HOA Checkup — How Does Your HOA Score?

Reprinted from the "HOA Homefront" Newspaper Column

By Kelly G. Richardson, Esq.

Common interest developments, or homeowner associations (aka "HOAs") house about one third of Californians, and most new housing stock is established in HOAs. Can buyers determine whether an association residence is a good investment, or if the HOA is healthy? Is it simply price and "location, location, location"? Well-run associations in poor locations might be more desirable than poorly run associations in great locations. Consider these factors:

Maintenance. Is the property well-maintained? Peeling paint, cracked stucco, dead landscaping, and worn hallway carpets are not good signs. Some associations pinch pennies, avoiding normal maintenance expenses in order to avoid increasing assessments - never a good idea.

Board Meetings. HOA boards must by law meet at least quarterly, and most boards in all but the smallest associations meet at least monthly. Boards that meet little or not at all may be conducting business informally or even in secret. Boards meeting too often may be disorganized. Ask for a few months' minutes - See what you can learn about the board's operation. Board minutes must by law be made available to members, and can be very informative. Look for minutes reflecting businesslike meetings and an association making progress.

Association Financial Stability – Reserves. HOAs are required to provide detailed reserve funding disclosures, so read them! Normal residential appraisals do not address capital reserve funding (or the lack thereof). Short-sighted HOAs avoid accumulating reserve fund savings (in order to avoid assessment increases), but that is actually a form of growing indebtedness. Some day that association will need to take out a loan or impose a special assessment because it is not ready for major repairs. Healthy HOAs plan ahead and follow the guidelines of a professionally prepared reserve study.

Management. Professional management is not a luxury, but boards trying to reduce costs often choose cut-rate management or even self-management. However, the toll on the directors from the lack of good management services is far greater than the cost savings. Look for HOAs with top quality, credentialed management. If the HOA has a "PCAM" credentialed manager, that indicates the manager has achieved the highest available credential. Good managers make board service more.. manageable.

Communication. Does the association keep its members informed? Such communication can take many forms, such as bulletin boards, newsletters or web sites. Regular communication usually promotes a more cohesive community.

Insurance. Review the HOA's summary of insurance, and the risks it has insured. Check for earthquake insurance, which is expensive but after an earthquake could mean the difference between HOA insolvency and rebuilding.

Financials. How many members are delinquent? Is there a budget? When was the last adjustment in assessments? The cost of operating HOAs increases as years pass. Well-run associations keep delinquencies low, and pass budgets with reasonable increases reflecting the increasing cost of living.

Governing documents. Reviewing governing documents is a chore, since they are often collectively over 100 pages long. At least read the CC&R use restrictions and maintenance provisions and the rules. Do they seem burdensome or unduly strict? Are there any rules at all? Healthy associations have reasonable rules.

These are only indicators, and there are as many ways to evaluate CIDs as there are to evaluate neighbors. Do your best, knowing that no home, or HOA, is perfect.

Kelly G. Richardson Esq., CCAL, is a Fellow of the College of Community Association Lawyers and a Partner of Richardson|Ober|DeNichilo LLP. Past columns at www.HOAHomefront.com.