

2007-08 Budget Letter
West Market Board of Directors

Dear Neighbor,

We are pleased to present to you the 2007-08 budget for the West Market Community Association. It is a balanced budget of just over \$600,000 that includes a 5% increase in the monthly assessment, from \$100 to \$105/month (effective as of October 1, 2007).

Nearly half of that increase would simply maintain pace with inflation (urban CPI for the last year is 2.4%). Major increases are budgeted for landscaping upkeep (which, based on this year's additional watering costs, needs to be increased), professional services (including contractually negotiated stepped increases for several of our contractors and additional auditor expenses due to the fiscal year change, discussed below), and different treatment of the "Income Taxes" line item. This had always been handled as a year-end audited balance sheet adjustment. The Board believes it is better to bring this entire item forward into our operating budget to further aid in transparency, given the growing size of this number (a reflection of the successful management of our investment program, which is generating increased interest income) and the recurring nature of this cost to the association. As a result, for 2008 that item has been funded at \$7,000 (the estimated income tax for the year). In terms of cost savings in the new budget, the community's administrative expenses are actually being reduced by about \$2,000.

This budget also implements another of the Board's budget reforms of the last two years – moving from a calendar (January-December) to an October-September fiscal year. Since we are required to report the next year's budget at our annual October meeting, there was increased uncertainty in establishing that budget on a calendar fiscal year since there remained two months of possible snow fall (November and December, snow removal being one of the bigger variables in the budget). The fiscal year change eliminates that uncertainty. This follows last year's significant reforms: the first bottoms-up budget since the community was founded (scrutinizing and revising every line item to improve predictability of expenses), creation of the Community Improvement Reserve (to eliminate ad hoc decision making on new projects, improving not only reliability but transparency), and reducing line items and streamlining the budget presentation (allowing members to more easily digest and understand the numbers).

Last year's budget overhaul (and kudos to the tremendous effort of the Budget Committee, newly formed last year under the leadership of the Board Treasurer, Jason Devine) is paying the expected dividends. Thus, while we are projecting an approximately \$7,000 deficit for the just completed fiscal year, the reality is we came in right on target with the bottoms up expenses we set for the year. This is because \$2,600 of the deficit is purely a function of changing the fiscal year (landscaping expenses are incurred on a pay-as-you-go basis and so cannot be prorated over this truncated 9-month fiscal year), and the remainder reflects additional watering necessitated by the drought conditions of this past summer (in hopes of avoiding the more costly proposition of replacing dead trees). These unbudgeted costs will be paid through our Operating

Reserve. Note that, excluding that portion of the deficit entirely attributed to changing the fiscal year, the true deficit for this past year was less than 1% of total operating costs – an excellent measure of the effectiveness of last year's bottoms up overhaul.

Our Repair and Replacement Reserve remains in superb shape. Almost 28% of next year's expenses are contributions to this reserve, bringing its total to almost \$1 million. The health of the replacement reserve, of course, is perhaps the single most important indicator a buyer will look to in buying into a homeowners association, and this contribution rate (tracking inflation) is consistent with our latest independent reserve study (completed last year).

We will enter Fiscal Year 2007-08 with an approximately \$25,000 balance in the Community Improvement Reserve (CIR). As noted last year when creating this reserve, this allows our community for the first time to programmatically address improvements to the Common Area, a key to not only preserving but also *enhancing* our property values (something that needs proactive strategies in a slow real estate market). The \$19,000 in approved CIR spending this past year addressed multiple needs and interests in our community: new flat screen TVs in the Club House's fitness center and main hall (which, among other uses, has led to creation of a Kids Movie Night and upcoming football parties during the season); two new commercial-grade umbrellas to provide additional shade at the pool, as well as a new gate to allow access to the patio area outside the Club House for that same purpose; a tasteful fence around the Club House's outside trash storage area; and new landscaping improvements around the pond (for a natural barrier to discourage Canada geese from nesting) and Market Street sculpture. We also retained an architect to help think through possible options to enhance utilization of the Club House's existing and possibly expanded footprint. We hope that you agree these improvements add or could add to our neighborhood's quality of life.

Finally, it is worth noting that no additional Operating or Community Improvement Reserve contributions are budgeted for 2007-08. We have an unaudited surplus from 2006, primarily due to favorable winter months that resulted in less snow removal costs than were budgeted. Approximately \$7000 of that amount will be reclassified into the Operating Reserve to account for this year's deficit (which will keep our Operating Reserve within the range our auditor has recommended), and the remainder will be reclassified into the CIR (all as reflected in the balances on the enclosed budget).

In sum, this is a budget that the Board fully supports and believes is in the community's best interests; the budget reforms we have initiated are adding real value; and our management company advises that our \$105 monthly fee remains well below that of area homeowners associations of like value and appearance.

Sincerely,

The West Market Community Association Board of Directors