

Planning Ahead

Can you believe it? Budget Season is right around the proverbial corner. All associations operating on a calendar year, should be talking about the operating budget for 2011.

It would seem that not much has changed in the past couple of years. The economy is still not where it should be and everyone is still tentative about making long term investments. One place where we need to make an investment is in the time it will take to create a real, living budget for your community. Now is the time to begin making your *wish list* for projects you would like to do and to make a *now list* for things that absolutely need to be done next year. This list will generate the need for knowing how much to budget. That need will require bids for those projects to enable the Board to be realistic about how much income will be required. Don't wait until October or November to get those bids. Begin gathering them now so there is no pressure on you, the vendor or the manager when you are assembling the budget.

Do you need to update your Reserve Study? If you haven't revisited your reserve study or bids for your reserve replacement schedule in two or three years, now is the time to get those bids or have the study updated. 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 as the Board, you should be taking those increased costs into consideration for the 2011 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, a drastic 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 years' 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 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 reserve funds are there and 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 might view as a negative, 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 for the next year.