



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.

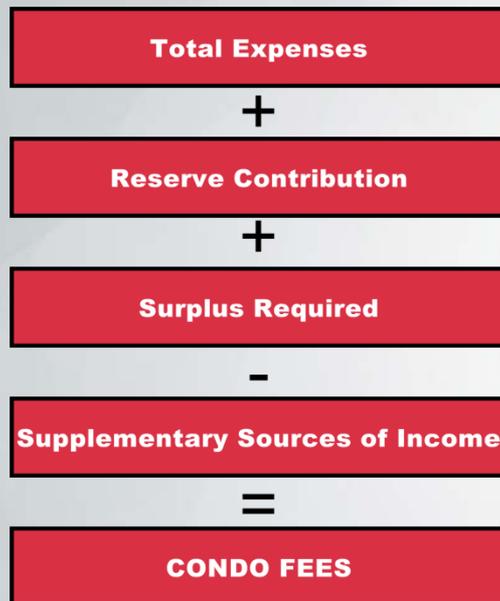
**A condominium's financial health  
DEPENDS on its annual budget.**

# ELEMENTS OF A BUDGET

## STANDARD OPERATING EXPENDITURES:

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

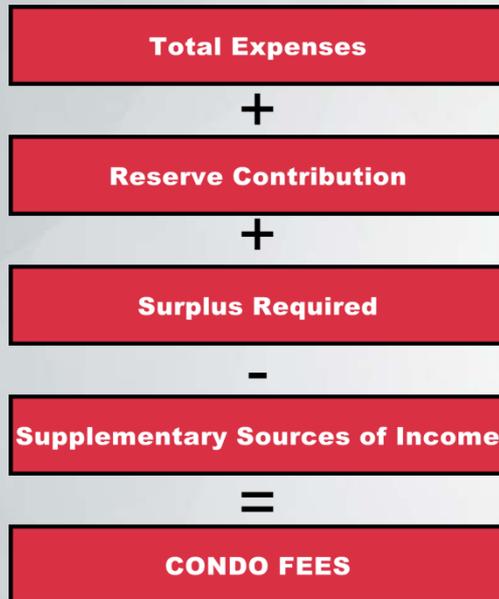
Like a savings account or insurance policy, to ensure funds are available for special expenditures that may come up in the future.

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:



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;

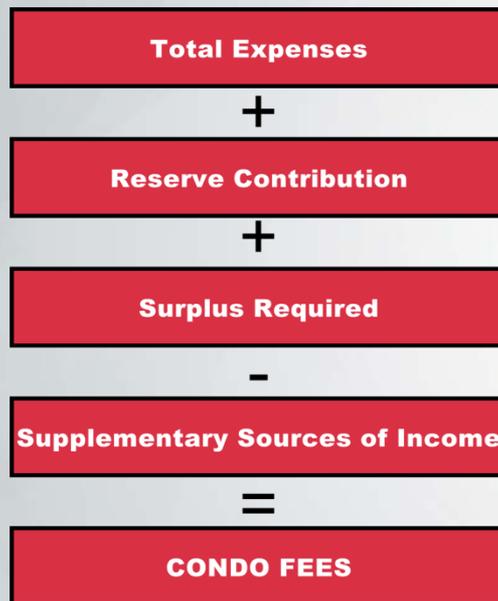
Can be used to top up Reserve Fund however once in that fund, cannot be retrieved for anything else.

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:



Parking

Laundry

Rooftop Antennas

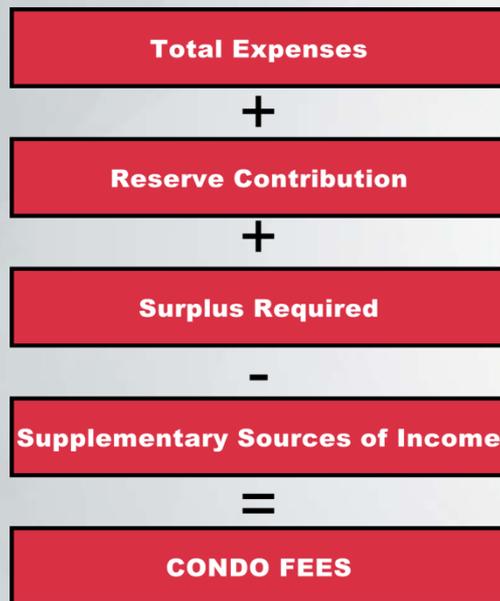
Guest Suite Rentals

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
<b>CONDO REVENUES</b>															
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
<b>Total Condo Fees</b>	<b>\$37,556</b>	<b>\$37,556</b>	<b>\$4,149</b>	<b>\$49,784</b>											
<b>OTHER INCOME</b>															
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
<b>Total Other Incomes</b>	<b>\$16,200</b>	<b>\$34,765</b>	<b>\$2,520</b>	<b>\$30,240</b>											
<b>TOTAL OPERATING INCOME</b>	<b>\$53,756</b>	<b>\$72,321</b>	<b>\$6,669</b>	<b>\$80,024</b>											
<b>OPERATING EXPENSES</b>															
<b>CONTRACT SERVICES</b>															
Landscaping	\$6,007	\$6,007					\$1,050	\$1,050	\$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	\$6,297
<b>Total Contracts</b>	<b>\$12,014</b>	<b>\$12,014</b>	<b>\$1,050</b>	<b>\$12,594</b>											
<b>GROUND MAINTENANCE</b>															
Landscaping & Snow removal extras	\$0	\$0	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
<b>Total Grounds Maintenance</b>	<b>\$0</b>	<b>\$0</b>	<b>\$100</b>	<b>\$1,200</b>											
<b>GENERAL MAINTENANCE</b>															
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
<b>Total General Maintenance</b>	<b>\$450</b>	<b>\$800</b>	<b>\$295</b>	<b>\$295</b>	<b>\$295</b>	<b>\$295</b>	<b>\$345</b>	<b>\$3,840</b>							
<b>UTILITIES / RESOURCES</b>															
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
<b>Total Utilities</b>	<b>\$16,800</b>	<b>\$34,900</b>	<b>\$2,604</b>	<b>\$31,242</b>											
<b>ADMINISTRATION EXPENSES</b>															
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
<b>Total Administration Expenses</b>	<b>\$4,880</b>	<b>\$6,796</b>	<b>\$416</b>	<b>\$4,986</b>											
<b>PROFESSIONAL SERVICES</b>															
Financial Audit Fees	\$0	\$3,051													\$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	\$9,783	\$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
<b>Total Professional Services</b>	<b>\$14,713</b>	<b>\$23,035</b>	<b>\$1,302</b>	<b>\$3,000</b>											
<b>TOTAL OPERATING EXPENSES (A)</b>	<b>\$48,857</b>	<b>\$77,545</b>	<b>\$5,766</b>	<b>\$5,766</b>	<b>\$5,766</b>	<b>\$5,766</b>	<b>\$5,766</b>	<b>\$5,816</b>	<b>\$74,464</b>						
<b>FINANCIAL EXPENSES</b>															
Reserve Allocation	\$4,899	\$4,899	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$737	\$8,838
<b>TOTAL FINANCIAL EXPENSES (B)</b>	<b>\$4,899</b>	<b>\$4,899</b>	<b>\$737</b>	<b>\$8,838</b>											
<b>TOTAL EXPENSES (A) + (B)</b>	<b>\$53,756</b>	<b>\$82,444</b>	<b>\$6,502</b>	<b>\$6,502</b>	<b>\$6,502</b>	<b>\$6,502</b>	<b>\$6,502</b>	<b>\$6,552</b>	<b>\$83,302</b>						
<b>NET PROFIT (LOSS)</b>	<b>\$0</b>	<b>(\$10,123)</b>	<b>\$167</b>	<b>\$167</b>	<b>\$167</b>	<b>\$167</b>	<b>\$167</b>	<b>\$117</b>	<b>\$0</b>						

# 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](http://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](mailto:jcostello@larlyn.com)

# NEXT STEPS

*Additional “Learn With Larlyn” Opportunities:*

[www.larlyn.com/Client-Learning](http://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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