Using the Manual

Items to be budgeted have been divided into the following five categories:

100's—Fixed Costs (taxes, insurance, etc.)

200's—Operating Costs (utilities, goods and services)

300's—Reserves (for replacement and major maintenance)

400's—Administration (legal, accounting, etc.)

500's—Contingency

Each of the first four major categories have been divided into subcategories or into component line item expenses to facilitate the inventory and budget preparation processes.

The costs that have been developed for condominium developments are those customarily associated with low-rise or garden-type condominiums. Extra care should be taken in using the format or content of this manual when developing budgets for high-rise and luxury buildings.

High-Rise Structures

Typically, a high-rise condominium project will employ a full-time staff and additional employees to perform maintenance and repair. Moreover, some of the building components may be under full-service contracts so that the need for replacement of major components may not arise. All high-rise (over 70 feet) buildings are subject to certain safety codes, e.g., fire and elevator safety, which may require the installation of equipment at a specified date. Funds for the purchase, installation, and maintenance of such equipment should be included in the budget.

A limited list of the high-rise components not included in other sections of the Operating Cost Manual are:

Central heating and air conditioning systems (HVAC) comprised of chillers, compressors, and boilers; cooling towers; gas-fired boilers equipped with heat exchangers; emergency diesel generators for emergency purposes; fire sprinkler system with storage tanks and diesel fuel pumps; master antenna systems; building security systems; closed circuit TV systems, electric door releases; intercom systems; house phones; music and paging systems; glass caulking; window washing/cleaning; compactor maintenance; local license inspection fees; exterior surface repair; etc.

Refer to Addendum "A" for a limited checklist that may be submitted with the budget for high-rise or mid-rise projects.

A limited list of the high-rise personnel and indirect expenses not included in the Operating Cost Manual are:

Manager(s), engineer(s) and assistants, head janitor and assistants, security guards, valet(s), door attendants, PBX operators, concierge, front desk; relief, vacation, and bonuses; workers' compensation, and payroll taxes.

Because of the complexity of budgets for high-rise condominiums, a 10 percent contingency factor is not considered unreasonably high.

Other components not included in this manual:

A common interest subdivision may include a common facility which is not covered in this manual. In budgeting for such a facility, it is best that it be broken down into its component expenses. In the case of a stable, for example, consideration should be given to such component item expenses as electricity, water, custodial service, and painting. It should be possible to use data in this manual to calculate the various component costs and to estimate the aggregate cost of maintaining and operating the facility. **EVEN THOUGH AN AMENITY OR COMPONENT MAY NOT BE INCLUDED IN THIS MANUAL, IT SHOULD BE INCLUDED IN THE BUDGET.**

To use this manual, those responsible for budget preparation should first make a list of all expenses that the association is likely to incur. An analysis of the governing documents for the subdivision and the association is extremely important in the budget preparation process. The governing documents enumerate the duties of the homeowners association and specify or suggest areas in which costs will be incurred.

The cost data in Part II of the manual is applicable for a majority of developments located in and around major population centers of California. Data provided is for Northern California and for Southern California, but a further breakdown into smaller geographical areas is only provided for certain expense items, e.g., landscape maintenance for the Palm Springs area. No cost data has been developed for special resort areas such as Lake Tahoe, where costs for goods and services are likely to be substantially higher than costs for comparable goods and services in metropolitan, urban, and suburban areas.

Parts III and IV of this manual consist of reserve cost data and budget worksheets to assist in the compilation process.

To estimate certain expenses, e.g., carpeting and painting, it is necessary to have reliable data concerning dimensions of common areas and facilities. One of the first tasks of the governing body or management agent of an association is the preparation of a complete inventory of the areas and facilities to be maintained.

In preparing the inventory, it is best to start with a map, diagram, or sketch delineating all of the common areas and facilities. For completed or existing projects, the best source of information in completing the map and project inventory is a set of as-built plans covering the project common area. These plans are not only helpful in preparing the project inventory, but also in coping with certain practical problems of management such as turning off water in the event of a broken water line.

If construction plans for the common area of a planned development are not available, the recorded map of the subdivision can serve as a source of information in preparing the project inventory map. For a condominium project, it will usually be necessary for the budget preparer to obtain a copy of the condominium plan from the county recorder or subdivider, as well as:

- Copy of the final or tentative map.
- Architectural elevations and plan views. Engineering plans.
- Landscape architectural drawings.

Other possible sources of information to prepare the project inventory map include a land-use map (usually available from the city or county planning department) and the county assessor's map. If all else fails, a reasonably accurate inventory can be taken through the process of measuring and counting areas and facilities in place.

The inventory of fixtures, furniture and other personal property of the association is usually best made in the beginning by a physical count and by measurement where appropriate. This is probably also the best method for inventorying some items of real property such as lighting fixtures.

It is recommended that associations consider verification and, if necessary, correction of their major component inventory after project start-up. This may be necessary to comply with Civil Code section 5300.

Variable Assessments

Proration is a procedure to determine the amount to be assessed to each unit in the subdivision to meet budgeted expenses. Prorations may be either equal or variable. Equal proration involves the simple process of dividing the total costs of a budget item by the number of units in the subdivision. Variable prorations entail the use of a factor or factors that differ from one unit to the next, e.g., square footage of floor space. Equal assessments should be used wherever reasonably equitable, since variable proration can be a complicated and controversial process.

Variable prorations should be employed only when services are provided to units in unequal proportions. DRE regulations allow the use of variable assessments against units only if one unit will derive as much as 10 percent more than another unit in the value of common goods and services supplied by the association. Examples of services provided in unequal proportions directly to units are insurance, domestic water and gas, if applicable, and exterior and roof maintenance (the budget items for exterior and roof maintenance are ordinarily the reserves to carry out this maintenance when it is due).

Within a particular project, more than one proration factor may be applied. For example, consider a condominium project with central air conditioning, a swimming pool and valet parking services. It would not be unreasonable to allocate these expense items to each unit as follows:

1. Central air conditioning costs on the basis of the square footage of each unit.
2. Expenses attributable to the swimming pool equally for each unit.
3. Valet parking costs according to the number of parking spaces for each unit in proportion to total parking spaces for the project.

An example of how to determine whether proration is advisable is presented in **Figure "A"**:

Assume a budget for a 100 unit condominium project consisting of 50 two-bedroom units of 1,000 square feet of floor space each and 50 three-bedroom units with 1,200 square feet each. There is a single master meter for domestic water supplied to the project. Electricity and gas are individually metered to each condominium unit.

Using the completed worksheet (see **Figure "B"**), variable assessments can be computed as follows:

Highest Assessment - Lowest Assessment
÷ Lowest Assessment = % Differential
($93.46 – $88.55 ÷ $88.55 = 5.5%).

The difference in the monthly assessments for the two floor plans is $4.91. The assessment for a 1,200 square foot unit is only 5.5 percent greater than the assessment for a 1,000 square foot unit. A variable assessment is not considered appropriate since the difference in the level of services supplied to the two floor plans by the owners association is less than 10 percent, the minimum difference allowable for variable assessments under DRE regulations. In most instances, however, variable proration is not considered preferable to equal proration if differential in the level of services supplied by the association to the units is less than 20 percent. Variable assessments should be used when the differential exceeds 20 percent. After determining the percent of benefit derived from services provided by the association, an easy chart to follow would be:

Less than 10%	—	equal assessments
From 10% to 20%	—	variable or equal
Over 20%	—	variable assessments

RE 623, Budget Worksheet, Page 14, has a blank proration schedule worksheet for your use. Your management documents must agree as to equal or variable assessments. Check the appropriate box on page 4 of the Budget Worksheet.

Management Documents

It is recommended that the subdivider, attorney, and budget preparer discuss the specific maintenance responsibilities of the association prior to preparing the Declaration of Restrictions and budget. In the past, there have been problems in determining whether the individual unit/lot owner or the homeowners association was responsible to maintain or repair items in the subdivision. The CC&Rs should be clear enough to avoid confusion.

A general statement that the HOA is responsible to maintain common areas may be insufficient. There are subdivisions where the purchaser acquires title to a lot but the subdivider, in order to maintain the esthetic appeal to the subdivision, will require the association to maintain exterior paint or landscaping in front yards. Since these areas are owned in fee by the lot owner, the usual definition of common area would not be sufficient. In addition, areas designated as exclusive use common areas have caused confusion in the past because of conflicting or confusing definitions in either the CC&Rs or the condominium plan.

Figure "A" Budget

Budget — Monthly Column			
Description	**Monthly Costs**	**Equal Costs**	**Variable Costs**
Insurance	1,000		1,000
Electricity	600	600	
Gas (for pool)	200	200	
Water	400		400
Custodial	500	500	
Landscaping	2,500	2,500	
Refuse	300	300	
Streets	100	100	
Pool	100	100	
Misc. Maintenance	300	300	
Paint Reserve	600		600
Roof Reserve	700		700
Light Reserve	100	100	
Carpet Reserve	100	100	
Pool Reserve	100	100	
Furniture Reserve	100	100	
Paving Reserve	200	200	
Management	700	700	
Legal	100	100	
Accounting	100	100	
Contingency	300	300	
	$9,100	**$6,400**	**$2,700**

Figure "B"

PRORATION SCHEDULE WORKSHEET

Section I Variable Assessment Computation

A. Variable Costs Description	Monthly Cost
1. Insurance	$ 1,000.00
2. Domestic Gas (if common)	$ 0.00
3. Domestic Water (if common)	$ 400.00
4. Paint	$ 600.00
5. Roof	$ 700.00
6. Hot Water Heater (if common)	$ 0.00
7. Other	$ 0.00
Total Variable Cost	**$ 2,700.00**

B. Total livable square footage of all units from condominium plan: 110,000

C. Variable Factor *(variable monthly costs ÷ square footage = variable factor):* .02455

Multiply this factor by each unit size below in Section III.

Section II Equal Assessment Computation

A. Total Monthly Budget	$ 9,100.00
Less Variable Costs	$ 2,700.00
Total Monthly Equal Costs	$ 6,400.00
B. Monthly Base Assessment: *(total monthly cost ÷ number of units = monthly base assessment)*	$ 64.00

Section III Assessment Schedule

	Unit Size	x	*Variable Factor*	=	*Variable Assessment*	+	*Base Assessment*	=	*Total Mth. Assessment*	x	*Unit Count*	=	*Total Mth. Budget **
A.	1,000 s.f.	x	.02455	=	$24.55	+	$64.00	=	$88.55	x	50	=	$4,427.50
B.	1,200 s.f.	x	.02455	=	$29.46	+	$64.00	=	$93.46	x	50	=	$4,673.00
C.		x		=		+		=		x		=	
D.		x		=		+		=		x		=	

VERIFICATION OF COMPUTATIONS

Total Monthly Budget (Section III)	$9100.50
Total Monthly Budget (Section IIA)	$9100.00

* Total Assessment x number of units of each type.

Section IV Variable Assessments

Highest Assessment	–	*Lowest Assessment*	÷	*Lowest Assessment*	=	*% Differential*
$93.46	–	$88.55	÷	$88.55	=	5.5 %