ASSOCIATION RESERVES™
Planning For The Inevitable™

BUDGET SUCCESS FOR BOARDS AND HOMEOWNERS

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Miss the Webinar? Watch it here.

What's the Problem?

Boards, and the homeowners serving on the budget committee, rarely get effective training for the critical task of preparing the association's annual budget. Money is the lifeblood of any association, and it comes from an effective, sufficient, and balanced budget. Too often the Board, or budget committee, dives straight into the numbers. But that's a mistake, as those Boards start out with great plans and good intentions, but they get bogged down and distracted by the details of their budget, just tweaking last year's numbers and moving on, leaving plans and dreams unfilled.

What does "winning" look like?

Winning is when the budget is based on association goals, which everyone understands. The board, and budget committee has the confidence of the owners by the way they operate and communicate. No owner is surprised with the end result of the budget process (the amount of assessments for the coming year), and the association has the funds it needs to operate and meet short term and long term goals and expenses.

What are some of the key skills, to improve your odds of success?

Start early (six months in advance of the Fiscal Year End). Gather your resources, understand your environment, and communicate honestly with the owners (continually reinforcing objectives). Choose your words carefully, and communicate in multiple mediums (newsletter, bulletin board, website, open meetings, social events, etc.). Reinforce the message that today's decisions affect property values and the future enjoyment of homes in the association. And finally, know the answers to those hard questions (our owners can't afford it, our assessments are higher than neighboring properties, the owners don't care, we don't have enough time for the budget process, and how to fit in Reserve contributions)!

For additional Resources see:

www.ReserveStudy.com

WEBINAR ATTENDEE QUESTIONS

1. **For 15 years our townhouses were not repaired or repainted therefore we have to get a loan. So the budget is a theoretical exercise: we have to fix whatever is falling down. How do we "budget" for "solving a constant emergency" (diseased trees, falling balconies, sprinkler and irrigation valve failures, etc.)?**

   Jeff: It took 15 years to get into this financial position; you can't get out of it with a loan. In fact, qualifying for a HOA loan that is a smart business decision will require your community to not make the same mistakes it made 15 years ago. You need to RAISE YOUR DUES now to start paying for current operational costs, current capital depreciation (reserve contributions) and even more for the loan repayment (if you qualify). Until you show a bank that you have a good long-range plan in place to correct the board mistakes of the past, it is not prudent for you to borrow money. You start by making a long-range plan of what needs to be done and then prioritize. Capitalize on economies of scale in purchasing replacements, don't piece-meal projects. Now is the time to educate all owners about paying their fair share. This takes visionary leadership from the Board and/or Manager. If you don't have that leadership, then your problem really isn't financial, it is a board leadership issue and you may need to find new community leaders who can build support around a long-term solution that will require everyone to sacrifice.

   Bill: Catching up is hard to do. First of all, it took 15 years to get where you are, so getting back to normal does not have to happen in one year, maybe spread it over 3-5 years. Rather than assume loans are the only option, present the different options to your owners. These options can include increased fees, special assessments, loans, or combinations of these. Strive for the lowest cost approach and one the owners can live with. You've seen what happens when there's neglect, so this is the perfect time to prepare a budget and reserve plan so that this neglect can be avoided in the future. Your owners have seen the pain and may be more amenable to this sustainable approach.

2. **It sounds like you define Reserves as the dollars set aside annually to finance projects recommended from a Reserve Study. Do you also recommend having a separate Emergency Reserve for catastrophic events such as hurricanes, etc.?**

   Bill: The type of events you talk about can be categorized as "surprise" events. Your Reserves may be used as a zero-interest loan to the Operating Fund to cover costs that insurance does not cover. By definition these surprise events happen once in a while and are not predictable. If it were included in your annual budget as a line item it would unnecessarily inflate your fees. We calculate our Reserves using a threshold of $30,000 (about 15% of our fees) so there is a cushion to fall back on when these surprises occur. We plan on using it for Reserves, but it is a cushion for other emergencies. Using this money does not immediately affect paying for the defined Reserve components. We would expect to pay the loan back to reserves over the next few years.

Jeff: I like to adopt threshold funding model for reserve funding, where the board sets a minimum threshold (usually % of largest future capital expenditure or a fixed dollar amount based on potential surprise events) so that the reserve fund never goes below that threshold. This threshold is what you use to borrow against (as Bill discussed above) to pay for those "surprise" events without having to do a special assessment or large unplanned dues increase. I sell this to owners by saying that by setting the threshold and raising reserve contributions, you are buying an insurance policy to protect you from your HOA making a special assessment demand on you within a short-time period (90 days or less).

3. Do we need to create a Reserve for installation of new trees if cost is $10,000 or above (in Florida)?

Robert: There is a four-part test found in National Reserve Study Standards that defines acceptable Reserve components, and replacement trees often pass that test. In the larger picture, significant periodic landscape maintenance projects are often legitimate Reserve components.

4. Can you provide more information on the Reserve component four-part test?

Robert: Certainly. It needs to be a common area maintenance responsibility, life limited, with a predictable Remaining Useful Life, with a cost above a threshold of significance to the association. See more here.

5. How can we best create surveys for our owners?

Jeff: I use an online survey tool called www.surveymonkey.com to create surveys on the services and vendors that each Association uses each year. I recommend using forced-rating scales such as: Very Satisfied, Satisfied, Unsatisfied, and Very Unsatisfied. Don't use Neutral categories as you want to force people to get off the fence. Make a list of all your vendors and ask them to rate each vendor. Then ask open-ended questions to get qualitative answers in major categories: lawn care, landscaping, management services, snow removal, garbage removal, cable TV, pool, etc., which is where you will judge the quality of services provided and how your owners feel about the quality and quantity of services provided.

Remember that most services will have a bell-curve of owner input and that there is often a silent majority that rarely shows up to meetings. The complainers always show up to meetings because they have something to say, but your job as a Board is to do what is in the best interest of the entire community, not just a few on either end of the spectrum.

Bill: I like surveys because they allow each owner an equal chance to be heard. The results are also reportable. The actual survey you do depends on what you are trying to accomplish. We do a tri-annual survey that asks owners to rate on a scale of 1-5 how the board is performing to the stated goals of our association. This year we added a survey patterned after the CAI national survey of homeowners' associations so we can see how our association stacks up to the national results. We added one more that asks owners about items the board should work on in the near future. In each of these we use a rating scale and also allow for owner comments. We try not to over-survey our owners. We also report our findings to everyone and develop action items where needed. CAI publishes a book called "Surveys ... A Guide for Community Associations" that is a good reference for survey styles.

6. **How accurate are resident surveys? Our experience is that everyone gets all their friends to stack the deck to get what they want.**

Jeff: I find them very accurate and insightful if they are well-written and provide an opportunity for open-ended comments and feedback. Further, we suggest that you then publish the survey results to the owners so that all owners see that the Board and Management are serious about making changes. Explain to owners why you are making changes based on the surveys and why you will NOT be making changes, even when the surveys ask for it. Often, it is HOW you present the surveys and their results that will build trust for the next survey.

Finally, you can add a list of all the units in the survey form so that those completing the survey must list what unit they are representing. You can also have them share their name. People that want to remain anonymous really are not interested in solutions – so don't allow them to be anonymous.

Bill: We do see a little of that in our surveys but not to a critical degree. I feel a survey is more accurate and covers a wider population than open discussions in meetings. People who usually are hesitant to open up in large groups will fill in a survey. Dominant individuals may slant a meeting and discourage others to participate so the conclusion can be a loud but minority view. So, it's not a question of accuracy, but a question on which is the better way to get owner feedback.

7. **How important is it to perform and update the Reserve Study? We haven't updated ours in four years.**

   Robert: Updating your Reserve Study is important. Reserve contributions often comprise 15-40% of an association's total budget, and any budgeted expense line item that large is worth updating on an annual basis, as doing so measurably lowers the association's special assessment risk.

   Bill: A "Full" Reserve Study (created from scratch) is not required if the plan is still workable. An updated plan would be advisable if there have been significant changes in components or timing, and the balance in the fund is different from the original plan. Note that www.QuickReserves.com can provide a free or low-cost update of your Reserve Study.

   Jeff: Very important! I suggest to our clients that we update the Reserve Study every 3-5 years or sooner if there is a major change in market conditions, major changes in the property condition (like a hail storm and insurance replaces roofs, siding, etc.), major unplanned changes in capital projects relative to the previous study, major changes in construction costs in your market, inflation and other pricing changes. As a manager, I don't encourage boards and managers to do self-Reserve Studies – just as you don't hire your manager to cut the grass (even though I was really good at cutting Grandma's lawn as a child). Hire and rely on a trained professional – the Reserve Specialist!

8. **Do you keep Reserves in an account separate from the Operating Account?**

   All: Absolutely! There should be no comingling of the accounts that make up these funds. Transfers between funds need to clearly recorded, both the amount contributed to Reserves and any loans taken out of Reserves. Ideally, there should be two separate sets of books or files for each ... almost like they are different companies.

9. **What is the best way to present an increase to the members?**

   Bill: I believe that the best way to present a budget to owners, whether it's an increase or not, is a written narrative of your requirements, goals, constraints, and the Operating and Reserve plans, followed by summary and detailed financial charts reflecting your plans. It should not be a last minute "surprise". This should be a process done and communicated over months, without "selling" or editorializing. Let the facts speak for themselves. This written proposal can be used as the basis for oral presentations or newsletter articles and becomes a valuable reference in future years.

   Jeff: Calmly and based solely on facts. I explain that dues are really 2 or 3 components: Operating costs, Capital Depreciation and what I'll call CATCH-UP costs (loan repayments or ramping up Reserves for fast approaching projects that you failed to long-term plan for financially).

Operating costs are a factor of the quantity and quality of services your owners wish to receive as required or preferred per your Declaration. As Bill said in the presentation, discuss these services in terms of the goods/services that the owners will receive, not dollars. Explain that each of these services is put to competitive bid and that the board chose the BEST VALUE, not the cheapest cost.

Capital Depreciation is often the one area not funded well. This is what the Reserve Study really tells you, but instead of using the Reserve Study directly, I like to engage the owners in a community building activity where we collectively decide how much a roof, siding, concrete replacements would be for each unit. Then you ask them for their estimate of how long each of those items SHOULD last if they were built properly. Then just show them the math to calculate how much each item depreciates using straight-line depreciation. When you get done with the big items, then use the Reserve Study to list off a bunch of smaller items they probably forgot. However, the owners will already have easily listed things dear to them that will yield a monthly capital depreciation of at least $50-100 per month on most properties. Then just tell them that they have proven how much they consume each month and they should be willing to pay for it. If they are not willing to pay for it, then should they really be living in your community? Do you really want them to be a business partner with you if they are not willing to pay their fair share?

Finally, if you underfund, then you can show them how much and ask them how many years they need to get caught-up. If it took 15 years to get into this mess, then suggest a 5-10 year plan to get out of it. Divide that shortage by 120 (12 months for 10 years) and that is your catch-up cost. If you borrowed money, then show the loan payment monthly divided by the number of units to show a per unit amount for the life of the loan. Remind them that they are now paying even more because of interest. With a loan – this amount is your catch-up cost.

Now simply add up the 3 numbers (operating costs, capital depreciation and catch-up cost) and that should be your dues. End of discussion. It is time for the Board to "do the right thing" and not worry about whether individual owners can afford it or what those dues will do to sales prices. Your real cost to live there is that number and failing to set your dues at that price will only deteriorate property in the long-run.

10. **What are some of the investment accounts you have used to increase the value of Reserve account funds?**

    Bill: We decided that we would only invest our funds in FDIC insured CD's, so our approach is to find the best rates available. We "laddered" our CD's to mature at different times to provide sufficient cash for anticipated Reserve projects, and now we are able to look for the highest 5-year rates. We stay alert to our cash need and adjust the funds accordingly. We try to keep moderate balances in checking and money market accounts, attempting to keep our money working for us. In our experience the Internet banks offer the best rates over local brick-and-mortar banks (maybe double). Not all offer these rates to corporations, however, so you have to shop around. Search for rates on https://www.bankrate.com

    Jeff: First, you should have an Investment Policy in place that limits your investments as Bill discussed above. Next, your Investment Policy should align and ladder your investments to when cash-flow needs are needed per your Reserve Study. So if you have a $250,000 project coming up in 3 years, then you need to make sure your investments will mature to provide sufficient liquidity to meet that $250,000 need in the 3rd year. The Finance Committee and Board should be reviewing the investments regularly for compliance with the Investment Policy and consistency with the Reserve Study as adopted by the Reserve Policy. Finally, some of my clients buy I-Bonds sold directly from the US Treasury. They are inflation indexed and are guaranteed by US government.

11. **What would you recommend for the make-up of a budget committee?**

    Jeff: I assign budgeting to the Finance Committee. Use a charter to establish all of your committees. For Finance Committees, I recommend the Board Treasurer serve as the Chair and that the Board President appoints (with the consent of the Board as approved by the Charter) 2-4 additional non-board members.

    These additional members should be community members that have a background in accounting, investments, banking, finance, small business planning, financial planning or construction costs. They need to also have good people-skills so they can stand up in a community meeting and explain the budget and financial statements in simple terms so the community members will trust and understand the financial position and dues structure.

    These Finance Committee members often become excellent future board members as then they understand the budget and financial statements. Former board members also make great Finance Committee members.

12. **We have (nine) designated Reserve accounts. Some of these have negative balances. How should this be handled/corrected? Are there any legal requirements about this in Florida?**

    Robert: Regarding legal requirements, please contact your attorney. Generally your Reserve status is considered as a whole, so any negative balances offset positive balances. You can't pay for a roof project with negative money! Boost your Reserve contributions, and re-adjust your account balances at the end of the year so all are positive, with the ones preparing for near-term expenditures becoming the most prepared.

13. **Could a Treasurer keep the Reserve at 70% instead of Reserve Studies usually targeting 100%?**

    Robert: Yes. 100% is the "Fully Funded" level, where the association has as much Reserve cash on hand as the current deteriorated value of their Reserve components. That is a safe place to be, as special assessments (due to insufficient Reserves) are very rare. This article shows the gradual increase in special assessment frequency as the association's Percent Funded gradually drops down to 0%. Bottom line… while the risk of special assessments becomes significant when the Percent Funded drops below 30%, there is still a low risk of special assessments at 70% Funded. But be reminded that the contributions to be 70% Funded are usually not very different from the contributions to be 100% Funded (exactly the same expenses will be paid, only the marginal size of the Reserve Fund differs).

    Bill: The "Association" could keep the Reserve funding level where the majority of owners want it to be. The Treasurer, through the Board, could make (strong) recommendations to the owners, but in our case the owners still ratify the budget so it needs to politically acceptable.

14. **Do you think a Treasurer can send a newsletter to owners, inviting them to understand the budget along your lines, or does every newsletter have to be issued by the whole board?**

    Jeff: Whenever any board member communicates to the community, they should have the approval of the Board. The Treasurer may be the best person to write information about the budget or financials, but they only speak for themselves unless the Board has delegated this authority to them or approved what they have written.

    Bill: I agree with Jeff's answer – all communications to owners should be approved by the board, even if it were prepared by one director.

15. **How much do you recommend on a contingency line item?**

    Bill: If you have history, look at your experiences with surprise expenses and pattern a level at that. We use a $30,000 threshold when calculating our Reserve Funds because that was the highest surprise we have had in 15 years (actually once in 15 years!). This is about 15% of our annual fees. This will not be an exact number. You just want help when those large unexpected expenses turn up.

    Jeff: See my answer to question 2 above about threshold funding. This threshold needs to be set by the Board based on your property's age, condition, past experience, largest future capital needs, and some analysis of large infrastructure needs that may be beyond 30 years but would create a "surprise" if something happened accelerating its replacement.

16. **How do we convince homeowners to contribute to a Reserve fund when many feel they will sell before that next big Reserve project comes up, allowing them to avoid paying?**

    Robert: It's all about language. Reserve contributions are not "for the future". Reserve contributions pay the ongoing "deterioration bill", as real as any other bill at the association that needs to be paid by current owners.

    Bill: When our association began 15 years ago, we were fortunate enough to convince 60% of our owners to have a fully funded Reserve plan. Over the years we have had 26 resales out of our 45 units. Each seller was thankful that our policies allowed them to attract a good price. Each new buyer understood that they were buying in to a well-financed operation. History is a great teacher. Gather and share the data with owners. Today we have about 75% of our owners agreeing to a fully funded Reserve plan. There are still those who just don't get it.

    Jeff: Hopefully you don't really have to convince your owners, you just need to convince your Board members. But if your legal documents require the owners to vote on dues increases, then you need to "get the owners to understand and calculate the number themselves." See my answer to question to 9 above and go through the calculation with all the owners in a group meeting. Then ask the owners, why won't you pay your fair share? Share with the owners the negative downward spiral and ask them how it can be avoided (Hint: The only answer is to raise the dues today so everyone pays their fair share while they live there). Some will selfishly put their personal budget and self-interest before community responsibility. Your job is to build a community where people recognize their responsibility to the community. That takes time, open communication, transparency, social events, and community-building events. By then you should have the votes. Build your community TODAY and THROUGHOUT THE ENTIRE YEAR, not just at budget voting time.

17. **This is not really a question than a comment upon which I would like you and your guest's comments: I went to the only meeting upon which the next year's budget was going to be discussed. As a homeowner at the time, I raised concerns about budget items that were just the same as the previous year but no funds were expended during the year for that budget item. I was told you always start with last year's budget as a basis for next year's budget. Several years earlier, I was on the board and in developing a budget, I started with the expense part of the year end income statement of the financials for the past five years. This way the true expenses over the past few years can be seen and used to project future costs. Then, the particulars of the upcoming year can be used to change the budget to account for these particulars. I believe that adding this to the budget process would help produce a better budget. I believe that this would make it easier for the homeowners to understand the budget. Unfortunately, to two different management companies, this seems like too much work.**

    Robert: As you heard in the webinar, an effective budget comes from an effective process. It takes time and requires gathering all your historical information together.

    Bill: I agree that last year's budget is a bad way to base this year's budget on. Budgets are educated estimates but they are estimates of what you think you'd spend the next year. Basing one estimate on another estimate seems foolish. The only value last year's budget comparison would provide is an idea of where last year's plans were right or wrong. The next best thing is basing next year's budget on the projected actual expenses for the current year. There is a budgeting technique called zero based budgeting where you look at each line item individually and base the cost on what activity is expected in the new year. Different line items require different judgments. Get quotes where you can – insurance, grounds contracts, trash hauling, etc. Some items can be based on usage and updated rates – utilities fall here. If usage is expected to change, factor that in too – expand the irrigation system if it used more water. Other line items are hard to quantify and can only be based on historical averages or trends – building maintenance falls here for us.

    Jeff: I agree with Robert & Bill above. Effective budgeting requires an open and transparent process where everyone gets involved. I use a combination of zero-based budgeting where I don't look at last year or previous years actual, but instead if we are changing the service expectations, then I go to bid and set the budget based on that new expectation based on actual prices for next year. However, if service expectations are not changing, then historical budgeting is critical to use if it is adjusted for current market conditions like inflation, labor shortages or surpluses, etc. Start your budget process early and engage the entire community so everyone feels like they have been able to share their perspective. Finally, you may not agree with your neighbors' budget views, but learn to "disagree without being disagreeable" or hating the person. Life is too short for that divisive approach.

18. **Please send a sample of your prescribed life expectancy versus various physical features for a condominium complex with one pool.**

    Robert: Sorry, as we mentioned in the webinar, each association is different, both in its Operating budget needs and Reserve budget needs. Besides, the assets related to a pool installation vary from association to association, the materials used vary in different regions of the country, and the local weather/environment significantly affects life expectancies.

19. **What is the best practice for funding for unexpected expenses (i.e. developer bankruptcy, 60% of delinquency that is uncollectable)**

    Bill: There will always be some "surprises", but better planning leads to fewer surprises in both the Operating and Reserve budgets. In the Operating budget, note your delinquency history, and have a solid collection policy/procedure. If owners know this policy in advance, it might provide them with an incentive to pay up. With respect to larger "surprises", hopefully your Reserve Fund can make a 0% interest loan to the Operating account. Make sure you have an official payback plan in place, and expect that homeowner assessments will need to increase to restore these funds to Reserves.

20. **Does a budget need to be mailed to homes before a vote?**

    Bill: Our Declaration says owners need to get the notice for a meeting with the budget and proxies within 14 -30 days of the meeting date. Mailing it is preferred. State laws or the Declarations of other associations will affect your process.

    Jeff: Depends on your legal documents and the laws in your state. Even if it doesn't have to be legally shared with owners before the vote for approval, I STRONGLY ENCOURAGE boards to share written budget proposals with an explanation in writing to all owners with ample opportunities for owners to express views in writing, in person at open meetings, by email, by phone messages, etc.

    Ultimately Boards are political bodies that are trying to build community. You may have the votes to pass the budget, but 20% of the owners can dump oil in the well and now the water supply is non-drinkable for the entire year. So, adopt a budget process that has multiple opportunities for community input including distributing a proposed budget in writing (and even in video format using YouTube) to all, with a detailed explanation. This is just good governance!

21. What power do homeowners have to reject the board's budget?

Bill: CT statutes say we need 67% of ALL owners vote to "reject" the budget. This is a high hurdle and was probably written that way to prevent owners (including the proxies) from micromanaging the budget and pull the process way out of control.

Jeff: Depends on state law and your Declaration or Bylaws. However, the reason that most legal documents delegate the authority for approval of budgets to Board members and not owners is that only Board members have a fiduciary duty to do what is in the Association's long-term best interest. Individual owners have no such legal duty and can legally act in a total self-serving manner, thus putting personal financial budget before the Association's financial needs for dues. This self-serving may make it impossible to raise enough dues to properly care for the property. Board members understand this conundrum because they are faced with the legal liability if they fail to raise dues. If you don't like what the Board has done with dues, then you should run for the Board and face the music. I suspect your tune would change after seeing the deferred maintenance, owner complaints and threatened legal action for failing to fix things.

22. Our Reserve Study recommends the amount of money that will be needed over the next 10-20 years or so. Some years have higher expenses than others. As long as the total amount of money is secured to meet our needs, can't the board make decisions on the "path" this money is obtained? (EX: top loaded early, back end loaded or evenly spread out?)

Robert: The Board can make the recommended funding choices. This is one of the three results of a Reserve Study (the list of expenses is one, an evaluation of Reserve Fund strength is two, and the multi-yr funding plan is the third). National Reserve Study Standards dictate that a multi-yr Funding Plan be prepared that provides for the anticipated expenses, with budget stability from year to year, in a manner that is equitable to owners over the years, and in a manner that is Fiscally Responsible. So for many reasons, spreading it out evenly is best.

Bill: It really is easier on owners if there is some consistency in the amount of their fees rather than having large ups and downs, so spreading it out evenly is preferred. Whichever way this is done, I would encourage you to present the entire 10, 20, or 30-year funding plan to owners, clearly showing when future special assessments would be needed. When the Reserve practitioners talk about "burying your head in the sand" they refer to a total avoidance of talking about future financial obligations. Be up front with your owners at the start.

Jeff: I agree with Bill – you want to get your annual reserve contribution increases to be consistent and even with projected inflation. By 'back-loading' the increases, as you suggested, it is really a special assessment to future owners. What would you say to a future owner 20 years from now who bought in on the year your 'back-loaded' dues increase went into effect? By not charging the previous owner who has now sold, you allowed them to use up capital and never pay for it forcing the new owner in 20 years to pay for someone else's use. Said another way, are you upset when your kids borrow your car and return it home with an empty gas tank? That is what you are doing by not charging appropriate dues – you are letting someone else use your car and not charging them and then will be upset when you must pay more to fill up the gas tank. Don't let someone else steal from you. That is what 'back-loading' reserve contributions really are. Capital is used today, so charge them today!

23. What software do you use?

All: Depending on circumstances, proprietary (industry-specific or custom) software, Quickbooks, and MS-Excel. All have their applications.

Bill: For your day to day accounting use software designed for business use. They have good reporting capabilities, auditors are very familiar with them, they can track payments, invoices, accounts receivable and payables far better than a program like Excel. Excel is good for analysis, budget building, and presentations.

24. How does budget strategy or process differ for a small association (fewer than 20 units)?

Bill: The strategy and process of preparing and presenting the budget should be the same. It might be easier with fewer divergent views and more harmony, but that depends on the people themselves (beware the "one bad apple").

Jeff: I agree with Bill. It is the same process. Small associations have more risk because one person not carrying their financial share has a larger percentage impact on Operational and Reserve budget contributions. Therefore, you need even more margin to protect you from 'default risk' when someone doesn't pay. It is also harder to convince smaller associations to spend the money on a reserve study because they lack economies of scale. However, this is a critical mistake as the risk to each unit owner is much greater.

25. **Do you do anything differently when your association <u>doesn't</u> run on a Dec 31 Fiscal Year End?**

Jeff: No… just adjust your process to make sure you start with plenty of time (six months in advance, avoiding holiday time periods when people are unavailable or distracted, etc.).

26. **What do you recommend for a larger association that is split between younger owners, who want to spend money to keep things nice, and the "older set", who want to minimize assessments?**

Bill: Fiduciary responsibilities require that the board act in the interests of the majority of owners. If you have this kind of polarity within owners then someone has got to pull owners together and get a majority view. That's where input from all the owners is needed. Prepare surveys; some people will not speak up in a meeting but will fill out surveys. I'm also a believer that associations should not avoid the cost of Reserve Funding. If the majority of owners vote to partially fund Reserves, they should also be shown the implication of this in the form of a schedule of future special assessments or loans that they will need to pay to maintain the facility (there's only one source of income – the owners, and real expenses can't be ignored).

Robert: This is an opportunity to remind the owners that the board's <u>job</u> is to provide for the needs of the association, not pretend that some expenses don't exist. Spending money on the needs of the association (Operating and Reserves) improves quality of life at the association and maximizes property values. That's the board's job. Owners finding budgeted assessments too expensive are free to move to more affordable housing.

Jeff: These generational differences are present in many forms. Hold open discussions about these differences, then the Board needs to do what is the long-term best interest of THE CORPORATION (not any sub-group of owners). Not even if that sub-group of owners has a majority of the votes in the Association. In fact, majority groups of owners owe a fiduciary duty to the minority group of owners to do what is in the best interest of all.

27. **What if you have many rental owners who want to keep assessments low?**

Jeff: Boards need to recognize that rental owners have very different economic incentives related to the property. Investment owners are interested in MAXIMIZING PROFITS. That means keep dues low, not pay for your fair share of depreciation so you can get something for nothing. Rental rates are set by market conditions, not usually the property conditions. So of course, landlords will want low dues and not care about the property conditions as much as owner residents.

Landlords have very different economic goals, which are NOT the Board's legal obligation. In fact, the Board's legal obligation as established in the Declaration and law is to not focus on profit for individual owners, but to do what is in the long-term best interest of the property and it usually is defined as taking care of the property. Therefore, the Board needs to follow their legal documents and simply raise the dues. In fact, raising the dues may be the best way to reduce the % of rental owners because it will mean less profit, which will encourage them to divest of your community, selling to private owners who are more likely to have similar goals to other owner residents.

Bill: The majority of owners should decide the strategies to follow when funding short and long-term maintenance. Boards, of course, can make recommendations and guide owners in this discussion. However, the owners who rent should see the wisdom of paying for both proper Operating and Reserve costs because they can simply pass this cost on as rent. This allows them to have well maintained property <u>and</u> its keeps their property value high. Unless they somehow cover special assessments in the rent they charge, the rental owners might be caught paying these assessments themselves when they come up.

28. Do you have any suggestions for changing the direction our association is moving? Ours is currently "down" and continuing to decline.

Bill: Fiduciary responsibilities and the interests of the majority of the owners both influence Board actions. If your association is continuing to decline then someone has got to pull owners together and get the association back on track. Have an open meeting without biasing the outcome. Prepare a description of where you're heading now compared to what the future could be like if some adjustments were made.

Jeff: It takes time, tons of effort and strong servant leadership from the Board and Manager. Start by having serious community conversations about the real position you are in and brainstorm ways to get out of it TOGETHER. Long-term board members should be doing some serious soul-searching to see what they have done (or not done) that has driven the organization to this point. It may mean that board members need to change.

In the end you will find that the only answer is for everyone to agree to pay more, fund Reserves, face economic realities head-on, sacrifice together and many years from now you will be better off. As I have stated multiple times, it took years to get into this mess, it will take years to get out. Said another way, an HOA is a ship in the ocean, it takes a long time to turn it around and head back to shore and will encounter lots of harsh winds and waves in the process.

People must know and believe that the Board and Management care about them as people before they will sacrifice financially or with their time and talents (to volunteer for the Board). So start caring about people today, don't wait!

29. What is the best way to deal with components well into their useful life for people just starting a Reserve Fund? We should have about 50% of the cost of the roofs in Reserves now, about 15% of the cost of paving and nothing for painting.

Robert: That is an unfortunate situation. As Bill mentioned, there is only one source of money, and it is the homeowners. And bills need to be paid. The roof won't wait for the association to gradually accumulate funds. So one way or another, the owners will need to "pay more" than they have been paying in monthly assessments. Your association has three choices, none very palatable:

a. Raise assessments to provide for these upcoming expenses, spreading out the cost over as many months as possible.
b. Wait until the last moment and special assess (very unfair to those future owners, and possibly a liability for the board(s) that knew about the future expense and didn't do anything about it).
c. A combination of the above.