Financial Training for icc board of Directors • Summer 2004	***Please bring calculators!***	**by Michael Bluejay** **This file is at michaelbluejay.com**

Contact Info

Office: 2305 Nueces • Austin, Texas 78705
Phone: (512) 476-1957 **Fax:** (512) 476-3904
Hours: M-Th 9-5, F 9-4
Email: welcome(at)iccaustin.coop
Website: http://iccaustin.coop
Discussion Lists: http://iccaustin.coop/forum

Paid Staff

Howard Lenett	General Administrator	howard(at)iccaustin.coop
Suellen Gawiser	Financial Administrator	suellen(at)iccaustin.coop
Billy Thogersen	Facilities Administrator	billy(at)iccaustin.coop
Danita Lee	Habitat Administrator	danita(at)iccaustin.coop

ARRAKIS	AVALON	EDEN	FRENCH	HELIOS	HOC	NEW GUILD	ROYAL	SENECA
rebuilt in 2003 after fire	only co-op not in W. Campus	Newest co-op; bought in '03	near Royal, Pearl, 21st St co-ops	a historic landmark	crazed hippies	largest co-op	mellow hippies	serious students
20	23	14 members	20	17	26	**32**	17	19
own	**rent**	OWN	own	own	own	OWN	own	OWN
see Note (1)	**see Note (1)**	**see Note (1)**	**see Notes (1,2)**	**see Note (1)**	**see Note (3)**	**see Note (1)**	**see Note (1)**	**see Notes (2,3)**
veg. option	veg. option	veg. option	**no veg. option**	veg. option	**vegetarian**	veg. option	**vegan**	veg. option
to be decided	to be decided	**no pets**	pets w/vote, but no dogs		**pets w/vote, but not in common areas**		pets w/vote	
central air conditioning					**window unit AC's**		central A/C	
	pool table				**swimming pool**	**pool table**		
	patio deck				**sun deck**			**backyard deck**
2212 Pearl	3000 University	1910 Rio Grande	710 W. 21st St.	1909 Nueces	2610 Rio Grande	510 W. 23rd St.	1805 Pearl St.	2309 Nueces
495-9277	**472-2583**	**495-9262**	**478-6586**	**478-6763**	**476-7905**	**472-0352**	**478-0880**	**472-2052**

Notes: **(1)** Students accepted automatically; others must be voted in. **(2)** Upper-Division & Graduate students accepted automatically, others must be voted in. **(3)** All applicants must be voted in.

Balance Sheet (Assets - Liabilities = Equity) 5-31-04, rounded

$2.8 million in ASSETS (what we OWN)
Includes the houses we own (not the ones we rent), Operating Cash, Emergency Fund $100, Expansion Fund $0, Renovation Fund $28k.

The **Book Value** of our 7 houses is $1 million. (what we paid for them, plus what we spent fixing them up, minus depreciation). The **Market Value** of our 7 houses is $5 million (how much we could sell them for) as of Feb. 2003.

$1.9M in LIABILITIES (what we OWE)
Mostly loans from banks ($1.4M combined mortgage/rehab loans, and Arrakis reconstruction loan).

$0.9M in EQUITY/Capital (what we're WORTH, on paper)

Annual Cash Flow (Budget Year = June-May)

$1,137,000 yearly revenues ($990 dues + $47k misc.)
If occupancy is better than expected, you get to decide how to spend the extra money. If occupancy is poor or we have unexpected expenses, you'll have to make budget cuts. Ouch.

$1,082,000 cash expenses
$45,000 savings (Emergency, Expansion, & Renovation)

Room Rates & Occupancy

FY 04/05 Room Rates

# of **Beds**		Summer	Fall/Spring
113 (60%)	Singles	$495	$620
74 (40%)	Doubles	395	495

Singles are 75% of rooms.

FOOD: $105 of each of above goes to house checking accounts.
DISCOUNT:
Monthly discount for those signing in 1st 4 wks. of signing is $20 for returning members, $10 for new members.
AVG. DUES =$544/mo. ($662 LT/$481 Summer) Assumes 1/3 of Spring members will return and get discounts

188 / 169 — No. of members (when Full / Budgeted)

96%/94% — typical budgeted occupancy for Fall/Spring
75% — typical budgeted occupancy for Summer
90% — average budgeted occupancy for all year

5% — 5% vacancy rate means about 1 vacancy per house
1% — Equivalent to 1.87 members (let's say 2 members)

$5100 / 3900: Yearly/LT income added per bed filled
$4300 / 3200: Yearly/LT income added per double filled
$5700 / 4400: Yearly/LT income added per single filled
all figures are after food, utilities, etc.

~2000 member-months: 188 members **x** 12 mo. **x** 90% occupancy
~$2000: amt. of yearly income added for each $1 of room rate

Introduction

How this training came about

I was on the board for a year and a half, first as Board Rep. for House of Commons, then as Maintenance Officer. After I moved to Royal I also did a stint as Finance Officer.

Back then, the financial training we got from (former) staff was both confusing and incomplete. As a result, most of us on the board didn't really understand the finances very well — including me, even though I'd taken some accounting classes at UT and owned some rental property at the time. Ironically, I didn't really start understanding our finances until about the time I *left* the board.

I know I could have been a better board member if I'd understood the finances better. So I put this training together so we wouldn't continue to have boards who didn't understand the money. After all, how can you manage an organization if you don't know how its finances work?

So when I put this training together, the main thing in my mind was, *What would I have wanted to know when I joined the board? What would I have wanted to learn from the training?* The result is the packet you're holding in your hands right now.

I'm really happy that I think I'm finally able to provide what boards should have been receiving all along. I hope you find this training as useful as I tried to make it.

As you continue your work on the board, if you learn something about the finances that you wish you had known from the beginning, let me know and I'll try to add it to a future training.

What you get

Obviously, the main goal of the training is to give you an understanding of how much money we take in and where it all goes. But beyond that, you'll learn:

* What's involved in buying a house. We're in the housing business, after all. That's what we do.

• How your monthly dues wend their way through the ICC system.

• The differences between the two bank accounts each house has.

• How to lower room rates.

• The history of ICC-Austin, with special attention to financial events. We look at the history because it's good to know your roots. ICC's been around a long time, and we're building on the work of those who came before us. Another reason for looking at the history is, as they say, those who don't understand the past are doomed to repeat it.

What you should do with what you learn

(1) Communicate competently with your professional staff. Staff talks about our money using basic financial terms, so you need to understand that terminology as well.

(2) Make competent decisions, and be comfortable doing so. If you're too scared to ever take any action because you don't feel you know what's going on, then what's the point in being on the board?

(3) Use your understanding to come up with creative solutions to problems. You might develop ideas for restructuring house bonuses, increasing occupancy, or making ICC more affordable. You can't do that unless you know how to figure things such as how much raising or lowering room rates impacts us, how much the bottom line is affected by occupancy, and how much we normally spend on various expenses.

You're a real board

Understand that you're a *real* board of directors. You're not pretending to be a real board, the board isn't here so we can play a little co-op game and pretend that we're governing ourselves — ICC is a *real* corporation and subject to the laws of the federal government and the State of Texas, and you're a *real* board with real power, and real responsibility.

Board makes or breaks ICC

As you'll learn later, you almost were not sitting here right now. That's because bad decisions made by earlier boards nearly forced ICC into bankruptcy. And I don't mean things were just a little shaky, I mean we were served with foreclosure papers. The flipside is that good leadership by boards before and after those bad decisions mean that you're inheriting an organization that's now in pretty good shape.

What I'm getting at is that the decisions of the board either make or break ICC, and your biggest decision-making power relates to money. If you make bad decisions, ICC could go bankrupt and we'd lose a valuable community resource, and there are a few thousand alumni who'd be mighty pissed at you. On the other hand, if you're responsible, clever, and lucky, you could succeed in growing the organization larger so it serves more members and we can brainwash even more people into our little cult.

The two main ways you could threaten our survival is by **risky expansion** or by **ignoring occupancy problems. I**n fact, if you take away just one thing from this training, it's that your Prime Directive should be to keep the houses full. When the houses are full you'll have enough money to pay the bills, houses will be more harmonious because they'll have enough people to do labor, and it will be easier to keep ICC affordable because you can spread the costs over a larger number of members.

In contrast, if we have vacancies and you don't do anything about it, then not only can you not pay the bills, but you're faced with a Catch-22: You're bringing in less money so to make up for that you'd have to raise room rates. But if you raise room rates then fewer people will want to move in and your occupancy problem will get even worse. All of a sudden you're in a really bad position. Don't let that happen. Keep the houses full.

Financial Terms you should know

The term non-profit organization is a misnomer, since these groups can and do make profits. The point is that the *purpose* of such a group is to serve the public good, not to make money. Therefore the modern term is **Not for Profit** instead of "Non-Profit".

Collateral is something of value you pledge in order to guarantee a loan. For example, when you get a loan to buy a house, the house itself is the collateral (the lender can take your collateral if you don't make your loan payments).

Numbers in **(parentheses)** are negative numbers.

Assets are things you own, like cash, equipment and houses.

Liabilities are things you owe, like loans to a bank.

A **mortgage** is the special name for a loan to buy a house.

Advice

ICC has been spinning its wheels for nearly 30 years, making little progress in increasing the number of houses, keeping room rates low, or exerting member control of the organization. 2002-03 was the first time in many years that any appreciable progress was made in any of these areas. **Unless you push ICC to continue to improve, it will revert to being as stagnant as it's been for most of its existence.** Below is some unsolicited advice for how to make your legacy more significant.

Plan for the future. Long-range planning can move the organization in a desired direction (lower room rates, more member control, etc.). Being on the board of ICC is like being the captain of a big ship. And being on the board without long-range planning is like being the captain of a ship that just sails around mindlessly with no apparent destination. Develop goals, brainstorm some things that would fulfill those goals, and decide what criteria future boards could use to decide whether the goals have been met. Most importantly, *document all this*, especially on the website. Future boards can't have the benefit of your work if they don't know about it.

Look at the Big Picture. I've seen boards spend an hour and a half discussing some piddling $125 expense, and then pass half a million dollars of budget in five minutes. The budget is *big*, and you have to learn to think big. That can be hard when you're at the point in your life where $1000 is a lot of money to you, but it's not a lot of money to ICC. Cutting $1000 of annual expenses won't knock even $1/mo. off room rates. When planning, think big.

Remember that your job is to serve the membership. ICC exists to serve the membership, and you run ICC, so it's your job to serve the membership too. Don't wield your bureaucratic power jut because you can. When a member comes to you with a request, consider how easy it might be to help them with that request rather than claiming that some policy says you don't have to. If it doesn't seriously hurt the organization to be flexible when interpreting and applying the rules, then exercise some flexibility. Of course, when a member wants something, you're free to ask for something in return (e.g., more involvement).

Ignore Precedent. Some people mistakenly think that the board has to do something now just because that's how it was done in the past. But precedents are for courts of law, not for boards of not-for-profits like ICC. You're not obligated to do anything a certain way now just because it was done that way before. Don't worry about "setting a precedent" with any decision, because there is no such thing.

Involve the membership. You can't effectively lead the organization without the support of the members. Members need to know what you're up to, and you need to get their buy-in on big decisions. Communicate with the membership frequently, get their input, and actively solicit their support for your agenda.

Document every decision you make. One reason that the board has been reinventing the wheel for 30 years is that few people have a clue about what's already been discussed and decided. There's been a long history of board decisions being forgotten almost as soon as the ink is dry. There's little point in passing any policy if it's not going to be known to the members or future boards. I suggest you document your decisions:

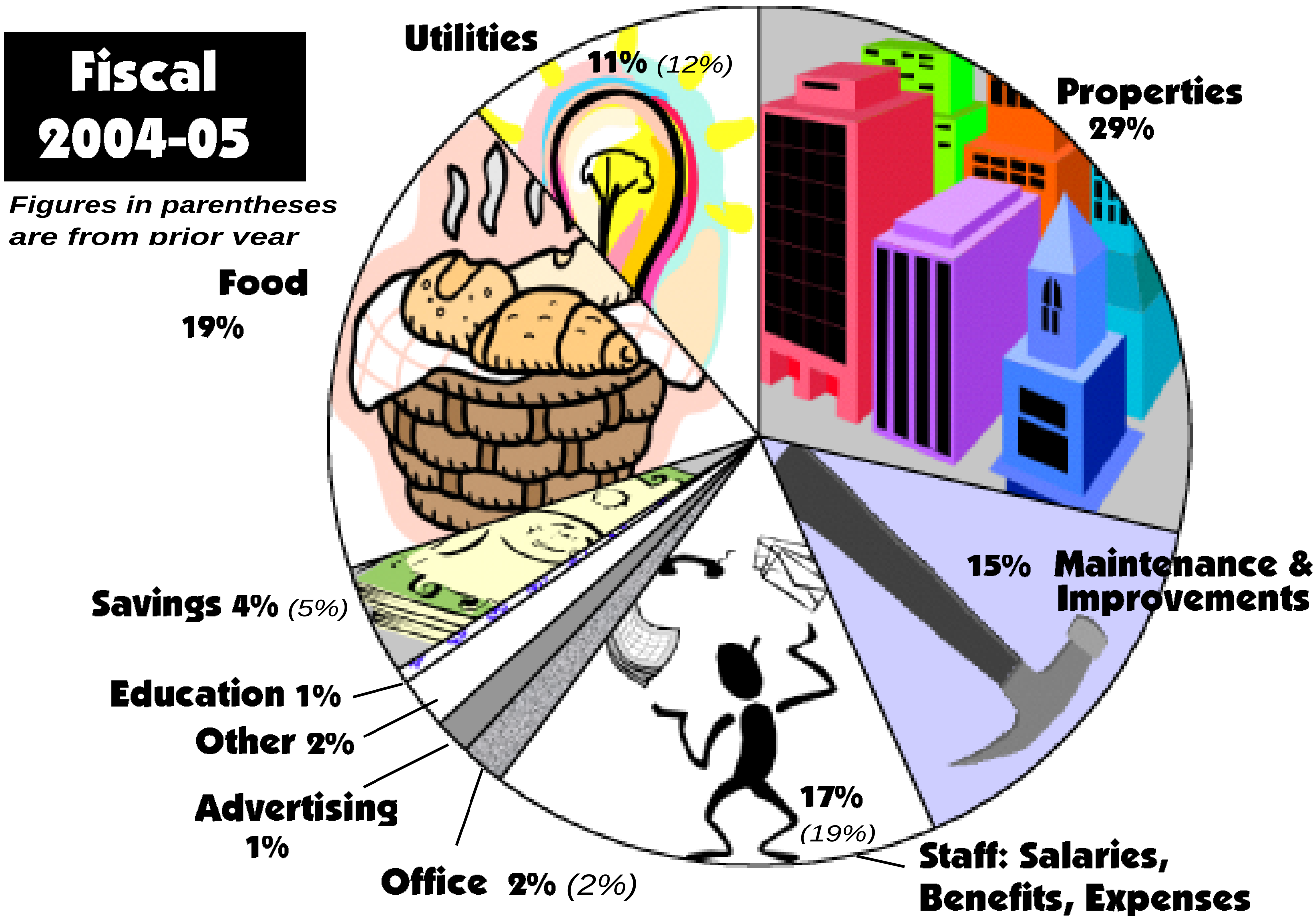
- In the Announcements email newsletter
- On the website, both in an "Our Rules" section, and in a "What's New" section.
- In the board packet (a summary of all policy decisions made in the last year)
- In a three-ring binder in every house (all ICC policies, with conspicuous notice on the front that current policies are on the website)

Organize and format information for easy comprehension. It's not enough to make other policies or documents available; they also have to be easy to read and use. A 50-page paper-clipped collection of policies on single-sided paper with no table of contents, no page numbers, and barely any organizational formatting is very different from a sheet-protected three-ring binder with double-sided pages and conspicuous organization and formatting. Below are some document-formatting tips.

Tips for formatting documents

- Study this training packet for ideas on formatting. Most of the tips below are employed in this packet. Use them.
- Set up pages with two columns. Columns let you fit a lot more info on a page without sacrificing readability. To make columns in MS Word go to Format -> Columns. Then change the page margins to 0.5" all around. Once you have columns, it's crucial to reduce the margins.
- Make the titles of pages *very* large.
- Put the titles of pages and major sections in reverse type. Go to Format -> Borders & Shading -> Color: Black. Then change the font color to White by choosing it from the toolbar (or Format -> Font).
- Use 10-20% gray shading for minor section headings. Again, use Format -> Borders & Shading.
- Use bold instead underlining, and use it often. Long passages of text without any bold headings are difficult to digest. Use bold to break up the monotony, and to make it easy to pick out important sections and points. Use underlining only if you're also using bold, or if your underlined points are already under a bold heading.
- Document your documents. Include a date (inc. the year) on every document you create, preferable on every page. Also include the source (you, a committee, or the board), and identify what kind of document it is in the title — a proposal, passed policy, or something else.
- Increase the line spacing to improve readability. More line spacing makes text easier to read. To change line spacing, choose Format -> Paragraph -> Line Spacing -> Exactly 13pt (or thereabouts).
- Don't be scared of small text. 10- and even 9-point text is quite readable. It's actually *more* readable with taller line spacing than big text with crowded line spacing.

Where do your monthly dues go?



Where your $1,137,000 goes

20% **Food.** This is the $105/member/month that each house gets. Some houses use some of this money for things like newspaper subscriptions or cable TV. This board usually increases the per-member figure by a few dollars a year to match inflation but has done so only once in the last four years. *($211,369)*

12% **Utilities & Phones.** The board could consider having houses be responsible for paying their own utilities (members would pay the house based on actual utility use), which could give members an incentive to save. *($128,000.)*

24% **Properties.** Includes Mortgages on houses ($137k), leases on houses we rent ($78k), and Insurance ($57k -- more than double the $24k in 2000-01. For some reason insurance companies charge more when you keep having major fires). The properties slice used to be even higher, before we got the property tax exemption in 1999 that saves us $49,670/yr. in 2003 dollars. *($323,000.)*

15% **Maintenance & Improvements.** Includes Maintenance staff ($47k inc. taxes & benefits), capital improvements ($93k), maintenance ($34k), Maintenance Committee ($2k), and Permits ($2k). Note that your accountant puts maintenance staff cost in the Staff section of the budget, but I list it under maintenance, for the hell of it. *($164,000.)*

19% **Staff Salaries, Benefits, & Expenses.** Includes staff salaries (approximate: $47k General Administrator., $46k Financial Administrator, $24k Member Relations Administrator,, $23k Habitat Administrator), Bonuses ($2k), Benefits ($34k), Payroll & Unemployment Taxes ($15k), Workers' Comp. Insurance ($4k). Does not include maintenance staff, which I list under Maintenance. Went down as a % because we're seeing economies of scale from two new houses. *($195,000)*

2% **Office.** Includes Office Expense, Legal & Professional Fees, Audit & Tax Return, Membership dues for co-op organizations, Travel to co-op meetings out of state, Miscellaneous. *($19,000)*

1% **Advertising.** Since every member brings in around $4200/yr. (after food & utilities), this is money well-spent. Advertising pays for itself and then some if it attracts just three new members over a one-year period. *($14,000)*

2% **Other.** Includes board expenses, membership fees to other organizations, and unpaid room charges by deadbeat members. *($21,000))*

1% **Education.** Includes NASCO Institute trip, newsletter, publications, social events, and scholarships. *($9,000)*

3% **Savings.** To our Emergency Renovation, and Expansion Funds. See Savings page for more info. *($45,000)*

(Figures from 2004-05 budget, rev. 3. Many figures were rounded.)

Budget

What's a budget? A budget is a plan of how much money you expect to make, and how you expect to spend and save it.

How much is our budget? This year our budget is $1.1 million of income, of which we allocated about $1,050,000 to expenses and $50k to savings.

Where are the details? The budget is on the inside back cover. Study it. Worship it.

What period does the budget cover? ICC's fiscal year starts in summer of each year, running from June - May. You just started a new budget period a few weeks ago.

When does the budget get planned each year? The draft budget is prepared in early Spring, and the board and staff hash out the details throughout the Spring. The final budget goes into effect when the new fiscal year starts in summer.

Who plans the budget? Your accountant and general manager prepare a rough draft in early Spring, and presents it to the board for revision and approval. The board can change the draft budget a little, a lot, or not at all.

How the hell am I supposed to know what a reasonable amount is for item X on the budget? Your best guide is to compare the proposed amount to the amount we spent on it last year, which is clearly listed on the budget. If the proposed amount has gone up or down substantially from the previous year, staff should explain why.

Once we pass the budget in Spring, are we done with it? Not on your life, bucko. The budget is a plan, but nothing ever goes exactly as planned. Throughout the year, you'll find that we're making more or less money than planned because occupancy is either good or bad, and we're spending more or less money than planned because of various factors. As those numbers change, you'll constantly revise the budget throughout the year. So throughout the fiscal year you'll constantly modify the budget for the current year, while at the same time in Spring you'll be planning the budget for the *next* year.

How do we figure how much money we expect to make? We generally budget for 95% occupancy in the long term and 75% in the summer, for an average of 139 members. <u>Occupancy is the key to your universe.</u> If occupancy is better than planned you'll have extra money to play with. If it's poor you'll have to make painful budget cuts. Ouch. (And then you'll have to fix your vacancy problem.)

Bad Debt is Bad. Even though occupancy is important, it's meaningless to have full houses if members don't pay their dues. If even a small number of members don't pay (or get behind), you can lose a LOT of money, very quickly. If ICC goes broke because you didn't want to be "mean" by making people pay their dues, then you've cheated *all* of ICC's members (including the people who won't be able to be ICC members in the future because there is no more ICC).

You can't spend money out of thin air. You can't just decide that the co-op should spend money on something without specifying where the money is coming from. Unless you can take it out of money already allocated in the current budget (e.g., such as $500 for painting from the $33,000 allocated to general maintenance), then you may have to settle for spending the money <u>next</u> year by allowing for it in next year's budget.

Discussion Questions:

1. Once ICC is at budgeted occupancy, how much extra money do we get by filling a vacancy, after the costs of feeding that person? What could do with that money?
2. The board decides at the beginning of the fiscal year that any money ICC makes over budget projections will go towards remodeling New Guild. ICC is below budgeted occupancy by 10 members, and you fill 7 of those vacancies. How much extra money do you now have for the New Guild renovation?
3. How much extra money would we bring in if we were at 100% occupancy all year (vs. budgeted occupancy)?
4. If you applied all of that booty to room rates, how much could you lower it by?
5. One member from each house stops paying dues and neither staff nor the board does anything about it. How much do you lose in a year?
6. Your Emergency Fund has $100k in it. Policy prohibits you from spending that money unless it's a major emergency, but let's say you violate your own policy and spend from it anyway. With that in mind:

   (a) You pay for the lost dues from the previous question with your cash reserves. You're at budgeted occupancy. How many years can you tolerate those deadbeat members before your emergency fund is completely wiped out?

   (b) How long would the emergency fund last if occupancy went down to 80%? If our income went down, would our expenses go down? If so, which expenses?
7. Will you lose more money from each member withholding $10/month for a year as part of a protest, or from one person leaving from each of four houses and not being replaced for a year?

Room Rates

Our room rates are relatively low -- they're below the market average. Many members don't realize how cheap ICC is until they move out and start paying for their own utilities and food. The board generally raises rates by 2-3% a year, because our costs go up 2-3% a year, because of inflation. Any year that we can raise less than inflation gets us even further below the market average.

Inflation. If you're spending $1 million this year, you'll spend an extra $25,000 next year if inflation is 2.5%. When budgeting for the new year, you'll have to raise rates to cover that $25,000, or find $25,000 in expenses to cut from the budget, or find some other kind of revenue source (e.g., grants), or some combination. *If you hold rates steady but take no other action, you'll lose money.*

ICC no longer offers discounts to returning members except some who were grand-fathered in under the old system. If you start offering retention discounts again, then realize that returning members will cost you real money. You'll lose money when members stay instead of being replaced by brand-new members who pay full dues with no discount. We used to budget for 1/3 of the members to return for a long session. If all 187 return instead and get a $20/mo discount, you'll lose an extra $23,000..

Discussion Questions:

1. If you raise rates $1/month across the board, how much extra revenue will that bring in? What if you raise it $100 month?
2. A wealthy former member dies and leaves ICC $25,000. You decide to put as much of that money as you can into lowering rates. Inflation next year is expected to be around 2.5%. How much can you lower rates?
3. Let's say you have a $40,000 budget surplus, *after* allowing for inflation, and you want to apply all of it towards lowering rates. How much can you lower rates?
4. What would happen to your occupancy if you lowered rates that much?
5. Say you want to lower summer rates by $50/mo. How high would occupancy have to be in order to bring in the same amount of money as normal room rates with 75% occupancy?
6. Does giving rate discounts to returning members create a dilemma for the board? If so, how?
7. What's bad about high turnover? What's good about it?
8. You budget for 40 members to return and get a rate discount, but 60 of them do. How much does this cost you? How much is that per member per month?

How to Buy a House

Goals

- Understand how ICC acquired the property it already has.
- Understand what it would take for ICC to buy more houses.
- Start forming an opinion about whether ICC should expand.

Cost of an ICC-sized House, at today's prices (well, 2001 prices)

...is ~$750,000! Note that we bought our first houses for $50,000 or less. The price of houses goes up *way* faster than regular inflation. Here are some properties which sold in the last few years:

4507 Avenue F ...... 8 Bd./3 Ba. ...... 2654 sf $274,000
2503 Nueces .... 13 Bd./4 Ba. ...... 5872 sf $500,000
2222 Pearl .... 31 Bds./28 Ba. ...16,300 sf $1,505,000

Paying for it

Most people can't afford to pay cash for a house (even for a single-family home at $150,000). So you pay a down payment (5-20% of the purchase price), and get a loan for the rest.

Down Payment

The down payment is 5-20%, depending on the whim of the bank giving you the loan. On an ICC-sized house that would be $50,000 to $200,000.

Mortgage

The loan you get to pay for the house is called a mortgage. The house belongs to you, not the bank, even though you have to make payments on your loan to the bank each month. A mortgage usually lasts 15 or 30 years. The house itself is the collateral for the loan, meaning the bank can take the house back if you don't make your mortgage payments.

Monthly Payment

The monthly mortgage payment, including taxes and insurance, is around 1% of the total cost of the house. For example, the payment on a $800,000 house could be around $8,000/month. 15-yr. loans have higher monthly payments than 30-yr. loans, but you pay less total interest over the life of the 15-yr. loan.

Try typing the following formula into a spreadsheet like Excel:

- =-PMT(AnnualInterestRate/12months,NumberOfMonths,CostOfHouse,0,0)
- Example: =-PMT(8%/12,180,800000,0,0) (answer = $7,645)
- Remember that after this you need to add taxes (if applicable) and insurance — perhaps 3% of the purchase price per year.

Why expand?

- **ICC's mission is to provide low-cost housing for students.** The more houses we operate well, the more people we serve and the bigger impact we have.
- **Save money in the long run.** ICC is at an inefficient size. We could probably add 2-3 more houses without needing additional professional staff, besides maintenance. We'd bring in more dues but our staff costs would be stable.
- **Protect against an economic downturn, or the loss of Avalon** (which we're currently renting). If times get tough, we could sell one of our houses. But right now, we don't have any "extra" houses to sell; we need every house to keep ICC going.

Risks of Expansion

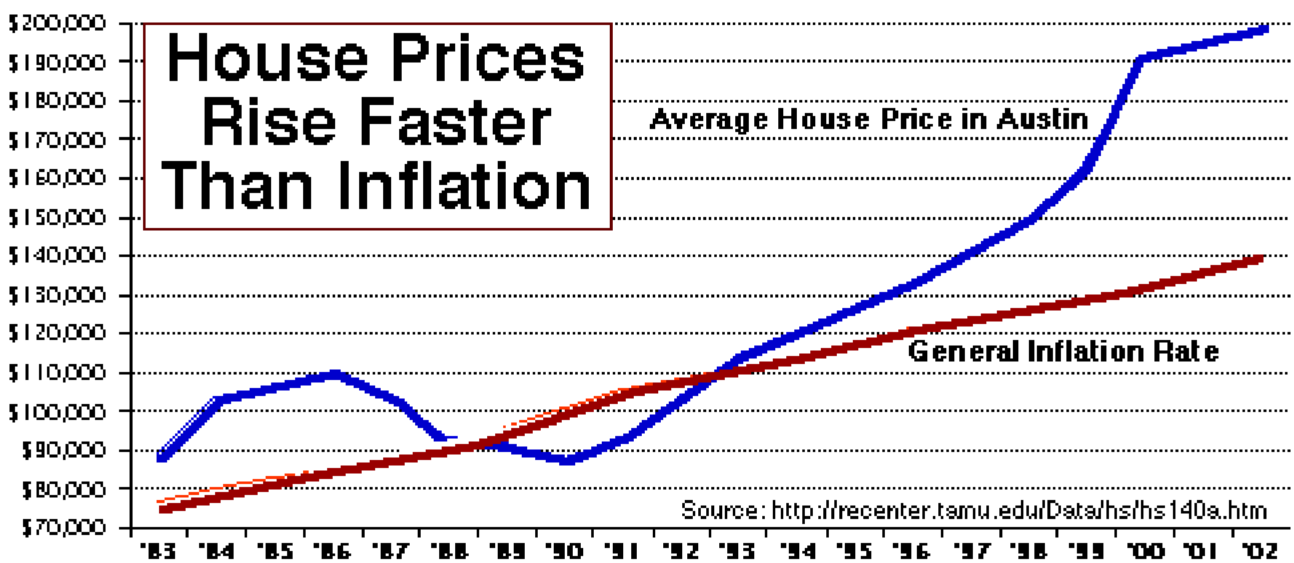
Buying another house means another big mortgage bill to pay every month. If there's an economic downturn *right after* we buy our new property and we can't keep the houses full, then it will be even harder for us to pay our bills.

More resources on the net

Check out "How to Buy a House" at michaelbluejay.com/house,

and details of the 2001 Expansion Committee's work at

iccaustin.coop/expansion.



Mortgage Loans

What's a mortgage and why get one?

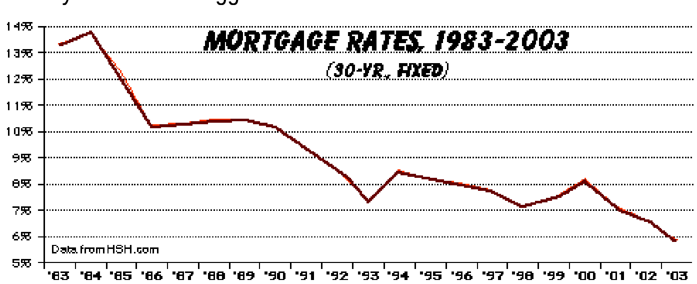
- **No one can afford to pay cash for a house.** So you instead you make a cash down payment (5 to 20% of the purchase price), and you get a bank loan for the rest.
- **The bank loan to buy a house is called a mortgage.** You pay the loan back by making monthly payments. These payments include interest, which is the bank's profit. The house is pledged as collateral, and if you don't make the payments the bank can repossess the house and sell it to get their money.

Mortgage Payments

- **Mortgage payments are the same every month.** Taxes and insurance go up, but the principal and interest stay the same. Some mortgages have adjustable interest rates which vary over the life of the loan, which causes the payment amount to change, but they're rare.
- **You make the payments for either 15 or 30 years,** and which point you own the house "free and clear". But even while you're making mortgage payments, you still own the house, not the bank.
- **If your loan has a balloon then you have to pay the loan off early.** For example, if the loan has a five-year balloon then after five years of making regular payments you'll have to pay off the entire outstanding balance at once. You won't be able to afford to do that so you'll refinance and get a new loan for the outstanding balance. Balloons are a hassle, but you'd get a loan with a balloon if that was the only kind a bank would give you because of your financial situation.
- **Our mortgage costs us $187k/year, and will be paid off in 2019.**

Mortgage Terms

- **The terms of a loan** are the interest rate, length (usu. 15 or 30 years), it's fixed or adjustable, and whether the loan has a balloon.
- **To figure your interest rate the bank will start with the typical market rate and then adjust it depending on various factors.** Things that increase the rate: longer length, poor credit history, uncertain financial stability or high-risk business, building is commercial or investment property instead of a single-family home. Things that decrease the rate: shorter length, balloon. Different banks will offer different options and rates. You can shop around, and you can also haggle.



- **Choosing the length of the loan isn't easy because there's a big tradeoff.** With a 30-year loan your monthly payments are lower but you ultimately pay a lot more interest because you're making payments for so long. With a 15-year loan your payments are higher but you pay off the loan quicker and save on interest. Which is more important to your organization and its unique situation?
- **You build equity slowly with a mortgage.** Equity is the amount of your house that you've paid off through mortgage payments. (It also includes any amount that your house has appreciated over time, but let's not get technical.)

  For the first 22 years of a 30-year mortgage, *more of your payment goes towards paying interest than towards paying down your debt (building equity).* The longer the mortgage length, the slower you build equity. Here's how much equity you've built on a 30-year mortgage at 8.5% at the end of various years:

1 yr. 1%	**10 yrs.** ... 12%	**20 yrs.** ...39%
5 yrs. 5%	**15 yrs.** ... 23%	**25 yrs.** ...63%

Refinancing it

Refinancing your mortgage means taking the unpaid balance you still owe, and turning it into a brand-new mortgage. There are three reasons for doing this:

(1) Refinancing lowers your mortgage payments, even if the interest rate is the same. That's because you're spreading out the remaining loan over a longer period of time. If you're 10 years into a 30-year mortgage, your payments are based on paying it off in 20 more years. But if you spread that balance out over another 30 years, your payments go down. There are two catches: (a) now it takes you another 30 years to pay off the mortgage instead of 20. (b) You may pay a lot more ultimately for the refinanced mortgage, unless the interest rate dropped a lot. Also, refinancing won't lower your payments much if your loan is fairly new.

(2) When the interest rate drops a lot, refinancing your mortgage saves you money. The calculation to figure whether you'll save money is fairly complex, and the rules of thumb you may have heard (such as "refinance when the interest rates goes down 2% or more") are worthless. See michaelbluejay.com/house for a calculator.

(3) If you have a balloon and it's due then you have little choice. You must refinance unless you can pay off the whole balance at once.

ICC's Refinances

ICC has refinanced several times in the last few years for various reasons. In 1995 our loan was interest-only (couldn't be paid off) so we refinanced to get a real loan. In **2001** we refinanced by combining our renovation loans with our mortgage, to get a lower interest rate and to lower our payments, to help us survive the money we lost from Arrakis burning down. This saved us $43 per member per month. (Had Arrakis NOT burned down we could have lowered room rates by $43/mo. renovated a house, or bought another house.) In **2003** we got a balloon loan to rebuild Arrakis. That year we also bought a new house (Eden House), and rather than getting a separate loan to buy it we combined it with our existing mortgage as a refinance deal. We had to take a five-year balloon. In **2004** refinanced by combining our Arrakis rebuild loan with our mortgage, for 15 years at a low interest rate and with no balloon (great terms). We're paying $187k/yr. through 2019.

To afford the higher payments the board passed a plan to borrow from our Emergency Savings and then raise room rates by $5-10/mo. for the next five years to pay that back. Room rates will drop in 2009-10 once we've repaid our loan to ourselves, and again in 2019 when we've paid off the mortgage.

ICC History

This is an abbreviated version.
A more complete version is at michaelbluejay.com/coop

1937 **ICC formed as a social organization linking the various co-ops,** but didn't own or operate any houses of its own.

1941 **The Campus Guild was built from scratch by its own members,** and owned independently by the Guild.

1950-60s **Off-campus co-ops continually formed in rented houses and then died off.** The landlord might raise the rent too much or sell the property, or there would be too much turnover at a house and nobody would keep operating it as a co-op.

1970 **ICC incorporated (on Jan. 22) with the specific plan of buying property so that co-ops wouldn't keep dying off.**

Aug. 1971 **ICC bought its first house, Holloway House, at 2510 Rio Grande,** for $60,000 — $5k down payment, and two mortgages ($35k from the UT Ex-Students Association, and $25k from the seller. Today, seller-financing is rare.) Later renamed "Prana".

1972 **New Guild.** The Campus Guild was condemned, and Guilders offered ICC the lot and the trashed building if ICC would create a co-op to replace it. ICC bought The White House (formerly a private women's dorm) and renamed it the New Guild. A year later, **on July 4, 1973, the Campus Guild burned down**.

1970-75 **Most of ICC's houses were acquired.** Of the eight houses we had in 2003, ICC bought six them during this time! (HoC was bought in 1981, a trade-up from Prana; and Avalon was leased in 1994.) Note: After starting out strong, we didn't buy another new house for 27 years! (although we did buy some junky apartments in the 80's that we later sold)

1981 **House of Commons.** In the 70's, Prana House (formerly Holloway) was the crazy vegetarian hippie co-op, the HoC of its day. But Prana was old and small (16 members), so in 1981 ICC sold it to a sorority and bought 2610 Rio Grande, establishing House of Commons as an even larger vegetarian hippie co-op. (We sold Prana for $180k, three times what we paid for it ten years earlier. Shortly thereafter, **it burned down and is now a parking lot** for the sorority.)

1983 **Bad Expansion.** ICC was in great shape financially, with several houses almost paid off, but the houses had about 25 years of deferred maintenance. Then ICC (i.e., *the board*) bought three small apartment buildings for $1.2 million. They financed it with regular mortgage *and* borrowed against New Guild, Seneca, & Royal, adding $400k of debt to those houses. It was a bad investment and it nearly bankrupted us.

One of the myths about the 80's disaster is that ICC simply expanded at the wrong time. But that's not true. (1) The housing market didn't start its slide until '86 but we started losing money on the apts. as soon as we bought them. (2) We had 90-95% occupancy at first (good), but that wasn't enough to keep us from losing money. In other words, *we paid too much; it was nearly impossible to make money on the buildings at the price we paid.* (3) The apts. were in poor condition. (4) We financed nearly the whole damn thing, with almost no cash down payment. That meant we started with $0 equity, with no value invested in the apartments in case we had to sell them (which we did). (5) We financed by borrowing against existing houses, although those houses *already* had mortgages on them. That's risky enough, but the amount that we borrowed against three houses — $400k in 1983 dollars — borders on insanity.

Sum 1985 **We sold one apt. building for what we paid for it,** but didn't retire any of the extra house debt. (This according to Brenda; the debt from the other houses financed the down payment.)

Fall 1985 **Brenda Smith came to work for ICC** (and served as GM for 14 years until Fall 1999, and in 2000 as a contract accountant).

1986-87 **The Austin real estate market collapsed, meaning there even more vacancies, and nobody would buy our other two apartment buildings.** City-wide occupancy was 70%.

1987 **We finally sold our second apartment building for the exact amount of its debt** (the remaining balance on the loan). That means we lost the down payment, which was paid by adding debt to our other houses. • Kept trying to sell the third complex, Holloway Apts. (not to be confused with Holloway House), at increasingly lower sale prices, but there were no takers.

1988 **Low occupancy meant that we weren't bringing in enough money to pay the mortgages.** We ran out of cash, made a bankruptcy plan, and stopped paying the mortgage for three months. The bank might have foreclosed right away, except they were busy foreclosing on everyone else.

July 88 **NASCO created NASCO Properties specifically to buy House of Commons from us in order to bail us out.** The cash we got from the sale allowed us to catch up on our mortgage payments. NASCO Properties leased House of Commons back to us (for a ridiculously low $1800/mo.), so we were still able to operate HoC. But we still couldn't sell Holloway Apts., and continued to lose several thousand dollars a month.

Spring 89 **About to run out of cash again, stopped paying the mortgage again.** The bank started the foreclosure process. Brenda says she went to the bank and literally bawled openly before the loan officer, who decided to delay the foreclosure.

Oct. 89 **Finally sold Holloway Apts., for $100k less than its debt and $185k less than we paid for it.** We were happy to lose money on it because we'd lose even more by keeping it and having mortgage payments we couldn't afford! Refinanced all remaining houses at 7% interest-only payments for 2 years, meaning we wouldn't be paying off our debt/building equity. The whole apartment debacle set us back financially about 22 years.

1990 **Started catching up on deferred maintenance,** at a rate of about 2-3 years per year.

1992 **Refinanced for 5 yrs., still interest-only (not building equity).**

1994 **Leased Avalon from a local owner.**

Oct. 1995 **Refinanced all houses with a normal 15-year mortgage, $670k debt, 10.388% interest.** Our first permanent financing in years, whew! The houses are set to be paid off in 2010, but we'll wind up refinancing in Summer 2001.

1997 **Borrowed $300k from the National Co-op Bank (NCB) to renovate Seneca this summer ($150k) and House of Commons next summer ($150k).** The loan is 10.5% interest, interest-only payments from Summer 97 through 9-30-99 ($15k/yr), then $67,608/yr. from 10-99 to 8-05. (We'll wind up combining this loan with our mortgage loan in 2001.)

1997 **Seneca catches fire mysteriously** in early fall right after the Senecans move in following the remodeling. The cause is unknown, but many suspect that the remodelers improperly wired the attic. Seneca is salvageable but much staff time is taken up by dealing with the insurance company.

1998	**HoC is remodeled over the summer.** ($150k loan + ~$80k from savings. The house re-opens almost a month late because of problems with the architect and the city, coupled with poor management by staff. This leaves HoC'ers with fall contracts temporarily homeless). Lost $20k from lost dues by opening late.
1999	**ICC hires lobbyists to get the TX Legislature to exempt student housing co-ops from property taxes.** This saves us $45k/year in 1999 dollars, or about 5% of the budget.
	After 14 yrs. as GM, Brenda becomes an outsourced contract accountant for us. The board hires Shelley Earley as GM.
2000	**There are conflicts between staff and Brenda which the board can't resolve.** ICC faces the possibility of 100% staff turnover: The board considered plans to let Brenda go, some other staff left or threatened to, although staff conflicts were not a factor in at least some of the departures. When the smoke clears, the board agrees to pay $28,000 to buy Brenda out of her contract (i.e., paying her to leave!), Shelley agrees to stay as GM, and by summer we hire: former Royal member Tyra Robertson as our Membership Director, Ann Raber as our Administrative Assistant, Suellen Mittleman as our Accountant, and HoC member Billy Thogersen as our Maintenance Manager. **Brenda's buyout is controversial:** some members considered her greedy for insisting that she get the buyout if she left, and we did wind up paying her a lot just to leave and do nothing. On the other hand, keeping her might have meant losing even more staff, while limiting the whole organization's effectiveness as conflicts continued. It wasn't a black & white issue and there was no clear, correct answer. The main lesson we learned was, do not use contracts for your staff. Having a contract makes it difficult to release staff before the contract period ends.
	The 99/00 CO (Cody Koeninger, from HoC) discovers that ICC hasn't put new-member fees into an Expansion Fund for many years, in violation of the bylaws (Art. XI, Sec. 4). The board resurrects the Expansion Fund as per the bylaws.
	Continuing a fine co-op tradition, Arrakis suffered a fatal fire. During the Dec. winter break a member left a faulty toaster on, then left the building. The board responds by slashing the amounts budgeted for maintenance and savings.
Spring **2001**	**Air conditioning charges are built into rates so** members get a discount if they don't use AC rather than paying a charge if they do. This will go away as more houses get central AC. **The board creates a 5-year plan for savings and expansion.**
	Under the 00/01 CO's leadership (Jaime Bruner, from HoC), the board updates the Bylaws for the first time in ten years. Most changes were minor and served simply to clean things up.
2000-01	We hired new staff with a history in ICC. Billy Thogersen of HoC became Facilities Manager, Tyra Robertson (formerly of Royal) became Membership Director, and Howard Lennet became General Manager, with his office at New Guild being the room he lived in as a freshman in 1973!
Fall 2001	To free up cash for expansion and to cover the lost revenue from Arrakis we refinance our renovation loan with our mortgage ($731k at 8% for 15 years). This reduces our yearly payments from $160k to $85k. Another bonus: The bank lets us use only 2 houses as equity instead of the 5 we own, so we now own 3 houses free and clear, the first time we own any houses free and clear. But the 5-year balloon means we can't pay off this loan.
	The board & members change the bylaws to make the first major change in board & committee structure in years. The CO job is split into 2 positions, the Membership/Ed & Maintenance Officer are no longer board members (so they can actually spend time organizing instead of being stuck in meetings), and houses can have an ICC officer from their house be their board rep.
Spring 2002	The board increases expenses by changing the 30-hr/wk receptionist position to a 40-hr/wk Office Manager position.
	For the first time in many years (perhaps ever), the board freezes room rates, in hopes of improving occupancy after a disastrous Spring (with occupancy in the 80% range).
	The board overhauls the reserves policy, combining them into a unified Savings policy, covering the Emergency, Renovation, & Expansion funds. Also, the board renamed house accounts from the confusing “Discretionary” & “Bonus” to Checking & Savings.
	After years of non-interest among the membership in running for ICC-wide coordinator positions, the board decides to compensate coordinators by letting them live in ICC for free in the summer, one free month for every semester they serve.
	The board finally commits to rebuilding Arrakis after its fire. Reconstruction loan is $617k, 20 years, 5-year balloon.
	With occupancy at the New Guild at around only 20% for the Fall, the board decides to close the Guild for the summer for a mini-renovation to make emergency improvements. This angers many Guilders who are displaced for the summer, some of whom graffiti the office door & deface the ICC sign.
	NASCO Properties raises the rent we pay to them for House of Commons for the first time since we sold them the property in 1988. The rent goes up $54 to $1854/mo.
Sum. 2002	Staff Reorg: Old way: Tyra Robertson as Membership Coord., Danita Lee as Office Mgr. New way: Shebah Washington as Member Services, Danita as Housing Admin. Saves $10k/yr.
2002-03	Under 2002-03 leadership occupancy is good, members become much more active, and ICC improves financially. The board buys the first new house (1910 Rio Grande) since the purchase of Arrakis in 1975. We refinance our existing $700k loan with $500k for 1910, making our debt $1.2M. Add the $600k from the Arrakis rebuild loan and our total debt is close to $2M. Yikes. And there's a 5-year balloon, so we can't pay it off. Members back a board plan to make all room rates the same (no more small, medium, & large). The board also eliminates all occupancy bonuses for houses.
2003	When UT forced the Women's Co-ops off campus the women's co-ops bought a building (Halstead, next to Arrakis on Pearl St) and went forth with a new name, Student Heritage Houses Inc. But limited financial resources and poor occupancy hurt them and in 2003 they sold Halstead to College Houses. Though the building remains a women-only co-op, the transfer ends decades of the women's co-ops existing as an independent entity.
2004	Arrakis reopens after being rebuilt following the Dec. 200 fire.
	We refinance our $2M debt at a great interest rate for only 15 years (!) with no balloon! To finance the higher payments the board decides to borrow from Emergency Savings and pay that back with higher room rates for the next five years.
	The board decides, at least temporarily, to not replace outgoing Member Relations Admin. Shebah Washington, which saves about $15/mo. per member from the budget. But having less staff means members will have to pick up the slack, and many think they won't, requiring us to hire more staff again before long.
	ICC buys back HoC from NASCO. Whoo-hoo!
	ICC renames 1910 to Eden House, as tribute to Ernie Eden, one of ICC's founders. It's expected the nickname will be "Ernie".
2007	Per policy, the board must re-evaluate the Savings policy this year and every 5 years thereafter.
2019	We'll pay off our loan saving us $93 per member per month. Lower rates? Buy more houses? Major renovations?

Savings Policy

Emergency, Renovations, & Expansion

Created after 1980s near-bankruptcy. Last updated in Spring '02

I. ICC has three long-term savings funds:

A. Emergency Fund, for financial emergencies, funded by 1.5% of rental income each year.
B. Renovation Fund, for physical improvements to ICC's properties, funded by 1.5% of rental income each year.
C. Expansion Fund, to buy or build new co-ops, funded by the Membership Fee charged to new members, interest, and gain on property sales.

II. Administration and Review

A. The Financial Manager will provide a report to the Board of Directors at the beginning of each semester about accumulated savings and the Savings Policy. This policy shall be completely re-evaluated by the Board in the year 2007 and every five years thereafter.
B. Modifications to this policy require a 2/3 vote by the Board. No such changes shall be made in haste, bad faith, or without the long-term health and survival of the ICC co-op system in mind.
C. All these funds must satisfy requirements from our lenders that we maintain a certain amount of cash savings. Total savings must never fall below the amount required by lenders.
D. All savings accounts shall be physically segregated from operations accounts.
E. ICC shall not deposit more than the FDIC insured amount at any one bank. All Emergency Fund money below the floor ($700 x the number of beds in ICC) shall be kept in federally-insured accounts. Savings *above* the floor may be placed in money market fund accounts that are offered by banks and brokerage houses. (Money market funds are *not* insured instruments of the federal government.) The Board is prohibited from investing any fund money in any manner other than stated above. Putting our money in risky investments circumvents the whole point of having an Emergency Fund.
F. Cash transfers and deposits for savings funds are made as cash becomes available throughout the year. These transfers shall not be required in the summer and early fall when ICC is traditionally short on cash. All fund money earned must be deposited into funds by the end of the fiscal year it is earned. No fund money shall remain untransferred or undeposited at the end of any fiscal year in which it was earned, except for minor adjustments or small transfers made at the beginning of a new fiscal year for earnings to the fund in the prior year.
G. In the event of a major corporate fiscal emergency as defined in the Emergency Fund section, the board may vote to transfer money from the Renovation Fund or Expansion Fund to the Emergency Fund.

III. Emergency Fund

This is our "rainy day" fund, and is funded by 1.5% of rental income each year.

A. Mandatory Budgeting, the Building of the Fund, and Policy Oversight

1. The board of directors is required to budget 1.5% of estimated annual gross income from rent (before discounts) for the building of an Emergency Fund, until the fund total reaches the ceiling ($1400 x the number of beds in ICC).
2. In the event that ICC's *actual* gross income for any fiscal year is less than the *budgeted* gross income, every effort will be made by the Board and management to build the Emergency Fund as originally budgeted anyway. If the Board determines that the budgeted amount cannot be transferred, then the Financial Manager shall transfer 1.5% of *actual* annual gross income to the Emergency Fund.
3. In the event that ICC's *actual* gross income for any fiscal year exceeds the *budgeted* gross income, every effort shall be made by the Board and management to build the Emergency Fund according to the budgeted percentage of actual gross income for that fiscal year.
4. In the event of a real estate market slump that causes a decline in area rental rates and/or property values, the Board may temporarily reduce or suspend the requirements to build the Emergency Fund. The reduction or the suspension of fund building may be approved for only one year at a time, and for no more than three consecutive years. If the Board reduces or suspends fund-building for two or more consecutive years, the Board must have a financial review by an objective professional advisor (defined below) prior to voting, each year after the first reduction. After any reduction or suspension of fund-building, the building of the fund shall automatically resume, in the next fiscal year, at a rate of 1.5% of gross rental income.
5. Objective professional advisors are persons who are reasonably familiar with the recent history and ongoing operations of ICC, and who have no personal or professional interest in the spending of fund money. Such professionals include attorneys, Certified Public Accountants, staff members of NASCO (North American Students of Cooperation), managers of other NASCO student housing co-ops, and/or other professionals with similar business management expertise.

B. Funds borrowed for operations must be repaid in the same year. During the summer and early fall, when ICC is traditionally low on cash, the Board may borrow from the fund to cover operational expenses. *This money must be fully reimbursed by the end of the current fiscal year.* Besides this provision, no corporate budgets may plan for the spending of fund money, except to make emergency or short-term loans, according to the rules set out below.

C. Emergency Loans. In the event of a major corporate fiscal emergency the Board may make an emergency loan from the Emergency Fund to Operations to ensure the ongoing survival of ICC, according to the following rules:

1. An emergency includes: serious or unusual damage to property or loss of property and/or its use due to fire, collapse, explosion, storm, flood, vandalism, theft or other occurrences; significant loss of corporate income due to unexpected high vacancy rates; loan default by ICC or a threat of foreclosure on property or seizure of assets; major lawsuits against ICC; unusual or dangerous circumstances necessitating the temporary or long-term closure, sale of, or loss of leasehold on any house; negative or insufficient cash flow for more than three months resulting in the inability to pay lien holders, taxing authorities, property insurers, utility companies, payroll, or other important vendors or providers of goods or services necessary to the continuing operation of ICC; a general collapse of the local or national economy; other major threats or risks to current and/or future corporate security or survival.
2. An emergency loan must be paid back within 10 years. If possible, ICC will make interest payments at the rate currently being earned by the fund account. (Rate is set annually during budgeting.)
3. Prior to making an emergency loan, the Financial Manager must present the Board a report addressing the state and history of the Emergency Fund, and the budgetary impact on making an emergency loan.
4. A repayment schedule must accompany any proposal to make an emergency loan.
5. An emergency loan should be withdrawn in multiple, small increments when possible.

D. Short-Term Loans. The board, when advised by an objective professional advisor, may consider making short-term loans to the Operating Fund, according to these rules:

1. The Board can make a short-term loan for a dollar amount and with a repayment schedule similar to that available from an outside lending source.
2. Short-term loans may not cause the fund to fall below the floor ($700 x the number of beds in ICC).
3. Short-term loans must be used for the purchase of additional property or fixed assets, and/or the financing of significant property renovations, property additions, or purchases of equipment. Assets to be purchased or property renovations must have a reasonably expected useful life to ICC of at least 10 years.
4. Money borrowed from the Emergency Fund, plus the amount of lost interest, at the rate then currently being earned by the fund account, shall be repaid from operating income within a maximum of five years. The Board will make every effort to repay the short-term loan within three years, especially for loans of $50,000 or less. Interest paid on the short-term loan shall be placed in the Expansion Fund as interest income.
5. Short-term loan proposals must be accompanied by a clear statement defining the need, a thorough background of efforts to address the need without a short-term loan, bids and projections on the costs and timelines of projects to be done or purchases and a proposed schedule of repayment.
6. All short-term loan proposals must be reviewed by the Financial Committee. The committee will thoroughly research the proposed need, expenditures, and repayment of the short-term loan, and will make a recommendation to the Board. The Board has the sole authority for approval of any loans made from the Emergency Fund.

E. Reaching the Ceiling.

1. Once the ceiling has been reached ($1400 x the number of beds in ICC), the board is no longer required to continue building the Emergency Fund, though it may choose to do so anyway. Funds above the ceiling may be loaned to other co-ops (as described below) or transferred into the Renovation Fund or the Expansion Fund.
2. Fund money may never be loaned to any individual or entity outside ICC, except that fund money in excess of the ceiling may be loaned to legally recognized cooperative organizations. Such loans shall be considered on a case-by-case basis according to normal and reasonable guidelines of any professional lender. Procedures for approval of a such a loan are the same as those for intra-ICC short-term loans.

V. Renovation Fund.

This fund is for major renovations and other improvements to our properties. It's funded by 1.5% of our gross rental income each year.

A. Future boards shall budget 1.5% of estimated annual gross rental income for the building of the Renovation Fund (RF).
B. The purpose of the RF is to improve, enhance, restore, retrofit, and rehabilitate properties held by ICC.
C. Only projects whose cost exceeds $20,000 are eligible for RF funding. Smaller projects should be funded through the operating budget.
D. RF-funded projects must extend and increase the life of a property or significantly increase the habitability and marketability of the property.
E. Proposals for RF funding shall be submitted by the Facilities Manager to the Board. Board approval is required to spend RF money to fund a project.

VI. Expansion Fund.

This fund is to buy or build buildings for new ICC co-ops, or for additions that increase the number of beds in ICC. It's funded mostly by the Membership Fee paid by new members.

A. All income derived from membership fees, interest, and gain on property sales will be placed in the Expansion Fund.
B. Expansion Fund money may be spent only when authorized by the board of directors, and only for:

1. Acquisition of new property or buildings to be used for co-op housing (including down payments, closing costs, realtor fees, property inspection and evaluation fees, and contingency fees);
2. Major conversion of existing structures when such conversion is intended to increase available space for member occupancy (e.g., new additions, wings, annexes, stories, or rooms on existing property); or
3. Capital improvements on existing structures when conversion is intended to increase occupancy by greatly improving marketability of the property (e.g., kitchen additions, accessibility for wheelchairs and other physical challenges, etc.)

Five Year Growth Plan • Budget Year 2001-02

This plan is out of date and the board should revise it soon.

Projected Events		Replace Arrakis during year	Add New Arrakis to Budget	Buy a New House		Buy another house?
Years in Future	**0**	**1**	**2**	**3**	**4**	**5**
Fiscal Year	**00-01**	**01-02**	**02-03**	**03-04**	**04-05**	**05-06**
Expansion Fund						
Beginning Balance	-	$31,651	65,651	99,651	30,651	61,651
+ Contribution from ICC	-	**13,000**	**13,000**	10,000	10,000	10,000
+ Membership Fees	8,250	**14,000**	**14,000**	**14,000**	**14,000**	**14,000**
+ Bank Interest	7,000	7,000	7,000	7,000	7,000	7,000
+ Insurance proceeds	**16,401**	-	-	-	-	-
+ Down Payment	**-**	-	-	**(100,000)**	-	-
Ending Balance	**31,651**	65,651	99,651	**30,651**	61,651	92,651
Emergency Fund ***(Floor is $108,000 -- Cannot borrow under floor.)***						
Beginning Balance	148,771	161,262	170,227	204,990	140,917	200,554
+ 3% Contribution	12,491	25,965	29,097	30,261	31,471	32,730
- (Loans to ourselves)	-	(17,000) for Acct. software	5,666	5,666	5,666	22,500
+ Paying ourselves back				**(100,000)**	22,500	
Ending Balance	161,262	170,227	204,990	140,917	200,554	255,874
Total Down Payment	-	-	-	**(200,000)**	-	-

How to Lower Room Rates

How low is low enough? ICC rates are already relatively low for West Campus housing. Cutting rates even further means we have less money to fix up our houses or to acquire new houses. Is it better to have ultra-low rates for the tiny handful of members we currently serve, or to have semi-low rates for even greater numbers of students?

Inflation. Remember that rates generally go up 2-3% a year to match inflation, since our expenses go up 2-3% a year. It can be a challenge just to hold room rates steady.

If you do hold room rates steady, you've effectively lowered them, since ICC will be that much cheaper compared to all our competitors who have raised their rates.

How much savings = how much lower rates. Every $2000 you save or bring in per year means $1/mo. you can reduce room rates. Think big. Cutting a few hundred dollars from the budget here and there isn't going to lower room rates, not even by $1/mo.

Increase Occupancy. With more members paying, all members could pay less. This is the quickest and easiest way to lower room rates.

Make the ICC experience more rewarding. When ICC rocks, people stay longer, and refer their friends, increasing occupancy.

Conserve Utilities. A modest 10% reduction in utility use could lower room rates by $6/mo. For tips on saving electricity see: michaelbluejay.com/electricity.

Keep your houses clean. Dirty houses that discourage potential members means lower occupancy, and higher room rates.

Orient new members better. Show a self-produced "What's a Co-op?" video to prospective members, and a longer one ("So you've decided to live in ICC...") to those who sign up. Setting expectations up front can make for fewer misunderstandings and a happier experience for all involved -- leading to longer stays in ICC and more referrals to friends.

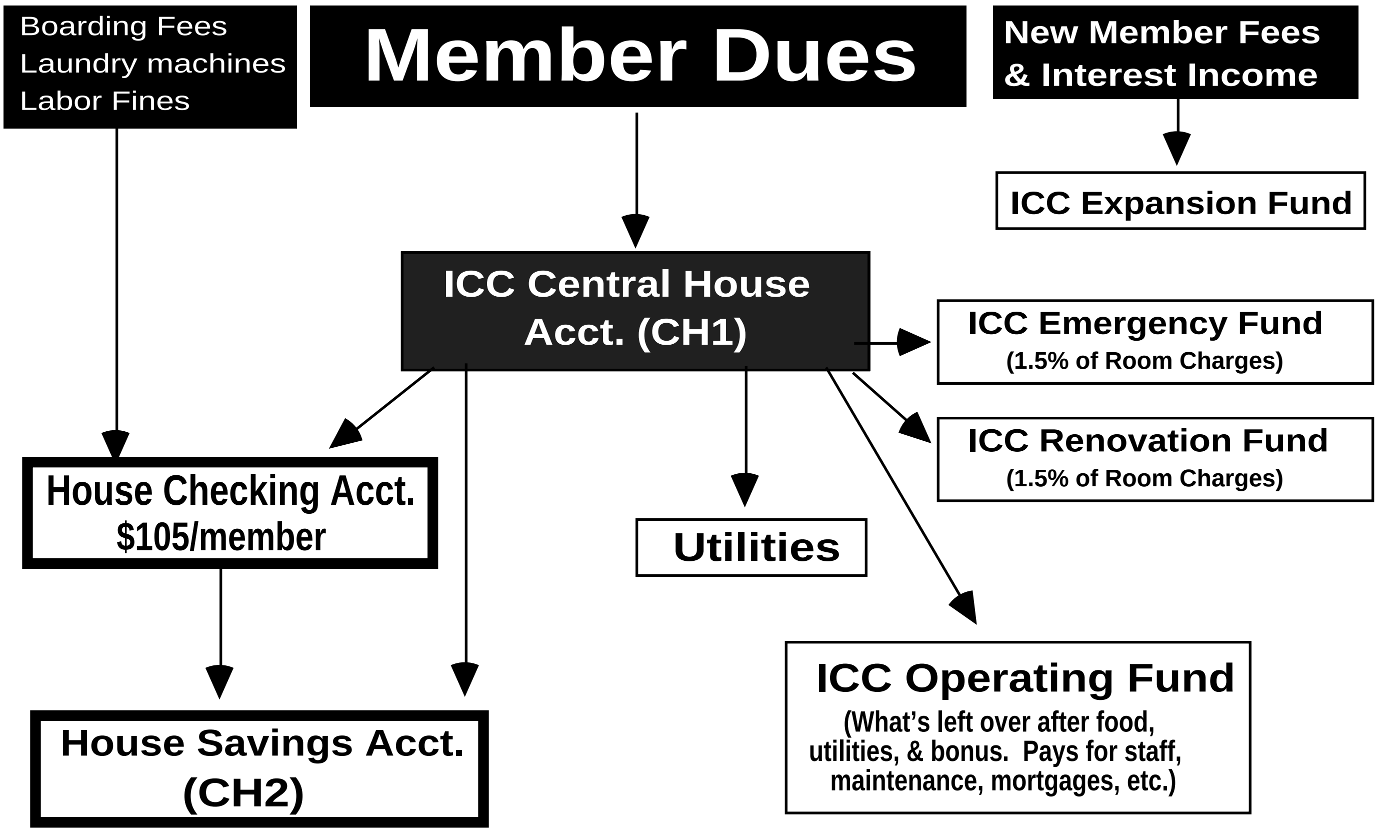
Decentralize. Have houses responsible for their food and utilities directly (members pay the house, not ICC). If members are efficient, they pay less. This gives them an incentive to be efficient because they can immediately lower their costs this way. Under the current system, they pay the same amount no matter how wasteful they are.

Acquire More Houses. This is similar to improving occupancy: the more people paying, the less everyone has to pay. The downside is that the savings usually take at least a few years to materialize. This is a long-term strategy, not a short-term quick-fix.

Downsize Staff. Eliminating one staff position could save around $30k/year, or $15/mo. of room rates. This can only happen if the members have a plan to do that staff member's work themselves.

Find new revenue sources. A bake sale isn't going to lower room rates unless it pulls in $2000+. Consider grant applications, and appeals to alumni.

Follow the Money Trail!



- **There are three sources of income (money), shown in the black boxes:** (1) Member Dues (room rates), (2) Boarding Fees, Laundry Machines, and Labor Fines, and (3) New Member Fees & Interest Income.
- **Boarding / Laundry / Labor money goes into your House Checking account**, assuming your treasurer isn't skimming off the top**.**
- **New Member Fees & Interest Income goes into our Expansion Fund,** which is savings to buy new houses.
- **Dues go into Central House Account #1 (CH1).** All ICC operations expenses and savings are paid from here.
- **From CH1, $105 per member is transferred to each House's Checking Account.** When you set the budget in Spring, you'll decide whether to increase this $105/person figure, and by how much. Some things go directly into the Checking Account, such as Boarder money, income from laundry & vending machines, and labor fines.
- **Bonus money is paid from CH1 into the House Savings Account.** (Currently, there are no bonuses since the bonus policies were canceled by the Spring '03 board.)
- **If houses don't spend all their food money, they can transfer any extra into their Savings Account.** Houses can spend their Savings Account money any way they like — appliances, computers, a deck, a hot tub, landscaping, more organic food, scholarships, male strippers, etc.
- **House utility bills are paid from CH1.**
- **What's left over goes into the Emergency Fund, the Renovation Fund, and the Operating Fund.** The Operating Fund pays for mortgages, leases, maintenance, salaries, and all other centralized expenses.

Discussion:

- What are house savings accounts for?
- Should houses be required to spend it or lose it?
- If they lose it, should the money go back to the house members or to ICC?

Arrakis

What happened

Arrakis suffered a catastrophic fire in Dec. 2000 after a member put a waffle into a faulty toaster and then left the house. (This was over winter break, and nobody else was home.) The waffle didn't pop up, so it eventually caught fire, and the wooden cabinets above it caught fire, which in turn ignited a gas line and caused an explosion. The financial consequences of this event will haunt you for years to come. **I estimate that the loss of Arrakis accounts for $29/mo. of room rates.**

Plan of action

The board finally decided to rebuild Arrakis and the work began in late Spring 2002. The rebuilt Arrakis opened in Spring 2004. This three years with no rental income was devastating. ICC could have reduced its losses by moving quickly on the rebuild, rather than waiting a long time to make its decision.

Financial Consequences

There are three parts to the Arrakis fallout:

(1) Lost Revenue. We lost the money we would have got from room charges while Arrakis has been vacant, about $58k/yr. after food & utilities.

(2) Cost of Reconstruction. We took out a $617,000 loan to rebuild Arrakis. Compare that $617 for just this one house, to our $750k mortgage in 2003 which covered *six* other houses. We're paying a lot to keep just one house going. Then again, we didn't have much choice: If we hit tough times and have to sell a house, it'll be better to go from 8 houses to 7 with one of them being new and stellar (Arrakis), rather than going from 7 houses to 6, with all of them being so-so to crappy.

(3) Increased property insurance. Our property insurance now costs $50k a year, instead of the previous $24k. Every member is paying $13/mo. extra for this new expense alone. Incidentally, our insurance only covered a tiny fraction of what it costs to rebuild Arrakis. No insurer will give us full coverage because we're considered too risky. (Wonder why.) And even increasing our coverage modestly, like we just did, more than doubles the insurance cost.

How did we cope? We did three things to keep from dying immediately: (a) We slashed the Maintenance budget, (b) we slashed the Savings budget, and (c) we refinanced our mortgage on the existing houses, which lowers our payments in the short term, but means we pay more over the life of the loan..

More analysis. A much more detailed analysis of the cost of rebuilding Arrakis, including a comparison to what would have happened if we sold the charred lot instead of rebuilding, is at michaelbluejay.com/coop.

Balance Sheet May 31, 2004

Assets (what we OWN)

Current Assets: Cash

Operations Fund Cash, & Deposits	$79,601
(For paying mortgage, leases, maintenance, salaries, etc.)	
Alumni Donations	446
Facility Rollover Funds	18,125
House Cash	
House Checking Accounts	13,359
House Savings Accounts	9,935
Emergency Fund	99,957
Expansion Fund	27,516
Renovation Fund	0
Total Cash	**248,939**

Current Assets: Non-Cash

Member Receivables (unpaid room charges due)	4,774
Prepaids	59,671
Deposits we paid on Avalon, & Utility Deposits	2,500
Total Non-Cash Current Assets	**66,945**

Fixed Assets: Property, Plant, & Equipment

Construction in Progress	0
Land	314,432
Houses	1,527,263
Improvements to Houses	1,575,518
Furniture, Fixtures, & Equipment	251,053
Accumulated Depreciation	(1,215,653)
Net cost of refinancing	22,368
Total Fixed Assets	**2,474,981**

TOTAL ASSETS	**2,790,866**

Liabilities (what we OWE)

Current Liabilities

Accounts Payable	23,167
Short-Term Liabilities	11,133
Security Deposits (we have to pay back to members)	53,524
Last Month's Room & Board (prepaid by members)	33,400
Other Member Prepayments	12,941
Total Current Liabilities	**134,166**

Long-Term Liabilities

Big Loan (mortgage for house purchases & constr.)	1,800,000
Total Long-Term Liabilities	**1,800,000**

Total Liabilities	**1,934,166**

Capital / Equity (what we're worth)

Co-op Equity	**856,700**
Total Capital	**864,407**

Total Liabilities & Equity	**2,790,866**

What about taxes?

- **Income Tax** .... **EXEMPT** because we're a 501(c)(3) not-for-profit educational organization. We got this status in 1971. We still have to file a tax return, even though we don't pay income taxes. If the IRS ever determines that we're not fulfilling our educational mission, they can make us pay taxes on our non-educational income. For example, if we have "too many" non-students, we might have to pay taxes on just the income we got from those non-students (after expenses). Unfortunately, the IRS doesn't define "too many". Also note that a valid defense about housing non-students is that we need their income in order to exist to fulfill our mission for our primary (student) members). Check the suggestions on the back cover for ways to help establish students as ICC's primary members and defend our tax-exempt status.
- **Sales Tax** .... **EXEMPT** for the same reason. When anyone buys anything for your house, make sure they don't pay sales tax. Your house treasurer has the details.
- **Property Taxes** .... **EXEMPT.** In 1999, our then-GM, Brenda Smith, hired lobbyists to get the Texas Legislature to pass a bill exempting student co-ops from paying property taxes starting in 00-01. This saves us ~$45k a year in 1999 dollars, or 6% of our 99-00 budget. <u>Exercise</u>: Pretend you're on the 99-00 board, budgeting for 00-01 and that 99-00 expenditures were $900k. How much will inflation eat up of that $45k next year, before you even get to spend the windfall?
- **Payroll Taxes** .... **NOT EXEMPT.** We DO have to pay these.

Discussion: How much would it cost us if we lost our tax-exempt status?

Review Questions

- What's the Number One most important thing to learn today?
- How many houses do we have?
- Which ones do we rent instead of own?
- How many members do we have when we're totally full? How many on average?
- Four people in a house are blowing off their labor, and the Labor Czar won't take any action. Several people in the house are angry and miserable about this situation. Does this situation impact ICC's finances in any way? If so, how?
- What's the value of all the stuff we own?
- How much is our debt? (The amount we owe in loans.)
- How much money does ICC take in each year?
- How much money does ICC spend each year?
- Where does the rest of the money go? What's it going to be used for?
- What's our fiscal period?
- What is our budgeted occupancy? (Fall/Spring, Summer, and Average)
- About how much money do we bring in by adding an additional member, after food expenses?
- How much yearly income is added for each $1 that you increase the room rate?
- At 2.5% inflation, how much do you have to raise room rates to cover increased expenses?
- What percentage of ICC's expenditures goes to Food? To Properties? To Maintenance & Improvements? To Staff Salaries & Benefits?
- How much would we save by not spending any money on advertising?
- When does the Board plan the budget?
- How much does your particular house have in its Savings account?
- What's the Number One most important thing to learn today?
- What is the name of the loan you get when you buy a house?
- In what year did ICC buy its first house? Which ICC house replaced that first house?
- About how much does an ICC-sized house cost?
- How much do you have to put down to buy a house?
- Name some reasons why ICC should expand. Name some risks or reasons for not expanding.
- Name a reason why it's good for ICC to exist instead of each house being completely independent.
- Rebut that argument if you like.
- Which taxes are we exempt from, and which do we have to pay?
- How much would it cost us if we lost our non-profit status?
- Review the Budget & Rent study questions on page 4.
- Name some things the board has to do in the coming year.
- Name some other things you could also focus your attention on.

Budget goes here

Budget goes here

Work & Challenges

Board Planning Calendar

FALL

- House Officer Training
- Board Training, General
- Board Training, Financial
- Progressive Dinner
- General Membership Meeting (MemCom)
- Receive results of audit
- General Membership Mtg.
- NASCO Institute, Ann Arbor, MI
- Signing for Spring semester

SPRING

- Board Training, if necessary
- House Officer Training
- Plan & pass 05-06 Budget, including setting of room rates
- Review the General Admin.'s performance (ECC)
- General Membership Mtg.
- Hold elections for new officers

Work you must do

- **Keep the houses filled to the brim.**
- **Make sure you stay on track with your budget.**
- **Revise the Five-Year Savings Plan.**
- **Document any policies you approve** (in Standing Rules, on the web), unless you want them to disappear into a black hole.

Work I suggest that you do

Add board info to website. College Houses does it. Proposals, recent decisions made, etc..

Communicate board decisions via Announcements list. Why not?

Rename ECC. What the hell is "ECC"? Does it communicate anything meaningful to someone who doesn't already know what it is? Is "Executive Coordinating Committee" any better? Try something simple, like "Mini-Board" or "Jedi Council". At the very least, lose the "Executive" part of it.

Rename the organization. The name "Inter-Cooperative Council" conveys nothing to someone who doesn't already know what ICC is. It sounds like a quasi-governmental body or something. We could have a more functional name, like "Austin Student Housing". (Or Austin Student Co-ops, Student Co-op Housing, ICC Student Co-ops, etc.) One way to choose a new name would be to allow members to submit possible names, and then allow members to vote on those names by ranking them (including "no change") on a scale of 1-5.

Consider making summer doubles even cheaper. The lost revenue could be offset by better occupancy. A $25/mo. or $50/mo. rate cut is offset by occupancy of 78% or 81% respectively. There is little risk in lowering the doubles rate since so few doubles are filled in the summer anyway. If you failed to increase occupancy at all it would run you only about $6000.

Let summer members pay less if they fill up their house. Cooperation includes getting a lot of people together to reduce expenses, right? So let summer members pay less as they fill up their house above budgeted occupancy, say $15/mo. off their room rates for each new member. This plan is described in detail at michaelbluejay.com.

Establish students as ICC's primary members. ICC is supposed to serve students, so we need to make it more obvious that we're really focusing on students instead of non-students. In addition, doing so will help defend our non-profit status to the IRS. The policy passed a couple of years ago to have an initial students-only contract signing period for new members was a good first step. Here are some others.

(1) Put the word "Student" somewhere in the name of the organization (such as "Austin Student Housing").

(2) Charge more rent for non-students. It can be a token amount, say $5-10/month more than non-students.

(3) Disallow non-students from serving as board reps and/or corporate officers (or at least from serving as *certain* officers).

Study Retention. We want members to stay in ICC because (1) keeping existing members is easier than finding new members, and (2) if member turnover is high that means we're not meeting their needs. If people stay longer, then we're being more successful in providing a valuable, comfortable, cooperative environment. Come up with creative ways to improve retention. If you decide to eliminate rent discounts, consider other ways of using the money we used to budget for it, in order to benefit members. One way is to lower rates across the board by $4/month, or to give discounts only to members who also stay for the summer.

Embark on a plan to improve retention. One way to do this is to:

(1) Find out the average length of stay in ICC.

(2) Survey the membership to find out why they leave, when they leave; with the written survey asking pointed questions such as, “What would it have taken to make you stay an extra semester?”.

(3) Set a goal for increasing the average length of stay in ICC by an additional semester.

(4) Work to implement that goal by improving the ICC experience;

(5) Measure your progress.

Increase participation with new committees

Promote the idea that everyone in ICC should be on a committee — not just board members and certain house officers. Possible specialized committees could include:

- Newsletter Committee
- Website Committee
- Recycling Committee
- Tutoring Committee
- Textbook Exchange Committee
- Guff / Yard Sale Committee
- Standing Rules Committee
- Green / Conservation Committee (EcoMittee?)
- Field Trip Committee
- ICC History Committee
- Bicycle Committee
- Rent Rate Research Committee
- Food Buying Committee