;
- public housing homeownership proposal;
- Capital Fund Financing Program proposal (CFFP);
- development, defined as any or all undertakings necessary for planning, land acquisition, demolition,
- construction, or equipment in connection with a public housing project;
- proposed RAD conversion; or
- mixed-finance proposal.

If the CDA determines a proposed amendment or modification is significant, the CDA will:

Submit the amendment or modification to the CDA Board of Commissioners in a meeting that is open to the public for approval; and

Provide the amendment or modification to HUD for approval by HUD in accordance with HUD's plan review procedures.

The following are not considered significant amendments or modifications to the CFP 5-Year Action Plan:

- The transfer of work projects, from one grant year to another in the Capital Fund Program (fungibility), which are included in the approved Capital Fund Program 5-Year Action Plan;
- The transfer of funds in the Capital Fund Program from one-line item to another within the same grant year budget;
- Additional work projects funded by the Capital Fund Program not included in the 5-Year Action Plan, which have been deemed to be emergencies; and
- Policy changes resulting from HUD or other federal agency mandates, regulations, or directives.

If the CDA determines a proposed amendment or modification is not significant, no HUD approval is needed.

## **V. Examples**

None.

## **VI. References**

- 2 CFR 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
- Public Housing Capital Fund Program Final Rule (2013)
- 24 CFR 905.300 – Capital Fund Submission Requirements
- U.S. Department of Housing and Urban Development Capital Fund Guidebook

## **VII. Creation**

August 19, 2018

## **VIII. Last Review**

None.

## **IX. Next Review**

2022