

Board Member Foundations: Part 8

8 secrets to a better association budget process



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Creating the annual budget for a community association can be a daunting task. As a new board member, you may be asking yourself, “How do I balance the community’s needs with its wish list?” “How do I know what items to plan for and when?” And “How can I ensure the association has enough money to cover planned or unplanned expenditures when the time comes?”

While there is no one perfect process, since every community is different, we do have 8 universal secrets to help streamline your community’s budget process.

Secret #1: Develop a long-term financial plan

An annual operating budget is the very 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. But what some associations do not 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 in time, your association can better defend itself against significant, unexpected expenses and position itself to succeed well into the future.

Secret #2: Consider increasing your assessments gradually each year

The primary source of revenue for most associations 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).

While some associations choose to only increase assessments when there is a significant change in the budget, it’s better to increase annual assessments annually and minimally to match the evolving needs of your community and keep in step with inflation — as opposed to increasing assessments every several years by larger amounts. The goal is to spread increases over the time of ownership and reduce the financial strain on homeowners.

Secret #3: Prepare your budget in advance

Budget preparation can take months of collecting vendor contract increases, pending capital projects, estimating maintenance and repair costs, and more. That’s why we recommend you start your annual budgeting process with a kickoff meeting six months in advance of the actual budget taking effect. It’s important to honor the time that’s required to budget properly and have space to make any necessary edits as the needs of the community change.

Secret #4: Create a finance committee

A great way to foster a better understanding of financial matters within your community and secure budget buy-in from your residents is by forming a finance committee that is comprised of association members who are not active board members. While the committee cannot make any decisions on behalf of the board, they can provide suggestions and promote financial transparency in the community.

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Secret #5: Have an updated reserve study

Part of almost every association's budget is reserve funding. This account is created to accrue funds for large, longer-term expenditures such as a roof replacement or expensive system repair. With changing legislation, many local, state, and provincial laws are requiring associations to have fully funded reserves in place for any routine or unplanned capital repairs.

The reserve study is the financial roadmap for effectively funding these projects. It will list all assets that are considered reserve fund items that will need to be replaced or repaired in the future. Frequent updates to your reserve study will ensure your budget reflects inflation, increases in cost repairs or materials, and more, so your association has sufficient funds for future repairs.

Secret #6: Speak to professionals

If this is your board's first time drafting an association budget, we recommend you seek the advice of your auditor or property management company if you need help determining whether an item is a reserve or operating budget component.

Even the most experienced board member can at times be unsure of the status of a repair or capital project and it's important to have a professional oversee your budgeting process to ensure compliance with local statutes and that your budget has no missing or incorrect line items.

Secret #7: Consider your residents

It's always good practice for board members to think about their own personal expenses and relate them back to what residents are experiencing. By helping them understand that your board is affected by price increases as well, your residents will be more understanding.

One way to accomplish this is to hold informal budget meetings with homeowners to discuss upcoming expenses and their impact on the community. This will help with financial transparency and prepare homeowners if there is a larger assessment expected for the upcoming fiscal year.

Secret #8: Partner with a professional management company

A professional property management company, like FirstService Residential, will be able to support your community and provide value-added services to streamline your budgeting process. Whether through industry experts or access to financial resources such as FirstService Financial, having an experienced management team will help your board better understand the process and ways to efficiently plan your budget.