

Budgets: What You Wish You Knew Then That You Know Now.

A budget is a financial plan for a community and represents the best estimate in one year for the next year's financial activities. A good budget anticipates thoroughly what the manager and board believe will be the financial experience of the community for the next year. As a plan, the budget can be changed and, as much as we hate it, things change and the plan has to change. If only we knew then, what would happen during the year! So we need to be able to adjust and we need to work real hard on anticipating. Here are some "If I had only known" scenarios to fit this topic:

1. Foreclosures. If we can track events leading up to a foreclosure, we can anticipate the foreclosure and when the bank will take over the mortgage. We will know when we start losing income and when we start getting income from that property after the bank takes over. Stay on top of lien filing and filing for personal money judgments.
2. Electric or water/sewer rates going up in mid-year. Keep alert of utility rate activity; watch for news articles, check the utility web sites, check with the state regulatory commission for rate activity. Also verify your usage and the accuracy of the rates you pay.
3. The cost of paving going up. It is easy to track petroleum costs, as energy is such a big news item. Petroleum costs affects a lot more than paving: roofing is mainly asphalt; siding is made of vinyl; pvc for irrigation lines is a petroleum derivative; blacktop and sealcoating for roads and driveways; plastic for playground equipment; plastic bags for trash and dog poop removal; gas and oil for vehicles; transportation costs.
4. Machinery wearing out too fast. Review the maintenance plan for reserve components. Look for items wearing out faster than anticipated or needing replacement sooner than planned. Proper maintenance scheduling and avoidance of deferred maintenance will avoid many surprises. Prepare mitigation steps ahead of the problem occurring.
5. Verify the accuracy of the reserve study replacement schedule and component replacement costs annually. Adjust the reserve fund assessment on a timely basis to avoid shortages of funds when something wears out.
6. Construction costs. Watch for major national disasters like hurricanes, tornadoes, earthquakes, fires. All catastrophic events are followed by high demand for construction materials; many times costs go up because the materials can't be delivered on time. Bid costs go up as demand for project completion increases. Plan projects to avoid higher bids by contractors. Insurance premium increases follow major disasters.
7. No interest and no inflation! Tracking interest rates and inflation is easy to do, and trends must be noted, as a change in trend will affect prices quickly. The long trends of low interest and virtually no inflation will not last forever. They must be watched closely, however, as prices can begin to change quickly.
8. I could never have expected that! When all else fails, have a contingency fund. So many events are unpredictable: accidents, weather, vandalism, things people do. Having a modest contingency fund will help to mitigate the impact of unexpected events.

Planning efforts always include a monitoring and evaluation procedure. Once the budget has been completed and approved by the Board, regular monitoring should occur, such as a monthly review; and a review session after six months to evaluate how the budget is working and to identify potential problem areas should be held. Adjustments can be made before a crisis occurs with no funds left to correct the problem. A valuable adjunct to the annual budget plan is a multi-year budget plan, where major expenditure areas can be analyzed and funds anticipated. The reserve study is a big part of this look to the future, but more planning is needed for the operational expenditures, which will increase over time.