
RESOLUTION PROPOSAL

DATE: May 28, 2009

SUBJECT: 2010 Budget Guidelines

SPONSOR: Finance Committee

BACKGROUND INFORMATION:

LMOA Policy 4.02a requires that a Budget Preparation Schedule and Budget Guidelines be submitted in May of each year. The schedule and guidelines for 2010 Budget Preparation are attached.

FINANCE COMMITTEE RECOMMENDATION: Approve.

STAFF RECOMMENDATION: Approve.

PROPOSED FINANCIAL IMPACT: None

PROPOSED SOURCE OF FUNDING: None

STRATEGIC PLAN REFERENCE:

4.1 Prudently manage the Association's finances and reserves.

POSSIBLE MOTIONS:

Move that the Board of Directors approve the 2010 Budget Guidelines and 2010 Budget Preparation Schedule.

PERSON RESPONSIBLE FOR FOLLOW-UP: Director, Business Management

2010 LMOA BUDGET PREPARATION CALENDAR

<u>Date</u>	<u>Time</u>	<u>Room</u>	<u>Activity</u>
May 28	(Th) 7:00PM	TR	BOD - Board approves 2010 Budget Guidelines and Budget Development Calendar.
May 29 – September 4		N/A	Operating Committees, Advisory Committees, and Staff work on Operating and Reserve Plan Budgets as instructed by the Treasurer and the Director of Business Management.
July 14	(Tu) 6:00PM	TBA	Staff - BOD, Finance Committee, Advisory Committees, General Manager and Staff meet for 2010 Budget kick-off meeting to include review of the Budget Guidelines and general 2010 Budget expectations.
August 3	(M) 5:00PM	N/A	<u>Deadline</u> for Reserve submissions from Committees and Staff.
August 25	(Tu) 6:00PM	TBA	Staff - Reserve Presentation to Finance Committee and BOD. Work sessions begin on Reserves.
Sept. 1	(Tu) 6:00PM	TBA	FC - Finance Committee and BOD meet to discuss Reserves (#1) with Staff/Committees.
Sept. 4	(Fr) 5:00PM	N/A	<u>Deadline</u> for Operating Budget Submissions.
Sept. 8	(Tu) 6:00PM	TBA	FC - Meeting on Reserves (#2) (if required)
Sept. 22	(Tu) 6:00PM	TBA	FC - Finance Committee and BOD complete Reserve Budget (#3) review.
Sept. 29	(Tu) 6:00PM	TBA	Staff - Operating Budgets presented to the BOD and Finance Committee by Staff. Work sessions begin on Operating Budgets.
Oct. 6	(Tu) 6:00PM	TBA	FC - Finance Committee and BOD meet to discuss Operating Budget (#1) with Staff/Committees.
Oct. 20	(Tu) 6:00PM	TBA	FC - Finance Committee and BOD review of Operating Budget (#2).
Nov 10	(Tu) 6:00PM	TBA	BOD - Finance Committee and BOD meeting to review Operating Budget (#3). BOD sets calendar for its budget reviews. Begin review of 5-year plan.
Dec. 10	(Th) 7:00PM	TBA	BOD - Board adopts 2010 budget. (Policy deadline for Budget approval is December 15, 2008.)

FR – Falconer Room, Clubhouse
CR – Crofton Room, Eagles Nest
EN – Main Room, Eagles Nest
TR – Terrace Room, Clubhouse
TBA – To Be Announced

2010 LMOA BUDGET GUIDELINES**I. Base Operating Budget**

The Operating Budget or Base Budget is the key to the entire budget process and it is essential that the base budget for each year is carefully developed by analyzing the past spending pattern and accurately estimating expenditures for the remainder of the year. Overall priorities for the budget formulation are reserves first, operations (less reserve expenditures) costs second. Initiatives that generate income are third followed by initiatives that generate no income.

The highest priority within the operating budget is the Reserve component (the starting point), and its requirements and funding will occur first. The operations budget will be developed after the Reserve budget has been completed. Increases in operating expenses or decreases in operating income must be offset elsewhere either by decreases in operating program expense or increases in income, but not at the expense of fully funding reserves. The base budget for each year is not automatically the budget approved for the previous year, nor does it represent an entitlement. Instead, as noted above, the base budget should represent a careful analysis of past and projected spending trends. In every case where the base budget represents a 5% increase or a 5% decrease over combining the first six months' 2009 actual figure and second six months' estimated (calculated based on six months' actual figure from 2008 plus 3%), a written justification is required. Percentage comparisons of variance can be made at the category summary level (i.e. the administrative expense level, not the line item level of "telephone" which is part of administrative expense). Increases in personnel cost of greater than 3% will require explanation and justification. Changes in budget lines that occur because of changes in categories, account reporting or organization will contain notes that allow comparison to previous year. New position requests will require justification, estimated costs and draft job descriptions. The budget format will include a column to show the projected annual expenses for the current year in each category. The base budget will also include known 2009 salaries and 2009 depreciation expenses. Benefit adjustments will be based on estimated 2010 costs.

A. Components of Cost: The operating cost for each department or activity will include all costs identifiable to that cost center, including labor, supplies, depreciation, lease costs, utilities, etc. Minor repairs such as painting, road patching, replacement of a vehicle fuel pump, etc. are routine maintenance and thus are operating costs funded through the annual operating budget.

Operating costs do not include major repairs to or replacement of facilities or requests for additional or expanded facilities. Major repairs or renovation of facilities are addressed in the budget for the Reserve Plan. Requests for new or expanded facilities are addressed in the New Initiatives budget. Operational repairs and replacements are defined as expenses for repair and replacement of items with a life expectancy of less than 3 years.

B. User Fees/Price Structures: User fees/price structures are established for certain amenities when the amenity is available to all property owners but is used primarily by only a segment of the property owners. Whenever possible, user fees/price for an amenity shall be established at a level that will cover 100% of the proposed 2010 operating costs for the amenity. Exceptions may be made. For example, if a user fee/price structure to recover the full costs of the amenity would be higher than the cost of similar alternatives, an exception may be made. The budget recommendation must provide a fee/price structure that will sustain membership, not detract from member use of the facility and must recommend additional funding sources outside of fees as appropriate to meet two criteria: 1) to sustain

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membership and 2) meet verified recommended levels of repair and maintenance. The consideration of less than full cost recovery fee/price structure must include the analysis of fee/price structures used by comparable amenities in the geographic area.

C. Priorities: The overall priority for budget development will be reserves first and operational costs second. Initiatives that generate income are third; last are initiatives that generate no income. To the extent the total cost of 2010 operations exceeds the 2009 Operating Budget, cost savings, program curtailments or income enhancements equal to the difference in cost will have to be identified and the impact of such actions fully explained. These cost savings or program curtailments may then be prioritized, item by item, along with any New Initiatives.

II. Reserve Plan

Major repairs and replacements (repair of a roof on a building, replacement of worn carpeting, replacement of an engine block, etc.) add substantial value to or add significantly to the useful life of an asset, or replace an asset that has surpassed its useful life. Such items are funded through the Reserve Plan.

The Reserve Plan budget will provide the following information as part of the annual budget in a clear manner for items over \$500.

A. Reserves will be accounted for separately from operations. The General Reserve Account is a restricted account for recording income, allocations and expenses for reserve purposes. This account will be separate from operational accounts and distinct from the General R&G Maintenance Account. The Reserve Accounts and sub accounts will be separate programs under the General Reserve account. This will provide a clear picture of the sources of funds for reserve accounts and the annual balances after expenses. The purpose is to provide the board with a tool to be accountable in providing reasonable funding to meet reserve requirements for the current fiscal year and future years. The goal is to increase the total value of reserve balances, and annually to match the reserve expenditure recommendations in the LMOA Reserve Plan as modified by annual reevaluation conducted according to LMOA policy. In addition this allows the operations account to reflect its costs and incomes clearly and separately. This allows a tool for the Board to assess that the annual operations costs are fully funded in the year of operations and are not dependent on assets like reserve balances. Income sources for the Reserve account include dues, assessments, depreciation, fees, interest or dividends, Restricted Accounts in LMOA 4.02.A.II.H., year-end surplus, if any, and other income generated from operations. Funds held in the General Reserve Account shall be available for allocation for reserve expenses or balances as set forth in the Annual Budget and in accordance with the Budget-funding plan. Funds that are allocated to specific reserve accounts shall show the source and amount of the allocation. In times when the Board of Directors considers these funds' resources inadequate, a special assessment may be needed.

B. The accounts for reserves are General Reserves, Road Reserve, Amenity Reserve (formally the Pool Account), Lake Reserve, and Other Reserves (formally the Growth Account).

C. All sub accounts of the reserves including other asset accounts including, but not limited to, the STORFA and the discretionary account must be shown in the annual budget. Their beginning and ending balance, any additions or subtraction to the accounts and the source or destination as appropriate must be shown.

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Analysis of current reserves on hand necessary to fund reserve requirements as recommended in the reserve plan will be conducted and reviewed by the Buildings, Roads and Grounds Committee and provided to the Finance Committee by April 30, 2009. Based on the submission, the Finance Committee will establish the annual recommended reserve contribution and expenditures to be included in the 2010 Budget.

An annual Reserve Review will be conducted by the Buildings, Roads and Grounds Committee in coordination with staff to estimate replacement cost of items to be addressed in the 2010 budget. To arrive at a recommended list of items and amounts, the committee will review the estimated remaining life and estimated useful life of the reserve components. The analysis will determine the current accumulated cash reserves set aside to repair, replace or restore reserve components and the amount of the expected contribution to the reserve fund for that year necessary to execute the Reserve Plan.

The annual contribution necessary to sustain the reserve account will be funded within the General Reserve budget recommended to the Board of Directors. The Reserve Plan should be used as a primary guide by those planning the major repair and/or replacement of assets. In addition to being fully justified, any request for funds for major repair or replacement of an asset must also be consistent with the Reserve Plan.

Any 2009 Reserve Plan projects that are not anticipated to be complete or under contract by the end of 2009 will not be automatically added to the 2010 Reserve Plan Budget. Such items should be resubmitted as original for the 2010 Reserve Plan Budget and must be in compliance with all the requirements listed above.

III. Revenues

Revenues include all dues and fees collected by LMOA. These include but are not limited to annual dues, improved property fees, user fees, earnings and losses from investments, and other program revenues. Fees will be set which are reasonable for the amenity, cover as much of the operating costs as possible, and will set fees that maximize the quality of the amenities and by doing so, positively impact the attractiveness of the community and positively impact property values

IV. Loans and Leases

Any new leases or loans will require a current and projected income to debt assessment, along with a recommendation to the board whether the planned schedule for payments match anticipated annual revenue streams or current and planned reserve balances. The purpose of the assessment is to measure the extent to which the new lease or loan matches current income and assets. No one ratio provides all information, but the following are suggested at a minimum: 1) Debt to Equity Ratio and 2) Debt Service Ratio. When extending or dropping a lease, or when an equipment purchase by loan is initiated, appropriate adjustment to depreciation (or contributions to reserves in lieu of depreciation must be made.) Leases should not be taken on items of less than \$10,000 in value.

V. New Initiatives

A new initiative may be a capital purchase which is not a replacement purchase, one-time funding of an outside service (non-capital), expansion of LMOA provided services (operating) or a change to any income or operating expense that is not offset elsewhere in the Base Operating Budget.

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A. Capital New Initiatives: Capital new initiatives are initiatives that add to or substantially improve the amenities, facilities or common area of the Association.

Examples:

- 1) New or expanded playgrounds, parking areas, buildings, equipment, etc. that have not been a part of the amenities, facilities or common areas and exceed \$500 in value.
- 2) Adding an additional heat pump to a building.
- 3) Installing a wall to divide a large room into two or more smaller rooms would be a capital new initiative as would removing a wall to create a larger room.
- 4) Replacing the furnishings in a building for purely aesthetic reasons (i.e. while the furnishings still have substantial useful life) would be a capital new initiative.

B. Non-Capital, Non-Operational New Initiatives: This category is for new initiatives which are non-depreciable in nature and will not affect the operating budget in future years (non-repetitive).

Examples:

- 1) Funding for a one-time study of the potential of a facility.
- 2) Buy-out of leased equipment.
- 3) Purchase of a piece of equipment costing less than \$500.
- 4) Upgrading a road surface from tar and chip to asphalt.

C. Operating Budget Expansion New Initiatives: Operating Budget Expansion would cover programs that are intended to be provided as continued income and/or services and supplies in future years as well as in the year being budgeted.

Examples:

- 1) Additional manpower.
- 2) Increased employee-training programs.
- 3) Utilities and supplies necessary to support a new facility such as restrooms.

D. Operating Changes to Budget (no program changes): These changes will have been identified during the operational review in Part I. Included are inflationary changes that could not be offset elsewhere in the base budget, changes in anticipated volume of use resulting in decreased income, and changes to line item expenses that are historically shown to have been budget deficient and cannot be offset elsewhere in the base budget.

E. New Initiative Justifications: Any new initiative (categories A-D above) must be fully justified. The full scope of the proposed initiative must be explained to include the specific tasks that must be undertaken to achieve the objective. The justification should include alternative solutions that were considered with an explanation of why the alternatives were rejected. The justification must also include specifics on how the estimated cost was determined (the how, what, when, where, and who).

F. New Initiative Program Emphasis: Each proposed new initiative must be presented in program terms rather than by the traditional line items. For example, an initiative to increase the number of security checks would be justified by explaining why additional checks are necessary and what will be achieved through the additional security checks. The estimated cost of the initiative would be a compilation of the additional man-hours, gasoline, vehicle maintenance, etc. that would be necessary to achieve the increased number of checks. The

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Security Department and the Safety and Security Committee would identify the need, consider solutions, define costs, and estimate benefits before proposing the initiative.

G. New Initiative Priorities: Since there are never enough funds to accomplish all of the things that could be done, the following criteria will be used in establishing priorities.

- 1) **Safety** and protection of Lake Monticello residents, visitors and employees and of both common and private property
- 2) **Maintenance** and care of infrastructure and amenities
 - Repairs
 - Preventive maintenance
- 3) **Improvement of infrastructure** and amenities
 - Expansion of infrastructure to meet increased needs
 - Restoration of common property
- 4) **Improvement of recreational and cultural opportunities** for residents

The proposed budget must include a listing of all LMOA proposed program changes (all new initiatives) in order of priority. Grouping of program changes by categories (e.g. "A," "B," etc. or "high/medium/low") is not acceptable.

Any 2009 New Initiatives that are not anticipated to be complete or under contract by the end of 2009 will not be automatically added to the 2010 New Initiative requests. Such items should be resubmitted as original for the 2010 New Initiative Budget and must be in compliance with all the requirements listed above.

VI. Five Year Budget Projection

A five-year projection of all income and expenses shall be presented. The projection should be based on currently approved programs and contain reasonable assumptions based on the anticipated growth and demographics of the residential community. The projection will show the Reserve requirements and funding stream, and identify any assessments or dues increases required to meet shortfalls, if any.

The Five-Year Quality of Life Improvement Program (five-year plan) shall be updated to include current funding projections, funding commitments, and projected spending.