

THE COOPERATOR

News and updates for leaders of resident-owned communities

New Report Explores ROC Budget Trends and Best Practices

Report compares spending across Midwest ROCs, provides advice on how to tune-up in time for 2018

It's that time of year again when ROC Boards of Directors dust off last year's budget, take stock of how the ROC performed, and plan for the coming year. While every ROC's budget is tailored to the community's unique needs, there are several budget categories that all ROC budgets have. NCF has developed a brief report of budget comparisons and averages from ROCs across Minnesota and Wisconsin to help Boards evaluate the existing budget and get started on the 2018 budget.

The following analysis is designed to get board members thinking strategically about budgeting by comparing their budget to other communities in the region.

While reading the report, keep in mind that the cost of services for any budget category (from bookkeeping services to onsite staff wages) can vary widely depending on a ROC's location and size.

NCF hopes the report provides some general guidelines to help board members take a fresh look at the budget this year.

Property Management

Most ROCs in Minnesota and Wisconsin operate without 'full-service' property management, and have adopted more of a 'Do-It-Yourself' model. While full service property management is an option, it can be costly. In general, NCF recommends that five to 10 percent of the ROC's income go to property management (or staff). For example, if a ROC's gross income is \$200,000, consider budgeting \$10,000 to cover a part-time onsite manager's wages and taxes. (See graph on page 2).

NCF found that ROCs typically pay between \$10 to \$22 per hour and staff work five to 20 hours per month. (See infographic on page 2).

Onsite staff duties will vary depending on the needs and the role of the ROC's outside bookkeeper. ROCs pay monthly bookkeeping fees ranging from \$200 to \$650 per month. Evaluate your ROC's bookkeeping arrangement annually to determine if the community is getting the service it's paying for.

THE BUDGET I\$SUE



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Operating Expense Ratio

Another key indicator of a ROC's operating efficiency is the operating expense ratio (OER), which measures the amount of income that goes to operating expenses. For example: If the ROC's total expenses (not including loan payment or reserve contributions) are \$123,000 and the effective income (total possible lot rent and other charges minus vacancy loss) is \$289,000, the ROC's OER would be 43 percent ($123,000/289,000 = 0.43$). The OER industry standard is 35 to 45 percent. ROCs in the Midwest fall within 35 to 65 percent. (See graph on page 3).

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ROC budgets from page 1

A higher OER may be appropriate for a community if it is receiving better services and achieving the goals of its membership, but a higher OER may also indicate that operating efficiencies could be made.

Bad Debt (aka: Collections Loss)

ROC budgets are designed to account for the rent the ROC will not collect during the year, also referred to as 'collections loss' or 'write-offs.' For accounting purposes, all ROC budgets refer to collection loss in the official budget as 'bad debt.' Writing off old amounts owed that are unlikely to be recovered will help improve the ROC's financial picture, but these losses should not exceed two percent of the ROC's total income. Review how much debt was written off in the prior year for a more accurate picture of what the ROC should

budget in the coming year. If the ROC's total possible income (from lot rent only) is \$200,000, the ROC's budget for bad debt should be no more than \$4,000 per year. If the Board finds the ROC's delinquent accounts are more than 2 percent of the ROC's income, it should signal concern and a need to review collections management.

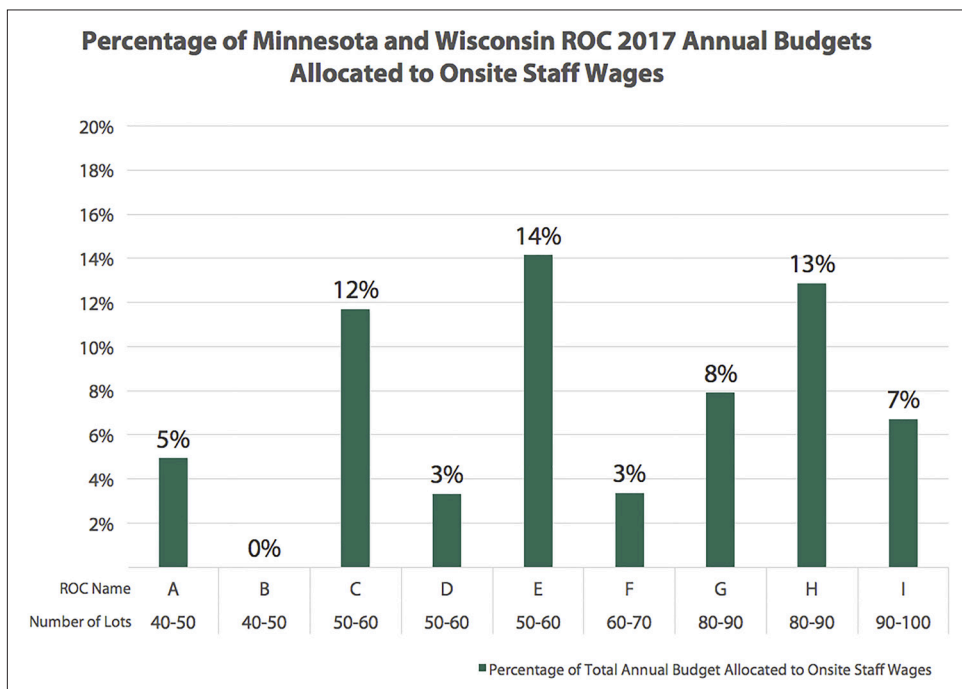
Water Recovery

Water Recovery is another loss that should be monitored closely. If residents in your community are individually metered for water consumption, the Board should watch the monthly financials to make sure the ROC is billing water/sewer charges back to residents appropriately. If residents are not individually metered, Boards should ensure lot rents are rising annually or semi-annually to account for rising utility costs.

At \$20,000 to \$50,000 each year, water charges are significant and can easily make or break your budget if the ROC is not recovering what it's paying out. NCF found that municipal water makes up 28 percent of ROC budgets and the average budgeted amount is \$36,000 per year!

The most important part of the annual budgeting process is a commitment from the Board to monitor expenses throughout the year. Knowing where the money goes and making informed decisions about how money is spent is a big part of the service Boards provide to their communities.

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Five to ten percent of a ROC's annual budget should go to professional onsite management. Onsite staff help ensure residents pay their rent on time, enforce community rules fairly and consistently, and serve as an important day-to-day resource to board members and residents.

Onsite Staff Budgeting Averages

14.5

The average number of hours worked by onsite staff per week in ROCs in MN and WI.

The average hourly wage of onsite staff in ROCs in MN and WI. At this wage rate, the average annual salary for onsite staff is about \$11,500.

\$15

8%

The average percentage of the annual operating budget spent on onsite staff wages. This means if a ROC had an annual operating budget of \$150,000, they would allocate \$12,000 for onsite staff wages.

Budgeting Tips

1) Revisit The Property Condition Report

An annual update of the Property Conditions Report can help inform decisions on what to budget on tree removal, maintenance, etc. You may even consider doing a walkthrough as a Board or Maintenance Committee and doing research into possible vendors.

2) Think Long Term

What would it cost to purchase a snow plow and handle snow removal in-house instead of hiring out? How long would it take to make the money back spent on the snow plow and the ROC starts seeing savings?

General Budgeting Guidelines

How much should a ROC have in cash on hand?

A ROC should have two months worth of operating expenses in cash on hand. If the ROC budgets \$16,000 for monthly operating expenses, they should have at least \$32,000 in cash on hand at the end of every month.

How much should a ROC budget for bad debt?

A ROC should budget 1.5% to 2% of the total annual potential lot rent income for bad debt (aka: write-off's). If a ROC has to budget significantly more than this, the Board should make recovery of delinquent accounts a larger priority for the coming year.

3) Shop Around

Ask the ROC's insurance agent about ways the community can save: installing fire extinguishers, verifying the ROC's ISO rating (the better the ISO rating, the more discounts the ROC may be eligible for), or canceling obsolete policies that the community no longer needs.

High speed internet and phone service offerings change frequently, so call around to see find the best deal.

4) Start Sooner Rather Than Later

It can take a while to get quotes and bids back from vendors. If your fiscal year ends in December, it's not too early to start requesting bids in late June or early July.

Financial Management Budgeting Averages

\$388

The average monthly amount ROCs in MN and WI spend on bookkeeping services.

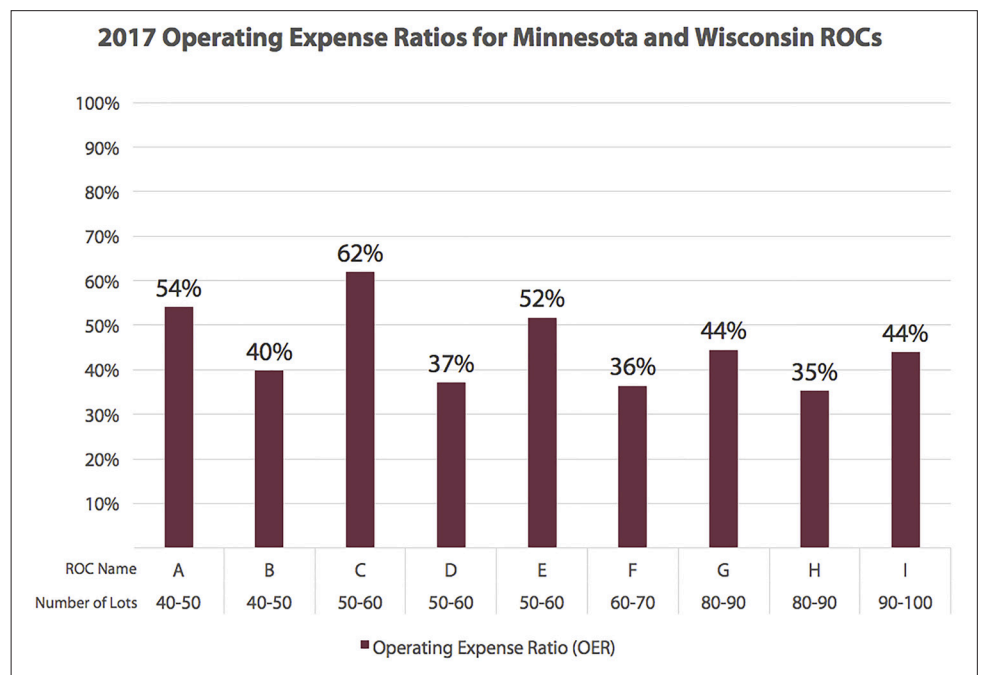
\$1,900

The average amount ROCs in MN and WI pay for the annual financial review or audit.

5%

The average percentage of annual operating budget spent on financial management including: bookkeeping, tax filing, and financial review/audit.

2017 Operating Expense Ratios for Minnesota and Wisconsin ROCs



The Operating Expense Ratio is a measure of the costs to operate a piece of property compared to the income that the property brings in. The lower the OER, the more efficient the budget.

Up the Bandwidth: Why every ROC should increase the internet budget and ramp up speed

When it comes to choosing an internet package for your ROC, most Boards understand “faster is better than slower,” but how much internet speed does a ROC actually need? Chances are, your ROC needs much higher speeds than it currently has. In this article, NCF breaks down the cost/benefit of internet service and provides some non-technical insight to help ROCs purchase internet plans that will improve day-to-day workflow.

Internet Service Providers (ISPs)—Comcast, CenturyLink, etc.—make a lot of claims about the speed of their networks and the way they measure speed can be confusing.

Most internet connections have two speeds: downloading and uploading. Downloading is receiving files (documents, images, etc.), while uploading is sending files. Both speeds are measured in “megabits per second” or “Mbps”. The more megabits per second, the faster your

connection. Simply put: the higher your Mbps, the less time spent waiting for uploads and downloads.

Most ROCs are on a 5/1Mbps or lower plan. That means download speeds of five megabits per second, and top upload speeds of 1 megabit per second. How fast is that? Using a 5/1 connection, you should be able to download a 25-megabyte PDF file in about 40 seconds, or upload the same file in about three minutes. When attending to the day-to-day business of the ROC, that can feel painfully slow.

NCF recommends 30/5 Mbps for any ROC. Speeds of 50/10 Mbps or 100/10 Mbps are even better if the ROC can get the service in its area and the price fits the budget. ROCs should expect to spend \$50 to \$100 per month on internet access.

Keep in mind, actual upload and

Continued on page 6

Internet Shopping Tips

1) Know what internet providers are in your area.

Visit broadbandnow.com.

The website allows you to see plans, prices, and ratings for every internet provider in your zip code. **Remember to shop for Business service, not Residential.**

2) Ask the internet provider what kind of connections the ROC has access to for delivering internet.

Copper, cable, or fiber? What is the most reliable connection they can provide?

3) Ask for recommendations from other businesses in your neighborhood.

What internet providers are they using?

4) Ask internet providers what level of support business customers get.

Is there a Service Level Agreement (SLA)? Look for a guarantee of uninterrupted service and what remedies the provider offers for service interruptions (like giving the ROC a bill credit if service is disrupted). Does the provider have dedicated support lines for business customers for when problems arise?



Creative Commons

A ROC Board Treasurer tries to download the monthly financials with slow internet.

The Case for Annual Lot Rent Increases

As your ROC was preparing to buy the park from the previous owner, you may have heard that one of the benefits of resident ownership is that you could expect less frequent and lower lot rent increases. While resident ownership does result in more money being returned to the park instead of going to the park owner, there is still a benefit to including a regular lot rent increase in your annual budgeting process.

Yes, lot rent increases are not popular. Consider, though, that as a board of directors, you're responsible for providing a safe, healthy, and affordable environment for residents, now and into the future. Regular lot rent increases:

1) Help Avoid Cutting Services And Raiding Savings Accounts

Most of the ROC's operating expenses will increase, on average, by three to five percent per year—this is called “inflation.” If revenue—which comes only from lot rent—does not increase, the ROC will be forced to either cut back on expenses or dip into savings to cover those increased expenses. If the ROC reduces expenses, services and/or quality of life will be reduced. If the ROC dips into savings, it may not have funds available for unforeseen expenses, or for needed improvements.

2) Ensure The ROC Can Complete Community Improvements

Does your ROC have a Capital Improvement Plan (CIP) that identifies future improvements needed in the community? Does the ROC have a plan to build reserves (savings) that will be used to fund those improvements? If the answer to either question is “no,” then the Board needs to update the CIP, and consider how lot rent increases will build reserves.

3) Create Consistency and Regularity for Resident Budgeting

A regular lot rent increase will make it easier for residents to manage their cash flow. For example, if residents knew that lot rent always increased on the same date every year, residents can adjust their budget in advance. No surprises. Instituting even a modest annual

rent increase and putting more money into savings can help avoid the need for unexpected major rent increases in the aftermath of a major emergency cost (like a significant water break).

4) Streamline the Budget Process and Allow the ROC to Maintain Established Services and Amenities

Finally, the board's year-end budgeting exercise could be less stressful. If you don't have additional revenue generated by increased lot rent, you'll have to cut expenses, which may mean eliminating or cutting back on other services and amenities that residents rely on.

There will always be residents for whom a lot rent increase is stressful. As a board, you'll have to balance the impact that a lot rent increase has on some residents with the long-term benefit to the community as a whole. Talk with your NCF technical assistance provider about the right lot rent increase strategy for your ROC.



A ROC resident learns the benefits of lot rent increases when he complains to a fellow resident who has a slightly more optimistic attitude.

News & Updates

Park Plaza Co-op storm shelter project covered on KSTP Channel 5 News

The story highlights the lack of state-wide compliance with a Minnesota law that requires mobile home park owners to provide emergency shelter to residents. Park Plaza Co-op is featured in the story as one of the only Minnesota mobile home parks that is complying with the state rules to provide shelter to its residents. Read the full story at: kstp.com/news/fridley-mobile-home-park-build-storm-shelter/4569708.

Increase in Minnesota mobile home park closures featured in StarTribune article; resident-ownership highlighted as a way to save them

The story describes the distress and displacement caused by the recent closure of Lowry Grove Mobile Home Park in Saint Anthony, Minnesota and how resident-ownership can help residents preserve their homes and communities. Read the full story at: startribune.com/as-mobile-home-parks-close-attention-turns-to-how-to-protect-them/434708163/#1

NCF launches a new resource webpage to provide easy access to governance tools, handouts, and trainings

Check out northcountryfoundation.org/rocs for a whole host of resources on board governance best-practices, financial planning tips, web links to state-specific laws and rule compliance information, and an entire section with web links to online technology trainings. Explore the page and check back frequently for new content.

Want to stay in the loop on news about mobile home parks, resident-ownership, and other relevant updates? Follow NCF on Facebook!

Just log into Facebook and search for Northcountry Cooperative Foundation. NCF is also on Twitter - find us by searching for @NCF_MN.

Internet continued from page 4

download speeds will vary depending on the age and type of the ROC's computer, the community's distance from the internet provider, and the internet transmission lines available in the area.

Older internet transmission lines like copper or cable tend to transmit at lower speeds, while fiber-based transmission lines (more common in larger metropolitan areas) are much faster. If your ROC is in a rural area with older transmission lines, your speed options may be more limited. Rural ROCs may consider satellite service as a good alternative.

Every ROC should have fast and reliable internet access. The faster and more reliable the internet, the quicker the ROC will be able to conduct business. Another bonus of faster internet? Enhanced technical assistance delivery through virtual conferencing, online collaboration, and faster file sharing with NCF! A high-speed internet connection will give your ROC the bandwidth it needs to grow and flourish.



Exchange ideas. Share wisdom. Build leadership.

Have you registered for ROC Summit on Saturday, November 11?

Meet your fellow ROC leaders from across Minnesota and Wisconsin, learn from expert trainers, and build new skills. Registration is free, mileage is reimbursed, and free hotel stay is available for out-of-town attendees. Register online at northcountryfoundation.org/roc-summit or by calling 612-767-2122.

ROC Budgets: Where's the Tech?

Top 10 equipment purchases to build into the budget this year

Most business in today's world is conducted through some means of technology, such as phone, email, online services like Google Docs and Dropbox, and teleconferencing services like Skype and FaceTime. A ROC's ability to take advantage of these useful tools may be quite limited if the community doesn't have the right equipment or is hanging onto outdated equipment.

With ROCs undergoing the budgeting process, the NCF technical assistance team decided to put together a Tech Purchase Guide for ROC's who are ready to use technology to their advantage.

If a community is looking to hold better meetings, improve board and staff productivity, and enhance the ability to receive technical assistance, it's time to build tech purchases and tech support into the annual budget.

#1 Desktop Computer

If a ROC has an onsite office, it probably already has a desktop computer. If a ROC has an existing computer, check to see how old it is. If the computer is a bit dated and/or running slowly, your ROC may consider budgeting for a new computer this year. Check out some of the newer models like the one pictured above. Many desktop systems have all the data processing components built into the screen, saving a ton of desk space. New desktops range from \$700 to \$1,200+.



#2 Printer/Scanner/Copier

Most ROCs have some type of printer/scanner/copier, but it's probably one of the smaller, home office types (see image to the right), which means board members and onsite staff spend a long time waiting for big print jobs. Smaller communities (30 to 50 homes), should consider purchasing a medium-sized 4-in-1 machine (printer/scanner/copier/fax). A good machine this size



will cost \$350-\$500. Larger communities (50+ homes) or those that do a lot of printing should consider a higher-capacity machine. Bigger machines cost more money and can require more maintenance. Larger models start around \$750 and can go well above \$2,000. If a ROC purchases a larger printer, make sure to purchase a maintenance/tech support package so board members and staff have access to professional help when needed.



medium-size 4-in-1

- 30-50 unit ROC
- \$350-\$500



larger-size 4-in-1

- 50+ unit ROC
- \$750-\$2000+

#3 Cellphone or Smartphone

Most ROCs have a landline phone for the onsite office and a cheap, pay-as-you-go cellphone for off-site calls. ROCs may consider ditching the landline this year and replacing it with a cellphone to allow onsite staff to have a phone with them when running errands or out in the community. ROCs may also consider exchanging their pay-as-you-go phone and purchasing a smartphone with a data plan. Smart phones are more expensive, but ROCs may find it useful to have a back-up internet connection if the onsite internet fails. A smart phone also allows on-the-go voice and video conferencing with other Board Members and your technical assistance provider. Smart phones run from \$200 to \$1,000+ and data plans average about \$60 a month.



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#4 External Hard Drive(s)

If the ROC doesn't already have an external hard drive, this is the year to buy one. External hard drives allow you to create a copy of all the files on your desktop or laptop computer and are essential to ensuring your community's files are safe and accessible should the ROC's main computer break down unexpectedly. Each computer the ROC owns should have an external hard drive and should be backed up monthly (quarterly at the least). Store external hard drives in fire-safe and waterproof containers as an extra security measure. External hard drives range from \$60-\$100+.



#5 TV Screen

A large TV screen will deliver a huge bang for the buck when it comes to tech purchases. TV screens can be incredibly useful during Board and Membership meetings. Hook up a laptop to the screen and you can instantly project agendas, financial reports, and other presentations large enough for everyone to view. You can get a 48-inch TV starting around \$250. Be sure to budget for a rolling cart (about \$100) or a wall-mount (about \$40).



#6 Webcam

ROCs can get a good webcam for \$60-\$80. Most laptops come with a built-in camera, but if you are purchasing a TV or have an existing desktop computer that does not have a camera, purchasing a webcam will allow your ROC to use the TV or existing desktop computer to video conference, share screen content, and record video.



#7 Wireless Mouse and Keyboard

Ever get tangled up in all the chords on your office desk? Wireless mice and keyboards are an inexpensive way to cut clutter and allow greater flexibility when using your desktop or laptop computer. You can get a wireless mouse and keyboard combo pack for around \$20 on amazon.com.



#8 Bluetooth Speaker for Smartphone

Turn any Smart Phone into a high-tech conference phone with a bluetooth speaker. No more shouting into the phone or straining to hear the person on the other line during group meetings. Purchase a bluetooth speaker for \$60-\$100.



#9 USB Drives (AKA: thumb drives)

Possibly the most inexpensive and handiest of any tech purchases will be a USB drive (most often called "thumb" drives due to their size). Use them for storing a small number of documents. Their small size makes them great for storing presentation files for off-site meetings or for quickly moving a few files from one machine to another. NCF recommends having two thumb drives (each 32GB capacity), which will cost about \$40.



#10 Equipment Protection & Storage Equipment

Be sure to protect all the ROCs equipment with the right gear. Cell phone cases, laptop covers, keyboard covers, and protective storage bags will keep your purchases safe for years of use. Be sure to keep an inventory and appropriately label all equipment so you can keep track of it.

