



Loan Monitoring

The San Diego Housing Commission's (SDHC) asset management team ensures compliance with SDHC loan terms, including:

- Annual financial reporting (e.g., audited financial statements or Annual Profit and Loss Statement and Balance Sheet)
- Annual budget
- Insurance policies and notices (e.g., Certificate of Liability and Evidence of Property Insurance)
- Annual Compliance Monitoring Certification (refer to the Compliance Monitoring training session)
- SDHC approval for all reserve withdrawals
- Physical inspection every three years
- Annual statement regarding condition of the property & disclosing any known defects

Operating Budget

An operating budget for a development is a realistic estimate of operating receipts and expenditures for a given period of time.

- Serves as a financial summary and analysis of immediate (health/safety), short- and long-term operating programs and plans;
- Provides property management with an effective instrument to control operations and achieve operating objectives; and
- Helps property managers maximize profitability and avoid unforeseen major repairs and expenses.

Components of an Operating Budget

1. Income
 - Rental income, including any rental housing voucher income
 - Grant income
 - Gross Commercial income
 - Miscellaneous income (laundry, vending, parking, application fees, damages, etc.)
 - Vacancy, represented as a negative number
 - Concessions, represented as a negative number
 - Collection losses, represented as a negative number
2. Operating expenses
 - Administration
 - Personnel
 - Maintenance/repairs
 - Property taxes & insurance
3. Required Reserves

Budgeting Best Practices

- Budget conservatively, not aggressively. Market conditions and unanticipated expenses can foil any budget.
- Historical budget trends are helpful as a point of reference, but also consider a “zero-based” approach in which every expense is examined and justified. Usually, a blend will yield a more accurate budget.
- Seek out opportunity. If a unit becomes vacant, check the neighborhood market conditions and rates to see if the rent should be adjusted before marketing it to prospective residents (within the required rent limits).
- Obtain bids for goods, services and projects ahead of budget preparation to help inform costs.
- Obtain multiple bids ahead of awarding a contract. Perform this on an annual basis, even with vendors and contractors who have been of service over time to help ensure the best value.
- Conduct research. Several resources through multifamily management associations offer data on operating costs per unit.
- Have a plan for the unexpected. Setting aside funds into a reserve account will help offset larger capital or unanticipated expenses when they arise.

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