

Understanding Budgets



A Member's Guide to Your Coop's Budget

Overview

- Intro
- Anatomy of a Budget
- Using your Budget
- Changes to the Budget
- Preparing for the Worst
 - Q&A

Purpose of this Workshop

A budget is a tool to help you **understand your finances** and how these impact on your coop. A budget is also a tool for the members to **set priorities for resources** based on their collective needs.

This presentation will explain:

- The purpose and function of a budget
- The structure of a budget for a multi-house co-op that owns property
- How to analyze a budget proposal
- What decisions can be made with a budget

Beyond the Scope

- Detailed explanation of Accounting Principles
- Prescriptions for “healthy” budget ratios
- Analysis of your coop’s current budget
- Actual legal or tax advice

Purposes of a Budget

- Set **goals** for the future
- Calculate **income** needed to meet goals
- Direct how staff/officers can **spend** money
- **Show** lenders & partners how you operate
- Benchmark to **monitor** on-going operations

Creating a Budget

1. Analyze the previous (current) year
2. Define goals and priorities for the future year
3. Project income and expenses according to goals and trends
4. Adjust controllable parameters to balance goals

Approving a Budget

1. Is this budget consistent? (Does it add up?)
 2. Are its predictions reasonable?
3. Does it meet restrictive goals? (Goals set by policy or external factors.)
4. Does it optimize discretionary goals?

Using a Budget!!!

- Review monthly Budget-to-Actual reports
- How should the co-op respond to variances?
Think ahead: adjust spending, change policies, hope and wait.
- Accountability: give account. Ask nosey questions.
 - More Pie Charts

What are all those numbers?



Anatomy of a Budget

Budget Overview

Rental Income: \$138,624 Anomy: \$37,368 Bloom: \$40,128 Summit: \$61,128	138,624
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Mortgages: \$42,444 Anomy: Bloom: Summit:	96,180
Property Taxes: \$29,856 Anomy: Bloom: Summit:	66,324
Insurance: \$6,500	59,824
Trash Pickup: \$3888	55,936
Licenses & Permits: \$670	55,266
Savings, 10%: 13,862	41,404

Accounting: \$4,000	37,404
Resource Coordinator Salary: \$18,000	19,404
Maintenance: \$13,500	5,904
Payroll Taxes: \$1,570	4,334
Finance & Development: \$200	4,134
Education & Culture: \$700	3,434
Healthy Communications: \$200	3,234
Food & Garden: \$400	2,834
Membership: \$200	2,634
BOD Supplies: \$150	2,484

Legal Expenses: \$500-\$1000	1,484 1,984
Rent Forgiveness: \$500-\$1500	26 1,484

With Current Accounting Practices, our budget would be down to **516 | 1,974**

- A concise summary of the proposed budget
- Summary notes:
 - Assumptions
 - Policy changes
 - Structure changes
 - Key values (rent increase, vacancy rate, DSCR, savings rate, etc.)
- Caveats and Known Unknowns

Detail Budget

- Shows all income and expense lines that are defined in budget. (Should match QuickBooks!)
- Proposed budget, previous budget, previous actuals, year-over-year change (\$ and %)
- May or may not split out property-specific budgets, or house budgets
- Other “sheets” can wire into this page
NASCO Properties Budget

Operating Budget Summary						
Fiscal year 2015-16 (Cash Basis)						
	2015-16	2014-15	2014-15	\$ Change	% Change	
	Budget	Budget	Estimate	prev Budget	prev budget	
REVENUE AND TRANSFERS						
Lease Income (incl. contributions to Vacancy Reserve)						
Student Cooperative Org.	62,990	33,206	30,389	\$29,784	89.7%	
Qumbya	188,699	185,392	185,392	\$3,307	1.8%	
Santa Cruz SHC	71,547	73,996	5,000	-\$2,449	-3.3%	
COUCH	111,271	109,303	109,303	\$1,967	1.8%	
Nickel City	85,267	83,801	83,801	\$1,467	1.8%	
CHEA	256,964	252,257	252,257	\$4,707	1.9%	
Kalamazoo Collective Housing	35,679	35,054	26,040	\$625	1.8%	
UKSHA	156,005	153,247	153,247	\$2,758	1.8%	
Misc Lease income from prior tenants	5,000					
Total Lease Income	973,422	926,257	845,429	\$47,165	5.1%	
Other Income						
Interest	400	1,200	250	-\$800	-67%	

Revenue

			Monthly	Living	Total
Monthly Room & Member Charges	total rent	Units	Rent	Expenses	Monthly
2.sw.balcony	716	1	551	165	716
2.s.central	668	1	503	165	668
2.se.balcony	716	1	551	165	716
2.ne	621	1	456	165	621
2.n.central.bath	743	1	578	165	743
2.nw	621	1	456	165	621
3.s	658	1	493	165	658
3.n.balcony	721	1	556	165	721
garage.west	658	1	493	165	658
garage.east	658	1	493	165	658
Boarders / roommates				400	400
Total Members		10		495	7,180

- Shows monthly charges per unit
- Can split “rent” charges and “food/utility/household” charges
 - Can build formula for distributing rent changes

Expense Classes

Property / Overhead / Program

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Property Expenses

from operating and owning as specific property. (If you bought/sold a building, this would change according to the property.)

Overhead Expenses

not related to a specific property or program. Needed to maintain the organization as a whole.

Program Expenses

not related to a specific property or program. Needed to maintain the organization as a whole.

Property Expense: Debt Service

Coops take on debt as a tool to purchase new properties, or to renovate old ones.

Lowering payments requires either refinancing or paying down principal.

Loans spread costs over multiple years (usu. 25) to make annual costs manageable for members.

The key loan terms are:

- Interest Rate (%)
- Amortization (years)
- Fixed or Variable
- Term (or balloon date)
- Required Debt Service Coverage Ratio (typically 1.05 to 1.30)

Monthly loan payments are generally **constant** over the term of a loan.

Sources of Funds:	Principal	Payment (annual)	Interest	Amortiza (years)
Primary Loan (usually a Bank)	380,577	29,425	6.00%	25
Secondary Loan (a CDFI or co-op loan fund)	50,000	4,241	7.00%	25
Community Loans (friends & family)	95,000	950	1.0%	9999
Cash fundraising	35,000	0	0.00%	
Member equity	5,000	0		0
Total sources	565,577	34,615		0

Property Expense: Maintenance

Annual Maintenance

- routine repairs & upkeep
- does not increase the value of the property
 - counted as an “expense”

Capital Improvements

- major projects & upgrades
- increases the value of the property
 - counted as an “asset”

Emergency Reserves

- A set amount of cash available for emergency maintenance issues
- If current reserves are below target level, need to replenish

Expense Categories

- Employees (wages & benefits)
- Materials
- Contractor costs

Overhead Expenses

def. Expense incurred in the general upkeep or running of a plant, premises, or business, and not attributable to specific products or items.

Board expenses

Administrative staff salary and office space

Legal and tax services

Organizational dues

Education and training

Insurance (D&O, Management)

Program Expenses

For non-profits, in general, “Program Expenses” are costs incurred in directly operating a program that furthers the mission of the organization. For non-profit housing co-ops, “Program Expenses” generally refers to non-property expenses.

- Community Education
 - Advocacy
 - Scholarships or Grants
- Developing new properties
- Member services not related to housing operations
 - (social services, educational, health, etc.)

Household Budgets

- If co-op Houses maintain separate funds, they should have separate budgets.
 - Co-ops vary in which expense accounts are assigned to House oversight, versus Co-op oversight. (Maintenance, utilities, non-monthly)
- Share House budgets to identify opportunities for efficiency.

	Monthly
Income	
Food Group	2,625.00
Total Income	\$2,625.00
Expenses	
Bank Charges	1.67
House Expenses	
Food	
Bulk	770.00
CSA	47.50
Produce	600.00
Dinner Reimbursement	40.00
Miscellaneous	0.00
Supermarket	310.00
Total Food	\$1,769.17
Services	
Newspapers	80.00
Recycling	16.67
Total Services	\$80.00
Supplies	\$30.00
Utilities	
Electricity	120.00
Gas	146.67
TeleComm	65.00
Total Utilities	\$331.67
Total House Expenses	\$2,210.83
Total Expenses	\$2,212.50
Net Operating Income	\$412.50
Net Income	\$412.50

Surplus & Reserves

Surplus (or “cash surplus” or “net income”) is the change in cash you expect to have after one year of operations.

A co-op usually will budget for a non-zero surplus for several reasons:

- Lender requirement (DSCR)
 - Margin of Error
- Reserves below target levels
- Saving for expansion or projects not fundable in a single year’s budget

Reserves are cash balances designated for specific uses. (operating, maintenance, development)

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How do I use this thing?



Tools for Analysis and Planning

Analysis: Previous Year

- Did we do a good job with the budget last year?
- Did we under budget and have to cut back on discretionary items?
- Did we anticipate internal and external changes?
- Did we fall short of our organizational goals or values?
- How are reserves, lender requirements, affordability, occupancy?

	2015-16 Budget	2014-15 Budget	2014-15 Estimate	\$ Change prev Budget	% Change prev budget
Property Expenses					
Property Taxes	119,522	112,775	113,302	\$6,747	6%
Insurance	62,572	60,118	56,570	\$2,454	4%
Utility Payments	8,465	6,057	7,007	\$2,408	40%
Miscellaneous Property Expenses	-	-	500	\$0	
Transfer to Minor Maintenance budgets	67,800	61,800	56,900	\$6,000	10%
Transfer to major Maintenance budgets	85,280	78,650	72,876	\$6,630	8%
Transfer to Maintenance Reserve	37,320	33,180	33,180	\$4,140	12%
Transfer to Accessibility Reserve	2,000	2,000	2,000	\$0	
Transfer to Vacancy Reserve	46,120	44,112	44,112	\$2,008	5%
Miscellaneous expenses	-	-	13		
Total Property Expenses	429,078	398,690	386,446	\$30,388	8%

Analysis: Budget Changes

A %-change and \$\$-change column on the budget allow you scan for large changes.

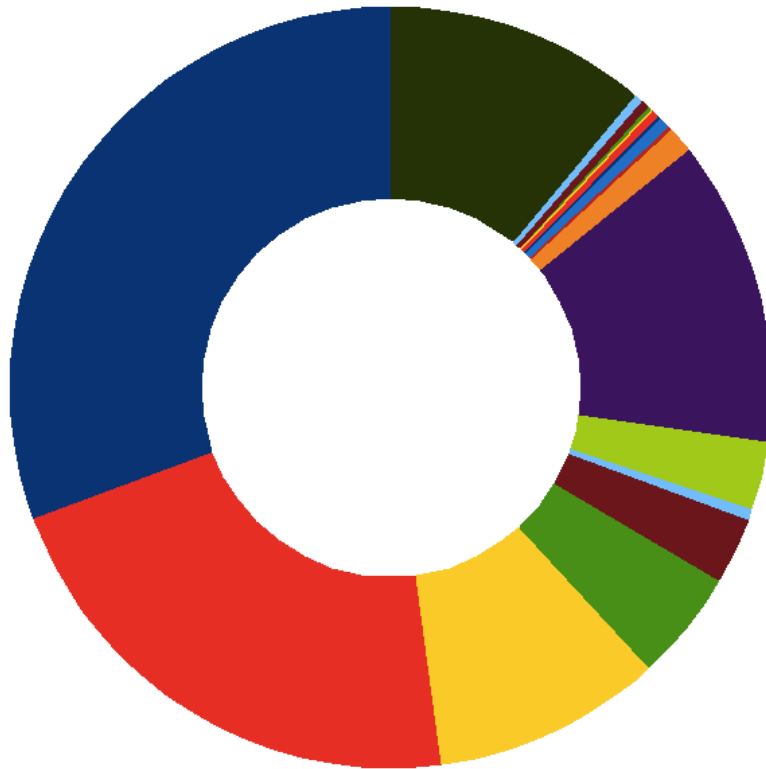
I. Was the change based on new information from the actuals? Do we have specific information about the future?

2. Is this a change in priorities or policies?

3. If it is a large % change, but a small \$\$ change, is this important?

		2015-16	2014-15	2014-15	\$ Change	% Change
		Budget	Budget	Estimate	prev Budget	prev budget
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Relativity

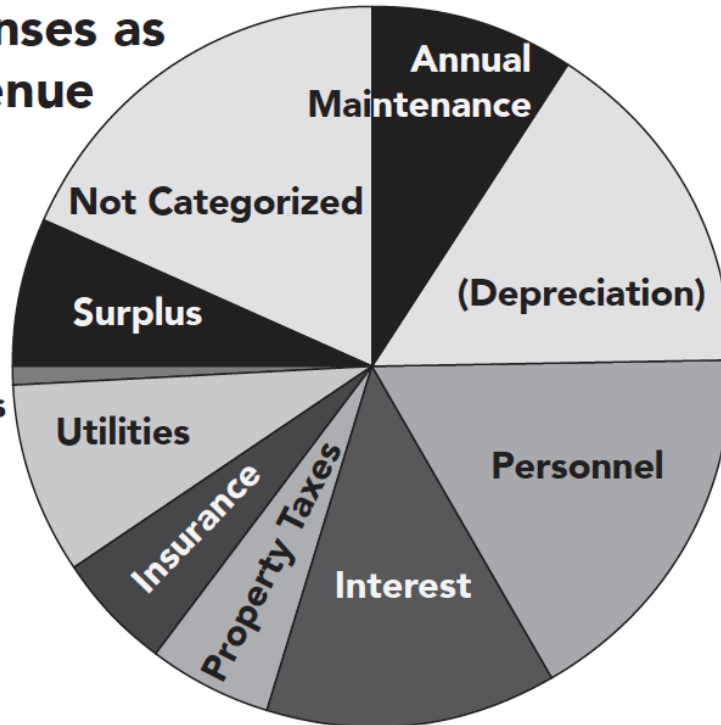


Debt Service	42444	31%
Property Taxes	29856	22%
Maintenance	13500	10%
Insurance	6500	5%
Trash Pickup	3888	3%
Licenses & Permits	670	0%
Licenses & Permits		
Accounting	4000	3%
Resource Coordinator Salary	18000	13%
Payroll Taxes	1570	1%
Finance & Development	200	0%
Education & Culture	700	1%
Healthy Communications	200	0%
Food & Garden	400	0%
Membership	200	0%
BOD Supplies	150	0%
Legal Expenses	500	0%
Rent Forgiveness	500	0%
Surplus	15346	11%

General Relativity

Key Expenses as % of Revenue

Key Expenses as % of Revenue



	Avg. %
Annual Maintenance	9.25%
(Depreciation)	15.65%
Personnel	16.91%
Interest	13.13%
Property Taxes	5.38%
Insurance	5.48%
Utilities	8.34%
Education and Scholarships	0.84%
Surplus	6.67%
Not Categorized	18.3%

NASCO
Member
Comparative
Financial Report.
2015

**Maybe now is a good time to talk about Cashflow vs
Accrual!*

What can we do?



Changing the Budget

Fixed vs Discretionary

Fixed:

The co-op cannot unilaterally change the amount.

- Loan payments
 - Taxes
- Accounting Services
- Organizational Dues
 - Insurance

Discretionary:

The co-op can arbitrarily change this.

- Board/Committee expenses
 - Maintenance
- Staff (within contract/law)
 - Rent Forgiveness
- Surplus (within loan req.)

Maintenance

Maintenance priorities are often a major concern. It is one of the few expenses we have real control over. Like eating or breathing it can be postponed... just not forever.

- Deferred maintenance saves money in one year, but may make the eventual work cost more due to decay.
- Lower maintenance expenses lead to lower lease charges in the short run, but may lead to a lower quality of life for members over time.
- Coops have to balance the current needs for repairs for members with the long-term needs for reserves.

Staff vs Contractors

Staff

- Control of hiring, firing, training
- Control of work schedule, tools & systems
- Combine diverse skill sets in one person
 - Oversight of time
- Overhead cost when idle
- Personal commitment to cooperative movement
- Institutional memory

Contractor

- Fixed costs/contract
- More expensive when skills are scarce. Less expensive when competition.
 - Pays own taxes, insurance
- Easy to fire or not pay when work is unsatisfactory.
 - Easier to shop around

Structural Changes

Since most of the large expenses are fixed, how can a co-op improve it's financial position in the long-term?

- Refinance Loans
 - Appeal Property Taxes
 - Insurance Options and Levels
 - Energy Efficiency Investments
- New Revenue (grants, donations)
 - Growth!!!

Understanding Affordability

A primary interest of most members is to minimize their housing costs. Thus, a primary goal of many co-ops is to offer rents that are more “affordable” than the alternatives.

There is trade-off between current-year savings for members and the long-term value of the co-op.

Define “affordability” and “member value” as a co-op and set specific goals. This can balance the tendency to “race to the bottom”.

Stuff Happens



Dealing with Contingencies

and the

Perils of Precedent

Be Prepared

A budget is a plan for the future. When the future doesn't conform to your plan, either change your plan or change your actions.

What will we do if?

- Revenue is lower than expected?
 - Property taxes jump?
- Something big and expensive breaks?
 - Money is stolen?
- An opportunity to buy a new property appears?
- We have internal conflicts and need help resolving them?

Dipping into Reserves

Reserves exist to be used in case of emergencies. What would be considered an appropriate use of reserves?

- Things that affect the health and safety of members.
- Mandatory changes required by lenders or government.
 - Houses in need of extraordinary maintenance?
 - Houses with vacancy or collection issues?
- Amazing but underfunded expansion opportunities?
 - Ponies?

Questions & Discussion