

As you build your budget, keep surprises in mind

Community Living

As summer comes to a close and schools reopen, the time has come for community association boards and finance committees to start working on next year's budget. Most associations have only assessment income, which is paid usually monthly by the individual owners. Prudent boards will strive to maximize their spending power while preserving the long-term integrity of their buildings.

Before your board plugs in the numbers, consider the following budget-saving advice from association pros who know their way around a spreadsheet:

Plan for surprises. They are called "contingencies" in accounting lingo, and they include such unexpected expenses as unpaid assessments, extra snow removal during a harsh winter and higher utility costs due to a hotter-than-expected summer. Set money aside for them, so you don't get caught short, said certified public accountant Steve Silberman, a partner at Marcum LLP in Deerfield.

"If these budgeted contingency expenses are not used during the year, the association may be able to transfer them to an operating contingency fund with a separate bank account," he said. "These funds will then be available if the association has a deficit operating fund in the future."

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But first check your declaration, which may dictate differently how to deal with excess funds, he said.

Don't skimp on experts. Too often, associations undertake a big project without consulting an engineer or other profession because they feel the fees are too expensive or unnecessary. But faulty specifications or incorrect product selections are costly too.

"I have seen this type of decision-making result in the association having to redo the project, and that means the final cost is greater than it would have been had they involved a professional in the beginning," said Beth Lloyd, president at the Association of Condominium, Townhouse and Homeowners Associations and a former board president.

"Depending on the project, make certain to consult with your attorney and your insurance agent to ensure that the association is protected in the event the project doesn't go quite as planned," said Mark McLallen, president at Condominium Insurance Specialists of America in Elgin.

Fine-tune reserve contributions. Your reserve study is a professional, comprehensive listing of every common element, their remaining life expectancies and the cost to replace them when the time comes. It also tells you how much to save each year, so you've got the money when you need it. But things change. Some common elements wear out sooner, and some last longer. That's why your reserve study should be updated every three to five years and the funding schedule adjusted accordingly.

"If they do this, they may find that they need to budget less for reserves, especially if they were able to do additional maintenance in the prior year, so that they can defer a project the reserve study says should be done sooner," Silberman said.

The opposite also could be true. If you find you need more money than expected in, say, 10 years, you've got time to plan for a loan or special assessment, or you might be able to avoid both by increasing reserve contributions now, he said.

Monitor aging infrastructure. In older buildings with galvanized pipes, you need to periodically evaluate the condition of the pipes. It's not an easy task because the pipes are buried behind the walls.

"At minimal cost and inconvenience, you can take pipe samples during every remodeling project when the plumbing walls are open," said architect Daniel Baigelman at Full Circle Architects in Highland Park. "Or you can do it the more expensive and inconvenient way, by taking pipe samples from closed walls throughout the building after several pipe failures have occurred and the water damages are extensive."

First in a two-column series. Get more budget-saving advice from home association pros in Pamela Dittmer McKuen's next Community Living column in Real Estate.

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