

OPERATIONAL EXCELLENCE:

Balancing financial stewardship and service; efficiency, accountability, and communication in financial and operational planning.

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Budgeting & Planning: Key Components

► Receipts

- Maintenance Fees
 - Driven by each year's budget and allocated based on Percentage of Common Interest (PCI) to cover the maintenance of common areas, amenities, and essential services. For luxury properties, this often includes high-end features and services.
- Investment Income
 - Strategies vary, but must comply with HRS 514B and Federally insured; NO comingling of funds, etc.
- Reimbursements
 - Typically includes insurance settlement payments and deductibles.
- Any Ancillary Revenue
 - May include additional receipts from Association assets, such as parking, guest suites, and EV charging stations.

Budgeting & Planning: Key Components

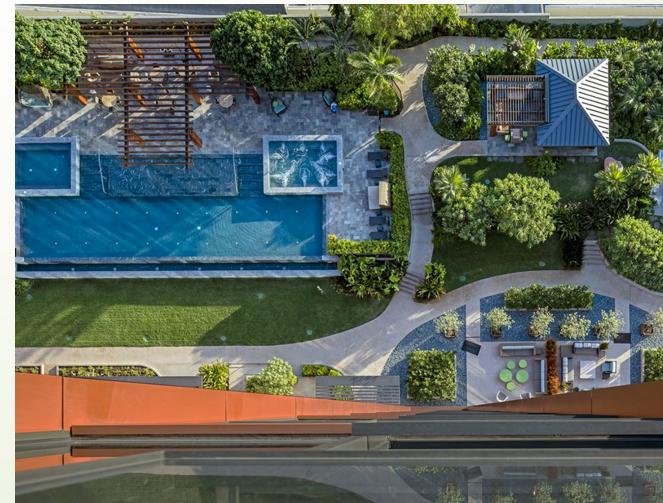
► Operating Expenses

- Utilities
 - Hawaii's largest driver in this area is electricity, but also include water and sewage, and in some cases gas; many condos also incorporate bulk cable, internet and phone as well.
- Contracts
 - Generally include costs from recreation, landscape and maintenance vendors.
- Repairs & Maintenance
 - Encompasses preventive maintenance and repairs whose costs are spread out evenly over time.
- Professional & Administrative
 - Primarily include costs of consulting, management and audits, along with legal.
- Payroll
 - Salaries, wages, and benefits, which account for the most important asset.
- Other Expenses

Budgeting & Planning: Key Components

► Capital Expenses

- Reserve Study should be updated annually with a Level 1 comprehensive update performed every three years as required.
- Create a plan for long-term goals where feasible.
- The reserve fund contribution serves as a savings account for major, non-recurring capital expenditures such as roof replacement, exterior painting, or elevator upgrades. Boards are often advised to set aside at least 10% of the total budget for reserves.





Our Challenge Ahead

- ▶ While the cost of insurance overall is expected to stabilize, the forecasted increases in premiums remain between 7 – 10%. Moreover, the hope for an eventual reversion to pre 2023 levels is no longer realistic. The primary driver for massive increases the last two to three years has been in the area of property insurance, and, in particular, excess hurricane premiums.
- ▶ Hawaii state minimum wage is scheduled to increase to \$16.00 per hour on January 1, 2026, and then to \$18.00 per hour on January 1, 2028. Combined with the seismic shift in the industry workforce, it has become increasingly challenging to recruit and retain quality talent.
- ▶ Inflation is expected to rise over the next year as tariffs are passed on to consumer prices. A mild recession is therefore expected for the State over the next year, with any further weakening of the US economy threatening a potentially deeper downturn.
- ▶ Based upon updated Reserve Studies and projected cashflows, reserve contributions must be increased to support 30-year plans for capital expenses.

How do we deliver service?

Through low-cost, high-impact elements like personalization, staff training, and meticulous attention to detail, while leveraging affordable technology and creative solutions whenever possible.

► Focus on the Experience

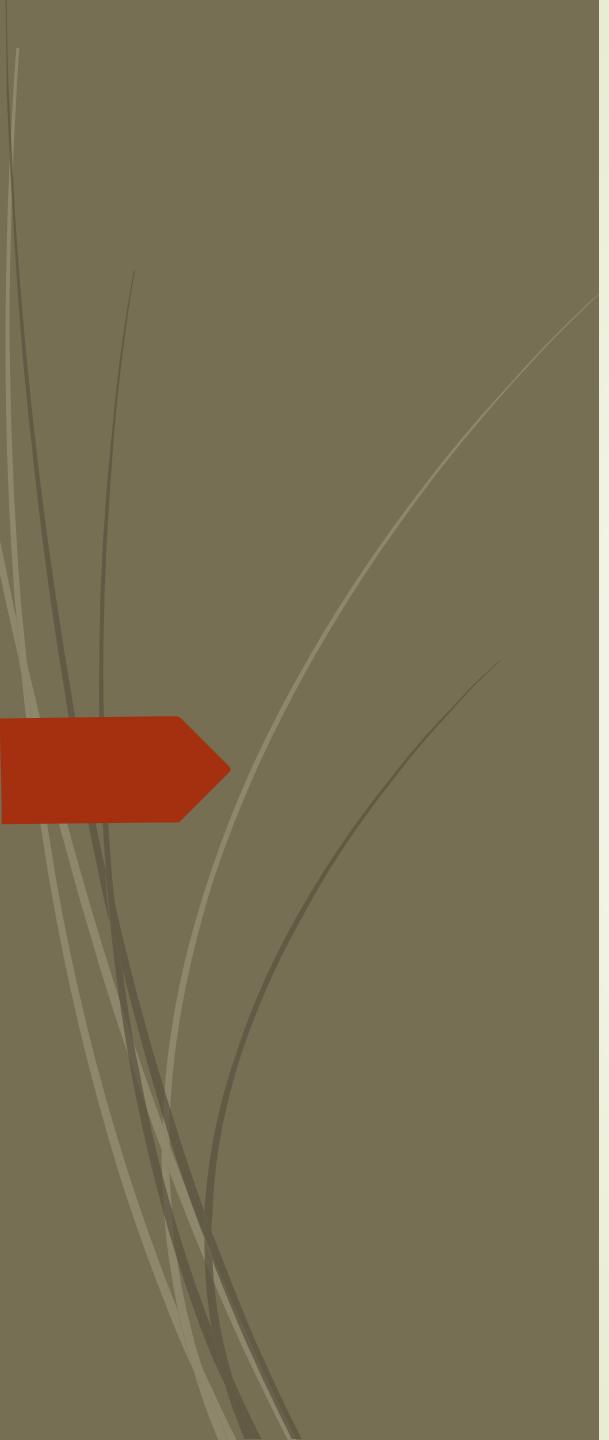
- Personalize every interaction. Remember that a luxury feel comes from making the customer feel valued and seen. Must be done in an appropriate manner but prioritize authenticity over perfection in execution.
- Master the "small touches." These have a big impact. Ensure a clean and well-lit entrance, as well as other common areas. Less can be more by making sure the few amenities or areas in our control that are inspected regularly. This includes restrooms, hallways, parking lots and outdoor spaces.
- Refine the presentation. If applicable, use professional-looking materials and instill appropriate grooming standards, wearing of uniforms and nametags, and a smile ☺



Service Elevation

► **Invest in Staff**

- Prioritize soft skills. Train your team in active listening, empathetic communication, and problem-solving. A luxury experience is often more about the human interaction than the aesthetics or physical attributes of the building.
- Provide detailed and meaningful training. Go beyond basic administration, security, cleanliness, and conditions. Share your Board's vision under your leadership for the future of the community. If there is none, work with them to create a basic mission statement. Then, teach your staff that story, as well as how to convey passion and understanding to homeowners, and each other.
- Empower staff with data. Equip your team with the tools to access and use available information to provide personalized service.



Service Elevation

► Use Technology Wisely & Get Creative with Resources

- Leverage automation without compromising the personal touch aspect. Use technology to streamline processes and create convenience. For example, utilize a community management platform for service requests to free up staff time.
- Create seamless digital experiences. Ensure that an app, while not the sole service solution, is both user friendly and meaningful in application.
- Offer accessible support. If the online application does not provide assistance directly to users, offer alternatives, including emails AND telephone numbers with a commitment to respond within a reasonable time.
- Prioritize quality over quantity for any social events or lifestyle components. And use affordable alternatives whenever practicable.
- Tap into your wealth of resources within the homeowner group and staff. You'd be surprised if given the opportunity how many would volunteer to share their talents in the spirit of community.

Conclusion

The best way to keep everyone happy and the community running smoothly is through careful planning and clear communication. Your Board of Directors should be working closely with its finance committee and management, as well as any other financial experts to create a budget that is realistic in achieving the vision of the Association, of which preserving values is paramount.

Without a carefully crafted budget, your community will not be able to achieve its goals or further its vision in the area of service expectations. Board members' fiduciary responsibility to their communities is their most important role. If your community is not fiscally sound, you cannot implement preventative maintenance, properly fund your reserves, maintain your amenities or host community activities. Both property values and your community's quality of life will decline as a result.

Proper fiscal stewardship and superior service are NOT mutually exclusive. Moreover, transparency is key. Regular financial review by the Board and management, including open meetings, help everyone understand where the money is going and why certain decisions are made. It is the money of the Association and its Members, and they have a right to know how funds are being spent.

MAHALO

