



Fairlington Villages Budget Seminar

January 28, 2023

10:00 a.m. – 12:00 p.m.





Budget Seminar Overview

- Seminar Procedures
- Annual Budget Process
- Budget Priorities and Principles
- FY23 Budget
 - Expense Accounts (Operating and Reserves)
 - Income Accounts
- Annual Financial Audit
- Community Financial Priorities
 - 2019 Strategic Plan Community Survey
 - Future Financial Priorities Survey
- Final Discussion



Seminar Procedures

- Treasurer presents overview and leads discussion on seminar topics
- Attendees may ask questions within scope of any budget line item
- No monopolization of discussion
- Board members listen but do not comment



Annual Budget Process Timeline

- **MAY:**
 - Input from Committees & Board Members
- **JUNE:**
 - Draft prepared based on analysis of past and current income and expenses, and upcoming needs
- **JULY:**
 - Board approves draft
 - Homeowners' forum



Annual Budget Process Timeline

- **AUGUST:**
 - Board approves final budget
- **LATE AUGUST:**
 - Final budget and new condo fee coupons mailed to homeowners.
- **OCTOBER 1:**
 - New fees for each fiscal year take effect



Budget Priorities

- Program operating funding to maintain our current level of community services while addressing highest United States inflation rate in 40 years
- Maintain full funding of our reserves in accordance with the recommendations of our 2019 Reserve Study Update
- Continue to accomplish critical reserve projects, and execute projects that were deferred or scaled back during the pandemic



Budget Principles

- Zero-based budgeting
- Five-year historical and future-based analysis of operating expenses
- Full funding of Reserve account in accordance with 2019 Reserve Study Update
- Inflation-based Reserve analysis
- In accordance with condominium industry best practices, program small annual fee increases to fund operations and reserves, and avoid special assessments



Fairlington Villages, A Condominium Association

Fiscal Year 2023 Budget



August 3, 2022



Budget Components

Expense Accounts

Operating Expenses

- Administrative
- Payroll
- Utilities
- General Maintenance
- Service Contracts
- Professional Services
- Taxes & Contingency

Reserves

- Reserve Contributions
- Reserve Interest
- Reserve Expenditures

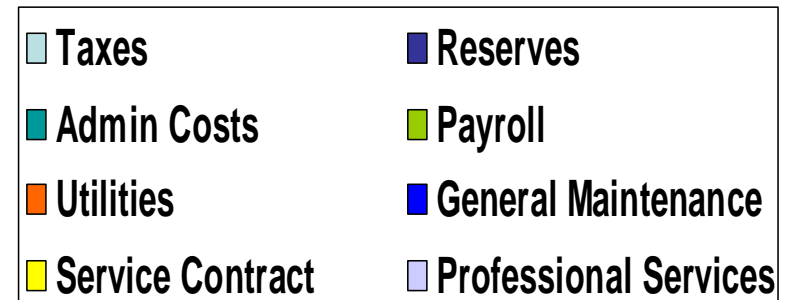
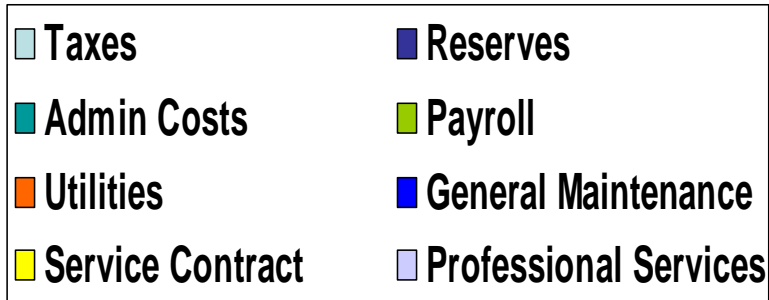
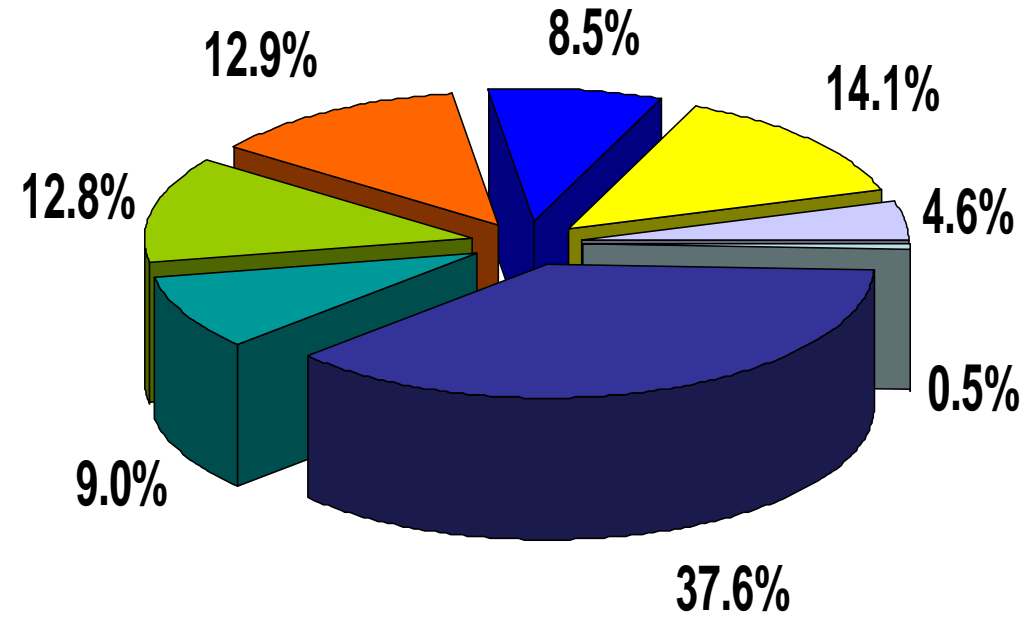
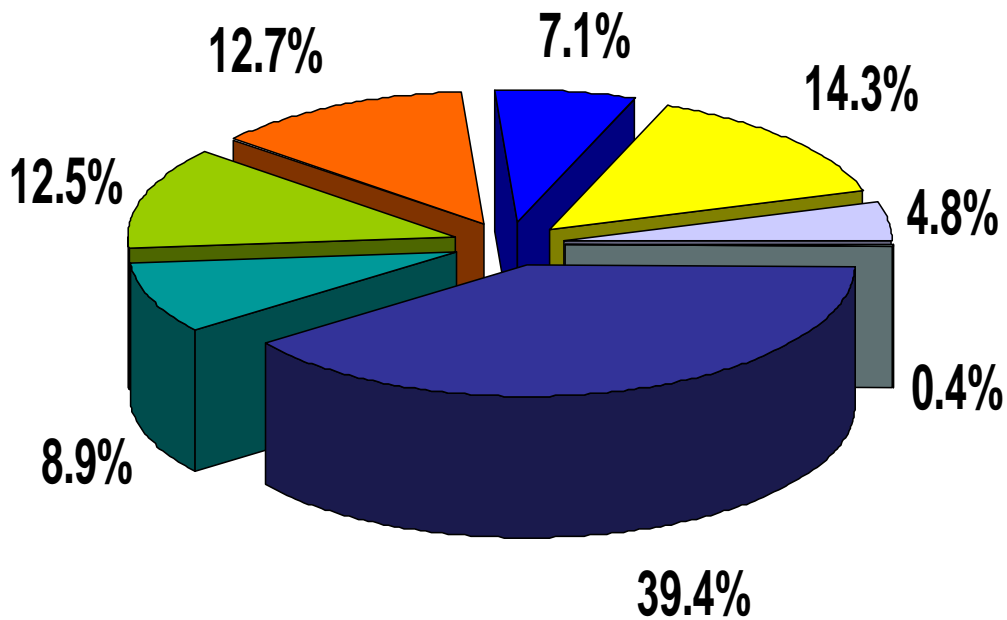
Income Accounts

- Assessments
- Other Income



Comparative Expenditures by Category Percentages

FY22 Audited vs FY23 Budgeted





Operating Expenses - Administrative

- 5000 – Miscellaneous Expenses
- 5010 – Bad Debt/Uncollectible
- 5020 – Minutes
- 5085 – Office Equipment
- 5090 – Office Supplies
- 5195 – Parking Decals & ID Cards
- 5205 – Community Activities
- 5210 – Printing & Stationary
- 5215 – Postage
- 5225 – Newsletter
- 5400 – Insurance
- 5474 – Non-Insurance Loss



Comparison of Expenses Administrative

FY20 Audited	\$707,251
FY21 Audited	\$668,217
FY22 Audited	\$708,399
FY23 Budget	\$764,624

- FY23 cost of Master Insurance Policy increases by \$35,783 (8.0%) – significantly less than industry-wide average of about 10% or more due in large part to Association’s recent excellent claims history
- Some FY23 increases in other administrative expense lines, including miscellaneous expenses (\$10,000 for website upgrade) and non-insurance losses (\$8,000)



Operating Expenses - Payroll

Gregory Roby
General Manager
(Legum & Norman
Employee)

Erin Moran
Office Mgr.
Hired: 8/8/08

Mark Johnson
Operations Mgr.
Hired: 9/15/08

Miguel Galvez
Facilities Mgr.
Hired: 7/5/04

Two Administrative
Staff Employees

One Grounds
Staff Employee

Seven Maintenance
Staff Employees



Operating Expenses - Payroll

- 5095 – Payroll Admin Fee
- 5302 – Administrative Staff
- 5304 – Maintenance Staff
- 5306 – Management Staff
- 5322 – Accrued Vacation
- 5330 – Group Health Insurance
- 5335 – Federal Payroll Taxes
- 5375 – Unemployment Taxes
- 5385 – Retirement Fund Expense
- 5225 – Workers Comp Insurance



Comparison of Expenses Payroll

FY20 Audited	\$956,579
FY21 Audited	\$1,008,587
FY22 Audited	\$996,433
FY23 Budget	\$1,081,764

- FY23 includes 4.1% employee COLA
- Association covers health insurance benefits for all staff employees (FY23 increase), and contributes amount equal to 4% of wages to SEP plan for vested employees (3+ years service)
- Continued savings due to resizing of administrative staff



Operating Expenses – Utilities

- 6000 – Electricity
- 6025 – Water & Sewer
- 6050 – Telephone



Comparison of Expenses

Utilities

FY20 Audited	\$997,457
FY21 Audited	\$1,033,749
FY22 Audited	\$1,011,556
FY23 Budget	\$1,095,376

- FY23 electricity costs increased by 7% (\$5,950) to reflect initial year of Dominion Energy's projected three-year 20% rate increase due to rising fuel costs
- Water/sewer costs 91% of Association's utility expenses in FY22
- FY23 water/sewer budget decreased by 1.1% (\$11,474) as pandemic recedes, Arlington and Alexandria rates continue to rise, and credit from correction of Alexandria sewer billing exhausted



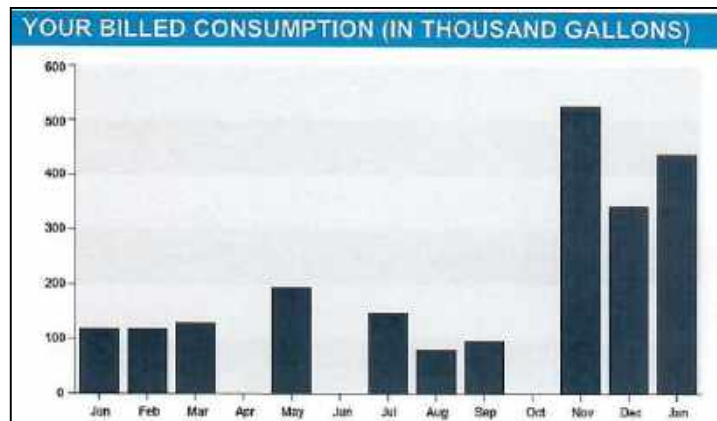
Water/Sewer Billing Audit Alexandria Renew

- Treasurer's analysis of Alexandria Renew billing for August 2020 to May 2022 revealed that Association was paying for two non-Fairlington Villages accounts
- Association received \$46,401 refund
 - \$15,451 credited to FY22
 - \$30,950 credited to prior fiscal years and added to Association's Operating Reserves



Water/Sewer Billing Analysis

Arlington County – 4831 27th Road S.



February 2022 Water Bill



Water Lateral Leak

- Possible water leak identified in February 2022
- Association inspection of units and grounds, and Arlington County inspections of water meter did not identify cause
- American Leak Detection, a company specializing in identification of hidden leaks, identified the problem – a leaking water lateral
- Pending refund from Arlington County will rebate 50% of excess water charges and 100% of excess sewer charges based upon historical consumption patterns



Operating Expenses – General Maintenance

- 6140 – Grounds Non-Contract
- 6145 – Grounds Improvements
- 6150 – Contractor Planting
- 6155 – Volunteer Planting
- 6160 – Tree Maintenance
- 6515 – Building Repairs
- 6525 – Community Center
- 6565 – Fire Safety Equipment
- 6575 – Carpet Cleaning
- 6600 – General Supplies
- 6620 – Gutter Cleaning
- 6640 – Lighting Supplies
- 6650 – Maint Equip & Supplies
- 6680 – Exterior Painting
- 6695 – Plumbing Repairs
- 6700 – Pool Repairs & Supplies
- 6725 – Roofing Repairs
- 6750 – Snow Removal Supplies
- 6765 – Tennis Courts
- 6775 – Vehicle Repairs
- 9914 – Painting - Miscellaneous



Comparison of Expenses General Maintenance

FY20 Audited*	\$537,394
FY21 Audited**	\$696,839
FY22 Audited***	\$564,274
FY23 Budget	\$715,881

- * FY20 includes no painting costs due to Covid delays
- ** FY21 includes painting costs for two wards
- ***FY22 includes partial painting cost for one ward
- FY23 includes funding (\$9,700) for a survey of the property's mature trees and a 27.3% (\$15,000) rise in plumbing repair costs due to possible major expansion of Association's responsibilities



Operating Expenses – Service Contracts

- 6035 – Trash Removal
- 6100 – Grounds Maintenance
- 6315 – Uniform Rental Service
- 6439 – Janitorial Service
- 6434 – Exterminator Non-Contract
- 6436 – Pool Contract
- 6440 – Patrol Service
- 6442 – Snow Removal



Service Contracts – Procurement Guidelines

- Major service contracts normally competed
 - Recent examples are the Pool Contract (2021) and the Grounds Maintenance Contract (2022)
- Sole-source contracts require specific justification



Major Service Contracts

<u>Contract</u>	<u>Contractor</u>	<u>Expiration</u>
Pool Contract	High Sierra	12-31-24
Janitorial	Corporate Cleaning	03-08-23
Patrol Service	Master Security	09-30-25
Trash Removal	Capitol Services	03-31-24
Grounds Maint	Lancaster Landscapes	02-28-24



Comparison of Expenses Service Contracts

FY20 Audited*	\$1,001,767
FY21 Audited	\$1,112,507
FY22 Audited	\$1,145,498
FY23 Budget	\$1,193,578

- *FY20 reflects \$68,162 in savings due to decision to not open the pools and additional \$28,000 in savings in snow removal costs
- FY23 Budget incorporates projected increases in costs of all major service contracts, including Trash (3.5%), Grounds (3.5%), Janitorial (4.0%), Pools (7.6%), and Patrol Service (13.6%) – final larger increases in Grounds (5.0%) and Pools (10.8%)



Operating Expenses – Professional Services

- 7000 – Auditor
- 7010 – Planning & Engineering
- 7020 – Legal Services
- 7040 – Management Contract



Comparison of Expenses Professional Services

FY20 Audited	\$339,266
FY21 Audited	\$354,011
FY22 Audited	\$387,585
FY23 Budget	\$386,446

<u>Service</u>	<u>Professional</u>	<u>Expiration</u>
Legal Services	Chadwick Washington	Monthly
Audit Services	Johnson, Bremer & Ignacio	12-31-23
Management	Legum & Norman	09-30-25



Operating Expenses – Taxes & Contingency

- 9000 – Income Taxes
- 9834 – Depreciation



Comparison of Expenses Taxes and Contingency

FY20 Audited	\$27,134
FY21 Audited	\$21,918
FY22 Audited	\$31,277
FY2023 Budget	\$41,910

- FY23 federal and state tax payments expected to increase over FY22 because of probable increases in rental and interest income.
- No FY23 contribution to contingency because operating reserves remain at sufficient levels



Reserve Contributions and Projects

- Reserves fund major, long-term infrastructure replacement needs
- Independent reserve study conducted every 5 five years – most recent Reserve Study Update completed in 2019
 - Approved at April 5, 2019 Board Meeting
 - *Reserve study recommended that condominium fee-funded reserve contributions continue to be increased by 1% per year to fund reserve account fully, execute recommended infrastructure projects, and build up funds to address next major cycle of repairs beyond 2038.*
- FY22 Budget increased reserve contribution by \$30,790(1.0%) following FY21 decrease of \$128,217 (-4.0%) that offset rise in operating expenses and kept fees at FY20 level during Covid-19 pandemic

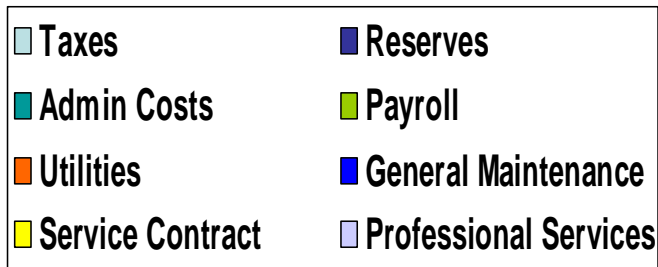
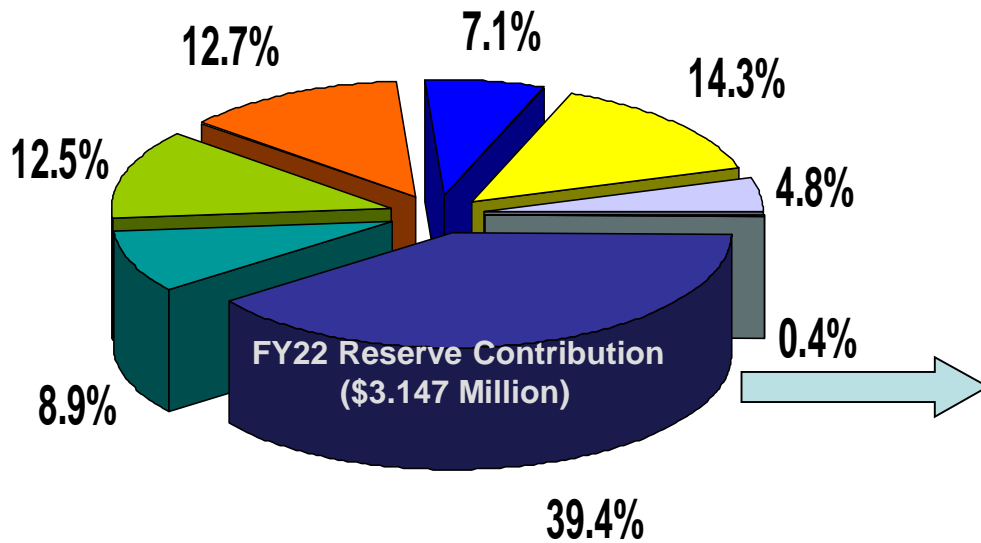


Reserve Contributions and Projects

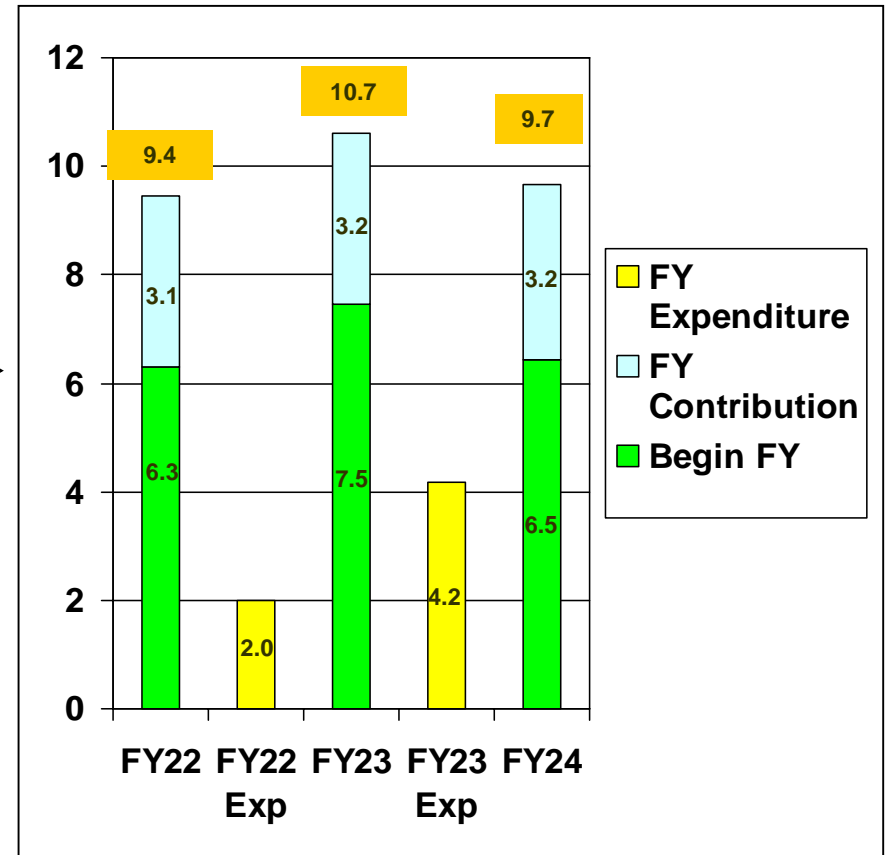
- FY23 Budget continues full funding of our reserves in accordance with the recommendations of our 2019 Reserve Study Update and increases condominium fee-funded reserve contributions by 1.0% (\$31,098)
- FY23 spending accelerates after FY20 - FY22 pandemic-driven decreases that only focused on completion of critical reserve projects required to maintain integrity of major capital assets.
- New five-year Reserve Study Update in FY24



Reserve Cash Flow (FY22 – FY24)



FY22 Audited Expenditures



**Repair and Replacement Reserves
Cash Flow (\$ Millions)**

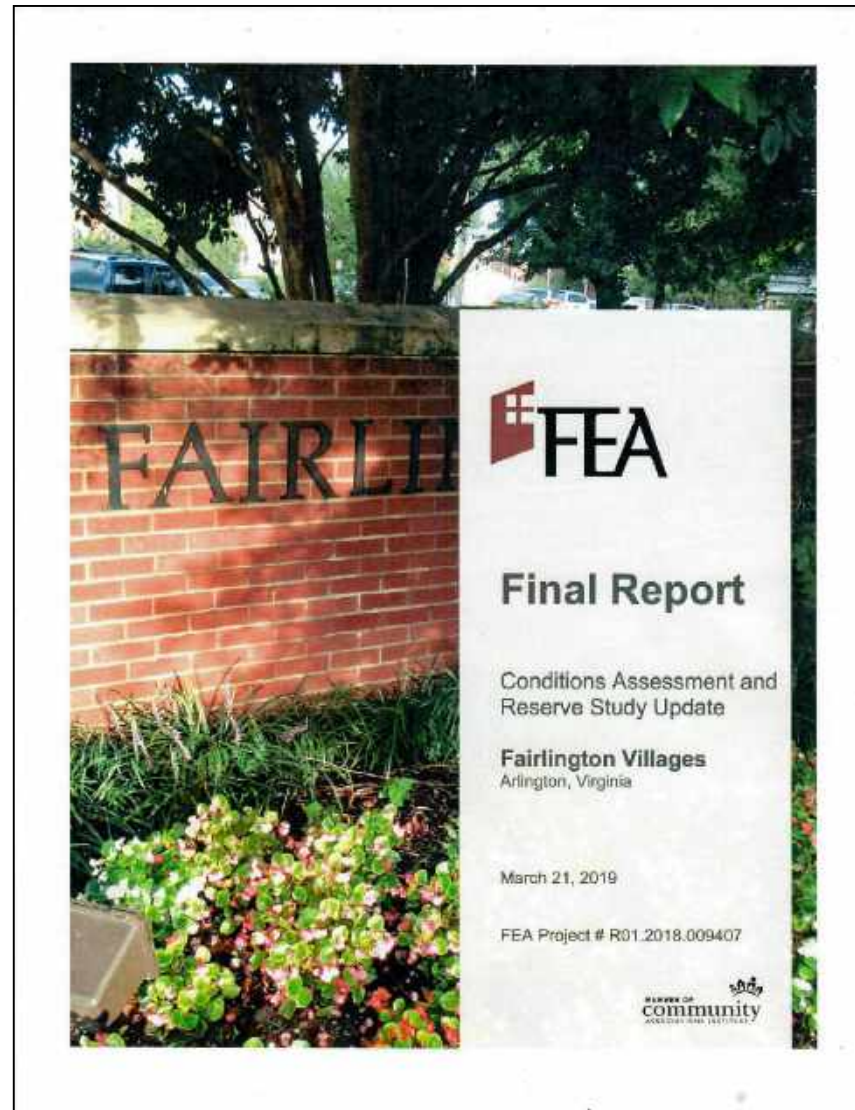


Reserve Cash Flow (FY22 – FY24)

Fiscal Year	Beginning Reserve Balance	Yearly Contribution	Capital Expenditures	Ending Reserve Balance
2022	\$6,291,840	\$3,147,155	\$1,976,924	\$7,462,071
2023	\$7,462,071	\$3,181,465	\$4,171,855	\$6,471,681
2024	\$6,471,681	\$3,211,939	\$4,527,571	\$5,156,049



Fairlington Villages Calendar of Reserve Expenditures





Fairlington Villages

FY23 Calendar of Reserve Expenditures – Sample Section (Roof Replacement)

Text Section No.	Item Description	Typical Useful Life (yrs.)	Cost to Replace/Repair	Projected Expenditures										
				2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
5.0	Building Exteriors & Interiors	15				\$0		\$0						
5.a	Allowance to Replace Pitched Roofs (2019-2028)	75	\$400,000	\$248,300	\$351,260	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000
5.a	Allowance to Replace Pitched Roofs (2029-2030)	75	\$400,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5.a	Next Cycle of Pitched Roofs Replaced between 1994-2014	75	\$300,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5.b	Replace Flat Roofs	20	\$13,000	\$0	\$0	\$0	\$0	\$13,000	\$0	\$0	\$0	\$0	\$0	\$0
5.b	Replace Flat Roofs	20	\$26,000	\$0	\$0	\$0	\$0	\$0	\$0	\$26,000	\$0	\$0	\$0	\$0
5.b	Replace Flat Roofs	20	\$78,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$78,000	\$0	\$0	\$0
5.b	Replace Flat Roofs	20	\$91,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$91,000	\$0	\$0
5.b	Replace Flat Roofs	20	\$143,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$143,000	\$0
5.b	Replace Flat Roofs	20	\$169,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5.b	Replace Flat Roofs	20	\$130,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5.b	Replace Flat Roofs	20	\$117,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

- 2019 Reserve Study Calendar of Expenditures recommends annual inflation-adjusted spending for all building systems (roofs, parking lots, masonry, etc.) for 20-year FY19-FY38 period
- Calendar updated for each fiscal year's budget to reflect changes in scheduling, condition of physical assets, and economic conditions, including inflation
- FY24 Reserve Study Update will contain new reserve calendar



FY23 Budgeted Reserve Expenditures

Parking Lot Renovations & Repairs	\$568,845
Pool House 1 Renovation & Pool Repairs	\$360,000
Slate Roof Replacement	\$400,000
Backyard Fence Replacement	\$876,000
Masonry Repairs & Wood Trim Replacement	\$620,000
Multi-Unit Condominium Interior Upgrades	\$736,500
Perimeter Fence, Retaining Walls & Misc.	\$489,000
TOTAL - 2019 Reserve Study (Present Worth)	\$4,050,345
TOTAL – 2023 (3.0%/Yr Inflation Adjustment)	\$4,171,855



Costs of Annual Reserve Calendar Expenditures Are Estimates

Example: Ward II Wood Trim Replacement (FY21)



- \$70,000 for project approved at April 7, 2021 Board meeting
- Additional \$242,335 (\$312,335 total) required to complete project due to large amount of rotten wood and Covid-driven increases in material costs
- Reserve account balance more than sufficient to cover additional cost



Costs of Annual Reserve Calendar Expenditures Are Estimates

Example: Ward II Backyard Fence Replacement (FY21)



- \$875,606 for project approved at August 4, 2021 Board meeting (\$196,494 over original Reserve Calendar estimate of \$679,112 due to Covid-related increases in wood costs)
- Final cost was \$789,181 (\$86,425 less than original revised cost)



Parking Lot Renovations





Pool House 1 Renovation

(Photo: Pool House 5)





Slate Roof Replacement





Masonry Repair Project





Masonry Repair Project





Masonry Repair Project





Multi-Unit Condominium Interior Upgrades (Common Area Windows)





Perimeter Fence Replacement - Phase 2

(Photo: Phase 1 King Street Fence)





Retaining Wall Repairs





FY23 Budget Summary

Operating Expenses	
Administrative	\$764,624
Payroll	\$1,081,784
Utilities	\$1,095,376
General Maintenance	\$715,881
Service Contracts	\$1,193,578
Professional Services	\$386,446
Tax/Contingency	\$41,910

Operating Expenses	\$5,279,599
Reserve Contribution	+ \$3,181,465
Total Expenditures	\$8,461,064



Income Accounts and Assessments

Income Accounts

- 4200 – Fairlington Court HOA
- 4215 – Resale Packets Income
- 4250 – ID/Parking
- 4405 – Rental Income
- 4710 – Late Fees
- 4720 – Attorneys Fees
- 4835 – Miscellaneous (including grant revenue)
- 4900 – Interest Income
- 4903 – Cable Income
- 4920 – Unrealized Investment Gain

Assessments

- 4000 – Condominium Fees



FY2023 Budget Summary

Income Offset	
Total Expenditures	\$8,461,064
“Other Income” • Interest (\$72,500) • Rentals, Resale Packets, etc. (\$109,489)	-\$181,989
Condo Fees to Balance Budget	\$8,279,075

- **FY23 budget increases expenditures by 3.8%**
- **After allowing for anticipated “Other Income,” the Association must raise \$8,279,075 in condo fees in FY23**
- **Raising this amount required a 3.96% increase in condo fees, since rise in spending is partially offset by FY23 decrease in “Other Income”**



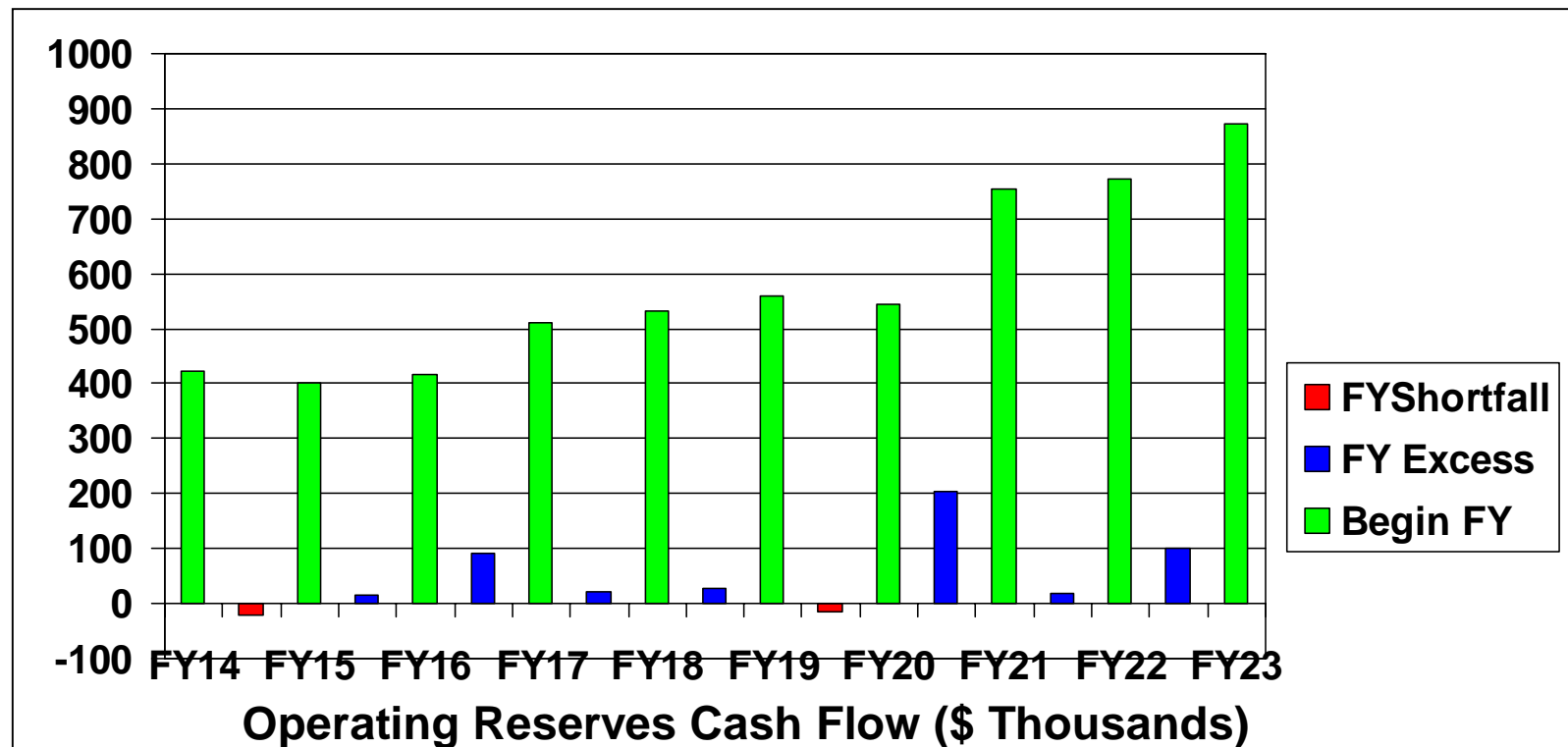
Annual Financial Audit

- Conducted by Johnson, Bremer & Ignacio, CPAs, P.C.
- FY 2022 operating revenue of \$69,706 in excess of expenses
- Conclusions:
 - Financial statements very good
 - Operating Reserves (\$872,020) are satisfactory
 - Funded Repair and Replacement Reserves
 - Low delinquencies (1% rate)



Operating Reserves

- Consist of cumulative total of previous fiscal years' excess revenue
- Used to pay for unbudgeted operating expenses (e.g., snow removal, storm cleanup, and Covid-related costs)
- Totaled \$872,020 at end of FY22/beginning of FY23, including \$69,706 in excess FY22 operating revenue and \$30,950 Alexandria utility refund attributable to prior fiscal years
- Figure is 10.3% of total FY23 budget and meets auditors' standard of 10% to 20% of total annual budget





Community Financial Priorities

- 2019 Strategic Plan Community Financial Priorities Survey
- Future Association Financial Priorities Survey



2019 Community Financial Priorities Survey

- Association conducts periodic resident surveys on various topics (e.g., pools, amenities, and Strategic Plan)
- Most recent survey of community financial priorities conducted in early 2019 during preparation of Fairlington Villages Strategic Plan
- Substantive comments on financial priorities received from 142 survey respondents (approximately 8.3% of Fairlington Villages' 1703 units)



2019 Community Financial Priorities Survey

- Responses to 2019 financial survey identified five major objectives/priorities:
 1. Continue current building infrastructure maintenance priorities (51 responses)
 2. Keep property and grounds attractive, including maintaining the tree canopy, improving the turf, and controlling drainage and erosion (39 responses)
 3. Maintain strong operating and replacement reserves (35 responses)
 4. Keep condo fees reasonable and cut costs (16 responses)
 5. Maintain amenities, including pools and tennis courts (11 responses)
- Evaluation: Have we met these objectives?



Future Financial Priorities Survey

- Seeks your current thoughts on various financial topics, including reserves and operating spending.
- Compare with and update 2019 Strategic Plan financial survey results
- Results will be considered during FY24 and subsequent fiscal years' budget cycles.



Completing the Future Financial Priorities Survey

- Complete hardcopy survey today
- Complete electronic survey
 - Survey will be available online at www.fairlingtonvillages.com beginning January 30
 - Deadline for completion of electronic survey is February 20



Final Discussion