

2021

HOA and High-Rise

Budget Survey Results

How does your association adapt to changing circumstances (e.g., inflation, insurance, staffing costs, etc.)?

In the latest budget survey, board members from across North America shared insights on their budgeting process, including how they effectively plan for the future. Read on to find out what they had to say and get additional best practices.



FirstService
RESIDENTIAL

Your Budget Outlook? Great!

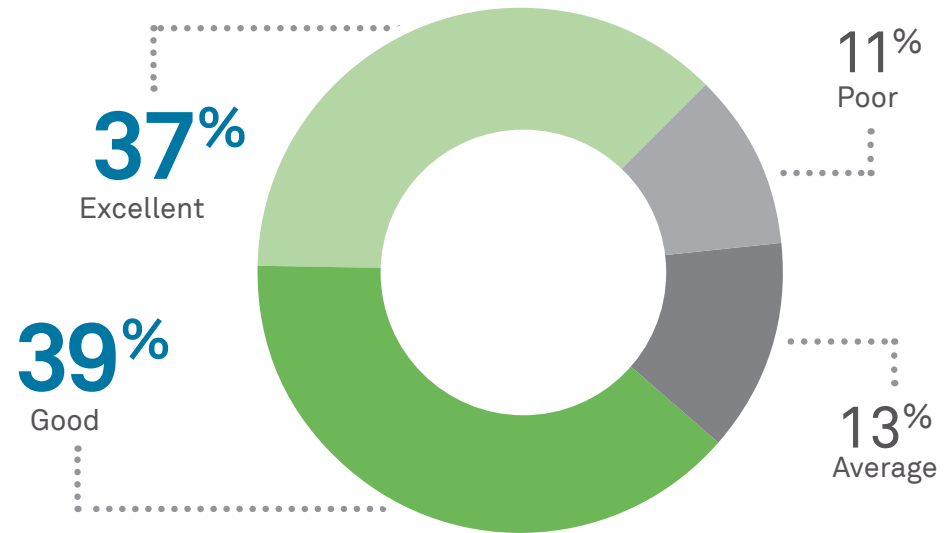
Of the surveyed board members, **76%** rated their budget process as good or excellent. That's great news because a strong budget planning process is one of the keys to a thriving association.

Why did board members rate their budget process as excellent or good? Most had multiple answers, such as keeping both short- and long-term goals in mind (**73%**), maintaining an accurate and up-to-date reserve study (**65%**) and aligning on goals and projects that benefit the community (**64%**). Having a solid budget requires a variety of factors working in your favor.

ONE STEP AHEAD: Remember that even if you are on track with your budget now, an unexpected maintenance project, natural disaster or economic crisis can throw a wrench into your perfect plan. Your association should plan for both the expected (e.g., scheduled maintenance, planned capital improvements) and the unexpected (e.g., fire-related damages, inflation, etc.). **To find out how boards are responding to the unexpected, check out page 4.**

Work with your management company to plan for contingencies (and make sure that includes a robust emergency plan). Get our emergency planning guide here: <https://bit.ly/Emerg-Prep-CA>

How effective is your association's budget process?



Why did you rate your board's budget process as good/excellent?*

73% We have a solid long-term plan and keep both short- and long-term goals in mind.

65% Our reserve study is accurate and up to date and our reserves are well funded.

64% Our board is aligned on goals and projects that will benefit the community.

59% We receive accurate and timely financial reports from our management company.

52% We have a solid investment strategy for our reserve funds to preserve capital for the future.

*Respondents were able to choose more than one reason.



What Causes Budget Challenges?

There was also a variety of factors that board members felt contributed to why their budget was off track. And in most cases, it only took one or two reasons to prevent their budgeting process from being successful. It may take several variables coming together to build a good budget, but it only takes one or two factors to steer a board in the wrong direction.

For the **24%** of surveyed board members who rated their budgets as average or poor, there were several common factors. For instance, **39%** said that they often receive late or inaccurate financial reports from our management company. You should be able to rely on your management company to deliver accurate and timely financial reports. They should be with you every step of the way, especially when it comes to financial reporting.

Lauren Starner, vice president of community and lifestyle at FirstService Residential explains, *“FirstService Residential’s management facilitates the creation of the initial budget for our properties, and it is reviewed with the board/finance committee for final input and approval.”* Your management company should also have a reliable accounting team who routinely conducts audits and segregates duties, so that you can be confident in the accuracy of the information you receive.

Why did you rate your board’s budget process as average/poor?*

39% We often receive late or inaccurate financial reports from our management company.

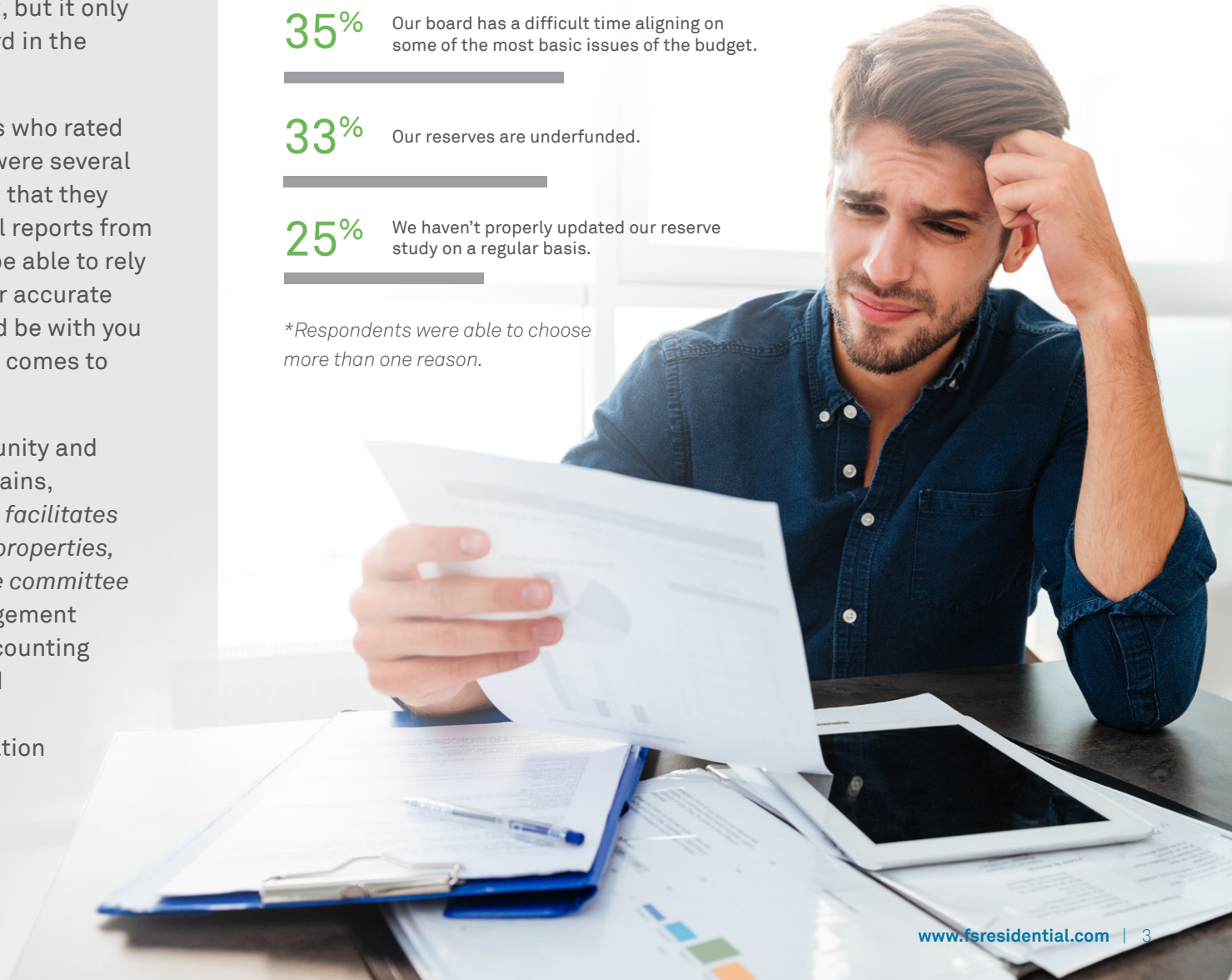
37% We don’t have a process for long-term budget planning.

35% Our board has a difficult time aligning on some of the most basic issues of the budget.

33% Our reserves are underfunded.

25% We haven’t properly updated our reserve study on a regular basis.

**Respondents were able to choose more than one reason.*

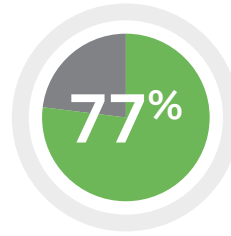


Effective Budgeting is a Collaborative Process

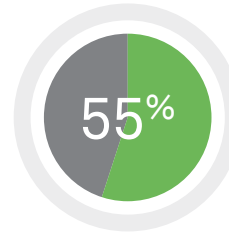
When developing their annual budget, boards don't need to "go it alone." As mentioned before, your association management company should be with you every step of the way to support you. And in addition to that team of experts, boards can also rely on their budget and finance committee to provide insight.

Our survey backed this up when we asked boards who provides input and guidance during the development of their operating budget and long-term financial planning. On average, they selected at least two groups that are involved in the process of budgeting in their community. Of course, the board constituted the largest group that provides input and guidance, followed by their management company, and the budget and finance committee.

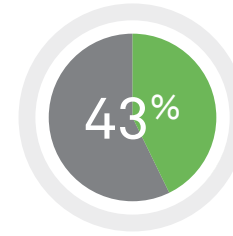
Who provides input and guidance during the development of your operating budget and long-term financial planning?*



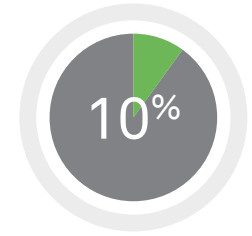
The board



Your management company



Budget & finance committee



Third-party accounting firm

**Respondents were able to choose more than one selection.*

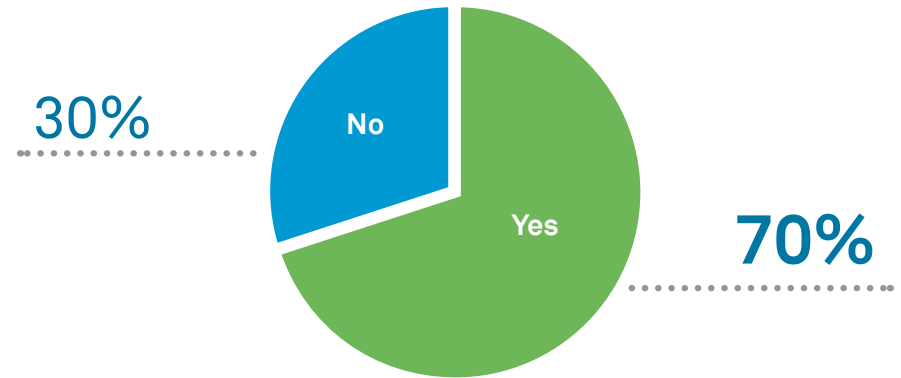
Inflation, Rising Wages and Insurance Spikes, Oh My!

Of course, with ongoing changes, wise board members are eager to adjust their budgets to compensate. According to our 2021 survey breakdown, the majority of board members in Arizona, California and Nevada (**70%**) are planning to adjust their budgets in response to recent conditions and rising costs. That's a huge step in the right direction.

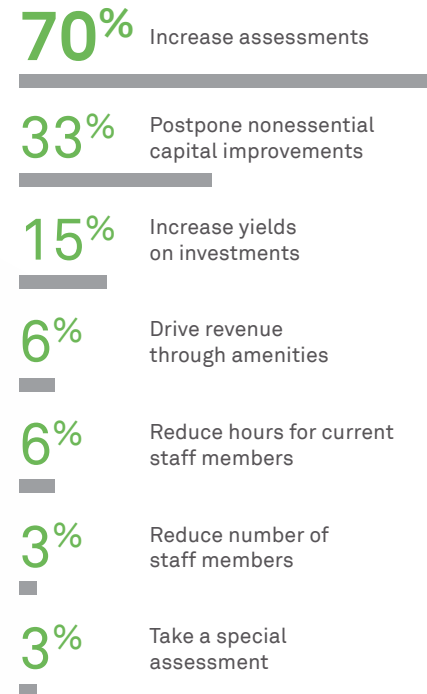
70% of surveyed board members also agreed that adjusting your budget to compensate for rising costs (like insurance) **requires incremental increases to assessments**. To increase assessments (without becoming the bad guy), make sure you are communicating proactively with association members. Partner with your management company to craft thoughtful communications that address the “why” behind increases.

To learn why you may want to consider raising assessments, check out the article here: <https://bit.ly/HOA-Dues-CA>

Is your board planning to adjust your association's budget in response to recent conditions and rising costs, such as inflation, increased wages and insurance spikes?



How do you plan on adjusting your budget?*



*Respondents were able to choose more than one selection.

Most Boards are Thinking Ahead (Way Ahead...)

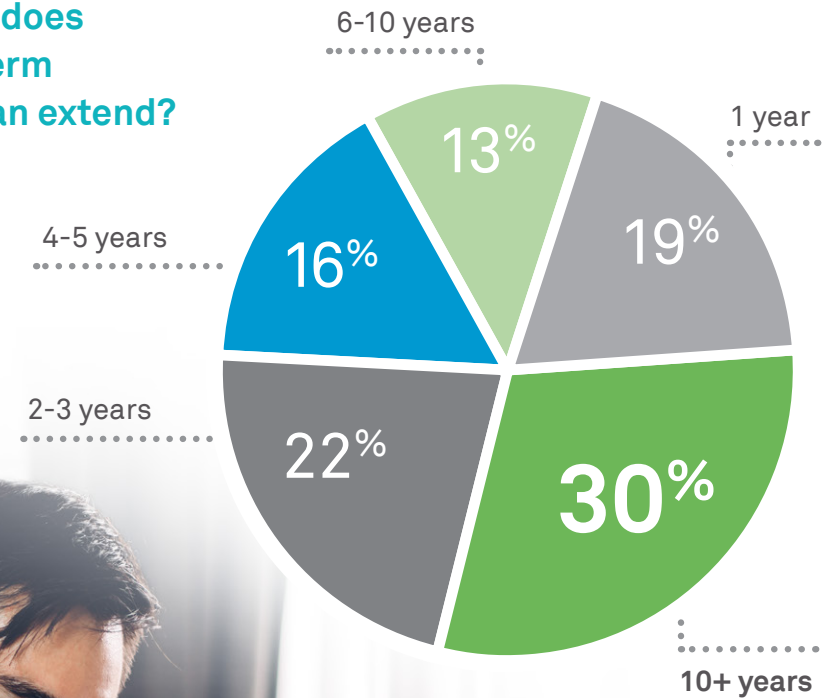
When we asked boards how far out their long-term financial planning extended, **nearly a third of respondents (30%)** said that their plan for the community extends for 10 years or more into the future. Long-term planning like this ensures that board members make decisions based on the future welfare of the community.

However, while your board may have a solid plan for the next 10 years of the community, it's important to remember to review and update it annually.

"Any time you put a 10-year plan together it's a living, breathing document," reminds Christina Forbes, senior vice president of FirstService Residential. Getting a reserve study done every two to three years will ensure that the plan is still on track and any necessary adjustments can be made.

RED FLAG: 19% of board members stated that their long-term plan only extended out a year, which is not recommended by experts, because it leaves the door open for costly special assessments if an unexpected expense, such as emergency repairs, occurs during the year.

How far out does your long-term financial plan extend?

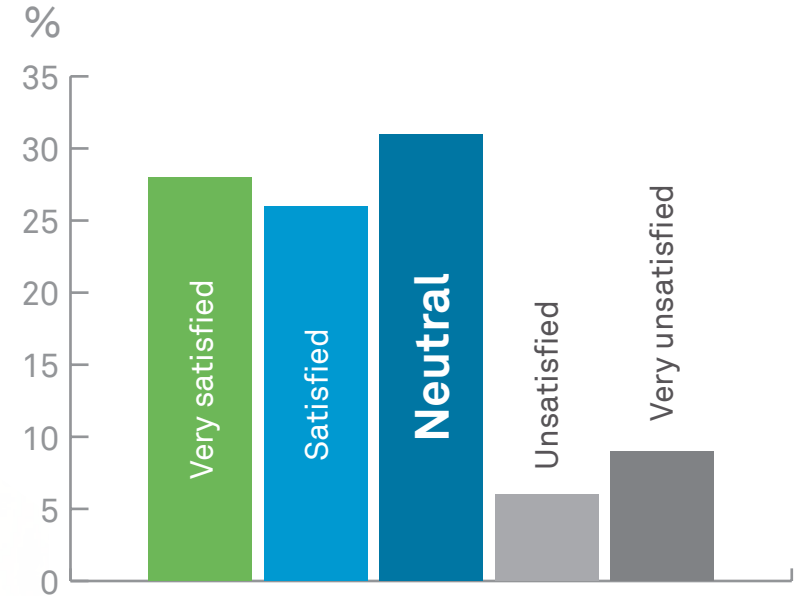


Planning For the Future = A Happier Board

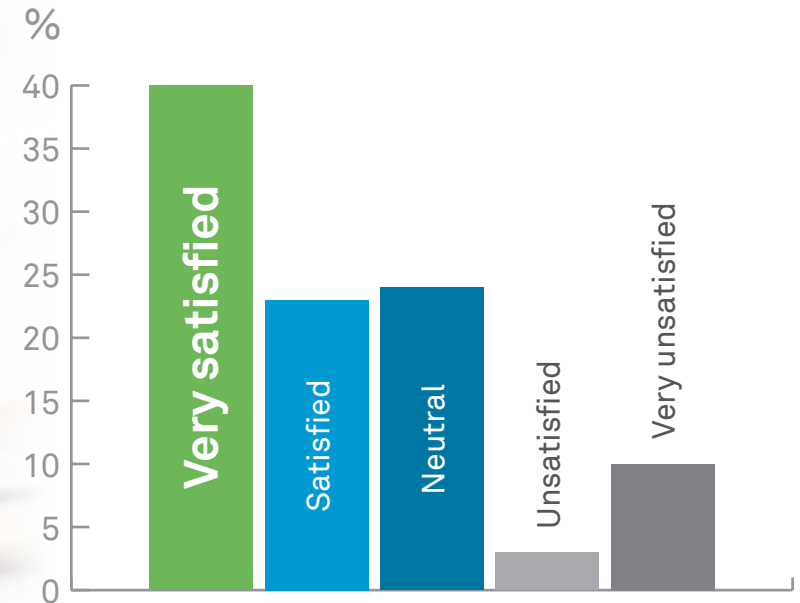
A majority of the board members who reported they plan two or more years out said that they were satisfied or very satisfied with their long-term budgeting process. Not surprisingly, **board members that said they were planning 10 or more years in advance had even higher satisfaction numbers, with 63% of respondents saying they were very satisfied or satisfied with their planning.**



Satisfaction of board members who plan 2+ years



Satisfaction of board members who plan 10+ years



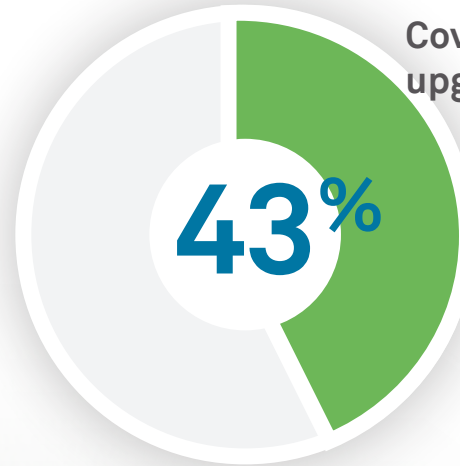
Maintenance and Improvements are Priority #1

When asked what their primary goal was when developing the annual budget, **43% of board members said covering any repairs or upgrades** to the property. This isn't a surprise since investing in capital improvements and maintenance helps increase property values and improve the overall resident experience. Partner with your management company to ensure that the improvements you make are strategic and designed for the good of the entire association.

In our **2020 budget survey**, **46%** of surveyed board members said their biggest priority was keeping assessments at or near current level. In 2021, that percentage has shifted a bit, with about **30%** of surveyed board members saying they did not want to raise assessments. While this may seem like a good idea, it can harm residents in the long run for several reasons. When assessments remain the same, they don't keep pace with inflation, which negatively impacts the budget and prevents the community from properly investing in their reserve funds or maintaining the property as needed.

When upkeep is neglected and capital projects are postponed because of a lack of funds, then the property is at a higher risk for some type of financial emergency for repairs or replacement. This will require a special assessment and cause the board to raise assessments to a much greater degree than if they raised them consistently at a lower cost each year.

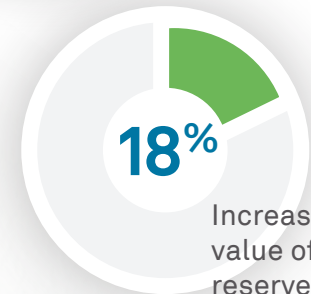
What is your top goal when developing your association's annual budget?



Covering any repairs or upgrades to the property



Avoiding raising assessments for our residents



Increasing the value of our reserve funds



Other

Insurance is the Most Reviewed Budget Item

Top priorities aside, board members have many line items in their annual budget that need to be addressed. There were many items that most board members selected as being part of their budget review and **at the top of the list was insurance.**

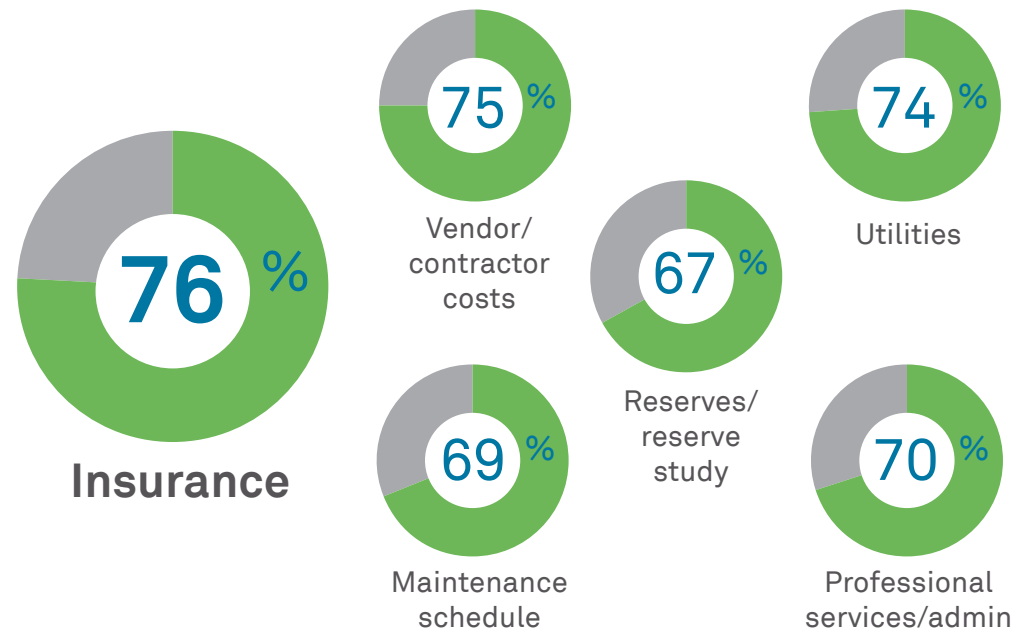
WHY ARE INSURANCE PREMIUMS SPIKING?

Boards should review their insurance as they update their annual budget, as it has fluctuated significantly in the last few years. Insurance premiums are rising at an exponential rate (15% to 30% in many cases), with some associations struggling to obtain coverage.

According to Jamie George, vice president of insurance at FirstService Financial, *“Insurance claims, liability and litigation have all increased. To that end, association boards should be increasing their insurance line items by at least 10% and up to 30%, depending on their property type and if they’ve had losses.”*

FirstService Financial, the banking and insurance affiliate of FirstService Residential, has relationships with most major insurance providers and can work with the board to find the best rate available for their property. For a deep dive on the current state of insurance, read our Insurance Q&A: <https://bit.ly/HOA-INS-CA>

Which of the following areas do you review during your annual budget process?*



*Respondents were able to choose more than one selection.

Watch Jamie George explain why associations need to pay attention to changing insurance premiums:
<https://bit.ly/HOA-INS-CA>



JAMIE GEORGE | Vice President, Insurance, FirstService Financial



How much support does your management company provide during the budgeting process?

23% Significant support.

16% A good amount of support.

61% Receive less than optimal support.

- 19% Decent support.
- 16% Minimal support.
- 7% No support.
- 19% We are a self-managed community.

Successful Budget Planning Requires a Great Management Team

According to survey responses, over 60% of board members are not getting the support from a management company that they deserve throughout the budgeting process.

At FirstService Residential, the financial team works in partnership with the association management team and board to prepare draft budgets for board review, including anticipated increases, actual expenses incurred over the past year and historical expense data.

Some of the budget planning deliverables we routinely provide include:

- ▶ Regular, thorough financial reporting.
- ▶ Analysis of budgetary discrepancies.
- ▶ A budget checklist outlining the necessary steps and resources.
- ▶ Assistance with fostering alignment and process buy-in among board members and residents.
- ▶ Ongoing guidance such as creating a yearly maintenance calendar and offering insights on how to handle things beyond your control (e.g. fire code changes).

Throughout the budget development process, your association management company should direct the steps to be taken, provide the items to be reviewed and considered and share best practices that will create the best possible budgetary outcomes.

At FirstService Residential, we know that providing these services requires a team of financial and accounting professionals who have your association's best interest in mind. And by virtue of our size and scale, we are also able to share our buying power with the communities we manage to extend significant time and cost savings.



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/california.

Want to know more?



Contact FirstService Residential today to learn more about how our team helps manage your budget process more effectively: <https://bit.ly/Contact-Us-CA>



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