

BUDGETING

If you have not started to prepare your 2006 Budget, you are already behind schedule. By now, you should have checked all your reserve numbers as required by Florida Statute 718. This year, I have found some savings in reserves because construction costs have come down. Most Associations have a history of what their operational / maintenance expenses have been. The Board of Directors or management company should have received prices on any capital improvement projects proposed for next year. With real estate prices up, investing in maintenance of the common property is one of the best ways to protect property values in today's market.

The proposed budget is the preliminary draft of the community financial plan. The development of accounts and expense classifications for the proposed budget are based on the community's financial history. Accounts are to be separated into categories of general operation and into at least three (3) mandatory reserves (paving, painting and roofing). The proposed budget cannot anticipate reserves will be waived by the membership, only a majority of the homeowners at the Budget Meeting may remove or modify the reserve provision. Notice of the Budget Meeting must be given to each owner at least 14 days before the meeting is held or otherwise stated in the Documents.

If a budget is increased 115% over last year, not including reserves or capital expenditures, the budget may be recalled by the homeowners. If 10% sign a petition, then within 30 days (10 day notice) another meeting must be held with an alternative budget. It should be noted that I have never seen this successfully accomplished. If a narrative is included with the budget explaining each line item and the reason for increases, solves most, not all, complaints.

It is generally understood that most owners do not like increases in assessments, however, some line items the Association has no control over, i.e. electric, water, sewer, trash removal, etc. I expect insurance rates to increase because of the heavy losses due to Katrina.

The new requirement that all contracts over \$5,000 be bid out annually, unless the contract has a 30 day termination clause or professional contractors, means that the Association should have bid specs on each job performed by the Association for the unit owner. The Board has a fiduciary to ensure it is getting the best job for the price, this does not necessarily mean the lowest price. Boards that fail to do this are leaving themselves subject to possible lawsuits from homeowners.

In addition, there are five (5) different types of years that should be taken into consideration when preparing a budget:

- **Calendar Year**
- **Contract Year**
- **Fiscal Year**
- **Budget Year**
- **Electoral Year**

The purpose of the budget is twofold. First, it is an informational tool, which allows interested parties to gain knowledge as to the disposition of revenues. Secondly, it is a management tool used as the basis for systematic control. The budget process begins with understanding the needs, desires and costs associated with the satisfaction of those needs and desires.

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