A Guide to
BANKING, BUDGETS, and RENTS

Prepared by the Urban Homesteading Assistance Board (UHAB) and the Department of Housing Preservation and Development of the City of New York (HPD)

TABLE OF CONTENTS

How To Use This Book

This manual is divided into four sections:

SECTION 1 - ***Laying the Groundwork for Financial Health*** (pages 8 – 12) Provides an introduction to good money management, including how to protect your tenant association's funds, the importance of financial record-keeping, and how to keep tenants informed about and involved in the financial management of the building.

SECTION 2 - ***Preparing and Monitoring a Budget*** (pages 13 –21 plus insert) Focuses on how the budget process, including how to collect the previous year's income and expenses and then use them to make next year's budget projections, evaluate expenses versus income, and monitor your budget throughout the year. This section also offers a series of practical tips for maximizing income and keeping expenses down.

SPECIAL INSERT - ***Budgeting Made Easy: A Guide to Expense and Income Projections.*** A step-by-step walk-through of each expense and income category, with explanations of how to calculate projections for each.

SECTION 3 - ***Budgets and Rents for TIL Buildings*** (pages 22 – 26) Covers issues that are unique to TIL buildings, including budgeting while you are in TIL, setting rents for vacant apartments, and rental assistance and lost income through Interim Payment Agreements (IPAs).

SECTION 4 - ***Budgets and Maintenance Fees for Co-ops*** (pages 27 – 29) Covers the change in budgeting when your tenant association purchases your building, and why it is in your co-op's best interest to raise maintenance fees by a small amount every year after you purchase.

For more information call:
UHAB (212) 479-3300
or HPD (212) 863-7317

Finally, if you have any questions, don't be afraid to contact HPD or your UHAB representative.
Good Luck!

Section 1

LAYING THE GROUNDWORK FOR FINANCIAL HEALTH

Introduction

Running a building is in many ways like running a household. Money coming in every month must be carefully managed to pay for a variety of expenses. Some bills must be paid every month. Others come at certain times of the year, and sometimes there are unexpected expenses as well. You may sometimes find yourself caught short, or you may even bounce a check, because you did not keep careful track of the money coming in and going out of your bank account. Budgeting and careful financial management can help prevent these problems in your household *and* your building.

Remember, in your building you are managing the money of every tenant. You have been entrusted to fairly collect and wisely spend the rent of everyone in the building, so careful management and budgeting are essential.

Good financial management will help you keep track of the money coming in and going out of your building's bank account, and provide you with clear and complete records of income and expenses. This will enable you to prepare good budgets, which help you know how much money you need and spend it where it will do the most good.

This section discusses the basics of managing your building's banking. The next section will help you prepare and use a budget, and the last sections will discuss setting rents, maintenance fees, and other items specific to TIL buildings and co-ops.

Refer to your copy of UHAB's

"MANAGING MONEY AND KEEPING RECORDS FOR TENANTS IN CITY-OWNED BUILDINGS"

manual for detailed information on setting up your bookkeeping system.

Protecting Your Money

OTHER BANK ACCOUNTS

In addition to your regular checking account, your association should establish at least one other bank account: an interest-bearing savings account for reserves. Some tenant associations also decide to set up a separate payroll account, from which to pay employees' salaries and payroll taxes. Having separate accounts helps you set aside money for specific purposes, such as reserve funds and payroll expenses. When it's time to use reserve funds for large repairs or improvements, the needed amount should be transferred from the reserve account back to the regular checking (operating) account. Checks are then written to pay for the repair job.

If the tenant association or co-op board has security deposits from tenants, they should be kept in a separate, *interest-bearing* account. The interest goes to the tenant. Security deposits need to be returned when tenants purchase.

When you entered TIL, your tenant association opened a checking account for depositing building income and paying bills. To keep your building financially healthy, you need to make sure that money comes into the account on time, is carefully spent, and is fully accounted for.

Tenant association funds are accounted for by creating a "paper trail"—written documentation of all money transactions. This helps the association keep track of where its money is going, and provides proof of how the money was spent to tenants, HPD, and anyone who wants to check the books.

Rules for handling tenant association money:

- → All bills should be paid by check—never cash. Checks create records of tenant association expenses and transactions.
- → Each check must be signed by two association officers (**there should be at least three officers authorized** to sign checks on the tenant association account). If two officers are related to each other, or members of the same family, only one should be authorized to sign checks, not both.
- → No officer should sign a check to him or herself. This safeguard prevents one person from making important spending decisions alone. It also reduces the possibility, or appearance of, financial wrongdoing by any officer.
- → All rent must be paid with check or money order, never cash.
- → All bills should be reviewed and approved by the officers before being paid.

- → **No officer should sign a blank check**, or any check without an approved invoice attached.
- → All bills must be original, and stamped with the date and check number when paid. This will keep you from paying the same bill twice by mistake.
- → For large repair jobs and service contracts, always get several bids, compare prices, and check references before hiring a contractor. This way, you can ensure that the tenant association is getting the best possible value for its money.

Keeping Records

NO ATM CARDS

Some banks offer ATM cards and "online" banking services (from a personal computer) for their customers. However, the tenant association should NOT sign up for these services because, unlike checks, they do not create a clear, written record, and are open to possible abuse by one person.

A good financial record-keeping system helps your tenant association keep track of its income and expenses, and makes budget planning a much easier job. Your filing system should include folders for each month, containing the completed rent roll, cash disbursement, bank statements, deposit slips, cancelled checks, and summary forms, and all paid bills and receipts for that month. The rent roll and cash disbursement forms should be filled out neatly, with detailed descriptions of each expense item.

Today, many of these forms are available online. Storing records on the computer can save a lot of time and make it easier to find things, but backup disks should be made regularly, and printouts of important material should still be kept in the filing cabinet.

Financial records should be kept for at least five years, in a secure location in the building. For budgeting purposes, it's good for the association to have several years' history of income and expenses. You'll also need to have past financial records available for inspection by tenants (in TIL), and shareholders (after you buy the building), and by agencies like HPD and the Internal Revenue Service, who have the authority to conduct audits of association or co-op finances. If the association has an office where the other files are kept, it makes sense to keep the financial records there. If not, the treasurer may find it easiest to keep the current financial records in his or her apartment.

Remember that the records are the property of the association, not of any individual!

For more information on record-keeping, see Volume 5 of the *Homesteader's Handbook* series.

"A GUIDE TO OPERATIONS AND RECORD-KEEPING"

Investing Wisely

HOW MUCH TO KEEP IN A CHECKING ACCOUNT

Money in your checking account doesn't earn interest. Therefore, you shouldn't keep your savings in it. Keep about two to three rent rolls' worth in your checking account, and move the rest to an interest-bearing savings account. Except for CDs and Bonds, money can be transferred from a savings account to your checking account fairly quickly if an unexpected expense arises.

Whether you have one reserve account or more, make sure the accounts are interest-bearing, so that your money works for you while you save. Remember that bank accounts are only insured for amounts up to $100,000 through "FDIC insurance." If you have more than $100,000, divide it between two (or more) accounts *at different banks*, to be sure it all remains insured. You shouldn't have more than $100,000 with any individual bank.

If your tenant association or co-op has been able to save a substantial amount, you might want to consider putting a portion into an account that pays a higher interest rate than a regular savings account, such as a Certificate of Deposit (CD) account or U.S. Bonds. (*Never* invest the building's money in risky, uninsured investments such as stocks or mutual funds.)

Long-term investments like CDs and bonds earn more interest because you promise not to take the money out for a certain amount of time. Therefore, always be sure that money you commit to these kind of investments will not be needed by the tenant association in the short term. It's a good idea to consult a qualified financial advisor once you get to this stage. And remember, TIL buildings need HPD's permission to open any financial accounts.

Keeping Tenants Informed and Involved

Financial management and budgeting will be much easier if all tenants are kept informed and are encouraged to participate in the process. It is their money, and their right as association members—and in a co-op, as owners—to be informed.

Tenants are also much more likely to pay rent consistently if they understand that their payment is important and is being spent wisely on the maintenance and improvement of the building.

Likewise, tenants are much more likely to support or “buy in” to the annual budget—including any rent increases that might be necessary—if they have input into its preparation. It is therefore in the interest of the tenant association or co-op to give its tenants and shareholders regular financial information, and to educate them about the budget process.

To be informed, tenants should receive **regular financial reports** on the income and expenses of the association. Financial reports (including budget monitoring reports) should be a part of each monthly association meeting. In addition, tenants have the right to inspect the books and records of the association upon request, during “reasonable” hours.

Your tenant association should have a **finance committee**, made up of officers and tenants who **review the financial reports regularly** (at least quarterly). Monitoring different parts of income and expenses is the responsibility of the officers, the rent collection committee, and the maintenance and repair committee. The finance committee works with all these groups to monitor overall finances and oversee the preparation of the annual budget.

When preparing a budget, hold a special meeting to explain the process to all the tenants. **Let the tenants participate in making budgetary decisions**. Association officers and co-op boards of directors should consider forming a budget committee to assist in the preparation of the yearly budget.

The better informed your tenants and shareholders, the easier rent collection and other management tasks will be.

Section 2

PREPARING AND MONITORING A BUDGET

Getting Started

WHY BUDGET?

Learning how to prepare and monitor an annual budget is one of the most important skills you can learn while in TIL. Budgeting helps your tenant association prioritize expenditures, and makes it easier to track whether goals such as savings targets or major repair plans are being met.

A budget is simply a plan that describes how much money your tenant association expects to collect, save, and spend during the coming year. An annual budget also allows you to see if your building's income is sufficient to meet its expenses. If it is not, you will know ahead of time that you need to either cut expenses or raise rents.

While you are in TIL, the City may pay for some large expense items, such as major repairs, or possibly heating fuel, and at least initially the City sets the rent levels too. But when you buy your building from the City and leave TIL, the co-op corporation will have sole responsibility for paying the bills and setting the maintenance and rent levels. Therefore, it is important to learn how to budget now. After you become a co-op, you'll want to update your budget every year.

You can prepare a budget at any time during the year, but it is often easiest to make your budget year correspond with the calendar year (Jan. 1 – Dec. 31). Whenever you decide your budget year should start, you should begin the preparation process at least two months before. This will give you enough time to assemble the information you will need.

Before getting started, you should think about enlisting help, both from within the tenant association, and from outside sources. The officers may want to ask for tenant volunteers to serve on a finance committee. They may also want to contact UHAB or other technical assistance providers for assistance, and seek advice from other TIL buildings and co-ops in the neighborhood who have had experience in budgeting.

The Budgeting Process

THE BUDGETING PROCESS

1. Collect and analyze information.
2. Review plans and goals.
3. Make predictions about future costs.
4. Analyze income.
5. Finalize budget and implement new rents/maintenance charges.

Preparing a budget involves making educated guesses about what the building's income and expenses will be in the coming year. These guesses are called "projections," and are based on a variety of information.

The most important guide to a building's future expenses is the history of its past income and expenses, also called "past actuals," because they are what was *actually* spent. Therefore, the first step in the budgeting process will be **collecting and analyzing information** about what your building has been spending and earning, and why.

Sometimes plans, such as building improvements, will make upcoming expenses different from past expenses. So the second budgeting step is to **review all of your building's plans and goals** that might change your financial situation.

The third step of budgeting is **making the "projections"** themselves. For many items, next year's projection will be similar to last year's past actual, adjusted for inflation (rising prices). Other projections will be based on management decisions made by the tenant association. The amount of the superintendent's salary is an example of a management decision that has an effect on your budget. Some projections will depend upon budgeting guidelines required by HPD, or recommendations provided by UHAB or another technical assistance provider. These guidelines and recommendations are based on the accumulated knowledge and experience of hundreds of other TIL buildings and HDFC co-ops city-wide.

After projecting expenses, you need to project income, which is mostly calculating the annual rent roll with any planned increases. If you did not include an allowance for vacancy loss in your expenses, be sure to subtract it from projected income.

Ask HPD or UHAB for a current copy of "*Current Budgeting Guidelines*" for suggested expense projections based on average operating costs for TIL/HDFC buildings.

These are especially helpful for new TIL tenant associations, which do not have 12 months of past actual figures available.

Finally, once the projections have been made, income and expenses should be compared. If expenses are greater than income, the tenant association or co-op board must decide how to fix it: **cutting costs or raising rents**. Once these changes have been made, the association has a **final budget** that should be distributed to all the residents.

Collecting and Analyzing "Past Actuals"

The history of a building's previous income and expenses is the best guide to its future income and expenses. Gathering that history—your building's "past actuals"—is therefore the starting point in the budget preparation process.

To assemble the past actuals, you will need to refer to the monthly financial reports (cash disbursement and rent roll forms) for the most recent 12-month period. Actual bills and receipts should be on hand for easy reference. Add up the monthly figures for each expense category and enter the yearly total into the budget worksheet (page 17). (Make copies of this worksheet first, so you can use them in future years.)

Because your projections for next year will be based on these numbers, it's important **to think about what the numbers actually mean:**

Tenant associations new in TIL won't have 12 months' worth of records available. You can obtain a record of past fuel consumption from the fuel company that supplied the building prior to the building's entry into TIL. You can also get a record of electricity use from the utility company. New TIL tenant associations may also use HPD's *CURRENT BUDGETING GUIDELINES*.

- Were there any one-time circumstances that resulted in unusually large or small income or expense items?
- What major repairs were done with the "maintenance and repair" money last year that will not be expenses in the coming year? Are there other major repairs or improvements planned for the coming year, and how much will they cost?
- Did HPD supply the building with any free fuel during the past year? If so, the amount that your tenant association spent on fuel is not an accurate reflection of the cost of heating your building.
- How many gallons of fuel did you actually use? (Call your fuel supplier for a summary of gallons and cost for one full year). If you used more (per room) than other buildings, can you reduce consumption? (See page 1 of insert.)

- Were there vacant apartments or rent arrears that reduced your income, or increased your legal expenses?

- Was rent collection unusually high during this time due to any one-time arrears payments? If so, this should be kept in mind when projecting next year's income.

When you have gathered all your information (past actuals, repair estimates, etc.), and reviewed any special plans and goals of the building, you are ready to start making budget projections.

Making Budget Projections

SETTING MAINTENANCE FEES BY SQ. FT.

A basic co-op principle is that expenses are divided equally among shareholders. This means that HDFC shareholders who live in the same size apartment must pay the same maintenance fee. In most buildings this is determined by room count—the fee for all one-bedrooms is the same, all two-bedrooms, etc.

In some buildings, however, apartment size varies significantly among apartments with the same number of rooms. In these buildings, just counting rooms may not be considered fair. In these cases you can set maintenance fees by square footage. You will have to determine the square footage of each apartment, and set a rate per square foot that applies to all of the apart-

To make budget projections, take each budget category one at a time. Apply what you know about changing prices, management decisions, plans, and one-time circumstances last year or the coming year to determine how much it is likely to change. Enter the new cost in "next year's costs" on the budget worksheet (page 17, after insert).

COUNTING ROOMS

In order to project many expense items and to set maintenance fees, you need to know how many "zoning rooms" are in your building, and come up with a cost or consumption figure "per room." Use this guide for counting the number of zoning rooms in your building:

1. Count the number of rooms in each apartment in the building. Bathrooms should be counted as half (1/2) a room; all other rooms (kitchen, living room, dining room, bedrooms, etc.) should be counted as one room each. So a standard 1-bedroom is 3 1/2 rooms, a 2-bedroom is 4 1/2 rooms, etc.

2. Add together all of the rooms in all of the apartments throughout the entire building. This is your sub-total.

3. Subtract from your sub-total the rooms in any apartments that do not generate rent, such as the tenant association office, or the super's rent-free apartment.

The resulting figure is the total number of zoning rooms in your building.

The special insert to this manual will take you through all the budget categories in detail and help you make projections for each one.

BUDGETING MADE EASY

A Guide to Income & Expense Projections

This pull-out guide contains instructions for each income and expense item. For the most part, you won't find numbers and prices quoted here, since these quickly go out of date. For specific recommendations on how much to budget for various items, refer to a current copy of HPD's *Current Budgeting Guidelines.*

When budgeting, it is better to be safe than sorry. You may be tempted to underestimate or eliminate some items, but that might leave you short of money when you most need it.

If you are not sure how to make a projection for a particular item, and there are no specific instructions in this guide, take the amount paid last year, make adjustments based on any changing conditions you know about, and then add a small percentage for inflation (2–3%).

This guide first goes through projecting expenses, including expenses that determined as a percent of the total, and then goes through projecting income. You will want to fill in your numbers as you go on a photocopy of the budget worksheet on page 19 (right after the insert).

Happy Budgeting!

"**After sale" items, for co-ops, are shaded in gray**. These items must be included in disposition and co-op budgets, but are not paid by TIL buildings while in city ownership.

PART 1 — PROJECTING EXPENSES

Projecting Expenses

Fuel and Utilities

WATER AND SEWER CHARGES
Although many people think of water sewer charges as a tax, they are not. They are like utility charges and are not deductible from corporate income tax. Base your projection on last year's actual expense, but allow for an increase in price (at least 3%) due to inflation. There are two rate programs for water charges: a flat rate ("frontage" or the new "MFCP") for your building size or actual usage from a meter reading. You should read your meter and compare to see which program is less expensive for your HDFC. Contact UHAB or HPD to learn about rate caps and get help with estimates.

FUEL

Fuel for heat and hot water is one of the largest expenses in running a building. By shopping for the best price, and taking energy conservation steps in your building, your tenant association can make its money go much further.

It is important to be aware that fuel prices and consumption will vary greatly between winter and summer. Huge winter bills may be avoided by participating in "level payment plans" offered by some fuel companies.

To project your building's annual fuel costs, you will need to determine last year's consumption (how many gallons of oil or therms of gas were used), and the average price charged during the course of the year. You can obtain this information from your old fuel bills, or from your fuel supplier. If you don't have a history of past consumption, estimate 200 gallons of oil per room per year.

With an efficient building and heating system, consumption may be as low as 150 gallons of fuel per room per year. If consumption is higher than 225 gallons per year, there is definitely room for improvement.

If last winter was relatively warm, you should project an increase in consumption for the coming year—say 10%. You might also project an increase in fuel costs if the price of oil and gas is predicted to increase.

UTILITIES

Your utility bill covers electricity for lighting public areas inside and outside the building and running the elevator. Base your projection on last year's actual expense, but allow for an increase in price due to inflation. Government deregulation of utilities may present you with a wider choice of utility companies and prices.

Maintenance and Repair

PAINTING

Reflects all painting expenses. This item will vary for each building, depending on the size of the job and the condition of the walls. You should project enough to allow for painting the public areas of the building approximately every five years. You may also want to budget for painting some apartments. While in TIL, the tenant association is responsible for the maintenance (including painting) of all apartments. After your building becomes a co-op, each shareholder will have responsibility for the maintenance of his or her own apartment. However, the co-op corporation will continue to be responsible for maintaining those apartments that are rented.

PLUMBING

For many buildings, plumbing expenses are ongoing and significant, warranting a separate expense category. Use last year's actual expenses as a general guideline for your projection.

MAINTENANCE CONTRACTS

All buildings should have at least one maintenance contract: for their boiler. This contract should cover both the annual clean-out and servicing the boiler should the need arise. A boiler maintenance contract can be obtained either from your fuel company or from an independent boiler service company.

Buildings with elevators should also contract with an elevator service company. Other possible maintenance contracts include: pest control, chimney cleaning, and washer/dryer maintenance (for buildings with communal laundry rooms).

Maintenance contracts should be fairly steady costs each year, factoring in some increase for inflation.

GENERAL REPAIRS

This category reflects all repairs other than plumbing, painting, and major building improvements. Your projection will vary greatly depending on the repair needs of your building, how those needs are prioritized, and the amount of money available. You will need to project at least enough to maintain basic building services and perform routine repairs (boiler and heating system maintenance, repairing broken light fixtures, door locks, etc.). You will also want to allow for needed upgrades and major repairs to maintain your building in the future as recommended by your maintenance and repair committee. Projections for specific repairs could be based on contractor quotes, the advice of other TIL buildings and co-ops, or cost guidelines available from HPD or technical assistance providers like UHAB.

OBTAINING FINANCING FOR MAJOR REPAIRS

Taking out a low-interest loan for major repairs or building improvements can be a smart move economically, especially when the co-op does not have very large amounts of money in reserve. In some cases, taking out a loan may help your co-op to get a reduction in real estate taxes, or to avoid high corporate income taxes. Talk to your UHAB coordinator or local technical assistance provider about your building's needs, and the possibility of getting a loan. but remember that getting a loan requires months of advance planning.

JANITORIAL SUPPLIES

The cost of cleaning supplies such as mops, brooms, cleaning fluid, garbage bags, etc. Base your projection on last year's expense, but include inflation.

Taxes

REAL ESTATE TAXES

All property owners in New York City, including HDFCs, must pay real estate taxes. Some HDFCs have J-51 tax abatements as a result of major capital improvements, but J-51s are not permanent. After a certain period of time (15–40 years) real estate taxes will be charged again.

Real estate tax is one of your HDFC's largest expenses. It is calculated by multiplying the tax rate by the assessed value of the building. For HDFCs that went through the Division of Alternative Management Programs (known as "DAMP" HDFCs), there is a tax cap that limits the assessed value, and so limits the amount than an HDFC is charged.

To estimate next year's taxes, check to see if the tax rate has changed (doesn't happen very often). If your building is eligible for the tax cap, check the HPD chart that lists the yearly increase in tax cap amounts through 2029. Use either the tax cap or your most recent assessment to figure your taxes.

If you need assistance, contact UHAB, visit www.uhab.coop, or contact HPD.

CORPORATE TAXES

All HDFCs must file annual federal corporate income tax reports, and pay the tax. This tax is based on the "profit" of the HDFC over the course of the year—income earned minus expenses. Your accountant will prepare these reports and advise you on any payment due. The IRS report is due by March 15 each year. HDFCs are exempt from city and state corporate income taxes.

If your income was much higher this year than last year (for example, if a number of arrears were paid off or vacant units rented) you should budget additional money for corporate taxes.

Professional Fees

LEGAL FEES

As a co-op, you should continue to budget for legal fees associated with housing court actions. You will also need to budget for an attorney to provide corporate legal advice to your HDFC co-op, on issues concerning corporate documents and policies such as resale and subletting.

Base your projection on last year's expenses, but adjust for the expected level of court actions for the coming year.

ACCOUNTING FEES

Every HDFC needs to hire an accountant to prepare their annual financial statement of income and expenses, which by law must be distributed each year to every shareholder in the building. The accountant will also prepare the building's federal corporate income tax filing.

Most accountants will meet with your board to discuss their proposed work and fees before you sign a contract. The more complete and organized your records, the less time your accountant will have to spend, and the less it will cost. If you give your accountant a shopping bag full of receipts and cancelled checks, it will take them more time and thus be more costly.

If your records are in a similar condition, your accountant's fee should be similar to your past actual.

BOOKKEEPING FEES

Some buildings hire a bookkeeper to help maintain their day-to-day financial records. Typically this includes maintaining the monthly rent roll, cash disbursement forms, bank reconciliations and monthly summary sheet. Bookkeepers typically work on an hourly rate though some will agree to work for a monthly fee. If you are paying a management fee, bookkeeping fees should be included, not separate. Estimate the amount based on last year's contract, or a quote from a new bookkeeper.

Assets

RESERVE CONTRIBUTIONS

A reserve fund ensures that the tenant association or co-op will have money available for unforeseen emergencies, and for major building improvements and systems replacements in the future. A reserve fund is a necessity, and should be established as soon as possible after entering TIL, in a separate interest-bearing savings account. The association should make monthly contributions or "deposits" to the reserve by writing a check from the checking account to the reserve account. This system makes it easy to keep track of savings, and encourages the tenant association to "pay" the reserve fund every month, just as it pays the other regular bills.

TIL buildings often determine their reserve contributions based on a goal of how much they'd like to have saved by the time they purchase. To calculate a monthly contribution using this method, see the box on the next page.