

Co-op Coalition Survey: Capital Reserves

Thanks, to the 14 people who responded. Once again, what you provided was very helpful. The responses are contained in the following table.

Sent: Mon, Jul 2, 2018 3:43 pm

Dear Co-op Managers and Presidents,

Below is a series of questions a Coalition member would like your input. This survey is a bit lengthier than most, but if you can help, the requesting co-op would appreciate it. Please reply with your answers by Friday, July (lucky) 13.

DC Cooperative Housing Coalition
www.CoopsDC.org

Serving the District's cooperative housing community since 1984

NOTE: You are receiving this blind-copied to protect your privacy.

Our Co-op is considering new policies for Management of Capital Reserves.
We would appreciate your response to the following questions:

1. Age of your building: _____
2. How many units are in your co-op?
___ <30 units
___ 30 -49 units
___ 50 – 69 units
___ 70 – 89 units
___ 90+ units
3. Do you have a Capital Reserve Account?
Yes _____
No _____ (Skip to Question 5)
4. Capital Reserve information:
Do you have a written policy on management of reserves for Capital Expenses?
Yes _____ Would you be willing to share it with our co-op? Yes ___ No ___
No _____
5. If you **do not** have a written policy or a Capital Reserve Account, what has been your general practice regarding the amount your building is holding in reserves?
6. Have you had any major renovations or other capital expense in the last 10 years?
No _____ (Skip to Question 8)
Yes _____
7. Did you finance the expense through a special assessment, utilization of capital reserves, or a combination of both? Please describe:
8. Please add any comments that you think might be helpful concerning Capital Reserves:

<p><30 units</p>	<p>1. Age of your building: approx. 100 years</p> <p>2. How many units are in your co-op? <input checked="" type="checkbox"/> <30 units <input type="checkbox"/> 30 -49 units <input type="checkbox"/> 50 – 69 units <input type="checkbox"/> 70 – 89 units <input type="checkbox"/> 90+ units</p> <p>3. Do you have a Capital Reserve Account? Yes <input checked="" type="checkbox"/> No _____ (Skip to Question 5)</p> <p>4. Capital Reserve information: Do you have a written policy on management of reserves for Capital Expenses? Yes _____ Would you be willing to share it with our co-op? Yes ___ No ___ No <input checked="" type="checkbox"/></p> <p>5. If you do not have a written policy or a Capital Reserve Account, what has been your general practice regarding the amount your building is holding in reserves? We have been trying to steadily increase reserves over the past decade.</p> <p>6. Have you had any major renovations or other capital expense in the last 10 years? No _____ (Skip to Question 8) Yes <input checked="" type="checkbox"/></p> <p>7. Did you finance the expense through a special assessment, utilization of capital reserves, or a combination of both? Please describe: Special assessment</p> <p>8. Please add any comments that you think might be helpful concerning Capital Reserves: According to our Reserves Analysis, we are far behind in the amount we should have on hand, given expected repairs/renovations to an old building. But, increasing assessments to the level recommended is not feasible. Instead, we are trying to maximize our annual reserve contributions (budgeting for at least 10% of our annual budget), and come in under budget on line-item expenses so that we accumulate capital at the highest rate possible.</p>
<p><30 units</p>	<p>1. Age of your building: ___91 ___</p> <p>2. How many units are in your co-op? <input checked="" type="checkbox"/> <30 units <input type="checkbox"/> 30 -49 units <input type="checkbox"/> 50 – 69 units <input type="checkbox"/> 70 – 89 units <input type="checkbox"/> 90+ units</p> <p>3. Do you have a Capital Reserve Account? Yes <input checked="" type="checkbox"/> No _____ (Skip to Question 5)</p> <p>4. Capital Reserve information: Do you have a written policy on management of reserves for Capital Expenses? Yes _____ Would you be willing to share it with our co-op? Yes ___ No <input checked="" type="checkbox"/> No _____</p>

	<p>5. If you do not have a written policy or a Capital Reserve Account, what has been your general practice regarding the amount your building is holding in reserves? We invest in CD's that are insured even though we do not gain much interest.</p> <p>6. Have you had any major renovations or other capital expense in the last 10 years? No ____ (Skip to Question 8) Yes <input checked="" type="checkbox"/>_</p> <p>7. Did you finance the expense through a special assessment, utilization of capital reserves, or a combination of both? Please describe: We used an assessment in 2007 to raise \$500,000 to finance a roof replacement in 2006. We used another assessment in 2015 to raise \$79,000 to add to our reserves for the replacement of an elevator.</p> <p>8. Please add any comments that you think might be helpful concerning Capital Reserves: After our experience with the roof replacement in 2007-2008, we adjusted our budget by increasing our annual contribution to reserves by 6% each year for 3 years and now we increase the contribution by 3% each year.</p>
<30 units	<p>1. Age of your building: <input type="checkbox"/>_92 years____</p> <p>2. How many units are in your co-op? <input checked="" type="checkbox"/>_<30 units <input type="checkbox"/>_30 -49 units <input type="checkbox"/>_50 – 69 units <input type="checkbox"/>_70 – 89 units <input type="checkbox"/>_90+ units</p> <p>3. Do you have a Capital Reserve Account? Yes <input checked="" type="checkbox"/>_x____ No _____ (Skip to Question 5)</p> <p>4. Capital Reserve information: Do you have a written policy on management of reserves for Capital Expenses? Yes _____ Would you be willing to share it with our co-op? Yes ____ No ____ No <input checked="" type="checkbox"/>_x____</p> <p>5. If you do not have a written policy or a Capital Reserve Account, what has been your general practice regarding the amount your building is holding in reserves? Starting in 2012, using the Cash Flow Method for Reserve planning, we developed a Reserve Study and our working policy is to attempt to generate sufficient funds through monthly fees to fund the needed reserves. Before 2012 the building engaged in very little to no long-term financial planning.</p> <p>6. Have you had any major renovations or other capital expense in the last 10 years? No ____ (Skip to Question 8) Yes <input checked="" type="checkbox"/>_x____</p> <p>7. Did you finance the expense through a special assessment, utilization of capital reserves, or a combination of both? Please describe: Roof replacement in 2006 and building parging (perimeter water-proofing) in 2010 were funded with a combination of Reserve funds, small special assessments, and commercial bank loans. The bank loans will be paid in 2023.</p> <p>8. Please add any comments that you think might be helpful concerning Capital Reserves: The foundation for the level of resources needed in your Capital Reserves is a Reserve Study that reveals the replacements and major capital repairs anticipated over a</p>

	<p>reasonable future and the amount of money that needs to be saved annually to finance the needs.</p>
<p>30 – 49 units</p>	<p>1. Age of your building: ____ 105 years</p> <p>2. How many units are in your co-op? ____ <30 units <input checked="" type="checkbox"/> 30 -49 units ____ 50 – 69 units ____ 70 – 89 units ____ 90+ units</p> <p>3. Do you have a Capital Reserve Account? Yes <input checked="" type="checkbox"/> No ____ (Skip to Question 5)</p> <p>4. Capital Reserve information: Do you have a written policy on management of reserves for Capital Expenses? Yes ____ Would you be willing to share it with our co-op? Yes ____ No ____ No <input checked="" type="checkbox"/></p> <p>5. If you do not have a written policy or a Capital Reserve Account, what has been your general practice regarding the amount your building is holding in reserves? We make a defined contribution to reserves each month. The amount of the contribution is determined during the annual budget development, but in practice the amount remains the same each year.</p> <p>6. Have you had any major renovations or other capital expense in the last 10 years? No ____ (Skip to Question 8) Yes <input checked="" type="checkbox"/></p> <p>7. Did you finance the expense through a special assessment, utilization of capital reserves, or a combination of both? Please describe: We have done two major projects recently. Construction of a ramp to the front door, including reworking of our front entrance and landscaping, was financed fully through reserve funds. We replaced our passenger elevator with a combination of reserve funds and a relatively small (\$1000-\$2000 per apt) special assessment, which owners could elect to pay over three years if it was a hardship (we considered these loans from our reserve funds and charged 3% interest on unpaid balance.)</p> <p>8. Please add any comments that you think might be helpful concerning Capital Reserves: Our owners have differences of opinion, with some believing that we should 'pay as you use' adding contributions to reserve for anticipated repair and replacement and others believing that we should spend all, save nothing, and count on borrowing for major repairs, letting future owners carry the cost of future use. We try to find a balance between the two.</p>
<p>30 – 49 units</p>	<p>1. Age of your building: ____ 96 years</p> <p>2. How many units are in your co-op? ____ <30 units <input checked="" type="checkbox"/> 30 -49 units ____ 50 – 69 units ____ 70 – 89 units</p>

	<p>___ 90+ units</p> <p>3. Do you have a Capital Reserve Account? Yes <input checked="" type="checkbox"/> ___ No _____ (Skip to Question 5)</p> <p>4. Capital Reserve information: Do you have a written policy on management of reserves for Capital Expenses? Yes _____ Would you be willing to share it with our co-op? Yes ___ No ___ No <input checked="" type="checkbox"/> ___</p> <p>5. If you do not have a written policy or a Capital Reserve Account, what has been your general practice regarding the amount your building is holding in reserves? We have had an engineering analysis of our capital replacement needs and have adjusted fees to build up reserves to meet those projected needs</p> <p>6. Have you had any major renovations or other capital expense in the last 10 years? No _____ (Skip to Question 8) Yes <input checked="" type="checkbox"/> ___</p> <p>7. Did you finance the expense through a special assessment, utilization of capital reserves, or a combination of both? Please describe: Out of reserves</p> <p>8. Please add any comments that you think might be helpful concerning Capital Reserves: How you fund capital improvements will depend on the size of your reserves. We prefer to fund out of reserves, which we believe is fairest to past, present and future coop owners; but if that was not adequate would prefer a special assessment over borrowing, which ultimately reduces the amount of projects you can undertake.</p>
50 – 69 units	<p>1. Age of your building: <u> 108 yrs </u></p> <p>2. How many units are in your co-op? ___ <30 units ___ 30 -49 units <input checked="" type="checkbox"/> 50 – 69 units ___ 70 – 89 units ___ 90+ units</p> <p>3. Do you have a Capital Reserve Account? Yes <input checked="" type="checkbox"/> ___ No _____ (Skip to Question 5)</p> <p>4. Capital Reserve information: Do you have a written policy on management of reserves for Capital Expenses? Yes _____ Would you be willing to share it with our co-op? Yes ___ No ___ No <input checked="" type="checkbox"/> ___</p> <p>5. If you do not have a written policy or a Capital Reserve Account, what has been your general practice regarding the amount your building is holding in reserves? Ten percent of revenue per year goes to capital reserve fund.</p> <p>6. Have you had any major renovations or other capital expense in the last 10 years? No _____ (Skip to Question 8) Yes <input checked="" type="checkbox"/> ___</p>

	<p>7. Did you finance the expense through a special assessment, utilization of capital reserves, or a combination of both? Please describe: Reserves + line of credit/loan</p> <p>8. Please add any comments that you think might be helpful concerning Capital Reserves: Increase your contributions in good economic times, reduce them in worse times (if absolutely necessary; sometimes we have members who could use a break), and spend the money, if possible, in a down economy. Easier said than done as DC has been booming forever, but these are the benchmarks.</p>
<p>50 – 69 units</p>	<p>1. Age of your building: <u>53</u> years</p> <p>2. How many units are in your co-op? <input type="checkbox"/> <30 units <input type="checkbox"/> 30 -49 units <input checked="" type="checkbox"/> 50 – 69 units <input type="checkbox"/> 70 – 89 units <input type="checkbox"/> 90+ units</p> <p>3. Do you have a Capital Reserve Account? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> (Skip to Question 5)</p> <p>4. Capital Reserve information: Do you have a written policy on management of reserves for Capital Expenses? Yes <input checked="" type="checkbox"/> Would you be willing to share it with our co-op? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> No <input type="checkbox"/></p> <p>5. If you do not have a written policy or a Capital Reserve Account, what has been your general practice regarding the amount your building is holding in reserves?</p> <p>6. Have you had any major renovations or other capital expense in the last 10 years? No <input type="checkbox"/> (Skip to Question 8) Yes <input checked="" type="checkbox"/></p> <p>7. Did you finance the expense through a special assessment, utilization of capital reserves, or a combination of both? Please describe: We financed 4 major capital projects over the past 6 years: replacement of 3 pipe with 4 pipe HVAC system, facade repair and driveway (granite stone) re-setting, new fitness center and community spaces on building roof/terrace. We borrowed approximately \$5M from a local bank through a line of credit to supplement our reserve account to pay for these projects. We anticipate that the loan will be repaid in full in approximately 7 1/2 years. We pay debt service through our operating budget. We have been able to do these projects without special assessments.</p> <p>8. Please add any comments that you think might be helpful concerning Capital Reserves: Do a reserve study to determine how much money should be held in a reserve account to fund future expenditures. Fund the reserve account based on this analysis. Explain to membership the importance of the reserve account. Adopt an investment policy to guide how the reserve account is invested to make sure it is relatively conservative over time and not subject to whims of future boards that may be intrigued by higher and riskier yields.</p>

50 – 69 units	<p>1. Age of your building: <u> 59 years </u></p> <p>2. How many units are in your co-op? <u> </u> <30 units <u> </u> 30 -49 units <u> x </u> 50 – 69 units <u> </u> 70 – 89 units <u> </u> 90+ units</p> <p>3. Do you have a Capital Reserve Account? Yes <u> x </u> No <u> </u> (Skip to Question 5)</p> <p>4. Capital Reserve information: Do you have a written policy on management of reserves for Capital Expenses? Yes <u> </u> Would you be willing to share it with our co-op? Yes <u> </u> No <u> </u> No <u> x </u></p> <p>5. If you do not have a written policy or a Capital Reserve Account, what has been your general practice regarding the amount your building is holding in reserves?</p> <p>6. Have you had any major renovations or other capital expense in the last 10 years? No <u> </u> (Skip to Question 8) Yes <u> x </u></p> <p>7. Did you finance the expense through a special assessment, utilization of capital reserves, or a combination of both? Please describe: we had a mortgage that we paid off 2 years ago (3 years before it was due); we have financed replacement of our HVAC system from our capital reserves.</p> <p>8. Please add any comments that you think might be helpful concerning Capital Reserves: None</p>
70 – 89 units	No responses
90+ units	<p>1. Age of your building: 1929</p> <p>2. How many units are in your co-op? <u> </u> <30 units <u> </u> 30 -49 units <u> </u> 50 – 69 units <u> </u> 70 – 89 units <u> X </u> 90+ units</p> <p>3. Do you have a Capital Reserve Account? Yes <u> X </u> No <u> </u> (Skip to Question 5)</p> <p>4. Capital Reserve information: Do you have a written policy on management of reserves for Capital Expenses? Yes <u> X </u> Would you be willing to share it with our co-op? Yes <u> X </u> No <u> </u> No</p> <p>5. If you do not have a written policy or a Capital Reserve Account, what has been your general practice regarding the amount your building is holding in reserves? Generally we follow the financial outline of the reserve study for annual collections. However, we do have unanticipated expenses that do come up and will special assess if we are underfunded.</p>

	<p>6. Have you had any major renovations or other capital expense in the last 10 years? No ____ (Skip to Question 8) Yes <u>X</u></p> <p>7. Did you finance the expense through a special assessment, utilization of capital reserves, or a combination of both? Please describe: We had two (2) in the last 3 years and had a combination of special assessments, utilization of capital reserve funds and increases in dues.</p> <p>8. Please add any comments that you think might be helpful concerning Capital Reserves: Always update your study after 2-3 years and have a new study performed every 5 years. Depending on age look at doing a MEP (Mechanical, Electrical & Plumbing) study for properties that are 75+ and have not had one done to obtain a realistic understanding of these components. The reserve studies are not as concentrated and the MEP will provide insight into current and potential problems.</p>
90+ units	<p>1. Age of your building: 50</p> <p>2. How many units are in your co-op? ____ <30 units ____ 30 -49 units ____ 50 – 69 units ____ 70 – 89 units X 90+ units</p> <p>3. Do you have a Capital Reserve Account? Yes <u>X</u> No ____ (Skip to Question 5)</p> <p>4. Capital Reserve information: Do you have a written policy on management of reserves for Capital Expenses? Yes ____ Would you be willing to share it with our co-op? Yes ____ No ____ No <u>X</u></p> <p>5. If you do not have a written policy or a Capital Reserve Account, what has been your general practice regarding the amount your building is holding in reserves? We try to keep at least \$1,000,000 in this account</p> <p>6. Have you had any major renovations or other capital expense in the last 10 years? No ____ (Skip to Question 8) Yes <u>X</u></p> <p>7. Did you finance the expense through a special assessment, utilization of capital reserves, or a combination of both? Please describe: Utilization of capital reserves mostly, we also refinanced our mortgages in 2015 to combine the 3 mortgages we had into one large mortgage at a much lower rate so we are able to contribute more to capital annually.</p> <p>8. Please add any comments that you think might be helpful concerning Capital Reserves: The board hasn't don't much in the way of raising fees over the last 10 years, last year they finally raised coop fees by 6% in order to build reserves back up to the \$1,000,000 mark because we were dropping below, they have promised again this year to raise the fees another 3% - this trend will likely continue. Our capital projects are only going to continue to get more, and more expensive as will our annual budgets. Planning adequately and keeping Members informs to help soften the blow!</p>
90+ units	<p>1. Age of your building: 62</p>

	<p>2. How many units are in your co-op? <input type="checkbox"/> <30 units <input type="checkbox"/> 30 -49 units <input type="checkbox"/> 50 – 69 units <input type="checkbox"/> 70 – 89 units <input checked="" type="checkbox"/> 90+ units</p> <p>3. Do you have a Capital Reserve Account? Yes <input checked="" type="checkbox"/> No _____ (Skip to Question 5)</p> <p>4. Capital Reserve information: Do you have a written policy on management of reserves for Capital Expenses? Yes _____ Would you be willing to share it with our co-op? Yes ___ No <input checked="" type="checkbox"/> No _____</p> <p>5. If you do not have a written policy or a Capital Reserve Account, what has been your general practice regarding the amount your building is holding in reserves? Over the past several years we have completed many capital projects on our building, including the following: new roof and roof terrace, new HVAC system, new boilers and related piping, renovated lobby and community room, etc. Because of past failures to accumulate sufficient reserves we increased fees, negotiated a commercial loan and, ultimately got ownership permission to acquire a long-term fixed-rate mortgage to handle the costs. We generate sufficient cash surplus to pay the mortgage, so we have not had to increase fees by more than 3%. At present our reserves are about \$4 million, but we are committed to projects that will exhaust that amount. The efficiency of our new HVAC and boiler systems will enable us to add to reserves as we go forward. We hope to finance all future capital projects through reserves and mortgage re-financing in order to avoid special assessments and substantial fee increases.</p> <p>6. Have you had any major renovations or other capital expense in the last 10 years? No _____ (Skip to Question 8) Yes <input checked="" type="checkbox"/> See number #5</p> <p>7. Did you finance the expense through a special assessment, utilization of capital reserves, or a combination of both? Please describe: Please see number #5</p> <p>8. Please add any comments that you think might be helpful concerning Capital Reserves: None</p>
90+ units	<p>1. Age of your building: <u>50+</u>_____</p> <p>2. How many units are in your co-op? <input type="checkbox"/> <30 units <input type="checkbox"/> 30 -49 units <input type="checkbox"/> 50 – 69 units <input type="checkbox"/> 70 – 89 units <input checked="" type="checkbox"/> 90+ units</p> <p>3. Do you have a Capital Reserve Account? Yes <input checked="" type="checkbox"/> No _____ (Skip to Question 5)</p> <p>4. Capital Reserve information:</p>

	<p>Do you have a written policy on management of reserves for Capital Expenses? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Would you be willing to share it with our co-op? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> No <input type="checkbox"/></p> <p>5. If you do not have a written policy or a Capital Reserve Account, what has been your general practice regarding the amount your building is holding in reserves?</p> <p>6. Have you had any major renovations or other capital expense in the last 10 years? No <input type="checkbox"/> (Skip to Question 8) Yes <input checked="" type="checkbox"/></p> <p>7. Did you finance the expense through a special assessment, utilization of capital reserves, or a combination of both? Please describe: used funds from reserves</p> <p>8. Please add any comments that you think might be helpful concerning Capital Reserves: We've tried to maintain enough funds in our reserves to avoid special assessments or obtaining a loan.</p>
90+ units	<p>1. Age of your building: 50 years</p> <p>2. How many units are in your co-op? 90+ units</p> <p>3. Do you have a Capital Reserve Account? Yes</p> <p>4. Capital Reserve information: Do you have a written policy on management of reserves for Capital Expenses? No, but it is something we will be working on this year</p> <p>5. If you do not have a written policy or a Capital Reserve Account, what has been your general practice regarding the amount your building is holding in reserves? We have a board policy that our capital account will never go below \$1.5 million. We additionally keep the amount we anticipate spending on capital projects that year in the account. The logic is that \$1.5MM will cover us while insurance is sorted out, and we are assuming that the most expensive failure we could have is less than \$1MM (our largest roof failing).</p> <p>6. Have you had any major renovations or other capital expense in the last 10 years? Yes</p> <p>7. Did you finance the expense through a special assessment, utilization of capital reserves, or a combination of both? Please describe: Currently we are on a pay-as-you-go model. We have our regular assessment that funds our budget for the year. There is a line-item in that budget for Capital Projects. (this year it is \$1.25MM). We only take on projects that can be paid for out of the money that we have budgeted for capital projects that year. We did take out a loan in the early 2000's for a multi-million dollar window replacement project and to upgrade all of the common areas. That mortgage will be paid off in 2021. We haven't polled the community on doing a special assessment. Currently the community sentiment supports pay-as-you-go rather than a new mortgage when that one is paid off.</p> <p>8. Please add any comments that you think might be helpful concerning Capital Reserves: None</p>
90+ units	<p>1. Age of your building: 90+years</p> <p>2. How many units are in your co-op? <input type="checkbox"/> <30 units <input type="checkbox"/> 30 -49 units <input type="checkbox"/> 50 – 69 units</p>

70 – 89 units

90+ units

3. Do you have a Capital Reserve Account?

Yes

No (Skip to Question 5)

4. Capital Reserve information:

Do you have a written policy on management of reserves for Capital Expenses?

Yes No

Would you be willing to share it with our co-op?

Yes No

5. If you do not have a written policy or a Capital Reserve Account, what has been your general practice regarding the amount your building is holding in reserves?

Answer: Please see response to #s 7-8, below.

6. Have you had any major renovations or other capital expense in the last 10 years?

No (Skip to Question 8)

Yes (See also response to #7, below)

7. Did you finance the expense through a special assessment, utilization of capital reserves, or a combination of both? Please describe:

Answer: Although the Capital Reserve Account had been funded with approximately two million dollars, when Hurricane Sandy hit in November of 2012, damage was extensive. Masonry work anticipated for subsequent years had to be accelerated and the Capital Reserve balance proved inadequate for the repairs required. Rather than imposing a Special Assessment, the Board approved a several million dollar loan structured as a Reducing Revolving Credit -- with final maturity on 12/31/20.

8. Please add any comments that you think might be helpful concerning Capital Reserves:

Answer: Although there is no written policy on Capital Reserves, the Board has followed a consistent approach attempting to (1) anticipate major expenditures and stretch the cost over several years, (2) avoid Special Assessments, and (3) maintain a level of cash and/or committed loan availability as a cushion for unforeseen events. Although there is no written policy for calculating the amount of the cushion, it is anticipated that once the current loan is repaid in full, a formal policy for the management of the Capital Reserves will be approved and will incorporate a formula for calculating the required reserve level.

We share with those who initiated this survey, an interest in how others manage the Capital Reserve process -- and would be happy to share additional information and to discuss the subject further.