Homeowner Questions about the Budget and Responses

Overall - the budget is our best estimate based on the current run rates, contracted expenses and projects the board seeks to complete in 2020., however, with more of our services tied to contracts, we are stabilizing our costs

1. At the end of 2018 we had over $200,000 excess funds. And no these were not Reserve Funds so why doesn't this board move this money to a separate account. Leaving in the Reserve accounts only inflates the reserves on hand. So why did we get an increase in dues last year (perhaps looking at this board’s spending habits maybe it was a good thing) and why are we getting an increase this year.
   A. The excess funds were used in several ways. First, we are obligated to keep a portion of these monies in our operations from year to year. Our auditors recommend 10-15%. Since we had a balance higher than this, we chose to use some of the excess for the mailbox replacements in 2019. In addition, we moved extra funds to reserves to be used for future needs.

2. This board is not funding our Amenities Reserve Accounts in the amount called for in the last reserve study. The report calls for $96,611 to be budgeted. Instead the board is funding only $65,000. The Replacement Reserves calls for $101,118 and the board is funding $100,000.
   A. As noted above, a transfer was made at the end of last year to plus up the reserve funding. We will continue to review this on an annual basis and will look to the next reserve study for an updated estimate. Keep in mind, this number is an estimate and it is up to the board to determine the actual amount which could be more or less than recommended. In past years, the board and committee have felt that we have sufficient funding in the reserves as many projected replacements were either not needed or repairs were made instead.

3. Why did they transfer $36,597 from the underfunded Amenities in 2018 to the Replacement Reserves? In 2018, they transferred $31,611 from the unappropriated equity to the Amenities Reserves. None of these transfers were reflected in our minutes, why?
   A. Money was ‘moved’ from one account to another to rectify a miscoding. At the February 21, 2018 meeting, 2017 monies were moved from Unappropriated to Amenities. We will continue our transparency efforts to ensure all transfers are noted appropriately in the minutes.

4. Interested in hearing about what is driving the about ~$15K ($14,500) increase in Management Company costs, given I assume the community is under contract with them -- what are they charging us more for?
   A. The Barkan contract included a reduction in first year fees as an incentive. In addition, due to transition issues they reduced the August fees. The 2020 amount is equal to the contract approved by the board.
5. Also, under Administrative costs, $4,500 for printing; This is the management company that prints coupon books that we are paying for along with all copies that used to be included in our former management company’s contract to the tune of an additional $4,500 for printing. Items that should be included in their contract we are now being billed for.
   A. As with other bids received, Barkan chose to separate a few line items to be paid only if needed. This includes printing, mailing and after-hours phone service. Since we do not incur these costs on a regular basis, we felt this was a fair way to cover the one-time and ad hoc expenses.

6. This is the Management Company that can’t produce an understandable financial report or tie it back to our budget line items.
   A. Since the budget was created with a different company and a different set of accounts, a few allowances are to be expected. The financial statements have been reconciled to our budget and we continue working with Barkan to improve the overall process.

7. The last financial statement showed zero budgeted for the mailboxes when in fact the 2019 budget had $24,000 budgeted.
   A. The mailbox budget is $14,000 in 2019. It is shown as part of the ‘Repair and Maintenance’ group.

8. When it is time for our audit, if we use the same audit firm, will we have to pay to fly them to Boston or will we hire a new Boston based audit firm? This would change the cost for our yearly audits.
   A. From the Audit Firm: “We do have other clients at Barkan and we have procedures in place to allow us to conduct the audits remotely without traveling to Boston.”

9. $23,000 plus in legal fees for 2019 for which $12,000 was budgeted and now $15,000. This does not include the fees for collections which run $20,000 which is a needed expense.
   A. Legal fees were higher in 2019 due to a series of formal complaints lodged by a few residents which required legal support and follow up that cost the Association over $25,000 in legal and other fees. In addition, additional legal support was needed during the management company recompete. Our legal team came back to the board with a recommendation to help lower our overall legal costs and have already seen improvement in this area.

10. Why is the trash for the townhomes increasing over $4,000 and for the single families only $1,000 when the single-family homes get an additional pick up of garden material? Also, what is driving up the cost of trash removal for townhomes and single-family homes for 2020?
    A. These were place holders as we are getting new bids for our trash contracts since they expire at the end of November. We expect the new rates to be
lower. And in fact, the rates have gone back to the amounts billed in 2017 and the budget has been updated.

11. Why have we had a budget of $30,000 for other landscape work and grounds projects when nothing has been done in these area for the past three years?
   A. While we may not have spent all monies allocated for ground landscaping in recent years, the funds were instead used for tree work that had been neglected in prior years. In addition, many annual or seasonal landscaping needs were not part of the main HLS contract. They were considered ad hoc expenses. We will review this process when we recompete the next contract.

12. Tree work which has been neglected for the past three years is now budgeted at $90,000. The tree work that was planned for the community went by the wayside when the original grounds committee was not appointed by the board. The Board took over all the grounds committee work for the last three years which resulted in nothing being done to address the planned tree work. Major tree work was done on a putting out a fire routine this year to the tune of over $110,000. The work now necessary for the trees can be spread out over the next few years if there is someone watching over and controlling what work needs to be done.
   A. The previous grounds committee continually recommended a lower than necessary budget because they were unsure of the board’s approval. Due to the age of the trees and the lack of prior care, we have had to spend more than the budget in 2019 and expect to continue the increased expense in 2020. We hope to mitigate that expense with a multi-year tree contract next year with set prices for routine care.
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Additional questions posed via social media:

1. For those island Creek Owners who missed the Annual Meeting, it was announced that the community was $60,000+ over budget. Question – Where were our board and the financial oversight on the expenses. Why weren’t the expenses being closely monitored? In the 20 plus years I have lived in Island Creek no board has overspent the budgeted expenses by this amount. In 2018, the overage was $9,866 Something is very wrong especially since several items budgeted for in the 2019 budget were not done.
   A. As mentioned above, the overspend has occurred mostly within tree care and legal services.

2. This is the management company that went through 3 senior managers in seven months.
   A. While disappointed with the transition process, we feel our current senior manager fits the needs of the community and we have checks in place to ensure the process is smooth going forward.

3. This is the management company that does not provide 24 hour answering service. Instead we are paying for an answering service.
   A. Outsourcing an after-hours answering service is usual practice to cover multiple properties and keep costs down.

4. There are a lot of highly qualified management companies in Virginia that should have been vetted.
   a. At the recommendation of several residents, we hired a consultant to help with the management company recompete. We were presented with 5 potential companies; interviews were conducted, and contract proposals reviewed. Barkan was considered the best value for the services provided.

5. Our legal fees have also got out of control. It seems that every time a decision must be made that a normal board does, the lawyer is consulted.
   A. We consult with our attorney’s frequently on resident complaints, contract reviews and other matters the changing laws in Virginia.

6. Board meeting are rarely attended by residents, why? If you can’t attend the board meeting you can request and receive the board book the same day it is distributed to board members. This is part of the Virginia POA act. The financials are included in every board book along with the items that the board is going to be voting on.
   A. According to responses to the survey, most residents do not attend BOD meetings either due to time constraints or because they feel it is combative/hostile with too many petty arguments.
7. We have several contracts up for review this year and the RFP and contracts from the vendors will be included in the board books and if not, you need to ask why. This will give you a good idea of what is being approved by your board.
   A. We have been adding teeth (penalties for non- or substandard-performance) to our contracts that were not included in previous years and negotiating for better and more consistent pricing; as well as multi-year vs single year agreements (which also helps reduce the costs).

Note: The next set of questions are mainly statements and are not explicitly answered

8. This is the Management Company that didn’t pay some of our vendors for over six months.

9. This is the Management Company that didn’t know they had to send out a welcome package to new residents.

10. This is the Management Company that did not turn over to our lawyer for collection past due dues payments.

11. This is the management company that wanted a background and drug test on their employee, our on-site manager, that we paid for.

12. And I can go on and on. My question and it should be yours is why they are still here and why we are increasing their contract by $14,500. Barkan is in Boston and handles primarily condos. They do not have a mix usage community the size or like of Island Creek in their portfolio.

13. I hope that more residents will look at this budget, leave feedback and question this board.