

Time-Tested Principles From a Long, Strange Budgeting Trip



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Being an old guy has its advantages — time and experience teach you a lot, if you keep your eyes and ears open. My own career fits the Grateful Dead lyric: *"What a long, strange trip it's been."* I've worked as an on-site manager, a portfolio manager, a manager of managers, and now as someone asked to teach and consult on the budget process. I remember writing my first budget in Lotus 1-2-3 (I know many of you will have to look that up), scared to death I had some fatal flaw in there. I remember writing endless alternative drafts for a very picky client. I remember having to share scary news with clients.

And I remember many Aha! moments when the process' results helped boards and managers alike understand their finances for the very first time. It's been quite a ride.

Over time, patterns emerge — what works, and what gets in the way. I was fortunate to be trained by the first generation of community managers, who came up in the 1970s and 80s. Many of them, including Paul Orlando, PCAM®, admitted with total humility that *"we were making it up as we went."* But the depth of thought they put into the industry produced fundamentals that have stood the test of time.

The industry has grown enormously since then, and new tools come and go. Today, software and AI promise to make budgeting faster and easier — and to an extent, that's true. But some of the fundamentals I learned as a young manager are now rare knowledge. I see the anxiety and extra work that sometimes result. The budgeting process has the potential for underappreciated benefits: a better understanding of how the community operates, room for strategic thinking, practice communicating in ways that build confidence, and perhaps most important, opportunities to build relationships through trust. Those still take human effort.

If budget season makes you nervous, here are some principles and strategies to ease the stress — and maybe change the game for you and your community.



1. BE CLEAR ON THE GOAL.

Budgeting isn't an abstract box to check, and the goal isn't simply to keep fees as low as possible. The real goal is to create a realistic plan to operate the community in a way that meets the property's physical needs and reflects its members' values and goals. As we teach in the M-100 class, budgeting is the first of three financial phases. The more realistic the planning phase, the cleaner the operating phase (monthly financial reports) will be — and, in turn, the cleaner the review phase (the audit) will be. Then the cycle repeats: the next planning phase draws on the history of the last operating and review phases to build a great plan for the coming year.

2. REVERSE-ENGINEER THE PROCESS.

Rushed budgets are usually the result of incomplete planning. Build a planning timeline well in advance by working backward from when the notice of the adopted budget must go out. Base it on your regular meeting schedule, and build in contingency time for extra meetings to review drafts, not to mention demands on your time from the other 3,000 things you are responsible for! Know your players — if a committee will review and recommend, add at least 30 days. And leave time for the groundwork: collecting estimates, contacting brokers and contractors for rate information, and inspecting the property to ensure you are aware of the conditions so that all necessary data makes it into the first draft. Many young managers are shocked to realize they should have started the process two months earlier. A pragmatic project timeline can be a huge de-stressor.

3. BLOCK YOUR TIME.

Drafting a budget requires sustained focus. Gather your supporting materials in advance, then carve out uninterrupted blocks of time as best you can. Some productivity research suggests you can lose up to 50% of your productivity each time you set a project down and pick it back up. Budgeting and multitasking are like oil and water – not a great mix.



4. AVOID FEE TARGETING.

This is one of the gravest sins in budgeting. If the board or management enters the process committed to a specific result — like no fee increase — the numbers get skewed to match. Expense line items must reflect real activity and have real consequences. Artificially lowering expenses may allow you to hit a fee target but will likely result in an operating deficit. Keep it real. See Tip #9 for help on this.

5. PLAN FOR CONTINGENCIES.

Murphy's Law reigns, so plan for the unexpected — either through an operating contingency line item or an operating reserve contribution. The first option raises fees to build up funds held in the operating account; the second transfers a set amount to reserves each month. CAI recommends that associations maintain unrestricted funds totaling 10–20% of their budget to remain financially sound. Since associations don't budget for surpluses, there are really only two ways to build contingency funds: hope for the best, or budget for it. Budgeting is the more reliable strategy.

6. LET THE DATA DRIVE THE DISCUSSION, PART 1 – HISTORY & THE COMPARATIVE SPREADSHEET.

Chronically underfunded associations share a pattern: overly optimistic budgets that ignore the property's actual condition and financial history, leading to recurring budget errors, deferred maintenance, operating deficits, and underfunded reserves. Associations whose comparative budgets show only the current and next year's budgets, with no history, are especially prone to chronic underbudgeting. As the saying goes, *"He that fails to learn from history is destined to repeat it."*

7. LET THE DATA DRIVE THE DISCUSSION, PART 2 – WRITE A NARRATIVE.

I've seen many budgets that include only a spreadsheet with no or very minimal explanation. Not only can that lead to endless theoretical debates about line items, but it also misses opportunities to (1) critically analyze the operation, (2) answer questions in advance, (3) help owners to see where their money is going, and (4) help everyone

understand the operation more fully and provide a guideline for invoice coding. Narrative descriptions allow you to fine-tune amounts by recognizing contract anniversaries and escalation assumptions, listing the activities and supplies essential to the operation, providing history when helpful, and capturing information on multiyear expenses that will make life easier in the succeeding year. Detailed narratives are very rare these days. I can promise you that a quality narrative has been a game-changer for those who invested the time to create and maintain it.

8. CONNECT THE ANNUAL BUDGET TO LONG-RANGE PLANNING.

Too often, the reserve contribution is just whatever number makes the fee target work — a recipe for major problems. Virginia law pushes boards toward discipline here, though (unlike a growing number of states) it doesn't yet require funding in line with the reserve study. Give real consideration to current and future capital projects, and build a realistic funding plan so the money is there when needed. Including capital projects in the budget — paired with a transfer from reserves so fees aren't affected — reinforces good long-range planning discipline. If your budget format can't include capital projects directly, attach a separate schedule. Associations that use the annual budget to maintain this discipline are far less likely to fall into deferred maintenance and special assessments.

9. DON'T ACCEPT RESERVE STUDY ESTIMATES WITHOUT SCRUTINY.

The reserve study is essential for planning capital expenses, but it's only a starting point. The board and management still need to build



a real plan around it.

10. THE KITCHEN SINK FIRST DRAFT.

Rather than force a result through fee targeting, let the first draft be a "kitchen sink" worst-case version, packed with every contingency and idea raised (even the crazy ones!) during the year. This allows honest dialogue about priorities and trade-offs as the budget is pared down in a logical, realistic way — ending with a real plan that might actually work. This may seem anathema to managers and boards who are fearful of fee increases, but it works. The key to success is a cover memo (or, as I like to call it, the "Don't Freak Out" memo that identifies the contributors to the prospective fee increase and sets the tone for healthy discussion and solid business decisions.

11. COMMUNICATE.

Never present a draft without a cover memo. Use it to explain what's driving the increase in the first draft, and to document changes in later drafts. Over time, these memos — paired with a comparative spreadsheet that shows the history and a clear, detailed narrative — will make it much easier to roll out the budget to community members.

12. HELP OWNERS UNDERSTAND THE LINK BETWEEN THE BUDGET AND THEIR FEES.

People love getting something for nothing, and owners don't always realize that the budget determines which services the association can afford. A little education goes a long way toward building buy-in.

13. ADDRESS EMOTIONS.

Many owners feel, on instinct, that they can't afford any fee increase. It helps to translate the numbers into something concrete — dollars per home per month. A 5% increase sounds alarming, but on a $300 monthly fee, that's $15 — about the cost of three lattes. If that increase helps avoid a future special assessment, is it worth three lattes a month? A defensive posture is understandable, but not helpful to you or those you serve. Having confidence in your work product allows you to be empathetic while creating a space where the data drives the discussion. It is an art that takes time and practice.

Careful budgeting is a lot of work, but it pays off. Apply the principles and strategies as best you can. Stick to the fundamentals, follow the disciplines, and in the end everyone wins. Don't miss the chance to make a difference — that's the reward of leadership and professional management. ***You can do this!***



