

### Operating budget – considerations

Excerpted from INITIAL OPERATING BUDGET AND INITIAL SCHEDULE OF CARRYING CHARGES, HUD FORM NO. 93240, (APPLICABLE TO ALL COOPERATIVES).

Editors note: this information pertains to a budget from developed by HUD for creating an operational budget for a cooperative housing project. There are general lessons for consideration that can be extracted from the document.

To see the operating budget considerations, please [click here](#).

(3-14) a. One of the Prime Responsibilities imposed by the By-Laws on the initial and subsequent Boards of Directors of a cooperative is to adopt an annual operating budget and HUD-93240 is to be used for this purpose. The form is coded to the Uniform System Chart of Accounts and can be expanded to serve the more complex cooperatives.

b. The Annual Cost of Operating a Cooperative varies with the characteristics of the development, whether it is new construction or rehabilitation, and the services required by its owners.

c. Budgets should be prepared by listing the annual expenses that result from a study of the characteristics and experience of the development and not by working backward from what is considered to be the current market rentals of the area.

1. A Schedule of Carrying Charges and a management agent's opinion as to its adequacy must be included in the Information Bulletin. Therefore the Initial Schedule of Carrying Charges must be prepared considerably prior to actual operations.
2. (New Annual Budget) should show expense items reflecting the best judgment of the sponsorship and management agent. The HUD-FHA office will reflect any revisions it considers appropriate in the last column, and the schedule reflected in the Information Bulletin must give effect to these revisions. The expense projections contained in the Project Analysis (Form No. 2264-C) are made for a different purpose and should not necessarily be regarded as adequate for the cooperative budget.
3. Upon final approval of a budget it should be forwarded to the appropriate underwriting section for inclusion in the Data Bank.
4. Estimates of Income, particularly in budgets prior to the attainment of operating experience, must be conservative. In the initial budget, the estimated income from garage space must not exceed fifty (50) percent of the total for this item shown in the Project Analysis (FHA Form No. 2264). Such budget should not reflect any estimated income from such miscellaneous sources as laundry machines, telephone services, vending machines, etc. Income from commercial space may be reflected only to the extent of leases actually executed with the HUD-FHA office approval.
5. Fixed Charges are requirements affecting the budget entries on lines 49 through 54 (Ground Rent, Mortgage Insurance Premium, Interest, Principal, Replacement Reserve and General Operating Reserve) are set forth in the Regulatory Agreement and/or the Commitment for Insurance. The total income

on line 68 must be at least equal to the total expense on line 58. The income from carrying charges on line 59 must agree with the annual total in the schedule of carrying charges. (4) The expenses should be compiled as realistically as possible. Tax authorities, insurance companies, utility companies, suppliers and manufacturers of project equipment are good sources of information. Local building owners and managers associations are also good sources of information. The catalog of a large retail store is useful in estimating the cost of supplies and equipment. Other cooperatives with comparable facilities and services, that have been operating for more than one year, can also be a valuable source of information.

6. In all Section 213 and 221(d)(3) Market Interest Rate cases in which down payments of less than \$500 are involved, the initial operating budget must contain an allocation for vacancy and collection losses of at least 2 percent of the budget otherwise projected. If the experience of nearby or comparable projects indicates this to be inadequate, a higher percentage should be required. Budgets prepared after the cooperative is in actual operation should contain such allocation as is justified by its own operating experience.