Own your book$!

Cultivating & demystifying participatory budgeting
Agenda

• Icebreaker/Intros (~10 min)

• Activity Part 1: Dream co-op “yes, AND...” 🔮
  – Breakout Activity (~10 min)
  – Regroup/discussion (~5 min)

• Activity Part 2: Budgeting for your dream co-op 💰
  – Breakout Activity (~10 min)
  – Regroup/discussion (~5 min)

• Activity Part 3: Managing your dream co-op budget 👍👍👍
  – Breakout Activity (~5 min)
  – Regroup/discussion (~5 min)

• Closing discussion (~10 min)
Breakout groups & intros

- Split into 2-3 groups or else groups of 6-8, whichever is smaller
- In your groups (~ 5 min):
  - What comes to mind when you think about the word “Finance”?
What comes to mind when you think about “Finance”? 
What all goes into “Finance” for co-ops?

• Start-up capital (aka financing aka money)
  – From where? How?
• Making revenue (aka making money)
  – From where? How?
• Expenses (aka spending money) – Where? How?
• Creating a budget (aka planning for how much to make and how much to spend)
• Managing a budget – tracking expenses, etc.
• Collectively deciding on how to do all this democratically!
Goals of this workshop:

1. Understand how budgets work 💡
   (Via an activity to bring back to your co-op)
   – To help you fully participate in your co-op’s finances
   – To help you help others fully participate

2. Explore what managing a budget in a co-op 🕵️‍♀️ might look like

3. Provide tools/resources for financial management & getting financing

4. Get creative & have fun! 😊 🌈
Activity Part 1:
Building your dream co-op ("yes, AND...")

• Activity:
  • First person: “We are going to start our dream co-op and in our dream co-op we are going to have...”
    • Next person: “yes, AND we are going to have...”
  • Write down each item on a sticky note and put in a vertical list on the notepad

• FIRST: decide two things
  1. What type of co-op (house or business and if business, what kind)?
  2. Are you going to rent, build, or own the property?

• Go around the group at least twice
• Get creative!
What’d you come up with?

• What is your co-op?

• Did you decide to build, rent, or buy?

• What’d you put in/do with your co-op?

• Yes! BUT... How do we pay for this?
Activity Part 2:
Budgeting for your dream house

Disclaimer ~

This is just ONE way to go about putting together a budget.

The goal is to get the general intuition behind it.
Activity Part 2: Budgeting for your dream house

1. Organize the vertical list into variable costs and fixed costs
   - Variable costs: stuff you use up/pay for every month (food, utilities, payroll, etc.)
   - Fixed costs: big one-time purchases (including the house/building itself, unless you are renting)

2. Determine how much each item costs
   - Assign a total price to each item on the list (give it guess)
   - Put a sticky note with the total cost next to the sticky note for the item
Activity Part 2: Budgeting for your dream house

Disclaimer ~

These are rough definitions of variable costs and fixed costs, to help determine what will require a loan versus what can be paid for on a monthly basis.

“Official accounting standards” have particular definitions of variable vs. fixed costs. Don’t worry about that for the purpose of this activity.
Activity Part 2 (cont.)

2 (cont.) - Determining monthly costs:

- Put another sticky note next to the total cost for the monthly costs for each item
- The building
  - If you’re renting:
    estimate monthly rent payments
  - If you’re building/buying:
    estimate the total amount of the loan you would need, pick a realistic interest rate, and use an online loan calculator to find the monthly payment (google: “online loan calculator”)
- Variable costs:
  choose an amount you think you would pay in a month
- Fixed costs:
  for giant purchases, same process as for the building itself. For purchases you could pay for in the course of a year, divide the cost by 12 (for the 12 months).
<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
<th>Monthly cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The building + other construction</strong></td>
<td><strong>Total loan amount</strong></td>
<td><strong>Monthly loan pmt</strong></td>
</tr>
<tr>
<td><strong>Fixed costs</strong></td>
<td><strong>Total cost</strong></td>
<td><strong>Monthly budget amt</strong></td>
</tr>
<tr>
<td><strong>Variable costs (food, payroll utilities)</strong></td>
<td><strong>Price paid per month</strong></td>
<td><strong>Monthly budget amt</strong></td>
</tr>
<tr>
<td><strong>Variable costs (other)</strong></td>
<td><strong>Price paid per month</strong></td>
<td><strong>Monthly budget amt</strong></td>
</tr>
</tbody>
</table>
Item | Cost | Monthly cost
---|---|---
The building + other construction | Total loan amount | Monthly loan pmt
Fixed costs | Total cost | Monthly budget amt +
Variable costs (food, payroll utilities) | Price paid per month | Monthly budget amt +
Variable costs (other) | Price paid per month | Monthly budget amt +

= Total monthly costs
Monthly cost:

- The building + other construction
- Fixed cost
- Variable costs (food, payroll utilities)
- Variable cost (other)

Monthly budget:

\[ \text{Total monthly budget} = \frac{\text{Total monthly breakeven income}}{\text{number of members}} \]

\[ \text{Total monthly breakeven income} = \text{Monthly loan pmt} + \text{Monthly budget amt} + \text{Monthly budget amt} + \text{Monthly budget amt} - \text{Monthly budget amt} - \text{Monthly budget amt} - \text{Monthly budget amt} \]

\[ = \text{Total monthly costs} \]

\[ = \text{net income ($0)} \]
What is this saying?

“What do we expect our expenses to be and how much money do we need to make in order to cover our expenses (aka pay for our home/livelihood)?”

i.e., a budget!
What is this saying?

• Basically we worked backwards:
  • We asked “what do we need/want?”
  • Then we asked “how much do we think each thing we need/want will cost (per month and per year)?”
  • And finally we asked “how much do we need to make (per month/per year) to cover our total costs?”
• Put all together, this is our budget!
Example budget in spreadsheet form - simple:

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple budget:</td>
<td>per person/month</td>
<td>x # people</td>
<td>monthly total</td>
<td>annual total (x 12)</td>
</tr>
<tr>
<td><strong>Income:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food/utility/co-op fee</td>
<td>$ 200.00</td>
<td>6</td>
<td>$ 1,200.00</td>
<td>$ 14,400.00</td>
</tr>
<tr>
<td>Base rent</td>
<td>$ 312.50</td>
<td>6</td>
<td>$ 1,875.00</td>
<td>$ 22,500.00</td>
</tr>
<tr>
<td><strong>Total rent/income:</strong></td>
<td>$ 512.50</td>
<td>6</td>
<td>$ 3,075.00</td>
<td>$ 36,900.00</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>$ 100.00</td>
<td>6</td>
<td>$ 600.00</td>
<td>$ 7,200.00</td>
</tr>
<tr>
<td>Utilities</td>
<td>$ 75.00</td>
<td>6</td>
<td>$ 450.00</td>
<td>$ 5,400.00</td>
</tr>
<tr>
<td>Other supplies</td>
<td>$ 25.00</td>
<td>6</td>
<td>$ 150.00</td>
<td>$ 1,800.00</td>
</tr>
<tr>
<td>Rent/mortgage</td>
<td>$ 300.00</td>
<td>6</td>
<td>$ 1,800.00</td>
<td>$ 21,600.00</td>
</tr>
<tr>
<td>NASCO fund</td>
<td>$ 12.50</td>
<td>6</td>
<td>$ 75.00</td>
<td>$ 900.00</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td></td>
<td></td>
<td>$ 36,900.00</td>
<td></td>
</tr>
</tbody>
</table>

Net income: $0.00

^ zero b/c non-profit

equals total of non-food/utility/co-op fee monthly expenses

average rent
Next question:
How do we make that income? I.e., what is our business plan?

- Total monthly breakeven income
- Any additional profits (bonus, etc)

\[ \text{Total target monthly income} = \text{Total monthly breakeven income} + \text{Any additional profits (bonus, etc)} \)

Physical goods sold?  Services sold?  Grants?  Rent paid by tenants?
How do we make that income? In a worker co-op:
(example of a very basic approach)

Total monthly breakeven income + Any additional profits (bonus, etc) = Total target monthly income

(Plan on $0 for first 3-5 years)

Total target monthly income ÷ 30 days ÷ # items sold per day = Average price per item/service

Total target monthly income ÷ 30 days ÷ Average price per item/service = # items sold per day
How do we make that income? In a housing co-op:

\[
\text{Average rent pmt*} = \frac{\text{Total monthly rent income}}{\text{number of residents}}
\]

*You may want to find the average rent as a baseline but then vary room prices by square footage or for other reasons (e.g. accommodating lower income individuals)
(Pause & brief aside about starting up a co-op)

Start **small** and **simple**. Start by **doing** **AND** **dreaming**.

Housing → rent a house with 5 people, live together for one year, manage your grocery budget, THEN think about expansion/development.
  - First look at city’s “maximum occupancy laws”
  - Google: “how many **unrelated people** can live together in...?”

Business → start in your kitchen or in the back of your car, have workers contribute a small amount of cash up front (“owner equity”), THEN start buying equipment, renting space, etc.
Activity Part 2 (cont.):
Additional budget items to consider

• If you get a loan: likely need special savings accounts
  – Required reserves:
    for long term asset (roof, water heater, etc.) replacement costs (based on industry standards)
  – Debt service:
    cash on hand to cover certain portion of loan payments (yours to use at the end of the year), good to keep around for emergencies

• Employee healthcare, etc.
• Rent loss (amount set aside in case people don’t pay rent)
• Accounting and legal expenses
• Property taxes (unless you can claim exemption!)
• Property & liability insurance
• Education (e.g. NASCO!)
• Maintenance budget (e.g. equipment, wall paint, etc.)
Example budget – expanded for multiple houses & home ownership

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Budget</strong></td>
<td><strong>House 1</strong></td>
<td><strong>House 2</strong></td>
<td><strong>Total</strong></td>
<td><strong>Note:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Average room price)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ANNUAL REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program service fees and revenue:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member dues</td>
<td></td>
<td></td>
<td>(=sum B+C)</td>
<td></td>
<td></td>
<td>for all</td>
</tr>
<tr>
<td>-- less 2% vacancy and collections loss</td>
<td></td>
<td></td>
<td></td>
<td>(-.02*member dues)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>House income (food/utilities)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other revenue:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td></td>
<td></td>
<td>(=sum rows 7-10)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program service expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent/Mortgage</td>
<td></td>
<td></td>
<td>(=total loan pmts (if have loans))</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food + Supplies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total program service expense</strong></td>
<td></td>
<td></td>
<td>(=sum rows 15-19)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Supporting service expense:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property &amp; Liability insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staffer Wages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Print/Office</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NASCO Institute/Education</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total supporting services</strong></td>
<td></td>
<td></td>
<td>(=sum rows 23-28)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Reserves funding:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Reserves (Savings)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Escrow for Replacement/Repair</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves/Capital Improvements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Escrow for Debt Service/Development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total reserves funding</strong></td>
<td></td>
<td></td>
<td>(=sum rows 34-36)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES &amp; RESERVES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(=row 20 + row 29 + row 37)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET OPERATING INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(row 11 - row 39)</td>
<td>^ should be very close to $0, adjust above highlighted cells until $0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: showing annual totals, not monthly totals
Activity Part 3:
Managing your dream co-op budget

Questions your co-op will have to answer:

• Who creates the budget?
• How do we collectively decide on this budget?
• Who keeps track of the budget and how?
  – Who has access to the bank accounts?
  – Do we use a spreadsheet or software?
• Who collects and deposits income?
Activity Part 3 (cont.):
Managing your dream co-op budget

Some ideas for managing finances:

• Establish a finance committee:
  – Elect/appoint a co-op treasurer (decide if paid/unpaid?)
  – Or if housing: Elect/appoint House treasurers & rent depositors

• Annual drafting of budget
  – Determine if done by board, treasurer, workers/membership, or all of the above

• Annual vote on budget
  – Determine if done by board, workers/membership, or both

• Structure your bank accounts to help keep track of income and expenses and to automate payments
Activity Part 3 (cont.): Organizing bank accounts (housing co-op)

Main Savings Account (Operating Reserves)

- House account
- House account
- Main Checking Account
- Rent (Loan pmts)
- Property tax/insurance
- Debt service
- Required reserves
- Maintenance
- Auto-transfer
- Auto-transfer
- Auto-transfer
- Rent
- Member Deposits
- Deposits
Activity Part 3 (cont.): Organizing bank accounts (worker co-op)

Main Savings Account (Operating Reserve)

- Income
- Member Deposits
- Deposits
- Maintenance
- Required reserves
- Auto-transfer
- Auto-transfer
- Auto-transfer

Main Checking Account

- Property tax/insurance
- Debt service

Inventory Loan pmts
Closing Discussion: Resources and Tools

• Who can help us figure out/manage our finances?
  – Consultants (e.g. Collective Seeds)
  – Outside bookkeepers (e.g. A Bookkeeping Cooperative)
  – Other co-ops: share knowledge!

• What online tools are out there to help manage finances?
  – Mint.com (free), Quickbooks (not free), others?
  – GnuCash
Closing Discussion: Resources and Tools

• FYI: Co-ops notoriously struggle to find financing, especially at interest rates comparable to personal home loans, due to the amorphous ownership/management structure

• Given that, who will lend to co-ops?
  – Owner/worker equity – cash put in by workers up front
  – Local banks (a definite maybe, but worth a shot)
Closing Discussion: Resources and Tools

• Things to be aware of with getting a loan:
  – Application fee, commitment fee
  – Don’t necessarily need financial history (though it helps)
  – Need a business plan and/or demonstrated management/people dedicated to managing the co-op
  – Personal guarantees not required
Closing Discussion: Other questions?