1848 PROPERTIES INC.

HOUSE CORPORATION BEST PRACTICES

FINANCES/BUDGET BEST PRACTICES EXPLAINED

7. Implement a scheduled maintenance plan to reduce peaks and valleys in facility condition and extend the life of the facility assets.

Best practice: Routine maintenance on the various components of your chapter house will both extend the useful life of each component and reduce the possibility of an unexpected service interruption (as in having the furnace go out in the dead of a winter night for example), and emergency service calls come at a high cost and are often only a temporary fix to a greater problem.

Begin by making a list of all the various components that make up the physical plant (chapter house). These will include both structural components such as the roof and finish items such as painting. Components should also include personal property items such as furniture.

A comprehensive list of components would include:

- Roof - which may be under a full or partial warranty provided by the last installer
- Exterior walls – which need periodic re-grouting if brick or replacement if wood due to dry rot, joint separation or just age
- Plumbing- which includes all fixtures and hardware but also includes unseen and maybe difficult to access pipes such as the sewer lateral to the street.
- HVAC- which includes all Heating, Ventilation and Air Conditioning units and their related components such as ducting, controls and filters
- Windows
- Doors
- Electrical – which include both fixtures and service line components such as circuit breakers
- Flooring
- Life Safety components such as fire extinguishers, sprinklers and illuminated exit signs
- Personal property which includes furnishings such as tables and chairs, window treatments and movable appliances such as ovens and refrigerators.

After a list is made review each item to assess condition and determine whether the item has components needing regular servicing such as forced air heating filters, fire extinguisher refill or replacement, drain cleaning etc. For each item identified consult service manuals, service providers or the web to determine recommended servicing and replacement suggestions. It's also quite possible that a Graduate Brother in the contracting business can be a good resource for you on this.

Once a scheduled maintenance plan has been established keep the plan in a safe place and schedule an annual review and update to the plan as a regular annual Chapter or House Corp. event.

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8. Charge parlor fees to members not living in the house for their share of the cost of use and enjoyment of the chapter house.

Best practice: The chapter house represents many things and has many uses. While not all brothers can or maybe even want to live in the house, if the house offers live-in space, there is no question that all active brothers benefit from the privilege of having a place to meet, socialize and develop the lifelong friendships that the Fraternity encourages. The house also becomes part of the chapter's identity on and off campus for good reasons or for bad. For these reasons all brothers should be asked to (and hopefully willing to) help cover the operational expenses of the house.

A "parlor fee" is a traditional term in the Fraternity world for an assessment to non-live-in brothers to help cover the annual operating expenses of the property. While there is no specific formula for determining an appropriate fee, one practical approach is to budget total annual operating expenses for the coming year being sure to include appropriate replacement reserves and debt service on any property-related loans, subtract total room rental income from live-in brothers and then equally divide the difference among all live-out brothers. An exceptionally high allocation suggests an imbalance between the total occupancy cost of the chapter house and either or both the size of the chapter and the amount being charged to live-in brothers and will need to be addressed separately.

10. Have a written room contract with each individual tenant that is guaranteed by a parent or guardian, and/or a master lease between the house corporation and the chapter

Best Practice: Option 1: House corporation should have a master lease with the chapter and have the local chapter have individual leases with members.

Option 2: House corporation should have individual leases with members that are guaranteed by parent or guardian.

(Note: Another of the best practices is to be charging non-live-in members a "parlor" fee for their use/wear & tear on the house. Some/all of these funds should be given to the house corporation to off-set repairs and maintenance. Details on this topic are addressed in another section.)

Background/Information: 1848 Properties recognizes that there are situations where one best method of how do something might not be reasonable or practical. We feel in the case of leasing arrangements, having having two recommended approaches for house corporations is optimal. That said, we do feel that there is a "better" and "best" approach to handling the leasing function.

The "best" approach would be for the House Corporation to have a "master" lease with the chapter (see sample document). The reason we believe this is the better model is due to some recent court rulings (Fritzie for instance) which suggest that when the House Corporation is dealing just with the chapter this provides for a bit more “separation” from the conduct of the members and the programing of the chapter itself, resulting in more of protection to the house corporation should there be an incident at the property. (In more simple terms- we are the landlord renting to the chapter, we aren’t responsible for or knowing who the chapter has rented rooms to or what specific activities they are doing on the premises.) The key to this approach is being sure that the House Corporation stays in its lane and doesn’t get involved in Chapter Advising roles or doesn’t have men serving simultaneously in both a House Corporation and Chapter Advisor role

The “better” method of leasing would be for the house corporation to take responsibility for individual leases but to have these guaranteed by parents/guardians. The practice of guarantees is common in both the Greek system and by the University itself. Students living in University housing are almost always required to have a parent/guardian sign or guarantee the lease because it is understood that in the vast majority of instances the parent/guardian is fully/partially responsible for payment of the college experience and that studen’s generally don’t have assets. Further, it is understood, that the “threat” of recourse to a parent/guardian is often useful leverage in getting compliance by a student that is not cooperating.

Tools:

Please note that real estate/leasing laws vary from state to state. Therefore, if you use one of the sample leases, it is important that you invest in a legal review from a local attorney to insure that are compliant with your state’s laws. (For instance, the amount of time you have to return a housing deposit varies from state to state.)

Further, in the sample lease with a chapter, adjustments will be needed to account for practices such as who is paying for the utilities or repairs.

See sample House Corporation/Chapter Lease
See sample House Corporation/Individual member lease

<u>12. Budget for higher than expected operating costs.</u>

Best Practice: Consistent with prudent financial planning the chapter or house corporation should prepare an annual chapter house operating budget and have it adopted, ideally before the start of the next fiscal year. With regards to operating expense projections the best approach is to look at each item separately to determine an appropriate estimate for the coming year. Some items such as property taxes in some states have maximum annual increase limits which make budgeting easily. Most items are on a best guess basis however. A review and comparison of actual annual costs from previous years can yield an average growth rate estimate which can be useful but is not precise for many reasons. If historical expense costs are unknown or not relevant for whatever reason an estimate based on the most recent published annual CPI index can be used. This figure is published by the US Bureau of Labor statistics and is readily available on the internet. Once an appropriate cost amount has been determined for each item be sure to add an additional 5-10% of the amount determined to account for the likelihood of unexpected cost increases over the coming year.