The Glen Echo

Newsletter of Fairlington Glen

Special Edition - August 13, 2024

August 2024 Special Budget Edition

The Fairlington Glen Board of Directors held a monthly meeting on Tuesday, July 9, 2024, at which time the Board moved to approve the proposed 2025 draft budget with an 8% dues increase for submission to the members at the 2024 Annual Meeting.

The Glen Treasurer presented his summary of the 2023 audit in the August edition of the Glen's newsletter. Therefore, that necessitates this special budget edition in which the Treasurer presents the draft budget line items to the community (after Board approval).

Following this page, please find Glen Treasurer Maynard Dixon's presentation of the 2025 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 2025 Board, one currently held by Glen Vice President Jeremy Wiedemann and one currently held by Glen At-Large Member T.J. Doyle. Both have announced their intentions to run again for additional three-year terms.

Upcoming Important Glen Dates

- Board candidate profiles and proposed 2025 budget amendments are due to the Board Secretary by September 3, 2024.
- The Glen's Community Forum will be September 5, 2024, at 7:30pm online via Zoom.
- The Glen's Annual Meeting will be November 7, 2024 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 2025

—Maynard H. Dixon, Jr., Treasurer—

At its meeting on July 9, 2024, the Board approved the draft 2025 budget and fee schedule in the table below for submission to Glen co-owners this autumn before the annual meeting on Thursday, November 7, 2024. The recommended budget would be based on a monthly fee increase of 8%. See the Proposed Fee Schedule at the bottom and the explanation of how was derived.

The Proposed 2025 Budget spreadsheet below presents the 2025 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 subsequently created. A blank cell indicates that the account was not used in the year. The table has a column for the audit of 2023, the latest one available.

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

A Budget for Big Problems

As explained in detail below and in our December 2023 newsletter, there has been a huge increase in the cost of the Glen's master insurance policy. Most of our other accounts will also come under the pressure of increasing unit costs. 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 contracted service costs of trash collection, landscaping (main contract), and pool operations are rising. Our water bills have begun to rise again, due mainly to County fee increases. The cost of electricity produced from renewables is certain to rise.

To cover the increased costs of the most essential expenditures and to keep the dues increase from exceeding 8%, we are proposing the following steps:

(1) Limiting our contribution to our contingency reserve to $10,000, rather than the $88,812 that we transferred out of contingency to pay for the increased cost of our insurance. Fortunately, we incurred a 2023 budget surplus of $53,196.02, which we can use to replenish our contingency fund outside of our 2025 budget.

(2) Postponing until 2026 the preemptive, batch contracted roof inspection and repair work that would have been continued in Courts 5-8 in 2025. We may resume this cycle in 2026.

(3) Departing from recent years, our contributions to replacement reserves would be held at the minimum required by our reserve study.

Without steps (1) and (2), above, the dues increase would have been 14% -- and more than 14% if we were to increase our reserve contributions beyond the minimum as we have been doing in recent years.

This year's unusually large, proposed 8% dues increase would still leave the Glen with a favorable comparison to trends in other increases affecting Glen residents over the last few years, as shown by the following table:

Dates	Dues Increase	Change in DC Area Consumer Price Index (BLS CPI-U)	Change in Federal Reserve Economic Data (FRED) PPI Nonresidential Building Maintenance and Repair	Federal Employee COLA DC Area	Social Security & CS Retiree COLA	BLS DC Area Average Wage & Salary Change	County Property Tax Increase on Arlington Unit
2021	3.3%	6.0%	11.8%	1.0%	1.3%	4.7%	3.36%
2022	1.4%	4.4%	6.3%	3.20%	5.9%	4.1%	3.36%
2023	4.5%	3.6%	2.7%	4.86%	8.7%	5.5%	1.69%
2024	2.8%			5.31%	3.2%		5.19%
2025	8.0%						

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. Taxes can be estimated based on projections of income and knowledge of tax rates.

The most difficult to project expenses are those that involve randomness and market trends, 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, historical averages, or economics-based reasoning about how these expenses will be trending. For example, I have used this approach for maintenance and health care costs.

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 $83,687 is what Morgan Stanley projects will be earned on our reserves for one year from April 30, 2025 under the reserve level and the investment mix in effect on that date. This projection is conservative because it presumes that, in 2024: (1) investable funds will not increase from their April 30, 2024 level to the end of 2025; and (2) the Federal Reserve Board will not be further increasing interest rates to ward-off inflation.

As in prior years, the 2025 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**. Account 40398 Recovery Income was created for the 2024 budget 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 Account 40290 Bad Debt Recovery in light of our decision in 2022 to cease classifying unpaid dues that are merely sent to counsel for collection as Account 51400 Bad Debt Expense before they have been formally written off as bad debt by Board resolution.

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.

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 $19,949.00. None of these accounts are a safe bet for recovery in budget year 2025 alone, our budget year: (1) One account is on a payment plan that stands a good chance of being worked-off in 2024. (2) Another account may yield recovery income via foreclosure, but we do not know whether this will be in 2024 or 2025. (3) The third account may have to be written-off as a bad debt because it involves a difficult judicial collection effort against a prior resident, the cost of which might exceed the recoverable amount.

While we lack a sure estimate of what is likely to be recovered in 2025, we should not routinely budget it at $0 because there will be recovery posted to this account long term. In 2024, we budgeted this account at $3,258, the 2014-2022 average of Account 40290 Bad Debt Recovery. Lacking a better history for this account, a conservative estimate for 2025 would be to keep it at the 2024 level of $3,258.

● **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 contributed 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 2025 is not yet fixed. At its November 2022 meeting, the Board ratified an e-mail vote approving 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. But 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.

We project the CPI increase during 2024 to be 4%. Thus, Pro Grounds will likely increase its 2025 contract rate, which already reflects a 3% increase over 2024, by an additional 1% = (1.01)($108,006) = $109,086.06.

Discretionary Spending. Discretionary landscape spending in the main discretionary spending Account 58050 Landscape Grounds Non-Contract (spending outside our main landscape contract) will increase by $3,000 to $25,000. This will allow badly overdue big tree maintenance, swale filling, ground re-sloping, and possibly special perimeter work that needs to be accelerated beyond what is budgeted for Account 61572 Special Projects/Improvements.

● **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.

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 we would expect to be approving annual percentage salary increases for our onsite manager that are at least equal to those of our own employees. Applying this formula to 2025, Thus, for 2025, Cardinal would be receiving a 4.8% increase (the increase proposed for our own employees) in our 2024 payment of $79,531 to finance her base salary, resulting in an increase to $83,349 = (1.048)($79,531).

Related Expenses. Applying the 30% ancillary expenses increase factor discussed above results in a total payment of $108,354 = (1.3)($83,349).

● **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 4.8% would be appropriate for 2025. 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 or 2024. This increase would preserve their compensation in comparison with (1) the compensation received by area employees and retirees and (2) the cost of living changes in the DC area.

The base for projection of this expense after a percentage wage increase is the 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. An example of an irregular bonus is the 20-year bonus of $1,000 received by each employee.

For 2025, we should begin with the amount paid in 2023. The audited ledger shows 106,426.81, but this includes $2,277.00 income earned in 2024 that should not be used for projection of calendar year 2025. Thus, for 2024, our projection is: [($106,426.81 - $2,277.00) (2023 Adjusted Ledger Total)] [1.052 (increase for 2024)] [1.048 (increase for 2025)] = $114,825. The actual amount actually spent in 2025 will depend on actual hours worked and bonuses, both of which can be unpredictable. If we had to exceed budget to grant a special award that was not budgeted, such as an anniversary bonus, we can 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-U) for the metropolitan Washington, D.C., area. Increases are capped at $5% per year. At the beginning of 2023, the Glen continued this formula, but with a fee of $67,584 based on the hiring of a full-time employee who will do even more work than was previously done by Cardinal. In January 2024, the Glen continued this formula, but with a reduced fee of $65,976.35 to account for reduced attendance by the portfolio manager (supervisor of our onsite manager) at our Board meetings.

Assume that our agreement will be renewed in 2025 based on the same CPI-U formula. For 2025, the safest approach is to assume that the Jan. 2024 – Jan. 2025 CPI-U will have increased by the average of the 4.4% increase at the end of 2022 and the 3.6% increase at the end of 2023 = 4%. Thus, 2025 = [1.04][$65,976 (2024 contracted)] = $68,615.

● **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**. Our insurance rates depend on: (1) our risk of loss, which, in turn depends on (a) the age of our assets (roofs, pipes, etc.) and (b) location-dependent variables, such as flood zone, earthquake zone, crime zone, etc.; (2) trends in the cost of replacing insured assets that are damaged; and (3) the extent to which insurance regulators can force insurers to cross-subsidize the rates of higher risk customers by charging lower risk customers more (as is done with most medical insurance). As for (3), above, Virginia insurers seems to be free to drop higher risk customers and replace them with lower risk customers, but the process can take time for insurers to do this.

In September 2023, the Glen was hit with a massive increase in the cost of its General Liability policy -- from $103,629 to $200,403. This increased the total cost of our whole package of policies from $118,964 to $215,929. Due to this late, unexpected, and unbudgeted increase in insurance costs, we underbudgeted insurance cost for 2024 by $88,812. As explained in our December 2023 newsletter, we opted to finance the $88,812 extra cost during 2024 from our contingency fund and to use our 2025 budget to replenish that fund.

The increase was not due to the Glen's loss history, which has been quite favorable. I see our huge September 2023 increase was likely due mainly to replacement cost increases resulting from increases in the costs of labor and materials. These increases were, were, in turn, caused by COVID-era (2020-2021 productivity declines, supply constraints, and regulatory costs, the price effects of which were delayed by insurance regulation until mid-2023.

Exponential growth in a category like this cannot continue indefinitely before regulation and/or market resistance applies a break. For 2025, I assumed that the recent, pre-2024 increases will not continue into 2025 but that: (1) the COVID-related rate drivers peaked in mid-2023 and will gradually decline toward pre-COVID normal levels through 2024 and 2025; and **(2)** pre-COVID inflation trends will gradually begin to reassert themselves during these years.

Using historical FRED [Federal Reserve Economic Data] Producer Price Index of Premiums Paid For Homeowners Insurance as a proxy predictor, I projected the percentage change in in our rates from September 2024 – September 2025 to be 4.2% and the change from September 2025 – December 2025 to be an annualized 1.4%. Converting these percentages to an annualized basis for 2025 and applying them to the $200,403 cost of our General Liability Policy, the cost of that policy projects at $209,550. The costs of the remaining policies in our package were projected based on their prior rates of increase and summed as $16,042, resulting in a total package cost = $209,550 + $16,042 = $225,593.

● **Painting**. After our reduced 2-court cycle of 2024 involving Courts 11-12, the cycle for 2025 is a resumed full one involving the 85 units in Courts 13-16. The projected cost/court unit is based on a trend line beginning in 2016, when we began to hire better quality painters. The trend line equation projects a 2025 unit cost = $1,134. I have reduced this to the average of the trend line unit cost and the lower actual unit cost for 2024 = ($1,134 + $1,058)/2 = $1,096 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 . Thus, our estimate = ($1,096/unit)(85 units) = $93,160. This estimate will not be affected by the small or nonexistent 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. The budget will be considerably higher than it was in 2024 because of relentless inflation and the fact that work will involve double the number of units involved in 2024.

(1) Cycled Repair Work. After our reduced 2-court cycle of 2024 involving Courts 11-12, the cycle for 2025 is a full one involving the 85 units in Courts 13-16 (the same units to be painted). For a unit cost estimate for 2025, begin with the $420 cost/court unit in the most recent year 2023. This seems too high, for two reasons: (1) there were only half as many courts done, which would have burdened the bid with fewer units to absorb fixed staging costs; and (2) as we go round the cycle, the cost/court roof can be expected to decline as catch-up work is completed and wood is replaced with PVC. A conservative, upper-bound estimate for 2023 is the $315/unit cost for 2022. Thus, the cycled carpentry cost (unadjusted for inflation) would be ($315/court unit)(85 units) = $26,775. For an estimate of contractor price inflation for the next 2 years (2024-2025), use the Turner Construction Cost Index. Assume that this index will increase by 5.5% during each of these two years, based on recent averages. After adjusting for estimated construction cost inflation, we get $26,775(1.055)(1.055) = $29,801, or $351/court unit.

(2) Spot Repair Work. During 2025, there will most certainly be uncycled spot repair work. Begin with the uncycled cost/unit not involved in the cycle (contact Treasurer for data). Recent years show a downward trend after 2016, even when the $0 for outlier COVID year 2020 is removed. A conservative estimate would be the average of the last three years = ($13 + $33 + $12)/3 = $19/unit not involved in the cycle. Thus, after adjusting for inflation in 2024 and 2025, the result for 2025 = [$19(352 units in Glen - 85 roofs in cycle)(1.055) (1.055)] = $5,646.

2025 Total. Thus, our total for 2025 = $29,801 (Cycled) + $5,646 (Spot) = $35,477.

● **Roof Repairs**. Our budget for roof repairs normally includes (1) a pre-emptive program of cycled batch repair work, (2) a budget for unplanned spot work, and (3) a budget for soft washing the roofs and wood in the courts to be painted.

(1) Cycled Repair Work. To lessen the dues increase, we did not include cycled repair work for 2025. The painting and carpentry work is needed more. We may be doing cycled repair work less frequently in the future because: (a) our replacement and catch-up repair work is over, and our roofs are now in good shape; (b) the program has become progressively more costly; and (c) we have ample funds to cover needed work out-of-cycle.

If we had included cycled repair work based on the incidence of such work discovered in the past, the extra cost would have been about $29,000 plus about another $8,800 for professional administration.

(2) Unplanned Spot Work. Begin with the average cost/uncycled roof for 2023 = $71. Assume inflation

increases for 2024 and 2025 = 5.5%/year, the same assumed for the cycled roof work for those years. Since no cycled work will be done in the Glen, unplanned spot work could take place on any of the 307 roofs (not units) in the Glen. Thus, our estimate for 2025 unplanned spot work is [$71 /roof] [307 (all roofs in Glen)][1.055][1.055] (inflation during 2024 and 2025)] = $21,179

(3) Soft Washing. The roof soft washing should match the painting as much as possible so we can attract lower painting bids; so we will resume soft washing in 2025 of the roofs in Courts 13-16, the courts to be painted. The latest available bid for projection is the low bid of $125/cycled roof that we received in 2023 for soft washing courts 9-12. The cost/roof is more likely to be closer to the average of the costs/cycled roof for 2021-2023 = $191. Adjusting for contractor inflation after 2023 as described above, our estimate for 2025 = [$191/roof][71 roofs (courts 13-16)][1.055][1.055] = $15,094.

2025 Total. Thus, our total for 2025 = $0 (Cycled Spot Work) + $21,179 (Unplanned Spot Work)+ $15,094(Soft Washing) = $36,891.

● **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 2025, Account 61370 Damage Claims would be budgeted at $7,783, in comparison to the $8,295 budgeted in 2024, 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 2018-2023 after removal of (a) outliers (large sums that are most unlikely to be repeated) and (b) mistakes that I corrected after audits.

● **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.

This 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 2025 expense to be $28,619 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.** 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 Changes. Usage is not likely to change significantly in 2024 and 2025. I see no additions to outlets in those years. A comparison of billed kWh usage in February 2024 with that in February 2023 shows that our replacement of fluorescent carriage lamp bulbs with LED bulbs reduced usage by only about 3%, rather than the 20% that I estimated for the 2024 budget based on internet articles. I see no new load technology (more efficient bulbs, machines, etc.) in 2024 and 2025.

Rate Changes. In November 2023, Dominion Energy announced that a big list of interested parties had agreed that, in 2024-2025, there would be no further change in the "base rates," the primary bill component that is based on power kWh usage. This freeze would be after an approved increase of 4.2% in January 2024. The State Corporation Commission is likely to approve this settlement.

Weighing the Factors. Based on our assumptions of (1) no changes in power consumption in 2024-2025 nd (2) a 4.2% increase in base rates in January 2024 and no further increase in the base rate through the end of 2025, our estimate for 2025 is [$11,753 (2023 charge)] [1.042] = $12,247. There may be some small rebates, but they are not worth the trouble to estimate.

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.

Our budgeted 2024 assessment income of $1,911,360 would require an EOF of $382,649 = .20($1,913,247). At the end of 2023, we were $28,416.84 short of this 2024-based goal, with an EOF = $354,232.56 = $189,128.94 (contingency) + $111,838.30 (unappropriated members equity) =M53,196.02 (profit). See the table below, based on the unrounded account balances:

	2023	2022	2021	2020

Account 24620 Reserve/Contingency	189,128.94	231,009.05	218,273.44	102,053.00
Account 30410 [20410 Before 2023]Unappropriated Members Equity	111,838.30	111,838.30	111,838.30	111,838.30
Profit (Loss)	53,196.02	(41,880.11)	12,735.61	107,820.44
EOF	354,232.56	300,967.24	342,847.35	321,711.74

Because EOF at the end of 2025 will be affected by what happens during both 2024 and 2025, we can only guess at how much to add to contingency in our 2025 budget to bring EOF at the end of 2025 up to its recommended level of 20% of our annual assessment. We must proceed as best we can based on what we know now.

We know that the year 2024 is likely to end in a large deficit due to use of our contingency fund to finance our underbudgeted insurance cost of $88,812. If 2025 were a normal budget year, I would recommend augmenting contingency by contributing $88,812, the entire sum that was transferred from contingency to fund the increased cost of insurance for the insurance year October 2023 - October 2024. If we were to do this, however, our dues increase would be 12.6% rather than the 8% that we are recommending. To avoid this sudden shock but still contribute a substantial replenishment of our contingency fund, we are recommending: (1) contributing only $10,000 to contingency in our 2025 budget; (2) but contributing off-budget in 2024 our entire 2023 budget surplus of $53,196. We will be contributing another $14,000 to contingency in our 2024 budget. If our expenses do not suffer additional expected increases, these contributions should bring us closer to the desired EOF of 20%.

●**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:

(1) 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 via huge dues increases, borrowing, or special assessments as the Glen continues to age.

(2) Banks and governmental agencies are becoming increasingly wary of the risks of lending to older condominiums with inadequate reserves.

(3) Larger, fully funded reserves also (a) increase our ability to invest funds that may not be needed in the short term in less liquid investments offering greater returns and (b) allow the Glen to contract for the batch replacement of assets at a lower unit cost.

(4) Full funding can also cushion us short term if we ever have to recover from natural or man-made disaster.

In any budget, our total additions to reserves (contributions + earned interest) should never be less than the full funding amounts recommended in our most recent study and should, wherever possible, attempt to exceed the recommended sums. Here is why:

(1) Reserve contributions that are less than the amounts recommended by the reserve study are noticed by lenders and will be reported in our audit.

(2) Our 2018 reserve study was incomplete as to the cost of replacing buried common area water pipes, buried electrical lines in Courts 1-4, the cost of replacing under-slab sewer lines, and drains that we installed after that study. These missing costs will be corrected in our 2024 study when it becomes available; but, for now, our most recent study in the 2018 study.

(3) Even the best reserve study can err because the 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.

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 29 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 2025, the virtual (93% at end) full-funding contribution recommended by our 2018 reserve study is $725,524 = $690,520 (Breakeven Contribution) + $35,004 (Makeup Contribution). Assume, as explained above, that, in 2025, our non-dues income will be $88,967 = $83,687 (Interest) + $5,280 (Misc. Income). After taxes, our non-dues income would be $70,284 = $66,113 [.79($83,687)] + $4,171 [.79($5,280)]. If we contribute this after tax non-dues income to reserves, we will need to add only an additional $655,240 = $725,524 - $70,284 from dues revenue to contribute the $725,524 projected to be needed by our 2018 reserve study.

As discussed above, we would do well to augment our replacement reserves annually by more than the yearly full funding contribution calculated by our reserve study. To limit our dues increase to 8% in this year of large cost increases, however, we are adding only the minimum full-funding amount required by our reserve study -- $725,524 -- plus an extra $336 from dues revenue to make the final Balance of Income and Uses of Income = 0. Hopefully, we will be able to accelerate our reserve contributions in the future as our insurance and other costs begin to decelerate.

PROPOSED 2025 BUDGET

ACCOUNT NUMBER [Different Number Before 2023]	ACCOUNT NAME	2023 After Audit	2024 Budget	2025 Budget
	INCOME			
40100 [30100]]	Assessment Income	1,858,044.00	1,913,247	2,066,307
40270 [30270]	Interest	81,789.88	77,819	83,687
40398	Recovery Income		3,258	3,258
40290 [[30290]	Bad Debt Recovery	0.00	100	100
40172 [30171]	Late Fees	1,900.00	1,322	1,412
40190 [30190]	Pool Income	200.00	326	200
40430 [30260]	Misc. Income	5,280.00	5,280	5,280
40010	Additional Charges	245.00	17	245
	Total Income	**1,947,458.88**	**2,001,369**	**2,610,489**
	ADMINISTRATIVE and MISCELLANEOUS			
51020	Postage	0.00	100	100
51030	Office Expense	3,015.03	3,750	4,071
51031	Copying/Printing	876.52	1,410	1,232
51050	Training & Education	0.00	300	300
51250	Entertainment & Social	384.13	300	300
51500	Misc. Expense	527.95	1,413	1,466
51550	Misc. Administrative	5,421.34	5,112	5,228
51110	Auditing, Taxes, and Accounting	8,620.00	9,300	10,200
51090	Legal Fees	12,603.21	17,500	17,500
51092	Legal Fee Reimbursement	(839.37)	(2,550)	(1,936)
51120	Management Fee	67,584.00	70,963	68,615
51125	Management Schedule B	11,046.99	9,876	10,683
51160 [51000]	Telephone & Related	3,305.48	4,022	3,973
	Total	**112,545.28**	**121,496**	**121,732**
51750 [71050]	**INSURANCE**	**142,443.37**	**127,108**	**225,593**

ACCOUNT	ACCOUNT	2023 After Audit	2024 Budget	2025 Budget
NUMBER [Different Number Before 2023]	NAME			
	PERSONNEL			
51137	Management On-Site	99,548.05	103,391	108,354
52420 [61420]	Maintenance Payroll	106,426.81	112,279	114,825
52301 [61301]	Fed. FICA Tax	6,739.34	6,961	7,119
52308 [61308]	Fed. Medicare Tax	1,575.98	1,628	1,665
52302 [61302]	VA Unemployment Tax	43.88	53	50
52303 [61303]	Fed. Unemployment Tax	95.21	105	103
51770 [71070]	Group Insurance [Health]	27,673.44	29,145	28,619
52044 [61300]	Payroll Administration	10,121.59	10,133	10,542
65360 [61360]	Uniforms	512.74	200	450
52431 [61431]	Temporary Help	0.00	5,200	5,200
	Total Personnel	**252,737.04**	**269,095**	**276,927**
	UTILITIES			
62000 [71030]	Electricity	11,753.36	10,429	12,247
62120 [71010]	Water/Sewer	192,745.38	206,925	215,189
	Total Utilities	**204,498.74**	**217,354**	**227,436**
	POOL COMPLEX			
6000 [61150]	Pool Contract	50,700.00	53,742	61,285
60115 [61145]	Pool Repair and Maintenance	16,826.18	9,676	12,981
60176 [61156]	Pool Furniture	893.39	3,000	3,500
51268 [51258]	Pool Committee	2533.30	2,600	2,500
	Total Pool Complex	**70,952.87**	**69,018**	
				80,266
	LANDSCAPING			
58000 [61180]	Landscaping Maintenance Contract	101,808.00	107,588	109,086

ACCOUNT	ACCOUNT	2023 After Audit	2024 Budget	2025 Budget
NUMBER [Different Number Before 2023]	**NAME**			
58172 [61188]	Tree Service [after 2018 -- work related to maintenance and reserve projects]	1,144.00	3,000	3,000
61572	Special Projects/Improvements	1,945.00	4,000	4,000
58050 [61557]	Landscaping Non-Contract	18,972.53	22,000	25,000
58070 [61570]	Landscape Replacement [Damage from Contractor Negligence or Weather]	1,978.00	4,458	4,380
	Total Landscaping	**125,847.53**	**141,046**	**145,466**
	REPAIRS & MAINTENANCE			
65310 [61310]	Exterior Painting	47,634.00	48,928	93,160
65284 [61284]	Carpentry	21,167.00	23,766	35,447
65200 [61200]	Property Repairs	34,227.34	17,206	28,687
65090 [61090]	Maintenance Supplies	6,207.07	6,231	6,231
65469 [61460]	Roof Repairs	33,307.00	61,982	36,891
65010 [61010]	Vehicle Expenses	205.35	668	610
65247 [61247]	Playground Equipment	3,039.08	1,850	3,858
51106	Professional Fees	2,659.00	30,233	14,482
	Total Repairs & Maintenance	**148,445.84**	**194,414**	**219,366**
65370 [61370]	**DAMAGE CLAIMS**	**5,224.92**	**8,295**	**7,783**
	SERVICES PROVIDED MAINLY BY CONTRACT			
65240 [61240]	Exterminator	4,645.00	3,761	4,066
58582 [61581]	Snow Removal	0.00	13,224	10,258
65250 [61250]	Trash Removal	77,043.26	79,098	85,993
	Total Contracts	**81,688.26**	**96,083**	**100,317**
51400 [50400]	**BAD DEBTS EXPENSE**	**0.00**	**200**	**200**

ACCOUNT	ACCOUNT	2023 After Audit	2024 Budget	2025 Budget
NUMBER [Different Number Before 2023]	**NAME**			
51401 [50401]	**UNPAID ASSESSMENTS**		**1,711**	**1,969**
	INCOME TAX ACCOUNTS			
51140 [71140]	Income Taxes	**19,985.00**	**17,451**	**17,574**
95000	Provision for Income Taxes			
	TOTAL EXPENSES	**1,164,368,85**	**1,263,271**	**1,424,629**
	RESERVE CONTRIBUTIONS			
	Replacement			
90000	Replacement Reserve [Contributions from Dues Income]	660,000.00	662,000	655,576
90005	Replacement Reserve Interest	64,614.01	61,477	66,113
90062	Cable Marketing Reserves [Funds amortization payments that are to be posted yearly to replacement reserves]	5,280.00	4,171	4,171
	Contingency			
90032	--Transfer to Reserves Phase II			
90061	--Contingency Reserve	0.00	14,000	10,000
	Total Reserve Contributions	**729,894.01**	**741,648**	**735,860**
	GRAND TOTAL EXPENSES	**1,894,262.86**	**2,001,369**	**2,160,489**
	BALANCE OF INCOME AND USES OF INCOME (- DEFICIT)	**53,196.02**	**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 2025 ($2,066,307, 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 yearly from the yearly overall average percentage change (8% in 2024), but the differences are random and will not accumulate:

Unit Type	% Ownership	2023	2024	2025
Arlington	.00379	$588	$604	653
Barcroft (I)	.00243	$377	$387	418
Barcroft (E)	.00250	$388	$399	430
Braddock (I)	.00195	$302	$311	336
Braddock (E)	.00202	$313	$322	348
Clarendon (I)	.00297	$460	$474	511
Clarendon (E)	.00304	$471	$485	523
Dominion	.00351	$544	$560	604
Edgewood (I)	.00263	$408	$419	453
Edgewood (E)	.00270	$419	$430	465