

## Minnesota Housing Draw Request Guidelines

The Replacement Cost Reserve Account was established to fund the replacement of capital items and major building repairs. It is not intended to reimburse repairs considered routine maintenance.

Eligible expenditures include, but are not limited to, various replacements and repairs such as:

- Capital Needs Study
- Common area refurbishment and renovation
- Consultations with Engineering, Architectural and other professional firms for design services, bid preparation, and third-party construction monitoring of capital projects
- Extensive replacement of exterior (lawn) sprinkler systems
- Extensive replacement of siding
- Fencing replacement projects
- Major elevator system overhauls
- Major overhaul of central air conditioning and heating systems, including furnaces, temperature controls, boilers, and fuel storage
- Major painting of the building's exterior and interior common areas
- Major plumbing and sanitary system repairs
- Major repaving/resurfacing/seal coating of sidewalks, parking lots, and driveways
- Major roof repairs, including significant replacements of gutters, downspouts, and related eaves or soffits
- Maintenance vehicles/equipment (trucks, plows, snowblowers, lawn mowing equipment) with prior approval
- Projects involving finished floors, floor tile, and floor coverings that are not routine maintenance
- Replacement of kitchen and bathroom sinks and countertops, bathroom tubs, toilets, and interior and exterior doors
- Replacement of major appliances (refrigerators, ranges, etc.)
- Significant windows replacement, including glass, jambs, casing, sash, aprons, and sills
- Significant upgrading or replacement of fire alarm systems, components, and fire stop systems

The release of funds is contingent upon consideration of the overall need, available funds, and severity compared to other capital improvement needs.

Ineligible expenditures generally include routine maintenance items, such as:

- Replacing range burners, oven elements, controls, etc.
- Replacing air conditioning components like fan motors and compressors
- Minor repairs to central air conditioning and heating systems
- Minor roof repairs and gutter/downspout repairs
- Minor paving repairs
- Routine caulking and sealing repairs
- Routine window and screen repairs
- Purchasing maintenance tools and equipment
- Purchasing minor office equipment
- Inspecting, recharging, or replacing fire extinguishers
- Furnishing model units

If you have questions about a specific item's eligibility, consult the assigned Asset Manager for guidance. Exceptions can be made on a case-by-case basis.

Please Note: In certain limited circumstances, the Replacement Cost Reserve account may need to be used to cover operating cash deficits, in which case routine maintenance items will be considered allowable expenses for the overall benefit of the property.

Routine draw requests for items such as flooring, appliances, etc., do not need prior Agency approval if the draw request is below the spending limits shown in the management agreement and the operating account has adequate funds to pay for the expenditures.

Before initiating any work with costs (including labor and materials) exceeding the spending limits as shown in the management agreement, the Owner or Management Agent must obtain written approval from Minnesota Housing for disbursements from the Replacement Cost Reserve Account. However, there are exceptions for work addressing issues that pose an immediate danger to people or property or the work is essential to prevent the suspension of necessary services to the development. When work is required to avoid service suspension, the Management Agent must promptly communicate with the Owner and the assigned Asset Manager. For items more than \$15,000, three bids must be provided. If three bids cannot be obtained, the request must include a written explanation of why three bids were not obtained. The Agency Architect will review and approve the bids to ensure that they meet Minnesota Housing specifications.

Capital improvements should prioritize energy conservation measures whenever possible by incorporating Energy Star Standards. Minnesota Housing supports Green Technology initiatives and encourages their implementation when using the Replacement Cost Reserve Account as economically viable. The energy efficiency of the replacement appliance and/or fixtures should meet or exceed the previous items.

To ensure a smooth process for reimbursement of funds from the Replacement Cost Reserve Account, please be mindful of the following information:

- **Deadline:** To ensure that reimbursements are received in the same calendar year in which the funds were spent, end-of-the-year disbursements are cut off at least two weeks before December 31 to allow ample time to process requests.
- **Draw from Reserve Request Form:** When submitting all draw requests, ensure the Owner completes and signs the [Draw from Reserves Request Form](#).
- **Invoice submission:** To receive reimbursement through the Replacement Cost Reserve Account, invoices must be submitted along with the Draw from Reserves Request Form.
- **Payment date:** Invoices dated in the prior calendar year but paid the following year can be reimbursed in the same calendar year the invoice was paid. However, you must include a copy of the check showing the payment date.
- **December payments:** Invoices paid in December can be processed until February 28 of the following year.
- **Post-February 28:** After February 28, invoices paid in the previous calendar year will no longer be eligible for reimbursement.

For developments with a non-calendar fiscal year, be aware of the following dates:

- **Deadline:** To ensure that reimbursements are received in the same calendar year in which the funds were spent, disbursements are cut off at least two weeks before the end of the fiscal year-end to allow ample time to process requests.
- **Payment date:** Invoices dated in the prior fiscal year but paid the following fiscal year can be reimbursed in the same fiscal year the invoice was paid. However, you must include a copy of the check showing the payment date.
- **Payments made in the last month of the fiscal year:** Invoices paid in the last month of the fiscal year can be processed up to 60 days after the new fiscal year begins.
- **Previous year invoices submitted 60 days after the new fiscal year begins:** After 60 days into the new fiscal year, invoices paid in the previous fiscal year are no longer eligible for reimbursement.

Owners and Management Agents are encouraged to submit draw requests quarterly to ensure that invoices are reimbursed in the same calendar year in which they are paid. Requests may be processed more frequently to assist financially troubled developments. Owners and Management Agents are discouraged from submitting a single annual disbursement request. Agency staff may be unable to review all the materials and process the payment before the end of the calendar year.

**Lien Waivers** – After funds are disbursed from the Replacement Cost Reserve Account, the Management Agent is responsible for obtaining all applicable lien waivers. Minnesota Housing reserves

the right to request that lien waivers be submitted to the assigned Asset Management or reviewed during the next Property Inspection and Management Review.

**Insurance Claims** – Owners and Management Agents must notify Minnesota Housing when a development suffers property damage, resulting in an insurance claim at the time of the occurrence. It is understood that advances may be necessary to address immediate needs until insurance proceeds are received. Once the insurance proceeds are received, the Owner or Management Agent must submit the insurance settlement check along with the completed [Report of Casualty Loss Form](#) to Minnesota Housing. Funds will be placed in an Insurance Proceeds Escrow Account for the property. The Owner or Management Agent must submit a draw request and invoices for the completed work and specify which reserve account funds will be withdrawn from on the Draw from Reserves Request Form. Insurance deductibles and work not covered by insurance proceeds can be paid using funds from the Replacement Cost Reserve Account. If the insurance settlement check is more than the cost of the repairs, the excess funds will be transferred to the Replacement Cost Reserve Account for future capital needs of the property.

**Operating Deficit Reserve Account** – The purpose of an Operating Deficit Reserve Account is to pay the development's current and delinquent operating expenses, maintain the Replacement Reserve escrow account, or for any other purpose for the benefit of the development as approved by Minnesota Housing. To receive a disbursement of funds from an Operating Deficit Reserve Account, the Owner or Management Agent must complete the same Draw from Reserves Request Form used for withdrawals from the Replacement Cost Reserve Account. On the form, indicate the amount drawn from the Operating Deficit Reserve Account. The request should include up-to-date financial statements demonstrating that the development is operating at a deficit, outstanding payables report, current vendor invoices that cannot be covered from operating cash, and/or anything else needed by Minnesota Housing along with the Draw from Reserves Request Form. Email the documents to the assigned Asset Manager. The funds will be disbursed if approved according to the Agency's Minnesota Housing's disbursement schedule.

**Operating Cost Reserve Account** – Similar to the Operating Deficit Reserve, an Operating Costs Reserve Account is used to fund operating deficits of the development to the extent that operating expenses are more than the operating receipts. To receive a disbursement of funds from an Operating Cost Reserve Account, the Owner or Management Agent must complete the same Draw from Reserves Request Form used for withdrawals from the Replacement Cost Reserve Account. Indicate on the form the amount drawn from the Operating Cost Reserve Account. The request should include up-to-date financial statements demonstrating that the development is operating at a deficit, outstanding payables report, current vendor invoices that cannot be covered from operating cash, and/or anything else needed by Minnesota Housing along with the Draw from Reserves Request Form. Email the documents to the assigned Asset Manager. The funds will be disbursed if approved according to the Agency's disbursement schedule.

**Residual Receipts Account** – Residual Receipts Accounts are maintained by Minnesota Housing for the financial benefit of the development. Funds from a Residual Receipts Account may be utilized to pay operating expenses and other costs and expenses, but must be approved by Minnesota Housing. To receive a disbursement of funds from a Residual Receipts Account, the Owner or Management Agent must complete the same Draw from Reserves Request Form used for withdrawals from the Replacement Cost Reserve Account. Indicate on the form the amount drawn from the Residual Receipts Account. The request should include up-to-date financial statements demonstrating that the development is operating at a deficit, vendor invoices that cannot be covered from operating cash, and/or anything else needed by Minnesota Housing, along with the Draw from Reserves Request Form. Email the documents to the assigned Asset Manager. The funds will be disbursed if approved according to the Agency's disbursement schedule. Some draws from the Residual Receipts Account may need HUD approval.

***Note: This guidance is intended to supplement, not replace, the terms outlined in the loan documents. While other lenders may impose additional requirements, Minnesota Housing will adhere strictly to the restrictions specified in its loan documents.***