



## Tips for Budget Season

All associations, condos and HOAs alike, are required to prepare an annual budget. Even the most experienced board or committee members can find this task arduous. The budget must show the estimated revenues and expenses for the upcoming budget year. This process involves two main components: operations and reserves.

Although budgeting can be a complex process, it doesn't have to be stressful. Breaking down the main components will allow those involved to ease into budget season. The following tips are meant to serve as a quick guide through the budgeting process.

Month	1	2	3	4	5	6	7	8	9	10	11	12
5.75	50	8.25	3.25	4.8	3	6.05	10.25	14.38				
7.02	18.44	20.77	5.88	3.96	4.4	1	0	11.2				
0	3	1.5	4			0.5	11	8.5				
3.11	0	0.5	0	0.37	0	0	0	11.5				
3.13	2.7	53.32	2.37	0.8	1.31		22.08	2.24				
3.81	984.9	984.76	1102.5	1344.79	1481.18	1707.52	1918.93	2034.06				
5.86	148.99	211.18	54.33	411.85	228.81	55.33	159.66	299.93				
Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov				
2.85	13259.77	14016.78	1094.89	12901.21	12621.01	16806.73	213.05	12941.58				
5.37	925.81	1232.46	1040.6	1152.52	1210.19	2180.86	2100	1938.81				
1.89	2990.29	3408.59	445.21	3400	2956.12	3779.39	325.32	3032.2				
2.52	340.83	445.02	491.75	442.9	443.92	603	774.59	695.94				
4.23	8983.85	8323.28	128.76	5744.81	4654.11	6468.39	3883.6	6088.4				
92.9	1878.85	1858.25	78.12	1818.73	1830.85	2288.69	165.45	2480.94				
2.87	811.7	850.27	13.35	979.53	847.84	1067.62	1163.01	1107.32				
2.45	482.48	561	83	515.79	558.86	645.75	549	589.88				
5.55	416.47	390.98	38.7	403.78	402.73	329.77	367.56	313.65				
59.8	57.72	80.6	4.1	87.88	95.36	74	85.28	56.98				
8.08	1.24	0.99		17.86	1.88	7.7	1.3	0.71				
2.75	1	0.75		3.70		2.5	0	2.6				
4.74	196.66	313.82	2.14	0.35	3.70	710.8	784.08	738.56				
3.24	173.81	306.82	2.03	141.87	143.82	153.71	119.41	121.48				
0.2	0.2		14.44	0	20.7	0.19	0	7.47				
2.35	30.8	16.55	28.4	30.25	28.35	45.7	28.85					
13.3	20.33	15.4	15.92	19.29	18.99	44.92	88.48					
8.98	7.1	1.28	0.82	1.72	9.5	238.59	305.48					

### Operating Component

Begin reviewing the year-to-date expenses for each line item and identify areas that are over or under budget. By identifying these areas early in the budget process, the association can pay special attention to items that need adjustments for the coming year. On occasion, incremental increases are often required to fund an association's budget fully.

Current vendor contracts should be reviewed for scheduled increases. For example, if the landscape vendor proposed a minimal increase currently, would the board of directors be happy with the level of service and approve such a request? If not, it may be time to discuss vendor performance and solicitation of proposals for the coming budget year. Estimated costs for non-contractual expenses like general repairs and maintenance, utilities, and certain administrative costs should be discussed.

- Utility expenses typically increase from year-to-year, which may vary based on your geographic location.
- General maintenance expenses are essential to consider due to the broad range of costs included in this line item. Additionally, if the association is

nearing its expected life of a reserve schedule project, more funds may be spent on general maintenance for those minor repairs.

## **Reserve Component**

Reserves are used for two main expenses: capital expenditures and deferred maintenance. This may include repairs, replacements, modernization, or maintenance of items, such as elements of a building envelope, pavement, common area, amenities, and other physical features. Reserves are generally collected over the years, not just in the year they're expected to occur.

Now that we understand the nature of reserve expenses, let's dig a little deeper into how reserves are calculated and documented in the budget. Most associations will engage a professional reserve study company to evaluate and provide a reserve study schedule. This reserve study professional will give a detailed plan that analyzes useful life, remaining useful life, and replacement cost.

The association may also have specific projects it wants to complete that are not covered by reserves. This may include pool retiling, landscape improvements, irrigation, and costs to maintain tennis, racquetball, or pickleball courts. This should be communicated to the reserve study preparer before completing a new reserve study or reserve study update (typically every three years.)

## **Preparation is Key!**

Most boards strive for a successful budget process; one that is as quick, easy, and as painless as possible. The decisions made as part of adopting each annual budget will have short- and long-term benefits (and consequences) for the association, so here are a few things to think about when preparing for budget season in your association:

- Don't be afraid to begin early. Most calendar year budgets are started in early summer, and the initial draft completed by October 1<sup>st</sup>.
- Consider appointing a budget committee; the committee can assist with polling homeowners, identifying future projects, assisting with vendor RFPs, and much more.
- Be proactive; don't put off large projects and deferred maintenance.
- Ask Questions! Sentry Management offers a multitude of resources for board members.
- Schedule reserve study completion by early summer (either new or updated).
- Create a communication plan early on, allowing transparency for homeowners so they better understand the process and steps used by the board to adopt the budget.
- Weigh all options when considering an increase in assessments. A cost-benefit analysis may be helpful.
- Consider external factors when preparing a budget. As an example, weather events which can have a direct impact on the entire insurance market resulting in higher premiums or ongoing services engaged due to COVID.

Budgeting is a big job and if you break down each section of the budget, continually review the actual operating costs compared to the budget and focus on early budget preparation and planning, the association will be more than ready to breeze through the budget season. Happy budgeting!

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