



BUDGETING FOR THE ASSOCIATION YOU ACTUALLY HAVE

How Boards Can Build a Realistic Budget Without Creating Tomorrow's Financial Problem

A practical guide to building an annual budget around real operating needs, reserve obligations, known risks, and the actual cost of maintaining the association.

Because Communities Deserve Better!

Community Association Management, Limited

Educational White Paper | September 2026

A Good Budget Is Not the Lowest Budget the Board Can Approve

An association budget is not an exercise in finding the lowest possible assessment. It is a financial plan for the services, maintenance, insurance, administration, and long-term obligations the association will actually face in the coming year.

When a Board begins with the desired assessment amount and works backward, the result may look attractive on paper while quietly creating operating shortfalls, deferred maintenance, underfunded reserves, or a future special assessment.

The Better Question

Instead of asking, “How do we keep assessments the same?” ask, “What will it actually cost to operate, maintain, protect, and plan for this association next year?”

Community’s annual budget process starts with evidence, not guesswork

- Prior-year actual results.
- Current-year projected actual results.
- Known contract and service changes.
- Expected insurance, utility, and vendor cost changes.
- Planned reserve contributions and major projects.
- The association’s governing documents and current financial position.

Community begins budget season in June. Draft budgets are targeted to Boards by August 31, or approximately four months before the end of the association’s fiscal year, so the Board has time to review assumptions, ask questions, and make responsible decisions before adoption.

1. Start With Actual Results - Not Last Year’s Budget

The prior budget shows what the association expected to spend. Actual results show what really happened. Both matter, but actual and projected results are the stronger starting point for the next budget.

Review the story behind the numbers

- Which expense categories consistently ran over or under budget?
- Were overruns one-time events or evidence that the underlying budget was unrealistic?
- Did a contract renew at a different price?
- Did utility usage or rates change materially?
- Did maintenance costs reveal an aging component or recurring issue?
- Were there expenses that were delayed into the next fiscal year?

A budget should not automatically repeat a number simply because it appeared in the prior year. Each material line should reflect the best information available for the coming year.

2. Budget the Association You Actually Operate

A Board may want assessment increases to remain small, but the association still has real obligations. Insurance carriers, utilities, contractors, municipalities, and service providers do not price their work according to the assessment increase a Board would prefer.

Common areas that deserve realistic assumptions

- Insurance premiums and deductibles.
- Utilities and municipal charges.
- Landscaping, pool, elevator, janitorial, security, and other contracted services.
- Routine and preventive maintenance.
- Management and administrative costs.
- Legal, tax, and professional services.
- Reserve contributions for future repair and replacement obligations.

Deliberately under-budgeting a known expense does not make the cost disappear. It simply moves the problem into the year, where the Board may have fewer and more expensive choices.

3. Do Not Balance the Budget by Cutting Reserves First

Reserve contributions are often one of the largest discretionary-looking lines in an association budget, which makes them an easy target when a Board is trying to avoid an assessment increase. But the obligation the reserves are meant to fund does not disappear when the contribution is reduced.

A lower reserve contribution today can become a larger special assessment, association loan, deferred project, or catch-up increase later. The Board should evaluate reserve funding in the context of the current reserve study, actual project timing, current costs, and the association's long-term capital needs.

For Applicable Condominium Full Reviews Beginning January 4, 2027

Fannie Mae is increasing the minimum replacement-reserve allocation for capital expenditures and deferred maintenance from 10% to 15% of annual budgeted assessment income for applicable Full Review loan applications. A qualifying reserve study may provide an alternative path under the applicable requirements. Boards of condominium associations should understand whether their budget may affect unit financing eligibility.

This lending standard does not replace the Board's obligation to determine what its particular association actually needs. A percentage test is a financing requirement; a sound reserve plan is an association-specific financial strategy.

4. Operating Cash and Reserve Funding Solve Different Problems

Operating assessments fund the recurring cost of running the association. Reserve contributions build funds for major repair, replacement, and restoration of association components. One should not routinely be used to mask a shortage in the other.

An operating deficit is a budgeting problem

If recurring operating expenses consistently exceed recurring operating income, using reserve funds to close the gap does not solve the underlying issue. The operating budget needs to be corrected.

5. “No Increase” Is Not Automatically Good Governance

Holding assessments flat can sound like a success. Sometimes it is. Other times it means the association is absorbing inflation by postponing maintenance, reducing reserve funding, relying on favorable one-time results, or creating an operating shortfall.

Smaller planned increases can be easier than a large correction later

When the association’s obligations rise gradually, planned assessment adjustments can reduce the need for sudden catch-up increases. However, not every association has the luxury of phasing an adjustment. If assessments have been held below the association’s actual needs for years, a meaningful catch-up may be necessary.

The goal is not to avoid increases at all costs. The goal is to set assessments at a level that responsibly supports the association’s current obligations and future needs.

6. Reducing Assessments Can Create a Funding Trap

A temporary surplus or one favorable year does not necessarily mean the association’s assessments are too high. Before reducing assessments, the Board should consider whether the lower amount will become the new baseline for future increases.

Why a reduction can be difficult to reverse

- Many governing documents limit how much annual assessments may be increased without additional owner approval.
- A reduction today can lower the base from which a future percentage increase is calculated.
- Insurance, utilities, contracts, maintenance, and reserve needs may continue increasing even while the assessment base has been reduced.
- If the Board cannot restore the prior funding level quickly enough, the association may face a special assessment, deferred maintenance, reduced reserve contributions, or an owner vote simply to get back to where it started.

Example: If an association charges \$100 per month and its governing documents limit annual increases to 10%, reducing the assessment to \$90 means that even a full 10% increase the following year only restores the assessment to \$99 - still below the original amount before considering any new inflation or cost increases.

A surplus is not automatically excess money

Before reducing assessments, the Board should determine whether favorable cash results reflect true recurring savings or timing differences, delayed projects, lower-than-expected expenses that may not repeat, upcoming insurance renewals, future contract increases, operating cash needs, or reserve obligations.

The better question is not “Can we reduce assessments?” It is “Can the association sustainably operate at the lower level - and can we restore funding later if conditions change?”

7. Do Not Under-Budget Known Costs and Hope to “Make It Up Somewhere Else”

A budget should not intentionally understate insurance, utilities, contracts, or other known obligations based on an assumption that another line will come in under budget. That approach makes the financial plan less transparent and creates avoidable mid-year pressure.

Use reasonable assumptions and document them

- Use renewal quotes or current carrier guidance when available.
- Use current contracts and known escalators rather than last year’s invoice.
- Consider recent utility trends and announced rate changes.
- Reflect known service additions or reductions.
- Document material assumptions so future Boards understand why the number was selected.

8. Known Capital Work Belongs in the Budget Conversation

A project may ultimately be funded from reserves, a special assessment, a loan, or a combination of sources, but the Board should understand major known work while building the annual budget.

If a roof replacement, paving cycle, siding project, elevator modernization, or other major project is expected during the year, the Board should understand the project timing, available reserves, current pricing, and any expected funding gap before finalizing the budget.

A reserve-study estimate is not the same as a current construction bid

Reserve studies are planning tools. Actual project costs may differ because of inflation, market conditions, quantities, scope changes, code requirements, or deterioration discovered since the study was prepared. Current bids should inform the Board’s funding decision.

9. Explain Assessment Changes - Do Not Just Announce Them

Owners may not like an assessment increase, but they are more likely to understand it when the Board clearly explains what changed and why. A short, factual explanation is more useful than simply publishing a new payment amount.

A useful owner communication can explain

- The major cost drivers affecting the new budget.

- Whether insurance, utilities, contracts, maintenance, or reserves changed materially.
- What the Board did to evaluate or control those costs.
- Why maintaining adequate reserves and preventive maintenance protects the association over time.
- What the new assessment supports.

The objective is transparency, not justification by volume. Owners do not need every worksheet; they should be able to understand the major reasons their assessment changed.

10. A Board Budget Review Should Test the Assumptions

The Board does not need to rebuild the budget line by line, but it should understand the material assumptions and challenge items that do not make sense.

- ☐ Are we starting from actual and projected results rather than simply repeating last year's budget?
- ☐ Are known contract increases reflected?
- ☐ Are insurance and utility assumptions realistic?
- ☐ Are recurring maintenance costs funded from operations?
- ☐ Are reserve contributions consistent with the association's actual capital needs?
- ☐ Are we cutting reserves primarily to avoid an assessment increase?
- ☐ Are known projects and funding gaps understood?
- ☐ Are we relying on an unrealistic assumption that another line will "make up" an intentional shortfall?
- ☐ If assessments are increasing, can we clearly explain why?
- ☐ If we are considering reducing assessments, can we restore the necessary funding level later without an owner vote or special assessment?

11. How Community Supports the Budget Process

Community develops annual budgets for clients across all four service packages. The process begins in June and uses prior-year actuals, current-year projected results, known contracts, expected operating costs, reserve obligations, and other association-specific information.

Draft budgets are targeted to Boards by August 31, or approximately four months before fiscal year-end. That timing gives the Board an opportunity to review the assumptions, understand material changes, and make informed decisions before the budget is finalized.

When a Board is considering an assessment reduction, Community also evaluates the effect on future funding capacity so the decision is based on the association's long-term obligations rather than a single favorable year.

Our objective is not to produce the lowest assessment

Our objective is to help the Board understand what it will actually cost to operate, maintain, protect, and plan for the association responsibly - and to make those choices with clear financial information before the new fiscal year begins.

A Budget Is a Decision About the Future

The most responsible budget is not necessarily the one with the smallest increase. It is the one that gives the association a realistic plan for meeting its obligations without pushing predictable costs onto future Boards and homeowners.

Because Communities Deserve Better!

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