FirstService
RESIDENTIAL

COVID-19:
Keeping your budget healthy

Learn how to get the greatest value from your budget during and after the COVID-19 pandemic.

When you and your board planned your 2020 budget, no one could have predicted a coronavirus pandemic or the economic impact it would have on the world; as of this moment, the lasting impacts are being determined. As a board member, you have a responsibility to help your community or building get the most value for its association dollars during the financial planning process. We understand that board members like you are concerned that homeowners may be late paying their dues, that you may be facing unplanned expenses for cleaning supplies and services and that life in your association is disrupted in general. Rest assured that there are ways to help your association get through these challenging times with financial stability.

Read on to learn how to manage your budget and financial risk during and after the COVID-19 pandemic.

Budget Basics

Let's start with the assumption that your board created a solid budget for 2020, based on historical data and factoring in increases for variables. You've planned carefully to meet the goals you set to help achieve your board's vision for the community. Of course, this careful planning can be thrown off by any unforeseen long-term crisis, such as a natural disaster or a pandemic. What next?

Your professional property management company should be able to help your board make needed adjustments to your budget to maximize value, save money if possible and find sources of funding if required. They should have the expertise and depth of resources to help your board keep your association finances healthy.

Discover steps your board can take now to keep your association on the right financial track including cash flow management, maximizing value in your budget and more.

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Maximizing Value

Your board has crunched some numbers, and your preliminary findings are that you will need more money to fund next year's expenses — or the rest of this year's, especially if you're concerned that assessment payments might be slow. At the same time that the pandemic may negatively impact your revenue and increase your expenses for some things like disinfecting and cleaning, those expenses may be offset by reduced costs for amenity operations, in-person events and common area utilities. Social distancing restrictions may limit in-unit maintenance and capital projects to only immediate needs, according to Kevin Adam, COO/CFO for FirstService Residential Illinois, reducing those expenses in the short term as well.

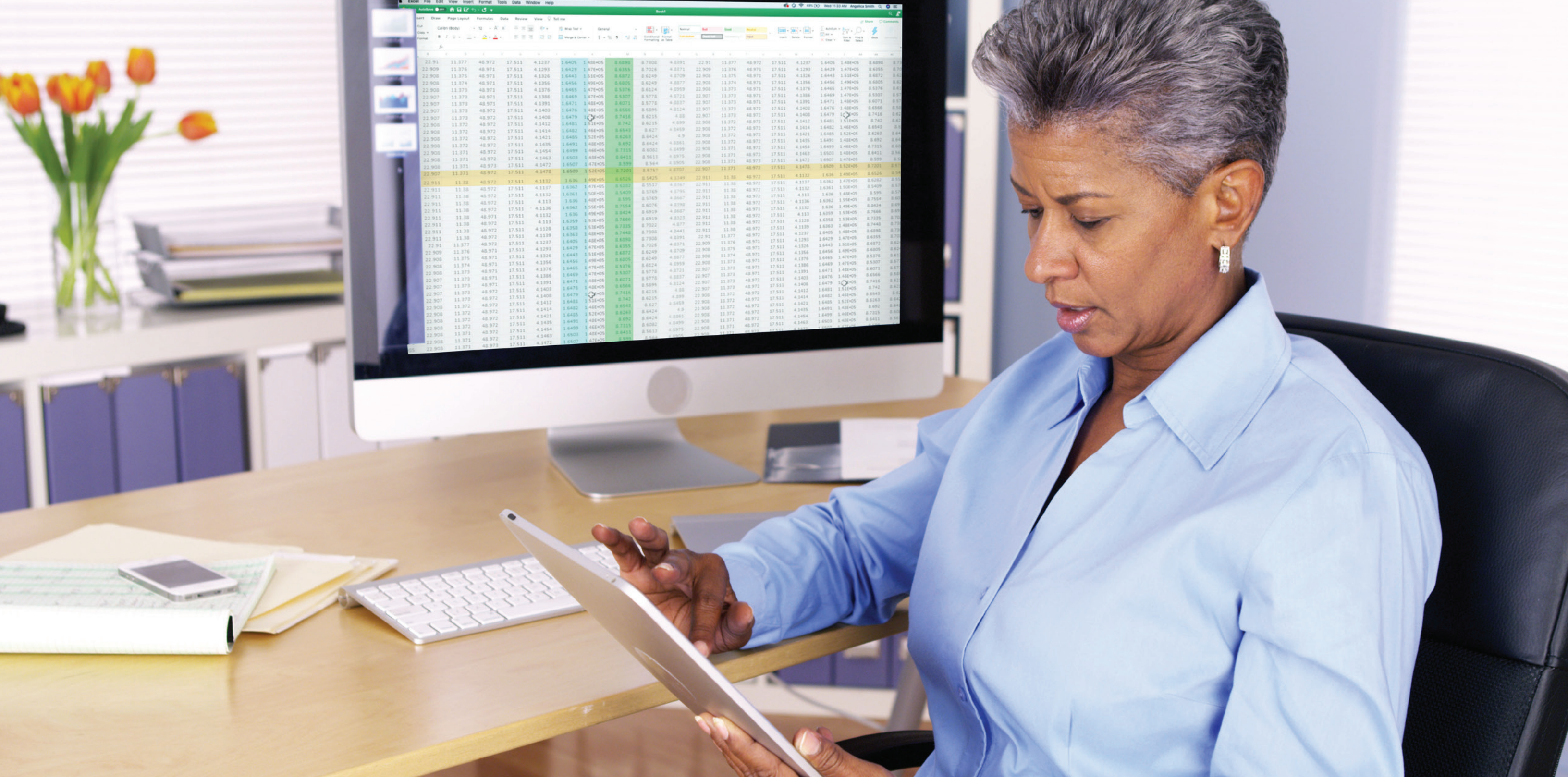
That said, who doesn't want to get the most for every dollar when possible? Here are some ways you may be able to do just that:

- **Take advantage of bulk buying.** You may be able to negotiate better rates for products and services by combining forces with other associations. The simplest way to do that is through a well-established property management company with extensive buying power.
- **Perform a cost-benefit analysis.** Review services your association currently uses to determine if there may be a less expensive way to get the work done or if your current vendors may be able to provide greater value for the money. Make sure that any changes you make won't create a bigger burden for residents and will maintain the quality and level of service they are accustomed to.
- **Get an energy audit.** Utility companies are usually willing to examine your association's power usage and make recommendations for reducing your energy expenses. Many companies and cities also offer rebates to offset the cost of replacing existing lighting or heating and cooling systems with high-efficiency options. A good property management company should be able to help with your audit or make recommendations to lower your energy costs.
- **Renegotiate contracts.** Your existing vendors may be willing to give you a price break or greater value for the same price if you extend to a multi-year contract. The right management partner will be able to assist you with that negotiation and help you identify places to maximize value. Again, just make sure you aren't sacrificing quality of products or services for price.

Insurance Coverage

For boards financially impacted by the pandemic, insurance coverage doesn't appear to be an option, says Andrew Lester, president of FirstService Financial, the banking and insurance affiliate of FirstService Residential. "A lot of people think that a federal disaster declaration is tied to insurance coverage, but that's not necessarily true and that's why insurance isn't responding," Lester explains. "We are directing that boards track any additional expenses in case there's an opportunity to make a claim later, depending on what the industry does. But this isn't as clear cut as most disasters that lead to insurance payouts because the virus does not cause physical damage to a building."

"We know some associations are looking for relief for the costs of extra cleaning and disinfecting," acknowledges Adam. "But the clearest analogy is piling up sandbags and the flood doesn't occur. There may be no relief from insurance for expenses to avoid or prepare for a potential problem."



Cash Flow Management

"One of the largest concerns for associations in any crisis can be consistency of cash flow. Unfortunately, the COVID-19 pandemic has led to financial duress for a large part of the population," explains Brian Butler, vice president at FirstService Residential Illinois. "For any association, that means a threat of increased delinquencies and the potential for cash-flow problems. As such, there will need to be heightened focus on forecasting for the association, particularly through the remainder of 2020, and taking into consideration potential loss of revenues and assessment delinquencies."

Besides late assessment payments, some associations may be facing an interruption of fee-based programming like fitness programs or spa fees as well as delays in regular payments for extras like storage lockers or dock fees.

If you were fortunate enough to have a cash surplus before the pandemic, it is advisable to hold onto as much of that surplus as possible. Consider delaying projects like flower planting, landscape upgrades, pressure washing or "wish list" items that might be desirable but aren't necessary for the safety of your association and residents in favor of holding onto your surplus. Only consider capital improvement projects that are required by municipal code or are health and safety issues. Remember that effective cash flow management relies on monthly analysis of the financial statements as well as consistent monitoring of assessments, bank account balances and expense activity. "Following these best practices consistently will help your community effectively manage cash flow and navigate uncertain times," Butlersays.

"Working with your management team, analyze each line item in your budget to determine if cost savings can be realized. These savings can be utilized to offset a shortfall in association fees or ancillary revenue received or additional expenses," explains Jessica Towles, vice president of FirstService Residential in Illinois. "If you're looking at a shortfall this year because of higher expenses and/or lower revenues, in the worst case, you can assess in 2021 to make it up."

Collections and Late Fees

Many boards are hearing from financially impacted residents during this challenging time and may be tempted to suspend or reduce dues. “Although driven by compassion and empathy, this may not be the most fiscally prudent thing to do,” explains Butler. “Don’t suspend collections, especially in times of trouble,” he says. “Always consult with your association attorney. Remember that if you state that you will be relaxing collections, people who may not be financially strapped may choose to hold on to their cash and not pay in a timely manner because there will be no consequences for non-payment. You have an obligation to continue to fund and run the association to the best of your abilities.”

Towles agrees. “There are no legal provisions in association documents for forgiving fees, but some boards have suspended assessing late fees during the pandemic to assist owners,” he says. “It is important to always show empathy when making these financial decisions that will impact the owners.”

“If your dues aren’t coming in, you can’t pay your bills,” Adam says. “Make sure you are in regular, clear and open communication with your board members. It is possible to waive late fees if you think there’s a need but consider it carefully.”

It’s important to act with empathy and always try to understand where your residents are coming from.

Revenue Increases

Given the potential for current shortfalls due to slow assessment payments, some boards may look to increase assessments in the next year. "Understand what your cash needs will be," Butler recommends. "Boards that are not sitting on a healthy cash balance need to look for other ways to get funding. Some boards are quick to say, 'special assess,' but it could be detrimental to special assess in a time of economic downturn."

Lester says that the best thing an association can do is be proactive. "Try to get an emergency line of credit (ELOC) that is interest only for a time and do it now before you need the cash — delinquencies might be worse in 6 months. Our FirstService Financial experts can work with management and your board to navigate getting and using an ELOC."

As for the lending programs being managed by the Small Business Administration (SBA), Lester says that a few boards have applied for them, but he cautions that boards must certify that the loan is necessary to support ongoing operations. He recommends always consulting with your association attorney before embarking on any loan application, including through the SBA under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Communication

No matter what financial tools your association chooses to use to keep your budget healthy during and after the COVID-19 pandemic, you must be sure to communicate any changes in budgeting or the association's financial situation to the residents as required by state law and your governing documents, as well as your attorney's advice.

To learn more about effective communication in a crisis, download our guide, ***Communication During Crisis:*** *Learning from COVID-19*, today!

Budgeting may be a challenge due to the pandemic. But the right tools and an excellent property management partner will help your association come through it in sound financial health. Is your current management partner able to do that for you?

Contact **FirstService Residential** for more information on keeping your budget healthy.

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About FirstService Residential

FirstService Residential is North America's property management leader, partnering with more than 8,500 communities across the U.S. and Canada. HOAs, community associations, condos and strata corporations rely on our extensive experience, resources and local expertise to maximize their property values and enhance their residents' lifestyles. Dedicated to making a difference, every day, we go above and beyond to deliver exceptional service.

FirstService Residential is a subsidiary of FirstService Corporation (FSV), a North American leader in the property services sector. Find out how we can help your community thrive. Visit www.fsresidential.com.