

Why Homeowner Associations Don't Plan for Reserves

by Richard Thompson

A manager of a seniors community once commented on the challenges of long range financial and maintenance planning: "We have to approach that question carefully around here. Keep in mind that many of our residents won't buy green bananas."

While it's understandable that some folks may not relate to long range planning for practical reasons, the truth is that Americans in general, regardless of age, live "in the now" and reluctantly engage in advance planning. This attitude is reinforced by the incredible abundance with which our country is blessed. There is also a pervading sense that no matter what happens, something or someone will be there to catch us if we fall. Bankruptcy laws are a case in point: If a personal or business plan doesn't work out, there is limited personal liability.

Homeowner associations are based in the premise that sharing common property makes the unaffordable affordable. The framework allows ownership of parks, pools, ponds and other expensive amenities that few homeowners alone could support. In common wall communities, individual owners turn over their exterior building maintenance duties to the association and agree to pay a fair share of the costs. Sharing such costs reduces costs to the individual IF proper planning and execution are involved.

Reserve funding is an issue that frequently causes associations to stumble. The premise of reserves is that money is set aside systematically to pay for big ticket items like roofing, painting and street maintenance. Since these repairs or replacements crop up infrequently, when they do, the costs are significant. If there has been no systematic accumulation of money to pay for them, guess what? Special Assessment Time!

Special assessments are the product of poor planning. They penalize current owners who are unfortunate enough to live in the community when major costs come due. Prior owners skate on their obligations leaving current owners to hold the bag. Special assessments are particularly burdensome because they:

- Put some owners in an immediate financial crisis,
- May be uncollectible if an owner's equity is small,
- Are always politically unwelcome, and
- Pressure the Board to defer needed maintenance to avoid the turmoil.

Associations that fail to plan for major long range expenses typically do not handle day to day association business very well either. The two seem to go hand in hand. Those Associations typically keep fees unrealistically low and, by so doing, services are starved, maintenance lags and curb appeal suffers. Curb appeal directly impacts market value of the homes so in a real sense, owners are cutting their own throats.

There is a fundamental conflict of interest at work here: The long term financial and maintenance needs of the community conflict with the individual homeowner's short term desire to hang on to the money a.k.a. the Green Banana Syndrome. A homeowner living in a stand alone home has the luxury or misfortune of doing business this way while a community association will fail miserably if it does.

A reserve "philosophy" is a fundamental ingredient of association policy. The best way to solidify that philosophy is with the adoption of a Reserves Resolution. This resolution reflects the desire of owners to do long range reserve planning and funding. Such a resolution curbs the impulses of some boards "to raid the cookie jar" by mispending reserve money or failing to add to reserves when the plan clearly calls for it. A Reserves Resolution is a critical step toward proper care of the community.

Consider the negative effects of Green Banana thinking on your assets. If such is the case in your community, be aware that you are on a slowly sinking ship and need to take action before it's too late.

For more information on this subject, see www.Regensis.net.

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