

## INSTRUCTIONS FOR PREPARING OPERATING BUDGET

The Operating Budget contains ten major categories. They are as follows:

- I - 1 Income
- E - 1 Payroll and Annual Contracts
- E - 2 Management Fee
- E - 3 Administrative
- E - 4 Operating
- E - 5 Maintenance and Repairs
- E - 6 Extraordinary and Nonrecurring Repair
- E - 7 Capital Expenditures
- E - 8 Taxes and Insurance
- E - 9 Financial Requirements

Below are instructions relative to the calculation of certain line items included in each major category. Hopefully, these will help you meet our expectations, and minimize adjustments. Items not addressed are considered self-explanatory. Provide narrative or calculation for all items.

### I - 1 INCOME

- 1300 - SDHDA APPROVED FUND TRANSFER - an estimate of SDHDA restricted funds to be transferred to the operating account, for the purpose of offsetting approved expenses which are normally beyond the development's operating cash flow.
  
- 5120 - TOTAL PROJECTED APARTMENT RENT - Calculate the monthly income at the present contract rents and multiply the total for the 12 months times 95% (or the past 6 months average percentage) to allow for vacancy loss.
  
- 5140 - STORES AND COMMERCIAL - Multiply the total potential 12 months lease rents time 95% to allow for vacancy loss.
  
- 5170 - GARAGE AND PARKING - Multiply the total potential 12 months income times 95% (or the past 6 months average percentage) to allow for vacancy loss.
  
- 5320 - LAUNDRY – Provide a narrative of the number/type of machines, fee per load, and details of any laundry/equipment contracts.
  
- 5330 - VENDING - Provide a narrative of the current equipment arrangement and provide a calculation of anticipated income. This should include number and type of machines.
  
- 5340 - REPAIRS CHARGED TO TENANTS
  
- 5350 - RESIDENT UTILITIES – Provide a narrative to identify utilities concerned.

- 5410 - INTEREST FROM INVESTMENTS - Identify interest earned from operating accounts and interest from escrow accounts exclusive of items 5415 and 5420.
- 5415 - INTEREST FROM SECURITY DEPOSITS
- 5420 - INTEREST FROM DCE - Multiply the DCE balance by 3.0% for developments whose owners have chosen the tax free investment program and 4.0% for developments whose owners have chosen the taxable investment program.
- 5920 - CABLE TV INCOME
- 5930 - SUPPORTIVE SERVICES INCOME – Provide narrative details.
- 5900 - OTHER INCOME - This account is designed to record income expectancy not otherwise provided for in specific accounts. This should include rental income from nonsubsidized units, such as manager units, insurance refunds/dividends, and other miscellaneous income. PROVIDE A DETAILED NARRATIVE DESCRIPTION OF THE SOURCE(S) OF FUNDS.

#### E - 1 TOTAL PAYROLL AND ANNUAL CONTRACTS

Items below are meant to cover or include:

- Executed (or proposed) contract amounts for services on an annual or seasonal basis.
- Salaried and recurring wages (employees of the development)

Do not prorate payrolls to reflect the various duties performed by one employee, but rather include the total payroll of the employee under the principal payroll item. For example, if the employee mainly performs regular janitorial duties, but occasionally mows the lawns, makes minor repairs, or cleans apartments, the wages should be included in Janitorial Payroll.

PROVIDE A NARRATIVE including salary rates (gross); names of employees; in-kind benefits such as apartment rent credit, utilities, fringe benefits (such as group health); names of vendors; and (when there is an identity of interest between the Owner or Agent and the service provider) copies of contracts. Any changes occurring to any of these items must be submitted in writing to SDHDA for approval.

- 6330 - RESIDENT/SITE MANAGER SALARY - This item should include the annual wages of the manager. As outlined in the Management Agreement, any resident/site manager who performs management agent functions will not be allowed compensation for these functions from the operating account. This item must also include any projected pay

increases and gross compensation for the manager's unit if it is a subsidized unit of the development.

- 6410 - ELEVATOR MAINTENANCE CONTRACT - This item should include the amount of the current annual maintenance contract only. Provide the name of the vendor company and effective dates of the term.
- 6430 - JANITORIAL PAYROLL - This item should include the annual wages of personnel to clean all common areas including window washing, sidewalk sweeping, and snow removal on a regular basis.
- 6510 - PROTECTION PAYROLL - This item should include wages of security personnel hired for the purpose of securing or protecting the premises. Note that protection contracts are at item 6511.
- 6520 - GROUNDS PAYROLL - This item should include wages for grounds keeping personnel. List any full or part-time personnel hired to do mowing, raking, watering, general grooming or other related grounds duties. Do not include labor costs of installation of permanent grounds improvements or landscaping in the line item.
- 6540 - REPAIRS PAYROLL - This item should include personnel wages used in making any repairs considered expenses, rather than capital items. This account does not include supplies to make these repairs.
- 6585 - MAINTENANCE CONTRACT - This item should include the amount of any maintenance contract. Provide narrative descriptions and copies of contracts.

## E - 2 MANAGEMENT FEE

This item should be calculated by taking the SDHDA approved percentage rate times the total gross collections as defined in the Management Agreement and as projected above.

## E - 3 TOTAL ADMINISTRATIVE (more detail, more likely approved)

- 6210 - ADVERTISING AND MARKETING - This item should also include any expenses and concessions to tenants, as well as traditional marketing.
- 6311 - SDHDA APPROVED OFFICE EXPENSE - This item should include the costs of reproduction of the SDHDA approved Lease Agreement or other SDHDA approved office expenses, including credit checks, criminal background checks, and project-specific bank charges (not including overdraft charges or protection fees). This line item must be fully detailed by specific amounts and description of those amounts. If detail is not provided, no amount will be approved. Do not include any management agent overhead expenses such as postage, stationery, supplies, etc. provided by the Management Agreement.

- 6340 - LEGAL (Development) Provide a description and breakdown of legal fees incurred on behalf of the project (as distinguished from the mortgagor entity). Include any retainage or contract fees and names of firms.
- 6351 - TRACS & ISP (Development) Provide a description and breakdown. Include TRACS software annual subscription and phone support or per unit month TRACS transmission fees if done by a service bureau. Also, include internet service provider (ISP) up to \$40 per month for either one on-site computer hook-up or one central office hook-up (but not both).
- 6385 - SUPPORTIVE SERVICES - SDHDA will provide this amount to developments participating in the STAR (Services to Aging Residents) program.

#### E - 4 TOTAL OPERATING

- 6420 - FUEL - This item should include the estimated cost of fuel (gas or oil) used for any utility expense not charged to the tenant. This does not include electricity or fuel for the operation of small equipment.
- 6441 - EQUIPMENT OPERATING EXPENSE - This item should include the estimated cost of gas, oil, and grease required to operate grounds equipment.
- 6453 - CABLE TV EXPENSE - This item should include cost of Cable TV and be offset by Cable TV Income Account Number 5920.

#### E - 5 TOTAL MAINTENANCE AND REPAIRS

- 6511 - PROTECTION FEE OR CONTRACT - This figure should represent the total cost of protective services for the development. Items, which may be included, are: emergency (elevator) phones, alarm response systems, contracted guard services, and the cost of required inspection of safety or security systems or equipment. Provide a detail of this expense.
- 6512 - ELECTRICAL REPAIRS - This figure should represent any repairs to the electrical system that are performed by staff persons and not on a contract basis.
- 6515 - BUILDING MAINTENANCE SUPPLIES - This item was formerly called general maintenance supplies. Estimate the cost of all janitorial, cleaning, maintenance, and minor repair supplies. "Supplies" are differentiated from "materials" by the consumability of the items. Cleaning fluids, light bulbs, small fixtures, hand tools, and hardware may be included in this amount.

- 6521 - GROUNDS SUPPLIES - Estimate the total cost of consumable ground supplies (i.e. fertilizer, herbicide, grass seed, etc.) Provide a detail of such costs and show the basis of the total amount. For example if fertilizer costs are \$150.00 per application and it is applied three times a year, show this on the back up sheet. The estimated cost of garden tools, spreaders and other small lawn equipment should be detailed and included in the total amount.
- 6522 - GROUNDS CONTRACT - This item should include the amount of any Grounds Contract.
- 6523 - SNOW REMOVAL - Estimate the cost of snow removal from driveways, parking areas, and sidewalks when an independent contractor performs such work. Snow removal performed by development personnel using development owned equipment should be classified under the appropriate payroll item.
- 6530 - CLEANING EXPENSE - This figure represents in unit cleaning costs related to turnovers. Do not include janitorial expense or other costs for cleaning common areas. Provide a written basis for this amount.
- 6532 - CLEANING CONTRACT - This item should be used for those planned expenditures related to common area cleaning involving commercial cleaning or custodial services. It is anticipated that every development with interior common areas will incur such expenses at least once every two years. Only the name of the service provider and the estimated cost per occurrence should be provided on the back up sheet.
- 6541 - REPAIRS MATERIAL - Estimate the cost of supplies and materials used to make corrections to or replacements for incidental breakdowns of structural or building fixtures to a standard condition or standard level of efficiency. Do not include repair materials of significant scale or amount, which extend the useful life of the buildings.
- 6542 - REPAIRS CONTRACT - For the recording of repairs expenses when performed by contractors. Repairs should be contracted on an incidental basis and not on a regular or routine basis, as with a maintenance contract. This item should include both labor and materials contracted, including electrical, plumbing, HVAC, appliance, equipment repair, etc.
- 6550 - ELEVATOR MAINTENANCE AND REPAIRS - For the expense of work and parts not covered by an elevator maintenance contract.
- 6551 - HVAC - For expenses related to breakdowns of the heating, ventilating, and air-conditioning systems.
- 6552 - APPLIANCE MAINTENANCE & REPAIR - For expenses related to breakdowns of appliances such as refrigerators, ranges, water heaters, laundry machines, etc.

- 6553 - PLUMBING MAINTENANCE AND REPAIR - This figure should represent any repairs to the plumbing system that are performed by staff persons and not on a contract basis.
- 6560 - PAINTING & DECORATING LABOR - For labor expenses related to painting and decorating of units and interior common areas when not included in a contract. Narrative should include detail of specific scheduled, anticipated turnover, or as needed painting with detail of schedules and costs.
- 6561 - PAINTING & DECORATING SUPPLIES - For expenses of supplies related to painting and decorating of units and interior common areas when not included in a contract. Narrative should include detail of specific scheduled, anticipated turnover, or as needed painting with detail of schedules and costs.
- 6562 - PAINTING & DECORATING CONTRACT - For the expense of painting and decorating when performed by a professional painter under a contract. Include the total cost of both labor and materials. Exterior painting should not be included. Narrative should include detail of specific scheduled, anticipated turnover, or as needed painting, with detail of schedules and costs.
- 6580 - MAINTENANCE EQUIPMENT REPAIRS - For repair expenses related to breakdowns of mechanized maintenance equipment.

#### E - 6 EXTRAORDINARY AND NONRECURRING REPAIR

For non-routine repairs of structural members, parking lot, curb and gutter, sidewalks, underground water and sewer lines, etc.

#### E - 7 TOTAL CAPITAL EXPENDITURES

Estimate acquisition of property, improvements, equipment, and exterior painting and decorating in excess of \$100 which would normally have a useful life of more than one year or which would be normally capitalized according to standard accounting procedures or tax requirements.

#### E - 8 TOTAL TAXES AND INSURANCE

- 6710 - PROPERTY TAXES - Use an estimate based on 110 percent of the taxes payable in 2006. For payments in lieu of taxes, use an amount equal to 10 percent of the total estimated 2006 tenant rent payments after deducting project utilities costs.
- 6711 - PAYROLL TAXES - Estimate payroll taxes by multiplying gross wages times factor of 9 percent.
- 6715 - SALES TAX ON MANAGEMENT FEE - Multiply Management Fee (account 6320) times applicable State and City sales tax percentages for

the location of the management agent's office. Identify percentages used in narrative.

- 6720 - PROPERTY AND LIABILITY INSURANCE - Use actual premiums payable for the budget year. This amount should be obtained from your insurance agent.

#### E - 9 TOTAL FINANCIAL REQUIREMENTS

- 1320 - RESERVE FOR REPLACEMENTS -  
And

- 1323 - RESERVE FOR DECORATING -  
Calculate the current monthly reserve deposit amounts times twelve months.

- 3620 - RETURN ON EQUITY - (For limited dividend developments only).  
Calculate this amount by multiplying the applicable equity amount by the applicable percentage of return and adding any prior year's SDHDA approved payables to be paid in the budget year. If you have any question about the amounts and percentages to be used in this calculation, please refer to the approved 2004 audit.

- 6820 - PAYABLE INTEREST ON MORTGAGE -  
And

- 2161 - MORTGAGE PRINCIPAL PAYMENTS - Refer to the development's amortization schedule and calculate each line item for the twelve month period covered by the budget. Do not lump the two items together into one amount.

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- MAINTENANCE EQUIPMENT INVENTORY - Provide a listing of development maintenance equipment valued at \$100 or more. Major equipment items should be identified by make, size, serial number, and age (i.e. John Deere, 10 h.p. riding mower, ADJ-462011, purchased 1998.)

If at any time, after approval has been given to the budget, the management agent anticipates that a total expense category (e.g. "TOTAL MAINTENANCE AND REPAIR") will require an annual increase of 10% or more, notify SDHDA in writing. This instruction pertains to all total expense categories, except category "TOTAL PAYROLL AND CONTRACT" which may not be exceeded without prior SDHDA approval.