

## Columbia Association **Transmittal Letter**

January 14, 2022

Chair Evans, Other Members of Columbia Association Board of Directors and the Columbia community:

I am pleased to present you with the draft operating and capital budgets for Columbia Association (“CA”) for fiscal year (“FY”) 2023 the 12-month period from May 1, 2022 to April 30, 2023. I deeply believe, and my experience confirms, that an organization’s budget is a tangible demonstration of its priorities and values. Budgets are a tool, but also a statement: *“Here are the things our community cares most about.”* I am proud to present a draft budget that is the product of significant staff effort, direct community engagement, and strategic Board guidance.

The goals of this transmittal letter are to:

- Provide a summary of the new process and community engagement tools used to develop the FY 2023 draft budgets;
- Highlight the major revenue and expense factors, operational outcomes and capital spending reflected in this draft document; and
- Share a snapshot of CA’s current financial condition and longer-term outlook.

You will see that the draft FY 2023 operating budget reflects the organizational realignment that established the Department of Community Programs and Services led by Vice President Dan Burns and the Department of Community Operations led by Vice President Dennis Matthey. Effective in early October 2021, the realignment also provides greater clarity and visibility into CA’s programs and services, by aligning elements more closely with how the community experiences them, such as the newly created *Parks, Pathways and Play Areas* or *Arts and Culture* designations, as an example.

### **Innovative Budget Process New for FY 2023**

Innovation is simply an orientation to continuous improvements. This is a key lens we are using across CA, particularly in the budget process. We heard loud and clear from our community that it was time for a new way for CA to prepare its budget and that additional avenues for community participation were needed. To both of those ends, the new process for the FY 2023 budget production engaged the community more directly and earlier. Ultimately, we must ensure that we are asking the right questions and giving the community more than adequate opportunity to respond. This year’s process also gave the CA Board more flexibility over key

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variables. Fixed parameters, such as the annual charge rate and cap, were not defined as the starting point, so that the community could have input into informing those key decisions.

In July 2021, the CA Board held a special session dedicated to FY 2023 budget planning at which they defined scenario test cases. The purpose of the test cases was to enable greater visibility into CA operations, pulling apart and re-organizing line items in different ways to provide greater clarity and to better understand trade-offs among various decision points. Estimates were built on a variety of assumptions that illuminated the complexity and interdependence of CA's operations. We shared the three test cases with the community through an online survey, and through a public special information session to answer questions and to listen. I am delighted to report that more than 450 community members participated in the online survey, which certainly feels like a step forward in terms of engagement.

The CA Board received all of this community feedback, and, at their December 9, 2021 meeting, provided staff with the direction and guidance needed to develop the draft FY 2023 budget that you are now reviewing.

### **FY 2023 Operating Budget Overview**

The following factors were especially impactful on the draft budget.

- The COVID-19 pandemic and the persistent impact of the virus on human behavior are expected to continue to affect growth in participation in CA services and programs, such as School Age Services, fitness, leagues, other recreational activities, classes of all types, and the arts.
- No long-term debt issuances are projected for FY 2023, and we do not anticipate using the short-term line of credit during the fiscal year.
- The planned implementation of the recent increase in Howard County's minimum wage and corresponding pay compression adjustments for CA team members are accounted for in the FY 2023 budget.
- A continued value and prioritization of ensuring accessibility to CA's programs and services for Columbia residents in particular were factored into the draft budget.
- All 23 outdoor pools are expected to open in May 2022, as well as a full program for the Columbia Neighborhood Swim League.
- Budgeted funding for open space maintenance, aquatic weed harvesting, lakefront maintenance and response time to urgent work orders are consistent with pre-COVID-19 efforts.

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- A continued stewardship effort, with clear resource allocation, towards sustainability and environmental preservation reflects ongoing Board priorities.
- New and expanded activities and events at the Downtown Lakefront and other community venues are included in the draft FY 2023 budget.
- Enhanced funding and strategic changes in CA communications to focus on engagement and multimedia.
- Specific resource designation will continue dedicated Diversity, Equity, and Inclusion (DE&I) initiatives that began in FY 2022.
- The draft budget includes total financial support for the 10 village community associations (“villages”) of \$6.6 million (an increase in total of \$576,000 or 10% over the FY 2022 estimate), of which the annual charge share, including the reimbursement for benefits for employees of the villages, is budgeted to increase by 6%, or \$196,000.

### **Annual Charge Revenue and Assessed Valuations**

Real property in Maryland is assessed on a triennial basis. For residential and commercial property owners subject to CA’s annual charge, increases in assessed value are phased in equally over three years and the annual increase currently cannot exceed 3.5% per year. Any decrease in assessed value is fully factored into the first full year after the assessment.

For the 19th consecutive year, the annual charge rate will be \$0.68 per \$100 of assessed valuation. The cap will be held at 3.5%, as it has been since FY 2017. The maximum allowable rate is \$0.75 per \$100 of assessed valuation and the legislated maximum cap is 10%. As reflected in the draft FY 2023 budget, both components of the annual charge formula are significantly below the maximum amounts. At this time, we believe that the persistent presence of a global pandemic and the corresponding economic crisis should prevail over any perceived need or desire to increase either component of the annual charge, which undeniably would add to the financial burden of our community stakeholders. At the \$0.68/\$100 rate and 3.5% cap, annual charge income will be in line with FY 2022 projected income.

### **Membership and User Fee Income**

Our long-time goal in pricing our programs and services is to encourage participation to the greatest extent possible. However, the 12% increase in the Howard County minimum wage rate effective April 1, 2022 has a significant impact on our operating costs. The very recent passage of that legislation has driven us to look to increasing most memberships by 5% to 7%, which is higher than CA’s typical membership rate increases of around 3% at most. Since the minimum wage increase impacts CA’s community programs and services more than anything else in the organization, we aligned the increase needed in revenue with the facilities and programs incurring the greater cost, rather than burdening the entire community with those expenses. On the other hand, we kept budgeted

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increases in fees for programs such as School Age Services, daily facility admissions, tennis court time, etc. in the range of 3% to 4%, below projected inflation for the period. We also held to our general approach of a slightly greater increase for non-residents in comparison to resident rates.

### **Staffing and Personnel Costs**

A major expense driver for CA is personnel-related costs, accounting for almost 45% of total operating expenses for FY 2023. Recruiting for many positions has become and continues to be challenging for CA, largely due to ongoing COVID wide-ranging impacts, and for most employers in nearly every industry and geographic region. The recruitment and selection of quality staff in conjunction with our retention efforts, including cross-training, DE&I initiatives, and learning and development opportunities, are critical to CA's ability to maintain service levels expected by community stakeholders and imposed by the organization.

The draft FY 2023 budget incorporates team member pay increases at an average of 3%, similar to FY 2022, which followed no increases in FY 2021. The draft FY 2023 budget includes the restoration of CA's 6% contribution to the 401(k) plan covering eligible CA team members and village employees. As one of many personnel-related cost reduction steps due to the pandemic, CA's contribution was reduced from 6% to 3% in April 2020 through December 2021.

As alluded to earlier, in December 2021, the Howard County Council voted to increase the county minimum wage at higher rates and on a shorter timeline than the State of Maryland minimum wage scheduled increases. Minimum wage in Howard County is now scheduled to increase to \$14 per hour (from \$12.50) effective April 1, 2022. The chart below shows the increases and the timing.

Effective Date	State Hourly Rate	County Hourly Rate	Howard County higher by:		County Year over Year Increase
1.1.2022	\$12.50	\$12.50	\$ -	0%	6%
4.1.2022	\$12.50	\$14.00	\$1.50	12%	12%
1.1.2023	\$13.25	\$15.00	\$1.75	13%	7%

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1.1.2024	\$14.00	\$15.00	\$1.00	7%	0%
1.1.2025	\$15.00	\$16.00	\$1.00	7%	7%

For CA, the impact of changes in minimum wages has a ripple impact across many positions due to the need to make adjustments to wages above minimum wage to ensure an equitable distribution among team members. The impact of the increased minimum wage and related anticipated pay compression (approximately \$625,000 in compensation before payroll taxes and benefits) is reflected in the draft FY 2023 budget. Going forward, the Howard County minimum wage increase will continue to create upwards pressure and other pay compression challenges for CA’s compensation structure and operating costs.

**FY 2023 Capital Investment Overview**

A key priority in the draft FY 2023 budget has been ensuring increased funding towards our capital projects impacting our open space and facilities. The draft FY 2023 budget includes \$11 million in capital funding, representing an increase of nearly 38% over the FY 2022 capital budget of \$8 million, and a significant step toward the pre-COVID funding of \$15 million. The draft FY 2023 capital investment plan continues the current focus on safety-related reinvestments, along with projects that further primarily the CA Board’s goals of environmental sustainability and open space stewardship.

The draft FY 2023 capital investment plan is presented in three categories; a practice that has been used very effectively since it was approved by the CA Board for 2011. **Category I** capital projects are Board-approved initiatives that include major community-wide sustainability projects. **Category II** capital projects, also specifically approved by the Board, include major reinvestments in facilities or significant projects. **Category III** capital projects, an inclusive list of improvements and upgrades to facilities, are funded by the remaining dollars allocated for the capital spending plan.

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Highlighted here are some of the more significant FY 2023 capital projects.

- \$1,325,000 - Building energy retrofits, watershed and water quality improvements and “going green” projects
- \$1,419,000 - Pathway, pedestrian bridges and boardwalk renovations and replacements
- \$750,000 - Stonehouse and Art Center renovations
- \$600,000 - Historic Oakland heating, ventilation and air conditioning renovation
- \$511,000 - Tot lot replacements

Major Category III allocations include:

- \$1,113,000 for Open Space projects
- \$634,000 for village community association projects
- \$583,000 for Outdoor Pool projects
- \$500,000 for Downtown Lakefront improvements

### **Outlook**

As a result of the financial and operational adjustments made previously and our ongoing commitment to honest and clear-eyed financial stewardship for the future of the organization, CA is in very sound financial condition. We have proven yet again that we can produce a budget and successfully execute against it, even in the most uncertain times of a global pandemic that has impacted every aspect of our lives, individually and as a community. We have a solid track record, earned over 54 years of financial discipline, that incorporates innovative yet deliberate planning, efficient and effective execution and thoughtful review. There is a continuous focus on making improvements, managing costs, and finding efficiencies without compromising service delivery. Our cash position is strong, thanks in part to the Board’s FY 2021 decision to establish and begin funding a cash reserve for emergencies.

As this letter was being written, the omicron variant was creating yet another surge in COVID-19 cases at the global and local levels. Leaders at all levels of government and other organizations are grappling with the public health concerns, pressures on the healthcare system and potential economic impacts. The long-term social, economic and community impacts of the COVID-19 pandemic remain unknown. In the years preceding the pandemic, CA had experienced solid and consistent income growth, mainly through commercial development, increases in assessed valuations, and strong community participation in our services, programs and activities. We are not planning or strategizing on how to return to “normal”, if “normal” means a pre-COVID CA. We anticipate instead, in three to four years, a repositioned CA, supported by an organization-wide commitment – Board and staff – to engage our community in continuing to drive the evolution, relevance, and quality of our programs, amenities and other offerings and the way that we deliver them.

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### **Next Steps**

With the issuance of the draft FY 2023 budget, we are now entering another “listening” segment of our budget timeline, new for the FY 2023 process. From January 22 through January 26, 2022 we will have an online feedback tool open and available for community feedback on this draft budget. The CA Board will be meeting to discuss and deliberate on the draft FY 2023 budget on January 27, 2022 and February 10, 2022 and will have their final deliberations and vote at their February 24, 2022 meeting. As always, Resident Speakout is an important component of these meetings. Input and comments can also be submitted to the CA Board members.

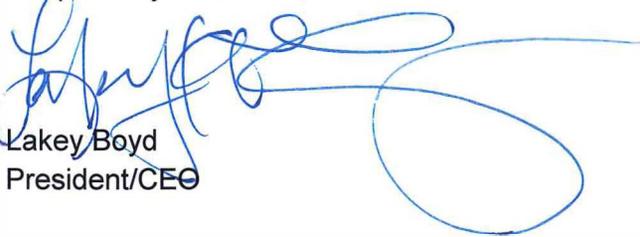
We want to hear from you and have worked hard to add more opportunities for community participation. Please use one or more of these mechanisms to share your thoughts on the draft FY 2023 budget.

### **Acknowledgements**

It is important to acknowledge the significant efforts of CA’s senior leadership team and managers throughout the organization in this budget’s development. Specifically, the efforts and leadership of Susan Krabbe, CFO/Senior Vice President of Administrative Services and Lynn Schwarz, Director of Finance/Treasurer have been invaluable in this successful process. I would also like to acknowledge and thank CA’s Accounting Division for their hard work under a new process and a challenging timeline. Each of you as a member of the CA Board of Directors provided strategic guidance essential to the development of a draft budget for FY 2023 that reflects the community’s priorities within a fiscally responsible framework.

Finally, I would like to give a special thanks to all CA team members who continue, with extraordinary commitment and energy, the important work of providing quality programs, services and amenities to our residents, members and guests.

Respectfully submitted,



Lakey Boyd  
President/CEO