SENTRY MANAGEMENT INC.

2010 Budget Season

It's That Time Again!

Can you believe it, it's almost here again. No, not Christmas – Budget Season. For all Associations operating on a calendar year, you and your managers should be talking about budgets for 2010.

If your association needs to bid out contracts, now is the time to do it. Start by putting together specifications for the bids. These early bids will provide a good working outline to see what you need to do next year and what you would like to do next year.

If you haven't revisited bids for your reserve replacement schedule in two or three years, now is the time to get those bids. As you know, everything has increased in cost. That means that your current replacement costs for roofs, roads, paint, pool surfaces, gate operators, have all probably increased and the as the Board, you should be taking those increased costs into consideration for the 2010 budget to ensure that long term capital replacement items continue to track for eventual replacement when they are needed. If replacement costs are kept current, there should be little or no possibility of a special assessment when the component is replaced at the end of its useful life.

Budget Starvation is the effect of keeping the maintenance fees and reserves unrealistically low, resulting in deferring maintenance beyond the point of simple maintenance which most often results in either special assessments or in the worst case, decline in appearance, functionality, safety and VALUE, not only to the association but to each owner in the association.

The accuracy of the budget directly affects future year's budgets and maintenance fees. Under-budgeting creates shortfalls which are often covered by the use of Reserve funds which are earmarked for future replacement and repairs. This may fix the short term problem, but causes a shortage in reserve funds affecting long term capital repairs or replacement.

If these shortages are not corrected in the year they happen, a domino affect results. Year after year until the community finds itself in a precarious financial position: not enough funds to operate properly; little or no reserves to do long term replacements or major maintenance; a steady decline in appearance and maintenance of things the Board has a fiduciary responsibility to ensure are taken care of.

For a community association budget, the process is almost the polar opposite of what an individual would do to budget. An individual or household determines first what their income is and then assigns portions of it to housing, food, insurance, transportation, clothing, etc. An association determines what the expenses are estimated to be and then determines the source of revenue (assessments). Maintenance fee levels are the ***end product*** of the budget process, not the starting point. Deciding what maintenance fees will be and then producing a budget to equal that amount will usually produce disastrous results that everyone will eventually pay for.
To help ensure more accurate budgeting, check the costs of those things you cannot control: electric, water, water & sewer, trash removal, insurance? Call the provider to see if any increases are in the works. Plan for those increases. If nothing else, the budget should at least increase to cover these costs every year. Holding the line in light of this increase requires the use of needed funds from other areas of maintenance in the community that generally has detrimental results.

Another consideration is planned additions to the common areas: added street lights, a new gate, additional irrigation, a new fountain, all of these will require additional operational costs to the Association.

Use your current receivables as a trend and make a decision to budget for bad debt. Is it fair? No. But it is prudent business planning to ensure that your association has sufficient cash flow to operate efficiently.

Of importance is to understand is there are multiple considerations that banks and lenders look at these days in order to provide financing to new owners. One is the examination of reserve funds. To ensure they are there, to ensure they are adequate. A healthy reserve fund will enhance and preserve the value of a home and will avoid special assessments.

The second item that bankers and lenders consider are special assessments. What were they for? Did they provide for a capital improvement which increased the value of the property or were they to provide operating funds because the budget was underestimated and the fees are being kept low? The former is good, the latter is not.

Now is the time to plan, while there is time to collect the information necessary to make the best decisions for the association.