

<b>Budget Worksheet for March 2026 Board Meeting</b>				
<b>Category</b>	<b>FY25-26</b>		<b>FY26-27</b>	<b>Notes</b>
<b>Revenue</b>	<b>Budget</b>	<b>Projected Actual *</b>	<b>Proposed Budget</b>	<b>*FY25-26 projections based on actual thru 1/31/26 plus est thru eoy</b>
Dues	30,030	30,029.70	40,560	Semi-annual increase to \$260/home (\$11.25/month increase)
Interest	2,600	2,466	0	FY26-27 will retain interest in reserve funds
<b>Total Revenue</b>	<b>32,630</b>	<b>32,495.70</b>		
<b>Expenses</b>				
Accounting	2,700	2,700	2,700	
Board Training	0	0	0	Self-conducted training at no cost
Electrical	660	700	750	Assume 7% increase for FY26-27
Emergency Prep.	0	0	0	
Insurance	4,300	4,872	5,360	FY25-26 projection includes 10% increase on eoy bill; 10% added for FY26-27. See Note 1.
Social	300	300	300	
Taxes, licenses, fees, permits	485	1,150	812	Includes income tax on interest, \$20 fee to Sec. of State, and \$82.50 property tax. Income tax likely lower in FY26-27 due to lower interest.
Miscellaneous	160	303	160	Rotary flags (160) budgeted plus minor repairs (FY25-26 mailbox repair =143)
Ponds and Access Road	1,760	1,760	1,760	No change in contract for FY26-27
Grounds Maint. Contract	18,421	18,421	19,360	New 2-year contract includes a roughly 4% increase over prior 2-year contract
VMC Land and Cap'l Improv	1,510	1,510*	1,800	*See Note 2: Contingency Funds used for one-time expenses not included here
Office & Postage	500	750	750	\$592 as of 1/1/31, plus anticipated annual meeting packet and mailing expenses
Reserve Study	0	400	1,500	Professional study req'd every 3 years, self-study (program) req'd in alternate years
Website	0	0	865	Web related exp. paid every 3 years
Reserve fund contribution	0	0	2,700	No contrib. since FY19-20. Need to restart to avoid future special assessments
<b>Total planned/ actual expense</b>	30,797 Planned	32,866 Actual	38,817 Planned	See Note 3: Why the Increase? (From \$385/home/year to \$520/home/year.)
<b>Over/Under Income (Planned v. Actual)</b>	+1,833	<370.30>	1,743 (4.5% buffer)	FY25-26 planned for 1,833 buffer (6% over line items). Actual higher due to lower interest and higher/unplanned expenses.
<b>Use of Contingency Funds</b>				
VMC Land and Cap'l Improv added FY25-26	- 0 - Planned use	2,340 – 3,200		2,340 approved Sep '25, anticipate additional 750 request Mar '26 for various one-time, deferred maintenance expenses

## **End Notes:**

### **1. Insurance**

Insurance bill due dates split between end of one fiscal year and start of another, though period covered by policies is fully in the new FY. For FY25-26 policies, one bill of 2,420 was paid in June 2025 and the remaining 2,210 was paid in July 2025 . Total paid for FY25-26 insurance: 4,630 vs. budget of \$4,300. Assuming same payment dates and a 10% increase in policy due for FY26-27, actual paid during FY25-26 is projected to be \$4,872 (\$572 over FY 2025-26 budget). Another 10% increase is projected by our agent for bills due in FY26-27.

### **2. Contingency Funds Used for One-Time Expenses**

In September 2025, the board approved transfer of \$2,340 from our roughly \$30,000 in contingency funds to the VMC Capital Improvement budget for various deferred maintenance projects including hauling, mulching and dead tree removal. Costs were kept low by using volunteers for most work. A professional removed one large tree. Additional funds to remove dying China Firs in our pocket park and a number of dangerous limbs/trees along Timberton will be requested in the March meeting. We still have about \$1,200 available and will request an additional \$800+/- for this work. The trees/limbs will be chipped and used for our remaining mulch project. The full amount that may be transferred this year is less than the amount of VMC funds that went into the Contingency Fund during the prior two years.

### **3. Why the Big Increase for FY2026-27?**

The proposed budget increase is substantial when viewed as a percentage increase (from \$385/year to \$520/year). Spread over the year, however, the increase is relatively small: \$11.25 per month per home. More critically, it follows a decade during which our increases were well below general inflation and even further below our actual increases in expenses.

**How did we manage to avoid earlier increases?** Since 2018, we have “avoided” inflationary dues increases first by ceasing contributions to reserve funds then by using interest from those funds. While this kept dues down in the short term, it not sustainable if we want to remain in a good financial condition (income that matches expenses) and avoid future special assessments. Restarting our reserve contributions and stopping use of reserve funds, alone, requires a \$5,500 to \$6,000 increase in our budget.

- In FY2018, we stopped making a \$1,310 contribution to an “Uncertainties Reserve” (created four years earlier), shifting those funds to the operational account in lieu of a dues increase.
- In FY2020, we stopped making our regular Asset Reserve Fund contribution (previously \$2,640 to \$3,090), again shifting those funds to the operational account in lieu of a dues increase. This appears to have been motivated, in part, by a misunderstanding of the meaning of a fully-funded reserve account.

- In FY2024, we started using interest from our three reserve and contingency funds for operational expenses, shifting \$3,250 in interest to operational accounts the first year, less the second due to lower interest.

**What other factors require an increase?** In addition to the need to restart reserve contributions and to leave interest in our reserve funds, there are several expenses that were not fully covered in recent budgets, partially because they vary by year. These include statutorily mandated reserve studies (est. \$1,500 every three years for a professional study and \$400 for a self-study in intervening years – the free program is no longer available) and website expenses (projected \$865, every three years). Insurance expenses also continue to increase by roughly 10% per year and the blessing of interest income means we need to plan for income tax (essentially a flat 30%).

**How does this compare to inflation?** From FY15-16 to FY25-26, our annual dues increased 14.5% (from \$336/home to \$385/home). During this same period, the consumer price index increased by 35%. Our actual expenses for our largest line items, insurance and landscaping, increased by 93% and 48% respectively during this period and we went from having a volunteer to a paid bookkeeper, increasing the annual accounting expense from \$300 to \$2,700. Statutory changes also kicked in, requiring reserve studies that cost between \$400 and \$1500/year as explained above.

**Couldn't we just use our contingency fund?** In addition to our Asset Reserve Fund and Reserve for Uncertainties, we have a healthy Contingency Fund of roughly \$30,000. That fund has been built over many years using funds left over at the end of each fiscal year (dues less actual operational expenses). So why not just use those funds to make up what we need?

The most obvious answer is this is not a sustainable approach. Dipping into this fund might cover the shortfall for four or five years, but would leave us with no Contingency Fund and the need for an even larger dues increase when the fund ran out. It is also not how this fund is intended to be used as explained in our Balanced Budget Policy, which was adopted by the community a number of years ago. The fund is intended for extraordinary, one-time expenses.

Second, like every other pre-2018 homeowners association in Washington, we will become fully subject to RCW 64.90 in January 2028. This statute significantly changes how we must conduct business. To avoid having governing documents that conflict with the statute, we need to update these documents in the next two years. That means legal expenses. While we are working with other HOAs in Port Ludlow to try to find an economical way to update our documents, the expense will still be substantial and could use up most or all of our contingency fund. Fortunately, unlike most of our sister HOAs, we have a substantial Contingency Fund, which should help us avoid a special assessment for these expenses.