
CHAPTER 5: THE MANAGEMENT IMPROVEMENT AND OPERATING PLAN (MIO)

5-1. OVERVIEW

a. Who Must Complete the MIO?

A Management Improvement and Operating (MIO) Plan (see Appendix 10) is required for most Flexible Subsidy Applicants. Those who are required to complete a MIO include:

- (1) All applicants for Operating Assistance; and
- (2) applicants for Capital Improvement Loan Program (CILP) who:
 - o are in default under the mortgage;
 - o are in violation of the fiscal requirements or property maintenance requirements of the Regulatory Agreement (for other than willful or fraudulent reasons);
 - o have had an unsatisfactory or marginally satisfactory management review in the past 24 months (unless the owner has corrected the problems through a substitution of management agent, management personnel, or otherwise, in a manner satisfactory to HUD); or
 - o are in a situation that HUD Headquarters has determined requires submission of a MIO plan.

Applicants for CILP who do not fall under the above criteria are not required to submit a complete MIO Plan, but are required to use parts of the MIO form in documenting the work they intend to undertake with the CILP assistance.

b. Developing the MIO

- (1) In the MIO Plan, owners list the actions they will take to rectify the problems and deficiencies identified in the project. Preparing the MIO Plan helps the owner document this information

the Field Office to verify the owner's findings and analyze the project's needs effectively.

- (2) The contents of the MIO Plan are prescribed by the legislation establishing the Flexible Subsidy Program. Owners and Field Offices should take care to assure that all required sections of the Plan are complete.
- (3) Developing a MIO Plan is not a simple, one-directional process. Its parts are interrelated. Management objectives in Part II, for example, cannot be developed separate from the Part I Budget. Work items proposed during the "first cut" at the Plan may need to be deleted or revised if funding sources originally anticipated do not fully materialize.
- (4) Several drafts will probably be necessary before the MIO Plan is acceptable to all parties. However, time spent on redrafts is time well spent. Such efforts on the "front-end" will substantially reduce the time required for subsequent implementation, administration and monitoring steps.

c. Structure of the MIO Plan

- (1) Narrative Overview -- A summary of the problems faced at the project and the owner's proposed responses. (Parts of this section are optional. However, completing them may allow the owner to present a clear description of the project's condition and to outline the proposed responses more persuasively than in the required sections of the plan.)
- (2) Part I, a management plan for daily operation of the project, which covers day-today operating procedures and the basic project budget; and
- (3) Part II, an improvement program, which outlines the specific action items to be undertaken, specifies the management objectives to be achieved, and details the sources and uses of funds for these one-time actions.

- (4) An outline of the MIO Plan's parts is shown in Exhibit 5-1.

5-2. NARRATIVE

a. Overview (Optional)

The owner may provide a narrative explaining in general the physical deficiencies found at the project and the proposed remedies. This section is optional, but provides an opportunity for the owner to present a clear picture of the project's condition and needs. Parts b and c of the narrative section are required.

b. Energy Conservation Plan

The MIO Plan must include a brief narrative plan explaining how the owner intends to upgrade the project to meet the Department's Cost-Effective Energy Conservation Standards (24 CFR Part 39). Such a plan need not call for completion of the upgrading during the Flexible Subsidy assistance period. Only those improvements which can be shown to be cost-effective should be included in the plan, and an energy audit documenting their cost-effectiveness must be submitted with the application (see 4350.3 , Chapter 12). All energy conservation work items to be completed during the assistance year must be included in Part II, Section A of the MIO Plan and all funds required must be included in Part II, Section C of the Plan.

c. Management initiatives Plan

The MIO Plan must also include a brief narrative discussing how the action items or management initiatives in Part II, Sections A and B of the MIO Plan will reduce the project's operating costs and improve the project's financial and management controls and estimating the cost savings to be obtained.

5-3. PART I. THE DAY-TO-DAY OPERATING PLAN

a. Section A: Operating Procedures

- (1) In doing the analysis of management deficiencies, the owner will determine what aspects of project management are currently done adequately and which need improvement. For those that need

MIO PLAN OUTLINE

- I. Narrative
 - A. Overview of Problems Faced at the Project and Proposed Responses (Optional)
 - 1. Physical Deficiencies and Remedies
 - 2. Management Problems and Remedies
 - 3. Sources of Funding
 - B. Cost-Effective Energy Improvements
 - C. Cost Savings Plan
- II. MIO Part I: Management Plan for Daily operation of the Project
 - A. Section A: Operating Procedures
 - 1. A detailed maintenance schedule
 - 2. A narrative description of a schedule for correcting past deficiencies in maintenance, repairs and replacements
 - 3. A plan to improve financial and management control systems
 - 4. A plan setting forth the specific controls and procedures that will result in a reduction in operating costs, if possible, together with an estimate of the potential cost savings.
 - B. Section B: Budget (Form [HUD-92547-A](#))
- III. MIO Part II: Improvement Program
 - A. Section A: Action items (Form HUD-9835)
 - 1. Repairs or Replacements
 - a. Exterior Repairs or Replacements
 - b. Interior Repairs or Replacements
 - c. Energy Efficiency Improvements
 - d. Handicapped Accessibility Modifications
 - e. Miscellaneous Repairs or Replacements
 - 2. Replacement Reserve Deficits*
 - 3. Operating Deficits*
 - a. Mortgage Delinquency
 - b. Tax and Insurance Escrow Deficit
 - c. Accounts Payable
 - d. Monthly operating Deficit
 - 4. Working capital Funds*
 - 5. Other
 - B. Section B: Management Objectives (Form HUD-9835-A)
 - C. Section C: Sources and Uses of Funds (Form HUD-9835-B)

* Projects applying for CILP Assistance are not permitted to use these categories.

improvement, the owner will need to devise new strategies designed to correct those deficiencies.

- (2) The owner must then write a narrative describing how those strategies will be implemented at the site. This narrative should be written in such a way that it can serve as operating instructions for on-site staff.
- (3) Among other things, the narrative section should specify who will perform each of the project's main functions and provide detailed time schedules for all routine maintenance and other similar work assignments (e.g., two times a week, semi-annual, etc.).
- (4) Field Office staff must conduct a review of the project's management and fill out a Management Review of Multifamily Housing Report, Form HUD-9834 (see Appendix 9), before the MIO Plan can be submitted to Headquarters. Depending on the timing of this review, the owner's MIO Plan narrative may need to be revised, because the MIO Plan must address all major management systems that the Field Office finds deficient during its review.
- (5) In some cases, existing management plans may be tailored to address the specific concerns raised in the management review. An owner who chooses to alter an existing management plan must assure that all of the requirements for a MIO Plan are met.
- (6) Unless amended by the Field Office, the operating procedures included in Part I. Section A of the MIO Plan will remain in effect following the termination of the Flexible Subsidy contract period.

b. Section B. Income and Expense Budget

- (1) The project's Budget is prepared on Form HUD-92547-A (see Appendix 27) and estimates the income and expenses necessary to operate the project in accordance with the procedures and levels of services specified in the narrative operating plan.

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- o The budget does include expense estimates for

items that are routinely paid from project income.

- o It does not include expense estimates for major one-time physical or financial improvements (e.g., reduction of large accounts payable or correction of major deferred maintenance). Funding for major one-time improvements is accounted for in Part II, Section C of the MIO Plan (Sources and Uses of Funds, Form HUD-9834-B).
- (2) In addition to annual estimates the Budget Worksheet provides space for allocating expenses among the four quarterly periods covered by the MIO Plan. Quarterly estimates enable the owner to adjust income and expenses to reflect seasonal changes in expenses as well as any increases in income or reduction in expenses effected by the economies and improvements implemented in Part II of the MIO Plan (e.g., increased activity repairing and leasing vacant units; using in-house rather than contract painters, etc.).

5-4. PART II. IMPROVEMENT PROGRAM

a. Section A: Action Items, Form HUD-9835

- (1) Section A lists the one-time actions that will be taken to correct physical and financial deficiencies identified on the Physical Inspection Report, Form HUD-9822 (see Appendix 10), and the Project Analysis Worksheet, Form HUD-9815 (see Appendix 11).
- (2) The action items are grouped according to the categories (i.e., repairs, replacement reserve deficits, operating deficits, and working capital funds) and subcategories (e.g., exterior repairs, interior repairs, etc.) listed on Part II, Section C of the MIO Plan. All action items should be structured so as to be highly visible items for which expenditures and work progress can be easily monitored.
- (3) Section A provides space for estimating the total amount to be spent on each work item during the one-year MIO Plan period. It also provides space

for distributing the work and associated expenditures among the four quarterly periods covered by the Plan.

b. Section B: Management Objectives, Form HUD-9835A

Section B establishes:

- (1) time frames for implementing the specific management initiatives that are needed to correct operational deficiencies discovered during and noted on the Management Review Report; and
- (2) specific one-time operating goals that the project must achieve if it is to adhere to the income and expense assumptions on which the project's Budget is based.

Part II, Section B of the sample MIO Plan, for example, provides that a new purchase order system will be fully implemented by July 15 and that vacancies must be reduced to the quarterly levels shown if the project is to realize the income assumed in the project's Budget estimates.

c. Section C: Sources and Uses of Funds, Form HUD-9835C

- (1) In Section C, a matrix is used to total the expense estimates provided for individual action items in Section A and to identify sources of funding for these items. Neither rental income nor expenses that are routinely paid out of rental income are included on this matrix.
- (2) The matrix includes only funds and expenses that will be deposited in, or paid out of, the Project Improvement Account. These funds could come from retroactive mortgage modifications, owner contributions, proceeds from a nonprofit to limited dividend conversion, or reserve releases, as well as from Flexible Subsidy Payments.
- (3) Any activities that generate lump sums of cash are included in the matrix. A mortgage relief program that only reduces debt service payments prospectively would be reflected in the Part I Budget in the form of reduced financial expenses and increased cash flow.

- (4) For any quarter, total sources must equal total uses of funds. As used in Form HUD-9835-B, the term "working capital funds" refers to any monies that will be disbursed at the end of the contract term and used to fund operating deficits or to purchase a small amount of supplies.

5-5. NEGOTIATING SPECIFIC TERMS OF THE MIO PLAN

- (1) Loan Management staff should use the information and analyses in the Project Analysis Worksheet as a guide in discussing the specifics to be included in the project's MIO Plan with the owner.
- (2) The Loan Management Staff should seek agreement as to specific action items, management objectives and target completion dates. Several discussions may be required before agreement is reached and the owner is able to submit a satisfactory revised version of the MIO Plan. When negotiating the contents of the MIO Plan, the Loan Management Staff should encourage the owner to:
 - o procure supplies and labor from small minority and female-owned firms;
 - o involve project residents in planning and carrying out the MIO Plan, especially the repair work; and
 - o make the project as accessible as possible to people with handicaps.

5-6. FORMALIZING THE MIO PLAN

- (1) Once the owner submits a draft MIO Plan, Field Office Loan Management staff must conduct a preliminary review to determine whether the Plan is generally acceptable.
- (2) When the owner submits a list of tenant comments and recommendations for changes to the MIO Plan, Loan Management Staff should review them, as well as the owner's recommendations, and determine what changes (if any) are required in the MIO Plan.
- (3) When structural improvements are involved, the Field Office should have the Architectural and Engineering Branch review and comment on the Action Items section of the plan. The Architectural and Engineering Branch should review proposed specifications, as well as bids received for items over \$5,000.

- (4) When possible, a construction analyst should review specifications before the owner solicits bids in order to ensure that they are written in a manner that will produce consistent bidding procedures.
- (5) Once any changes are negotiated, the owner should submit a final version of the MIO Plan to the Field Office. The Field Office should forward the application to Headquarters if it chooses to recommend the project for funding.