The *Business* of Running a Cooperative

By Patrick Niland

The planned approach to a solid financial future.

Like the executives of any corporation, co-op board members often are confronted by difficult or controversial decisions. However, unlike the decisions of other corporate boards whose shareholders are rather anonymous, those of a *co-op* board have the real and familiar faces of friends and neighbors. While this familiarity may complicate a board member's decision-making, it does not relieve them of their fiduciary responsibility to run their property for the benefit of *all* shareholders -- not just the vocal ones or the ones down the hall.

It's a Business

First, all co-op board members need to disabuse themselves of the notion that their cooperative is some form of residential welfare state. They need to look in the mirror each morning and say, "*My co-op is a business, and I will run it like one*." Board members need to bring the same careful planning, hard work, and sound judgment that they use in their "day job" to the management of their co-op.

Call in the Pros

Board members should sit down with their managing agent and accountant to review their property's performance over the past five years. Look for trends and problem areas, and even evaluate the way in which any past emergencies were handled.

The managing agent and accountant also should collaborate on the preparation of a realistic budget for each of the next *five* years. Each year's budget should include allocations for routine and preventative maintenance, contributions toward major capital improvements, plus an allowance for unexpected items. For the best projections of future capital items, the board should hire an engineer to perform a roof-to-cellar inspection of their building. The cost of such an inspection will run from $2,000 to $3,000 for a 10-unit building to $5,000 to $6,000 for a building of a hundred units. The engineer's report should contain four categories:

1. Work needed now.

2. Work needed over the next 5 years.

3. Work needed in years 5 to 10.

4. Work needed after year 10.

Within each category, the engineer should estimate the cost of each project and then list them in order of importance.

Ask the Shareholders
The board of every corporation must be responsive to its shareholders. This is especially true for *co-op* boards. When I was president of my co-op board, I quickly learned that a *pro*active (versus a *re*active) approach is best. To find out what shareholders are thinking, board members should contact them on a regular basis to gather their opinions on budget priorities, spending plans, and policy changes.

Understanding the relative importance of shareholder concerns will guide boards toward decisions that will be supported by the majority of their neighbors. It rarely is possible to satisfy everyone; but giving shareholders the opportunity to express their fears and desires will go a long way toward gaining acceptance for tough decisions.

Assemble a Plan
Finally, boards should combine all of the information from their engineer's report with input from their other professional advisors to develop a long-term plan for their building. This plan should include *specific, measurable* goals like:

- Sustain higher apartment values relative to neighboring properties through rigorous cost control, regular cosmetic improvements, and annual preventative repairs. Limit maintenance increases to 2% per year.

- Build a working capital reserve equal to three months of budgeted operating expenses, plus a separate reserve for roof and boiler replacement. Pass a special assessment to fund the roof and boiler repairs, and collect it over the next eighteen months. Begin work the following spring.

- Complete all repairs and system upgrades recommended by the engineer within three years. Obtain needed funds through a mortgage refinancing before the end of this year.

Make it Happen
As the management gurus often preach, "Plan your work, then work your plan." Sounds easy, right? Unfortunately, most boards will discover that implementing their plan will be the most challenging part of the process. However, by educating their shareholders up front and then communicating with them on a regular basis, the board can attain its long-term goals with few serious problems.

Leave a Legacy
A comprehensive, financially-sound, long-range plan is one of the most valuable legacies a board can leave. It certainly will not be easy, but such a plan will have far-reaching and long-lasting effects on both the financial stability of the cooperative and the market value of every unit in the building. Boards that fail to plan for the future will be battered by unexpected emergencies and repeated financial crises. Those that plan wisely will reap tremendous rewards and enjoy peace of mind.