Mention the word “budget,” and you often see a reaction of fear or disdain in the face of the person who is responsible for this key component of any organization. The budgeting process can be viewed in a more positive way, however, if you see it not just as a burdensome task of pulling together facts, figures, and data but rather as a road map of guiding principles. When you go to create and maintain your homeowners association (HOA) budget for the next year, this road map then becomes the mechanism that steers the future course of your resort and your owners association.

Here are few simple guidelines on budgeting as you see it through this alternative positive lens.

**Overall Goals**
First and foremost, budgets are a way to project and then track the owners association’s expenses and revenues. Most budgets are created with one simple goal: to have enough revenue to cover expenses. Accomplish this goal and your owners’ association will continue to serve your resort owners, its members. When developing your budgeting plan, first project both the revenues and expenses. In general, the operating budget is designed to break even, as is the property tax budget (if that’s separate). The only budget that is designed to either have excess revenue or expenses is the reserves budget. Furthermore, the funds for each—operations, property taxes, and reserves—are generally not commingled. If there is an excess of revenue over expenses in operations, the Internal Revenue Code allows the Board of Directors to elect to carry the excess forward for use in operations in the subsequent year or transfer the excess to another fund.

**Breaking It Down**
Each year’s HOA budget is really your association’s road map for the future, expressed in financial terms. Each dollar figure represents a part of your future plans, so each amount should be realistic as an important part of that plan. A budget creator should know all the details for upcoming projects during the upcoming cycle, along with the best estimates for costs. Each resort department—staffing, housekeeping, insurance, maintenance, landscaping, activities, and capital expenditures—contributes to the grand plan by outlining their operational activities (both revenue-generating and expense items) with a dollar amount assigned to each line item. This plan should also include costs/income generated from vending machines, day-use passes, etc. This is how you ascertain a clear, realistic picture of your HOA’s financial commitments.

**Calibrating Direction**
This budget serves as an important set of guidelines—“guideline” being the operative word. Plans may change for any department or budget item, which may then require adjustment of both association revenues and expenses. A clear example of this is in the area of annual assessment collection, which is usually the most important component of your HOA revenues. If you budgeted for a 95% collection rate but assessment revenues are running below expectations, you should plan to alter your revenues and lower the association’s expenses to mirror this decrease in revenues to protect your bottom line.

Your budget serves as a primitive GPS system that helps navigate and track progress throughout each year’s budget cycle. It is not there to limit the association’s choices. Instead, a properly tracked budget should be flexible enough to allow for the modification of your association’s actions toward your goals or master plan—like the “recalculating” option on a GPS system that finds a different route. This flexibility may mean that the association may halt one planned project in order to accomplish another priority or reduce expenses in housekeeping to off-set an increase in your property insurance premiums. These types of changes are typical and inevitable, and adjusting for them allows your HOA to still...
Important Considerations for Each Budget Cycle

In creating any HOA budget, here are some key considerations to keep in mind.

✓ Create dollar amount projections in both revenues and expense for all planned projects and activities. Ask for realistic estimates from all departments and budget holders.

✓ The association management team and the HOA Board of Directors should determine all needs to expand or reduce staffing levels, add new services, or modify existing services.

✓ Spend the time necessary to review the actual expenses and revenues for the previous budget cycle. Use these figures as an important guide to confirm or adjust all proposed amounts in future budgets.

✓ Account for inflation and any known changes to revenues and expenses. If your resort property has been notified of an increase in utility rates or insurance premiums, make sure these are noted within the budget projections.

✓ Assess and adjust replacement costs for reserve expenditures as needed, as the cost of cement, lumber, furniture, or electronics changes. If your association board budgeted five years ago to replace the resort’s entertainment centers starting next year, you may want to adjust this plan to purchase flat screen TVs with wall-mounts (eliminating the entertainment centers altogether).

✓ From the different departments’ activities and programs, create one overall set of goals for the association to serve as a road map.

✓ Monitor the HOA budget on a regular basis to track and compare numbers that may bear large impact if differences are significant. Monitoring budget projections may also provide key information for the next round of budget preparation and implementation.

✓ From the different departments’ activities and programs, create one overall set of goals for the association to serve as a road map.

✓ Budget flexibility does not mean that you should remain constant for the entire budget cycle, as these amounts serve as vital benchmarks for comparison to actual revenues and expenses. The element of flexibility within each budget line item makes the monitoring and comparison process all the more important in the budget’s cycle.

The budget still serves as a road map where you can track to see how well you’re following the original path.

Keeping Track of Progress

Two very important factors are garnered from regular budget monitoring: (1) a realistic idea of budget comparison and the time to make necessary adjustments to keep your budget in line with actual revenues and expenses; and (2) necessary information to help make future budgeting easier for your association. If your management team and the HOA board of directors and officers are provided with monthly reports for each department’s revenues and expenses, you will prevent any sudden surprises at the end of the budget cycle that may negatively impact the association.

If revenues in one area are tracking above expectation, you may be able to implement a planned renovation or major project earlier than expected. If expenses in utilities, for example, are running over budget, then you may need to implement operational changes to help reduce the impact on the overall budget (i.e., asking owners to keep unit thermostats at a higher setting in the summer months and lower in the winter months). No one wants to have to explain to owners why an unmonitored budget item was a surprise—with the potential for a special assessment or increase in annual fees to cover the cost.

All differences in previous budget projects should be discussed and addressed as either an overestimation or underestimation of the previous budget. A more realistic dollar figure should then be used in current budget preparations and projections. For example, if you budgeted $7,000 for the printing and mailing of your quarterly owner newsletter and the actual costs were $8,900, you will need to re-examine the printing and postage estimates and number of newsletters sent—perhaps only producing an e-newsletter to cut major costs.

Implementation

All association budgets follow a pre-established cycle, format, and process. Specific plans, spreadsheets, line items, and reports will vary from property to property. These variations should also reflect the goals and future plans established by an individual resort’s HOA.

What should not vary in any road map is the goal to use accurate and realistic figures in both creating and maintaining your annual association budget. Remember, too, that your budget is a guide for your road map and plan. Detours may be required, but your final destination should always include financial stability for your owners association and minimal financial impact on your resort owners and their families. ■