

# Politics of Responsibly Setting Dues

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# The Transformation!





## **Cobblestone**

**Built: 1984 – 1996 in 5 phases with several different size of units**

# WAKE UP CALL

An Iowa community faced a bevy of maintenance challenges without the funds to pay for needed repairs. Homeowners had to learn important lessons about communication and collaboration to protect their investments.

BY JEFF WESTENDORF, CMCA, AMS

## Common Ground – Sep/Oct 2024:

<https://digitaleditions.walsworth.com/publication/?i=827346&p=30&view=issueViewer>

### Real Life:

- West Property Management hired to start July 12, 2021
- Stack of over 100 index cards – deferred maintenance
- June 30, 2021:
  - Reserves = \$421,000 only \$31,000 liquid
  - Operating = \$25,000 but outstanding invoices unpaid
  - No reserve study
- Contractor working on 1 out of 37 buildings without approval

### Quick Response Plan:

- Board replaces the President prior to WPM start
- Board terminates contractor and seals building
- Board adopts austerity to minimize expenses & cashes CDs to cashflow bills
- Reserve study is commissioned
- Reserve Study Committee and Finance Committee are adopted recruiting excellent non-board members















# Cobblestone Videos





# First Reserve Study Showed

- *\$8.8 Million dollars underfunded = **\$56,222 PER UNIT!***
- ***4.4% funded** – high risk for special assessment*
- *\$8 Million of immediate capital replacements needed*
  - *Only \$410,000 in reserve fund*

# Reserve Study Process: Use Committee

- Engage Reserve Specialist
  - make sure all components included!
- Reserve Study Committee
  - Evaluate completeness of component list
    - add or delete components
  - Vet material components costs – siding, roofs, concrete, roads, etc.
  - Only phase projects if it maximizes economies of scale
  - Adjust timing of capital replacements
    - based on logistics and realistic condition assessments
  - Develop multiple financing plans with varying degrees of risk
  - Develop presentation (slides, plans, input mechanism)
  - Present to board and other key leaders
  - Re-adjust based on key leader input

# Reserve Study: Educate & Engage Owners

- Small group meetings (limited to 10 units per time)
  - Used Edward De Bono's Six Thinking Hats method
  - [Presentation](#)
  - Solicit feedback – preference and willing & ability to accept each plan
  - Share aggregate data with all owners after meetings
- Committee recommends policy with funding plan to the Board
- Board solicits more owner input and then adopts Reserve Policy
  - establishes funding plan, reserve study update frequency and standards
- Policy Implementation
  - review annually and include in budgeting process

# Engaging Owners

*Cobblestone's Declaration required 67% of owners to approve dues increases greater than inflation or 5%; and any special assessment.*

- ***COMMUNICATE & EDUCATE – ask questions for owners to discover how a lack of savings impacts them by raising RISK. Be specific in what those risks are:***
  - ***Lack of emergency funds***
  - ***Insurance deductible risks & delays for projects***
  - ***Special assessments or deferred maintenance (minority rule)***
- ***Board focused on fiduciary duty – best interest of all owners!***
- ***Owners Forums at Board meetings - ZOOM + participation***
- ***Used engineers to assess property condition in videos***
- ***Board Resolution on financing options mailed to all owners***

# Engaging Owners

- *Small group meetings to listen to & educate owners*
  - *Held by board & committee members in living rooms*
- *Townhall meetings:*
  - *Finance Committee*
  - *3 different contractors on property condition*
  - *HELOC & Neighborhood Finance Corp loan options*
- *Weekly letters from Board President Zac Parry*
  - *Explaining costs of delay – nobody gets any improvements!*
  - *Responding to misinformation from owners*
- *Neighbor-to-Neighbor Communication*
- *Weekly drop-in meetings*
  - *4 months at library for individual owner questions & concerns*
- *Letter writing campaigns*
- *Postcard mailing campaigns from owners promoting passage*



*The time is now*  
**VOTE YES!**

RESTORE  
COBBLESTONE

*Together we can save our community!*

1/157

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*Thank you to our Cobblestone Board & Finance Committee*

You have led our community with integrity and challenged each one of us to live up to our moral and ethical responsibilities to one another. Special thank you to President Zac Parry who artfully spoke the following:

*"Setting dues in an arbitrary way has only served to hurt those that have bought into Cobblestone.*

*Not properly representing and disclosing the true cost to live here is unethical.*

*It (setting low arbitrary dues) only hurts the people who have bought in recently and will continue to hurt future owners at Cobblestone.*

*We have to break this cycle of under-representing what it costs to live here..."*

**Restore Cobblestone**

**VOTE YES!**

*Together we can save our community!*



Restore Cobblestone  
**VOTE YES!**

*Together we can save our community!*

1/157



Restore Cobblestone  
**VOTE YES!**

*Together we can save our community!*

1/157

# Engaging Owners

- **3 Special Owners meetings**
  - **Neutral location – church**
  - **Secure voting – secret voting booths, ballot prep & security, sign-in process, security envelopes for proxies.**
  - **Professional parliamentarian to run fair meeting**
  - **CPA firm to count ballots to create credibility**
  - **Safety & security of the meetings**
- **After first failed 50-50 vote – allowed more owner input & assigned to Finance Committee for new plans**
  - **More townhalls and education**
- **Window placards – both in favor & against**
- **Videos and pictures in weekly email blasts during project**

# Board & Manager Advice:

- *Know and follow your governing documents before spending \$\$*
- *Must have a current and long-range plan for maintenance*
  - *RESERVE STUDY (rough order of magnitude vs firm bid/estimate)*
- *CANNOT IGNORE the increases in costs – Delays cost \$\$*
- *FINANCE PLAN first before detailed bidding/contracting*
- *If you don't have enough \$ to fix everybody, then you don't have any money to fix anybody. Let it deteriorate & Do Not waste \$\$ on band-aids!*
- *Positively respond in writing with facts & explanations (not emotions) to false or misleading information QUICKLY – mail to everyone!*
- *Educate & Motivate non-board member owners to engage*
  - *conversations, mailings, speak up at meetings – words are powerful!*
- *Hire Construction Advisor (not at risk) up front to help write project scope, evaluate bids & verify contractor work – saves \$\$ in the long-run!*
- *Managers, Board & Owners must hold each other to fiduciary duty*

# Board & Manager Advice:

- **Professional Management *or* HOA Consultant *with these skills:***
  - *Knowledgeable in reserve studies & developing financing plans*
  - *Financial reporting & accounting*
  - *Investments strategies to maximize return and manage risk*
  - *Monitor & cash-flow project costs*
  - *Qualifying, bidding & closing an HOA loan*
  - *Thinks analytical and can present complex financial information*
  - *Knows what, when & how to inform the board & community of difficult financial and project information*
  - *Effectively communicates using various tools – speaking, writing, presentations, townhalls, video, personal conversations, etc.*
  - *Ability to work with outside experts/contractors and/or committee to plan and implement project*
  - ***Be prepared to pay for this expertise & extra management services!***

# Where Is Your Association in Its Lifecycle?

Tyler Berding – 4 Stages of HOA Life

<https://www.berding-weil.com/articles/a-community-associations-four-stages.php>

1

2

3

4

# Four Stages of an Association

## Stage 1 Honeymoon

- Monthly assessments cover operating costs
- Minimum reserve contributions
- Non-owner occupancy  $\leq 10\%$
- Resales brisk & values increase
- Board & management easy to find

## Stage 2 Rising costs

- Monthly assessments are insufficient
- Special assessments likely
- Lack of reserves visible, but easily hidden
- Non-owner occupancy increases  $>25\%$
- Members generally support the board, but political pressure builds

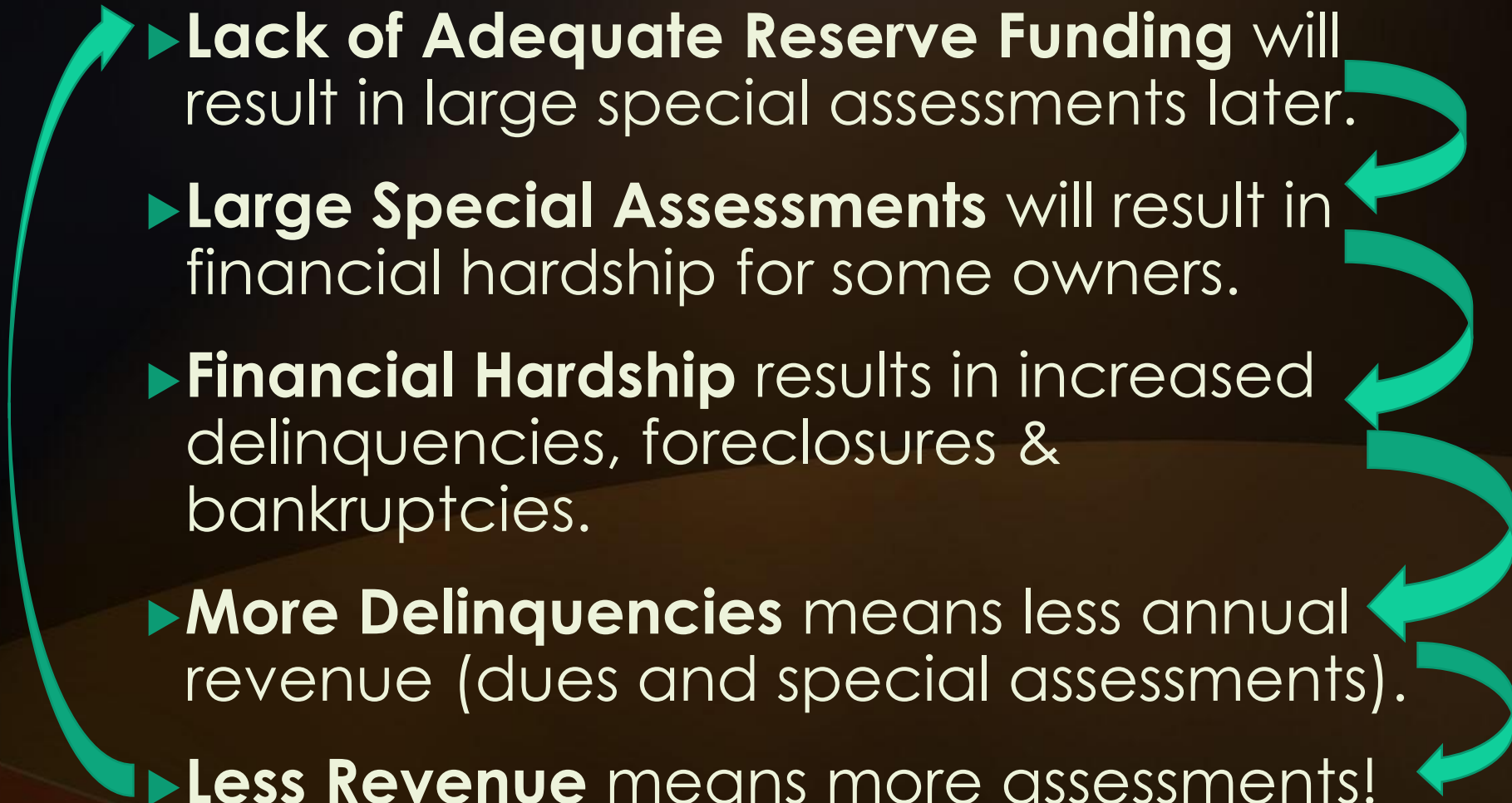
## Stage 3 Strain

- Deferred maintenance visible & owner complaints growing
- Loans or emergency funding replace SA
- Unit sales negatively impacted (time & \$\$)
- Owner defaults & collection problems
- Board members start to resign - political strife

## Stage 4 Obsolescence

- Owners and lenders refuse to invest
- Habitability and safety at risk
- Significant property value declines
- Collection problems jeopardize basic operations
- Board & management difficult to find

# Reserve Funding Cycle Pitfall

- 
- ▶ **Lack of Adequate Reserve Funding** will result in large special assessments later.
  - ▶ **Large Special Assessments** will result in financial hardship for some owners.
  - ▶ **Financial Hardship** results in increased delinquencies, foreclosures & bankruptcies.
  - ▶ **More Delinquencies** means less annual revenue (dues and special assessments).
  - ▶ **Less Revenue** means more assessments!

# Advantages of Raising Dues!

- *Reduces RISK to all owners, especially the financially vulnerable!*
- *Fiscally responsible long-range plan to **avoid special assessments** in the future!*
- *Sufficient reserves to **properly maintain the property and avoid deferred maintenance.***
- ***Property values positively impacted** since deferred maintenance will not occur with timely improvements.*
- ***Properly disclosing the true costs** to live at your community **will partner you with fiscally minded owners** reduces owner expectation conflict within the community.*
- ***Community harmony** allows the focus to be on community building & quality of life!*

# Likely concerns and responses

**"We can't afford increased dues!"**

We understand that increasing dues may bring financial hardship, but failing to increase dues now will bring even more pain in the future. We must make difficult choices to beat mother nature & father time!

**"Owners won't approve it."**

Costs rise the longer repairs wait due to inflation. Let's act now while costs are still affordable. Let's discuss, educate everyone & vote!

**"Let's just borrow."**

Qualifying for a loan will require a reserve study, raising dues, proving collectability for 6 months, and increased dues to future owners! Loans can help us bridge a gap, but it is not a long-term solution.

**"We are hurting people who live here with increased dues!"**

We must be honest about the true cost to live here. Let's look for alternate financing for those that need it, but failing to fund reserves and maintain the property harms everyone.

# TACKLING THE BEAST: PRACTICAL ADVICE

Based on their experience, Cobblestone residents have this advice for other community association board members and managers facing trying times:

- Educate the entire community about reserves and funding plans. Don't rely on others to do the right thing long-term.
- Hire a manager who can educate and implement reserve studies and funding plans.
- Communicate constantly with owners.
- Have a good plan, revise it regularly, and fund your reserves. Do not kick the can down the road.
- Bring new community members up to speed.
- Diversify the board by having input from committees and community members.
- Understand the purpose and impact of special assessments and assessment increases. They are hard pills to swallow, but failure to properly budget and fund reserves will eventually lead to lost property values, decreased living conditions, inability to sell, and conflict in the community.
- Elect great leaders who put community interest before self-financial interests.
- Fund reserves now or be faced with monstrous debt which every owner is obligated to pay. Lack of reserve funding is like living off your credit cards.
- Focus on percent funded and not an arbitrary reserve dollar amount.
- Set short-term funding goal at 30% and a long-term goal of 70%. —J.W.



*Dr. Zac Parry on Nov 11, 2022:*

**Setting dues in an arbitrary way has only served to hurt those that have bought into Cobblestone.** Those buyers, myself included and probably many of you, bought into Cobblestone expecting a certain cost to live here, and now all of us are surprised and/or overwhelmed by our Association's current needs.

**Not properly representing and disclosing the true cost to live here is unethical.**

It only hurts the people who have bought in recently and will continue to hurt future owners at Cobblestone. It is not fair to them, and it is unethical to do.

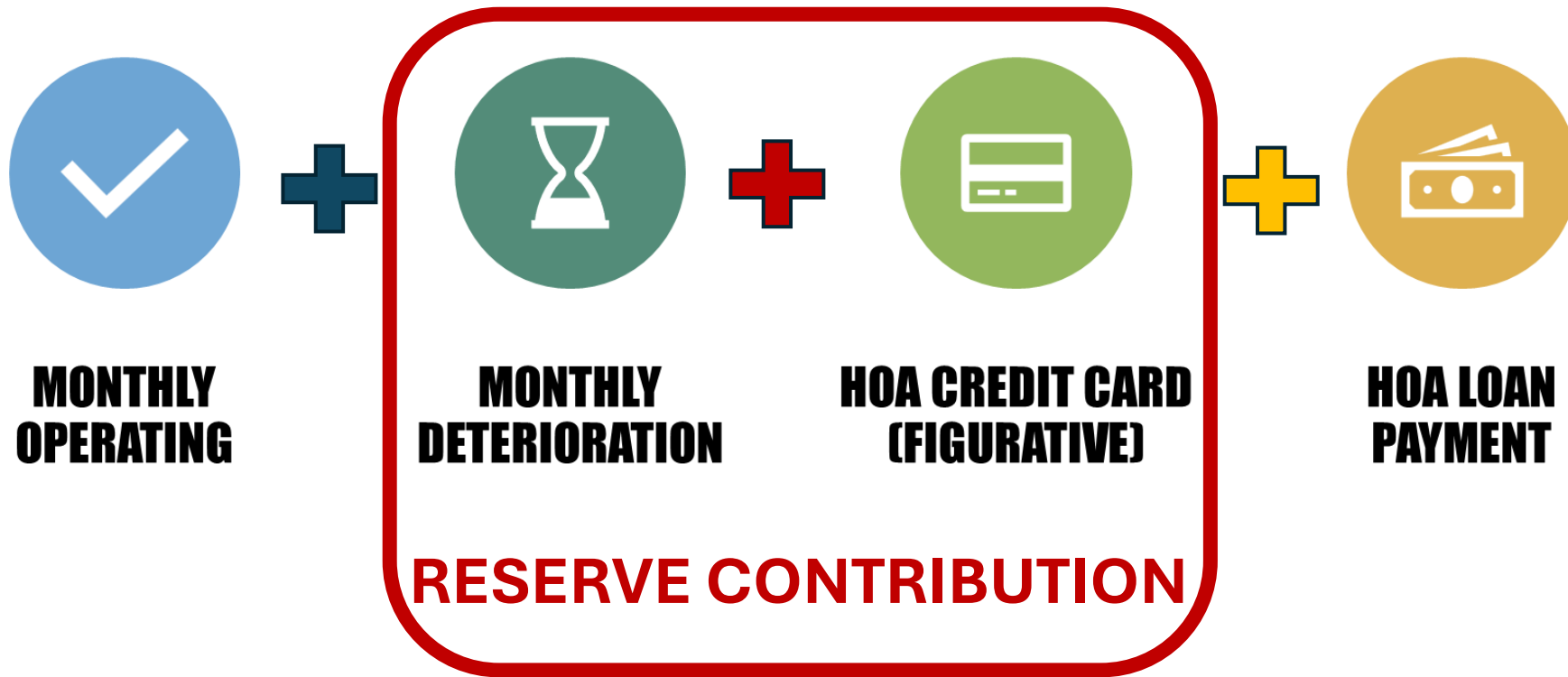
**We have to break this cycle** of under-representing what it costs to live here and **be honest** with current and future owners about our situation and what position we find ourselves in.



Political courage  
requires clarity.

Joe Klein

# True Cost: Components of HOA Dues



# *Cobblestone Today!*

- *All new roofs, gutters, downspouts, garage doors, exterior lighting, soffit, fascia, siding and building exteriors – **over \$9 Million investment!***
- *More than 150 owners invested more than \$2.5 Million in new windows, doors & decks*
- *Dues are \$653 per unit per month and will increase 5% annually through loan payoff in 2039 with full disclosure to buyers!*
- *Updating the reserve study*
  - *Putting together long-range plan for street replacement & storm water improvements, including pond dredging.*
- *\$1.62 Million in reserves – 73% funded!*
- *Borrowed \$5.7 Million or \$36,300 per unit!*
  - *13-year amortization is \$328 per unit per month in loan payment.*
- ***Incredible Board and more than 50 volunteers in 7 committees!***
- ***Vibrant and engaged community!***

# Resources:

**Wake Up Call: Common Ground – Sep/Oct 2024** by Jeff Westendorf, CMCA AMS

<https://digitaleditions.walsworth.com/publication/?i=827346&p=30&view=issueViewer>

**A Community Association's Four Stages of Life** by Tyler P. Berding, Esq.

<https://www.berding-weil.com/articles/a-community-associations-four-stages.php>

**Capital Projects: A Case Study** by Roger Minch (CAI Press)

ISBN: 978-1-59618-050-5

**Community Association Manager Handbook** (CAI Press)

ISBN: 978-1-59618-097-0

**Breaking Point: Examining Aging Infrastructure** (Foundation for Community Association Research)

**Breaking Point Revisited: Aging Infrastructure** (Foundation for Community Association Research)

<https://foundation.caionline.org/publications/aging-infrastructure/>

**Six Thinking Hats** by Edward De Bono

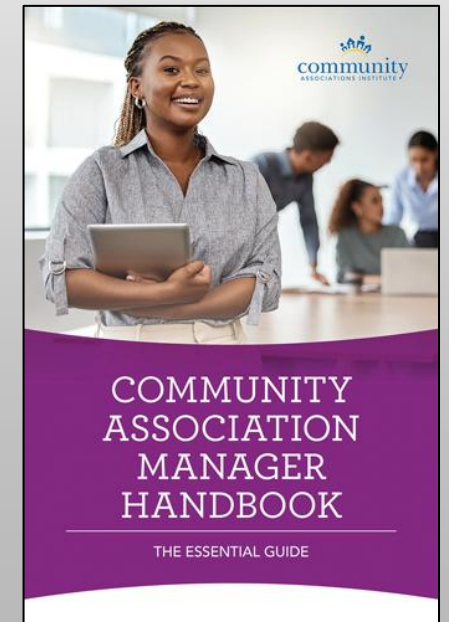
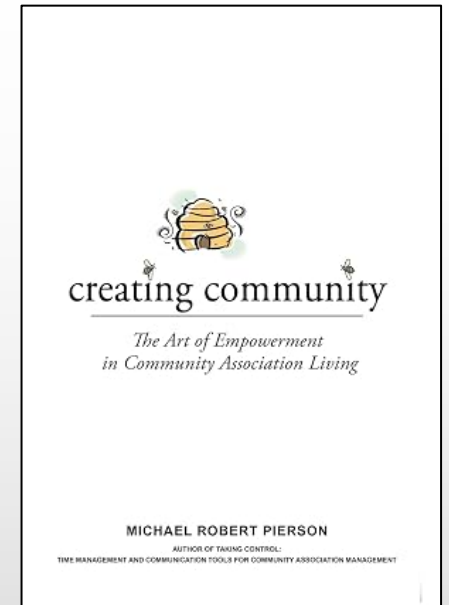
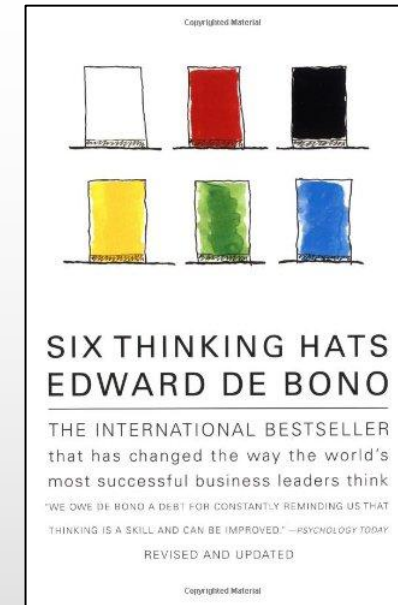
ISBN: 978-0-316-17831-0

**Creating Community: The Art of Empowerment in Community Association Living** by Michael Robert Pierson

ISBN: 978-1-4567-9587-0

**New Neighborhoods: The Consumer's Guide to Condo, Co-op & HOA Living** by Gary & Ryan Poliakoff

ISBN: 978-1-934572-18-4



# Simply Put...

***Communicate! Educate! Break the Cycle & Be Honest!***



## Questions?

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