

**THE CITY OF ALEXANDRIA
COMMON INTEREST COMMUNITIES
EDUCATION SERIES**



BUILDING A BUDGET

MARCH 22, 2025

PRESENTED BY

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Program Overview



Annual Budget Preparation



Budget Adoption & Distribution



Reserves



Funding Large Scale Projects



ANNUAL BUDGET PREPARATION

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Association Budgets

- ***When done properly***, association budgets establish a foundation for financial and operational success.
- ***When done poorly***, association budgets lead to poor performance in community operation.



Building a Budget

Requirements

*Established in the
recorded documents:*

- Preparation Requirements
- Distribution Requirements
- Maintenance, Repair and Replacement Requirements



Typical Budget Factors

Operating Expenses

- Maintenance & Supplies
- Trash & Snow Removal
- Utilities

Overhead Costs

- Federal and property taxes
- Insurance



Sample Budget

| | <u>2020 Budget</u> |
|---|---------------------|
| Assessment Income | |
| 4001 - Residential Assessments | 1,242,848.00 |
| 4070 - Garage & Parking Assessments | 18,000.00 |
| 4120 - Initial Contributions | 0.00 |
| 4120 - Developer Assessments | 0.00 |
| Total Assessment Income | 1,260,848.00 |
| Other Income | |
| 4270 - Water Submetering Income | 60,000.00 |
| 4710 - Late Fees & Interest | 2,000.00 |
| 4830 - Miscellaneous Income | 1,000.00 |
| 4900 - Interest Earned - Operating Accounts | 0.00 |
| Total Other Income | 63,000.00 |
| Total 1620 Baskington Condo Income | 1,323,848.00 |
| Administrative | |
| 8000 - General Administrative | 8,000.00 |
| 8070 - Bad Debt | 0.00 |
| 8020 - Minutes/Recording Secretary | 1,000.00 |
| 8020 - Other Collection Costs | 2,000.00 |
| 8030 - Courier Costs | 0.00 |
| 8040 - Dues & Subscriptions | 8,788.00 |
| 8080 - Office Equipment Leases | 2,000.00 |
| 8080 - Office Supplies | 2,000.00 |
| 8110 - Web Site Maintenance | 0.00 |
| 8180 - Other Administrative Services | 0.00 |
| Total Administrative | 21,688.00 |
| Communications | |
| 8200 - Community Events | 1,800.00 |
| 8270 - Printing & Copying | 2,000.00 |
| 8270 - Postage | 1,800.00 |
| Total Communications | 5,600.00 |
| Payroll & Benefits | |
| 8300 - Employee Salaries and P/B | 0.00 |
| 8300 - Manager/Assistant Manager Salaries | 144,000.00 |
| 8340 - Staff Benefits | 0.00 |
| Total Payroll & Benefits | 144,000.00 |
| Insurance | |
| 8400 - Insurance Premiums | 70,000.00 |
| Total Insurance | 70,000.00 |
| Utilities | |
| 8500 - Electric Service | 148,000.00 |
| 8500 - Gas Service | 10,000.00 |
| 8520 - Water Service | 20,000.00 |
| 8520 - Trash and Recycling Service | 18,000.00 |
| 8580 - Telephone Service | 4,000.00 |
| 8580 - Internet Service | 8,000.00 |

| | <u>2020 Budget</u> |
|---|--------------------|
| Utilities | |
| 8070 - Other Utility Expenses | 0.00 |
| Total Utilities | 232,800.00 |
| Landscaping | |
| 8100 - Grounds & Landscaping - Contract | 18,000.00 |
| 8110 - Landscape Repair & Maintenance | 8,000.00 |
| 8180 - Submittal | 0.00 |
| Total Landscaping | 26,000.00 |
| Operations | |
| 8200 - Permits & Licenses | 1,000.00 |
| Total Operations | 1,000.00 |
| Contracted Services | |
| 8402 - Building Engineering Services | 72,100.00 |
| 8404 - Elevator Services | 12,832.00 |
| 8410 - Fire Prevention & Protection | 8,000.00 |
| 8410 - Filtrac Room Equipment | 20,000.00 |
| 8420 - HVAC Maintenance Technician Evts | 0.00 |
| 8420 - Indoor Plant Maintenance Services | 0.00 |
| 8430 - Janitorial Services | 88,300.00 |
| 8432 - Concierge Services | 187,252.00 |
| 8434 - Pest Control | 3,000.00 |
| 8436 - Pest Management | 18,000.00 |
| 8440 - Safety & Security | 18,000.00 |
| 8442 - Snow Removal Services | 0.00 |
| 8444 - Water Treatment Services | 8,000.00 |
| 8446 - Window Cleaning Services | 8,000.00 |
| 8490 - Other Contracted Services | 2,534.00 |
| Total Contracted Services | 441,538.00 |
| Repair & Maintenance | |
| 8540 - Electrical Supplies/Repair & Maintenance | 4,000.00 |
| 8580 - Equipment Rental/Repair & Maintenance | 0.00 |
| 8580 - Fire System Repair & Maintenance | 2,000.00 |
| 8580 - Garage Repair & Maintenance | 0.00 |
| 8580 - General Repair & Maintenance | 19,000.00 |
| 8580 - Elevator Repair & Maintenance | 2,000.00 |
| 8620 - HVAC Supplies/Repair & Maintenance | 7,000.00 |
| 8630 - Janitorial Supplies & Maintenance | 2,000.00 |
| 8640 - Lighting Supplies/Repair & Maintenance | 0.00 |
| 8670 - Mechanical Systems Services & Supplies | 8,000.00 |
| 8680 - Plumbing Supplies/Repair & Maintenance | 8,000.00 |
| 8700 - Pest Supplies/Repair & Maintenance | 1,000.00 |
| 8780 - Other Supplies/Repair & Maintenance | 7,000.00 |
| Total Repair & Maintenance | 82,800.00 |
| Professional Services | |
| 7000 - Audit & Tax Services | 8,000.00 |
| 7000 - Consulting Services | 8,000.00 |

| | <u>2020 Budget</u> |
|--|---------------------|
| Professional Services | |
| 7010 - Engineering Services | 0.00 |
| 7010 - Financial Services | 0.00 |
| 7020 - Legal Services | 0.00 |
| 7020 - Legal Services - Collections | 4,000.00 |
| 7030 - Legal Services - General Counsel | 48,000.00 |
| 7030 - Legal Services - Deed Restrictions | 0.00 |
| 7040 - Management Fees | 38,817.00 |
| 7080 - Other Professional Services | 0.00 |
| Total Professional Services | 90,817.00 |
| Shared Expenses | |
| 8120 - Shared Repairs & Maintenance | 0.00 |
| Total Shared Expenses | 0.00 |
| Taxes | |
| 8600 - Income Tax | 800.00 |
| Total Taxes | 800.00 |
| Reserve Expenses | |
| 8800 - Repair & Replacement Expenses | 147,000.00 |
| 8812 - Operating Contingency Expenses | 0.00 |
| 8860 - General Expenses | 88,187.00 |
| Total Reserve Expenses | 235,187.00 |
| Total 1620 Baskington Condo Expense | 1,320,148.00 |
| Total Association Net Income / (Loss) | 3,700.00 |



Typical Budget Factors

- Office Expenses
- Accounting & Bank Fees
- Management Fees
- Transportation Management Fees
- Legal Costs
- Compliance
- Communications – Newsletter, website or social media presence
- Incorporated - Annual report filing fees
- CICB filing fees



Budgeting for Compliance



Incidental Costs

Postage Fees

Management Fees



Initiating Legal Action

Legal Fees

Filing Fees



Exercising Self-Help



Preparation

- Consider current economic conditions
- Minimum wage adjustments
- Cost of inflation
- Personnel costs
- Current contracts
- Make conservative projections
- Determine amount needed for reserves – reserve study
- Calculate annual assessments



Preparation

- Identify ways to cut costs and source funds
- Evaluate current contracts and upcoming maintenance expenses
- Obtain Estimates
 - Vendors
 - Special Projects



Financial Statements

Budgeted Expenses
v. Actual Expenses

Were prior budgets
followed?

Where was there
underspending or
overspending?

Were special
assessments
necessary?

Is there a pattern?



Inflation

- Make inflation-adjusted projections.
- Account for most recent inflation rate.
- How has inflation impacted the association in prior years?
- Consult association certified public accountant.



Long-Term Financial Plan

- Create a multi-year budget plan template.
- Determine financial goals.
- Identify potential future maintenance needs or large-scale projects – reserve study.



Multi Year Trend Budget Example

| Description | 2020 Actual | 2021 Actual | 2022 Actual | 2023 Actual | 2024 YTD Actual | 2024 Projected | 2024 Budget | 2025 Budget | Budget % Change |
|---|----------------|------------------|-------------------|-------------------|---------------------|---------------------|---------------------|---------------------|--------------------|
| Assessment Income | | | | | | | | | |
| 4001 -- Residential Assessments | 0.00 | 90,355.43 | 495,427.73 | 643,240.04 | 795,104.30 | 795,104.30 | 1,207,259.00 | 1,243,848.00 | 3.03% |
| 4075 -- Garage & Parking Assessments | 0.00 | 2,576.32 | 12,792.53 | 14,848.80 | 16,284.87 | 16,284.87 | 30,600.00 | 18,300.00 | (40.20%) |
| 4120 -- Initial Contribution | 0.00 | 0.00 | 0.00 | 0.00 | 25,048.60 | 25,048.60 | 0.00 | 0.00 | 0.00% |
| 4125 -- Developer Assessments | 0.00 | 0.00 | 0.00 | 0.00 | 411,239.58 | 411,239.58 | 0.00 | 0.00 | 0.00% |
| Total Assessment Income | 0.00 | 92,931.75 | 508,220.26 | 658,088.84 | 1,247,677.35 | 1,247,677.35 | 1,237,859.00 | 1,262,148.00 | 1.96% |
| Other Income | | | | | | | | | |
| 4270 -- Water Submetering Income | 0.00 | 0.00 | 47,136.84 | 65,887.84 | 76,956.16 | 76,956.16 | 30,000.00 | 60,000.00 | 100.00% |
| 4710 -- Late Fees & Interest | 0.00 | 0.00 | 240.67 | 660.00 | 6,388.40 | 6,388.40 | 400.00 | 3,000.00 | 650.00% |
| 4835 -- Miscellaneous Income | 0.00 | 375.00 | 955.00 | 1,355.00 | 2,510.00 | 2,510.00 | 600.00 | 1,000.00 | 66.67% |
| 4900 -- Interest Earned - Operating Account | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00% |
| Total Other Income | 0.00 | 375.00 | 48,332.51 | 67,902.84 | 85,854.56 | 85,854.56 | 31,000.00 | 64,000.00 | 106.45% |
| Total 1625 Eckington Condo Income | 0.00 | 93,306.75 | 556,552.77 | 725,991.68 | 1,333,531.91 | 1,333,531.91 | 1,268,859.00 | 1,326,148.00 | 4.52% |
| Administrative | | | | | | | | | |
| 5000 -- General Administrative | 0.00 | 22,196.57 | 3,811.57 | 7,180.37 | 7,716.88 | 7,716.88 | 8,000.00 | 8,000.00 | 0.00% |
| 5010 -- Bad Debt | 0.00 | 0.00 | 0.00 | 0.00 | 8,041.57 | 8,041.57 | 1,500.00 | 0.00 | (100.00%) |
| 5020 -- Minutes/Recording Secretary | 0.00 | 0.00 | 250.00 | 1,050.00 | 450.00 | 450.00 | 1,200.00 | 1,200.00 | 0.00% |
| 5025 -- Other Collection Costs | 0.00 | 170.00 | 1,520.00 | 1,880.00 | 1,440.00 | 1,440.00 | 2,000.00 | 2,000.00 | 0.00% |
| 5030 -- Coupon Costs | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,000.00 | 0.00 | (100.00%) |
| 5045 -- Dues & Subscriptions | 0.00 | 9,296.00 | 10,946.40 | 6,491.10 | 6,924.46 | 6,924.46 | 5,200.00 | 5,786.00 | 11.27% |
| 5085 -- Office Equipment Lease | 0.00 | 46.00 | 2,653.02 | 2,772.43 | 31.00 | 31.00 | 2,500.00 | 2,500.00 | 0.00% |
| 5090 -- Office Supplies | 0.00 | 0.00 | 4,781.94 | 1,844.47 | 2,645.57 | 2,645.57 | 2,500.00 | 2,500.00 | 0.00% |
| 5115 -- Web Site Maintenance | 0.00 | 0.00 | 0.00 | 0.00 | 45.00 | 45.00 | 0.00 | 0.00 | 0.00% |
| 5195 -- Other Administrative Services | 0.00 | 0.00 | 0.00 | 0.00 | 13,445.32 | 13,445.32 | 0.00 | 0.00 | 0.00% |
| Total Administrative | 0.00 | 31,708.57 | 23,962.93 | 21,218.37 | 40,739.80 | 40,739.80 | 23,900.00 | 21,986.00 | (8.01%) |
| Communications | | | | | | | | | |
| 5200 -- Community Events | 0.00 | 0.00 | 0.00 | 1,683.48 | 428.00 | 428.00 | 1,500.00 | 1,500.00 | 0.00% |
| 5210 -- Printing & Copying | 0.00 | 0.00 | 0.00 | 0.80 | 507.25 | 507.25 | 2,000.00 | 2,000.00 | 0.00% |



Assessment Collection

- Ignoring delinquencies impacts association budgets.
- Necessary to carry out association obligations.
- Bringing an account current may cost the association additional management and legal fees.



Considerations

- **Budget Committee** – Comprised of owners with input from management.
- **Timeframe** – Establish a timeline for the budget approval process.
- **Community Input** – Town halls or owner surveys may identify necessary projects or repairs.
- **Communication** – Establish a process for informing the community.



Avoid Underbudgeting & Overspending

- Timely & consistently collect assessments
- Review current or upcoming contracts for performance and costs
- Review financials and adherence to budget periodically throughout the year
- Annual audit
- Consider hiring a certified public accountant



Certified Public Accountants

Do you need to hire a professional?

- Inaccurate expense reports & balance sheets
- Insufficient reserve funds
- Missing or rushing to meet deadlines
- Overdue bills
- Recordkeeping mistakes
- Tax return mistakes



BUDGET ADOPTION & DISTRIBUTION

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Budget Timeline

July

Send a letter to the committees or Board of Directors requesting their input for the upcoming year's budget.

August

Management prepares the draft budget and submits it to the Finance Committee or Board of Directors for review.



Budget Timeline

September

Board reviews proposed budget for the next year and makes any necessary adjustments.

October

The Board approves the budget for the next year at a special meeting. (Note: The budget must be approved a certain number of days before the start of the next fiscal year.) The management agreement should specify the deadline for the first draft of the budget.



Approving the Budget

- Adopted upon motion at a properly convened Board meeting.
- Action must be taken in open session.
- Motion should specify the details of action taken.
- Action reflected in the meeting minutes.
- Consider drafting a script.



Community Presentation

- Develop a budget report
- Create budget summaries - consider graphics for a simple breakdown
- Identify key differences from prior year's budget
- Include budget notes
- Explain line items



Distribution & Publication



Online Portal



Email



Regular or
Door Mailing



Newsletter



Bulletin
Board



Copies in
Management
Office



RESERVES

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What are Reserves?

- **Reserve Fund** – A budgeted portion of assessments set aside for paying costs to repair and replace capital components.
- **Purpose** – Prepare and plan for the cost of maintenance, repair and replacement over time, so that each owner pays a “fair share” for use of the property while living in the community.



Why Contribute to Reserves?

- Properly-funded reserves reduce the need for special assessments or loans to pay for repairing or replacing capital components.
- Assessment fluctuations are difficult owners to manage. Properly-funded reserves allow the large expenditures necessary to maintain capital components to be evenly spread over time, making assessments more predictable.



Steps to Provide for Adequate Reserves

1

Resolve to Conduct Study

2

Identify Reserve Study Products

3

Establish a Work Plan

4

Conduct the Reserve Study

5

Disclose & Implement



What is a Reserve Study?

Capital budget **planning tool** used to determine the physical status and repair or replacement cost of **capital components** and an analysis of association funding capacity to maintain, repair and replace capital components.

- Not a spending plan.
- Not a prescription for the community.
- Provides a rational basis for budget planning.

The Board is the only entity with authority to decide on funding reserves.

Guidelines for the Development of Reserve Studies for Capital Components, Adopted by the Virginia Common Interest Community Board September 5, 2019.



Implementing a Reserve Plan

- Make adjustments with the reserve analyst to meet community objectives and preferences
- Draft report to present to community
- Incorporate community feedback into final report



Funding Options

- **Loans** – a number of banks are experienced in working with community associations. Costs of borrowing should be considered.
- **Special assessments** – unpopular but sometimes necessary.
- **Raising assessments gradually over time** – a good option if timing of project allows.
- **A combination of all approaches** – offers options.



Annual Review of Reserves

- The Board and management should review reserves each year.
- Compare objectives with actual expenses and assessments.
- Consult with the reserve analyst if there are major changes in circumstance or large discrepancies.



Virginia Law

Always Consider Recorded Documents!

Must Reserves Be Funded? – **NO**

Reserve Study Required? – **YES**

- Must be conducted *at least once every **five** years.*
- Must be reviewed annually to determine if reserves are sufficient.



Virginia Laws Concerning Reserves

Must Amount of Reserves be Disclosed? - **YES**

- **Statement 1** – Describe procedures for estimating and accumulating cash reserves pursuant to reserve study.
- **Statement 2** – Amount of reserves recommended by reserve study.
- **Statement 3** – Amount of current cash in replacement reserves.

Resale Disclosure Required? – **YES**



Lending Requirements

Federal Housing Administration (FHA)

- FHA Approval dependent on association financial stability
- Financial Stability ***includes*** review of reserves
 - Reserves must be funded at rate of at least 10% of the aggregate monthly assessment
 - *Unless* a lower amount is deemed sufficient based on acceptable reserve study

Source: FHA Single Family Housing Policy Handbook, Condominium Project Approval (issued October 24, 2019);
https://www.hud.gov/sites/dfiles/OCHCO/documents/4000.1hsggh_Update7.pdf



Reserve Study Updates

- Update required every 5 years.
- May update more frequently if circumstances require.
 - If the property is undergoing a series of major, costly projects, more frequent updates can be helpful.
 - If circumstances change dramatically, an update should be considered.



Reserve Recommendations

- Adopt formal policies for meeting maintenance obligations, including goals for funding and investing reserve accounts.
- Use an independent, qualified professional to prepare a reserve study.
- Account for the annual contributions necessary for long-term maintenance, repair and replacement.



Reserve Recommendations

- Fund reserves based upon replacement cost estimates.
- Refrain from establishing reserves as a fixed percentage of the budget or of the value of improvements.
- Comply with applicable law.
- Communicate reserve fund status to community at least annually.



FUNDING LARGE SCALE PROJECTS

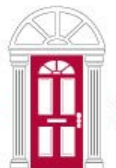
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Funding the Project

Varies from community to community!

- Funding options depend on:
 - Financial condition of association:
 - Operating Accounts
 - Reserve Funds
 - Magnitude of Project
 - Number of Owners



Specific Funding Options

- **Special Assessments -**

- Allows owners to spread payments out over time.
- May be buttressed by Loan for all money to be available up front.

- **Bank Loans -**

- Association pays for project over time.
- Application process creates significant administrative difficulty.



Borrowing Funds

Ask Legal Counsel!

- Review loan documentation.
- Review recorded documents for authority.
- Review voting materials (if necessary).
- Provide opinion to lender confirming association authority to enter into transaction.



Member Approval - *If Required*

- May be required for loans, special assessments or additions, alterations or improvements.
- Coordinate timing of bid acceptance, any lender commitment letters (if loan) and member approval voting.
- Draft voting package for member approval.
- ***Recommendation:*** Prepare Q&A!



Member Approval - *If Required*

- Monitor votes.
- Prepare for special meeting or written consent compilation.
- *Ask Legal Counsel* - Requirements for voting, balloting, certification of votes and announcement of results.



DISCUSSION



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