

Let's talk about the “M” word

Presenting budgets to members in an effective manner.

Dean Garrow LCAM

- I am a Licensed Community Association Manager
- President of a Board of Directors
- iLead Alumni
- Voted “Newbie CAM of the year” by Connect Florida 2022
- Currently I manage an average of 14 communities of various sizes. This includes preparing budgets and presenting them to Board Members and Homeowners.
- I am not:
 - A CPA
 - An Attorney



Food for Thought

“The difference between diplomacy and manipulation is in the heart of the diplomat”

The purpose of a budget

- To calculate the amount of money needed for a particular group or community in a given time frame.
- To help navigate yearly expenses in a straightforward manner.
- To allow for those expenses to be covered by the amount of revenue that is generated.
- To determine how much is spent in various classifications of expenses.

Glossary of terms

- GL Code- This refers to the “general ledger code”. This is a category or grouping of similar expenses in a budget.
- Line Item- This refers to a particular expense.
- Historical accounting- This is a process that a person making a budget will do in order to better provide an overview of real and anticipated expenses in a given period.
- Committee- In this case it is used to describe non-elected volunteers (generally appointed by a Board of Directors)
- Balanced Budget- This refers to the equalization of expenses and revenue

Steps in a budget process

- Establish last years expenses
- Research any large or unexpected expenses throughout the budget period.
- Determine any increases for contracted services.
- Look for any potential roadblocks in your anticipated revenue.
(delinquencies, lawsuits, collections activity etc)
- Adjust for inflation
- Adjust for inflation
- Adjust for inflation
- Adjust for inflation

Best Practices.....maybe?

Do any of you say this?

“I have never had to raise our fees”

“We have always had the same fees”

“In (insert time period) we have always paid (insert amount)”

“If we raised our fees people would lose their minds”

These are the reason that a lot of communities and associations find themselves in financial peril.

Does it matter?

Board's fiduciary responsibility

- Board directors have three primary fiduciary responsibilities: **DUTY OF CARE, DUTY OF LOYALTY, and DUTY TO ACT WITHIN THE SCOPE OF AUTHORITY**. For a nonprofit to operate successfully, it's critical that board members fully understand the nuances of all three.
 - Duty of care requires HOA board members to make informed decisions regarding HOA matters.
 - Duty of loyalty requires HOA board members to act in good faith to promote the best interests of the entire association.
 - Board members are required to only act within the scope of their authority. They cannot act or make decisions on matters that are outside the boundaries of their roles..

SCARY STUFF


Fiduciary duty is an ethical and moral concept rather than an easily defined set of tasks or actions,
and often involves making *sound financial decisions for others*.

In practice, it is easier to notice a violation of fiduciary duty than it is to define behaviors that fulfill it.



**For their entire terms as
Directors, Board members are
obligated to put the
Association's collective
interests above their own.**

They must evaluate the well-being
of the entire Association as a
whole and make decisions
accordingly.



What might be an example of a Condo or Homeowners Board member **breaching** (violating) his or her fiduciary responsibility to the Association?

In Florida, it often involves one (or more) of the following:

- *Mismanagement of Association funds (including irresponsible budgeting)
- *Not maintaining the property's common elements and areas
- *Selectively or improperly enforcing Association rules and regulations
- *Making decisions without seeking appropriate expert or legal input when needed
- *Conflicts of interest (Director personally benefits from a Board decision's outcome)
- *Spreading misinformation to promote a Board-favored agenda
- *Showing favoritism to certain owners or a group of owners



Are you still with me?



Let' dive in

Let's make a budget!



Dean's Preserve on Lake Windemere Crossing Enclave Meadows of Dr. Phillips

Account	Description	2022 Budget	2022 Actual	2022 Remaining	2022 Projected	2023 Budget
Operating Accounts						
Income Accounts						
Revenue/Income						
30-3010-00	Assessments - Monthly	\$240,120.00	\$120,060.00	\$120,060.00	\$240,120.00	\$282,900.00
30-3060-00	Special Assessment	\$32,000.00	\$0.00	\$15,999.98	\$15,999.98	\$0.00
30-3080-00	Interest Earned	\$0.00	\$8.86	\$0.00	\$8.86	\$0.00
30-3110-00	Collections Charges	\$0.00	\$40.00	\$0.00	\$40.00	\$0.00
30-3190-00	Owner Repair Income - Reimbursed	\$0.00	\$235.00	\$0.00	\$235.00	\$0.00
30-3220-00	Other Income	\$0.00	\$11,194.50	\$0.00	\$11,194.50	\$0.00
Income Accounts Total		\$272,120.00	\$131,538.36	\$136,059.98	\$267,598.34	\$282,900.00
Expense Accounts						
Administrative Expenses						
40-4010-00	Administration	\$2,046.19	\$1,735.85	\$1,023.07	\$2,758.92	\$2,000.00
40-4030-00	Accounting Fees	\$1,000.00	\$0.00	\$1,000.00	\$1,000.00	\$1,000.00
40-4050-00	Legal Expenses	\$15,000.00	\$0.00	\$7,500.00	\$7,500.00	\$7,500.00
40-4060-00	Management Services	\$7,867.63	\$3,933.84	\$3,933.79	\$7,867.63	\$8,103.66
40-4080-00	Licenses - Permits	\$277.25	\$277.25	\$0.00	\$277.25	\$277.25
40-4090-00	Debt Service	\$49,900.20	\$6,292.91	\$24,950.16	\$31,243.07	\$49,900.20
Insurance						
45-4510-00	Insurance - Property	\$57,123.00	\$22,601.68	\$29,965.92	\$52,567.60	\$68,855.00
Landscaping/Maintenance						
55-5505-00	Landscape Maintenance	\$25,160.00	\$12,236.00	\$12,579.98	\$24,815.98	\$25,632.00
55-5510-00	Irrigation - Repairs	\$1,000.00	\$1,233.88	\$500.02	\$1,733.90	\$1,000.00
55-5515-00	Tree Trimming	\$2,000.00	\$9,195.00	\$0.00	\$9,195.00	\$2,850.00
55-5520-00	Landscape Other	\$4,500.00	\$2,975.00	\$0.00	\$2,975.00	\$2,975.00
55-5525-00	Building Maintenance	\$5,000.00	\$1,100.00	\$3,000.00	\$4,100.00	\$4,000.00
55-5550-00	Lighting Maintenance	\$1,000.00	\$1,352.81	\$1,353.00	\$2,705.81	\$1,000.00
55-5560-00	Pest Control	\$3,380.00	\$4,248.00	\$7,248.00	\$11,496.00	\$11,208.00
55-5565-00	Plumbing Maintenance	\$3,145.98	\$887.30	\$887.00	\$1,774.30	\$1,995.00
55-5575-00	Electrical Maintenance	\$550.00	\$605.85	\$275.02	\$880.87	\$549.37
55-5580-00	Pressure Washing	\$500.00	\$0.00	\$500.00	\$500.00	\$500.00
55-5710-00	Contingency	\$0.00	\$898.63	\$0.00	\$898.63	\$0.00
Utilities						
60-6010-00	Electric	\$3,852.00	\$2,149.33	\$2,149.00	\$4,298.33	\$4,728.00
60-6020-00	Water	\$11,480.00	\$6,804.93	\$6,804.00	\$13,608.93	\$14,970.00
60-6050-00	Phone - Internet	\$32,788.80	\$8,223.79	\$16,394.40	\$24,618.19	\$29,000.00
Reserve Expenses						
99-9105-00	Transfer To Reserves	\$44,548.95	\$22,274.46	\$22,274.49	\$44,548.95	\$44,856.52
Expense Accounts Total		\$272,120.00	\$109,026.51	\$142,337.85	\$251,364.36	\$282,900.00
Operating Accounts Net		\$0.00	\$22,511.85	-\$6,277.87	\$16,233.98	\$0.00

Units: 54

Cycle: monthly
based on
15% inc posed

no special

This may be
3% inc
\$61.25 annual

20% inc

Contract: \$2136
Anticipated
29 palms: \$2245
mulch
Anticipated
New lights were
Contract: \$684

10% inc
10% inc
Contract:

Reactions to changes in budgets

Bliss



Blissfully Angry



Getting them from point A to point B

- The key is communication. Most members do not understand the expenses that a non-profit can incur.
- Sometimes it is as simple as understanding what a non-profit association or organization is.
- Get them involved early and often (more on this later)
- Yes...landscaping maintenance **IS** that expensive.
- Yes...the amenities are **THAT** important.
- No...comparing what your friend across town pays for his fees is not relevant.
- No...It doesn't matter what Sandy At The Pool said about your fees.

Common resistance to fees

- What are we paying for?
- Where does all our money go?
- Do you get paid?
- We only have a moat and a gate, why are we paying so much?
- Is (insert any line item here) really necessary?
- What about the money you wasted on (insert anything here)?
- Our fees keep going up but everything looks the same.
- Sandy At The Pool said that our fees used to be very low.
- Where does all our money go? (part II)

The first step?...Answer their questions.


- This may involve some unpleasant information when it comes to some of the line items. But it is important for the members to see what decisions the board makes and why.
- Try to have them look at it from your vantage point.
 - Fiduciary responsibility.
 - Home and neighborhood values
 - Inflation (yes...again)
 - Have the information available at all times. Transparency is key!
 - Show them competing bids.

Let's get tactical

- Take a look at your community.
 - Are there certain members that are the loudest?
 - Are there any unofficial leaders?
 - Are there any financial types?
 - Do you have a member or two with business savvy?
 - Decide who is the best ally in the process.

Concentrate on building a diverse group.





If you would like me to do a free
presentation for your community
feel free to contact me at
dgarrow@homeriver.com

Why a diverse group?

- Its Important to get as many different types of input as necessary.
- Some people may feel that a certain group would not “understand” what it is like to be in their financial position. For example, if you had a committee of retired CEOs helping to prepare your budget the perception may be that they will not understand a younger group that may be at a disadvantage financially.

So it is important to bring as many different people into the process as possible.

Neighborhood and non-mandatory associations

Education is key.

What are we doing for the community?

How are we financing these projects?

What are the benefits of joining or contributing?

Don't ask for money or membership.....Ask for help!

The more people that are engaged in the community the better the results
ALWAYS!



ASK YOURSELF THESE QUESTIONS

Are we really asking for the right help?

Are we being inclusive?

Are we doing anything to reach out to new members?

Do we have any exciting projects going on that people should know about?

Are we doing any special events?

Are we taking advantage of everything that is offered to us?

Are we informing people of our work and progress.

How do people find out about us?

Let's get the word out!

- Newsletters
- Neighborhood events
- Informational meetings (make them fun..almost like the information is a secondary item to the fun)
- Do you have a website?
- Do you send mailers?
- Have you asked people to help in person? (Remember the ones we talked about earlier?)

Back to the budget

- Get people involved early. Most associations follow a fiscal year of the calendar year but some are different.
- If your budget vote is in December..start in July. Give people time and prepare them for the actual budget meeting. (more on this later)
- Have a workshop on the budget. This is an excellent way to break the ice.
- Have a pre budget meeting meeting
- Have a pre budget meeting meeting meeting.
- Educate the members on what the association is facing.
- Be prepared to show them the hard truth

Inflation

- How many times has this tripped up an association?
- The rate of inflation is directly inverse to the expenses that are incurred by a community because of its age
 - The older a community gets the higher its maintenance costs become.
 - The infrastructure starts to break down more often
 - Repairs become more costly and more frequent.
 - Things that were overlooked or never deemed a problem suddenly become important.
 - Irrigation pipes break, pools leak. Pumps break and on and on
 - Technology moves forward and sometimes that can be costly too

The cost of maintenance and repairs in a typical aging community



Meanwhile inflation continues to “adjust” your spending power





A CASE HISTORY*

*That I just made up

**The Dunes of Sandy Point Isles of College Park was built in 1993.
Sandy moved into this community in 1995 because she loved the pool.
Everything was new and there were very little things that required repairs or replacement.**

Sandy paid 100 dollars a month for her fees and she was very happy.



Sandy joined the board for many years and they never raised the fees because ...well...Sandy wanted everyone to be happy. Sure, there were more expenses every year but somehow they “figured it out”





Meanwhile, back in reality.....

The 100 dollars that Sandy paid in fees back in 1995 did not keep pace with inflation but...well...everyone was happy so they didn't worry about it





According to the Bureau of Labor Statistics

Sandy's 100 dollars from 1995 has the spending power of \$50.16

So how does this fit into our budget today?

Let's say Sandy's association budget from 1995 was \$100,000

She now has the spending power of \$50,080 in her 2023 budget.

And guess what?

The pool had a leak and because the pump was run dry it needs to be replaced. UH OH!

AND.....



The pool repairs are only part of the big picture.

The irrigation system is 10 years past its useful lifetime.

And those beautiful Live Oaks that were planted in the median in 1995 have now grown and pushed the sidewalks out of place.

What do we do now?





This is the wake-up call for most homeowners and members.

The Board has few choices.

1. A special assessment to try and bolster the reserves and fix the current problems.

or

1. A loan to fix the current problems.

Establishing a financial dialog with your neighbors

Start by informing them of the timeline. Get them started early.

Start at your NEXT meeting!

Start gathering all of the information you need to plead your case.

Take the time during the meeting to talk about the state of the finances.

Start asking for volunteers to assist with the budget process at your next meeting



Start putting your team together.

Ask at every meeting.

If someone complains about the fees they are paying
invite them to become part of the process.

If you have a financial expert in your community
invite them to become part of the process.

If you find someone that becomes hostile at any talk of fee increases
invite them to become part of the process.

You should establish an open invitation to anyone to become part of the process.



You are never going to be able to convince everyone to see things realistically.

We can only show them that there are hard choices to make.

Sometimes you just cannot get people to become involved.
That's OK. You did your best.

But..and this is a big BUT.. The next time someone complains about the fees you can rest assured that you did your part. BUT don't miss the opportunity to remind them that you would appreciate their help next year.

AND ALWAYS BE KIND!



If you would like me to present this to your Board of Directors please email me at

dgarrow@homeriver.com