

Far Horizons, Uncertain Empires, and Quantum Physics: Lessons in Strategic Planning

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What do Christopher Columbus, Princess Leia and Ernest Rutherford have in common? They each have valuable lessons to teach community associations about unlimited visions and universal limits



“By prevailing over all obstacles and distractions, one may unfailingly arrive at his chosen goal or destination.”

--Christopher Columbus

Back when Columbus was steering the *Nina*, the *Pinta* and the *Santa Maria*, the standard method for planning a journey involved wheedling funds from the royalty, finding a solid ship and trustworthy crew, and then guiding the voyage to a selected destination. While Columbus's words make it sound like a fairly simple enterprise, we all know that despite his planning he did not actually arrive at his chosen destination – although he did reach a place that suited

his purposes nearly as well.

Things have not changed all that much from Columbus's day. Community associations, too, are on a journey to the future. The captain(s) of the community ship – the Board of Directors – turn to the member homeowners for funding. Homeowners set guidelines and expectations through their votes, and the Board steers the community toward those goals.

Where does the community manager stand in this analogy? The community manager is most like the ship's cook and quartermaster: making sure that supplies are ready when needed, seeing to the daily well-being of the crew, reporting complaints and comments to the leadership, and most of all explaining when a course correction may be necessary.

Columbus's experience offers an important first lesson in strategic planning at the community level:

Lesson #1: Do not be afraid of visionary goals.

If goal-setting were easy, there would be very few self-help books on the market. In reality, goal-setting is very difficult even for an individual, let alone a group of people

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who may not necessarily share priorities. The responsibility for setting goals and direction rests primarily with the community members and the Board – the people funding the enterprise and steering the ship.

In a community association, the purpose of goals is to focus attention and resources with the objective of solving problems or making improvements. The goal-setting exercise will be most productive if the Board and homeowners can set aside discussion of motivations, accusations, and personal agendas. Consequently, looking to a far horizon, reaching for a grand goal, can often best direct the Board to evaluate and respond to the most common needs of the majority of homeowners.

Long-range goals may be visionary and wide-ranging, but after they have been adopted, they should be accompanied by measurable objectives and priorities. In defining smaller milestones, the Board should remember that any community with more than one resident will have to consider the various priorities of the people funding the expedition – in this case, the homeowners. Even Ferdinand and Isabella had differing goals when they handed Columbus his permission to sail. Small-scale goals can be established to balance the varying priorities and resources of different sets of homeowners, demonstrating to all of the stakeholders that their concerns have been heard and are being considered.

For example, in a community with a large over-55 component and a growing number of families with young children, there may be a dispute over how to handle funding for pool maintenance – older residents who do not use the pool frequently may be dissatisfied with assessment increases to maintain the facility, while younger families want more amenities to be added to the pool. A goal aimed at the farthest horizon might state:

A. Maintain and improve the pool as a community-wide recreation facility.

Smaller objectives that balance different priorities and preferences could read:

A.2 Establish a funding plan to add a wading area, safety fence and child-size furniture to the pool facility. This goal will respond to the desires of the families with small children.

A.3 Survey residents on their preferences for alternative pool-based activities, such as water aerobics, lap swimming, etc. and develop a funding plan to implement desired activities that will attract adult users to the pool. This goal will focus the Board's attention on the concerns of community residents who do not frequently use the pool, but might use it if conditions were changed.

A careful reading of Columbus's admonition about arriving at the chosen destination should resonate with community leaders and managers: when is it ever possible to prevail over *all* obstacles and distractions? Never. Likewise, a community's selected destination may *never* be achievable, but that does not mean that sailing forward is a bad decision. Setting the course is the first step. Together the Board and the manager will watch the compass, weather the storms and land at a closer shore if they need to, secure in the knowledge that their decisions have been made with the best interests of the whole community as a guiding principle.



“Empires are unpredictable.”

--Princess Leia Organa

In the Star Wars epics, the heroine Princess Leia found herself at odds with a powerful empire determined to control the universe. Communities often face a similar situation when dealing with the empires around them – in this case, governments, agencies and utilities. These entities can have a profound impact on a community’s strategic plans and the costs of accomplishing Board goals.

Lesson #2: Communities are subject to the rule of empires.

Over the past few years, changes in laws and standards have transferred a number of costs to communities that were not anticipated decades ago. In Montgomery County, for example, community associations are now required by county law to shovel county-owned sidewalks that abut community property. Montgomery County has recently imposed substantial fees for modifying community property and is exploring regulations for street lighting that may significantly increase costs to communities by requiring them to comply with stringent lighting efficiency standards. The state of Maryland has considered imposing service taxes on community management services; this proposal was removed from the final tax bill, but could be considered again in the future.

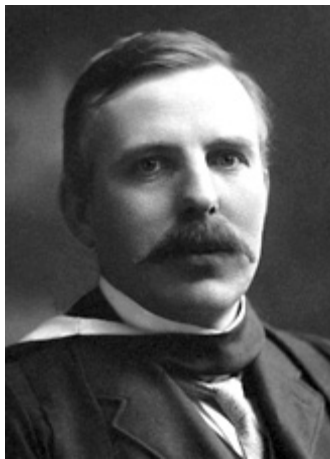
In the arena of utilities, the Washington, DC metropolitan water utility, Washington Suburban Sanitary Commission, has established fees for inspecting manhole covers and valves during repaving projects. Other utilities may directly or indirectly increase costs to communities when they install equipment or wiring. In those instances, communities may have to repair damage to property from digging or equipment, or might be requested by residents to plant screening after new utility structures are installed.

The point here is that the actions of governments, agencies, and utilities are beyond the control of community associations. These “empires” have the power to determine the types of projects which a community may undertake, and government requirements will also affect project costs. No amount of budgetary foresight can predict with certainty the regulatory impact on a project that may not be scheduled to take place for several years. Because many of these costs and fees are established by agencies

as part of their own budgeting processes, they are not subject to the constraints of inflation and can rise far faster.

So what's a community to do? Consider Princess Leia's statement to Governor Tarkin: "The more you tighten your grip... the more ... will slip through your fingers." The same point is valid for community association planning. In some ways, a careful, complex, specific, long-term funding plan can be undermined by its own precision because it is not responsive to the unpredictable cost impact of regulation.

Community leaders and managers need to consider the potential impact of government fees and regulations and accept the need for some "wiggle room" in the numbers, particularly in reserve models that are focused beyond the current fiscal year. Residents and Board members must recognize that there is a universe of factors beyond the control of the community or its manager.



**"We haven't got the money, so we've got to think!"
-- Ernest Rutherford**

Ernest Rutherford won the Nobel Prize for his work in quantum physics. But for a man dealing in sub-atomic theories, he made an awful lot of sense. Through his work he developed the concept of predictable decay: in the simplest terms, even if we can't say for sure what will fall apart, we can guarantee that something will.

Lesson #3: Even if nothing is broken today, we will be paying for repairs tomorrow.

Things fall apart – that's how the world works. Community management and maintenance, therefore, is an ongoing process of identifying needs, costs and options. And all too often, the most contentious and pessimistic Board of Directors can be determined optimists about how long community assets can survive without being maintained or replaced.

Communities prepare for future maintenance through reserve studies and models. Reserve studies identify assets to be replaced and their associated replacement costs; reserve models provide suggestions for the rate at which funds should be set aside by an association in preparation for those replacements. A very simple method of determining the funds needed to replace an asset in the future uses this formula:

Replacement Cost - Available Funds / Remaining Lifespan = \$ per year needed to fund replace
Consequently, a park bench valued at \$500 with a remaining lifespan of 4 years and \$100 saved already would result in the following funding determination:

$$(\$500) - (\$100) / 4 \text{ years} = \$100 \text{ per year to fund replacement of park bench}$$

A list of the inventory's assets and replacement costs would result in a detailed, fiducially sound reserve study. With any luck, the Board will be able to postpone some replacements, but history shows that despite the Board's best efforts, some things will need to be replaced ahead of schedule. In recognition of this, some reserve models add together the items to be replaced in a given year and compare that with the funds that are anticipated to be available that year: as long as projected reserve funds exceed the projected expenses for a given year, reserve funding is considered adequate.

Strategic planning and reserve models should incorporate an understanding that every year, some long-term assets will require attention, even if the specific asset cannot be identified ahead of time. In other words, the manager may not be able to identify the specific street light that will be vandalized, but she can predict with certainty that a street light will end up broken. A contingency reserve item can be included in the reserve model to ensure that sufficient funds will be available to permit replacement of anticipated but unpredictable damage. The following formula could be used for anticipated repairs in the range of \$1500 per year:

$$(\$1500 - \$0) / 1 \text{ year} = \$1,500 \text{ per year to fund contingency replacements.}$$

As Rutherford pointed out, the power of thought can offset financial shortfalls. By thinking ahead about financial unpredictability, the community will have a better opportunity to fund the unknown.

Every community is subject to limited control over events and resources. But those limitations should not be seen as an obstacle to developing a community strategic plan. After the course is set, resources can be allocated to support the journey and respond to unpredictable events. In the end, every community is afloat whether it has a direction or not – but the voyage will be happier if it is being steered toward a desired shore.