

Let's Talk Association Fees

By now, we have all received the 2003 budget that will take affect on January 1, 2003. Of keen interest to most of us are the association fees. It is no secret that they have gone up again, the 4th year in a row they have increased. Looking at the budget you can easily see where the money is going and why the fees have increased. The main items consuming our funds are Insurance, Roof Replacement, Building Maintenance, Snow Removal and Trash Disposal. One item that has not hit the top tier yet is the Street repairs, this fund is woefully under-funded and needs an infusion as soon as we can find somewhere to get the funds.

What a predicament, reserve funds under-funded, forced major increases in association fees and the uncertainty of where the money will come from to pay the last contractor that did work for us. Somehow Valerie, the property manager, has managed to juggle the funds and work with our creditors to get us by. Now we are finally starting to get the situation under control. How did we get into this predicament, read on.

The analysis:

Take a look at Worksheet 1. This analysis shows what the actual association fees were since 1990. The "CPI Based Association Fees" represent what the fees would have been if they had been adjusted to keep pace with the "cost of living". Since we don't have an average "cost of living" figure for 2002, I used the average of the "cost of living" adjustments to calculate the "CPI Based Monthly Fees" for 2003.

<u>Hanover Square Association Fees Analysis</u>									
<i>Year</i>	<i>Actual Monthly Fee</i>	<i>Actual Monthly Fee</i>	<i>CPI* Based Monthly Fee</i>	<i>CPI* Based Monthly Fee</i>	<i>Total Actual Fees</i>	<i>Total CPI* Based Fees</i>	<i>Variance</i>	<i>Avg CPI*</i>	<i>Accumulated Variance</i>
	<u>A.F</u>	<u>B,C,D,E</u>	<u>A.F</u>	<u>B,C,D,E</u>	<u>Fees</u>	<u>Fees</u>			
1990	\$ 91.00	\$100.00	\$ 91.00	\$100.00	\$167,616	\$167,616	\$ 0	5.40%	\$ 0
1991	\$ 91.00	\$100.00	\$ 95.91	\$105.40	\$167,616	\$176,667	-\$ 9,051	4.20%	-\$ 9,051
1992	\$ 91.00	\$100.00	\$ 99.94	\$109.83	\$167,616	\$184,087	-\$ 16,471	3.00%	-\$ 25,523
1993	\$ 91.00	\$100.00	\$102.94	\$113.12	\$167,616	\$189,610	-\$ 21,994	3.00%	-\$ 47,516
1994	\$100.00	\$110.00	\$106.03	\$116.52	\$184,320	\$195,298	-\$ 10,978	2.60%	-\$ 58,495
1995	\$100.00	\$110.00	\$108.79	\$119.54	\$184,320	\$200,376	-\$ 16,056	2.80%	-\$ 74,551
1996	\$100.00	\$110.00	\$111.83	\$122.89	\$184,320	\$205,986	-\$ 21,666	3.00%	-\$ 96,217
1997	\$100.00	\$110.00	\$115.19	\$126.58	\$184,320	\$212,166	-\$ 27,846	2.30%	-\$124,063
1998	\$110.00	\$120.00	\$117.84	\$129.49	\$201,600	\$217,046	-\$ 15,446	1.60%	-\$139,509
1999	\$110.00	\$120.00	\$119.72	\$131.56	\$201,600	\$220,519	-\$ 18,919	2.20%	-\$158,428
2000	\$115.00	\$125.00	\$122.36	\$134.46	\$210,240	\$225,370	-\$ 15,130	3.40%	-\$173,558
2001	\$125.00	\$135.00	\$126.52	\$139.03	\$227,520	\$233,033	-\$ 5,513	2.80%	-\$179,070
2002	\$135.00	\$145.00	\$130.06	\$142.92	\$244,800	\$239,558	\$ 5,242	-----	-\$173,828
2003	\$155.00	\$165.00	\$133.99	\$147.24	\$279,360	\$246,804	\$ 32,556	-----	-\$141,272
<u>Net Variance:</u>							-\$141,272		
								<u>Average CPI:</u>	3.03%

**CPI = Consumer Price Index ("Cost of Living")*

Worksheet 1

What was:

For the purposes of this analysis I assumed that the 1990 "Actual Monthly Fees" were adequate to accumulate the funds needed for proper operation of Hanover Square. You can see the "CPI Based Monthly Fees" start out at the same rate as the "Actual Monthly Fees".

In 2001 the "Actual Monthly Fees" are pretty close to what the fees would have been if they had been adjusted each year to keep up with the "cost of living". As of 2001 we finally were about where we should be as far as association fees are concerned, but take another look at Worksheet 1. In 1991 we budgeted total fees of \$167,616 but to keep up with the "cost of living" we should have budgeted \$176,667, a deficit of \$9,051. Observing Worksheet 1 we can see that each year we have been running a deficit, 2002 is the first year that we show a surplus.

As of 2001, the accumulated deficit peaked at \$179,070. The end result of not keeping fees up with CPI is that the association did not have this \$179,070 to work with. If we had done nothing but invest these deficit funds in CD's say earning 6%, we may have had in addition to the \$179,070, \$71,600 of earnings in our account.

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