C'MON, BOARD MEMBERS, GET A GRIP . . .

By Patrick Niland

All board members need to get a grip on their co-op's future. In other words, they need to develop a long-range plan.

In 1991, the American Institute of Certified Public Accountants (AICPA) issued its Guide to Audits of Common Interest Realty Associations, more commonly referred to as the CIRA Guidelines. Much controversy followed this event as professional organizations of every stripe either encouraged boards to comply as soon as possible or warned them of serious consequences if they did not. As usually happens when boards are confronted by such momentous choices, the status quo (i.e., "do nothing") solution won out. While I agree that a cautious approach to this important change probably was warranted at the time, I cannot ignore its principal by-product. The prevailing recommendation to delay full compliance with the new reporting guidelines legitimized the myopic planning horizon of most boards.

<u>The Problem</u>

As buildings age, their "skin" and "internal organs" wear out with ever-increasing frequency. The longer a board postpones repairs - or worse - ignores this relentless deterioration, the greater the risk of an expensive emergency. Murphy's Law ensures that all such emergencies will occur during the wrong season and when the co-op or condo can least afford them. Certainly, no board can avoid emergencies entirely. But an ongoing program of preventive maintenance and replacement coupled with a budget that includes monthly contributions to the property's reserve account can reduce both the number and severity of emergencies which do happen.

So why do most boards bounce from crisis to crisis? It is an unfortunate fact that most co-ops and condos are run by a group of unpaid volunteers, whose expertise lies largely outside the field of real estate and property management. During their precious evening hours, these well-intentioned individuals must make the tough decisions that other business executives get paid to make during normal working hours. Afterwards, these same board members must endure the criticism, second-guessing, or outright wrath of other shareholders - some of whom are their friends or neighbors. Is it any wonder that politics and private agendas sometimes get in the way of clear thinking? Of course not. But avoiding a hard decision today will make it even harder tomorrow.

The Solution

Like the executives of any successful business, board members need to define a clear goal for their cooperative and a workable strategy for attaining that goal. Though this may sound like something from a self-improvement tape, it is nonetheless true. It is unlikely that anyone will get from Point A to Point B if they don't know where points A and B are and at least some idea of what they might need to do along the way. Goals and strategies will vary from board to board. Every co-op has its own location, a different size and shape, a diverse shareholder mix, and a distinct set of advantages and problems that combine to form that co-op's special identity. Inherent in this diversity are the synergies that can forge a truly successful long-range plan - if the board has the courage to do what is needed.

Six Steps to a Better Future

The first step toward the formation of a long-term plan is internal. Each board member must adopt the mantra "My property is a business, and I will run it like one" - and repeat it in the mirror ten times every morning. And once more at the start of every board meeting.

As a second step, the board should hire a good engineer to complete a top-to-bottom inspection of its property. The cost of such an inspection will fall between $3,000 and $20,000, with most studies running less than $5,000. Tell the engineer that this inspection will form the basis for the board's new long-term plan. Also, ask the engineer to segregate his/her recommendations into four categories:

(a) work needed now,

(b) work needed over the next five years,

(c) work needed during the years five to ten,

(d) work most likely needed after year ten.

Lastly, ask the engineer to estimate the cost of each project and to prioritize those in (a) and (b).

The third step is to sit down with the property's managing agent and accountant to review the co-op's or condo's performance over the last five years. Though no one can predict the future from the past, everyone can learn from it. Analyzing the property's recent operating and financial history will highlight trends, uncover problem areas, and perhaps suggest better ways to deal with emergencies in the future. In addition, input from both the managing agent and the accountant will be crucial in setting a budget and a schedule for any work recommended by the engineer.

The <u>fourth step</u> is a poll of shareholders to gather opinions and comments regarding pending budget priorities, spending plans, and policy changes. Knowing the relative importance and sensitivity of various issues among the shareholder body will help board members make sound decisions. It is always impossible to satisfy everyone. However, if everyone feels that their concerns were truly heard and fairly considered, they will be more willing to support whatever decisions the board ultimately makes.

The <u>fifth step</u> is to study all of the information and advice that the board has assembled and then to define a set of goals and strategies for their property. Examples might be:

(a) To sustain higher apartment values relative to neighboring properties through cost control, cosmetic improvements, and regular preventive maintenance;

(b) To provide a consistent level of service by raising the quality and hours of building staff. Increased cost to be split between an immediate maintenance increase and a new policy and detailed schedule of charges for work done inside apartments;

(c) To build a working capital reserve equal to three months of the property's budgeted operating expenditures plus a separate reserve for roof and boiler replacement scheduled for the year 2000. Funding levels to be achieved through budget allocations and regular maintenance increases to keep pace with inflation;

(d) To complete necessary building repairs and system upgrades which were abandoned by sponsor, over the next three years, with funds to be provided by a mortgage refinancing (co-op) or capital improvement loan (condo), before the end of this year.

The <u>sixth step</u> is to implement the new plan - and then stick to it. This certainly will be the toughest part of the entire process. Therefore, they should invest time in education as many of the other shareholders as possible about the plan, why and how it was developed, and how <u>they</u> can help make <u>their</u> co-op a better place to live. The board also should involve newer and potential board members in the actual planning and decision-making to ensure continuity of direction during future years. In addition, the board might create a newsletter to keep shareholders informed on a regular basis. Frequent communication prevents unfounded rumors from spreading and undermining the effectiveness of the board's plan.

Long-range planning is never easy. But, like anything else worth the effort, it can generate tremendous rewards. Those co-ops and condos that plan their future will have one they can enjoy. Those that don't will be battered by the constant struggle to survive. The choice is up to you.