





Patrick Krall, RCM
Property Manager
King Condo Management



Bill Lang, RCM
Property Manager
CIE Property Management
& Consulting

The Hidden Joys of Budget Preparation

Since the dawn of the property management industry, the concept of developing a condominium budget has struck panic in the minds of even the most seasoned managers. When property managers are planning for the financial welfare of condominium corporations, there are definite ways to mitigate undue heartache and efficiently present budget proposals. It's the manager's responsibility to make sure their boards are presented with accurate data to make informed decisions on the budget. Condo boards armed with this knowledge are responsible for ensuring their condo corporation is funded to maintain the property for their residents.

Considerations

When it's budget prep time, it is important to consider:

1) Long-term budget planning is crucial. The term "annual budget" is a misnomer and can be deceiving when planning time comes around. Ideally, condo corporations should have a financial plan beyond one

year and, in fact, several years ahead.

2) No property manager should be surprised when major projects are not funded beyond reserve funds. Make sure the proposed budget is viable for long-term objectives. An area to strategize is on the present trades list and the ever-changing costs for services. If hefty increases are likely, they must be factored in and communicated.

3) Do not base (or even assume) future budget figures on past numbers. A typical pitfall for all property managers is tacking budget preparation while strictly focusing on the previous year's budget expenditures. This may be the most tempting route due to its simplicity but can be a Trojan horse full of hidden errors. Take time to go through key invoices to get accurate numbers, so you can adequately estimate future figures for the coming year (or years), rather than relying on what's happened in the past.

4) The ageless 5P adage of "prior preparation prevents poor performance" is

monumentally vital for property managers when it's time to present a responsible budget to their boards confidently. This is also a strategic method to overcome the fear of budget prep and presentation by eliminating unnecessary stresses. Research into significant budget line items needs to be conducted - specifically the utility columns - and may need to be adjusted depending on higher rates.

In challenging situations when deficits need to be confronted, the dreaded 'special assessment' will need to be discussed and possibly applied to get the condo's budget headed in the right direction. Property managers are responsible for providing their boards with vetted recommendations, which may include a line item in the budget accounting for deficit recovery. The budget prepping process cannot just be about plugging numbers in an Excel spreadsheet and hoping for the best. It needs a carefully considered yet estimated roadmap for the condo's financial welfare and future, with the residents' best inter-

est being top of mind. When approving budgets, the board must focus on shared goals of improving the community to protect its property value.

No property manager looks forward to fielding angry calls following the release of a budget, but there are ways to stave off such agony. The manner and tone in which budgets are presented will determine how owners react to them. Simply put, effective communication is key. There are times when steep budget increases are justified—and the best

course of action is to be transparent about it and carefully explain to owners that this is the correct (and sometimes only) decision. This acknowledgement is often a trademark of excellent communication from management and the board to the ownership. Contrary to this, minor increases in budgets can cause great uproar when communication is poor.

Draft Budgets

“Budget preparation” is an intimidating phrase for any new manager in the indus-

try (and sometimes even seasoned vets). Creating a draft budget for your board to review can be stressful, but it demonstrates to the board how much you know about their property and needs. We cannot predict the future and foresee all major issues that may arise in a year, but as we try to perfect our craft, we have to trust that our abilities and skills will help our board create their budget. The first pitfall that many of us make is the tendency to own the budget. We must remember to step back and acknowledge that we are providing information and advice to the board to create and approve their own budget.

A crucial thing to be mindful of with budget preparation is timelines. One of the biggest budget downfalls is that not enough time is allocated for the board to review and approve the budget. When this process is rushed, mistakes are made. Boards should have the budget completed at least two months prior to the mail-out date to ensure they can make any desired changes to the draft budget. The industry standard is typically one full month’s notice so owners can prepare for any necessary financial changes.

Reviewing the Numbers

The next step is to complete an extensive review of the general ledger. You will want to examine the known annual expenses such as service agreements, utility expenses, maintenance contracts, RFS, and insurance. You will need to review current contracts and reach out to the insurance company to see any increases for the next fiscal year to plan for those items going forward accurately.

The tricky part of preparing a budget is preparing for the unknown. This is where having a good understanding of the property dynamics and needs comes into play. If you have coded expenses with accuracy and detail in the previous year, your GL can also be an excellent guide to what issues may be a concern in the future. When preparing for the unknown, it is better to have budgeted a little higher to cover those expenses.

Once you have had an opportunity to review the information and input the proposed expenses for the year, you need to create a final draft for the board to review. It is always best to provide explanations/reasoning for the proposed budget line items so the board can understand where the numbers come from. Ensure the board members have a copy of everything



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needed to create the draft budget; a copy of the general ledger, notice of future funding, draft notes and any correspondence from companies that may have pricing increases for the following year. The board now has everything they need to decide what they would like to implement for the next fiscal year's budget.

Special Assessments

As indicated earlier, "special assessment" has become a negative word in our industry. The idea of asking owners for more money is something no one likes to do. However, this is a necessary tool that must be used if the corporation runs into a financial situation where they do not have enough money to cover expenses. Often, the need for a special assessment comes from emergent situations that no one can control or from boards fighting to maintain low condo fees. The cost of operations is what it is, and the money is needed one way or another.

The general notion is that if a special assessment is needed, the first question is, "who failed us?" This is the ultimate question, and the simple answer is that no one failed anyone in most cases. These assessments are due to the corporation's expenses that need to be paid. If there was a shortfall somewhere, perhaps someone in the past decided to try and save owners money at that time. Was it a poor decision at the time? Not necessarily. Owners would have been happy about saving the money and would not necessarily have been as concerned or upset about these future

assessments. We are now seeing this as a more common problem corporations are facing with the inflation we are experiencing in today's economy. We need to change the stigma regarding special assessments from a negative situation to a positive tool for corporations to continue conducting business and protecting the owners' assets.

Responsibility and Liability

Who is responsible and liable for the budget? This is a great question which most people cannot answer. The best way to answer this question is to explain how board liability works. The board of directors is responsible for the daily operation of the condominium corporation. They are entrusted with making decisions on behalf of the corporation's owners. The board is liable for all the decisions they make. Still, they may not have any legal liability if the decision made was due to the information provided by an industry professional, i.e. a lawyer, engineer, or property manager.

Budget liability is a double edged sword. If you were under budget for the fiscal year, great! You had a good year – you may have used fewer utilities, didn't have as many repairs, etc. No one will try to hold anyone liable for being under budget for the year; over-budget is a different ball game. Owners will always want to know why more money was spent than budgeted for. These are often due to uncontrolled situations like water loss, other damages and maintenance issues, overages in utilities, etc. Owners will also want to know who is responsible for this. Going back to

the original explanation, the board would be responsible for the budget's approval. This would only change if the property manager guided them into a wrong decision. The board then would not be liable as they would have followed the recommendation of the property manager as the industry professional. This is also a two-way street in the sense that if the property manager made a recommendation and the board chose not to follow the recommendation, then the board would be liable for the decision, and they may not be covered by their Director and Office Liability Coverage. Therefore, it is important to ensure that decisions like budget approvals are in the minutes and decisions and changes are clear to show accountability and responsibility. ■

Patrick Krall, RCM, is the newest Property Manager with King Condo Management. A General Licensee, he is a proud new ACMO member with the recently achieved RCM designation. Patrick currently manages condominiums in Kitchener, Waterloo and Cambridge. kingcondomgt.com

Bill Lang, RCM, is a Property Manager with CIE Property Management & Consulting. To accomplish various projects and major initiatives, he enjoys expanding communication lines between condo directors, owners, professionals and trades. Bill has interest in assisting new members of the industry. teamcie.ca



CONDO LAWYERS

Lawyers: Robert Mullin • Chris Mendes • Danielle Marks • Eric Kerson • James Cockburn • Kevin Thompson & Fiona Burnett (Student at Law)
Clerks: Terra Telford • Bailey Langford • Sarah Conway • Dani Mrkovic • Rebecca Klingspohn • Shelley Felhaber • Gloria Cooney • Mariann Jagnjic • Marissa Drake

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SmithValeriotte Law Firm LLP
www.svlaw.ca rmullin@svlaw.ca