

## Manager's Column...

# Funding Considerations in Good Times and Bad

By Jim Banno

Some major newspapers have recently reported on the impact to homeowners associations from the troubled housing market coupled with rising operating costs. The solutions proffered include raising fees, cutting services and/or seeking alternative sources of revenue. An example of the later is "renting unused hallway space for storage."

For the most part, these articles offer sound financial advice since homeowner associations or common interest communities are business entities and, like all such entities, must react to economic conditions if they are to succeed and prosper.

The idea that alternative sources of revenue ought to be tied to economic conditions, however, is incorrect. Seeking ways to augment common charge revenues should be an ongoing investigation and an exercise practiced at least annually in the preparation of a budget.

Some examples of alternative sources of revenue in use at some communities are listed below (items 1 & 2 should represent common/universal practice):

- 1) **Investing funds:** Short term and long term cash projections gives a community the ability to invest funds that maximize returns. A common practice is laddering savings to generate cash as it is required.
- 2) **User fees:** Pool tags, clubhouse/facility rental fees and newsletter advertising space are in popular use at communities that have such amenities.

Here's a few that may not be in wide practice but should be considered (please keep in mind that the premise of such practices must not be prohibited by association documents or applicable statutes - e.g. a charge to a particular unit(s) is defensible by statute if less than all units derive benefit from a particular service):

- 3) Purchase/lease documents that carry a fee charged by the association
  - A must in any community whose documents contain a "right of first refusal" - since this "right" enables the association to buy or lease a unit at a price that meets the best outside offer. How can the matter be considered unless there is a sale or rental document presented to the association? If such a document needs to be presented, why can it not require that a check be attached?
  - Particularly useful/adaptable to any community that assigns rights and responsibilities by unit: e.g.: pool passes, assigned parking/storage spaces, entry codes, etc. A purchase lease document (with check attached) provides information essential to the registration process.
- 4) **Rental fees:** Connecticut Sales Tax Laws presently impose sales tax obligations on condominium associations for a variety of services based on investor ratios. Normally such services are not taxed to owner-occupied residential property. For example, paint-



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ing, rubbish removal, management fees and many other services are charged sales tax based on the ratio of income producing/rental units. Unless such sales taxes are charged back to the rental units, they are borne by the entire community. The simplest procedure for administering sales tax charge-backs is to estimate the annual expense incurred by the association and create an annual fee for rental units.

- 5) **User fees:** Whenever doable and appropriate such as admission fees to association sponsored activities, e.g. tag sale table fees, boat storage fees, assignment of "extra" parking or storage spaces and "zoning" alterations or improvements are a few examples of user fees.

Proposed policies regarding fees and charges should be reviewed by a community's professional manager, attorney and/or accountant to assure that such charges are not prohibited by governing documents and would not adversely affect tax filing options. It is always good practice to published proposed policies in notice and comment mailings to the community. Once such "homework" is done and if guided by the principals of equity and fair play, the only restriction on the development of alternative sources of revenue ought to be a lack of imagination. ■

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## NOTICE TO ALL CAI-CT MEMBERS

### Annual Meeting - September 23, 2008

CAI-CT will hold its Annual Meeting on September 23, 2008 at 8:30am in our offices at 100 Western Blvd., Glastonbury, CT. Election of officers and board members will be held at this time. If you have any questions, please contact us at 860-633-5692 or [www.caict.org](http://www.caict.org).

