

**Birch Bay Village Community
Club**

BUDGET TOWN MEETING

September 4, 2024

Agenda

- **Introductions**
- **FY 2025 Budget Overview**
 - **Operating**
 - **Reserves**
- **Budget Comments and Questions**
- **Annual Budget Meeting**

Important Meeting Dates

- **Today, September 4, 2024 – 5pm. – Town Hall Review**
- **Tentative Wednesday September 11th – Board workshop, budget will be primary discussion**
- **Ongoing additional committee input and sub-committee work in preparation for final budget**
- **Thursday, September 19th, 4:30pm – Final Board review and recommendation for 2025 dues**

Important Meeting Dates

- **Week of September 20th** – Budget Packets are prepared for on-line voting (and mailed as necessary)
- **Voting takes place via on-line, drop off box and postal mail**
- **Friday, November 1st 7p.m.** – Annual Budget Meeting BBV Clubhouse

**BIRCH BAY VILLAGE
BUDGETS
2025**

What is a Budget?

- Definition: An estimate of income and expense for a certain period of time
- A budget is a plan expressed in numbers
- It prioritizes spending and highlights what is important to the organization

How is it Made?

- Homeowner Association Budgets are expense driven. This means we determine expenses first and then what income is needed to pay those expenses.
- $\text{Income} - \text{Expense} = \0.00
- $\text{Misc. Income} + \text{Assessment Income} = \text{Expense}$
- $\text{Assessment Income} = \text{Expense} - \text{Misc. Income}$

The Budgeting Process

Manager prepares budget, with input from:

- Board, Committees, Community Members
- Compare with current year financial projections
- Compare with actuals from the previous year
- Examine trends in costs
- Obtain contractor bids

The Budgeting Process

- Review Reserve Study, obtain feedback from department managers, discussion with consultant.
- Prepare Reserve Study funding recommendations vs current funding levels....YES, we are behind on our reserves!
- Reserve Town Hall to review reserve shortfall impact to budget, August 27th.
- Town Hall to discuss 2024 Budget issues, today, September 4th.
- Board votes to approve 2024 Budget – Thursday, September 19th.
- Annual Budget Meeting, November 1, 2024

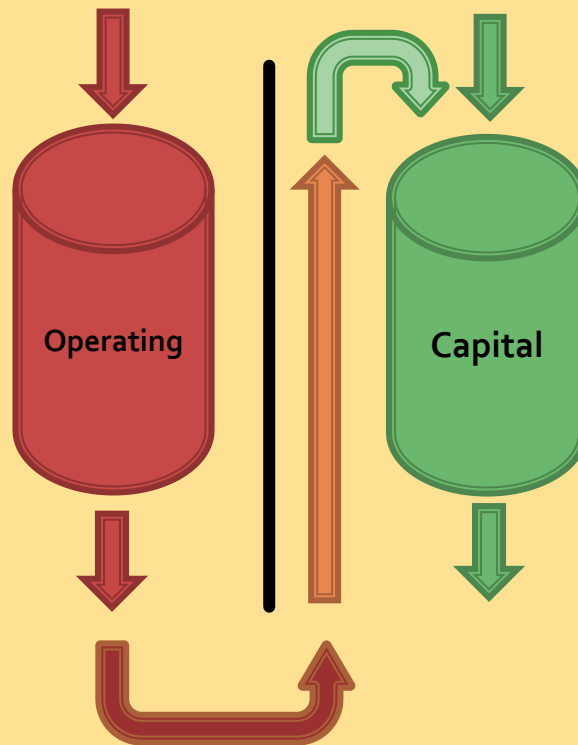
The Budgeting Process

Community Members have the power to determine if the budget is ratified.

- If **RATIFIED** by the membership, the Board's approved Budget stands and will be the Budget for the coming fiscal year
- If **REJECTED** by the membership, Community reverts to the current year's Budget until a new budget is approved and not rejected by the members

Fund Accounting

Community Funds



Budget Philosophy and the Economics of an HOA

Definition of Economics

The allocation of scarce resources amongst users

- **Allocation-** Efficient vs Inefficient, Equitable vs Inequitable
- **Resources** – Money, Staff, Volunteers
- **Users** – Members, Groups

Other Definitions

- **Efficiency** - The goal of economic activity. Optimal allocation. No waste. Highest and Best Use.
- **Productivity** – A means to that goal. More output with less input. More output with less staff. More services with less dues.
- **Value** – The benefit of a good or service. Think of members as shareholders in a corporation. How can we increase the value in Birch Bay Village stock?
- **Equity** – The fairness of the allocation of Community resources.

Operational Philosophy

Simplicity vs Complexity

- Simplicity is more efficient to manage than complexity, making management less costly and increasing value
- When making a decision the organization should first ask, “Are we making things more complicated?” “Can we simplify?”

Strategic Philosophy - Values

Values: Make our decisions and guide our behavior by:

- Practicing transparency in all our endeavors
- Exhibiting respect for all
- Promoting effective and efficient partnering
- Practicing economic well-being
- Maintaining and protecting our infrastructure
- Leveraging community expertise and talent
- Advocating fair and equitable decision making

Strategic Philosophy - Goals

Goals: We know we are being successful when:

- Residents stay for the long-term
- Property values grow with comparable markets
- Infrastructure meets the needs of the community
- Our community is financially sound
- Stakeholder relationships are developed, improved, and nurtured

Strategic Philosophy - Strategies

Strategies: We achieve these goals by:

- Expecting that expectations will be met
- Ensuring all planning is linked to Values and Goals
- Hiring and retaining effective management and staff
- Attracting and retaining great volunteers

Operating Budget - Components

Components of the Operating Budget

- Administration
- Maintenance
- Golf
- Recreation Center
- Pool
- Marina
- Security
- Clubhouse
- General

Community Operating Budget

What Does It Do?

- Provides funding for the normal day-to-day Community Operations:
 - **Administration** – Accounting/Customer Service/Covenant & Rules Enforcement/Governance Assistance
 - **Maintenance** – Common Areas, Amenities, Roads
 - **Other Services** – Marina, Recreation, Security
- Funds not spent do not carry over into next year
- Unspent funds, if any, are allocated to reserves

2025 Operating Budget - Highlights

- Continue Incremental Increase Employee Compensation
- Improve Level of Service
- Improve Buildings and Grounds
- Increased project management activity

FY 2025 Operating - Admin

	2023 Actual	2024 Budget	2024 Projected	2025 Proposed Budget	Variance to 2024 Budget	% variance
Income	105,511	75,700	94,993	109,450	33,750	45%
Expense	517,329	790,997	725,780	984,786	193,789	24%
Net	(411,819)	(715,297)	(630,787)	(875,336)	(160,039)	22%

Major Drivers of Budget Increase:

- ❖ COLA plus add Assistant GM
- ❖ Insurance increase \$58K for new docks
- ❖ Outsource Bookkeeping
- ❖ Develop Comprehensive Community Plan

FY 2025 Operating - Maintenance

	2023 Actual	2024 Budget	2024 Projected	2025 Proposed Budget	Variance to 2024 Budget	% variance
Income	16,214	15,700	1,776	750	(14,950)	(95)%
Expense	412,070	585,411	542,618	768,254	182,843	31%
Net	(395,856)	(569,711)	(540,843)	(767,504)	(197,793)	35%

Major Drivers of Budget Increase:

- ❖ COLA and add 1 1/4 Full Time Employee (FTE)
2,600hrs
- ❖ Increase drainage, lakes, landscaping, repairs

FY 2025 Operating - Golf

	2023 Actual	2024 Budget	2024 Projected	2025 Proposed Budget	Variance to 2024 Budget	% variance
Income	113,519	115,204	125,471	156,842	41,637	36%
Expense	259,476	285,425	285,559	319,528	34,103	12%
Net	(145,957)	(170,220)	(160,088)	(162,686)	7,534	(4)%

Major Drivers of Budget Increase:

- ❖ Increase fees 5%
- ❖ Add local HOA members to increase golf income
- ❖ Increase staff compensation closer to market
- ❖ Maintenance for Pro Shop

FY 2025 Operating - Recreation

	2023 Actual	2024 Budget	2024 Projected	2025 Proposed Budget	Variance to 2024 Budget	% variance
Income	37,564	43,000	34,320	44,600	1,600	4%
Expense	155,452	166,638	159,008	169,083	2,445	1%
Net	(117,888)	(123,638)	(124,687)	(124,483)	(845)	1%

Major Drivers of Budget Change:

- ❖ Increase staff rates to market, offset by reduced hours
- ❖ Increase sales of F&B, ancillary sales

FY 2025 Operating - Marina

	2023 Actual	2024 Budget	2024 Projected	2025 Proposed Budget	Variance to 2024 Budget	% variance
Income	480,463	576,756	491,768	653,204	76,448	13%
Expense	166,728	151,520	109,797	133,204	(18,516)	(12)%
Net	313,735	425,236	381,970	520,000	94,764	22%

Major Drivers of Budget Changes:

- ❖ 20% moorage increase
- ❖ Increase in Marina access fees
- ❖ Increase in dredging charge to marina property owners
- ❖ **All Marina Net income to Marina Reserves**

FY 2025 Operating - Pool

	2023 Actual	2024 Budget	2024 Projected	2025 Proposed Budget	Variance to 2024 Budget	% variance
Income	17,048	16,300	16,470	16,000	(300)	(2)%
Expense	57,968	39,539	55,310	47,289	7,750	20%
Net	(40,920)	(23,239)	(38,840)	(31,289)	8,050	(35)%

Major Drivers of Budget Increase:

- ❖ Staffing similar to actual cost in 2024

FY 2025 Operating - Security

	2023 Actual	2024 Budget	2024 Projected	2025 Proposed Budget	Variance to 2024 Budget	% variance
Income	0	0	0	0	0	0
Expense	366,039	323,194	323,392	364,956	23,502	7.3%
Net	366,039	323,194	323,392	364,956	23,502	7.3%

Major Drivers of Budget Changes:

- ❖ Continues contracted service increase CPI

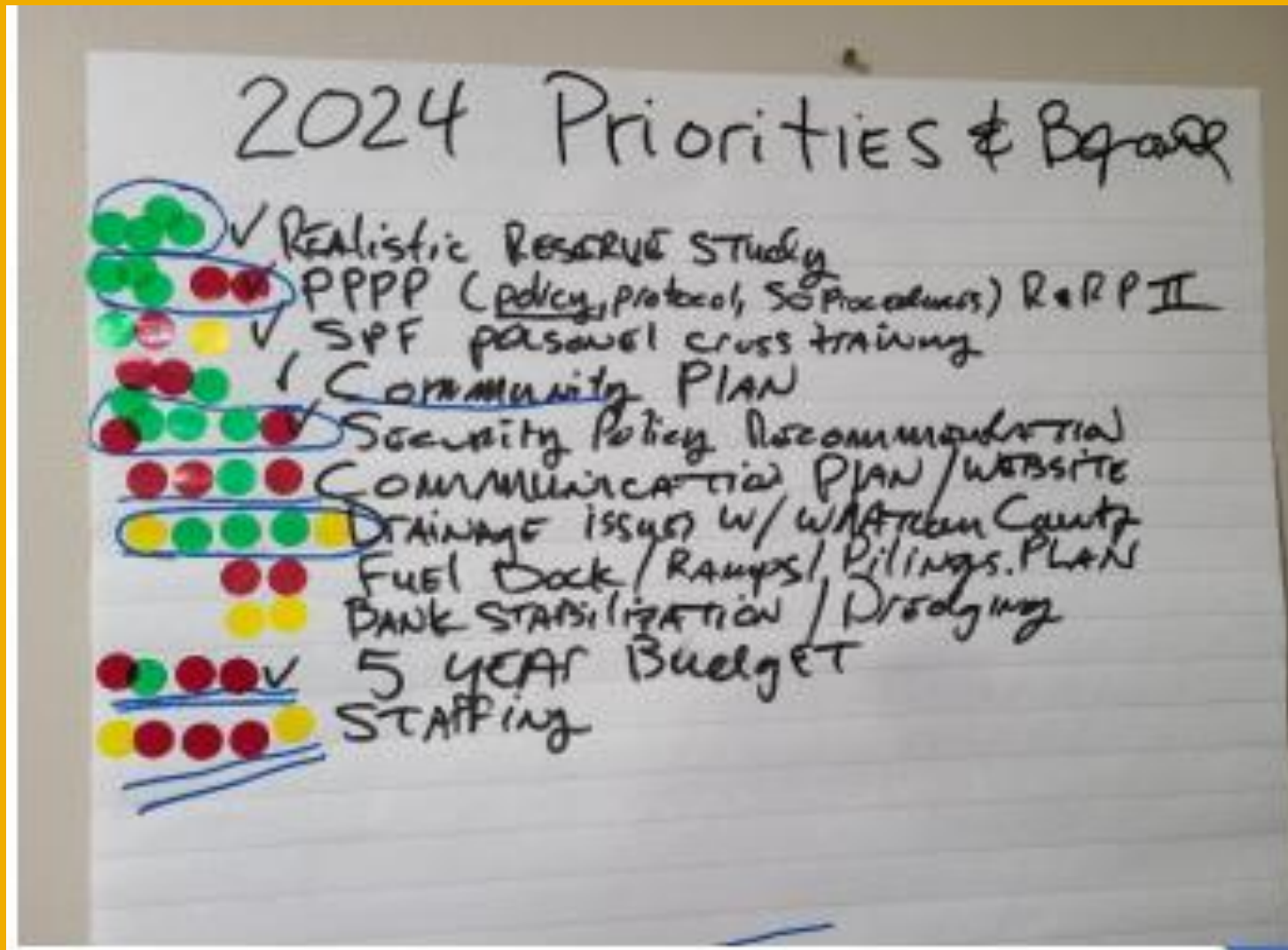
2025 Reserve Budget

- Provides funding for capital (assets) acquisitions, major repairs, replacements and special one-time projects

Differs from Operating Budget :

- Projects can run beyond the end of the fiscal year
- Fluctuate greatly from year to year
- Also provides reserve funds for future capital projects

2024 BBV Board Retreat Top Priority



What is a Reserve Study?

What is a Reserve Study?

- Mandated by Washington State Law to Identify:
 - **Community Assets** - (What does the Community Own)
 - **Useful Lives** - (How much longer will they last)
 - **Unit Cost** - How much does it cost in current dollars to replace
 - **Percentage of Funding** (How much money on hand to replace)

What is the Purpose of a Reserve Study ?

- To set the periodic reserve assessment to ensure funding of reserve expenses over 30 years
- Disclosure document that informs current owners and future buyers of the condition of the community's assets and their funding
- Must be provided to owners, but not mandatory to fund at levels recommended
- As importantly....a reserve study it is not a detailed project list.

Reserve Study Update

Level 2 Reserve Study Updates: August 2024

Divided into 3 asset categories:

- **General Assets** – Equipment, vehicles, courts, buildings, parks, pools
- **Roads & Drainage** – asphalt and drainage systems
- **Marina** – Docks, ramps, fuel dock, dredging

2025 Reserve Study - General

Beginning Fund Balance (January 1, 2025)	\$1,061,435
Fully Funded Balance	2,602,289
Annual Contribution	147,541
Fully Funded Contribution	395,000
Reserve Study Recommended Baseline	277,393
Board Proposed Funding 2025	277,393
Current/Lot/Year	131/yr
Increase (decrease) per Lot	115/yr
2025 General Reserve/Lot/Year	\$246/yr

Upcoming General Reserve Spend

Maintenance & Greens Equipment - 2025	\$259,000
Building Refurbishment & Repair - 2025	314,000
Vehicle Replacements - 2025	92,000
Park and Recreation Area Replacements - 2025	137,000
Building Replacement Fund - 2025	120,000
Vehicle Replacements - 2026	70,000
Maintenance & Greens Equipment - 2026	39,000
Building Refurbishment & Repair - 2026	74,000
Pool Interior Paint - 2026	\$168,000

The board, management and staff will continue to reevaluate the remaining useful life of many of the items listed to be replaced in the reserve study. This will only defer the cost to future years and not eliminate the obligation to fund.

2025 Reserve Study – Roads & Drainage

Beginning Fund Balance (January 1, 2025)	\$1,408,600
Fully Funded Balance	2,625,998
Annual Contribution	295,810
Fully Funded Contribution	295,810
Reserve Study Recommended Baseline	278,184
Board Proposed Reserve Funding 2025	278,184
Current/Lot/Year	262
Increase (decrease) per Lot	(15)
2025 General Reserve/Lot/Year	\$247/yr

Upcoming Roads & Drainage Spend

Culvert Replacements & Repair 2025	\$333,833
Asphalt Paving & Crack Seal - 2025	15,000
Asphalt Paving & Crack Seal - 2026	609,250
Beaver Pond Splash Pad	105,000
Culvert Replacements & Repair 2027	581,834
Asphalt Paving & Crack Seal - 2027	16,537

The board, management and staff will be reevaluating the paving and culvert replacement schedule. This will only defer the cost to future years and not eliminate the obligation to fund.

2025 Reserve Study - Marina

Beginning Fund Balance (Jan. 1, 2025)	\$(128,331)
Fully Funded Balance	3,615,550
Annual Contribution	425,236
Fully Funded Contribution	2,650,000
Reserve Study Recommended Baseline	870,595
Board Proposed Funding 2025 (Combo HOA, Marina Users, Private Dock Owners)	548,000
Current/Lot/Year	0
Increase (decrease) per Lot	25

Upcoming Marina Spend

Marina Engineering & Permitting - 2025	\$167,000
Marina Engineering & Permitting cont. - 2026	96,000
Piling Replacements (end piles) - 2027	221,000
Dredging - 2028	255,000
Harbor Bank Reinforcement - 2029	2,431,000
Fuel Dock Replacement - 2029	182,000
Piling Replacements - 2029	400,000
Launch Concrete Ramp - 2029	61,000

The board, management and staff will be reviewing other major Marina infrastructure projects over the next year to better refine projection of Marina expenses over the next 5 years.

**So, What Does
It All Mean?**

Bottom Line Impact 2025

2025 Allocation of Annual Assessment		Per lot	Per month
Administration	\$875,336	\$775	\$65
Maintenance	\$767,504	\$680	\$57
Golf	\$162,686	\$144	\$12
Rec Center	\$124,483	\$110	\$9
Pool	\$31,289	\$28	\$2
Clubhouse	\$8,450	\$7	\$1
Marina	\$28,200	\$25	\$2
Security	\$364,956	\$323	\$27
General	\$81,200	\$72	\$6
Reserves	\$555,577	\$492	\$41
	\$2,999,682	\$2,657	\$222

Bottom Line Dues Impact 2025 vs 2024

	2024 Dues	2025 Dues	\$\$ Change	% Change
Operating	\$2,003,905	\$2,415,905	\$412,000	20.6%
Reserves	\$434,735	\$583,777	\$149,042	34.3%
Total Dues	\$2,438,640	\$2,999,682	\$561,042	23.0%
Total Dues per Lot	\$2,160	\$2,657	\$497	23.0%

2025 Birch Bay Village Dues

	2024	2025	Change	% Change
Year	\$2,160	\$2,657	\$497	23%
Monthly	\$180	\$221	\$41	23%
Daily	\$5.92	\$7.28	\$1.35	23%

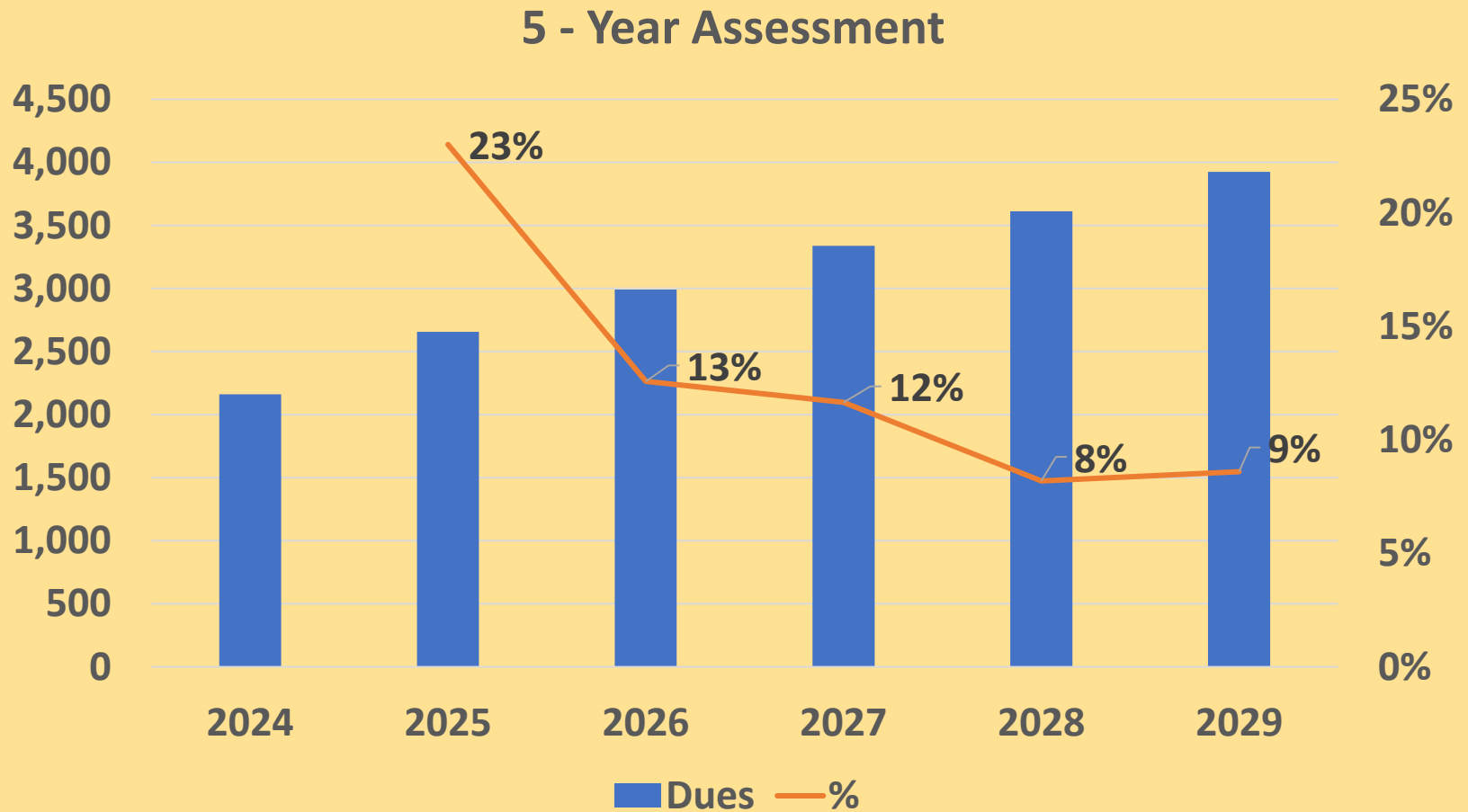
- Increase Reserve funding
- Staff wage and benefit increases
- Improved landscape and drainage
- Inflation (insurance, contracted services)

5-Year Budget Forecast

(based on funding strategy and planned expense)

	2024 Budget	2025 Proposed Budget	2026	2027	2028	2029
Total Income	3,292,245	4,077,047	4,539,769	5,103,065	5,611,666	6,200,385
%		23.8%	11.3%	12.4%	10.0%	10.5%
Operating Expense	2,414,575	2,910,250	3,220,851	3,520,364	3,712,425	3,921,296
%		20.5%	10.7%	9.3%	5.5%	5.6%
Reserves	859,970	1,103,777	1,318,917	1,582,701	1,899,241	2,279,089
%		28.4%	19.5%	20.0%	20.0%	20.0%
Dues	2,160	2,657	2,991	3,339	3,613	3,923
%		23.0%	12.6%	11.6%	8.2%	8.6%

5 -Year Assessment Outlook



FY 2025 Budgets

Why an Increase Now?

- **Capital Projects and Aging Infrastructure**—Birch Bay Village 50 years old and it requires more maintenance effort and capital investment than when it was brand new. This increased level of effort requires staff or outsourcing.
- **Inadequate Reserve Assessments Over the Past 50 year** – Assessment used to be low because they never adequately covered the cost of depreciation of Village assets. Had more money been collected in the past, less money would need to be collected now.
- **Deferred Maintenance is Not a Plan** – “Can’t we just wait?” When you defer maintenance or replacement you do not relieve yourself for the obligation. You pile more expenses into future years when everything will come do at once and cost more. Since 2019, construction costs have increased 40.5%. 14% increase alone between 2023 -2024 *
- **Increased Staff** - With increased project activity and increased level of service, there is a need for more people to manage increased requests and project volumes.

(*Data from CBRE, the world larges commercial real estate service firm)

Best Reason for Why an Increase Now?

- **To avoid a special assessment later**

Questions and Comments on the Budget?