

Budgets - The Agony & The Ecstasy

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**Community Associations Institute
Washington State**

Why Budgets???

Important Time to Evaluate the Association's Obligations, Needs & Expectations

Next, budget planning is an important time to evaluate the Association's obligations, needs and expectations of its members. It is a time to reflect on exactly where funds are being spent and to project where funds can best be spent in the future. The board has a fiduciary duty to its members to set reasonable assessments, and then spend those assessments in the best interest of the Association. A budget requires the board to evaluate its current policies and procedures. It also gives direction to a new board of directors and supplies an important tool to analyze their spending habits during the upcoming year.

Budget Do's and Don'ts

Don't automatically assume the validity of every expense. Just because an item was on the budget (or always has been on the budget) don't assume that it still needs to be there - or needs to be there at a predetermined amount. Question all line items. Does it really fit into the Association's obligations, needs or expectations? For example, does the pool really need to be heated all year, does the Association really need to change the color at the front gate every six weeks, or does the Association have the most efficient lighting system in the complex? Take some time each budget year to challenge all previously conceived assumptions

DON'T take last year's numbers and increase them by the cost of living index. For that matter, don't increase them **by any set percentage**. That may be used as a rule of thumb, but there is no reasonable basis to expect that every item is going to increase at the same percentage.

DO examine each expense item individually (at least those of a substantial dollar amount). Be sure and understand what your expectations are of that particular expense in the upcoming year...and how that will affect the dollars to be spent. For example, should the Association increase or decrease the number of hours the paid security staff will work, will the Association trim more or less trees next year, will the Association have an audit or review of your financial statements, or will the Association keep the pool open more or less, etc?

DON'T start by determining the assessment income. That is, do not decide first what the assessment amount will be for the next year. Start with expenses first. Instead, go through the expenses line item by line item being realistic as to increases and decreases, changes in services, and additions and deletions of budget items. Then total these amounts to determine what assessment amount is required to meet these expenses. If the assessment amount appears unreasonable, then go back and determine what expenses you are willing to change to adjust the assessment amount. By starting with expenses, it allows the Association to focus on the real priorities and may cause the Association to reevaluate the appropriateness of your assessment amount for the Association style's of living.

Options to Resolve Shortages for Major Expenditures

Look to the reserve study. The replacement fund is set up to take care of major repairs and replacements – those that occur over a period of time longer than one or two years. In many cases the reserve study will include an amount for major repairs and replacements. It will also project when that expenditure is to take place. If it isn't currently in the study, possibly it could be added for a future year.

Reduce expectations, thus reducing the expense.

Take the additional amount from reserve contingency – but ensure that the contingency is not needed for other items.

Take a portion out of the operating budget for next year.

Do the project in phases.

Consider a special assessment.

Zero Based Budgeting

Zero based budgeting is a process that determines IF a line item is needed. It sets that line item to zero, and then justifies the amount spent for an item.

It is a way to verify that this is a true need or expectation; it forces the Association to look at the source of the cost and identify areas for greater efficiencies, and does not rely on past history.

Balancing the Budget

There are only two ways to balance a budget – either increase the income or decrease the expenses. The one item that an Association does not want to decrease, without a lot of reasoning behind the decision, is the allocation to the replacement fund. To reduce expenses, go back through the line items and determine if they are an obligation, need or expectation. Obligations should not be changed. If it is a true need, those also would not be changed. But, sometimes those items the Association sees as needs are truly wants or expectations. These are the areas where an Association has more flexibility.

Obligations and needs can be determined from reading the governing documents, reviewing the reserve study and talking with those “in the know” such as professionals, other board members, employees, etc. The expectations are more difficult to ascertain. Consider using surveys. Also, just by talking with the neighbors and reading past board meeting minutes and reviewing the open discussion comments, the board can get a handle on the community’s feelings.

The bottom line is, however, it is up to the board to make the final decisions for the Association. This is a business as well as a community and the board has the fiduciary responsibility to run the Association.
