

Co-op Coalition Survey: Contingency Fund (5-2020)

Thanks to everyone who responded. Below is a table with the responses.

 In a message dated: Mon, Apr 27, 2020 8:19 am

Your co-op may provide a financial cushion in many different ways. The question from a Coalition member, below, is to learn if co-ops keep a cash cushion to cover unexpected operating expenses or keep a "rainy day fund." For example, it might be accomplished by setting a level of surplus to maintain in a checking account (beyond routine monthly budgeted expenses), by creating a separate bank or investment account, or by simply designating a fixed number of dollars in some other financial instrument that is "not to be used" except in case of sudden unbudgeted operating needs. Please "Reply" by Friday, May 8. We will share the results with all of our members a few days later. And again, thanks for helping out one another.

Does your co-op have an operating contingency fund? If so, what percentage of your annual operating budget does it represent?

DC Cooperative Housing Coalition
www.CoopsDC.org

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<25 units	<p>Our coop is supposed to have a replacement reserve fund where we contribute toward such rainy day fund. It is 2% of our operating budget (our budget is roughly \$50k so we need to be reserving about \$1,000 a year). Long and short is: we haven't been contributing for some years. As treasurer, I made the unpopular motion of coop dues increases to the tune of less than \$10 a month to accomplish this replacement reserve fund but was shot down pretty quickly by the Membership.</p> <p>However, we do have some assets that were formerly certificates of deposit (CDs) that are now liquidated and in a regular business checking account. It's a decent amount and we keep it segregated from our regular operating funds that our management company manages. It's good to know that this is money we have as an absolute last resort and the good controls is that Membership still must affirmatively approve expending any funds from the segregated account.</p>
<25 units	<p>We do not have a contingency fund. In fact when our current management company took over, they advised us to do zero budgeting. We have never had a cash problem in our operating account. We keep our reserve fund in a separate bank and after our end of year audit, we often have a small surplus which, by prior board policy, is transferred to our reserves.</p>
<25 units	<p>We do not use a contingency fund. We do have a reserve fund, but that is used to save for specific capital projects that we intend to undertake in the future. We try to minimize surprises by using a reserve study that allows us to budget for the expected obsolescence of the building components.</p> <p>When setting the annual operating budget, we take into consideration the fact that certain budget items, such as repairs, can vary from year to year. We tend to overbudget for those items so that unexpected expenses can be accommodated with the confines of the budget. If the money is not spent, it is shifted to the reserve fund at year-end.</p>

<25 units	Aside from our operating budget, we have our reserves which we add \$3,000 each month to - and only items that fall under capitol expenses draw from that account.
25 – 49 units	Our coop does not have a budgeted cash cushion in our operating fund. We use our reserves in those situations and transfer money into the operating account.
25 – 49 units	Our co-op includes budgets for "unexpected/currently unplanned" for repairs within the primary systems (heating/cooling, plumbing, electrical, etc.) as these happen every year, but we don't have a separate fund, independent of the reserve fund.
25 – 49 units	We designate a bit over 6.5% of our monthly revenue for Operating Reserves. We also have an investment fund, the proceeds of which may be used for large capital improvement projects with the approval of the majority of shareholders.
25 – 49 units	No.
50 – 74 units	We don't have any hard division of funds or a set number, but the Board enacted a written financial philosophy document to guide large purchasing decisions and the drawdown of our reserves. Broadly speaking, the document aims to preserve enough in reserves for the largest reasonably-expected single expense we might face. As a practical matter, at this time, we consider that approximately 50K because that's what it would cost to replace our boiler. But if something changed (cheaper boilers, more expensive boilers, some other issue becoming our biggest maintenance expense) the written philosophy is flexible enough to change with the circumstances.
75 – 149 units	No Responses
150 – 174 units	<p>We have a reserve fund allocated for all capital expenses. We also keep an 6% operating reserve contingency fund which is intended to fund the operating budget when it exceeds the budgeted amounts exceed what has been funded.</p> <p>[Our co-op's] total operating is at ~\$2mil/year, and we maintain ~\$250-300k in the operating bank account at any time. Historically, this has been proven sufficient to handle unexpected expenses. Note two things:</p> <ol style="list-style-type: none"> 1. Operating expenses fluctuate throughout the year, as real estate tax payments, insurance payments occur at certain times and these can be a large chunk of cash. 2. In an absolute emergency, funds can be borrowed from capital reserves if such exists, but as we know this is dangerous, as there might not be mandatory mechanisms in place to return these funds. Funding operating expenses from capital reserves unless this is a short term emergency measure would defeat the purpose of the capital reserve.
175 – 374 units	No Responses
375+ units	We do not have a contingency fund. Our reserve account is used only for emergency repairs when needed.
375+ units	We maintain several reserve accounts, including one small operating contingency account. The funds are collected monthly as a portion of the monthly carrying charges. We also maintain a 'replacement reserve' account that is roughly 25% of the operating budget (as specified in our Bylaws). This fund is used during the fiscal year to handle capital projects and is basically spent and replaced at the same rate during the year. We try to increase this fund each year as the budget and members! allow. Currently we also have a large loan for larger capital projects. When projects or expenses are approved by the Board, we are careful to charge the appropriate reserve account. As a general rule, our property management company suggests a reserve of at least 25% of operating expenses