OPERATING RESERVE GUIDE

This policy helps provides guidance regarding the Operating Reserve (also referred to as Operating Deficit Reserve) and the disbursement of funds from the account. If any Regulatory Agreement's language conflicts with this policy, the Regulatory Agreement parameters will supersede the policy parameters. The following topics will be covered in this policy:

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Purpose of the Operating Reserve

The Operating Reserve is primarily designed to fund projected operating deficits in the development's operations and to provide disbursements to cover those deficits, adjusted on an annual basis. As part of the regulatory requirements, developments *may* be required to deposit a portion of the development's operating cash into the Operating Reserve 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.

Eligible Expenses

Development operating expenses can be paid from the Operating Reserve account. Funds should not be used for items that were or will be reimbursed from other escrow accounts, such as replacement reserve items. Eligible expenses include:
- Payments to maintain the fiscal and physical integrity of the development, including items not eligible for reimbursement from the Replacement Reserve;
- Expenses/payables projected to come due without operating funds being available in the next 30 days, and;
- Limited distribution payments as permitted by the development's regulatory agreement.

Requests for Operating Reserve Disbursement

The Owner/Agent must submit a written request for Operating Reserve disbursement to the assigned Asset Manager on the Reserve Draw Request.

The Owner/Agent may request either a budgeted quarterly disbursement or a one-time withdrawal from the Operating Reserve account.

Budgeted Disbursements - When the Owner/Agent anticipates an operating deficit will occur during an upcoming year, the Owner/Agent may submit an Operating Reserve withdrawal amount as part of the development's annual budget submission process. Budgeted disbursements, approved as part of the annual budget process, will be disbursed quarterly. If ODR funds in excess of the required payments are requested, a disbursement schedule must be approved by the Asset Management division to disburse the funds in excess of the payments designated during the budget submission process.

A quarterly financial statement must accompany the draw request in order for the Asset Manager to verify the operating shortfall.

If you are eligible for a Distribution, No Limited Dividend payments can be budgeted if an ODR withdrawal is **budgeted** on a development's annual budget.

One Time Disbursements - The Owner/Agent may also make one-time disbursement requests from the Operating Reserve. Operating Reserve requests must be submitted to the assigned Asset Manager for review and approval by an authorized officer of the Authority. Operating Reserve requests must include the following:

- An explanation of the intended use of the funds;
- Evidence of the current cash position of the development;
- The amount of the request, which must exceed $1000.

Loan Default or Recapture Obligation Event

In the event of that the Mortgage Loan, or HOME Loan (or Grant) is accelerated after a default by the Mortgagor, or the Mortgagor becomes liable for a Recapture Obligation, the Authority may, in its sole discretion, but is not required to, apply any funds on deposit in the Operating Reserve to the amount due on the loan or to satisfy the Recapture Obligation unless otherwise stated in the Regulatory Agreement.

Mortgage Loan Prepayment

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

Forms and Attachments

Reserve Draw Request form