

OPERATING RESERVE CASH (ORC) POLICY

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Purpose of Operating Reserve Cash

This policy provides guidance regarding the Operating Reserve Cash account and the distribution of funds from the account. The Operating Reserve Cash (ORC) account holds surplus operating cash for the development, as determined by the owner’s annual certified audit. As part of the regulatory requirements, developments may be required to deposit a portion of the development’s operating cash into the Authority-held ORC account. The development may use the funds for the payment of normal operating expenses and other development needs that cannot be paid from operating cash. The Authority may also use the account to pay for development obligations under the loan documents, such as tax/insurance escrow deficits, when necessary.

Calculation of Operating Cash Deposited in the ORC Account

The amount of surplus Operating Cash that must be deposited in the ORC account as determined by the annual certified audit is calculated as follows:

- Operating Cash [including ORC and Development Cost Escrow Interest (as described in the 502 - Development Cost Escrow Policy) plus Operating Receivables **minus** the following items:
 - Payment of all normal operating expenses, including accrued operating expenses.
 - Repayment, as may be required by special agreement, of outstanding loans from Replacement Reserves (as described in the 503 – Replacement Reserves Policy) or other sources.
 - Any RR Needs (as described in the 503 – Replacement Reserves Policy).
 - One month’s gross rent potential (for site retention).
 - Payment of approved undisbursed limited dividends.
 - Any other expenditure approved by the Authority.

- Current year's maximum potential limited dividend payment.
- ORC.
- Development Cost Escrow Interest.

Deposits to the ORC Account

The development owner/agent shall deposit that portion of operating cash that is required to be submitted, based on the annual certified audit conducted in accordance with the Audit Guide Policy into the ORC account within 120 days after the end of each calendar year. Each development is assigned an individual schedule 1 in the Audit Guide Policy based on its specific regulatory requirements.

Other sources of contributions to the ORC account are:

- Excess amounts in the tax and insurance escrow accounts at the end of a calendar year.
- Funds being released to the ORC from other escrow accounts such as the Operating Assurance Reserve (OAR) or Operating Deficit Reserve (ODR) account.

Funds on deposit in the ORC account are invested by the Authority's Finance division and remain in control of the Authority until disbursement. Interest earned on the ORC account funds will accumulate in the ORC account and are treated in the same manner as other ORC funds.

Eligible Expenses

Development operating expenses (as described in the 460 - MIE Guide Policy, Expenditure Line Item descriptions) can be paid from the ORC account based on the priority set forth in the Management Agreement under Section 5m – Expense Management. Eligible expenses include:

- Payments to maintain the fiscal and physical integrity of the development, including items not eligible for reimbursement from the Replacement Reserve Escrow.
- Expenses/payables projected to come due without operating funds being available in the next 30 days.
- Limited distribution payments as permitted by the development's regulatory agreement.

Requests for ORC Disbursement

The owner/agent must submit a written request and explanation for ORC disbursement to the assigned Asset Manager and include both the:

- Operating Reserve Cash Draw Request (MSHDA Mgmt. 501A) form.
- ORC Draw Worksheet (MSHDA Mgmt. 501B).

If the request exceeds the maximum allowable draw amount as determined on the ORC Draw Worksheet (MSHDA Mgmt. 501B), the owner/agent should provide supporting documentation of the anticipated operational need.

Tax and Insurance Analysis

At the end of each calendar year, an analysis of the tax and insurance escrow accounts is performed to approximate the appropriate level of funding needed to pay the upcoming year's tax and insurance bills.

- If the funds in these accounts are deemed insufficient to cover the tax and insurance obligations for the upcoming year, funds will be drawn from the ORC account to cover the anticipated deficit.
- If a surplus in the overall funding of the tax and insurance escrow accounts occurs, the excess funds will be deposited into the ORC account.

If a mid-year deficit occurs in the tax or insurance escrow account, when a tax or insurance bill becomes due, ORC account funds may be used to pay for the deficit.

Mortgage Loan Payment

Upon payment in full of a development's mortgage loan, the release of funds in the ORC account is governed by the regulatory agreement and applicable laws.

Forms and Attachments

501A – Operating Reserve Cash Draw Request form
501B – ORC Draw Worksheet