The Glen Echo

Newsletter of Fairlington Glen

Special Edition - August 14, 2023

August 2023 Special Budget Edition

The Fairlington Glen Board of Directors held a monthly meeting on Tuesday, July 11, 2023, at which time the Board moved to approve the proposed 2024 draft budget with a 2.8% dues increase for submission to the members at the 2023 Annual Meeting.

Normally, the Glen Treasurer presents the draft budget line items to the community (after Board approval) with an explanation in the August edition of the Glen's newsletter. However, the Treasurer's annual article/presentation was not ready on August 1, 2023, due to a delay from the auditor.

Now that the auditor's report has been submitted, Glen Treasurer Maynard Dixon presents the 2024 draft budget with his explanation to all Glen co-owners.

Calling All Candidates

Just a reminder, if you are interested in serving your community as a Board member, please contact the Glen President or any Board member. There will be two open seats on the 2024 Board, one currently held by Glen Secretary Susan Hunchar and one currently held by Glen Treasurer Maynard Dixon. Susan will not be running for another term; however, Maynard has already announced his intent to run.

Upcoming Important Glen Dates

- Board candidate profiles are due to the Board Secretary by September 5, 2023.
- Proposed 2024 budget amendments are due to the Board Secretary by September 5, 2023.
- Glen Community Forum will be September 7, 2023, at 7:30pm online via Zoom.
- Glen Annual Meeting will be November 2, 2023 at 7:00pm online via Zoom.

Jay Yianilos / Editor

The *Glen Echo* is published monthly. Our editor is always looking for ideas or input. Please email him at jasonyianilos@yahoo.com.

The *Glen Echo* is published online each month on the Glen website, at https://www.fairlingtonglen.com. To be notified by email when the latest edition is published, with a link to the newsletter, sign up for Glen Alerts via the Glen's website. Your email address will only be used for official Glen business.

Budget and Fees Proposed for 2024

—Maynard H. Dixon, Jr., Treasurer—

At its meeting on July 11, 2023, the Board approved the draft 2024 budget and fee schedule in the table below for submission to Glen co-owners this autumn before the annual meeting on Thursday, November 2, 2023. The recommended budget would be based on a monthly fee increase of 2.8%, in comparison to the 4.5% increase adopted in 2023 and the 1.5% increased adopted in 2022. The table has a column for the audit of 2022, the latest one available.

The table below presents the 2024 budget by Cardinal Management Company (Cardinal) account number. In January 2023, Cardinal changed many, but not all, of its existing account numbers. Where the number was changed, the account number before 2023 is in brackets. If a number is not in brackets, it is either the same number that was used before 2023 or the number of an entirely new account that was created in 2023. A blank cell indicates that the account was not used in the year.

Any Glen co-owner seeking a detailed, line-by-line explanation of the recommended budget should contact me, at MaynardDixonJr@gmail.com.

Discipline Spending to Constrain Dues but Maintain Reserve Growth

Various unfavorable trends are projected to continue in 2024. Maintenance contractor bid prices/unit of work (roofs, painting, carpentry, etc.) are projected to continue to rise in the DC area due to increased demand, rising labor costs in this area, and increased materials costs. Our insurance agent projects continuing increases in the costs of property insurance. Our contracted service costs of trash collection, landscaping (main contract), and pool operations are rising. We are having to set aside additional reserve funds to replace aging sewer lines, common-area water supply lines, and buried power lines.

Despite these unfavorable trends, we resolved (1) to constrain spending where possible to keep dues from increasing faster than the incomes of our residents (typically federal government employees) while (2) continuing to make progress toward having reserves that are fully funded. To this end, we limited our usual 4 courts/year maintenance cycle for painting and carpentry to 2 courts/year in 2023 and 2024, resulting in considerable savings. We kept discretionary landscape spending (outside the main contract) at its 2023 level. Our budget for power is constrained by our planned switch from fluorescent to LED pole lamp bulbs in 2023. Our projected water/sewer fees turned out to be small. Our task was also made easier because we are finally enjoying significant increases in the interest earned on our reserves, due to the Federal Reserve Board's more aggressive effort to increase interest rates to fight inflation.

Here is how our proposed 2.8% increase compares with some other increases affecting Glen residents:

• Increase in County Property Tax on My Unit in 2022	3.3%
• DC Area Consumer Price Index November 2021 – November 2022	5.5%
• Federal Employee COLA DC Area 2023	4.86%

Budget Projection Methods

The easiest to project expenses are: (a) those, such as trash collection, contract landscaping, accounting, management, and pool operations, that are based on contracts that extend over future years; and (b) those that are discretionary, such as non-contract landscaping, employee cost-of-living adjustments, and certain pool spending.

Other expenses are more difficult to project because they are not fixed by contracts, but we can still develop reasonable estimates based on known facts. For example, we can project water/sewer expense easily because we know when and how the County will be changing its rates and we have (thanks to Glen volunteer Bill Worsley) accurate data on water consumption usage and trends.

The most difficult to project expenses are those that involve randomness, especially if the account is new and we have no experience to draw from. The best approach for this category is to budget long-term based on the best data we have. If we do this consistently, we will be more likely to balance the account over time even though individual years will come-in too high or too low. To do this, I have relied on trend lines, or historical averages. For example, I have used this approach for health care costs, certain administrative expenses, and pool repair.

Highlights

The highlights of the budget are discussed below. Figures were left unrounded when they were based on calculations, such as a trend line or an average of prior years.

● **Interest Income**. In budgeting this source of income, conservatism is advised because it is highly volatile and subject to political pressure to keep interest rates low. If the current rock bottom interest rates were to rise even by a half percentage rate, the dollar increase in our interest income would be huge, but we should not base our budget on an increase that may not occur.

The Account 40270 Interest projection of $77,819 is what Morgan Stanley projects will be earned on our reserves for one year from April 30, 2023 under the reserve level and the investment mix in effect on that date. This projection is conservative because it presumes that, in 2023: (1) investable funds will not increase from their April 30, 2023 level to the end of 2024; and (2) the Federal Reserve Board will not be further increasing interest rates to ward-off inflation.

As in prior years, the 2024 budget presumes that the interest earned on our reserves, minus the taxes that we estimate would be paid on the interest, would be invested back into our reserves. Taxes would be excluded so the operating portion of the budget would not subsidize the reserve portion of the budget. A rough estimate of the projected (federal + state) taxes is 21% of the projected interest.

● **Recovery of Funds**. For 2024, we adopted new ways of accounting for recovery of money owed to the Glen:

1. We added Account 40398 Recovery Income as a substitute for Account 40290 [30290] Bad Debt Recovery to record the recovery of unpaid dues by legal action. We can no longer classify these payments as Bad Debt Recovery in light of our decision not to classify recoverable unpaid dues that are sent to counsel for collection as Account 51400 Bad Debt Expense.

We need to be conservative because recovery income is volatile. As of May 2024, we have three large, long-term delinquent accounts that are in collection (not written-off), totaling $23,323.00; but none of these accounts are a safe bet for recovery in budget year 2024 alone, our budget year. A conservative estimate would be the 2014-2022 Bad Debt Recovery average = $3,258.

2. Account 40290 Bad Debt Recovery will still be used to record the recovery of sums that are written-off by Board motion rather than sent to counsel for collection. The amounts posted to this account will hereafter be small because the amounts posted to Account 51400 Bad Debt Expense will hereafter be small, encompassing only the typically small debts whose recovery expense would substantially exceed the recovery.

Until the trend of this newly defined account becomes better known, we can start at $100, half the $200 budgeted for Account 51400 [50400] Bad Debt Recovery.

● **Miscellaneous Income**. Account 40430 Miscellaneous Income includes $5,280 for a 10-year amortization of a $52,800 Comcast payment received in 2021 in return for the Glen's renewal of its access agreement. In 2023, I mistakenly budgeted this at the $1,760 partial amortization taken in 2021 when the payment was received. The Board has resolved that this yearly amortization, minus taxes, will be added each year to replacement reserves (see the discussion of reserve contributions, below).

● **Landscape**. Account 58000 spending on the main landscape contract is projected to maintain its upward growth due to labor, gasoline, and environmental costs incurred by contractors in this area. Our attempts to get a better price/quality mix by continually switching contractors have not succeeded over the years.

Main Contract. The main contract fee for 2024 is not yet fixed. At its November 2022 meeting, the Board approved a contract with Pro Grounds, with the following annual fees if the DC area end-of-year CPI increase is 3% or less: 2023 = $101,808; 2024 = $104,862; and 2025 = $108,006. If the CPI increase exceeds 3%, there will be an additional percentage increase equal to the difference between the CPI increase and a 3% increase.

To prepare a budget, we need to make some reasonable assumptions. Assume that the CPI increase at the end of 2023 is unlikely likely to fall back to 3% or less. Assume conservatively that, at the end of 2023, the DC area CPI will have increased by 5.6%, the same increase as at the end of 2022. Thus, Pro Grounds will likely increase its 2024 contract rate, which reflects a 3% increase over 2023, by an additional 2.6% = (1.026)($104,862 = $107,588.

Discretionary Spending. Discretionary landscape spending (landscape accounts outside the Account 58000 Landscape Maintenance Contract) would be held at its 2023 level, except for an increase from $3,572 to $4,458 in Account 58070 Landscape Replacement to pay for rising damage from weather and contractors. We did not reduce discretionary landscape spending due to a need to fix the King Street border and an accumulated need to remove or trim oversized and unhealthy trees.

● **Management on-Site**. Our fulltime onsite manager is a Cardinal Management employee, unlike the two employees on the Glen's own payroll; but Cardinal allows the Glen to set the basic salary, and the Glen then reimburses Cardinal for that salary + Cardinal's related employment expenses. Related employment expenses include health insurance, life insurance, a retirement plan contribution, social security tax, Medicare tax, unemployment insurance tax, and administrative expenses. In 2022, we started Amy off at a base salary = $70,000, which was what she was earning in her prior job.

These related expenses cannot be feasibly reduced to an auditable formula whose parameters can be forecasted for a future year. They are under the control of, and are accounted for by, Cardinal Management. To keep these expenses under control, the Glen and Cardinal, in mid-2022, contractually agreed to set the onsite manager's related expenses at 30% of his/her base salary.

Base Salary. When Cardinal and the Glen were negotiating a new compensation formula in 2022, we informed Cardinal that, absent unusual circumstances, we would expect to be approving annual percentage salary increases for our onsite manager that are equal to those of our own employees. Thus, for 2024, Cardinal would be receiving a 5.2% increase (the increase proposed for our own employees) in our 2023 payment of $75,600 to finance her base salary, resulting in an increase to $79,531.20 = (1.052)($75,600).

Related Expenses. Applying the 30% ancillary expenses increase factor discussed above results in a total payment of $103,390.56 = (1.3)($79,531.20).

● **Maintenance Payroll.** To budget changes in the compensation for our two onsite employees, we consider changes in various indices that are available on the internet: BLS DC Area Average Private Industry Wage & Salary Changes; Social Security and C.S. Retiree COLA; FERS Retiree COLA; Federal Government COLA; CPI-W DC Area; and CPI-U DC Area.

All things considered, an increase of 5.2% would be appropriate for 2024. With this increase, the salary compensation received by our two onsite employees would continue to track the changes in the above indexes from 2011-2023. While their more recent (2017-2013) changes in their compensation have lagged the changes in the above indexes, this lag does not consider the Glen's continually rising payments for their generous medical plan. A 5.2% increase would compare favorably with the 4.86% COLA received by federal employees in 2023. It would be less than the 2023 COLAs received by (1) Social Security and Civil Service retirees (8.7%) and FERS retirees (7.7%), but these generous COLAS are enjoyed by few of today's victims of inflation.

We project this cost from audited amounts actually paid in the most recent prior year (excluding irregular bonuses), rather than base salaries, because overtime and regular bonuses must be considered in any good projection. For 2024, we must project from the amount paid in 2022. Thus, for 2024, our projection is: [$100,743.89 (Ledger Total) - $1,017.18 (Nelson Anniversary Bonus)] [1.050 (increase for 2023)] [1.052 (increase for 2024)] = $110,158. The actual amount actually spent in 2024 will depend on actual hours worked and bonuses, both of which can be unpredictable. If we had to exceed the budget to grant a special award that was not budgeted, such as an anniversary bonus, we could do so.

● **Management Fee (Cardinal Management)**. Our Account 51120 basic management fee is set under our contract with Cardinal Management Company. That fee has not been a major factor driving Glen dues increases. Under our contract with Cardinal, the fee is adjusted annually according to year-end changes in the Consumer Price Index for urban workers (CPI-W) for the metropolitan Washington, D.C., area. Increases are capped at $5% per year.

Assume that our agreement will be renewed in 2024 based on the same CPI-U formula. The annual CPI-U increase had been drifting downward in recent years, in large part due to declines in energy costs, dollar appreciation, and slow growth in disposable income; but it took a sudden uptick after 2020, to 5.8% in 2021 and 5.6% in 2022, due to Federal Reserve Board policy. In the Spring of 2023, inflation was showing no sign of abating. For 2024, the safest approach is to assume that the Jan. 2023 - Jan. 2024 CPI-U will have increased by at least another 5%, which is also the maximum allowable increase. Thus, 2024 = [1.05][$67,584 (2023 contracted)] = $70,963.

● **Management Schedule B**. In 2019, we created a separate account for Cardinal's Management Contract Schedule B fees, which were previously hidden-away in Account 51550 Misc. Administrative. Cardinal's Contract Schedule B fees are charged for per-occurrence items, such as copying and preparation of re-sale packages. The numbers of transactions fluctuate from year to year. The charges have not been fixed under recent contracts, so they are free to vary yearly. Some of them are based on actual per-transaction costs that are beyond Cardinal's control. Others are based on hourly rates charged by Cardinal. Cardinal has reserved the right to change them at will.

In 2024, as in the last 3 years, I projected Management Schedule B charges using a trend line because they are volatile as to the number of transactions. The 2024 projection based on the trend line equation is $9,876.

● **Insurance**. In late March 2023, based on individual policy cost projections by our insurance agent, I developed a weighted average projected cost increase of 5.6% when our policies come up for renewal in October 2023. This projection assumed that Rockingham would continue to be our main insurance provider. Based on (1) the agent's projected October 2023 – October 2024 increases for the categories of insurance that we carry and (2) an assumption that rates would increase in October 2024 at the same 5.6% rate as in October 2023, I developed a forecast for calendar year 2024 = $127,108.

A few months later, however, we learned that Rockingham will not be renewing our policy, not because of the Glen's claims history, which is excellent, but because of the generally unfavorable outlook for its business and the insurance industry as a whole. Our 2024 insurance cost may well increase by more than 5.6%. Rather than attempt a prediction when we have yet to find another carrier, I have proposed to retain the above forecast of $127,108 but add $14,000 to our contingency reserve as a buffer against hard-to-forecast but certain increases in this and other expenses.

● **Painting**. The forecast for 2024 reflects a reduced cycle involving only the 44 units in Courts 11-12. To forecast the contract cost per unit involved in the contract, I constructed a trend line beginning in 2016, when we began to hire better quality painters. The trend line equation projects a 2024 unit cost = $1,164. I have reduced this to the average of the trend line unit cost and the lower actual unit cost for 2023 = ($1,164 + $1,059)/2 = $1,112 because we can expect to be getting better bids due to our new policy of wood softwashing before painting and our gradual replacement of wood with PVC . In fact, this seems to have been happening beginning in 2021. Thus, our estimate = ($1,112/unit)(44 units) = $48,928. This estimate will not be affected by the relatively small cost of spot painting that occurs each year.

● **Carpentry**. Our Account 65284 Carpentry budget includes: (1) court-cycled work that is identified by the painters and then contracted out; and (2) spot work that arises out of unexpected damage reported by residents.

Court Cycled Work. In 2024, the work will involve a reduced cycle covering the 44 units in Courts 11-12 (the same units to be painted. For a unit cost estimate for 2024, begin with the average of the costs/unit of the work involved in the last 4 contracts (2019-2022) = $267 (contact Treasurer for data). Thus, the cycled carpentry cost would be ($267/unit)(44 units) = $11,748 without inflation.

For an estimate of contractor price inflation for the next 2 years, use the Turner Construction Cost Index. Due to the effect of COVID on business, this index was steady in 2020 but increased by 5.0% in 2021 and 8.3% in 2022. Assume that this index will continue to increase by 8% and then 5% during these two years. After adjusting for our estimated construction cost inflation of 8% and then 5% in these two years, we get $11,748(1.08)(1.05) = $13,322.

<u>Spot Work</u>. During 2024, there will most certainly be spot repair work. Begin with the uncycled cost/roof not involved in the cycle (contact Treasurer for data). There seems to be a slight downward trend after 2016, even when the $0 for outlier COVID year 2020 is removed. A conservative estimate would be $30/Roof not involved in the cycle. After adjusting for inflation in 2023 and 2024, the result for 2024 = [$30(352 units in Glen - 45 roofs in cycle)(1.08) (1.05)] = $10,444.

In sum, our total estimate for 2024 = $13,322 (Cycled) + $10,444 (Spot) = $23,766.

● **<u>Roof Repairs</u>**. Roof repairs normally include (1) proactive, 4-court cycled work that is identified by our engineering consultant; (2) spot work arising out of unexpected damage reported by residents; and (3) a program of roof soft washing that began in 2021. For 2024, we propose a budget of $61,234, in comparison to the $44,081 budgeted for 2023. Most of the increase would be due to our resumption of our proactive, cycled roof inspection and repair cycle that was postponed in 2022 and 2023.

(1) <u>Proactive Court-Cycled Work</u>. The cycle will include Courts 1-4. For budgetary reasons, the work in these courts was originally planned for 2022 but was postponed until 2024. For an estimate, begin with our data on the cycled cost/court-roof. The cycled cost/court-roof peaked in 2019 at $638 and declined 20% to $510 in 2021. The cost/court-roof before inflation is likely to trend even lower as the 4-court cycle continues and we catch-up on deferred work. A further 7% decline to $474/court-roof seems reasonable. Adjusting for inflation, I estimate that the annual roof work inflation between 2022 and 2024 will be 8% in 2023 and 5% in 2024. Thus, 2024 = {[$474/roof (2021)][87 roofs][1.08]1.05]} = $46,764.

(2) <u>Unplanned Spot Work</u>. For an estimate, begin with the cost/uncycled roof. The average cost/uncycled spot roof for 2017-2022 = $58. Assume the same inflation increase = 8% in 2023 and 5% in 2024 and 2024, the same assumed for the cycled roof work. Since the cycled work will be done in Courts 1-4, the unplanned spot work is likely to be confined to the remaining 220 roofs in the courts where there will be no proactive spot roof inspection. Thus, our estimate for 2023 unplanned spot work is [$58 /roof] [220 (all uninspected units roofs in Glen)][1.08][1.05] (inflation during 2023 and 2024)] = $14,470.

(3) <u>Soft Washing</u>. We should do no soft washing in 2024. The soft washing should match the painting as much as possible so we can attract lower painting bids. We will be painting courts 9-10 in 2023 and Courts 11-12 in 2024. In 2023, however, we will, due to a low bid, be soft washing Courts 9-12. The best way for us to get back on the cycle is to do no soft washing in 2024 and to resume it in 2025 with Courts 13-16, the courts to be painted in 2025.

In sum, our total estimate for 2024 = $46,764 (Proactive Cycled Spot Work) + $14,470 (Unplanned Spot Work) + $0 (Soft Washing) = $61,234.

● **Damage Claims**. Account 61370 is a volatile account. It records four types of claims expense (debits): (1) expenses for property damage that is expected to be covered by the Glen's insurance; (2) payments to satisfy co-owner damage claims against the Glen; (3) bills that are paid by the Glen in emergency situations (usually involving plumbing) but that must be reimbursed by the owner because the damage is an owner responsibility; and (4) claims against third parties for expenses that we paid but can be recovered by litigation, such as legal fees. The balance can turn negative when large, offsetting reimbursements are credited to this account in subsequent years.

For 2024, Account 61370 Damage Claims would be budgeted at $8,295, in comparison to the $11,512 budgeted in 2023 and the $9,359 budgeted for 2022. The history does not reveal a trend, so I did not compute a trend line. Lacking any evidence of a trend, I adopted the average of 2018-2022, but with any unreimbursed Whiteford & Taylor legal bills for the environmental litigation during those years those years removed as an outlier. Contact me if you want the detailed computations.

● **Health Insurance**. The health insurance cost paid by the Glen for its own two employees is posted to Account 71070 Group Insurance. Health insurance for our onsite manager, a Cardinal Management employee, is provided by Cardinal under a company-wide insurance plan, and the Glen reimburses Cardinal for its cost.

After our employees became unable to piggyback on Cardinal Management's plan in 2014, we have been providing them with high benefits, small group family coverage from CareFirst Blue Cross. Examining the annual premium tables provided by Blue Cross, we can see that the cost of this coverage changes with the age of the insured, the number of dependent children under age 26, and the same hard-to-predict regulatory and market considerations that influence medical insurance cost in general. In 2021, the Glen began to benefit substantially from the fact that the premium declines when an employee's dependent adult turns age 26.

The expense for our two employees is best projected by a trend line. A trend line will capture the effect of age-dependent changes in the premiums, general inflation in the economy, and inflation in regulatory and medical costs that affect all providers. The line that I developed closely fits the data. Solving the trend line equation, we estimate their 2024 expense to be $29,145 for both employees by themselves, with dependents no longer included since they both aged-out in 2021. Contact me if you want detailed computations.

● **Electricity**. Budgeting this area is not easy. Begin by enquiring whether there is likely to be significant changes in usage or rates. In the absence of significant change in outlets or usage (wattage)/outlet, the major factor in our bills should continue to be rate changes.

Usage. I do not foresee additions to outlets, but usage is likely to decline from its 2022 levels because, by the end of 2023, the Glen will have replaced its fluorescent carriage lamp bulbs with LED bulbs, which, according to the U.S. Dept. of Energy, use 20% less power. Based on rough calculations, I estimate that this would decrease Glen-wide energy usage by about 8.55%.

Rate Changes. With new legislation after the 2018 election, rate increases to attain carbon-free energy goals are inevitable, but we cannot be sure when and how much. The utility and the regulator have not announced definite rate schedules for 2024. Rates are also subject to separate fuel cost adjustments that cannot be predicted. In May 2020, however, the utility predicted that, over the 10 years beginning in 2019, rates would increase by an average of about 3% annually to comply with renewable energy mandates.

Weighing the Factors. As discussed above, assume that usage will decline by about 8.55% from its 2022 level due to the installation of new carriage lamps. A conservative approach would be to budget 2024 at the amount billed in 2022 level increased by the expected 3%/year increase predicted by the utility in May 2020 for future years but decreased by the expected 8.55% decline in usage: $10,749 (1.03)(1.03)(.9145) = $10,428.61.

Reserve Contributions

● **Contingency Reserve**. Our contingency reserve is a part of what our accountant calls our "excess operating funds" (EOF) (contingency + unappropriated members equity). EOF protects our operating budget against unforeseen expenditures, such as snow removal, downed trees, flooding, and a volatile insurance market. We try to equalize our contingency reserve with the funds in our contingency bank account and to equalize our unappropriated members equity with the funds in our checking operating account.

The auditor recommends that we maintain EOF of from 10-20% of our annual assessments. Our goal should be 20%, which would increase our operating expense buffer against uninsurable disasters, dues revenue drops due to adverse governmental employment developments, and hidden property defects.

For our budgeted 2024 assessment income = $1,911,360, this larger buffer would require an EOF of $382,272 = .20($1,911,360). At the end of 2022, we were $81,305 short of this goal, with an EOF = $300,967.24 = $231,009.05 (contingency) + $111,838.30 (unappropriated members equity) - 41,880.11 (loss). Seethe table below, based on the unrounded account balances:

	2022	2021	2020
Account 25620 Reserve/Contingency	231,009.05	218,273.44	102,053.00
Account 20410 Unappropriated Members Equity	111,838.30	111,838.30	111,838.30
Profit (Loss)	(41,880.11)	12,735.61	107,820.44
EOF	300,967.24	342,847.35	321,711.74

We cannot accurately project how much we will have to add to contingency during 2024 to bring EOF at the end of 2024 up to its recommended level of 20% of our annual assessment for 2023 -- because EOF at the end of 2024 will be affected by what happens during 2023 and 2024. We do not know whether 2023 and 2024 will end in surpluses or a deficits. In 2022 and 2023, we budgeted Account 90061 Contingency at $0, so there will be no addition to 2024 EOF from our own contributions during 2022 and 2023.

Our 2022 deficit of (41,880.11) (see end of table below) turned out to be larger than expected. Due to our current insurer's exit from the market, we could end up exceeding what I budgeted for insurance, so we could be faced with another deficit in 2023. I recommend that we augment our EOF by resuming our contributions to our contingency fund -- by budgeting Account 90061 Contingency Reserve at $14,000. This should be enough for 2024; but, to allow for recent deficits, we should be adding at least this sum to contingency in 2025 and 2026.

●**Replacement Reserve**. Our contributions to our reserves should be guided by our reserve study. Our reserve study shows that we are not fully funded (reserves = accrued depreciation), although we have been making steady progress getting there. Full funding of reserves is a desirable goal for the Glen. Full funding ensures that earlier owners do not consume, or benefit from use of, the Glen's assets and leave the replacement cost to be borne by later owners. It avoids the sudden, large dues increases, borrowing, or special assessments that would otherwise be necessary to avoid asset degradation as the Glen continues to age. Full funding can be a selling point for home buyers. It can also act as an insurance policy in the event of natural or man-made disaster. Larger, fully funded reserves also (1) increase our ability to invest funds that may not be needed in the short term in less liquid investments offering greater returns (2) allow the Glen to contract for the batch replacement of assets at a lower unit cost. While estimation of useful lives and replacement values of assets like sewer pipes and slate roofs has always had some art mixed in with the science, it is better to err on the upside than the downside; for if we later find that we have overestimated replacement needs, the funds will still be available for return to owners or the financing of upgrades.

While our 2018 Reserve Study is likely the best in the area, there is likely understatement in some key areas:

(1) It presumes that our original Vermont slate roofs will last a full 100 years, rather than the 75 years estimated by the Arbor and the 60-80 years estimated by the Mews.

(2) It could overestimate the remaining useful lives of sewer pipes under buildings, the replacement of which will involve digging up, replacing, and leveling basement slabs and repairing their covering to the extent required by our governing documents.

(3) It excluded certain items that will be included in the next reserve study, in particular (a) the buried power lines in Courts 1-4, (b) the engineering costs of expensive replacement projects, and (c) to deal with flooding after 2018, drains that were added after the 2018 reserve study.

(4) Future asset price inflation could be greater than presumed in the study.

For these reasons, our total additions to reserves (contributions + earned interest) should never go below the full funding amounts recommended in our most recent study and should, wherever possible, attempt to exceed them. *Note: contribution of less than the amounts recommended by our reserve study will be reported in our audit.*

Our 2018 reserve study projects (a) the yearly contributions to reserves that will be needed to recover projected yearly depreciation alone (the "Breakeven Contributions") and (b) the additional yearly contributions ("Makeup Contribution") that will be needed to recover the underfunding of past years and bring the Glen up to fully funded reserves. The study projects that we can attain virtual (93%)

full funding by 24 years after the 2018 starting date of the study. If we contribute more than these latter contributions, as we sometimes do, we will attain full funding earlier.

The budget shows an additional $4,171 addition to reserves. The source of this addition to reserves is Account 40430 Miscellaneous Income, which annually records $5,280 for a 10-year amortization of a $52,800 Comcast payment received in 2021 in return for the Glen's renewal of its access agreement. (In 2023, I mistakenly budgeted this at the $1,760 partial amortization taken in 2021 when the payment was received.) The Board has resolved that this yearly amortization, minus taxes estimated at 21%, will be added each year to replacement reserves (see the discussion of reserve contributions, below). In 2022, the entire $5,280 was added to reserves because it had not yet been budgeted to reflect taxes.

For 2024, the virtual (93% at end) full-funding contribution recommended by our 2018 reserve study is $705,763 = $665,957 (Breakeven Contribution) + $39,806 (Makeup Contribution). Assume, conservatively, that, in 2024, our non-dues income will be $83,099 = $77,819 (Interest) + $5,280 (Misc. Income). After taxes, our non-dues income would be $65,648 = $61,477 [.79($77,819)] + $4,171 [.79($5,280)]. If we contribute this non-dues income to reserves, we will need to add only an additional $640,115 = $705,763 - $65,648 to contribute the $705,763 projected to be needed by our 2018 reserve study. However, in light of the likely underestimates discussed above, we are recommending contributing a larger $660,000 from dues income, for a total replacement reserve contribution of $725,648 = $660,000 + $61,477 + $4,171.

PROPOSED 2024 BUDGET

ACCOUNT	ACCOUNT	2022 After Audit	2023 Budget	2024 Budget
NUMBER [Different Number Before 2023]	**NAME**			
	INCOME			
40100 [30100]]	Assessment Income	1,779,864.00	1,860,321	1,911,360
40270 [30270]	Interest	45,692.14	43,252	77,819
40398	Recovery Income			3,258
40290 [[30290]	Bad Debt Recovery	0.00	1,833	100
40172 [30171]	Late Fees	1,450.00	1,200	1,322
40190 [30190]	Pool Income	185.00	368	326
40430 [30260]	Misc. Income	5,280.00	1,760	5,280
40010	Additional Charges			17
	Total Income	**1,832,471.14**	**1,908,734**	**1,999,482**
	ADMINISTRATIVE and MISCELLANEOUS			
51020	Postage	201.21	100	100
51030	Office Expense	4,662.50	3,284	3,750
51031	Copying/Printing	1,064.32	1,160	1,410
51050	Training & Education	315.00	300	300
51250	Entertainment & Social	0.00	300	300
51500	Misc. Expense	678.45	1,996	1,413
51550	Misc. Administrative	5,155.81	5,038	5,112
51110	Auditing, Taxes, and Accounting	7,814.00	8,500	9300
51090	Legal Fees	9,408.18	17,500	17,500
51092	Legal Fee Reimbursement	(1,112.00)	(2,800)	(2,550)
51120	Management Fee	69,708.00	67,584	70,963
51125	Management Schedule B	10,973.56	7,838	9,876
51160 [51000]	Telephone & Related	3,615.58	4,391	4,022
	Total	**112,484.61**	**115,191**	**121,496**

ACCOUNT	ACCOUNT	2022 After Audit	2023 Budget	2024 Budget
NUMBER [Different Number Before 2023]	**NAME**			
51750 [71050]	**INSURANCE**	**113,896.67**	**118,587**	**127,108**
	PERSONNEL			
51137	Management On-Site	91,016.85	98,280	103,391
52420 [61420]	Maintenance Payroll	102,663.89	100,490	112,279
52301 [61301]	Fed. FICA Tax	6,209.10	6,230	6,961
52308 [61308]	Fed. Medicare Tax	1,448.77	1,457	1,628
52302 [61302]	VA Unemployment Tax	52.80	41	53
52303 [61303]	Fed. Unemployment Tax	83.99	105	105
51770 [71070]	Group Insurance [Health]	23,387.88	24,278	29,145
52044 [61300]	Payroll Administration	8,300.43	9,050	10,133
65360 [61360]	Uniforms	553.05	620	200
52431 [61431]	Temporary Help	0.00	5,200	5,200
	Total Personnel	**233,716.76**	**245,751**	**269,095**
	UTILITIES			
62000 [71030]	Electricity	10,749.40	11,699	10,429
62120 [71010]	Water/Sewer	193,522.94	204,738	206,925
	Total Utilities	**204,272.34**	**216,437**	**217,354**
	POOL COMPLEX			
6000 [61150]	Pool Contract	47,850.00	50,700	53,742
60115 [61145]	Pool Repair and Maintenance	9,237.82	9,232	9,676
60176 [61156]	Pool Furniture	2,775.56	2,000	3,000
51268 [51258]	Pool Committee	227.86	2,500	2,600
	Total Pool Complex	**60,091.24**	**64,432**	**69,018**
	LANDSCAPING			

ACCOUNT	ACCOUNT	2022 After Audit	2023 Budget	2024 Budget
NUMBER [Different Number Before 2023]	**NAME**			
58000 [61180]	Landscaping Maintenance Contract	93,108.00	93,828	107,588
58172 [61188]	Tree Service [after 2018 -- work related to maintenance and reserve projects]	0.00	3,000	3,000
61572	Special Projects/Improvements		4,000	4,000
58050 [61557]	Landscaping Non-Contract	15,674.68	22,000	22,000
58079 [61570]	Landscape Replacement [Damage from Contractor Negligence or Weather]	5,061.20	3,752	4,458
	Total Landscaping	**113,843.88**	**126,580**	**141,046**
	REPAIRS & MAINTENANCE			
65310 [61310]	Exterior Painting	77,275.00	102,011	48,928
65284 [61284]	Carpentry	25,585.43	29,147	23,766
65200 [61200]	Property Repairs	25,909.40	16,563	17,206
65090 [61090]	Maintenance Supplies		5,868	6,231
65469 [61460]	Roof Repairs	73,231.00	44,081	61,982
65010 [61010]	Vehicle Expenses	545.57	689	668
65247 [61247]	Playground Equipment	5,400.00	1,850	1,850
51106	Professional Fees	21,788.00	14,016	30,233
	Total Repairs & Maintenance	**229,734.40**	**214,225**	**190,864**
65370 [61370]	**DAMAGE CLAIMS**	**(4,573.81)**	**11,512**	**8,295**
	SERVICES PROVIDED MAINLY BY CONTRACT			
65240 [61240]	Exterminator	3,904.00	3,616	3,761
58582 [61581]	Snow Removal	23,059.27	10,955	13,224
65250 [61250]	Trash Removal	71,677.10	74,371	79,098
	Total Contracts	**98,640.37**	**88,942**	**96,083**

ACCOUNT	ACCOUNT	2022 After Audit	2023 Budget	2024 Budget
NUMBER [Different Number Before 2023]	**NAME**			
51400 [50400]	**BAD DEBTS EXPENSE**	**0.00**	**2,065**	**200**
51401 [50401]	**UNPAID ASSESSMENTS**			**1,711**
	INCOME TAX ACCOUNTS			
51140 [71140]	Income Taxes	**10,320.00**	**9,083**	**17,451**
95000	Provision for Income Taxes			
	TOTAL EXPENSES	**1,172,426.46**	**1,212,805**	**1,259,721**
	RESERVE CONTRIBUTIONS			
90000	Replacement Reserve [Contributions from Dues Income]	660,548.00	660,000	662,000
90005	Replacement Reserve Interest	36,096.79	34,169	61,477
90062	Cable Marketing Reserves [Funds amortization payments that are to be posted yearly to replacement reserves]	5,280.00	1,760	4,171
	Contingency Reserve Accounts Used			
90032	--Transfer to Reserves Phase II			
90061	--Contingency Reserve	0.00	0	14,000
	Total Reserve Contributions	**701,924.79**	**695,929**	**741,648**
	GRAND TOTAL EXPENSES	**1,874,351.25**	**1,908,734**	**2,001,369**
	BALANCE OF INCOME AND USES OF INCOME (- DEFICIT)	**(41,880.11)**	**0**	**0**

PROPOSED FEE SCHEDULE

The fee schedule in the table below is derived by taking the revenue to be raised from assessment income alone in 2024 ($1,911,360), multiplying it by the ownership percentage of each model, dividing by 12, and rounding to the nearest dollar. Due to rounding, the percentage changes in assessments experienced by differing unit types may differ year-to-year from the overall average percentage change (2.8% in 2024), but the differences are random and will not accumulate:

Unit Type	% Ownership	2023	2024
Arlington	.00379	$588	$604
Barcroft (I)	.00243	$377	$387
Barcroft (E)	.00250	$388	$399
Braddock (I)	.00195	$302	$311
Braddock (E)	.00202	$313	$322
Clarendon (I)	.00297	$460	$474
Clarendon (E)	.00304	$471	$485
Dominion	.00351	$544	$560
Edgewood (I)	.00263	$408	$419
Edgewood (E)	.00270	$419	$430