

Budgeting for Parkfairfax

Parkfairfax was built in the early 1940s and recently turned 78 years old. Our 245 buildings require routine maintenance (such as regular painting) and attention to longer-term problems. Examples of long-term maintenance include roof replacement, settlement remediation, major landscaping updating, coating foundation walls to eliminate water seepage, etc. These repairs are not inexpensive.

Our grounds (covering 132 acres) require constant maintenance, including cutting grass, trimming hedges, raking leaves, etc. In short, Parkfairfax requires a lot of time, attention, and money. It's important to remember that each owner is obligated to share in funding the cost of association operations.

The condominium Association funds operations and maintenance from different accounts, all of which comprise the annual budget. How are funds generated? Some come from storage rentals, rental income from Association-owned units, user fees (bikes, kayaks, etc.), as well as other sources. The budget's most significant portion of revenue comes from condo assessments ("condo fees"). What follows is a deeper dive into the UOA budget process to learn how the Association's funds are used.

Every year, Board members, the Finance Committee, and our management team are tasked with creating and adopting next year's budget. Our community's annual budget is mainly divided into three categories: Operating Expenses, Reserves, and Capital Improvements.

Operating Expenses cover the day-to-day operations, including services such as garbage collection, snow removal, and pool upkeep and staffing. Also included are administrative costs, repair and maintenance, service contracts, and utility expenses, among others. Utilities are notably costly. Electricity costs about \$100,000 a year, gas (which supplies boilers and home ovens) costs over \$200,000 a year, and water costs more than \$1M a year. All told, Operating Expenses are almost \$7,000,000 annually. An important factor to consider in this equation is the addition of the inflation rate, which affects most of Parkfairfax's expenses, including but not limited to service contracts, supplies, payroll costs, utilities, construction costs, materials, labor, etc. Funding the operation of our community, however, is a must.

Another budget category is the **Replacement Reserve** ("Reserve Fund" or "Reserves"). The Reserve Fund is set up to pay for repair and replacement expenses of building elements and other assets which have predictable average useful lives. Building elements and the grounds are typically called "common elements," meaning the Association (the residents as a whole) is responsible for their condition. As mentioned earlier, roofing and settlement issues fall under Reserves, as do aging gas and sewer lines that may need replacing.

One crucial point to keep in mind is that Reserves are funded every year based on a suggested contribution amount defined by the Reserve Study.

A reserve study is a long-range capital planning tool that helps associations anticipate and prepare for repairing and replacing their community's common assets. At least once every five years an association must obtain a study, conducted by a firm of engineers and professional experts. The study includes both an in-depth analysis of the property's physical condition and a thorough examination of current reserve funds. The suggested contribution (condo fees) is based on these physical assessments of 'the community's components and the financial savings required to repair and maintain them.

The last category of the budget is called the **Capital Improvement Fund**. The 2018 Board of Directors created the Capital Improvement Fund to pay for improvements that, per accounting principles, could not come out of Operations or Reserve accounts. \$100,000 annually was dedicated to this fund, and the Board can vote for different renovation projects such as the update of the Community Room. Payment for these projects does not draw or divert from funding for the Operating or Reserve accounts.

The annual budget is created for the following fiscal year. With the support of the Finance Committee and after extensive consultation with our maintenance team, accountants, contractors, and management company, among others, the management office drafts a suggested budget for the Board to consider. This draft will include a proposed condo fee amount expected to cover our daily operations, major reserve projects, and adequate funding of our reserves per the Reserve Study recommendations. The next step for the Board is to call a meeting for the budget to be discussed among its members and to give the homeowners the opportunity to bring their concerns and/or provide their input to the Board. This meeting is commonly known as our Budget Workshop Meeting. From time to time, the Board may consider calling for a town hall meeting if deemed necessary.

Typically, the Board will take a final vote on the budget at the March Board meeting, where there may be proposed budget amendments. Owner feedback is presented, as usual, during the resident forum at the beginning of the meeting. Community members and their representatives on the Board often have differing opinions on budgeting strategies during the adoption process. Engagement in the annual budget process is important and accurate information is critical. The primer presented here is a step toward understanding the annual budget process.