

**Mayor's Office of Housing and Community Development**  
City and County of San Francisco



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**ENFORCEMENT OF OPERATING RESERVE REQUIREMENTS DURING COVID-19**

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This memo is intended to provide guidance to owners and managers of affordable housing developments, which, through contracts with the City, are subject to requirements regarding Operating Reserves.

Operating Reserves help ensure that affordable housing developments have a backup source of funding in times of unexpected operating budget shortfalls.

Operating Reserves are required under most City affordable housing contracts.

Sponsors that are working to mitigate a variety of complications caused by the COVID-19 have recognized that the crisis may result in a need to utilize operating reserves.

MOHCD prepared this statement to provide guidance to sponsors and to acknowledge changes that are being pursued to further facilitate the City's support for affordable housing developments during this crisis.

**NEED FOR WRITTEN PRE-APPROVAL OF OPERATING RESERVE WITHDRAWALS IS LIMITED:**

The City's Loan and Grant agreements typically include the following requirement:

*Borrower/Grantee may withdraw funds from the Operating Reserve Account solely to alleviate cash shortages resulting from unanticipated and unusually high maintenance expenses, seasonal fluctuations in utility costs, abnormally high vacancies and other expenses that vary seasonally or from month to month in the Project.*

*Borrower/Grantee may not withdraw funds (including any accrued interest) from the Operating Reserve Account for any other purpose without the City's prior written approval.*

This memo affirms that unusually high operating expenses incurred in order to respond to the COVID-19 crisis are a legitimate cause for cash shortages. Such expenses might include higher janitorial costs related to more frequent cleaning and disinfecting of common areas or higher utility costs as a result of tenants' sheltering in place rather than working outside the home or attending school. This memo also affirms that there may be COVID-19 related causes for abnormally low rent collections and high vacancy loss that could result in cash shortages.

MOHCD's prior written approval is NOT required for Operating Reserve withdrawals that are made to address operating budget cash shortages caused by either of these examples, or other eligible uses.

## ENFORCEMENT OF OPERATING RESERVE REQUIREMENTS DURING COVID-19

Borrowers/Grantees may not withdraw funds from the Operating Reserve Account for any other purpose without the City's prior written approval.

### **OPERATING RESERVE REPLENISHMENTS – TWO NEW WAIVER OPTIONS TO BE MADE AVAILABLE**

The City's Loan and Grant agreements typically include the following requirement:

*No less than annually after establishing the Operating Reserve Account and continuing until the Compliance Term has expired, Borrower/Grantee must make additional deposits, if necessary, to bring the balance in the Operating Reserve Account to an amount equal to twenty-five percent (25%) of the prior year's actual Project Expenses.*

MOHCD staff are seeking formal approval to implement emergency measures regarding the replenishment of Operating Reserves during the COVID-19 crisis. This consists of the following:

1. MOHCD staff shall be granted the authority to waive the annual or other time-specified requirements to replenish the balance of an Operating Reserve Account effective immediately, and lasting until the end of 2021, or later, if further approved by the MOHCD Director.

*Rationale: Operating Reserves are supposed to alleviate, not compound, financial pressures that can arise during crises. During the COVID-19 crisis and possibly longer, projects that lack adequate cash to cover all expenses will not be required to use limited operating budget funds to satisfy operating reserve replenishment obligations if the project faces other more urgent financial needs.*

2. MOHCD staff shall be granted the authority to approve requests to make deposits to Operating Reserve Accounts in excess of the requirements of City Contracts and other Funder requirements if the Borrower/Grantee affirms that
  - a. Analysis shows that the project may face a need to utilize the Operating Reserve within 48 months as a result of an operating budget shortfall caused by unanticipated and unusually high expenses and/or abnormally high vacancies related to the COVID-19 crisis, AND
  - b. that, without an additional deposit to the Operating Reserve in excess of the existing requirements, the projected balance of the Operating Reserve would fall below 25% of the prior year's actual Project Expenses.

*Rationale: Some projects may have adequate surplus in 2019 to make a larger deposit in the Operating Reserve than what is required. Because of uncertainties about 2020 budgets, it may be wise to put surplus 2019 funds into the Operating Reserve Accounts rather than allowing the surplus cash to leave the project via the typical outflow through the distribution waterfall.*

### **NEXT STEPS**

MOHCD is seeking expedited approval of these emergency measures related to Operating Reserves. MOHCD will publish an update on the Asset Management webpage about the progress toward this goal by 4/20/20.