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March 2008

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# opportunity costs knock off alternatives

By Michael E. Le Page

In most condominium corporations the first review of the forthcoming year's budget traditionally occurs 90 days prior to the current year end. However the collection of the data and information necessary for the budget should be underway throughout the prior fiscal year.

One budget component that does not show up as a line item, but is integral to the budget process, is the corporation's wish list. Throughout the course of any fiscal year the board and management will occasionally come across items or ideas that should be placed on a "wish list" of repairs and/or service changes that are regarded to have a positive impact on the corporation for the next operating budget. This list should be reviewed and updated periodically and then closely examined with four months remaining in the current fiscal year. At first it will be somewhat utopian in design; initially there are no fiduciary restrictions but rather it is a free-thinking, open-minded, in-a-perfect-world-where-cost-is-not-an-issue wish list. As idealistic as this may

sound it actually serves a purpose and is important. It is how the corporation will over time raise the proverbial bar within the community.

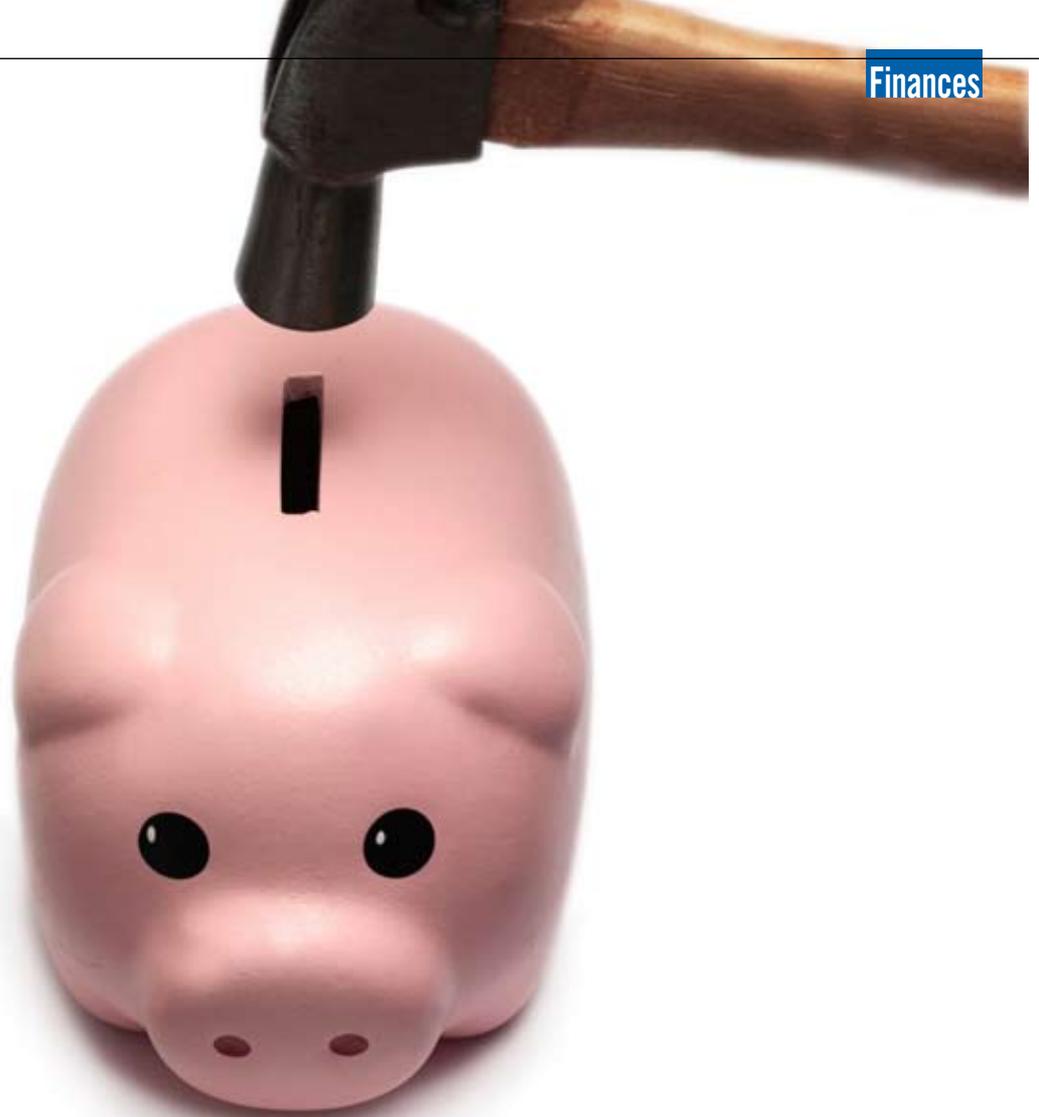
Ideas for improvements or minor changes can often arrive in the way of an epiphany or revelation, an abstract thought that needs to be captured thus the importance of writing it down on the wish list. Often we are too accepting of the way things are rather than look at modest changes or possible enhancements. When such ideas come to light, placing them on the wish list for further consideration at some time is in everyone's best interest.

The wish list is timeless; it will bridge directors and even managers. It is not time sensitive as its content is nonessential items.

Examples of nonessential items may be: increased frequencies to services and/or service levels, small chattel acquisitions or minor improvements to existing systems. The following are some typical examples: increase the concierge hours,

foot patrol security, the security system in general, updating interior/exterior light bulbs to be more energy efficient, visitor parking inspections, the cleaning service onsite hours, the scope of the cleaning services, the number of rental mats in the building, the frequency in which the windows are washed or the garage/road is swept, types and quantity of flowers in the beds, additional hose bibs, additional sprinkler heads, supervised hours of the swimming pool or hours of operation of all amenities. Minor purchases could include new exercise free weights, additional waste receptacles, additional recycling receptacles, or more television channels, a luggage cart, a grocery cart and/or a shelf for groceries, to name a few.

These items comprise a wish list and they are as individual for each condominium as a child's letter is to Santa. What is important is that the directors take the time to create a list of ways to improve services to the development that in an ideal



situation would be implemented and will provide ongoing benefits to the owners. The list is a never-ending, living document that is called upon and referred to not only at budget time but throughout the year and thereafter.

When the preparation of the first draft of the budget is underway it is important to get quotations and assign allocations by incorporating the wish list into the first draft to gain some understanding as to the economic impact of each item. Items should be identified and listed separately within the appropriate category and allotted funds sufficient to address them. If any item offers a savings such as reduced consumption of a utility — this needs to be carefully examined and broken out to establish the payback period and also the annual operating savings.

Every reasonable effort that provides a payback of four years and under (and even those beyond) should be seriously examined at every opportunity. If any corporation can decrease their

utility and or water consumption and achieve a four year or less payback, it should be vigorously pursued and implemented. In fact, one could argue the corporation's board of directors should feel obligated to do so.

Not only does the immediate benefit to the environment need to remain in the forefront of our minds in all we do, to the best of my knowledge there is no other legal/permissible investment a condominium can make that provides an annual return of 25 per cent or more except for those in energy or consumption savings. It is a win-win for the condominium and for the environment.

The working budget itself should be a zero based budget wherein each category has been analyzed, scrutinized and justified. The financial requirements of each allocation are thoroughly explained and identified. As a component of the description of various line items is the impact of the "wish list." For example: the concierge

service allocation will provide the cost for the established level of service identifying the increase in costs requested by the provider and then separately show the additional cost of the contemplated foot patrols.

The cost of window cleaning will outline a per cleaning cost, allowing for two, and clearly identify the cost of a third cleaning. A similar presentation of garage sweeping would be made.

The cost of opening the pool earlier in the season (heating same) and closing it later in hopes of maximizing use will be determined, outside of the previously established period of operation.

Expanding the open hours to the amenities area recognizing the increased lighting times and security measures to facilitate same may also be identified.

Adjusting the frequency of the visitors parking policing services from two to three visits a week and the impact of such a measure will also be calculated.

## Often we are too accepting of the way things are rather than look at modest changes or possible enhancements.

Increasing the number of mats throughout the building during the winter season will show the cost and the difference from the existing practice.

Minor installations and acquisitions are listed and costed.

Suffice it to say that the wish list items are costed and represented in the first draft of the budget and available for the directors' consideration.

The budget itself, without the wish list items, will most likely reflect known contractual or quoted costs of all third party services, utility consumption annual averages determined from five year consumption records (if available) and then extrapolated to current rates for a proposed allocation, historical data will support a number of categories, wage increases for staff (hopefully performance tied) and anticipated inflationary and/or marketplace increases for various supply items.

The reserve fund allocation would also be reflected in the budget. Section 94 of the Act specifies that reserve fund contributions shall be the greater of the amount identified in a reserve fund study or 10 per cent of the budget exclusive of the reserve fund. However this is the minimum requirement. It would be in every corporation's best interest to place on their wish list to increase the contribution beyond the minimum requirement — not substantially beyond but perhaps as little as 2 per cent above the specified minimum. This will provide compounding benefits over time.

The lion's share of the budget is not discretionary: it is somewhat predetermined and essential to building operations. However a portion of the budget is discretionary and this is where the wish list items fit in.

There is an economic term called "opportunity cost." Simply defined opportunity cost is "the cost of passing up an alternative when making a decision."

For example: if an asset such as cash is used for one purpose, the opportunity cost is the value of the alternative that the cash was not used for. Opportunity cost analysis is an important part of a condominium corporation's budgeting process, but it is not treated as an actual cost in any financial statement.

As the board and management enter the discussion of the first draft of the budget, leading to revisions for the second, this is where the great debate occurs. It is common for members of the board to enter the budgeting process with a predetermined

goal or objective in mind — to keep the increase under a certain percentage.

Now the discretionary spending or wish list items are re-evaluated. It is hoped that on a number of these there is a pre-existing consensus amongst the directors with respect to their desirability and they are adopted or rejected with minimal debate. The economic impact of the strongest of desirables are weighed and after a brief analysis it is determined if additional items can be added at this time. Each director draws from the experience and interaction with their neighbours on what items, if any, would provide the greatest benefit to the community. This is where the opportunity cost factor is prevalent.

Larger expenses lead to debate and discussion such as the arguments supporting the introduction of security foot patrols — however should this be approved it could potentially come at the cost of additional window and garage cleaning as well as extending the pool hours and that of the amenity areas. The debate continues where the intangible benefits of foot patrols is placed against the other tangible possibilities always supported with opinions regarding what each director deems would be best for the residents and for the community as a whole. Sometimes directors may even seek community input from owners and a survey is taken asking residents to help determine the priority level of each consideration. In the end, a decision is reached and those items selected will ultimately be determined at the opportunity cost of those that are not.

And although some items on the wish list were not included in the budget at this time, it is important the wish list is updated, comprised of the remaining items less those being addressed (and those that have been eliminated as too costly or no longer desirable). This provides continuity and begins the next generation of wish list items. Decisions are made and every item selected will be at the cost of those that are not.

In the end, opportunity costs knock off alternatives. **CB**

*Michael is the founder of Maple Ridge Community Management. Customer service and innovation are Maple Ridge's competitive advantage.*