



10400 Detrick Avenue  
 Kensington, MD 20895-2484  
 (240) 627-9425



## Budget, Finance, and Audit Committee

**April 19, 2024**  
**10:00 a.m.**

**Livestream:** <https://youtube.com/live/LPPPS0DIR0U?feature=share>

The public is invited to attend HOC’s April 19, 2024 Budget, Finance, and Audit Committee meeting in-person. HOC’s Board of Commissioners and staff will continue to participate through a hybrid model (a combination of in-person and online participation).

### **Approval of Minutes:**

Title	Page #
1. <b>Minutes:</b> Approval of Budget, Finance, and Audit Committee Minutes of March 15, 2024	Pg. 3

### **Discussion/Action Items:**

Title	Page #
1. <b>Fiscal Year 2025 (FY’25) Budget Presentation:</b> Presentation of the FY’2025 General Fund	Pg. 6
2. <b>Fiscal Year 2025 (FY’25) Budget Presentation:</b> Presentation of the FY’2025 Public Fund	Pg. 16
3. <b>Budget Policy:</b> Overview of the Agency’s Reserve Policy	Pg. 28

# Minutes

**HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY**

10400 Detrick Avenue  
Kensington, Maryland 20895  
(240) 627-9425

**Budget, Finance, and Audit Committee Minutes  
March 15, 2024**

For the official record of the Housing Opportunities Commission of Montgomery County, an open meeting of the Budget, Finance and Audit Committee was conducted via a hybrid platform (with some participating in-person and some participating online/via teleconference) on Friday, March 15, 2024 with moderator functions occurring at 10400 Detrick Avenue, Kensington, Maryland beginning at 10:03 a.m. There was a livestream of the meeting held on YouTube, available for viewing [here](#). Those in attendance were:

**Present**

Roy Priest-- Chair  
Frances Kelleher – Commissioner

**Absent**

Jeffrey Merkowitz

**Also Present**

Chelsea Andrews, President/Executive Director  
Kayrine Brown, Senior Executive Vice President  
Richard Congo  
Ali Ozair

Timothy Goetzinger, Chief Financial Officer  
Aisha Memon, Senior Vice President, Legal Affairs  
Ali Ozair  
John Wilhoit

**Present via Zoom**

Kai Hsieh  
Len Vilic  
Sean Asberry

Terri Fowler  
LeNeishia Carroll

**IT Support**

Aries “AJ” Cruz

**Commission Support**

Morgan Tucker, Senior Executive Assistant

Commissioner Priest opened the meeting with a welcome and introduction of Commissioner Kelleher, and explained Commissioner Merkowitz’s necessary absence. Commissioner Priest began the meeting with the approval of the minutes.

**APPROVAL OF MINUTES**

**1. Approval of Budget, Finance, and Audit Committee Minutes of February 21, 2024.**

The minutes of the February 21, 2024 meeting were approved as submitted with a motion by Commissioner Priest and seconded by Commissioner Kelleher. Affirmative votes were cast by Commissioners Priest and Kelleher.

**ACTION/DISCUSSION ITEMS**

**1. Procurement of Property Management Services: Approval to Select Management Companies to Provide Property Management Services for Several HOC Properties in Accordance with Requests for Proposal.**

Commissioner Priest introduced Chelsea Andrews, President, to provide an overview of the presentation. President Andrews introduced Ali Ozair, Vice President of Property Management, to provide the presentation. Staff recommended that the Budget, Finance, and Audit Committee join its recommendation to recommend to the full Commission to award the property management services contracts to the management companies proposed in the presentation. Commissioner Priest asked for questions and stated interest in feedback as management companies are now required to perform management and maintenance services and if this requirement has provided the improved performance HOC has sought to achieve. The motion was made by Commissioner Kelleher and seconded by Commissioner Priest. Affirmative votes were cast by Commissioners Priest and Kelleher.

Based upon this report and there being no further business to come before this session of the Committee, the Committee adjourned the meeting at 10:12 a.m.

Respectfully submitted,

Chelsea Andrews  
Secretary-Treasurer

/mpt

# Discussion Items

**MEMORANDUM**

**TO:** Housing Opportunities Commission of Montgomery County  
Budget, Finance and Audit Committee

**VIA:** Chelsea Andrews, President/Executive Director

**FROM:** Staff: Timothy Goetzinger, Senior VP Finance / Chief Financial Officer  
Terri Fowler, Budget Officer  
Kai Hsieh, Assistant Budget Officer

**RE:** **Fiscal Year 2025 (FY'25) Budget Presentation:** Presentation of the FY 2025  
General Fund

**DATE:** April 19, 2024

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**BACKGROUND:**

The FY 2025 Recommended Budget reflects the Agency's commitment to **EXPAND** Affordable Housing in Montgomery County, **ENHANCE** the Lives We Touch through Supportive Services & Partnerships, and **EXCEL** as a World-Class Organization.

The lingering impacts of the COVID-19 pandemic on rental arrearages and rising costs have continued to present challenges in balancing the budget. Limited access to units during the pandemic has resulted in more deferred maintenance in our units, which when combined with rising costs have put upward pressure on our budgetary expenses. New leadership in HOC's Asset Management, Property Management and Maintenance divisions will lead the charge of stabilizing rental income and containing costs while providing quality housing to our residents. These efforts combined with continued investment in technology and systems to create a more agile and data-driven decision-making environment, and staff development and advancement will enable the Agency to respond to the aforementioned issues and positively impact property and agency financial performance and improve our customers' experience in accessing resources and assistance.

The Agency's development and financing activities continue to generate commitment and development fees that support the Agency's operations and the Opportunity Housing Reserve Fund, which provides funding for future development activities. The FY'25 Recommended Budget continues to rely heavily on these fees that are one time in nature to support operations. The amount of these fees and the timing of their receipt is dependent upon the ever-changing development landscape, which can impact revenue received during a given fiscal year. Nevertheless, production and preservation must continue to meet HOC's goals as well as those set forth by Montgomery County.

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## ISSUES FOR CONSIDERATION:

### OPERATING BUDGET

The **General Fund** includes costs associated with typical overhead departments, including the Executive Division, Finance Division, Information Technologies, Facilities, Legislative and Government Affairs, and Public Affairs and Communications. Also included in this fund, because of funding source decisions and the treatment of overhead, are portions of Property Management Administration, Maintenance Administration, Compliance, Real Estate, Mortgage Finance, and Resident Services. Costs within these divisions that are treated as overhead, are allocated to the revenue generating programs via HOC's Cost Allocation Plan.

The Recommended Operating Budget for FY 2025 is **\$348.4 million**. Please note that the FY 2025 Recommended Budget that was presented to the Commission on April 3, 2023, is balanced with a projected draw from the General Fund Operating Reserve ("GFOR") of approximately **\$854 thousand** (see **Slide 2**).

The chart on **Slide 3** reflects the distribution of the Source of Funds in the FY 2025 General Fund Recommended Budget. Fees received for **Agency Overhead** of **\$14.47 million** account for **41.52%** of the total revenue in the fund. As in past years, the fees received do not fully cover the budgeted overhead expenses in the General Fund of **\$31.83 million** due to the limit on fees for some of the properties and grants. Further, overhead has historically not been allocated to the Real Estate Division since the source of funds for the majority of salaries and benefits in the division is the Opportunity Housing Reserve Fund ("OHRF") and allocating overhead would further deplete the reserve, thereby limiting available funds for capital investments. This leaves approximately **\$17.36 million** of expenses to be covered from other revenue sources in the General Fund and unrestricted cash flow from Non-Development Corporation properties.

The distribution of the Uses of Funds on **Slide 4** shows that personnel is the largest cost in the General Fund, which is typical. It accounts for **\$26.89 million** or **73.67%** of the total expenses. Other Operating costs account for an additional **\$7.66 million** or **21.28%**. Finally, Non-Operating expenses, which include debt service payments, contributions/restrictions to reserves, and funding for capital, represent the remaining **\$1.95 million** or **5.35%**.

As shown on **Slide 5**, the balance in the General Fund operating Reserve ("GFOR") is projected to decrease a net **\$491 thousand** by June 30, 2025, mainly from the projected draw to balance the FY 2025 budget and the projected draw to cover the planned MetroPointe operating deficit.

### CAPITAL BUDGET

The chart on **SLIDE 6** depicts the FY 2025 Capital Budgets for Facilities and IT totaling **\$572 thousand**. Proposed funding for the Facilities and IT budgets is a transfer of funds from the Operating Budget and Replacement Reserves.

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**BUDGET IMPACT:**

None for FY'24. The budget, when adopted on June 5, 2024, will set the financial plan for the Agency for FY'25.

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**TIME FRAME:**

During April and May 2024, the Budget, Finance and Audit Committee will review the budget proposal in detail and recommend the FY'25 Budget, as amended, to the full Commission for adoption at the June 5, 2024 meeting. The Commission must adopt a budget for FY'25 before the fiscal year begins on July 1, 2024.

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**STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:**

No action is requested at this time.



# **Charts Highlighting FY 2025 General Fund Budget**

# **Budget, Finance & Audit Committee Meeting FY 2025 General Fund**

**April 19, 2024**

# Fund Summary

## FY 2025 Recommended Budget

### Fund Summary Overview

### FY 2025 Recommended Budget

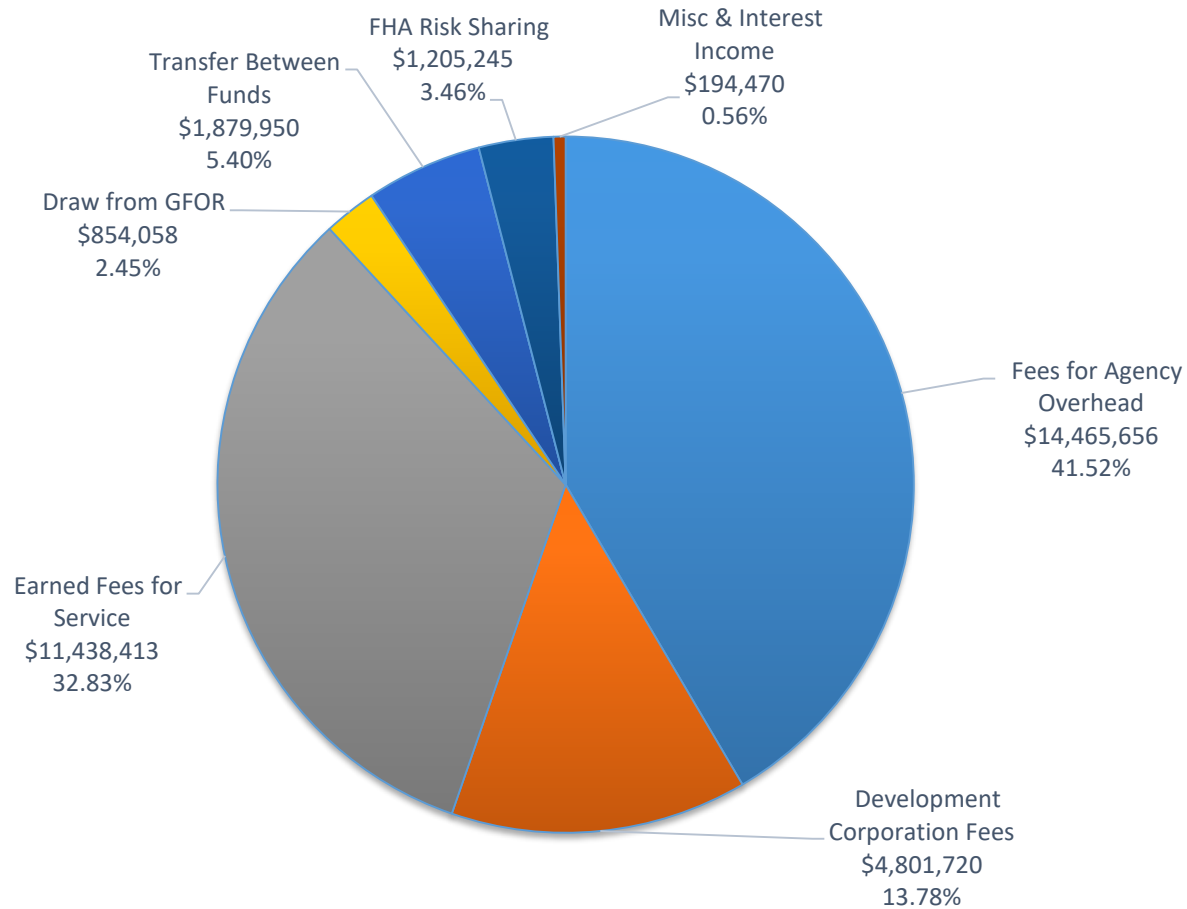
	Revenues	Expenses	Net
<b>General Fund</b>	\$33,985,450	\$36,495,230	(\$2,509,780)
<b>Draw from General Fund Operating Reserve ("GFOR")</b>	\$854,060	\$0	\$854,060
<b>Multifamily Bond Funds</b>	\$23,163,370	\$23,163,370	\$0
<b>Single Family Bond Funds</b>	\$8,451,710	\$8,451,710	\$0
<b>Opportunity Housing Fund</b>			
<b>Opportunity Housing Reserve Fund ("OHRF")</b>	\$12,970,450	\$1,779,950	\$11,190,500
<b>Restrict to OHRF</b>	\$0	\$11,190,500	(\$11,190,500)
<b>Opportunity Housing &amp; Development Corporation Properties</b>	\$110,532,650	\$108,898,970	\$1,633,680
<b>Draw from GFOR for MetroPointe Deficit</b>	\$22,040	\$0	\$22,040
<b>Public Fund</b>			
<b>Housing Choice Voucher Program ("HCVP")</b>	\$139,722,090	\$139,722,090	\$0
<b>Federal and County Grants</b>	\$18,653,980	\$18,653,980	\$0
<b>TOTAL - ALL FUNDS</b>	<b>\$348,355,800</b>	<b>\$348,355,800</b>	<b>\$0</b>

\* Revenues and Expenses include inter-company Transfer Between Funds

# Source of Funds

## FY 2025 Recommended Budget

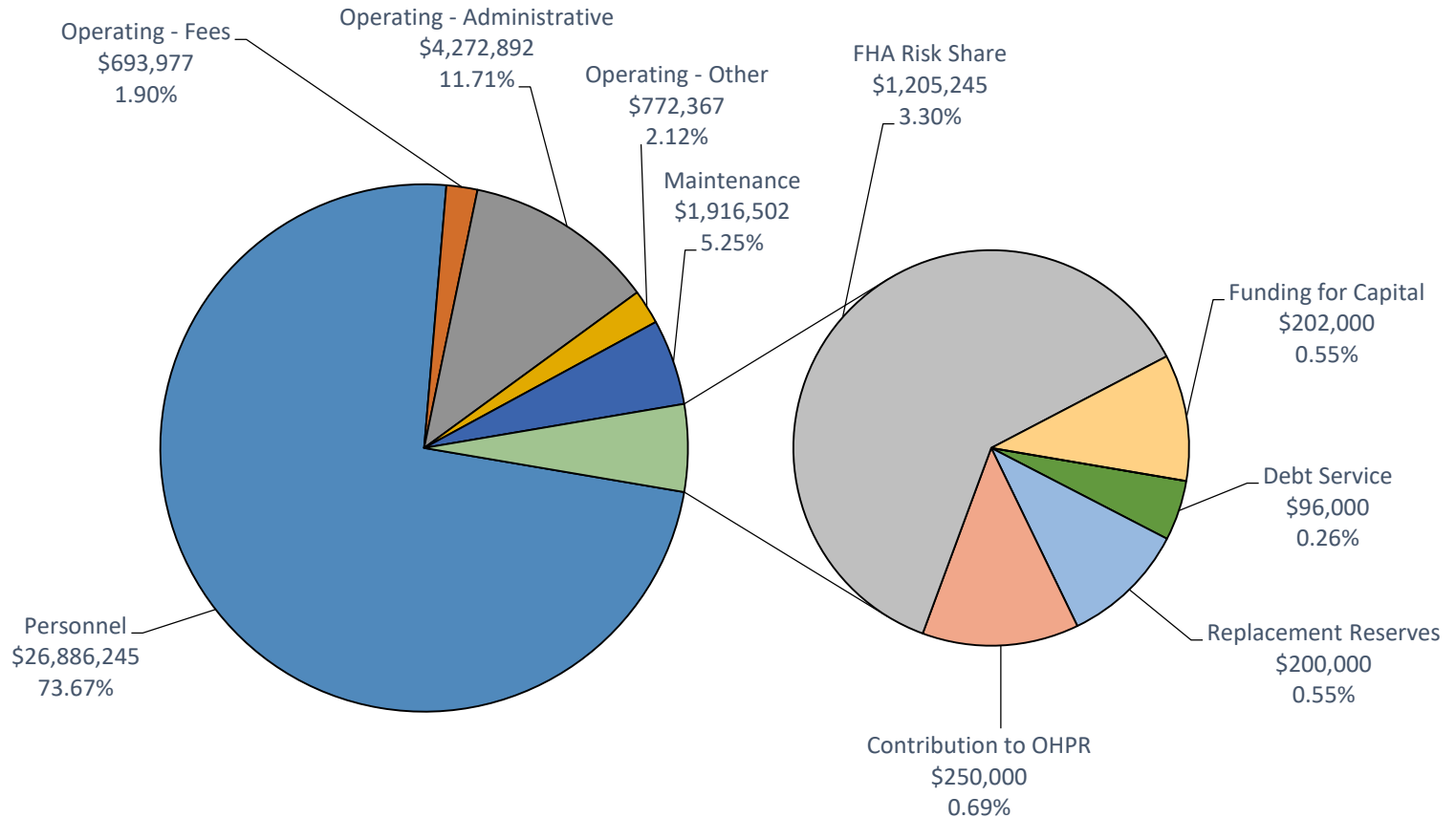
**\$34,839,512**



# Use of Funds

## FY 2025 Recommended Budget

**\$36,495,228**



# General Fund Operating Reserve FY 2024 through FY 2025

General Fund Operating Reserve	FY 2024	FY 2025 Recommended Budget
<b>Cash Balance End of Prior Fiscal Year</b>	<b>10,214,403</b>	<b>\$15,506,754</b>
<b>Source of Funds</b>		
Agency FY'23 Actual Operating Deficit	(\$1,129,032)	\$0
Bank Interest	\$385,142	\$385,142
<b>SUBTOTAL</b>	<b>(\$743,890)</b>	<b>\$385,142</b>
<b>Uses of Funds</b>		
Transfer from Debt Service Reserve	\$5,080,000	\$0
Transfer balance of Other Post Employee Benefit ("OPEB") Reserve	\$779,685	\$0
Transfer from Vehicle Reserve	\$400,000	\$0
MetroPointe FY'23 Actual Operating Deficit	(\$96,509)	\$0
MetroPointe FY'24 Budgeted Operating Deficit	(\$126,935)	\$0
MetroPointe FY 2025 Projected Operating Deficit	\$0	(\$22,036)
Projected Draw to balance FY 2025 Budget	\$0	(\$854,058)
<b>SUBTOTAL</b>	<b>\$6,036,241</b>	<b>(\$876,094)</b>
<b>Projected Cash Balance as of June 30,</b>	<b>\$15,506,754</b>	<b>\$15,015,802</b>
Earmark for One-Year Headquarter Debt Service Reserve ("DSR")	(\$4,655,000)	(\$4,655,000)
<b>Cash balance net of Obligations and Headquarter DSR</b>	<b>\$10,851,754</b>	<b>\$10,360,802</b>
1% Operating Reserve Threshold	\$1,664,426	\$1,709,726
<b>Overfunding</b>	<b>\$9,187,328</b>	<b>\$8,651,076</b>

<b>Computation of FY 2025 Minimum Operating Reserve Contribution:</b>	
<b>FY 2025 Operating Budget</b>	<b>\$348,355,803</b>
Housing Assistance Payment (HAP)	(\$127,114,132)
Federal, State and County Grant	(\$18,653,981)
Bond Fund	(\$31,615,089)
	<b>(\$177,383,202)</b>
<b>FY 2025 Adjusted Operating Budget</b>	<b>\$170,972,601</b>
<b>FY 2025 Minimum Operating Reserve of 1%</b>	<b>\$1,709,726</b>

# Capital Budget

## FY 2025 Recommended Budget

Capital Improvement Budgets	FY 2025		
Facilities & IT Department	Recommended Budget		
	Total Expenses	Revenue Sources Operating Budget	RfR
<b>Facilities</b>			
East Deer Park	\$50,000	\$0	\$50,000
Kensington	\$100,000	\$0	\$100,000
880 Bonifant Service Center	\$15,000	\$0	\$15,000
Derwood Service Center	\$90,000	\$0	\$90,000
<b>Subtotal - Facilities</b>	<b>\$255,000</b>	<b>\$0</b>	<b>\$165,000</b>
<b>Information Technology (IT)</b>			
Computer Software	\$45,000	\$0	\$45,000
Computer Equipment	\$272,000	\$202,000	\$70,000
<b>Subtotal - IT Improvements</b>	<b>\$317,000</b>	<b>\$202,000</b>	<b>\$115,000</b>
<b>TOTAL</b>	<b>\$572,000</b>	<b>\$202,000</b>	<b>\$280,000</b>

## MEMORANDUM

**TO:** Housing Opportunities Commission of Montgomery County  
Budget, Finance and Audit Committee

**VIA:** Chelsea Andrews, President/Executive Director

**FROM:** Staff: Timothy Goetzinger, Senior VP Finance / Chief Financial Officer  
Terri Fowler, Budget Officer  
Kai Hsieh, Assistant Budget Officer

**RE:** **Fiscal Year 2025 (FY'25) Budget Presentation:** Presentation of the FY 2025 Public Fund

**DATE:** April 19, 2024

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### BACKGROUND:

The FY 2025 Recommended Budget reflects the Agency's commitment to **EXPAND** Affordable Housing in Montgomery County, **ENHANCE** the Lives We Touch through Supportive Services & Partnerships, and **EXCEL** as a World-Class Organization.

The lingering impacts of the COVID-19 pandemic on rental arrearages and rising costs have continued to present challenges in balancing the budget. Limited access to units during the pandemic has resulted in more deferred maintenance in our units, which when combined with rising costs have put upward pressure on our budgetary expenses. New leadership in HOC's Asset Management, Property Management and Maintenance divisions will lead the charge of stabilizing rental income and containing costs while providing quality housing to our residents. These efforts combined with continued investment in technology and systems to create a more agile and data-driven decision-making environment, and staff development and advancement will enable the Agency to respond to the aforementioned issues and positively impact property and agency financial performance and improve our customers' experience in accessing resources and assistance.

The Agency's development and financing activities continue to generate commitment and development fees that support the Agency's operations and the Opportunity Housing Reserve Fund, which provides funding for future development activities. The FY'25 Recommended Budget continues to rely heavily on these fees that are one time in nature to support operations. The amount of these fees and the timing of their receipt is dependent upon the ever-changing development landscape, which can impact revenue received during a given fiscal year. Nevertheless, production and preservation must continue to meet HOC's goals as well as those set forth by Montgomery County.



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**ISSUES FOR CONSIDERATION:**

The **Public Fund** includes the various Federal and County Grants that support the customers of the Agency.

**Housing Choice Voucher Program (“HCVP”)**

The largest grant is for the Housing and Urban Development (“HUD”) funded HCVP, which provides funding for rental subsidy payments to landlords and the administrative costs of the program to HOC. This program serves families with average annual incomes of \$23,720. Approximately 87% of the payments are made to non-HOC landlords.

Thus far, staff has not introduced any changes to the Recommended Operating Budget for FY 2025 of **\$348.4 million** that is balanced with a projected draw from the General Fund Operating Reserve (“GFOR”) of approximately **\$854 thousand** (see **Slide 2**). Changes informally discussed at committee will be incorporated and referenced hereto as the **“Revised Budget.”**

The chart on **Slide 3** shows the funding for the Housing Choice Voucher Program (“HCVP”) is projected at **\$139.3 million**, comprised of income of **\$127.1 million** for Housing Assistance Payments (“HAP”), **\$12.2 million** in administrative fees for the administrative costs of the program. Based on the projected payments to landlords of **\$126.2 million**, the budget includes a contribution to the HAP reserve or Net Restricted Position (“NRP”) of **\$870 thousand** for future payments to landlords based on the projected surplus of projected revenue over projected expenses. The total reserve balance as of December 31, 2023, was **\$9.28 million** in HUD held reserves and **\$75 thousand** in reserves held at the Agency for a net total of **\$9.35 million**.

The FY 2025 Recommended Budget was developed using the anticipated CY 2024 funding by the U.S. Department of Housing and Urban Development (“HUD”) that was based on extrapolating August 2023 Voucher Management System (“VMS”) data to calculate September through December funding plus a 3.23 percent (3.23%) inflation factor. Based on the actual increased utilization achieved through December 2023 of 98%, the **Revised Budget** results in increasing the projected contribution of **\$870 thousand** to the Reserves (“NRP”) by **\$1.477 million** resulting in a projected contribution of **\$2.347 million** to the reserve. The revised budget also includes a reduction in the projected utilization of the Emergency Housing Vouchers (“EHV”) based on the maximum allowed utilization of 103 units.

The FY 2025 Recommended Budget, which was based on the CY 2023 Administrative Fee income rates prorated at 97.38%, includes a projected draw of **\$420 thousand** from the Administrative Fee Income – Carryover received but not spent in prior years. HUD has not yet released the CY 2024 Administrative Fee income rates or pro-ration factor. Once released, staff will update the impact to projected income for FY 2025. Administrative Fee Income decreased **(\$18) thousand** in the Revised Budget as a result of decreased utilization projection for the EHV units. In addition, fees paid to the Agency for overhead, which are also based on utilization, decreased by **(\$6) thousand**. The net effect of these changes results in an increase to the planned draw from

Administrative Fee Income – Carryover of **\$12 thousand**.

The chart on **Slide 4** shows that the total **\$12.60 million** of Administrative Expenses in the program’s budget are comprised of personnel costs of **\$7.96 million** or **63%**, operating fees of **\$3.14 million** or **25%**, and other administrative expenses of **\$1.50 million** or **12%**.

#### **Other Federal and County Grants**

Other Federal Grants reflected in the chart on **Slide 5** shows that the total for FY 2025 has decreased **(\$90) thousand** from FY 2024 based on decreases of **(\$117) thousand** to the McKinney grants and a **\$27 thousand** increase to the Family Self Sufficiency (“FSS”) ROSS grant. Although the **\$575 thousand** ROSS grant almost fully covers the expenses for the five (5) work years it permits, the actual need based on participants is for nine (9) work years. As a result, the County grant supplements the funding by providing funding for the additional four (4) work years needed.

The chart on **Slide 6** displays the County Grants included in the FY 2025 Budget.

The FY 2025 Recommended Budget for the County Contract was based on the initial Maximum Agency Request Ceiling (“MARC”) of **\$7.972 million**. The **Revised** Budget of **\$8.295 million** includes an increase of **\$323 thousand** based on the Count Executive’s FY 2025 Recommended Budget, which includes the Agency’s request for estimated increases to Resident Services’ compensation, health and retirement benefits. The County Contract provides **\$6.93 million** or **82.6%** to support our Resident Services Division, **\$1.26 million** or **15.2%** to support Housing Association (“HOA”) Fees, utilities and rental license fees at our properties, and **\$100 thousand** or **1.2%** to support rent at the customer Service Centers.

Closing Cost funding has increased **\$5 thousand** or **2.4%** from FY 2024 based on the estimated salary adjustments for FY 2024 and FY 2025 as well as increased benefit costs and the corresponding Management Fee. Funding for the Recordation Tax Funded Programs was reduced by 4% from FY 2024, which includes the Rent Supplement Program, Move Up Initiative, Community Choice Homes Initiative, and Youth Bridge Initiative. They have decreased by **(\$82) thousand**, **(\$13) thousand**, **(\$29) thousand**, and **(\$4) thousand** respectively. The County McKinney funding remained the same and Miscellaneous Programs decreased by **(\$7) thousand**.

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#### **BUDGET IMPACT:**

None for FY’24. The budget, when adopted on June 5, 2024, will set the financial plan for the Agency for FY’25.

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#### **TIME FRAME:**

During April and May 2024, the Budget, Finance and Audit Committee will informally review the budget proposal in detail. The FY’25 Budget, as amended, will be presented to the full Commission for adoption at the June 5, 2024 meeting. The Commission must adopt a budget for FY’25 before the fiscal year begins on July 1, 2024.

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**STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:**

No action is requested at this time.

# **Charts Highlighting FY 2025 Public Fund Budget**

# **Budget, Finance & Audit Committee Meeting FY 2025 Public Fund**

**April 19, 2024**

# Fund Summary

## FY 2025 Recommended Budget

Fund Summary Overview		FY 2025 Recommended Budget		
		Revenues	Expenses	Net
General Fund		\$33,985,450	\$36,495,230	(\$2,509,780)
	Draw from General Fund Operating Reserve ("GFOR")	\$854,060	\$0	\$854,060
Multifamily Bond Funds		\$23,163,370	\$23,163,370	\$0
Single Family Bond Funds		\$8,451,710	\$8,451,710	\$0
Opportunity Housing Fund				
	Opportunity Housing Reserve Fund ("OHRF")	\$12,970,450	\$1,779,950	\$11,190,500
	Restrict to OHRF	\$0	\$11,190,500	(\$11,190,500)
	Opportunity Housing & Development Corporation Properties	\$110,532,650	\$108,898,970	\$1,633,680
	Draw from GFOR for MetroPointe Deficit	\$22,040	\$0	\$22,040
Public Fund				
	Housing Choice Voucher Program ("HCV")	\$139,722,090	\$139,722,090	\$0
	Federal and County Grants	\$18,653,980	\$18,653,980	\$0
<b>TOTAL - ALL FUNDS</b>		<b>\$348,355,800</b>	<b>\$348,355,800</b>	<b>\$0</b>

\* Revenues and Expenses include inter-company  
Transfer Between Funds

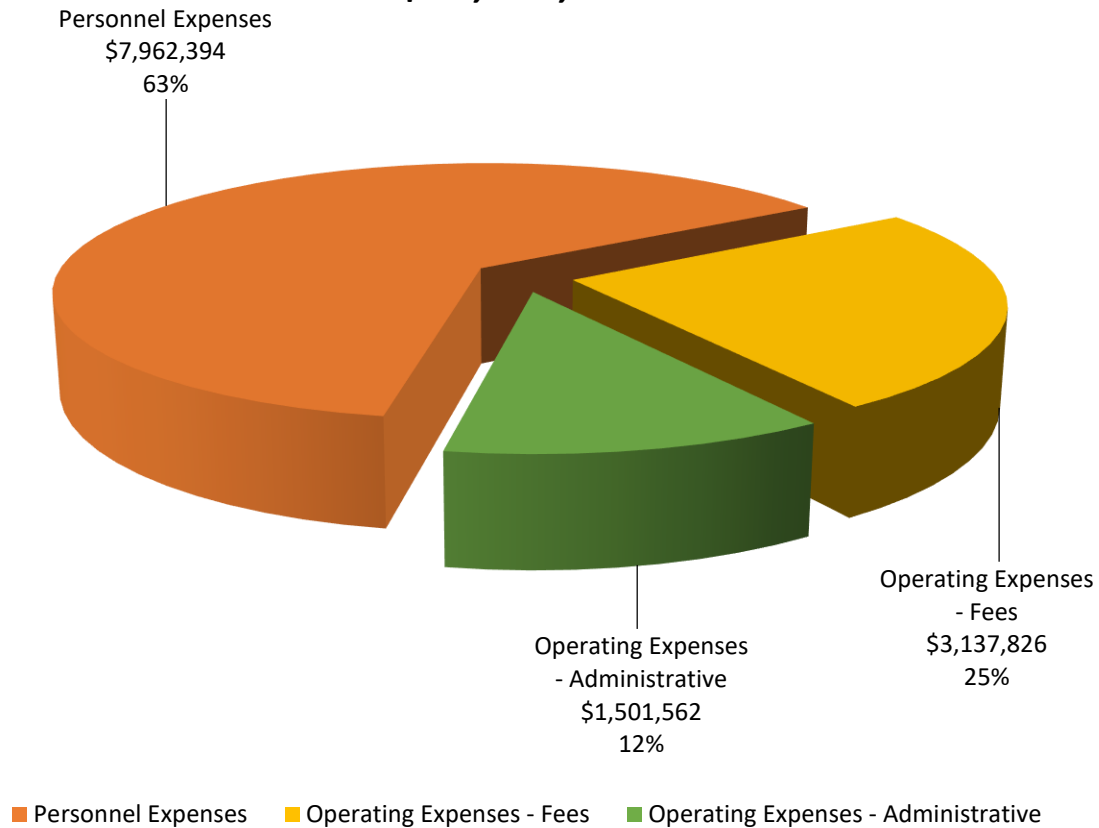
# Housing Choice Voucher Overview

## FY 2021 through FY 2025

Housing Choice Voucher Program	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Amended Budget	FY 2025 Recommended Budget	FY 2025 Revised Budget	FY 2025 Recommended to FY 2025 Revised \$ Change	% Change
<b>Income</b>								
Housing Assistance Payments ("HAP")	\$102,216,697	\$110,592,588	\$118,245,713	\$124,630,880	\$127,114,132	\$128,168,598	\$1,054,466	0.8%
Administrative Fee Income	\$9,542,757	\$10,634,727	\$11,055,517	\$11,231,910	\$12,153,155	\$12,135,096	(\$18,059)	-0.1%
Miscellaneous Income	\$289,358	\$119,797	\$244,194	\$34,056	\$35,000	\$35,000	\$0	0.0%
Draw from HAP Reserve ("NRP")	\$3,423,500	\$0	\$73,316	\$0	\$0	\$0	\$0	0.0%
Administrative Fee Income - Carryover ("UNP")	\$0	\$0	\$0	\$0	\$419,801	\$431,686	\$11,885	2.8%
<b>Total Income</b>	<b>\$115,472,312</b>	<b>\$121,347,112</b>	<b>\$129,618,740</b>	<b>\$135,896,846</b>	<b>\$139,722,088</b>	<b>\$140,770,380</b>	<b>\$1,048,292</b>	<b>0.8%</b>
<b>Expenses</b>								
Personnel Expenses	\$4,571,253	\$4,957,978	\$5,358,945	\$7,039,676	\$7,962,394	\$7,962,394	\$0	0.0%
Operating Expenses - Fees	\$1,732,945	\$1,720,699	\$2,777,651	\$2,937,877	\$3,144,000	\$3,137,826	(\$6,174)	-0.2%
Operating Expenses - Administrative	\$1,342,689	\$1,832,541	\$2,198,667	\$1,285,754	\$1,501,562	\$1,501,562	\$0	0.0%
Tenant Services Expenses	\$0	\$357,982	\$8,021	\$0	\$0	\$0	\$0	0.0%
Maintenance Expenses	\$0	\$24,165	\$14,625	\$0	\$0	\$0	\$0	0.0%
Housing Assistance Payments ("HAP")	\$105,640,197	\$110,265,213	\$118,319,029	\$124,451,780	\$126,244,016	\$125,821,818	(\$422,198)	-0.3%
Contribution to HAP Reserve ("NRP")	\$0	\$327,375	\$0	\$179,100	\$870,116	\$2,346,780	\$1,476,664	--
Contribution to Admin Reserve ("UNP")	\$2,185,228	\$1,861,159	\$941,802	\$2,659	\$0	\$0	\$0	0.0%
<b>Total Expenses</b>	<b>\$115,472,312</b>	<b>\$121,347,112</b>	<b>\$129,618,740</b>	<b>\$135,896,846</b>	<b>\$139,722,088</b>	<b>\$140,770,380</b>	<b>\$1,048,292</b>	<b>0.8%</b>
<b>NET CASH FLOW</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>

# Expense Overview (Excluding HAP)

## Total Expenses w/o HAP \$12,601,782





# Grants Overview

## Federal Grants

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2024 to FY 2025	
	Actual	Actual	Actual	Amended Budget	Recommended Budget	\$ Change	% Change
	Fatherhood Initiative	\$495,950	\$767,848	\$789,489	\$998,000	\$998,000	\$0
McKinney Grants	\$4,073,133	\$4,295,205	\$4,333,065	\$4,333,065	\$4,215,691	(\$117,374)	-2.7%
ROSS Grants	\$382,079	\$405,968	\$316,658	\$547,483	\$574,857	\$27,374	5.0%
<b>TOTAL - FEDERAL FUNDS</b>	<b>\$4,951,162</b>	<b>\$5,469,021</b>	<b>\$5,439,212</b>	<b>\$5,878,548</b>	<b>\$5,788,548</b>	<b>(\$90,000)</b>	<b>-1.5%</b>

# Grants Overview

## County Grants

COUNTY GRANTS	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2024 to FY 2025		FY 2025	FY 2025 Recommended	
	Actual	Actual	Actual	Amended Budget	Recommended Budget	\$ Change	% Change	Revised Budget	\$ Change	% Change
County Contract	\$6,575,603	\$6,861,987	\$7,632,610	\$7,972,501	\$7,972,501	\$0	0.0%	\$8,295,315	\$322,814	4.0%
Resident Services	\$5,288,619	\$5,636,831	\$6,077,172	\$6,608,661	\$6,608,661	\$0	0.0%	\$6,931,475	\$322,814	4.9%
Property Management	\$1,124,772	\$1,125,156	\$1,455,438	\$1,263,840	\$1,263,840	\$0	0.0%	\$1,263,840	\$0	0.0%
Customer Service Center - Client Services	\$62,212	\$0	\$0	\$0	\$0	\$0	0.0%	\$0	\$0	0.0%
Customer Service Center - Rents	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$0	0.0%	\$100,000	\$0	0.0%
County Rental Assistance	\$0	\$0	\$2,822,783	\$0	\$0	\$0	0.0%	\$0	\$0	0.0%
County Closing Cost Assistance Program	\$169,654	\$172,571	\$184,166	\$208,966	\$213,998	\$5,032	2.4%	\$213,998	\$0	0.0%
COVID 19 CDBG	\$1,302,338	\$0	\$760,068	\$0	\$0	\$0	0.0%	\$0	\$0	0.0%
McKinney Grants	\$634,586	\$653,986	\$702,744	\$728,597	\$728,597	\$0	0.0%	\$728,597	\$0	0.0%
Recordation Tax - Rent Supplemental Program	\$1,555,054	\$1,542,299	\$1,824,357	\$2,038,996	\$1,957,436	(\$81,560)	-4.0%	\$1,957,436	\$0	0.0%
Recordation Tax - Move-up Initiative	\$116,633	\$111,792	\$116,590	\$320,160	\$307,354	(\$12,806)	-4.0%	\$307,354	\$0	0.0%
Recordation Tax - Community Choice Homes Initiative	\$316,261	\$514,767	\$673,445	\$720,672	\$691,850	(\$28,822)	-4.0%	\$691,850	\$0	0.0%
Recordation Tax - Youth Bridge Initiative	\$48,553	\$62,878	\$70,083	\$88,682	\$85,135	(\$3,547)	-4.0%	\$85,135	\$0	0.0%
Recordation Tax - HIF Rental Assistance RAAP	\$0	\$0	\$2,106,899	\$0	\$0	\$0	0.0%	\$0	\$0	0.0%
Miscellaneous Programs *	\$325,727	\$340,377	\$322,999	\$384,831	\$377,775	(\$7,056)	-1.8%	\$377,775	\$0	0.0%
<b>TOTAL COUNTY FUNDING</b>	<b>\$11,044,409</b>	<b>\$10,260,657</b>	<b>\$17,216,744</b>	<b>\$12,463,405</b>	<b>\$12,334,646</b>	<b>(\$133,791)</b>	<b>-1.1%</b>	<b>\$12,657,460</b>	<b>\$322,814</b>	<b>2.6%</b>
<b>Total State and County Funding</b>	<b>\$11,044,409</b>	<b>\$10,260,657</b>	<b>\$17,216,744</b>	<b>\$12,463,405</b>	<b>\$12,334,646</b>	<b>(\$133,791)</b>	<b>0.0%</b>	<b>\$12,657,460</b>	<b>\$322,814</b>	<b>2.6%</b>

\*Miscellaneous Programs are: Housing Locator, Senior Nutrition, Service Core-Turnkey, MD Emergency Food Program, and Emergency Assistance.

# Fund Summary

## FY 2025 Revised Budget

Fund Summary Overview		FY 2025 Revised Budget 4/19/2024		
		Revenues	Expenses	Net
<b>General Fund</b>		\$33,985,450	\$36,495,230	(\$2,509,780)
	<b>Draw from General Fund Operating Reserve ("GFOR")</b>	\$854,060	\$0	\$854,060
	<b>Changes to HCVP Utilization</b>	(\$6,174)	\$0	(\$6,174)
<b>Multifamily Bond Funds</b>		\$23,163,370	\$23,163,370	\$0
<b>Single Family Bond Funds</b>		\$8,451,710	\$8,451,710	\$0
<b>Opportunity Housing Fund</b>				
	<b>Opportunity Housing Reserve Fund ("OHRF")</b>	\$12,970,450	\$1,779,950	\$11,190,500
	<b>Restrict to OHRF</b>	\$0	\$11,190,500	(\$11,190,500)
	<b>Opportunity Housing &amp; Development Corporation Properties</b>	\$110,532,650	\$108,898,970	\$1,633,680
	<b>Draw from GFOR for MetroPointe Deficit</b>	\$22,040	\$0	\$22,040
<b>Public Fund</b>				
	<b>Housing Choice Voucher Program ("HCVP")</b>	\$139,722,090	\$139,722,090	\$0
	<b>Changes to HCVP Utilization</b>	\$1,036,407	\$1,036,407	\$0
	<b>Federal and County Grants</b>	\$18,653,980	\$18,653,980	\$0
	<b>Increase to County Main Grant</b>	\$322,814	\$205,739	\$117,075
<b>TOTAL - ALL FUNDS</b>		<b>\$349,708,847</b>	<b>\$349,597,946</b>	<b>\$110,901</b>

\* Revenues and Expenses include inter-company  
Transfer Between Funds

## MEMORANDUM

**TO:** Housing Opportunities Commission of Montgomery County  
Budget, Finance and Audit Committee

**VIA:** Chelsea J. Andrews, President/Executive Director

**FROM:** Staff: Timothy Goetzinger, Senior VP Finance / CFO  
Terri Fowler, Budget Officer

**RE:** **Budget Policy:** Overview of the Agency's Reserve Policy

**DATE:** April 19, 2024

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### OVERALL GOAL & OBJECTIVE:

Staff is providing an overview of the Agency's Budget Policy regarding Operating Reserves with specific attention to the General Fund Operating Reserve ("GFOR"). This overview provides a background of the policy established in 2004, current implementation, and a potential recommendation based upon industry best practice. Staff is also providing brief overviews of other reserves including those for the Housing Choice Voucher Program – the Restricted Net Position ("RNP") and HUD Held Reserves ("HHR") – and reserves held by the Agency for specific purposes including the Opportunity Housing Property Reserve Fund ("OHPR"), Opportunity Housing Bond Fund ("OH Bond Fund"), Bond Fund Debt Service Reserve, Opportunity Housing Reserve Fund ("OHRF"), FHA Risk Sharing / MIP Cash Reserve, and the Vehicle Reserve.

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### BACKGROUND:

#### **General Fund Operating Reserve ("GFOR")**

On June 2, 2004, the Commission adopted Resolution 04-51, known as "Budget Policy #4 – Operating Reserve" (*provided hereto as Attachment 1*), which established what is now known as the General Fund Operating Reserve ("GFOR"). The GFOR was created to provide funding for shortfalls which may occur during any budget year as a result of changes in expenses or reductions in revenues. In order to fund the reserve, certain portions of revenue were to be transferred into the GFOR until it reached one percent (1%) of HOC's current Adjusted Operating Budget ("AOB"). The AOB is a subset of the Annual Operating Budget that excludes Housing Assistance Payments, Federal, State and County Grants, and Bond Funds. The policy goal was to create an operating reserve of one percent (1%). Put into practice, for FY 2023, the goal would be to have on hand a reserve of \$1.5 million.

A computation of the FY 2023 minimum operating reserve is presented below.

<b>Computation of the General Fund Operating Reserve</b>		
FY 2023 Operating Budget (amended)		316,381,237
Housing Assistance Payment (HAP)	(118,671,144)	
Federal, State and County Grant	(19,206,675)	
Bond Funds	(27,380,663)	
		(165,258,482)
FY 2023 Adjusted Operating Budget		151,122,755
FY 2023 Minimum Operating Reserve of 1%		1,511,228

**GFOR - Agency Practice**

In the two decades since the policy was adopted, it is clear that a one percent (1%) operating reserve is far from best practice. Reserves now are seen less as a rainy day fund or savings account and more as a type of self-insurance, one that helps to protect from known and unknown volatility. The Government Finance Officers Association (“GFOA”) sums up the purpose and importance of a well-funded operating reserve stating, “the most important purpose is to respond to significant, unplanned and unavoidable costs or revenue loses such as a natural catastrophe or a recession... Reserves also support a strong bond rating by signaling to investors that the [organization] has resources to pay back debt even with potential disruptions to its financial position.”<sup>1</sup>

Moody’s Investors Service, Inc. (“Moody’s”), HOC’s rating agency, considers an organization’s available fund balance ratio (available fund balance + net current assets / revenue) in its methodology, weighing it as twenty percent (20%) of its total rating. Available fund balance ratio is similar but not the same as the GFOR, but conceptually it serves the same purpose. Moody’s also examines liquidity ratios because fund balance is an accounting term that can include assets not available for current spending. The liquidity ratio (unrestricted cash / revenue) constitutes an additional ten percent (10%) of Moody’s rating methodology. Fund balance and cash together comprise thirty percent (30%) of the total ratings methodology. For this reason, as well as transparency and as a good financial practice, on a quarterly basis, staff presents the Agency’s liquidity ratios (current, quick and cash ratios) and GFOR balance to the BF&A Committee. Ensuring appropriate funding levels and reserves help to reduce borrowing costs. It also helps to address unforeseen expenses.

Catastrophic events occur more frequently than ever. In FY 2010, Montgomery County Government experienced an unprecedented \$265 million decline in income tax revenues and weathered extraordinary expenditure requirements associated with the H1N1 flu virus and

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1 GFOA “Should We Rethink Reserves” <https://www.yumpu.com/en/document/read/68359563/gfr-august-2023/28>

successive and historic winter blizzards. In fact, former County Executive Ike Leggett noted that he would look outside during a snow storm and shake his head knowing that each inch of unplanned snow would cost the county \$1 million. It was worse than expected; the cost of these events totaled in excess of \$60 million, only a portion of which was budgeted and planned for.<sup>2</sup> Shortly thereafter, the County Council approved Resolution 16-1415, *Reserve and Selected Fiscal Policies*, which established a goal of achieving a five percent (5%) reserve in the General Fund – the maximum allowed by County Charter. In FY 2021, during the COVID pandemic, the reserve policy was revisited and strengthened again via Resolution 19-753, which created a goal of ten percent (10%) of Adjusted Governmental Revenues (“AGR”). This is the equivalent to the Commission adopting a reserve goal of ten percent (10%) of its AOB.

Although the Agency’s Operating Reserve policy has not been amended since its 2004 adoption, staff provides quarterly Budget to Actual presentations to the Budget, Finance and Audit Committee, and at the end of each fiscal year, makes certain recommendations to the committee – which must also be approved by the Commission – on how to treat budget surpluses. Generally, these surpluses go towards strengthening the GFOR, the Opportunity Housing Property Reserve (*defined later under the heading “Other Agency Reserves”*), or both. An accounting of the GFOR is reported quarterly to the BF&A Committee. A summary of GFOR actuals is provided below.

<b>General Fund Operating Reserve - Historic Actuals</b>			
<b>Fiscal Year</b>	<b>Actual</b>	<b>% of Adjusted Operating Budget</b>	
FY19	3,938,397	2.80%	
FY20	4,967,798	3.44%	
FY21*	9,052,909	6.07%	
FY22	9,445,224	6.25%	
FY23	10,214,403	6.14%	
FY24**	10,659,183	6.40%	<i>through 12/31/23</i>

\*Transfer of Funds from OH Bond Fund (Prior Debt Service Reserve Payments)  
 \*\*Total GFOR is \$15.3M but includes \$4.66M commitment for year 1 HQ d/s

**GFOR - Best Practice**

Bigger operating reserves are not always better. At a certain point, there is a decreasing marginal benefit where a better choice or investment can be made. By treating reserves as a type of insurance, the question is whether the Agency invests a little with the understanding should the need arise, there will be a high deductible, or whether the Agency invests a lot and risks opportunity cost. Basic economic principals dictate that wants are unlimited, resources are

2 Montgomery County Resolution 19-753 “Reserve and Select Fiscal Policies”  
[https://www.montgomerycountymd.gov/BONDS/Resources/Files/Reserve\\_Selected\\_Fiscal%20Policies\\_2021.pdf](https://www.montgomerycountymd.gov/BONDS/Resources/Files/Reserve_Selected_Fiscal%20Policies_2021.pdf)

scarce, so the Agency must properly balance choice or investment with scarce resources. The choice between whether available funds should be invested in wrap-around services or additional development or another service versus being set aside for an operating reserve can be difficult to navigate; however, best practices are available.

The GFOA recommends a five to fifteen percent (5% - 15%) reserve. Smaller organizations should be on the higher end. For HOC, given its size and financial diversity, a ten percent (10%) reserve would be best practice. Through FY24 Q2, the GFOR is 6.40% or \$10.7 million. A ten percent (10%) GFOR equates to \$16.6 million, which requires \$6 million in additional set aside to achieve.

One final note concerning the GFOR is regarding our new headquarters. The \$10.7M GFOR balance provided in this report is the available reserve amount for fluctuations in expenses and revenues. It should be noted that on October 4, 2023, the Commission approved a recommendation for a transfer of funds from the Opportunity Housing Bond Fund (*defined later under the heading "Other Agency Reserves"*) to the GFOR to establish a one-year Headquarters Debt Service Reserve in the amount of \$4.7 million. When staff reports on the GFOR, funds for the headquarters are noted as restricted. The \$10.7 million figure referenced is the GFOR unrestricted fund balance.

The GFOR is a key reserve for the Agency's operations, but there are several other reserves established. A brief summary of each of these reserves are provided below.

### **Housing Choice Voucher ("HCV") Program Reserves**

Under HUD's financial management procedures, agencies hold a modest portion of reserves in their own account known as the Restricted Net Position ("RNP"), and HUD holds an additional portion that agencies may draw on by request known as the HUD Held Reserve ("HHR"). It is prudent for housing agencies to maintain modest reserve balances as a hedge against unexpected events such as an atypical spike in rents or success rates or an unexpected reduction in their annual funding allocation. The reserve level that is prudent depends in part on how large the agency is. For instance, high-performing, large agencies may maintain reserves equal to four to six percent (4% - 6%) of their annual funding, while it may be prudent for small agencies to keep larger reserve balances because small changes in leasing or costs can have a significant impact on their voucher budgets. This is also why smaller organizations benefit from a higher percent of AOB in general fund operating reserves.

With the Agency's utilization rate approaching 100%, the HHR is decreasing as planned (and the Agency's RNP continues to be modest as per HUD rule). Due to the Agency's previous lower utilization rate and payment standards, the HHR had been nearly \$9 million, or 8 percent (8%). On November 20, 2023, staff recommended to the Administrative and Regulatory Committee – which was approved by the Commission – certain payment standards that over time will reduce the HHR to four percent (4%), or approximately \$5 million.

The Agency balances the aforementioned volatility via its HHR; however, there are other sources of volatility such as the potential for a government shutdown. In the case of a government shutdown in which the HCV Program is impacted, the Agency is prepared as follows. Total monthly Housing Assistance Payments (“HAP”) are approximately \$10 million. The Agency can draw up to \$5 million for working capital from its \$60 million PNC Line of Credit, which along with the HHR provides the Agency with a total of \$10 million, which is the ability to make one month's worth of HAP payments. Should there be a shutdown, this provides the Agency with the ability to determine a longer term solution without impacting voucher holders.

## **Other Agency Reserves**

### **Opportunity Housing Property Reserve Fund (“OHPR”)**

The OHPR is a reserve that provides capital repair and replacement reserves for opportunity housing units.

Improvements to Opportunity Housing, Limited Liability Corporations, and Development Corporation properties are funded through property replacement reserves. Each property sets aside a certain amount of operating income for future replacement and rehabilitation work. The amount of replacement reserves is determined annually as a part of a multiyear projection of capital improvements. However, if a property does not have sufficient replacement reserves or does not generate sufficient operating cash for the current fiscal year to increase reserves, the capital improvements will be funded from the OHPR.

An accounting of the OHPR is reported quarterly to the BF&A Committee.

### **Opportunity Housing Bond Fund (“OH Bond Fund”)**

The OH Bond Fund was established in May 2009, funded by mortgage payments from properties that were financed with Variable Rate Demand Obligation (“VRDO”) bonds in the Multiple Purpose Indenture, which paid interest at variable rates to bond holders.

To demonstrate each property’s ability to pay interest and principal at a synthetic fixed rate to satisfy cash flow stress run by Moody’s, the spread between the true interest cost paid to bond holders and the fixed synthetic principal and interest paid on the mortgage was deposited in an account – the OH Bond Fund – and accrued. Over time, the amount grew and could only be accessed by resolution of the Commission.

The funds remained in the OH Bond Fund only to demonstrate to Moody’s each property’s ability to support a fixed-rate mortgage. Over time, as each mortgage was refinanced out of the Multiple Purpose Indenture into the 1996 Indenture, the accrued interest remained in the OH Bond Fund for use by the Commission at its discretion.



There are no remaining variable rate bonds in the Multiple Purpose Indenture that require the support of these accrued interest funds. Should the Commission issue new VRDO bonds, a similar process would be employed to add new excess interest to the OH Bond Fund. If there is market dislocation and a property financed with VRDO bonds cannot make its interest payments, the OH Bond Fund is a source for payment of excessively high interest costs, so the OH Bond Fund may also act as a reserve account.

An accounting of the OH Bond Fund is reported quarterly to the BF&A Committee.

### **Bond Fund Debt Service Reserve**

Debt service reserves are established and funded under each resolution authorizing the issuance of bonds. These funds are held in the Bond Fund Debt Service Reserve and are restricted within each indenture, available only for benefit of the program for which they are funded.

An accounting of the Bond Fund Debt Service Reserve is reported annually in the Annual Comprehensive Financial Report (“ACFR”).

### **Opportunity Housing Reserve Fund (“OHRF”)**

HOC established the OHRF in 1980 initially to address the use of revenues generated from the sale of bonds under the Single Family Mortgage Purchase Program. Today, the OHRF is a repository of proceeds from various HOC activities, whose primary purpose is the production and preservation of affordable housing.

The OHRF is a component of the capital stack in real estate transactions (HOC Equity) and used in conjunction with State and/or local County subsidies to write down the capital costs or to provide a reserve fund for projected operating deficits in the early years. The OHRF is internally restricted and funds may only be transferred by approval of the Commission. Sixty-percent (60%) of development and financing fees from all real estate transactions are allocated and deposited into this account; forty percent (40%) are allocated to the general fund to assist with Agency operations.

An accounting of the OHRF is reported quarterly to the BF&A Committee.

### **FHA Risk Sharing / MIP Cash Reserve**

The Commission is an approved FHA Risk Share Lender pursuant to the Risk-Sharing Agreement of September 23, 1994, between HOC and the Secretary of Housing and Urban Development through the assistant Secretary for Housing-Federal Housing Commissioner. In accordance with

the agreement, HOC is authorized to make and service multifamily mortgage loans in accordance with Section 542(c) and later 542(b) of the Housing and Community Development Act of 1992, to provide full mortgage insurance through the Federal Housing Administration (“FHA”) of loans for affordable housing originated by qualified housing finance agencies.

Reserves are required to be funded if the HFA is not rated by one of the three major rating agencies (S&P, Moody’s, Fitch). Currently a \$500,000 deposit into a restricted account is required for each FHA Risk Share loan that is originated if the HFA is unrated. HOC enjoys A2 rating by Moody’s, which must be maintained or must establish the requisite reserves.

Mortgage Insurance Premium (“MIP”) is charged for each loan and is paid on the outstanding principal balance in advance. At the creation of the program, the MIP on each loan was 50 basis points (0.50%), which was subsequently reduced to 25 basis points (0.25%). HOC receives a portion of the MIP based on its share of the risk for each transaction. This annual MIP is deposited and accrues in the Risk Share Reserve Fund. In addition to pledge of FHA which provides credit enhancement (Aaa rating) for the bonds, these reserves are available to support transactions should additional funds be needed.

Funds are otherwise available for use at the Commission’s discretion and have no external restrictions; however, they are internally restricted and used for short-term needs with a high certainty of repayment.

An accounting of the FHA Risk Share Reserve is reported quarterly to the BF&A Committee.

**Vehicle Reserve**

Historically, the Agency’s practice was to purchase vehicles for the fleet. During each budget cycle, a determination was made for how many new vehicles would be needed, and the cost was allocated across the properties on a per unit basis as vehicle rent. Funds paid were deposited in the Vehicle Reserve. Proceeds from the sale of older vehicles were also deposited to the reserve. The Agency moved to a leasing model in FY 2019 eliminating the need for the Vehicle Reserve.

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**ISSUES FOR CONSIDERATION:**

N/A – for discussion purposes only.

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**BUDGET IMPACT:**

There is no impact to HOC’s adopted FY 2024 operating budget.

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**TIME FRAME:**

For informal discussion at the April 19, 2024, Budget, Finance and Audit Committee meeting.

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**STAFF RECOMMENDATION & COMMISSION ACTION NEEDED:**

N/A – for discussion purposes only. It is anticipated that staff will bring a formal recommendation to update GFOR policy at an upcoming Administrative and Regulatory Committee meeting.

**Attachment 1**

HOUSING OPPORTUNITIES COMMISSION  
OPERATING POLICIES

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**BUDGET POLICY #4**

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**Operating Reserve**

Adopted by the Commission: June 2, 2004  
Resolution No. 04-51

The Commission recognizes the need for an Operating Reserve Account to be funded on an annual basis to provide funding for shortfalls which may occur during any budget year as a result of changes in personnel expenses, benefit costs, and shortfalls in funding from other sources.

**ESTABLISHMENT OF GENERAL FUND OF OPERATING RESERVE**

HOC will establish an Operating Reserve Account to be funded on an annual basis to provide funding for shortfalls which may occur during any budget year as a result of changes in personnel expenses, benefit cost, and shortfalls in funding from other sources.

**PROCEDURE FOR FUNDING OPERATING RESERVE**

Funding of the Operating Reserve will occur on an annual basis as follows:

- 1) Five percent (5%) of budgeted commitment and developments fees will be included in the operating budget each year as an operating reserve expense.
- 2) In addition, five percent (5%) of budgeted unrestricted cash flow from the Opportunity Housing portfolio will be included in the operating budget each year as an operating reserve expense.
- 3) The actual reserve contribution for the year will be computed based upon actual development fees, commitment fees and unrestricted property cash flow received.
- 4) The Operating Reserve would continue to be funded each year until it reaches one percent (1%) of HOC's current operating budget excluding Housing Assistance Payments, Federal, State and County Grants and the bond funds.
- 5) When the Operating Reserve balance reaches 1% of HOC's budget (as defined above), all excess funds will be transferred to the Opportunity Housing Reserve Fund (OHRF).
- 6) The Operating Reserve will be held in a separate interest bearing account, similar to the OHRF.

**PROCEDURE FOR USING OPERATING RESERVE**

- 1) During the development of the budget, the Executive Director may suggest the use of the Operating Reserve as a recommended source of funds to balance the budget.
- 2) During the operating year, the Operating Reserve may be used, with approval of the Commission, to cover actual shortfalls in the budget.
- 3) The Operating Reserve will only be used to supplement projected deficits in the operating budget.

#### REPORTING

All activities in the Operating Reserve will be reported to the Commission quarterly at the Budget, Finance and Audit Committee Meetings.

#### CONCLUSION

This budget policy details the procedures for the establishment, funding and uses of an Operating Reserve.

*Adjourn*