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Montgomery County Government
Commission on Common Ownership Communities
100 Maryland Avenue, Room 330
Rockville, Maryland 20850
www.montgomerycountymd.gov/ccoc

Fall, 2011

CCOC Communicator

CCOC'S 20th ANNIVERSARY FORUM REVIEWS GRANTS, L0NG-RANGE PLANNING, FHA RULES & SOLAR POWER

By Staci Gelfound, CCOC Chairperson

I was proud to mark the 20th anniversary of the CCOC by introducing its Annual Forum on October 15 in Rockville.

In those 20 years, the CCOC has helped to improve life in our communities by resolving thousands of disputes. In the same time, we have given free advice and information to tens of thousands of residents and to boards that they could not obtain elsewhere. We have been advocates for our communities at the County and State levels, obtaining changes in laws and policies that can directly benefit our communities and their members.

But there is much more work to do. Many of our communities are suffering from the consequences of the current recession and of the resulting high rates of defaults. Meanwhile, governments continue to impose financial and regulatory burdens on our communities but fail to offer us financial assistance to help us respond to a situation we did not create and to meet the new requirements that they impose on us. Our communities need advice and aid to help them deal with the severe financial strains they currently face.

This year's Forum represented the initiation of an ongoing program by the CCOC to confront and deal with some of these issues. We presented seminars on the new FHA rules for loans for condominium purchases, on effective long-range budget planning, on the grant programs offered by Montgomery Count and by Pepco for energy conservation and stormwater control efforts, and on a model solar energy installation project that our communities can imitate. We also announced our own efforts to improve the information that is freely available on our website.

The purpose of this issue of the *Communicator* is to summarize those presentations for the benefit of those who could not attend the Annual Forum.

The CCOC does not intend to rest until the next annual forum. We will continue to add to our website and to provide information through our newsletters and other announcements. To help us to reach you, we strongly encourage you to enroll for our emails through "eSubscription."

We look forward to working closely with you in the years to come.

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A Review of the FHA's Rules for Condominiums and Some Advice on Compliance

Local attorney Ursula Burgess opened the Forum with a review of new regulations from the Federal Housing Administration (FHA) on the standards that condominiums must meet if the FHA is to guarantee loans to buyers of the condominium's units. (At this time, there is no plan to extend these rules to HOAs or to cooperatives.)

In order to avoid a repeat of the huge losses it took following the collapse of the sub-prime housing market the FHA tightened its requirements for borrowers, who must now show acceptable credit scores, and produce proof of income and assets. But the FHA also expects condo associations to produce evidence of financial health, which many of them may be unable to do at this time. Condos unable to meet these standards may find themselves even worse off because it will be harder to find buyers for their vacant units.

According to Ms. Burgess, some of the requirements include:

*at least 51% of the units must be owner-occupied

*no more than 15% of the units can be more than 30 days past due on assessments

*at least 10% of the budget must go to reserves

*no single investor can own more than 10% of the units

*there must be fidelity insurance for the amount of the reserves and for at least 25% of the total annual assessments

*the financial statement given to the FHA cannot be more than 3 months old

*the nature of all pending litigation must be disclosed

*the nature of all pending special assessments must be disclosed

*the condo must have hazard insurance for 100% of the replacement cost

*management firms must have fidelity insurance and be properly licensed.

Ms. Burgess stated that the preparation of the FHA application is difficult and can require the help of an expert such as a condominium attorney or a firm that specializes in this service. The cost averages $2500.

Ms. Burgess also advised that many condominiums will be unable to meet the tough FHA standards, especially those with high default rates, and for such associations it may be a waste of money to apply. However, without FHA approval, many members will find it more difficult to find buyers for their units, and empty units which are not paying any assessments will continue to be a problem longer. The board has a duty to consider seriously, and with expert advice, whether to file an FHA application or not. The board must make an informed decision on this topic or face the risk of lawsuits by its members, she warned. The board may even want to hold a special meeting of the membership to discuss the issue.

"The board has a duty to consider seriously, and with expert advice, whether to file an FHA application or not. The board must make an informed decision on this topic or face the risk of lawsuits by its members."

Only the condo's official agent can file the application. Ordinary members cannot do so.

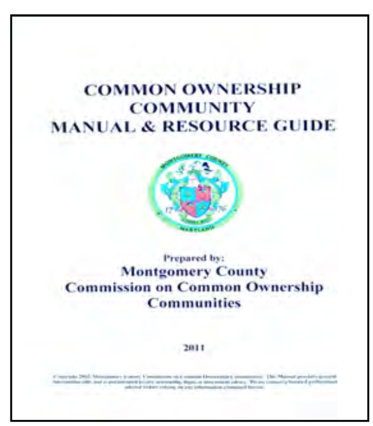
Once the initial filing has been made, the process becomes easier and cheaper because the filing can be updated electronically.

Ms. Burgess recommended that boards should start reviewing their finances and prepare to raise the assessments in order to meet the FHA rules. They should also review their manager's compliance with relevant laws and to ensure it has proper fidelity coverage. Finally, they should practice "smart" delinquency collection and should aggressively pursue the banks that have taken over any units through foreclosure.

For more information on the FHA rules, see Ms. Burgess's article in the Summer 2011 newsletter

CCOC Issues New Manual & Resource Guide

CCOC Chairperson Staci Gelfound announced at the Annual Forum that the CCOC has issued, and posted online at its website, its revised and updated *Manual & Resource Guide*. The purpose of the Guide is to show board members as well as homeowners the best practices and relevant rules for conducting board and annual meetings, hiring employees, stormwater management, establishing reserves for capital repairs, proper financial and accounting procedures, and the collection of assessments. Paper copies of the 75-page Guide are available at $15 each.


COMMON OWNERSHIP COMMUNITY MANUAL & RESOURCE GUIDE

Prepared by:
Montgomery County Commission on Common Ownership Communities

2011

A Solar-Powered Model for Community Associations

by Rae Cooper, CCOC Volunteer

The Commission had the pleasure of presenting a panel on "Solar Energy: How One Community Is Making It Work," led by David Brosch, President of the University Park Community Solar LLC (UPCS). UPCS is a for-profit community organization created to organize and help finance residential solar energy power plants (panels).

Last year, UPCS completed one of the first community solar projects at a local church, the University Park Church of the Brethren. UPCS makes a profit while selling solar electricity to the Church at rates below Pepco's. The solar panels generate 25% more electricity than the Church needs. The surplus is fed back into the Pepco system and Pepco buys it. This model can be adapted for community associations as well.

The project is a venture between 3 groups: the Church, which owns the building, UPCS, which organized and financed the project, and Standard Solar, Inc, which installed the solar panels you see in the photos.

The installation cost $133, 500. The funds were raised from 35 different subscribers, who contributed an average of $4000 each. UPCS expects to recoup its investment after 6 or 7 years. The Church buys electricity from UPCS at about 13% less than it would pay Pepco. Meanwhile the subscribers are expected to earn an average annual return on their investments of 7 to 8% over the 20-year life of the contract. UPCS has received a refund of $40,000 from the US Government as part of a stimulus package, and it expects to earn approximately $8500 per year from the sale of electricity to Pepco.

The project is actually generating more power than expected. The estimated generation was 26, 308 kilowatt hours per year, but in fact it is generating much more than that. The Church actually needs only 21,000 kilowatt hours, so it can sell the surplus to Pepco, which this year is nearing 10,000 kWh.

Brosch said the firm is gearing up for other solar panel installation projects at other local churches, schools, synagogues, and other buildings with sunny roofs.

According to Brosch, the Church of the Brethren project demonstrates that the installation of solar power devices not only has significant financial benefits for our community associations, but its installation is affordable. It is ideal for multi-family residential buildings and for associations that own community buildings such as clubhouses and pool buildings. UPCS will survey the building involved to be sure is it capable of holding the panels securely. The maintenance costs are minimal and are part of the UPCS contract with the installer.

In addition, Brosch pointed out that not only will the use of solar panels protect associations from rising electric costs but they can bring in increased revenues from the sale of surplus power at higher rates.

Another benefit is that the installation of solar panels will help create more jobs in the local economy.

Brosch also noted that grants, loans and tax credits are often available from government agencies for projects like this.

(For more information, contact David Brosch at 301-779—3168 or at davidcbrosch@comcast.net, or visit the firm's website at www.universityparksolar.com. Mr. Brosch is also the president of Green Homes Blue Sky LLC, a firm that offers residential energy auditing and energy consulting.)

PEPCO INCENTIVES FOR ELECTRICITY CONSERVATION

Community associations can directly benefit from several programs of financial assistance offered by Pepco, according to Ellen Embry, a Program Specialist with Pepco's Commercial and Industrial Energy Savings Program, who gave a lively and informative presentation at the Forum.

Ms. Embry said that this program offers cash incentives for the installation of energy-efficient upgrades in multi-family

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Cash Incentives for Associations from Pepco

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buildings. These include:

Prescriptive Lighting Fixture Incentives. Pepco offers incentives of up $15 to $70 per fixture for the installation of new high-output CFL light fixtures, *indoor and outdoor,* in existing buildings, as well as for daylight and occupancy use controls for the lights.

Variable Frequency Drive Incentives. Pepco also offers significant financial incentives to help fund the costs of installing Variable Frequency Drive (VFD) motors that are 2 horsepower or larger. [Editor's note: Wikipedia has an useful article on "variable frequency drive" motors which will help you to understand the concept.] VFD motors control the frequency and amount of voltage being fed into a motor that powers the fans of a ventilation system so that the fans do not need to run at full power all the time. As a result there are significant energy savings. Ms. Embry said that Pepco recently granted over $11,000 for a Gaithersburg office building to install such a system, and $26,000 to a Bethesda office building to replace 500 T-12 fixtures with more efficient T-8 fixtures..

Master-metered Multi-Family Properties. Pepco has redesigned its consumer incentives so that residents of master-metered buildings can take advantage of them. Under the new programs, Pepco will offer rebates of up to $50 for the purchase of Energy Star-qualified refrigerators and up to $25 on Energy Star-qualified room air conditioners by unit owners. It also offers rebates of $20 for the purchase of water heaters with an energy factor of .93 or better.

Custom Incentives and Energy-Saving Studies. Pepco encourages its customers to apply for assistance installing custom-designed energy-conservation improvements These can include improvements in pole lighting in parking lots, and the use of other lighting technologies such as LEDs. It offers up to $15,000 to pay for the costs of energy savings studies on older buildings of 25,000 square feet or more if the customer implements the measures recommended. Ms. Embry said that Pepco has increased its cash assistance for energy-saving projects from 5 cents per kilowatthour (kWh) saved per year to 8 cents and has also reduced the eligibility requirements for projects from a 50,000 kWh annual savings to 25,000 kWh. It has also simplified its application process for smaller projects.

Applications are available at the program website, www.pepco.com/business. Information is available at the website, by emailing to PepcoEnergyEfficiency@LMBPS.com, or by calling 1-866-353-5798. **Applications must be submitted for the current programs by December 31, 2011,** although Pepco is working with the Maryland Public Service Commission to develop new programs for 2012.

Montgomery County Offers Cash Assistance for Energy Conservation, Stormwater Control

Montgomery County's Department of Environmental Protection (DEP) was well-represented at the Annual Forum by Eric Coffman and Ryan Zerbe, who reviewed DEP programs that directly benefit community associations and their members.

Zerbe, a Watershed Outreach Planner, discussed several different types of incentives for which associations and their members are eligible. These include rebates from the County of up to $1200 to install "rain gardens" to trap and hold rainwater so that it can percolate into the soil instead of feeding into storm drains and creeks and causing erosion. Landscaping to save water (such as mulching and special plants) can bring rebates of up to $750. The County will pay up to $150 per tree to establish a "tree canopy" to protect the soil from erosion, up to $200 to install rain barrels, and up to $1200 to remove solid pavements such as driveways and parking pads and replace them with permeable pavers. Associations are entitled to rebates of up to $5000 for such improvements.

Zerbe also provided information about another new County initiative, the "Good Neighbor Program," under which the County will send free speakers to HOAs and other community groups to discuss its watershed conservation efforts, what they mean for communities, and how citizens can participate. The County encourages HOAs and other community groups to take advantage of this Program.

Eric Coffman, a Senior Energy Planner with DEP, reported that DEP is working closely with Pepco to improve Pepco's energy efficiency incentives and to make them available to common ownership communities as well as to businesses and to individual homeowners. DEP has just completed one program of its own using Federal stimulus grants, which helped to fund upgrades to

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Montgomery County's Cash Assistance Programs (continued from page 4)

lighting systems in several condominiums, allowing those associations to save on their energy bills. It is now accepting applications from homeowners for rebates to install energy-saving appliances in their own homes, with the County subsidizing up to $800 of the cost of the appliance.

Coffman summarized the impact of the various programs available from utilities and the government by showing that a homeowner who makes $4000 worth of qualifying energy–efficient improvements can earn up to $3200 in rebates and tax credits for them.

For more information, visit the DEP website at www.mcenergyfunding.com.

IS YOUR CONDOMINIUM PAYING SALES TAXES ON ITS ENERGY BILLS? IT MAY BE ENTITLED TO REFUNDS.

Commissioner Ralph Caudle presented information on a little-known State law that prohibits energy utilities such as Pepco and Washington Gas from charging sales taxes to condominiums. Associations that have been improperly charged such taxes are eligible for refunds of the taxes paid for the last 4 years.

Mr. Caudle stated that Section 11-207(a) of the "Tax-General" Article of the Maryland Code, provides that "[t]he sales and use tax does not apply to (1) a sale of electricity, steam, or artificial or natural gas for use in residential condominiums." Although the law has been in effect since 2001, the public utilities have not applied it in a systematic manner, and charges for the taxes still show up on the bills received by many condominium associations. Condominiums that have erroneously been charge those taxes can apply to the State (not the utility) for a refund of those taxes for the last 4 years. To do so, associations should follow these steps:

1) review its energy bills: on Pepco bills the charge shows up under "Account Details" as "SALES TAX;" on WGL bills it appears under "Distribution Charge" as "MD Sales Tax." Gather all such bills for the last 4 years.

2) send a notice by certified mail, return receipt requested, to each utility charging the tax, informing them that the

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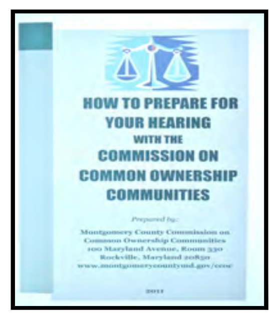
CCOC ISSUES NEW BROCHURES ON RESALE PACKAGES, HEARINGS

CCOC Chairperson Staci Gelfound also announced the release of a new brochure, *What You Should Know About Buying a Home in a Condominium, Cooperative, or Homeowners Association*, which is intended to inform prospective buyers of their rights to resale packages, to educate them about community association life, and to avoid problems. The CCOC encourages associations to provide these brochures to prospective buyers. Another new brochure, *How To Prepare For Your Hearing*, substantially revises and adds important information to parties whose disputes are set for formal CCOC hearings so that they understand the process better and can present their own cases more effectively without a lawyer. Both brochures are online. Paper copies of *What You Should Know* are available for $2 each, and paper copies of *How To Prepare* are available for $1 each.



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The Latest Way to Stay Informed

By signing up for the County's eSubscription service, you can receive free, electronic newsletters, updates and announcements via email. Go to the County's website and then go to the link on the left side for "I want to…" Click on eSubscription. Click on "Create an Account" (or "Update an Account" if you already have one). Mark each item you would like to receive and enter your name and email address. (The CCOC is listed under "Consumer Protection.") It's that simple.

The direct link is: https://ext01.montgomerycountymd.gov/entp/s1p/esubpublic/newsubscriber.do

The CCOC will be issuing its newsletters and other announcements electronically, so if you want to continue receiving the newsletter, please sign up at eSubscription.

Best Practices for Managing Long and Short Term Budgets

By Elizabeth Molloy, CCOC Vice Chairperson

Before the largest of the breakout sessions, Tom Willis, Bruce Fonoroff and myself, Liz Molloy, used our own experiences to describe some of the best practices for budget planning.

Tom Willis, a vice-president with ZALCO, described the principles and practices to plan properly for association operations to make the most effective use of their members' money. His presentation is set forth more fully in the following article. Bruce Fonoroff, a Commissioner and the president of a large HOA, began his discussion of reserves planning by explaining that reserves are generally funds segregated from operating funds, and built up gradually over time. He noted that although there are few statutory requirements for condominium and homeowner associations on this subject, reserve funds are extremely important. Usually, a reserve fund is established and updated in connection with a reserve study performed by an expert. The expert will first conduct an inventory of the association's capital equipment and then calculate the amount of money needed to pay for its replacement at the end of its useful life. This report will include the calculation of annual contributions required to create sufficient funds to cover the replacement costs. There are different approaches to funding replacement reserves and Mr. Fonoroff cautioned that it is not an exact science.

Mr. Fonoroff also noted that disputes can arise when an association's board of directors does not clearly explain why it is important to have a funded replacement reserves account, or one funded in the amount recommended by the board.. He said that some members might argue that they should pay for future replacements with special assessments levied at the time of the replacement, or oppose the board's plans because they have no interest in future repairs since they expect to sell their units before the repairs are needed. Mr. Fonoroff pointed out that members are not being asked to pay for future costs now, they are being charged for the costs of current usage, because the common property wears out little by little every day. In addition, to impose a special assessment can drastically raise the members' fees and can work a financial hardship on many of them; and the cost of obtaining funds all at once can be significantly more expensive than accumulating those funds gradually. Finally, he reminded everyone that having a properly-funded reserve account can improve the value of the property and increases the chances of mortgage lender approval and thus of the members' ability to sell their units. Indeed, the FHA now requires proper reserve accounts as a condition of its own loans.

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Building the Association Budget **by Tom Willis, Vice President, ZALCO**

BACK TO THE BASICS

The legendary football coach Vince Lombardi is said to have begun each season's training by calling together all the members of the Green Bay Packers and holding up a pigskin for all to see. "Gentlemen!" he'd bellow. "This is a FOOTBALL!"

Lombardi was successful in part because he emphasized the importance of fundamentals. The successful operation of community associations also depends on paying attention to fundamentals, and in particular to its budgets. Done properly, an association lays its keystone for its financial and operational success. Done badly or carelessly, it creates serious long and short term problems for itself.

So let's look at the basics. What is the goal of the budget process? Contrary to the belief held by many members, the goal of a good budget is NOT to keep the assessments fixed, although that can be a result. Rather, it is to create a plan to finance the operations and needs of the community according to its real needs and according to the community's values.

THE PAST, THE PRESENT AND THE FUTURE

Budget formats vary significantly, and their contents depend on the complexity of the property. A 300-unit condominium with central heating and air conditioning, and a full-time staff will have a much more complicated budget than a HOA with 30 homes. Nonetheless, the

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Best Practices for Managing Long and Short Term Budgets (Continued from page 6)

I myself am the president of a small (49 homes) HOA. I described long term planning with a focus on smaller HOAs. Continuing the theme of looking to the future, I reminded the audience of the importance of planning for future expenditures and recommended that the community look at each separate common facility it owned, such as pools, community centers, playgrounds, and parking lots, and then research the costs for annual maintenance and for repairing or replacing them.

To accomplish this, I suggested that an effective process is to appoint a committee of members to prepare an initial draft forecast of long terms needs (a 5-year period is common) and include an explanation of the assumptions it adopted. My own HOA found that a chart of costs and timing is very useful in presenting the information. The draft forecast is presented by the committee to the board for review, and the board in turn sends it out to the community for consideration, and later holds a meeting to receive comments and to discuss the components of the forecast. The board then adopts the forecast as a guide and uses it when preparing its annual budgets. Every two or three years, the forecast should be updated, and approximately every 5 years a new forecast should be prepared.

Building the Association Budget (Continued from page 6)

best budgets tend to share important qualities.

There are two basic beget types: “trend” and “zero-based.” Trend budgeting assumes that the current year’s budget for each line item is the baseline, and assumes further that it will probably increase somewhat in each following year. So if the landscaping contract is $10,000 this year, and the estimated Consumer Price Index increase is 2%, then next year’s costs will be $10, 200. While there may be variations from item to item, it is hoped that the bottom line will be generally accurate. Zero-base budgeting is commonly used when drafting a budget for the first time, such as when a new community is being created. The budget must plan for the maintenance of all parts of the community and gather information on the probable costs through the experiences of similar communities, bids, and expert knowledge.

The best budgets for existing associations use a combination of these two methods. The association should scrutinize every line item with a fresh pair of eyes each year. At the same time, historical experience is part of the picture, and clear trends cannot be ignored.

One benefit of this combined approach is that members who are concerned about how their money is used (and who isn’t?) tend to recognize the research woven into the budget planning process, and a thoughtfully-prepared budget document provides some level of comfort that the association’s funds are not being spent willy-nilly. Rather, the document gives the impression that its figures and forecasts are grounded in reality and reason.

HOW DO WE GET THERE FROM HERE?

There are two basic components that can help maintain the discipline necessary to achieve the results described above. First, a comparative spreadsheet helps to show patterns and context. At a minimum the spreadsheet should contain columns showing the current year’s budget, next year’s proposed budget, projections of the current year’s end financial results and last year’s actual audit results. To gain even more perspective, the prior year’s budget and audit figures can be included. Even unaudited figures are much better than none at all. The goal of this spreadsheet is to show the reality of past performance in order to plan for the future.

The other component requires even more work but is even more essential to a thorough understanding of the reality behind the plain numbers. There must be a detailed narrative, in which each line item and the assumptions behind it are expressed in detail. The process of creating, reviewing and editing the narrative is where each line item is challenged. For example, just what is included in terms like “miscellaneous administrative expenses” and “landscaping non-contract?” How were the figures for these calculated? Explain them. If the line item for meeting expenses” includes a recording secretary’s fees of $175 per meeting times 12 meetings, plus an annual allowance for light refreshments of $300 and room rentals of $250, put that into the narrative. State the details of contracts. If a two-year janitorial service contract includes a monthly fee of $2000 with a built-in fee increase of 1.5% on its May anniversary, show the math: 4 months (January-April) at $2000 each and 8 months (May-December) at $2030 each.

There are many benefits from using these components fully. It will maintain the discipline to merge wants, needs and realities into an effective financial plan. It will increase the community’s understanding and acceptance of the plan. And the final document helps to ensure continuity from year to year in the event of volunteer or management turnover.

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Useful County Phone Numbers for Common Ownership Communities

Most County Government agencies may now be reached by phone by dialing "311" during ordinary business hours. The operator will then refer the caller to the proper agency. This service includes non-emergency Police services such as reporting abandoned cars and community outreach, Libraries, the Circuit Court, Landlord-Tenant Affairs, Housing Code Enforcement, the Office of the County Executive, Cable TV regulation, the Department of Permitting Services and the Department of Transportation.

Some County agencies may be through 311 or directly, including:

Office of Consumer Protection	240-777-3636
CCOC	240-777-3766
County Council	240-777-7900

Parks & Planning Commission

Planning Board	301-495-4605
Parks Headquarters	301-495-2595

City of Rockville: residents should still call their City agencies directly.

Emergency services:	911

For more information on the 311 system or to search for agencies by computer, go to:

Http://www3.montgomerycountymd.gov/331/Home.asp

FY 2012 Commission Participants (as of November, 2011)

*<u>**Residents** of Condominiums/Homeowner Associations:</u>*

Elizabeth Molloy (Vice Chairperson, Education Committee Chair)

Allen Farrar

Jan Wilson

Bruce Fonoroff

Elayne Kabakoff

David Weinstein

Ken Zajic

(one position vacant)

*<u>**Professionals** Associated with Common Ownership Communities:</u>*

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Helen Whelan (Legislative Committee Chair)

Mitchell Alkon

Richard Brandes

Ralph Caudle

Arthur Dubin

Barbara Gwen Henderson

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Dinah Stevens, Esq.

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Building the Association Budget

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DANGER WILL ROBINSON, OR, AVOIDING COMMON PITFALLS

1. "Fee targeting." If the board or the management comes into the process predisposed to meet a specific result, such an no or minimal assessment increases) the results are inevitably skewed. Numbers cannot be artificial or contrived—they must reflect reality.

2. Long-range planning disconnect. All too often, the annual contribution to reserves is a number picked simply to help the budget meet a fee target. This is a blueprint for major problems down the road. The board must give careful attention to major projects that will be necessary in the future and develop a reasonable plan to fund those repairs so that the money is on hand when needed. The board should engage professional reserve analysts to assist it. It is helpful to include the planned capital projects in the budget, along with a corresponding transfer from reserves to operating so that these expenses do hot impact fees. Such steps help establish and maintain a pattern of discipline in long range planning.

3. Failure to plan for contingencies. Murphy's Law reigns supreme: if something can go wrong, it will go wrong, so it pays to plan for the unexpected. This can be done in two ways: by establishing an operating contingency line item, or by creating a operating reserve contribution line item. The former raises fees to be held in the operating account until needed; the latter creates a plan to transfer a specific amount to a reserve fund each month for safekeeping until needed.

4. Failure to face reality. Chronically under-funded associations tend to exhibit the same characteristics: they budget too optimistically without consideration of the actual condition of the property and its financial history. This is where the value of the comparative spreadsheet becomes apparent. Under-funded budgets result in errors and a vicious pattern of deferred maintenance, budget deficits, and inadequate reserves.

5. Failure to meet FHA requirements. A new reality has appeared (see Ms. Burgess's presentation at the Annual Forum, which is summarized in this newsletter). If your association is to meet the FHA's new lending rules, it must have properly-funded reserves.

6. Failure to allow for all possible options in the first draft of the budget. Instead of forcing the budget to meet an arbitrary result, such as holding assessments steady, it is much better allow the first draft of the budget to be a "kitchen sink", worst-case scenario version that includes every contingency and idea that came up. This allows for honest dialogue geared towards establishing priorities and making value decisions as the budget is parted down in a reasoned fashion. The result is more likely to be a solid plan that might just work.

7. Failure to show the members the connection between the budget and their fees. Don't assume the members will understand the proposed budget as well as the board does. Good explanations increase support for the proposals. It can also help to explain the finances in terms of dollars per month. For example, a 5% increase may sound like a lot, but if the monthly fees are $500, that increase is only $25 and may feel more affordable.

8. Accepting reserve study estimates without careful consideration. Reserve studies are essential, but they have their limitations. They are usually based on general information and the analysts do not perform detailed examinations of the various common elements;

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Annual Announcement Reminder

The Montgomery County Code requires that all common ownership communities **must** notify all their members at least once a year about the CCOC and what it does. The law does not require any particular format for this announcement but it must be sent to every member. To help associations meet this duty, the CCOC staff has prepared two sample announcements, a short form and a longer form, which associations can adapt to their requirements. If you want a copies of the two samples, please contact the staff by email (see preceding page).

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Building the Association Budget (continued from page 9)

consequently, it is advisable to hire specialists to determine the costs of complex projects or components. This can be expensive, but it can also save to community from the shock of a very nasty surprise later on. Some examples of common elements that should be reviewed closely are: fire protection systems, limited access roofs, especially for high-rise buildings, elevator modernizations, painting and decorating, wood fencing and trim (can the wood be replaced with a lower-maintenance substitute?), structure rehabilitation, especially garages; and waterproofing membrane replacements. For major capital projects the association should have the assistance of a qualified engineer, architect or construction manager to ensure the best quality and value. Be sure also that the reserve study accounts for such costs.

GUTS

A word about leadership and courage here. Sometimes, the result of due diligence and good faith is bad news. It is often the case with older communities that have been chronically under-funded and under-maintained that the day comes when the piper must be paid. Major fee increases and special assessments are not happy news, and it takes a good measure of courage to speak the truth to those who do not want to hear it, especially in difficult economic times. The argument will be made that people can't afford the additional burden, that it's not fair for current members to pay for the sins of their predecessors or of past boards of directors, and that resale values will plummet if fees are too high. Directors and managers must be prepared to lead and this includes telling it like it is. While fees can affect resale values you can also bet that a property in disrepair also affects values significantly. Poor curb appeal affects more than just property values, it affects salability as well. And, in the end, directors must *direct*. The board has the fiduciary responsibility under the association's governing documents to maintain the property in good condition and to preserve the value of the community. It is a painful duty to have to raise the fees, but it is often unavoidable. And, hopefully, the association will learn from its past mistakes to make better plans for the future.

AN INVESTMENT

Yes, careful budgeting is a lot of work., but well worth it when you consider the results. If you stick to the fundamentals and practice the disciplines shown by the best associations, you and your members will win in the end.

Sales Tax Refunds (continued from page 5)

association's articles of incorporation, declaration of covenants, and bylaws. The letter should state the account numbers involved, and demand that the utility cease adding the sales taxes to the bills.

3) Obtain a "Sales and Use Tax Refund Application, "Form COT/ST 205 (Rev. 8/96)" from the Maryland Comptroller of the Treasury at 301 West Preston Street, Baltimore, MD 21202-2383. Complete the form and of all bills paid that charged the sales tax in order by date and account number. Again, include copies of the relevant pages from the association's governing documents showing that the association is a residential condominium. (If you need help with this step, the Comptroller's Office has an Ombudsman who can be reached online at ombudsman@comp.state.md.us.)

Mr. Caudle said he has been able to obtain over $40,000 in refunds using this process. He added that he would be interested to learn from other managers and associations how much they have received, and he can be contacted at rcaudle@ikorealestate.com.