



LARLYN

Webinar Series

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WELCOME

CONDO BUDGETING:

- WHAT TO LOOK FOR
- HOW TO PREPARE
- IMPLICATIONS OF YOUR DECISIONS

PRESENTED BY:



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Regional Manager, Southwestern Ontario
Larlyn Property Manager Ltd.

WHAT CAN YOU EXPECT TO LEARN?

- Purpose of the budget
- What is included in a budget
- Sample Budget
- Who does what to prepare a budget
- Board of Directors Responsibilities
- Things for Boards to Consider During the Budget Preparation Process
- What is a Special Assessment?
- The Big Decision: Condo Fees – To Increase or Not
- Implications / Consequences of the Board's Decisions
- Questions
- Next Steps

THE PURPOSE OF THE BUDGET

- Determines for the upcoming 12 month period:
 - expected revenues and expenditures
 - provisions for reserves and long-term expenditures
 - Prepared as a “Zero Based” Budget where every line item starts from scratch (zero dollars) and balancing the bottom line.
- Sets the maintenance fees due from unit owners for the upcoming year.

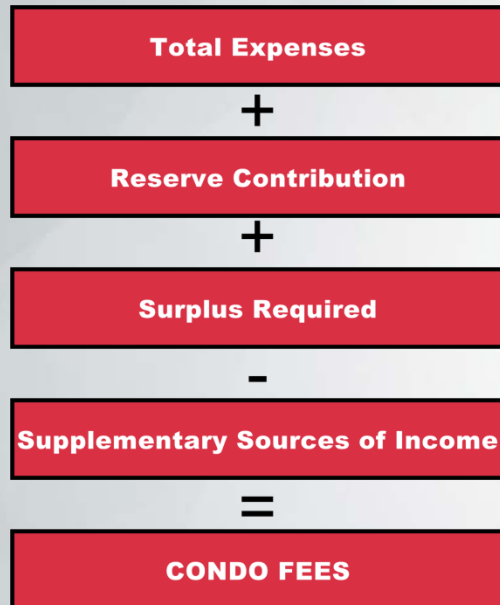
**A condominium's financial health
DEPENDS on its annual budget.**

ELEMENTS OF A BUDGET

STANDARD OPERATING EXPENDITURES:

Total Expenses	Property Management
+	
Reserve Contribution	Administration Costs
+	Cleaners and General Housekeeping
Surplus Required	Concierge / Security / Gatehouse
-	Heat, Hydro and Water
Supplementary Sources of Income	Maintenance and Repairs
=	
CONDO FEES	Energy Management
	Landscaping / Snow Removal / Lawn Maintenance
	Exterior Maintenance
	Repairs and Interior Maintenance

ELEMENTS OF A BUDGET



RESERVE CONTRIBUTION:

The Reserve Fund can only be used for replacement and non-routine repairs of common elements and assets of the condo.

Like a savings account or insurance policy, to ensure funds are available for special expenditures that may come up in the future.

They must be kept in a separate account from the operating expense account and securely invested.

A Reserve Fund Study undertaken by experts will examine all systems and physical aspects and provide reasonable expectations as to when they will need to be replaced or have non-routine repairs performed as well as estimates of how much this will cost ***at that projected time in the future.***

ELEMENTS OF A BUDGET

SURPLUS:

Total Expenses
+
Reserve Contribution
+
Surplus Required
-
Supplementary Sources of Income
=
CONDO FEES

When general revenues exceed general expenditures at the end of a fiscal year.

Does NOT include the Reserve Fund.
Can be retained as a ***contingency fund*** to cover unexpected expenditures in the budget, or reduce/stabilize maintenance fees or;

Can be used to top up Reserve Fund however once in that fund, cannot be retrieved for anything else.

Rule of Thumb: Surplus should equal the higher of the largest one-time expense (usually insurance) or 1 month's condo fees.

Boards should plan for expenditures within the regular budget rather than rely on a contingency fund. Large surpluses not only provide temptation to spend impulsively but are wrong.

ELEMENTS OF A BUDGET

SUPPLEMENTARY SOURCES OF INCOME:

Total Expenses
+
Reserve Contribution
+
Surplus Required
-
Supplementary Sources of Income
=
CONDO FEES

Parking

Laundry

Rooftop Antennas

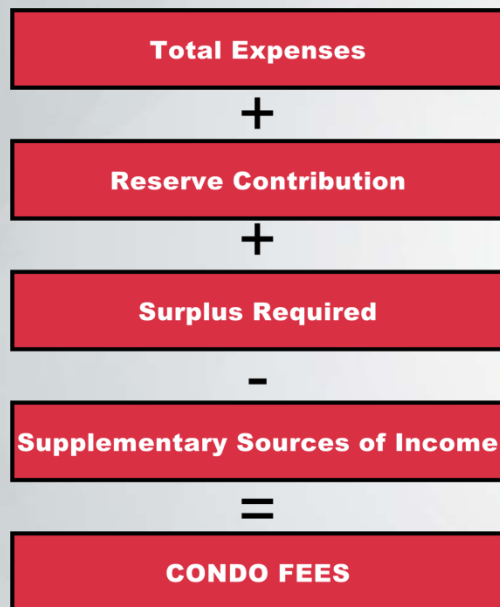
Guest Suite Rentals

Interest

Surplus from previous year
(any possible sources of income other than
condo fees)

ELEMENTS OF A BUDGET

CONDO FEES:



The maintenance fees collected from the owners of the units to cover Expenses, Reserve Contribution, and Surplus Required less any Supplementary Sources of Income.

All required expenditures and savings are divided among the units on a percentage basis over the year and then divided into 12 monthly payments based on the size of their unit.

They are akin to rent for services and a joint savings account for future repairs.

12 MONTH BUDGET EXAMPLE

- Break out expenses monthly. Some expenses belong or have higher/lower amounts in different seasons, some may be one-time and others may spread evenly across the year.
- Compare to past budget and actual expenses.
- Balance to zero: Fees amount to what you need to cover expenses.
- Separate notes should be included to explain how numbers were arrived at.

INCOME	BUDGET 2014	ACTUAL 2014	BUDGET JAN 2015	BUDGET FEB 2015	BUDGET MAR 2015	BUDGET APR 2015	BUDGET MAY 2015	BUDGET JUN 2015	BUDGET JUL 2015	BUDGET AUG 2015	BUDGET SEP 2015	BUDGET OCT 2015	BUDGET NOV 2015	BUDGET DEC 2015	BUDGET 2015	
CONDO REVENUES																
Condominium Fees	\$37,556	\$37,556	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$49,784	
Total Condo Fees	\$37,556	\$37,556	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$4,149	\$49,784	
OTHER INCOME																
Interest Income	\$0	\$0													\$0	
Water Recovery	\$16,200	\$34,000	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$30,240	
Other Income	\$0	\$765													\$0	
Total Other Incomes	\$16,200	\$34,765	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$30,240	
TOTAL OPERATING INCOME	\$53,756	\$72,321	\$6,669	\$6,669	\$6,669	\$6,669	\$6,669	\$6,669	\$6,669	\$6,669	\$6,669	\$6,669	\$6,669	\$6,669	\$80,024	
OPERATING EXPENSES	BUDGET 2014	ACTUAL 2014	BUDGET JAN 2015	BUDGET FEB 2015	BUDGET MAR 2015	BUDGET APR 2015	BUDGET MAY 2015	BUDGET JUN 2015	BUDGET JUL 2015	BUDGET AUG 2015	BUDGET SEP 2015	BUDGET OCT 2015	BUDGET NOV 2015	BUDGET DEC 2015	BUDGET 2015	
CONTRACT SERVICES																
Landscaping	\$6,007	\$6,007					\$1,050	\$1,050	\$1,050	\$1,050	\$1,050	\$1,050			\$6,297	
Snow Removal	\$6,007	\$6,007	\$1,050	\$1,050	\$1,050	\$1,050							\$1,050	\$1,050	\$6,297	
Total Contracts	\$12,014	\$12,014	\$1,050	\$1,050	\$1,050	\$1,050	\$1,050	\$1,050	\$1,050	\$1,050	\$1,050	\$1,050	\$1,050	\$1,050	\$12,594	
GROUNDS MAINTENANCE																
Landscaping & Snow removal extras	\$0	\$0	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200	
Total Grounds Maintenance	\$0	\$0	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200	
GENERAL MAINTENANCE																
Parking Enforcement	\$0	\$0	\$170	\$170	\$170	\$170	\$170	\$170	\$170	\$170	\$170	\$170	\$170	\$170	\$2,040	
Paving / Fencing/ Concrete	\$0	\$0					\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$300	
Catch Basins & Drains	\$0	\$0	\$83	\$83	\$83	\$83	\$83	\$83	\$83	\$83	\$83	\$83	\$83	\$83	\$1,000	
Repairs and Maintenance	\$450	\$800	\$42	\$42	\$42	\$42	\$42	\$42	\$42	\$42	\$42	\$42	\$42	\$42	\$500	
Total General Maintenance	\$450	\$800	\$295	\$295	\$295	\$295	\$345	\$345	\$345	\$345	\$345	\$345	\$295	\$295	\$3,840	
UTILITIES / RESOURCES																
Electricity / Power / Hydro	\$600	\$900	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$1,002	
Bulk Water	\$16,200	\$34,000	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$2,520	\$30,240	
Total Utilities	\$16,800	\$34,900	\$2,604	\$2,604	\$2,604	\$2,604	\$2,604	\$2,604	\$2,604	\$2,604	\$2,604	\$2,604	\$2,604	\$2,604	\$31,242	
ADMINISTRATION EXPENSES																
Administrative Expenses	\$365	\$765	\$42	\$42	\$42	\$42	\$42	\$42	\$42	\$42	\$42	\$42	\$42	\$42	\$504	
Bank Charges	\$0	\$350	\$29	\$29	\$29	\$29	\$29	\$29	\$29	\$29	\$29	\$29	\$29	\$29	\$350	
Insurance	\$4,515	\$4,515	\$261	\$261	\$261	\$261	\$261	\$261	\$261	\$261	\$261	\$261	\$261	\$261	\$3,132	
Insurance Bond	\$0	\$0													\$0	
Insurance Appraisal	\$0	\$906													\$0	
Office Supplies & Meeting Expenses	\$0	\$260	\$83	\$83	\$83	\$83	\$83	\$83	\$83	\$83	\$83	\$83	\$83	\$83	\$1,000	
Miscellaneous	\$0	\$0													\$0	
Total Administration Expenses	\$4,880	\$6,796	\$416	\$416	\$416	\$416	\$416	\$416	\$416	\$416	\$416	\$416	\$416	\$416	\$4,986	
PROFESSIONAL SERVICES																
Financial Audit Fees	\$0	\$3,051												\$1,698	\$1,698	
Legal Fees	\$0	\$4,000	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$2,000	
Performance Audit	\$2,750	\$3,334													\$0	
Reserve Fund Study	\$2,200	\$1,808													\$0	
Management Fees	\$9,763	\$10,842	\$1,136	\$1,136	\$1,136	\$1,136	\$1,136	\$1,136	\$1,136	\$1,136	\$1,136	\$1,136	\$1,136	\$1,136	\$13,626	
Total Professional Services	\$14,713	\$23,035	\$1,302	\$1,302	\$1,302	\$1,302	\$1,302	\$1,302	\$1,302	\$1,302	\$1,302	\$1,302	\$1,302	\$1,302	\$3,000	
TOTAL OPERATING EXPENSES (A)	\$48,857	\$77,645	\$5,766	\$5,766	\$5,766	\$5,766	\$5,816	\$5,816	\$5,816	\$5,816	\$5,816	\$5,816	\$5,766	\$7,464	\$71,186	
FINANCIAL EXPENSES																
Reserve Allocation	\$4,899	\$4,899	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$8,838	
TOTAL FINANCIAL EXPENSES (B)	\$4,899	\$4,899	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$8,838	
TOTAL EXPENSES (A) + (B)	\$53,756	\$82,444	\$6,502	\$6,502	\$6,502	\$6,502	\$6,552	\$6,552	\$6,552	\$6,552	\$6,552	\$6,552	\$6,502	\$8,200	\$80,024	
NET PROFIT (LOSS)	\$0	(\$10,123)	\$167	\$167	\$167	\$167	\$117	\$117	\$117	\$117	\$117	\$117	\$117	\$167	(\$1,532)	\$0

WHO DOES WHAT?

- Budgets are prepared by the Property Manager ***with input from*** the Board of Directors
- Voted on by entire board for approval
- Signed off by Directors with signing authority
- Presented to Unit Owners

**The budget is the responsibility of the
BOARD OF DIRECTORS.
Owners cannot vote on the budget.**

BOARD OF DIRECTOR RESPONSIBILITIES

- Review Revenue and Expense numbers presented by Property Manager – may be changed upon review by the Board
- Ensure you are comfortable with the reasons and thoughts behind the numbers
- Confirm the numbers add properly
- Set your wish list and make decisions on what you feel the budget can handle financially
- Ensure there is sufficient income to cover your planned expenses
- Be aware of “need” vs. “want” and be prepared to make difficult decisions. Becoming a board member doesn’t mean you will get everything you want.

If you are uncomfortable with the increase in monthly fees required to accommodate all of your wishes...

... be prepared to take away projects considered “discretionary spending.”

THINGS TO CONSIDER DURING THE BUDGETING PROCESS

REVENUE SOURCES

- Are there any possible sources of income other than condo fees?
 - Parking
 - Laundry
 - Rooftop antennas
 - Guest Suite
- Are you being conservative?
 - Do not overestimate supplementary revenue sources as usage will vary from year to year
 - TIP: Budget 65-80% of the current year amount

THINGS TO CONSIDER DURING THE BUDGETING PROCESS

CONTRACTS

- Have you seen the contract?
- What is the renewal date?
- Has a price increase been included if not yet known?

THINGS TO CONSIDER DURING THE BUDGETING PROCESS

ADMINISTRATION

- Are major projects planned that will require additional communication to owners/residents?
 - plan for increase in administration expense
- Are expenses that span over several years spread out across multiple years to prevent periodic spikes?
 - Example: insurance appraisal occurs every 3 years so divide the cost by 3 and spread it out evenly

THINGS TO CONSIDER DURING THE BUDGETING PROCESS

REPAIRS AND MAINTENANCE

- Have you set your wish list? Is each item accounted for?
- Are there any “one time” projects planned that would increase the historical average?
- Were there any “one time” projects completed in the past year included in historical average that would decrease the budget for the coming year?

THINGS TO CONSIDER DURING THE BUDGETING PROCESS

UTILITIES

- Are there any projects underway or planned that would increase or decrease consumption?
 - Take into account how far into the fiscal year the increase/decrease would take affect.
- Have any planned rate changes been published in the media?

THINGS TO CONSIDER DURING THE BUDGETING PROCESS

RESERVE FUND

- Are there any major adjustments to the reserve plan in the next 5 years that would require the planned contribution amount to be increased?
 - By how much?
 - Should a one-time special assessment be considered rather than increasing monthly fees?
 - Work with your engineer if time allows
- Are you using the contribution number from the approved reserve fund study?
- You cannot contribute less without issuing an alternate funding plan.
 - This would make the Board of Directors personally liable if they are not correct. They would not be covered by insurance or Corporation documents.

THINGS TO CONSIDER DURING THE BUDGETING PROCESS

SURPLUS / CONTINGENCIES

- Does your surplus meet the minimum recommended requirements?
 - It is important that every corporation carry a surplus equal to the higher of 1 month's condo fees or the largest one-time expense (usually the annual insurance premium)
- If too low, you need to set your revenue plan for a positive balance at the end of the year to increase your overall surplus.
- If too high, consider the following:
 - Set up an improvement fund to plan for future projects that will not qualify to come from the reserve fund (accessibility issues required by new government acts, handicap access, levered door handles, new security systems) or new landscape projects, etc.
 - Set an income line "Use of Surplus Funds" to lower current year condo fees. Remember that this only delays required increases. Once surplus funds are gone there are no longer available as a revenue source.

SPECIAL ASSESSMENT

- An ***additional payment or levy*** required when:
 - The condo corporation does not have an adequate Reserve Fund to do a repair and cannot charge the expenditure through the operating budget due to lack of funds.
 - A replacement or large repair resulted in the depletion of the Reserve Fund and needs to be brought up to date.
- Approved by the Board. Owners cannot vote.
- Each owner is charged their portion of the assessment in relation to the size of their unit.
- Cannot be levied if there is a large surplus.
- Both the assessment and the way of levying it requires careful consideration by Boards and adequate communication with owners.
 - Payable in one lump sum vs. payable over a period of time
 - When is it due?

THE BIG DECISION: CONDO FEES

To Increase or Not

Understandably, owners are relieved when fee increases are avoided. Stability in fees is a good thing ***provided it is NOT to the detriment of the future financial stability*** of the condo corporation.

Fee Increases are unavoidable in the following situations:

- Level of service is falling
- Cuts in necessary services would be required
- Repairs not possible
- Reserve Fund is inadequate

Consider Increasing Condo Fees 2-5% each year:

- Follow inflation rate
- Slow, steady increase has less impact than facing a large jump all at once

THE BIG DECISION: CONDO FEES

To Increase or Not

Not raising fees when required can result in diminished real estate values and unsatisfied owners.

Tough decisions are required by Boards of Directors. Avoid common pitfalls:

- Fear of defeat by owners refusing fee increases
- Using the promise of low fees to be re-elected
- Approving unnecessary “preventative” maintenance, premature repairs, constant upgrades and inefficient staff

Instead,

- Ensure decisions are made based on well-researched facts
- Ensure fees collected are spend wisely and not squandered
- Ensure you are only paying for costs the corporation is responsible for under your bylaws and charge back expenses due from owners
- Communicate the reasons behind fee increases effectively so they understand the Budget is to protect their investment
- Continue to find creative solutions to problems with efficient use of funds

IMPLICATIONS / CONSEQUENCES OF YOUR DECISIONS

In addition to keeping fees low at the risk of poor everyday upkeep, if the Board fails to maintain an adequate Reserve Fund with increased contributions or special assessments, they could be sued by owners in the future.

Directors' Liability insurance may not cover them if due diligence has not been done.

QUESTIONS

If you have not done so already, please type your questions in the area provided on your screen where it says “TYPE MESSAGE HERE.”

We will address as many questions submitted as possible and follow up personally with those we are not able to discuss this evening.

NEXT STEPS

How to access the recording of this presentation:

In addition to receiving an email with a link to the recording, you will be able to access it on our website within the next week:

www.larlyn.com/Client-Learning

NEXT STEPS

Who to contact for further questions:

Your Property Manager and Regional Manager are both valuable resources on your Customer Service Team who are always available to answer your questions. If you would like to reach me, you can do so by email:

jcostello@larlyn.com

NEXT STEPS

Additional “Learn With Larlyn” Opportunities:

www.larlyn.com/Client-Learning

PREVIOUS WEBINAR:

How to Read Your Condo Financial Statements

E-BOOKS:

Role of the Board of Director

Role of the Property Manager

And more!

Thank You for joining us



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