

THE COOPERATOR

News and updates for leaders of resident-owned communities

Tackling Capital Improvement Budgets

Answering all your questions about Capital Improvement Budgets and more

It's almost time for cooperatives to start developing their budgets for next year and we thought it would be a good time to review and discuss your capital improvement budget.

This article will review 1) What is a capital improvement and why is it important? 2) How does your spending authority factor in?, and 3) What's the difference between a capital improvement and an operational expense?

What is a Capital Improvement?

Capital improvements are items that require large investments of cash for the basic needs of a community. Generally, these are hard items such as roads, sewer, water, electric and buildings. However, vehicles, tree removal, and playgrounds may also be considered under capital improvements.

Making a plan around these capital intensive projects is essential for the cooperative to maintain infrastructure that ensures the quality of life for all residents. Additionally it helps the cooperative plan for larger



"SHOVELS IN DIRT" 2021

projects that might come with small lot rent increases instead of being burdened by large bills that would cause sudden and dramatic lot rent increases.

NCF recommends a three step process in approaching your capital improvement budget year over year.

1) **Assess your community's needs** based on your last five years of improvements and the new projects that have arisen beyond those identified in your property conditions

report during your purchase. If you need help assembling this list, your TA provider can help you do this. Once you get a complete list, begin placing priority based on need and cost. If you are not sure how much something might cost, assign Board members to different projects and report back when they get a quote from a qualified contractor or engineer.

2) Once you have a list organized based on priority, **design a timeline**
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Minnesota's Legislature passes housing bill, includes big wins for manufactured homeowners

On June 24, the Minnesota House advanced a final housing bill just days before the June 30 special session deadline. The bill included several notable wins for Minnesota manufactured homeowners including changes to how manufactured homes can be titled and increased funding for cooperative acquisitions of manufactured home communities and infrastructure improvement projects. The bill also included a phase out plan for Governor Walz' months-long eviction moratorium. See 'Navigating the end of the eviction moratorium' on page 5 for more on the eviction moratorium phase out.

Real Property Titling for Manufactured Homes.

Like the majority of states across the country, manufactured homes in Minnesota are titled as personal property if they are sited in a land-lease community (ie: a community where the residents own their homes but rent the land underneath the home). The 2021 housing bill approves a new policy that allows owners of manufactured homes in cooperative- or nonprofit-owned communities to title their homes as real property instead of personal property.

NCF has advocated for manufactured home titling reforms for many years. We hope the new real property designation for homes in our client co-ops will attract new lenders to the manufactured housing market and improve the loan terms available to homeowners. A more in-depth analysis of the new manufactured home titling law will be available in the next edition of The Cooperator.

Changes to the Rehabilitation Loan Program

Minnesota Housing's Rehabilitation Loan Program (RLP) assists low income homeowners in financing basic home improvements that directly affect the safety, habitability, energy efficiency, or accessibility of their homes. The legislature approved an expansion of the program to include manufactured homes in land-lease communities as eligible for the program. The loan amount maximum was also raised from \$27,000 to \$37,500 per loan. Learn



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more about the program by visiting the Minnesota Housing website: mnhousing.gov.

Opportunity to Purchase

This year, a group of homeowners from manufactured home communities across the state led a campaign to pass a law that would provide manufactured homeowners with an opportunity to purchase their community any time the property was going up for sale. Six other states across the country have opportunity to purchase laws, including in Colorado, which passed the law in 2020.

The bill language was included in the House of Representatives omnibus bill, but did not receive a hearing in the Senate so was not included in the final housing omnibus bill. The campaign's leadership plans to bring the bill forward again in 2022. Learn more about the opportunity to purchase bill by visiting the campaign's website: mn4otp.org

Funding Allocations

The housing bill includes \$10 million in new, one-time funding and \$100 million in Housing Infrastructure Bonds (HIBs).

Of the \$10 million in one-time funding that was allocated, the Manufactured Home Park Infrastructure Program (MHCRP) received \$1,750,000 in addition

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Tackling Capital Improvement Budgets (cont.)



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Board is dictated by your by laws. The annual operating budget and corresponding lot rent amount is typically approved by the Board and then presented to members for approval. If members fail to approve the budget for any reason, and the budget meets all of the contractual requirements that the co-op has with its lender, the Board alone can approve it without holding another membership vote.

Your bylaws also state that any decisions to commit expenditures of \$2,000 or more of the cooperative's resources in a fiscal year that does not appear in the approved budget, must be made by members at an annual, special, or regular meeting of the membership. This same rule applies to capital improvement and replacement reserve expenditures that exceed a certain amount (typically \$3,000-\$5,000) per fiscal year, except in the case of emergency repairs. If an emergency arises, the board needs to notify the members at the next meeting.

What does this mean for your budgeting process? It means that any expenses over \$2,000 should be included in your budget for next year. If, in mid-2022 your board decides to purchase a piece of equipment, for example, and the price tag is \$6,000, you will need members to authorize this purchase.

In short, we recommend planning ahead as much as possible to avoid having to go back to members for approval of expenses. Review your bylaws and make sure your Board is clear on the limits of their spend-

ing authority so that members never feel like the Board is acting out of bounds.

But is it a Repair Expense or a Capital Improvement?

All Boards have asked this question. A repair expense will be made from the co-op's bank account, which will reduce the co-op's cashflow and profit and a capital improvement payment will be made from the reserve account.

If the transaction involves a large



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dollar amount, knowing the answer can have a substantial impact on the cash you have available to pay other operating expenses.

Because your lender controls access to the co-op's reserve account, your lender will determine whether the transaction will be treated as an expense or a capital improvement. In turn, your lender looks to the IRS for guidance.

There's been much debate and controversy regarding whether, or to what extent, the amounts paid to restore or improve property are capital expenditures or maintenance expenses. It helps, *cont. pg 4*

based on your current replacement reserve. If your replacement reserve does not have the funds needed, begin devising a plan with your TA on what additional funds are required and start setting aside cash annually. **Note:** *Adjust your budget annually based on any emergency expenditures required during this period of time.*

3) **Review and reassess.** While we would love to think cost estimates are fixed, we know that every year prices change. Make sure to update your budget annually so that it reflects the market and the current cost of materials.

Your capital improvement budget is a tool we encourage all cooperatives to use to maintain and improve their community. Please reach out to your TA provider with any questions or concerns.

Your Spending Authority

Your spending authority as a

NCF welcomes newest staff member, Soren



Soren Stevenson, 2021

NCF is excited to announce the hiring of Soren Stevenson as of May. He is the new Real Estate Development Officer and will be spearheading the market development in the Resident Owned Communities (ROC) program with the intention of expanding the number and geographic distribution of conversion deals each year. Soren comes from a background in research with his most recent focus being in housing instability and community engagement. It was through this research that he heard about ROC USA and was turned on to NCF.

Soren hails from Oregon but has been living and working in Minnesota while he got his masters in policy at the University of Minnesota. It was there and at the Center for Urban and Regional Affairs that he did his research and projects on the many housing issues facing Minnesota. His mother's side of the family is from Duluth and he has family in the Twin Cities, so his move to Minnesota is somewhat of a return to home.

Interested in seeing people and communities traditionally excluded from power and wealth accessing their fair share of both, Soren believes in the ingenuity of people often dismissed by mainstream powerbrokers. This belief drew him to NCF to advance access to wealth and control of property through cooperative ownership. NCF is excited to have him join the team and looks forward to expanding NCF's conversion capacity with him onboard.

When Soren isn't working he can be found advocating on social justice issues like police brutality or spending time in nature, be it his garden or backpacking.

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therefore, to understand the IRS's position on the question.

The IRS has provided guidance to help answer the question by issuing regulations that provide some tests to clarify what's considered a capital improvement or an expense. Here are some tests used by the IRS to determine what qualifies as a capital improvement.

- Improvements that put the property in better operating condition, or restores property to 'like new' state;
- Creating an addition, physical enlargement or expansion;
- Creating an increase in capacity, productivity or efficiency;
- Enhancing the value of the property;
- Extending the useful life of the property;
- Replacing a major component or structural part of the property.

Recurring activities--such as inspection, cleaning, testing, and replacing parts--that are expected to be performed in order to keep the property in ordinary operating condition are not capital improvements.

Usually, the 'expense or capital improvement' question for co-ops involves sewer and water lines, roads, buildings, and trees. Looking at the IRS guidelines, the key words to consider in most instances is "Replacing" versus "Recurring." For example, jetting a sewer line would be considered a recurring expense, but repairing a break in the sewer line would be a replacement. Tree trimming is a recurring expense, but tree removal in order to place new homes could be an improvement. Re-roofing a building could be considered replacement of a major component, and would be a capital improvement.

As a rule, whenever an expense involves a large dollar amount, and you think the expense may qualify as a capital improvement, you should first contact your lender. Consult your NCF technical assistance person if you have questions about the process.

Navigating the end of the eviction moratorium

What does the lifting of state and federal eviction moratorium mean for your co-op

It is a confusing time for boards of housing cooperatives. There is a lot of information being shared about the eviction moratorium and we want to clear up some misperceptions.

To date, and there have been several developments related to federal and state eviction moratoriums. Starting at the federal level, the eviction moratorium ends July 31st, 2021, and defers to states' local protections.



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Minnesota

In Minnesota, there is a phasing out of the moratorium over the next several months. The 'off ramp' is somewhat complicated and you will want to work with an attorney before taking any action against a household in your community. As of July 14th, the only way an eviction can be filed is if the household is seriously endangering others, there is illegal activity happening on the property, or if they are behind on lot rent and eligible but unwilling to apply for

assistance through renthelpmn.org. A 15-day notice is required before filing an eviction for nonpayment. This notice must state the following:

- eviction moratorium has ended
- the tenant can be evicted
- the total amount of rent due
- info on getting rental assistance

Starting September 12th, if a household is not eligible for assistance and is behind on rent, an eviction may be filed against them. Most of the phaseout protections end on October 12th, except those with a pending application through renthelpmn.org.

Any pending applicants are protected through June of 2022. Again, please consult with an attorney and/or visit homelinemn.org for more information.

Wisconsin

In Wisconsin there are not any additional restrictions on filing of evictions after July 31, 2021. Wisconsin Emergency Rental Assistance (WERA) can be accessed by applying to your local community action agency. Visit wiscap.org/wera for more information.

In Memorium; Passing of two co-op leaders

Clear Lake Estates Cooperative in Siren, Wisconsin recently lost a founding board member. Dr. Cary Behm, Doctor of Chiropractic, died unexpectedly on May 1, 2021. Cary had been a resident of Clear Lake Estates since 2017 and served as board treasurer from the date of resident purchase in June 2019 until his death.

Bennett Park Cooperative in Moorhead, Minnesota lost a board member. Cynthia (Cindy) Schwindt passed away on June 19, 2021. Cindy had been a resident of Bennett Park since 2014, a board member during 2019, and then board president from 2020 until her death in June.

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to the program's existing base appropriation of \$1,000,000. The total amount available through the MHCRP in 2022 will be \$2,750,000. Eligible uses of the MHCRP include manufactured home community acquisitions and community improvement projects. Funds are available once a year, typically in mid-August, through a competitive application process.

The Workforce and Affordable Homeownership Development (WHAD) Program received \$3,250,000 above the program's existing base appropriation of \$250,000 per year. The total amount available through the Workforce Homeownership Program in 2022 will be \$3,500,000. WHAD provides one-time grants for residential housing development and rehabilitation, land development, and infrastructure development and repair for manufactured home communities. Funds are available once a year, in mid-July, through a competitive application process.

You can learn more about the MHCRP and WHAD program by talking with your NCF Technical Assistance Provider and by visiting the Minnesota Housing website at mnhousing.gov.

Perhaps the most notable outcome of the 2021 session for manufactured housing was the inclusion of a \$15,000,000 set-aside of Housing Infrastructure Bonds to be used for manufactured home community acquisitions and infrastructure improvements. The total HIB authorization approved by the Legislature was \$100,000,000.

Housing Infrastructure Bonds (HIBs) are limited obligation tax-exempt bonds issued by Minnesota Housing and authorized by appropriations from the General Fund of the Minnesota Legislature. The proceeds of HIBs may be used to fund loans that finance specific housing development purposes.

In 2018, the eligible uses of HIBs was expanded to include manufactured home community infrastructure improvements and expanded again in 2019 to allow HIBs to be used for acquisition of manufactured home communities.

Watch What You Flush! Public Service Announcement



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While many of us are aware of the limits of sanitary sewer systems, it never hurts to remind homeowners in your community about what can and cannot be flushed. Foreign materials like paper towels, napkins, wipes (even if they are labeled as 'flushable') and grease can build up and cause serious backups in the system. Cooking oil should always be thrown out in the regular garbage. In addition to a major headache for the cooperative to deal with, costly repairs can be a huge financial burden and ultimately impact your lot rent. Educate all households about the importance of flushing toilet paper only and not disposing of grease in sinks or toilets.

Have an idea for the next Cooperator?

Email or call Emily Stewart
emily@northcountryfoundation.org

(612) 767- 2132

All ideas are welcome!



Common Ground Conference

Wednesday, August 4, 2021 to Thursday, August 12, 2021

Held entirely online!

Announcing the fifth annual **Common Ground Conference** sponsored by the Northcountry Cooperative Foundation! Common Ground is a conference designed for leaders of housing cooperatives who are interested in learning from and connecting with others in their field.

NCF has scheduled **seven** unique discussions over the course of a week and a half that will focus on infill, board recruitment, financials, marketing, and emergency preparedness. We hope to create space for participants to share best practices, inspire new projects, and connect with other community members in Minnesota and Wisconsin.

Community Grant Awards: NCF is excited to announce **Community Grant Awards** as a feature of this year's conference. If your community has two board members that attend at least one session, your community will receive a \$500 grant that can be used for a marketing related activity. **BONUS:** If your community has at least one non-Board member attend one session, your community will receive an additional \$500, for a total of \$1,000. (Note: To qualify, the non-board member(s) cannot be directly related to any current board member.)

Register today at

Northcountryfoundation.org

2021 Conference Agenda

Marketing on a Budget: Low-cost Solutions to Promote Your Cooperative

Wednesday, August 4, 2021 | 6:00-7:30 pm

Are you struggling to find new members? Fill vacant lots or vacant homes? Have you wanted to do more marketing but don't have room in your budget? If you answer 'Yes' to any of these questions, this session is for you. Join Sammi Chickering from ROC USA to explore a targeted manufactured housing marketing strategy that fits your budget and supports your community's specific needs.

Hosted by: Sammi Chickering, ROC USA

Solving Infill: Strategies and Resources for Filling Vacant Lots in Your Community

Thursday, August 5, 2021 | 6:00-7:30 pm

Back by popular demand, Tory Clark will facilitate a panel discussion of home dealers, realtors and credit unions that could be a resource to help your community solve for infill.

Speakers include:

- Facilitated by Victoria Clark, NCF
- Homes for All
- Credit Human

Board Recruitment: A 'How-to' Led by ROC Leaders

Monday, August 9, 2021 | 6:00-7:00 pm

Join us as members of ROCs from around the country lead a discussion about tools and tactics to recruit new board members for the growth and development of your cooperative. The first twenty minutes of the session will be led by the ROC Association Education and Outreach committee where they will present different board recruitment strategies that have been used successfully across the country. The remainder of the time will be dedicated to a facilitated discussion about tactics that you can use in your community.

Hosted by: ROC USA Network Education and Outreach Committee

Conflict Management Using Real-life Examples

Tuesday, August 10, 2021 | 6:00-7:15 pm

Conflict management can seem like an ongoing battle for some boards. Join us as we discuss some real-life scenarios that other boards have encountered across the country. We'll work through solutions as a group in order to learn new approaches that might help you manage similar situations the next time a conflict arises in your cooperative.

Hosted by: Julie Massa, ROC USA Network

Cooperative 101

Wednesday, August 11, 2021 | 5:30-6:30 pm

Do you have a new member who is interested in learning more about the cooperative model? Or just someone on the board who wants a refresher on how the resident-owned community model works? This session will cover all the basics, from structure, to decision-making, to your relationship with NCF and ROC USA. This is a great resource if you are trying to recruit new board members!

Hosted by: Tom Guettler, NCF and Julie Martinez, NCF

Financial Health: What I Need to Know About My Co-op's Financials

Wednesday, August 11th | 6:45-8:00 pm

Financials are the foundation of effective decision-making for any board, but can oftentimes feel overwhelming and complicated—especially if you're not a numbers person. NCF Staff will take this time to refresh your understanding of finances, especially the metrics that your mortgage lender is looking at. This session will be interactive, so if you can join by computer or smartphone, that would be ideal!

Hosted by: Emily Stewart, NCF and Julie Martinez, NCF

Emergency Preparedness: Does Your Community Have a Plan for When Disaster Strikes?

Thursday, August 12, 2021 | 6:00-7:15 pm

Does your community know what to do when a tornado warning goes into effect? Or when an evacuation is required? This session will focus on the steps to prepare, prevent, respond and recover from emergencies that might occur in your community. While none of us want to think about worst case scenarios, this session will help you think through all possibilities and the steps necessary to ensure the safety of everyone in your community. Julie Martinez will lead this session and provide resources to ensure your community has a plan in place before disaster hits.

Hosted by: Julie Martinez, NCF and Emily Stewart, NCF

ATTEND one session and we'll send you a 2021 Common Ground t-shirt and other goodies!

Courses will be held via **RingCentral**. Register in advance for all workshops via a link on the www.northcountryfoundation.org website. After registering, we'll send you an invitation that includes a link to connect to your session(s) by smartphone/tablet/computer, along with a phone number if you wish to connect by phone. All times listed are central daylight time.

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