

Budget analysis (2004-2005)

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Historic income and spending were analyzed to project future capitol requirements for the Balcones Woods Club. Records from 1984 through 2004 were available and these records were used for the analysis. The initial purpose was to develop a more accurate capitol budget, but once underway the scope was expanded to include guidelines for expenses and for dues. Finally a projection was done with the addition of a new amenity center costing \$275K with \$75K of the cost coming from the capitol reserve and with \$200K coming from a loan with an annualized cost of \$25K/yr for 15 years.

Capitol spending history.

Item	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2004
Pool - Baby pool plumbing																		\$7,036
Pool chlorination system									\$3,477									
Pool Deck			\$2,047					\$1,200										
Pool Diving boards and ladders															\$1,949			
Pool Fence wrought iron															\$5,938			
Pool Fence chain link									\$1,230									
Pool filters and pumps									\$4,500	\$1,946	\$3,100							\$1,500
Pool lighting system											\$708							
Pool re-plaster				\$15,651						\$23,777								\$33,395
Pool security system														\$12,025				
Pool Vacuum								\$2,614				\$662					\$1,159	
Barrier BW&Calle Verde									\$588									
Building Bathroom update										\$2,333								
Building Guard shed		\$10,731																
Electrical System updates				\$644				\$1,845					\$41,425					
Lighting driveway																		
Lighting Pool area		\$2,100							\$503	\$6,554								
Lighting sport court								\$1,517	\$2,493									
Lighting - Street lights				\$1,300														
Lighting Tennis													\$3,283					
Park - Horses										\$1,071								
Park -Fence wood						\$8,922												\$5,076
Park picnic tables and trash															\$2,200			
Park -Playscape		\$9,350													\$31,220			
Park - Sprinkler system	\$7,900																	
Parking lot - Entrance ramp						\$3,643												
Parking lot - sealer															\$2,646			
Sport court resurface	\$7,064													\$13,212				
Tennis backboard			\$1,174									\$1,400					\$1,500	
Tennis ball machine								\$824										
Tennis resurface						\$6,400												
Computer						\$1,863										\$1,451		
Other - Entrance sign									\$1,832									
Grand Total	\$14,964	\$22,181	\$2,047	\$18,769	\$0	\$20,828	\$0	\$8,000	\$14,623	\$35,681	\$4,470	\$1,400	\$44,708	\$25,237	\$43,953	\$1,451	\$9,695	\$39,971

Analysis of historical capitol spending provides insight into the rate at which capitol costs escalate over time while also providing an estimated life for items that have been replaced more than once.

Pool re-plaster lifetime = 8 years, cost increase = 4.2%

Playscape lifetime = 13 years, cost increase = 9.2%

Sport court surface lifetime = 13years, cost increase = 4.8%.

Tennis backboard lifetime = 5 years, cost increase = 1.4%

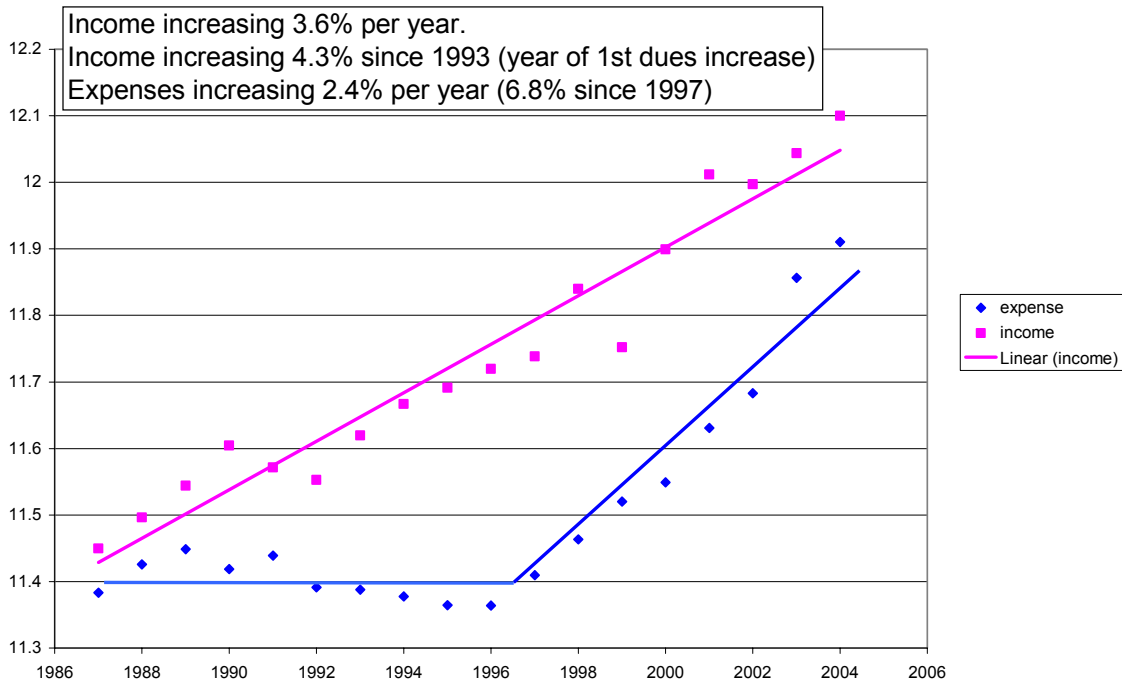
Combining the historical data with projections including a new amenity center, an updated capitol expense projection and reserve requirement sheet was created. For this projection, the key assumption is the inflation rate for capitol and expense items. Some analyses allowed this to vary, others assume 5% for this number.

2005 capitol reserve requirements:

Items of the Common Area	Year of purchase	Purchase cost	Est. Life	Years Left	Year of Replacement	Estimated Replacement Cost
Pool Area						
Pool - Baby pool plumbing	2002	\$7,036	20	17	2022	\$18,669
Pool chlorination system	1994	\$3,477	20	9	2014	\$9,226
Pool Deck	1993	\$3,247	20	8	2013	\$8,615
Pool Diving boards and ladders	2000	\$2,000	10	5	2010	\$3,258
Pool Fence wrought iron	2000	\$6,000	10	5	2010	\$9,773
Pool Fence chain link	1994	\$1,230	13	2	2007	\$2,319
Pool filters and pumps	1996	\$9,546	10	1	2006	\$15,549
Pool re-plaster	2004	\$33,400	8	7	2012	\$49,347
Pool security system	1999	\$12,025	10	4	2009	\$19,587
Pool Vacuum	2002	\$1,160	6	3	2008	\$1,555
Total Pool Area						\$119,230
Amenity center HVAC	2006	\$15,000	12	13	2018	\$26,938
Amentity center roof	2006	\$15,000	30	31	2036	\$64,829
Amenity center paint	2006	\$2,500	5	6	2011	\$3,191
Ammenity center appliances	2006	\$1,500	7	8	2013	\$2,111
Amenity center plumbing fixtures	2005	\$1,500	10	10	2015	\$2,443
Electrical System updates	1998	\$41,425	25	18	2023	\$140,280
Lighting Pool area	1995	\$7,000	20	10	2015	\$18,573
Lighting sport court	1994	\$4,010	15	4	2009	\$8,337
Lighting Tennis	1998	\$3,283	15	8	2013	\$6,825
Park -Fence wood	2005	\$20,000	12	12	2017	\$35,917
Park picnic tables and trash	2000	\$2,200	10	5	2010	\$3,584
Park -Playscape	2000	\$31,220	20	15	2020	\$82,836
Parking lot - sealer	2000	\$2,646	10	5	2010	\$4,310
Sport court resurface	1999	\$13,212	13	7	2012	\$24,913
Tennis backboard	2002	\$1,500	5	2	2007	\$1,914
Tennis ball machine	1993	\$824	15	3	2008	\$1,713
Tennis resurface	1991	\$6,400	13	-1	2004	\$12,068
Basketball Backboards	2002	\$1,200	10	7	2012	\$1,955
Sprinkler system	1986	\$7,900	25	6	2011	\$26,752
Parking lot re-pave	1971	10,000	35	1	2006	\$55,160
Sidewalks and Entry Ramp	1991	3,643	30	16	2021	\$15,745
Total Common Grounds						\$469,489
Computer	2001	1,500	5	1	2006	\$1,914
Entrance sign	1994	1,800	15	4	2009	\$3,742
Total other areas						\$5,656

Income and Expenses:

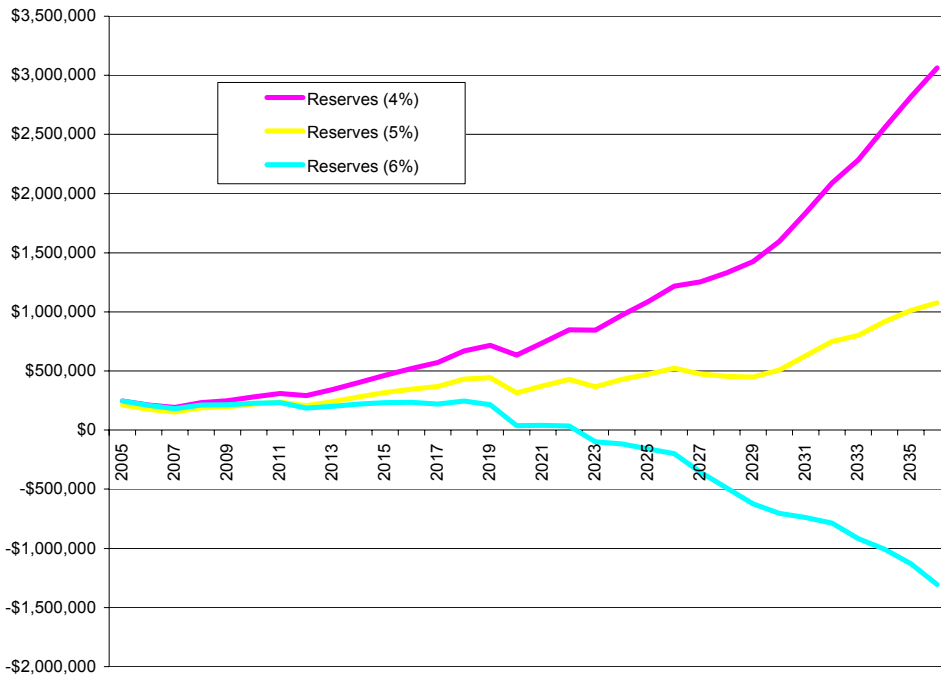
17 year income and expense history



With capitol spending summarized, the next step was to look at our rate of increase in income and expenses over time. The story with income is fairly well known. Since 1993 dues have increased on average 4.3% per year. Most years dues increased the full 5%, but some years saw increases below 5% which explains the long term trend of 4.3%.

The analysis of expenses provided the most significant finding of this whole exercise. Expenses remained flat from 1986-1996, but since 1996 our expenses are increasing at the rate of 6.8% per year. This rate of increase (expense inflation) is very worrisome since it is greater than the rate at which income can increase. One way to consider the impact of expense inflation is to look at our projected capitol reserve balance for various rates of expense inflation. The example below considers 4%, 5%, and 6% (This example does not include a new amenity center). The intuitive result that we run into trouble with expenses increasing faster than income is obtained. The exercise shows that the capitol reserve will run dry in 2022 if expenses increase by only 6% per year. **However, the good news is that if we hold expense inflation below 5% we remain highly solvent.** The historical results prior to 1996 suggest that expenses can be contained if the leadership stays focused on this objective. **A principal conclusion of this work is that the board must always hold expense inflation below 5%.**

Possible reserve scenarios



Graph of projected capital reserve balance for three different rates of expense inflation. For all cases, capital expenses increase at 5% per year and income increases at 5% per year.

What expenses are the issue?

Line Item	1993	1994	1995	2000	2001	2002	Avg93-95	Avg00-02	%change	2004proj	2004%chg	2005 target
Accounting	5150	3860	4100	5265	4585	5000	4370	4950	1.8%	4475	0.2%	
Legal Fees	4800	1408	4842	831	2725	24000	3683	9185	13.1%	8271	8.1%	\$6,000
Recreation and Social	1853	2415	2144	2917	2769	2700	2137	2795	3.8%	4000	6.3%	
Taxes, Insurance, Fees	5856	9157	8823	15799	14247	15300	7945	15115	9.2%	25000	11.5%	\$12,942
Utilities	11119	12004	14933	14606	20045	16500	12685	17050	4.2%	21000	5.0%	
Payroll taxes	3023	2177	1890	2305	3524	4500	2363	3443	5.4%	3000	2.4%	
Chemicals	4144	5045	5329	4464	4323	3200	4839	3996	-2.7%	3500	-3.2%	
pool maintenance	1860	2227	4303	6610	8366	7000	2797	7325	13.8%	6400	8.3%	\$4,555
salaries	27187	19960	18928	22645	28974	33400	22025	28340	3.6%	33405	4.2%	
landscape services	9704	9263	7985	11244	14150	12250	8984	12548	4.8%	12400	3.2%	
maintenance	2433	1915	2081	1932	2769	1000	2143	1900	-1.7%	2100	-0.2%	
swim team	4600	4950	4950	5200	6750	7000	4833	6317	3.8%	7000	3.7%	

The three expense categories which have increased at excessive rates are Taxes Insurance and Fees, Pool maintenance, and Legal fees. Moving forward, the board will need to pay close attention to spending in these categories to keep overall expense inflation below 5% per year.

Financing a new amenity center:

The final exercise was to see if we require a dues increase to fund a new amenity center. The new amenity center is expected to cost \$275K. The building would be financed using a \$75K down payment coming from the existing capitol reserve and a \$200K 15 year loan covering the balance of the cost.

The capitol reserve balance was then simulated all the way to replacement of the amenity center in 2035 to insure that adequate funds would be available. The results below which assume that capitol expenses increase at 5% per year show that as long as expense inflation is held below 5% per year the Balcones Woods Club can afford a new amenity center without an increase in dues above the 5% per year cap.

Year	Capitol Expense	Income	Expenses w/o new building	New building	Reserves	Description
2004					\$229,917	
2005	\$75,000	\$191,500	\$150,000		\$196,417	expense budget for 2005 = \$149K
2006	\$17,464	\$201,075	\$157,500	\$25,000	\$197,528	
2007	\$4,234	\$211,129	\$165,375	\$25,000	\$214,048	
2008	\$3,268	\$221,685	\$173,644	\$25,000	\$233,822	
2009	\$31,666	\$232,769	\$182,326	\$25,000	\$227,599	
2010	\$20,925	\$244,408	\$191,442	\$25,000	\$234,640	
2011	\$32,386	\$256,628	\$201,014	\$25,000	\$232,868	
2012	\$78,658	\$269,460	\$211,065	\$25,000	\$187,605	\$49K pool re-plaster, \$25K sport court re-surface
2013	\$17,551	\$282,933	\$221,618	\$25,000	\$206,368	
2014	\$11,309	\$297,079	\$232,699	\$25,000	\$234,439	
2015	\$21,016	\$311,933	\$244,334	\$25,000	\$256,022	
2016	\$32,519	\$327,530	\$256,551	\$25,000	\$269,482	
2017	\$61,792	\$343,906	\$269,378	\$25,000	\$257,218	\$36k wood fences, \$22k Tennis court re-surface
2018	\$26,938	\$361,102	\$282,847	\$25,000	\$283,535	
2019	\$31,906	\$379,157	\$296,990	\$25,000	\$308,796	
2020	\$199,963	\$398,115	\$311,839	\$25,000	\$170,108	\$83K new playscape, \$73K pool re-plaster
2021	\$20,942	\$418,020	\$327,431	\$25,000	\$214,756	
2022	\$21,853	\$438,922	\$343,803		\$288,022	
2023	\$143,841	\$460,868	\$360,993		\$244,055	\$140K electrical system updates
2024	\$25,110	\$483,911	\$379,043		\$323,813	
2025	\$48,304	\$508,107	\$397,995		\$385,621	

Conclusions:

- 1) We are in good shape financially, but this and future boards must be diligent and limit expense inflation to less than 5% per year.
- 2) The key expenses needing attention are insurance, pool maintenance, and legal fees.
- 3) We can afford to build a new amenity center without a dues increase above 5%. During the loan repayment period the minimum capitol reserve amount is \$172K. This is our safety margin.