

Succeeding Together

A board member's guide to
association budget planning

Preparing your community's budget can be a challenging task. As a board member, you have to act in the community's best interests while considering homeowners' wants and needs. In this guide, we'll share the top things to consider for your community's budget process that will help guide your association to success.




Short- and long-term financial plans: Why you need both

An annual operating budget is the foundation of your community's financial management and operation. It's the tool that enables you to estimate your expenses and revenues and helps you measure and monitor your association's financial activities.

Annual operating budgets also help board members gauge spending and foster sound decision-making – while serving to establish sufficient, regular assessments. But what some associations don't consider is that having a longer-term financial plan (3-5-10 years) is just as important as having a short-term (1-2 year) operating budget.

By identifying and planning for your community's needs farther out, your association can better defend itself against significant, unexpected expenses and position itself to thrive well into the future.





3 main components of association budgeting

The budgeting process has three main components: operating costs, a reserve fund/reserve study, and revenue.

1. Operating Costs

These include “line items” or expenses necessary to keep your association functioning. For easy reference, they are typically categorized as follows:

- Vendor/Contractor services – Costs for services rendered contractually may include landscaping, snow removal, painting, pest control, trash removal, window cleaning, pool maintenance, mechanical/ technological systems, laundry services, etc.
- Professional services and administration – Money paid for professional services such as bookkeepers, reserve specialists, attorneys, etc., should be accounted for here. Other administrative costs are subscriptions, banking fees, professional member organization dues, and event registration fees.
- Insurance – Associations need both property and liability insurance. If you haven't had your community's insurance needs audited recently, ask your property management company to conduct one to verify you have the proper protection (coverage levels and endorsements).
- Utilities – Make sure the money you budget for electricity and water is based on the previous year's average consumption (kilowatts and gallons) instead of how much you paid because rates fluctuate regularly.

- Maintenance – Money allocated for maintenance is earmarked for the ongoing care and upkeep of common-area components. This category is essential and should be one of the top-line items you fund because maintaining or improving your community's physical property is one of your board's primary responsibilities. Another factor you should consider is when and how often maintenance must be performed on the assets in your community. Developing a maintenance schedule will help with this task.
- Office expenses – This line item represents the cost of doing business. It should include rent, office equipment and supplies, office cleaning services, furniture, phone and internet service, and postage.
- Collection costs/Bad debt – Delinquencies, overdue refunds, or any money owed that is unlikely to be paid should be estimated and factored into your budget.
- Miscellaneous expenses – This line item would include things like higher-than-projected snow removal costs, hidden mold, a lawsuit, taxes, transportation costs, etc.

2. Reserve Fund/Reserve Study

Your reserve fund is a budgetary component that is designed to grow over time to pay for big-ticket items such as the replacement of specific community components, such as balconies, mechanical equipment, and roofs, or the construction of a new community feature that will take place in the future, such as additional roads, gatehouses or amenity beautification.

Your reserves' annual funding contribution is determined by a reserve study, which is a comprehensive analysis of the current condition of your community's physical assets and what it will cost in the future to replace them. Your reserve fund and reserve study are essential undertakings that contribute to the long-term financial health of your association.

3. Revenues

Most associations' primary revenue source is regular assessments, and one of the main reasons your association establishes an annual budget is to determine the amount of that assessment. Your community's governing documents will outline the payment frequency (monthly, quarterly, or yearly) and how the assessment should be allocated to the units in your community (divided equally or on an ownership basis).

Other revenue sources can help augment regular assessments and offset operating costs:

- Fees charged for advertising or sponsorships.
- Leased units, parking spaces, and storage facilities.
- Recreational facility memberships.
- Miscellaneous fees (lost keys, guest parking, insufficient funds, etc.).
- Interest from investment accounts.

Budget planning considerations



Remember that your decisions should be informed as you embark on the budget planning process. You should consider several factors that directly or indirectly impact the amount of money flowing into your association and the amount going out.

- 1. Review trends in costs over time.**
This can be accomplished by conducting an expense-to-budget analysis to identify areas where costs and revenues have been steadily increasing or decreasing.
- 2. Anticipate increases and decreases in revenue and expenses.**
Speak with your contractors and utility providers about any anticipated changes in rates. And factor in how the economy is performing as well. Is unemployment rising? Are interest rates falling? Is inflation a concern?
- 3. Review your reserve study.**
This helps ensure that you are on target with funding your reserves as community replacement and enhancement projects draw nearer or are added.

Your budgetary decisions must also weigh how your community will be financially impacted. Be aware that your residents will have a clear memory of recent community investments and the reasons for them, so be mindful of how they will be affected as you move through the process.



How to prepare for the budgeting process

The key to your budgeting success is upfront planning. If you gather the data, documents, and insights you need early in the process, you'll enjoy greater efficiency and experience fewer pain points.

1. Identify goals and objectives.

Ideally, the budgeting process should begin with a goal-setting meeting attended by your board, property manager, and committee chairs. The objective of the meeting is to determine what expenses must be covered by the association for the budget's allotted timeframe and what costs might be covered to please residents and enhance the community.

2. Create a budgeting schedule

Your governing documents likely outline when budgets must be shared with association members and when approvals must be secured. We usually recommend starting six months before your upcoming fiscal year, allowing time for each step in the budgeting process.

3. Review governing documents

Your association's governing documents will offer detailed guidance on assessment payments and increases, reserve contribution amounts, whether the budget must be presented to and ratified by residents, etc.

4. Examine previous budgets

This exercise helps spot line items that are consistently over or under budget. And while you review them, think about line items that could be eliminated or added. Past budgets are a good starting point but do not depend on them exclusively.

5. Review financial statements

These documents should be provided to you by your property management company and include your association's income statement, the statement of cash flows, and the balance sheet.

6. Investigate legal requirements

These vary from state to state and are constantly changing, so it is important to contact your association's legal counsel to refresh yourself on your association's legal obligations — especially concerning conducting reserve studies and establishing or maintaining reserve accounts.

7. Conduct a community survey

Involve residents in the budget planning process by formally asking them to prioritize additions and improvements to the community, such as a dog park, better street lighting, speed bumps, and landscaping. The results of the survey will help you, in turn, prioritize items under consideration and incorporate them into the budget.



Budget communication essentials

You and your fellow board members play an important role in making the annual operating budget process a smooth one. The first step is to achieve alignment within your board as to where and how money is allocated. If there are disagreements between members, it will hamper your ability to achieve consensus outside of the board in getting your budget ratified. So, begin from within.

Next, you must secure buy-in among your residents. Start by soliciting their opinions and ideas via a residents' survey at the start of the process. After your operating budget has been drafted, consider holding a town hall with residents to review it. Include several board members in the presentation, or better yet, have your finance committee present part of it to demonstrate that the budget was developed by residents of the community who are not currently serving on the board.

You should also consider bringing in subject matter experts to address specific areas of your budgeting process, such as an insurance agent or reserve specialist. "We like to promote that we have guest speakers — experts in their fields who will come and present at meetings as part of the budget approval or project funding process. There, they can address questions from the entire ownership and help residents better understand what money is going where," said Stephanie Parker, president of South Florida Condo Division at FirstService Residential.

In addition, look at all the communication vehicles available to you and use them well. Trying to justify a significant budget increase in a letter or email is no substitute for holding an information session where concerns can be addressed in person or via a virtual meeting in real time.



Professional property management: What boards can expect

The type and degree of budgetary support board members receive from their property management company depends on its size, depth of knowledge, and resources.

At FirstService Residential, we have the expertise and solutions to anticipate needs and respond — no matter the property type. With our professional scale, we can make your budget go further. And our service-first philosophy means we don't stop until what's complicated becomes uncomplicated.

To make life, simplified.

Contact a member of our team to learn how we can support your community's vision.

About FirstService Residential

FirstService Residential is simplifying property management. Its hospitality-minded teams serve residential communities across the United States and Canada. The organization partners with boards, owners, and developers in an effort to enhance the value of every property and the life of every resident.

Leveraging unique expertise and scale, FirstService serves its clients with proven solutions and a service-first philosophy. Residents can count on 24/7 customer care and tailored lifestyle programming, amenity activation, and technology for their community's specific needs. Market-leading programs with FirstService Financial and FirstService Energy deliver additional levels of support.

Boards and developers select FirstService Residential to realize their vision and drive positive change in the communities in their trusted care.

FirstService Residential is a subsidiary of FirstService Corporation (NASDAQ and TSX: FSV), a North American leader in providing essential property services to a wide range of residential and commercial clients.