



# Has Snow Blown Your Budget?

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## Tonight's Moderator & Presenters

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## An Overview of Tonight's Webinar

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- The snow line is over budget
- Possible effect on other line items
- What are your choices?
- Future planning
- Estimating expenses
- Pricing and service options
- Long-term strategies

# The Accountant's Perspective

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## Snow Line Item Is Over Budget

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- How bad is it really?
  - Project snow expense for year
  - Estimate the total amount over budget for the year
  - Remember to consider the end of the year



- Snow line is over budget
  - You are not alone
- You know you need to take action. But how bad is it really?
- Project snow expense for the year.
  - What is your association's year end.
    - If you have a June or September year end, then the worst of your expenses have probably been incurred.
    - If you have a December year end, your in the majority. And there are still a number of months to consider.
    - Be conservative... November and December could be just as bad as this January and February has been.
- Unfortunately, it is not just snow removal costs that you need to consider
- Any action that is taken must encompass much more than just the snow costs incurred to date

## Effect On Other Line Items

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- Roofing

- Roof repairs
- Water infiltration/water damages to interiors



- Need to consider the impact of this heavy snowfall on other budget line items.
- Heavy snow can effect many things. We'll take a look at five likely expense line items that can be impacted.
- Ice build-up
  - Ice build-up can cause significant damage to roofs
    - Roof repairs may exceed budget
  - Water infiltration
    - Damage to interior units
    - Damage to common hallways etc
      - Repair and maintenance budget line item may be affected

## Effect On Other Line Items

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- Roadways

- Snow plowing and sanding is hard on roads
- Potholes may develop that will need repairs



- Roadways
  - Salting and plowing is very hard on roads. This can cause increase in maintenance and possibly affect your replacement fund.
  - Potholes may occur which need repairing
  - Road may need resurfacing sooner than expected.
    - This could effect your replacement fund.

## Effect On Other Line Items

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- Other maintenance costs
  - Sanding and salting may require street sweeping and other clean-up



## Effect On Other Line Items

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- Landscaping

- May have tree and shrub damage due to heavy snowfall
- Higher spring clean-up costs



- Landscaping
  - May have tree and shrub damage due to heavy snow fall
  - New plantings may be damaged
  - Plowing may have caused damage to landscaping
  - These are costs that could occur in 2010 or 2011

## Effect On Other Line Items

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- Salaries/Overtime
  - If you use employees to help shovel and clear snow, there may be an impact on overtime salaries



- Salaries/Overtime
  - If you are using employees to help with shoveling and/or snow clearing then payroll and payroll related costs may increase.
  - So... to sum this up, you need to take a look at your whole budget and see what other line items are impacted.
  - The snow overage that you need to address may end up being much more than just snow plowing costs!!

## What Are Your Choices

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- Three different sources of funding:
  - Monies earned in the past
  - Monies earned presently
  - Monies earned in the future



- So, now we have an idea of what costs need to be recovered.
- So the question is how to recover these costs?



## Using Monies Earned In The Past

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- Working capital funds
  - Do the documents allow this
- Prior surplus carryover
- Pros
  - No special assessment or increased fees
- Cons
  - Those that benefited from snow removal aren't necessarily those that paid
  - May reduce working capital below a comfortable cushion (2 to 3 months of operating expenses)

- Since paying from prior earned funds, have cash available



## Using Monies Earned In the Present (Current Budget Line Items)

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- Contingency line
- Cut back on another line item
- Favorable actual to budget variances in other line items
- Pros
  - No extra fees, current owners who benefit from the snow clearing are the ones paying for it.
- Cons
  - If using other funds for other line items, may have to cutback or reduce other services that members want or expect

- Maybe you can cover these snow removal costs via the current year budget.
- If your budget is not excessively lean, there may be room in the current budget to help pay.
- For example: Is there a Contingency line in the budget that has not yet used? Is there a line item that you had put in your budget that was a “wish for” item, or a completely optional item? Cut back on that line item
- Review your actual to budget variances in other line items
- Are there favorable variances that you can use?
  - **Pros:**
    - No extra fees.
    - Current owners who benefit from the snow clearing pay for it.
  - **Cons:**
    - If using other funds for other line items, may have to cutback or reduce other services that members want or expect
- If you are able to use current funds, then your budget should be modified and reissued. Why is this?
  - Helps to ensure that the board is aware of the revised budget amounts for each category
  - Helps in monitoring so that these reduced budgeted amounts are not exceeded.



## Using “New” Monies Earned In The Present -- Special Assessment

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- Calculate overage through the end of the year
- Do it soon while the snow is fresh in homeowner’s mind
- Communicate to unit owners as soon as possible
- Pros
  - Those that benefit pay, don’t take away from other line items/services
- Cons
  - Additional assessment

- Make sure that special assessment is adequate to make up the overage.
- Don’t want to go back in Nov/Dec for more. Think about the snow costs and the other line items affected
- Do it soon while the snow is fresh in homeowner’s mind Do it NOW... before it is 70 degrees outside
- Communicate to unit owners as soon as possible
- **Pros**
  - Those that benefit pay
  - Doesn’t take away from other line items/services that unit owners may want or expect
  - Helps to ensure no deficit in current year
  - Doesn’t use up surplus/working capital fund
- **Cons**
  - Additional assessment



## Using Monies Earned In The Future

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- Pay for it next year
  - Carryover the deficit and raise maintenance fees next year
  - Pros
    - Putting off raising fees
  - Cons
    - Those that benefitted are not paying
    - Future owners are paying for this cost
    - There may be other future costs that will cause fees to increase

- This is the least favorable option
- Putting off until tomorrow what you should do today
- Pros
  - Putting off raising fees
- Cons
  - Those that benefitted are not paying; future owners are paying for this cost.
- There may be other future costs that will cause fees to increase
- Therefore next year fees may be increased for future price increases as well as past costs.
- You could be looking at significant monthly increase

## Cash Flow Considerations

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- Cash flow considerations
  - How are you going to pay if not using past funds?
  - Borrow from other funds?



- Cash flow considerations
  - If the decision is to have a special assessment, how is the association going to pay these costs until the special assessment comes in.
  - Can you borrow from deferred maintenance or replacement fund or working capital until monies come in?



## Borrowing From Other Funds

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- When is it okay to borrow from the replacement fund?
  - Short-term until special assessment money comes in.
  
- When is it **not** okay to borrow from the replacement fund?
  - When using this money to pay for the snow clearing costs without a plan for quick repayment

- When borrowing from replacement fund:
  - Must have a plan for repayment.
  - How will it be paid back and how soon will it be paid back
- If can't repay then this is not an option.
- Will be violating IRS regulations regarding excluding replacement funds from taxable income.



## Other Things To Consider

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- Any decision made today should take into account knowledge about all financial plans
- Should the current year budget be modified now?
- Philosophy about estimates—be conservative

- Any decision made today should take into account knowledge about all financial plans
  - Can't use up surplus if it is already earmarked for something else
  - Can't take from another line item if already committed to that project
- Philosophy about estimates—don't underestimate or will end up with another assessment



## Future Planning

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- Consider setting up deferred snow clearing fund—self insurance
- If utilized surplus carryover or working capital, taking steps to rebuild
  - Factor into future years budgets
- Consider fixed price snow contract, if possible

- How can you help to prepare yourself for this in the future:
  - Planning through the budget process
    - Set up deferred snow clearing fund..
  - Don't leave yourself short. If used a prior surplus carryover, then need to replenish in case something like this occurs again.
  - Factor an amount into future years budget to build up a surplus.
  - Lastly, maybe it is possible to set a fixed fee...
- Fixed snow contract if possible, this may be higher costs, but will help to guard against these major snow storms

## The Contractor's Perspective

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## How Can the Association Estimate Snow Clearing Expenses?

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- Board and property manager's knowledge of the community is very important
  - Past experience will play a role
- Realistic specifications
  - Specifications should be detailed
  - Provide full site map
  - Hiring a snow professional

### *How Can The Association Estimate Snow Clearing Expenses?*

- The board & the manager's knowledge of the community and site is highly important. Past experience will play a large role in gathering accurate and realistic estimates for budgeting purposes.
- Realistic specifications for snow contractor's to estimate
  - Specifications should be detailed
    - Indicate quantities and types of trucks and equipment required
  - Provide a full site map
    - Highlight such areas as "Hot" area for mailboxes, hydrants, garbage sheds, drainage issues, piling snow, staging equipment and salt, visitor parking locations, no street parking limitations, residents with special needs or professions
  - Hiring a Snow Professional
    - Conduct an interview, walk the site, request references and a list of trucks, equipment, laborers, supervision and a list 2 contact persons.
    - The contractor should be have at least 5 years of experience in condo/townhome sites and belong to trade associations such as SIMA



## Fixed Price or Variable Contract Pricing?

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- Variable pricing
  - Per inch basis
    - Plow streets, lots, clean walks, steps
  - Street and parking lot salting
  - Driveway salting
  - Walkway and step salting

*Should The Association Opt For Fixed Price Or Variable Contract Pricing?*

Variable Pricing:

- Per Inch Basis
  - 2-4": Plow Streets, Lots, Clean Walks, Steps, Driveways: \$2,000.00
  - 4.1-6": Plow Streets, Lots, Clean Walks, Steps, Driveways: \$3,000.00
  - Street & Parking Lot Salting: \$500.00 Per Application
  - Driveway Salting: \$600.00 Per Application
  - Walkway & Step Salting: \$700.00 Per Application



## Fixed Price or Variable Contract Pricing? *(cont.)*

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- Variable Pricing *(cont.)*
  - Pros
    - Prices are determined for plowing and cleaning snow
    - If it doesn't snow, you don't pay
  - Cons
    - Salting applications may vary
    - Generally pay a premium for equipment/labor dedicated to your site
    - Your site may not be 1<sup>st</sup> priority
    - Budgeting becomes difficult based on predictions

*Should The Association Opt For Fixed Price Or Variable Contract Pricing?*

### PROS

- Prices are determined for plowing and cleaning snow.
- If it doesn't snow, you don't pay

### CONS

- Salting applications may vary due to the complexity of the site or storm
- Generally paying a higher premium for the use of trucks/equipment/labor that will be dedicated to your site
- Your site may not be the 1st priority
- Budgeting becomes difficult based upon predictions



## Fixed Price or Variable Contract Pricing? *(cont.)*

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- Variable Pricing *(cont.)*
  - Per hour basis
    - Equipment (8' plow truck/2 yard skid steer)
    - Snow laborers
    - Materials (rock salt and calcium)
  - Don't ever do this ☹
    - Unpredictable expense
    - Micro-manage
    - Long duration snow can increase time service and as a result become very expensive

*Should The Association Opt For Fixed Price Or Variable Contract Pricing?*

### Per Hour Basis

- 8' Plow Truck: \$125/hr.
- 2 Yd. Skid Steer: \$175/hr.
- Snow Laborer: \$50/hr.
- Rock Salt: \$190/yard
- Calcium: \$45/bag

### DON'T DO THIS EVER ☹

- Unpredictable expense
- Micro-manage
- Long duration snow events will increase time servicing the site which will be very expensive



## Fixed Price or Variable Contract Pricing? *(cont.)*

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### ○ Fixed Pricing

- Lump sum payable in monthly installments
- Most contracts provide minimums and maximums
- Example
  - \$40,000.00 payable in 3 monthly payments starting on Dec. 1
  - Snow accumulation greater than 40 inches will be charged at \$X per each additional inch. Snow accumulation less than 20 inches will result in a credit of \$X.

### *Should The Association Opt For Fixed Price Or Variable Contract Pricing?*

#### Fixed Rate Pricing:

- Lump Sum for the season payable in monthly installments.
- Most Lump Sum contracts provide minimums and maximum for a set amount of snow accumulation.
- Example
  - \$40,000.00 payable in 3 monthly payments starting on Dec. 1.
  - Snow accumulation greater than 40 inches will be charged at \$X per each additional inch.
  - Snow accumulation less than 20 inches will result in a credit of \$X.



## Fixed Price or Variable Contract Pricing? *(cont.)*

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- Fixed Pricing *(cont.)*
  - Pros
    - Strong budget figure
    - Performance will be optimal
    - Reimbursement for minimum snow
    - Identifiable maximum snow accumulation threshold
    - Minimal involvement of property manager
  - Cons
    - Guaranteed monetary investment

*Should The Association Opt For Fixed Price Or Variable Contract Pricing?*

PROS:

- Strong budget figure for the winter season
- Performance will be optimal since monthly payments are made on time
- Reimbursement for minimum snow
- Easily identify maximum snow accumulation threshold
- No need for manager's overly involved in snow plowing operations and coordination – contractor will be there

CONS:

- Guaranteed monetary investment



## Levels/Types of Service

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- Every community is different
- Identify type of community
- Identify property location in regards elevation, bodies of water, clubhouse usage, visitor parking
- Understanding the community's characteristics will help determine the types and level of services needed

### *What Levels/Types of Service Are Appropriate for the Association?*

- Every community is different
- Identify what type of community you are?
  - Commuter
  - Active adult
  - Child-friendly
  - Town involved
- Identify property location in regards to elevation, bodies of water, clubhouse usage, visitor parking
- With a better understanding of what type of community characteristics you have, the level of service and types of services you will need will be more clear
  - Foot traffic
  - Bus stops
  - a. Etc.

## When Should a Snow Contractor Come in to Clear the Roads?

- Establish triggers
- Plow vs. salt
- Throughout the storm



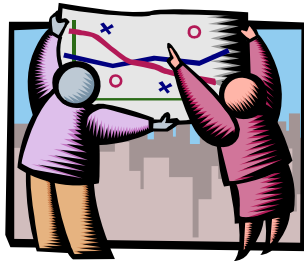
### *When Should a Snow Contractor Come in to Clear the Association Roads?*

- Establish triggers
  - Trigger snow accumulation amount (1") to begin plowing main roads.
  - Why? If a community has steep roads, plowing snow will allow better traction and limit accidents.
- Plow Versus Salt
  - Less than 1.5" generally can be handled with salt.
  - Salting throughout a storm does help to prevent snow pack and icy roads.
- Throughout the Storm
  - Plowing should continue during business hours every 2" unless in extreme conditions.
  - Early morning or late evening plowing can be adjusted.

## Long-Term Strategies

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- Assign a snow liaison
- Certified snow total reports
- Request historical snowfall averages from town/region



*What Are The Long-term Strategies An Association Can Employ To Manage The Risks Of Highly Variable/Unpredictable Snow Clearing Expenses?*

- Assign a Snow Liaison:
  - This person should be knowledgeable of the contract terms and snow procedures
  - Handle communication and direction for the contractor to perform any services when standard contract terms don't apply (Less than the trigger)
- Snow Total Reports:
- Be sure to have a certified snow total report submitted with each invoice



## Planning for the Future

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- Video surveillance systems
- State-of-the-art equipment
- On-site storage containers and salt bins
- Communication to the residents
- Education
- Salting

### *Planning For The Future Of Your Community Relating To Snow Services?*

- Video surveillance systems
- State-of-the art equipment
- On-site storage containers & salt bins
- Communication to the residents:
- Educating residents on snow procedures & cooperation
- Insurance claims and slip & fall accidents



## Questions?

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