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COMMON INTERESTS

THE 2022 Finance ISSUE

Effects of Foreclosure and Bankruptcy on Homeowner Assessment Payments

Capital Improvement Projects: How do we pay for them?

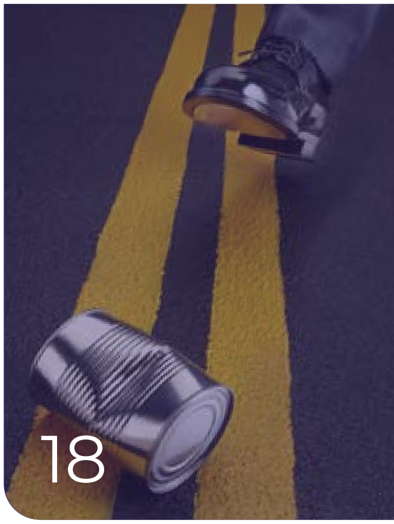
Smart Solutions for Funding Your Community Association Projects

Investing Association Reserve Funds—A Historical Perspective

ROCKY MOUNTAIN CHAPTER
community
ASSOCIATIONS INSTITUTE

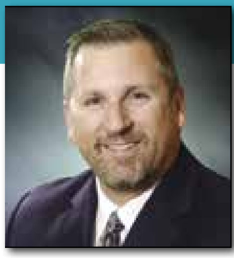
COMMON INTERESTS

Vol. 40 • No. 4



FEATURED

COLUMNS



Rocky Mountain Chapter Members:

JEFF KUTZER, CMCA, PCAM
Chapter President
CAI-RMC

2022 continues to bring out new challenges for our community associations and the professionals and volunteers who serve them.

Summer has proven to be a huge challenge whether it be staffing for pools and amenities, or the continuing heat stretching resources.

We all know for our community associations the most important resource is the funding from our homeowners to be sure our communities can pay for our ever-increasing costs of operation (along with our volunteers and professionals, of course!). Our Homeowner Leaders and Community Managers must do this while understanding that every increased cost can eventually lead to higher dues for their homeowners. It is a challenge and a balance for these community leaders to navigate. The best resource for homeowner buy in to these increases is to be able to communicate clearly and frequently the financial challenges faced by the community. For those communities with calendar fiscal year budgets, that means Homeowner Leaders and Community Managers will soon be hard at work on the 2023 budgets for their communities and what that will mean for the assessments in each community.

While everyone's preference would be that costs could be contained, in our current economic climate, that isn't always the result. The best chances for our Homeowner Leaders and Community Managers to gain homeowner support for the budget is to be able to clearly demonstrate where every dollar of the assessment is needed. This issue of Common Interests is focused on Finance for our community associations. Our experts in these articles will provide their insight into the best practices as well as new and innovative ideas to assist in the management of finances for our every changing environment for leading our Community Associations.

I also would like to personally thank all the hard-working Homeowner Leaders and Community Managers in our Chapter for your continued support of CAI and providing the proper leadership examples in our region for Community Association leadership. We know the results of this year's legislative session has brought new challenges to collections, towing and covenant enforcement. Let's keep up the comradery, best practice sharing, and support for everyone as we navigate through these new challenges with the goal of continued success for Community Associations in the Rocky Mountain Chapter.

Cheers!

COMMON INTERESTS Editorial Calendar

Issue	Topic	Article Due Date	Ad Due Date
October	Tech / Modernization	07/15/2022	09/01/2022
December	Planning Ahead / Goals / Community Vision	10/15/2022	11/01/2022

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Budgeting 101

CYLINDA MOBLEY AMS® PCAM®, GRI
Westwind Management

I'm a budget nerd, and I freely admit it. Putting together an HOA budget and seeing each month how accurately the projections and actuals fall into place gives me a sense of satisfaction and downright gleefulness. In the coming weeks, this process begins again as I start the budgets for the communities I manage. With so much in the news recently about inflation and its effect on so many of us in our daily lives, how do we factor that into the budgeting process for 2023 and beyond?

Dictionary.com defines a budget as: "an estimate of income and expenditure for a set period of time."

I start the budget by projecting the expenses. Only then (IMHO) can the income be projected because you need to know how much money you need to cover the expenses. Let's roll up our sleeves, put on some good tunes, print out the past years' reports for actuals vs. budget, and get to work!

The economy is cyclical, and the way I like to factor that in is by using a five-year history of expenses to determine an average and then modify where needed, but in our current market, that may not be enough. We are still being affected by COVID supply chain and labor shortage issues. Many of our industry business partners are struggling to keep staff while still providing the services needed to keep our HOAs going. Before you throw your hands up in despair, channel your energies into the below recommendations:

- See if the utility companies are talking about increases for the next year (in addition to what may have occurred in the middle of the current year!).
- Check with your service providers for any increases and fuel surcharges. To retain staff, they may be competing with others and having to offer incentives for employees, which drive up costs.
- Where can your association cut costs? Does it make more sense to look at xeriscaping over the higher watering costs of turf?
- How healthy are your reserves? Has your association conducted a recent reserve study? Are you capitalizing on the inflationary market and investing your funds where you can get the best return on investment? Can you put off a capital improvement until this volatile market slows?

Putting together a budget shouldn't cause you grief, but rather provide some relief that you have as accurately as possible created a road map for the association for another year! If you need a good playlist to jam to while you are number-crunching, Sister Hazel is always my go-to! Check them out here: https://open.spotify.com/artist/7m60UAnbgFFNuJbmS6OxTk?si=b5243e8c60d544d3.

Cylinda Mobley has been in the HOA industry since 2004. She has served on both the CAI Manager Council and the CAI Board of Trustees. She's been an Association Business Manager with Westwind Management since November 2018. When she isn't serving community associations, Cylinda and her husband, Alan, enjoy spending time with their girls, taking in some Colorado hot spots, and planning for their European Rhine cruise with - you guessed it - Sister Hazel.

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Effects of FORECLOSURE & BANKRUPTCY on Homeowner Assessment Payments

KIKI N. DILLIE, ESQ.
Altitude Community Law

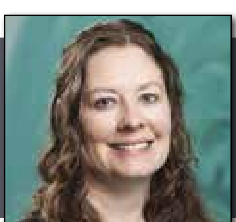
When a management company or board becomes aware of a homeowner being foreclosed on by their mortgage company and/or being in bankruptcy, often the first question is ***"What does this mean for the Association?"*** With reports that the economy may be taking down turn in the near future, foreclosures and bankruptcies are likely to increase and impact more and more associations.

FORECLOSURE: When a homeowner's mortgage company is foreclosing, the homeowner legally remains the owner of the property until approximately the 9th business day after the foreclosure sale. (The exact date depends upon whether there are junior lienholders that want to redeem the property after the sale.) The homeowner remains personally responsible for any assessments that come due while they are the owner, so they are obligated to pay whatever comes due up until the sale actually happens, even if the sale is continued several times and/or if the homeowner moves out of the property before the sale.

Even after the sale, the homeowner remains legally responsible for any assessments due while they were the owner, minus the superlien amount. The foreclosure sale does not end that responsibility and the homeowner can be collected against for that amount, even after the sale is completed. Practically speaking, if the homeowner moves out of the property and can't be located, it might not be a good use of the Association's funds to continue to try to pursue the homeowner and it might be a good idea to consider writing off the balance to bad debt, but that depends on the individual circumstances.

In Colorado, the superlien also takes effect in these situations. When a foreclosure is initiated, the superlien comes into existence. This lien is valid for any assessments that came due in the 6 months prior to the foreclosure being initiated and remains against the property even after the foreclosure, if not paid sooner. Sometimes the foreclosing mortgage company will pay the superlien during the foreclosure process, but if not, the superlien will have to be paid at the time the post-foreclosure owner attempts to sell to a new owner.

BANKRUPTCY: Whether or not the homeowner is personally responsible for assessments in bankruptcy is more complicated and depends on the type of bankruptcy filed, as well as other factors.



Kiki N. Dillie, Esq. *is a partner with Altitude Community Law and runs the debt recovery department. She has an extensive understanding of all areas of association debt recovery, but also has experience with foreclosure, covenant enforcement, and transactional issues. Kiki has taught dozens of classes for managers and board members in a variety of association-related subjects.*

CHAPTER 7 BANKRUPTCY: This type of bankruptcy is most common when the economy is bad and people are either unemployed or severely under employed. In a Chapter 7, after the bankruptcy is filed, the Association can no longer contact the homeowner about the balance due. This includes sending letters regarding the balance. Once the homeowner receives a discharge, they are no longer personally responsible for the balance due as of the date the bankruptcy was filed. They remain personally responsible for any assessments that come due after the date the bankruptcy was filed through the date that they no longer owner the property. Additionally, the lien remains against the property for the full balance due, so if the homeowner retains the property through the bankruptcy and later sells to a new homeowner or refinances, the full balance due, including any pre-bankruptcy balance, can be collected at closing.

CHAPTER 13 BANKRUPTCY: This type of bankruptcy is more common in good economies when people are employed, but just have too many debts and need time to repay their creditors. When a homeowner files a Chapter 13 bankruptcy, the Association can no longer contact the homeowner or any other co-debtors about the balance due. Whether or not the Association will be repaid the pre-bankruptcy balance will depend on if the homeowner retains the property or surrenders it, so this varies case to case. Also, even if the homeowner intends to retain the property, the Association will have to file documents with the Bankruptcy Court very quickly after the bankruptcy is filed in order to validate their claim and actually get paid. If the documents are not filed timely, the Association likely won't receive payment, even if they otherwise would have been entitled to payment.

In either a Chapter 7 or 13, it is very important to CONTACT THE ASSOCIATION'S ATTORNEY RIGHT AWAY after being notified of the bankruptcy filing, so the attorney can get the required documents filed timely and protect the Association as much as possible through the bankruptcy.

If you have any questions about the impacts of a foreclosure or bankruptcy on an association, it is best to contact the Association's attorney to get the best advice on how to handle that particular situation.

You Can, With a Plan

Proactive Project & Financial Planning

AARON J. GOODLOCK
Orten Cavanagh Holmes & Hunt, LLC

Among the lessons to be learned in the wake of Champlain Towers is the importance of financial and project planning. Owners and residents expect certain returns on their investment and, as a general rule, associations have a duty to protect, preserve and enhance property in the community. Besides avoiding catastrophes, planning for maintenance, repair, and infrastructure enhancements provides numerous additional benefits such as increasing marketability and value of homes and mitigating liability risks.

Prudent planning presents both opportunities and challenges as communities approach a new post-pandemic era and continue to navigate evolving housing markets, adapting to changes in technology, and managing aging infrastructure. Community associations that embrace proactive long-term planning are poised to be much more successful.

Financial and project planning requires involvement and participation by various stakeholders, including board members, management, and homeowners. It requires knowledge and a commitment to invest in the future of the community through:

- identifying needs
- budgeting
- performing regular maintenance and repairs
- preparing and updating reserve studies
- establishing long-term goals and objectives
- creating and implementing long-term financial plans
- educating members about the need for, and benefits of, investing in the community

Planning to address long-term maintenance, repair, and replacement of aging infrastructure is a fundamental element of fulfilling the association's legal duties and responsibilities. Boards of directors owe fiduciary duties to the association and owners to exercise sound business judgment in meeting and fulfilling maintenance obligations, including adequately budgeting for routine maintenance and operating expenses, as well as funding reserves for future capital repairs, replacements, and improvements.

In conjunction with maintaining and updating infrastructure, investing in modern technology and capital projects to incorporate contemporary amenities, facilities, and services is a great way to revitalize and add value to communities. Modernizing and/or repurposing antiquated or obsolete facilities can add substantial value to communities for current and future residents. For example, instead of repairing old, outdated equipment, consider replacing it with more modern energy-efficient, sustainable equipment. Modern equipment may be more expensive to purchase and install, but it could substantially reduce future maintenance and energy costs.

Balancing competing needs and interests such as addressing infrastructure versus investing in modern facilities can be challenging and difficult. Boards of directors and management must be cognizant of the community's needs and desires, as well as the financial constraints and limitations. Most associations do not have sufficient funds to invest in every project or idea, so prioritization is key. Associations should solicit input and feedback from owners, in addition to engaging experts who can assist with improvement analysis and planning.

Whether your community is addressing aging infrastructure, investing in new technology, or both, boards of directors should rely on the advice of qualified professionals to assist in developing long-term plans, strategies, and analysis. Associations are encouraged to seek assistance from professional community association managers, reserve specialists, financial advisors, engineers, and sustainability experts. By engaging specialists to assist the community, associations and boards can develop better, more sustainable and cost-effective solutions, while simultaneously limiting risks to the association for lack of due diligence or informed decision making.

In June, 2022, Colorado Governor Jared Polis vetoed House Bill 1387, which would have required mandatory periodic reserve studies. However, despite any mandatory statutory obligation, performing regular reserve studies serves as a critical planning tool. Conducting reserve studies enables associations to anticipate large capital expenditures and evaluate areas of risk. Reserve studies help to determine what projects need to be done, as well as when they need to be done and how the association should be planning to fund those projects. For example, reserve studies may identify structural building components with significant deferred maintenance or conditions that pose an imminent safety threat. Issues involving significantly deferred maintenance (e.g., structural water damage) or conditions likely to result in physical injury (e.g., cracked or broken sidewalks) should be considered "high-priority" projects. Reserve studies can also help plan for lesser-priority projects in the future by estimating the remaining useful life of capital assets and major shared components (e.g., utilities, roofs, siding, water and sewer pipes, HVAC and boiler equipment, recreational facilities, drainage facilities, landscaping, etc.).

As a board member or manager, determining which projects to prioritize can seem daunting or overwhelming, but it can also be very rewarding and valuable.

By identifying and prioritizing projects in advance, associations can significantly reduce the level of financial and legal risks, and substantially INCREASE THE VALUE and DESIRABILITY of the community.

Associations are encouraged to consult with their professional advisors to develop long-term financial and capital improvement plans.

Aaron J. Goodlock *is an attorney at Orten Cavanagh Holmes & Hunt, LLC. He provides general counsel and transactional services to community associations throughout Colorado.*

Investing Association Reserve Funds

A HISTORICAL PERSPECTIVE

GENE T. WEST
RBC Wealth Management

When we discuss the best practices for investing association reserve funds in today's world, it is probably best to review a bit of history with this topic. Community Associations began to take hold during the 1970s. During the 1980s, association reserve accounts began to grow. At the time, interest rates were substantially higher than today. The 10-year US Treasury Note was yielding 9.04% on January 2, 1986, compared to about 3% +/- today. Virtually all the reserve assets of HOAs in the 1980s were sitting in bank savings accounts or money market accounts when the 10-year US Treasury Note was as high as 12.02%. Since 'real' rates were so high, no one cared about 'investing' the funds. The 1990s brought lower rates and slightly more sophisticated investing by community associations. In 1996, the 10-year treasury had declined to 5.58%. Laddering, or staggering maturities became popular. This was, and still is, a great way to provide liquidity and may guard against the risks associated with dramatic moves in interest rates. Making use of other US government securities like GNMA mortgage bonds also came into play. By 2005, the 10-year treasury yield had dropped further to 3.89%. Using a financial advisor specializing in HOAs was becoming more popular, and a small percentage of communities were using mutual funds. On 7/8/2016, the 10-year treasury closed at a then record low yield

__Gene T. West__ Senior Vice President - Financial Advisor. Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested. RBC Wealth Management does not provide tax or legal advice. All decisions regarding the tax or legal implications of your investments should be made in connection with your independent tax or legal advisor.
Interest rates sourced from FactSet web application.

of 1.36%. Association boards were patiently waiting for rates to go higher. But they didn't. From 2016—2021 associations struggled with the concept that inflation was outpacing the earnings of the reserve account, and most all associations were losing purchasing power on their reserve fund assets (inflation being higher than the rates earned) every day. Most association boards are now discussing this concern. The fact is, if earnings in a reserve account do not keep up with inflation, there is generally only one way of making up this difference. That is by raising assessments. Remember, every dollar you earn in a reserve account is one less dollar that needs to be assessed to owners.

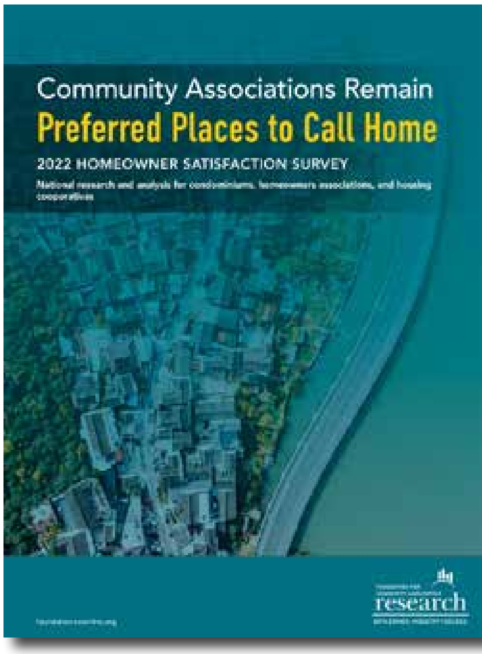
Today, we spend a lot of time discussing the definition of 'risk.' Is risk defined as the possibility you could lose money on an investment? Or is risk defined as the possibility that you could lose purchasing power because of inflation? Each board must prioritize its concerns on this topic.

When it comes to 'best practices' in today's world, we see boards taking one of two avenues. Those boards who define risk as the chance you could lose money, will continue to invest reserve funds as we have done in the past: laddering CDs, treasuries, and making use of other government securities like GNMA's. The boards that view risk as not keeping up with inflation will invest a portion of their reserve funds in non-US Government instruments in order to obtain a higher return.

The bottom line on reserve accounts is that this money is being put aside to spend at a future date.

Associations must always have cash available when assets need to be repaired or replaced. Laddering CDs or treasuries can be essential in any investment strategy. Using a financial advisor specializing in Community Associations may assist in improving the chances of the association having a strategy. It may also help fulfill any obligation that each board member has to their community and can assist with a more proactively maintained community.

2022 DATA JUST RELEASED



FOR THE NINTH TIME IN 17 YEARS, AMERICANS LIVING IN HOMEOWNERS ASSOCIATIONS, CONDOMINIUMS, AND HOUSING COOPERATIVES SAY THEY'RE OVERWHELMINGLY SATISFIED IN THEIR COMMUNITIES.

The April 2022 survey affirms the findings of almost identical national surveys conducted every other year since 2005. The 2022 survey was conducted by Zogby Analytics for the Foundation for Community Association Research. The findings from the surveys throughout the years are strikingly consistent and rarely vary a standard margin error for national, demographically representative surveys.

By large majorities, most residents rate their overall community experience as positive or neutral.

87% think the members of the elected governing board, absolutely or for the most part, strive to serve the best interests of the community of the whole.

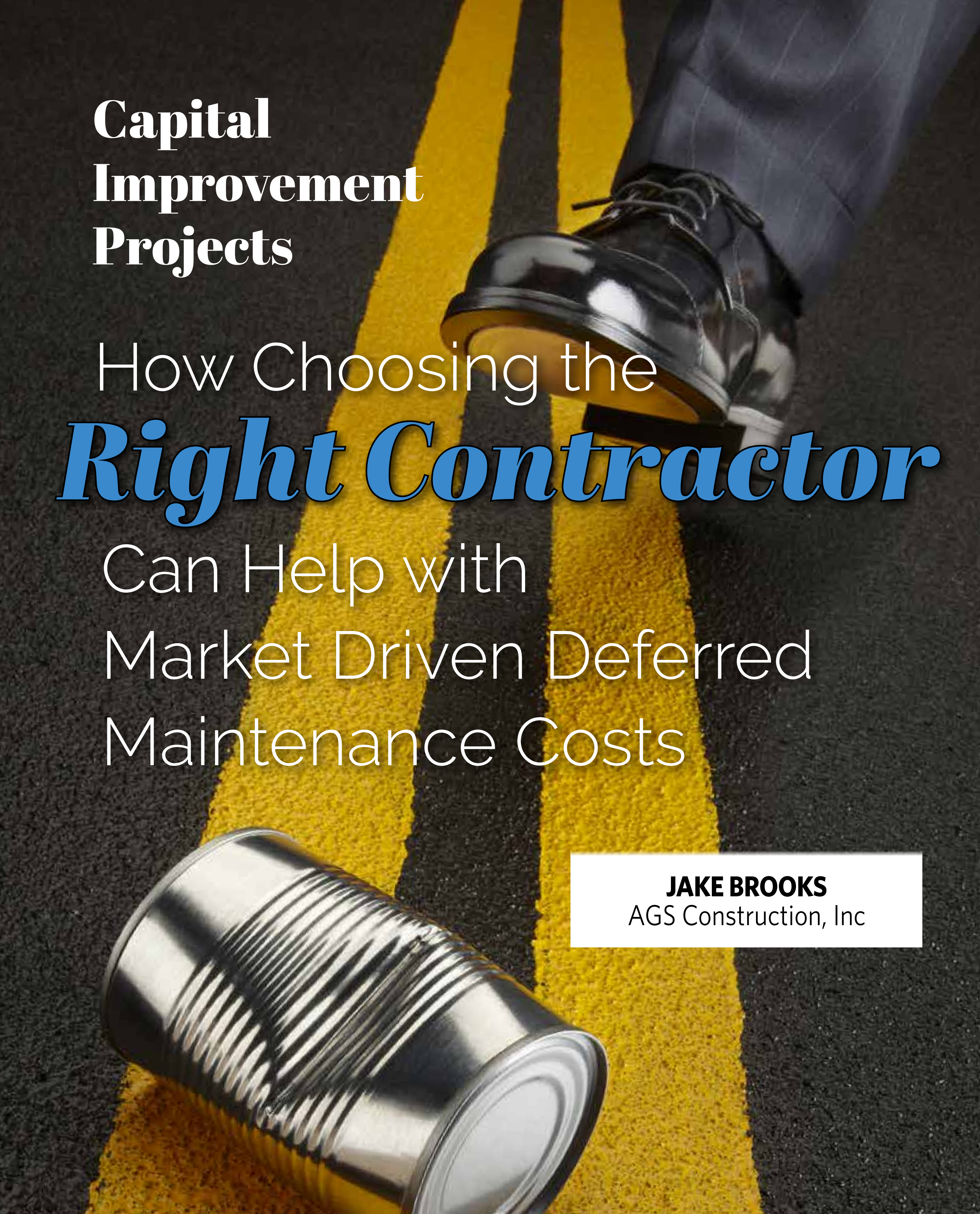
87% say they are on friendly terms with the community association board.

74% say the manager provides value and support to residents and the community as a whole.

86% said the experience with their manager is generally positive.

Capital Improvement Projects

How Choosing the *Right Contractor* Can Help with Market Driven Deferred Maintenance Costs



JAKE BROOKS
AGS Construction, Inc

Everyone wants their community to be the absolute best it can be, especially when it comes to safety, security, and appearance. Some boards will do everything possible to keep their reserves robust, dues stable and special assessments from occurring. In this environment many managers find themselves being asked to delay scheduled maintenance and capital improvement projects even when it comes to life safety issues.

Kicking the proverbial can down the road for restoration projects can, in reality, become exponentially more costly in the near future.

As professional managers part of your responsibility is to educate board members, provide them with expert opinions on defects, options for repair and judiciously execute actions on your community's behalf. It is the job of a good restoration contractor to not only provide an estimate on cost of repair but to also act as a consultant and find solutions that strike a balance between maintaining a budget and addressing life safety issues and improperly constructed assemblies that may be present and need of repair in a community.

In the past few years, we have all dealt with personal increases in cost of living, food, fuel and more. The same can be said for our industry. Much of the increase in construction cost is driven by a combination of the availability of skilled labor and the materials needed to make the necessary repairs. In the past year, major suppliers of coatings have had to increase prices five times, siding has increased nine times, and roofing materials have increased by more than thirty percent! Every building component has experienced the same increase and to add to that have become harder to obtain in some cases. Unfortunately, today this trend is the "rule" rather than the "exception" and right now the forecast is that this trend will continue going forward.

To control job related costs, part of planning for any capital improvement project should include partnering with a reputable contractor that is aware of the above-mentioned supply chain issues, has access to available skilled labor, can meet the desired start/end dates, and has the experience to provide viable solutions for any type of project. The reality of what is requested and what can be provided are, in some cases, not the same. A knowledgeable contractor should be able to provide the insight it takes to produce viable solutions to overcome all these obstacles all while acting as a trusted consultant.

For most contractors there can be a lengthy delay in scheduling quality crews between the authorization of work to the actual mobilization of resources. Additionally, depending on materials selected, this length of time could be even longer. Most companies will not commit resources to a project without a fair degree of certainty that materials will be available for work to begin. Depending on the type of restoration and time of year, this could potentially extend project start dates by months due to weather patterns and conditions needed for application of certain products such as stucco, roofing, sealants, and coatings.

The good news is that by choosing a contractor that also acts as your project consultant there is a solution when moving forward with capital improvement and restoration projects. These contractors typically have in-house tradespeople, solid working relationships with design professionals, long term relationships with material suppliers, storage yards and warehousing capabilities. Having in-house tradespeople allows for better control of not only quality but also scheduling of resources to any given project. Having good relationships with design professionals allows for timely resolutions to the "known unknowns" we all encounter due to poor existing conditions. Long term relationships with material suppliers results in preferential treatment during product procurement. Having the ability to store and warehouse materials helps mitigate potential price increases and price fluctuation by being able to buy in bulk. This also ensures there will be no lag in production due to delivery delays. Combine all these qualities and you have a contractor that can preform the repairs necessary to any community with little to no setbacks from the supply chain.

So, avoid kicking that can down the road any longer by partnering with a contractor that can educate your boards on expected price increases for the foreseeable future and help them maintain their reserves, preserve the stability of their dues, and keep special assessments to a minimum.

__Jake Brooks__ is the Business Development Manager at AGS Construction, Inc (2022 CAI-RMC Titanium Sponsor). Jake has over 21 years of construction experience focusing on large scale HOA complexes and commercial and residential projects. Jake is experienced in building envelope, structural, civil and concrete repairs. He has an extensive knowledge of and experience with building materials. Jake is known for the creative solutions he offers for complex solutions. Jake can be reached at jbrooks@agsconstructioninc.com.

COMMUNITY ASSOCIATION EQUALITY PLEDGE

Adopt the Pledge, Today!!!

Our community supports and will foster the following leadership behaviors that support equality:

① **COURAGE.** We will take actions and make decisions that support equality.

② **INTEGRITY.** We will stand for equality as a core value and never compromise in situational challenges and policymaking.

③ **INTOLERANCE.** We will be an ally, and we will be intolerant of others who are not mindful of equality and call them out (gently and with tact) when they behave inappropriately.

④ **SELF-AWARENESS.** We will be aware of our own biases and the effect that they have on equality. We will take responsibility for increasing understanding of our own privileges and prejudices.

⑤ **SELF-REGULATION.** We will maintain control over our own decisions and actions in the matter of equality.

⑥ **MOTIVATION.** We will pursue equality with energy and persistence and relentlessly challenge its achievement in the community. We will intentionally and deliberately engage in nonbiasing activities. We will educate ourselves, and we will engage in conversations about race.

⑦ **EMPATHY.** We will understand how inequality affects community members emotionally; treat the victimized compassionately; and appreciate that people have unique mindsets that affect their perception of inequality.

⑧ **SOCIABILITY.** We will manage relationships to establish a common ground of equality in the community.

These commitments are guiding principles. They are not governing documents or legally enforceable and do not give rise to penalties if they are not followed.

If you agree with these commitments to equality, please sign and return the document.

COMMUNITY ASSOCIATION NAME

ADOPTION DATE

community ASSOCIATIONS INSTITUTE

#WeAreCAI

The equality pledge was adapted in part from *Becoming a Leader: Nine Elements of Leadership Mastery* by Al Bolea and Leanne Atwater.

HOW TO ADOPT THE EQUALITY PLEDGE IN YOUR COMMUNITY

1. **DISTRIBUTE** the document throughout your community, announcing and publicizing where and when the adoption will be considered.
2. **EXPLAIN** why this is important to your community and the benefits it can create.
3. **REVIEW AND DISCUSS** the merits of the principles at an open meeting of your board of directors.
4. **SOLICIT INPUT** from homeowners.
5. **HOLD A BOARD VOTE** to adopt a resolution endorsing the Community Association Equality Pledge.
6. **SHARE THE NEWS** of adopting the Community Association Equality Pledge throughout your community regularly. Post on your website, social media, and on every community association meeting agenda.
7. **TELL CAI** that you've adopted the Community Association Equality Pledge.

DATE OF ADOPTION

COMMUNITY ASSOCIATION NAME & WEBSITE

PRIMARY CONTACT NAME

PRIMARY CONTACT INFORMATION (ADDRESS, PHONE, & EMAIL ADDRESS)

Complete and email to government@caionline.org. Questions? Call (888) 224-4321, or submit an online form at www.caionline.org/EqualityPledge.

community
ASSOCIATIONS INSTITUTE

#WeAreCAI

Smart Solutions for Funding Community Association Projects

APRIL AHRENDSEN,
CIT, A Division of
First Citizens Bank

Does your community association need to fund a big project? Whether it's tackling deferred maintenance, making emergency repairs, or upgrading landscaping, you have options to cover the costs – and financing may be the right choice.

3 Options for **Big-Ticket Projects**

1. **Reserve funds** can be a good choice if they're available and the project meets the community criteria.
2. **Special assessments** can be used to raise funds without permanently increasing assessments to cover a specific project within a particular timeline.
3. **Financing** can be a smart option when reserve funds are unavailable, the project does not meet the criteria for using such funds, or special assessments place financial difficulties on your homeowners.

April Ahrendsen *The views and opinions expressed in this article are those of the author(s) and do not necessarily reflect the views of CIT, a division of First Citizens Bank. For any matters concerning your specific needs and objectives, you should seek the professional advice of your own independent legal counsel, insurance advisors or other consultants.*

3 Tips for
Seeking a Community Association Loan

1

Get your papers in order. Banks are highly regulated institutions, so they'll need to examine your documents carefully.

- Make sure the community documents are complete and current. It can be extremely difficult to underwrite a loan if they aren't.
- Know what the association can and cannot do. If, for example, the bylaws require approval by association members before the board seeks a loan, be sure to have that approval in hand.
- Consult with your legal counsel to resolve any ambiguity before you begin your application.

2

Be specific about your HOA project's scope and cost. Banks that specialize in HOA lending to community associations often provide project-specific financing. It may be for facade work, new roofing, drain systems – almost anything – but remember:

- An itemized budget is key.
- The bigger the project, the more complicated the variables will be.
- You may want to hire an experienced construction manager to define the project specs, evaluate contractor bids and prepare a detailed budget presentation as an extra cost in the short run could be more than offset by savings later.

3

Work with an experienced community association lender. A financial provider that understands community association banking can offer:

- Products that streamline the HOA lending process
- Creative solutions for difficult situations
- Flexible loan structures, competitive rates, and expedited loan processes

Working with a financial provider with experience in community association lending can be especially beneficial. The bank's experts can help you through the loan process – even attend your board and membership meetings – and assist you with gaining the necessary approvals you need to move your projects forward.

Telling Your Association's Financial Story:

How to Read Monthly Financials Properly

JENNIFER KINKEAD, RowCal Denver

Have you ever found yourself looking at a set of association financials that appear to be a bunch of codes that need deciphering? Imagine the pressure of being a new community manager at your first Board meeting, and you are expected to explain the association's financial position. The financial portion of the meeting is inching closer, and your worst fear of having to explain this outlandish financial blueprint is before you. At that point, you find yourself thinking, "How can I explain the financial state of the association if I cannot properly read the financials?"

I am confident we have all felt like this at one point or another in our careers. The great news is that you will become more familiar once you know how to properly read an Association's financial statements. This incredible knowledge will empower you to provide a simplified overview that you can confidently share with your Board members and homeowners. I hope to help you comprehend the "story" your association's financial statements tell by highlighting the key points to focus on when reading them. The best way to decipher any code is to simplify it!

__Jennifer Kinkead__ is a Supervising Community Association Manager with RowCal Denver. Her career began in the Association accounting department five years ago before progressing into a Community Manager role. Jennifer takes pride in educating her colleagues on the importance of association financials, budgeting, board education, and appropriate time management.

To begin, you must become familiar with the accounting method(s) your association practices as there are three common accounting methods in this industry: Accrual accounting, cash-basis, and modified-accrual accounting. The most common methods used are accrual accounting and modified-accrual accounting.

The first part of this story can be compared to a "table of contents" or a list of what a financial package should contain on a monthly basis. The community manager should receive a financial package that includes: a Balance Sheet, a Revenue and Income Statement, an A/R Aging Report, and Bank Statements/Check Register. These items I have just listed can be compared to chapters of your association's financial storybook.

The balance sheet is the part of the story that shows the financial position of the association. There are three essential items to verify when reading an association's Balance Sheet. First is the operating account balance to ensure there are enough funds in the account to pay the monthly bills; next is the reserve funds balance to ensure there are enough funds for expected and unexpected reserve expenditures. The last key point is the receivables balance to ensure the association is not exhausting more monthly funds than received. It is important to ensure an association does not have more money in one account than is protected by FDIC insurance ($250,000.00.) The Balance sheet is a helpful way to see if there are any potential cash-flow problems.

The next chapter in the financial story is how the association operates compared to its budget. This information can be found in the Revenue and Income Statement. This statement is a side-by-side comparison of how the association is operating or spending vs. how the association budgeted. The budget is a planned, estimated expenditure for the fiscal year; however, it does provide the framework to evaluate revenue and expanse in relation to the current budget. Those two columns will not always match up, which can be described as a variance. Any variances are the key points to focus on when reading this statement, as there are two distinct types of variances. A real variance is a result of over-spending or under-spending, and a timed variance is due to the timing of the expense. Timed variances occur as most budgets are typically divided into 12-month increments, but contracts only last for a 6- or 8-month period. When a timed variance happens due to a contract, the budget will typically balance towards the end of the fiscal year. You want to focus on any variances the association may be facing and explain the reasons to your Board members.

As you navigate your financial packet, you will approach the most crucial part of your association's financial story, the A/R Aging report. This report is a detailed record of any owner who may be delinquent on their monthly assessments. You will be able to view each owner by unit address, the amount(s) they are past due, and the length an owner has been past-due. By using this report, you can ensure the association is collecting those funds according to the Collection Policy of the Association. If this number is large, this could indicate the association may be facing a cash-flow problem. Make sure you involve the Board and association's attorney on the progress of this report.

Coming to the end of our story, we will then find the bank statements and check register. When looking at the bank statements, you want to focus on ensuring it reads the same as the balance sheet. It is important to verify if the account balance has remained positive each month. The check register is a great tool to view who was paid and the details of the payments. It is also a record of those payments if you need to reference them at any time.

Knowledge is power! Remember, you gain financial knowledge by knowing how to read a financial package properly. By focusing on the key points listed above, you can confidently tell your association's financial story, as each association has a unique story to tell.

Capital Improvement Projects

HOW DO WE PAY FOR THEM?

MARY SARAH SCHWEIGER
Citywide Bank

Are you a board member or a manager of an HOA covenant community? If yes, you understand that it can be hard and expensive to keep your community looking its best. One possible solution to consider is obtaining a loan from a local bank to complete the entire capital improvement project all at once.

Imagine: The buildings are damaged and continue to worsen right before your eyes. Or the community has a sewer system that is slowly but surely falling apart, causing backups. Or, the roads and the parking lots have lived their best lives and require serious repair. Or maybe it is time for a paint refresh. What does an association do? Does the reserve account carry a high enough balance to complete these capital improvement projects, and is there enough left over to facilitate emergency projects? Can the community continue to afford the band-aid solutions that prolong these projects?

If you are like most HOAs, you have put aside money in your Reserve account regularly; however, the project could cost more than what you have saved. Plus, it would be dangerous to deplete the reserves in the event there is an emergency in the future. Obtaining a loan can get the job done faster, lessen the strain on your reserve account, and allow the Association to pay overtime to lessen the strain on the homeowners.

This is not always the most straightforward task, and it can take some time. Here are some initial questions and answers to help you decide if your Association should seek a loan and how to get started:

The first step is to always speak to your local banker.

- Each bank is different in its loan requirements. It is good to understand the information you will need to start the process and build that relationship with your banker early in the project.

Check your governing documents.

- It is essential that the Association's documents allow the Board of Directors to borrow money and pledge future assessments and enforcement rights to the bank to secure

Mary Sarah Schweiger *I have been a banker at Citywide Banks for the last 15+ years. I take care of the HOA portfolio at Citywide Banks and have experience lending to Associations across Colorado. I have sat on an HOA board for eight years and have experienced a lot (embezzlement, large million-dollar capital improvement projects, insurance claims, etc.)! We are creative at meeting the needs of the community. Citywide Banks prides itself on being a Community Bank, helping communities across Colorado. I am always happy to help and share my experiences and knowledge. Feel free to contact me at schweiger@citywidebanks.com.*

the loan. If this is not in your governing documents, you may need to make an amendment. I would seek an opinion from your attorney.

Who can approve obtaining a loan?

- Usually, borrowing money requires a vote of the homeowners. Does that mean 2/3 of the homeowners? Or does that mean a majority of the homeowners present at a special meeting? Can you do this at the annual meeting of the members? Or does it have to be a special meeting with special notice requirements? Or maybe it is as simple as the board of directors' approval. Your governing documents will guide you.

What is the financial health of your Association?

- Are you a healthy association with few to no delinquencies? Are you able to meet your operating budget on a monthly basis with the monthly dues you collect? Or are you dipping into your reserves on a regular basis to make ends meet? Could your operating budget afford a loan payment? Or do you need to increase dues or get a special assessment to repay the loan?
- Remember, the income of the Association is what the homeowners pay to the Association. What comes in must be able to pay the expenses, i.e., water, electricity, management fee, trash, landscaping, etc., including the transfer to the reserve account. You will want to continue to transfer to the reserve account because it ensures future projects will be supported as needed. The Association will continue to stay healthy above and beyond the loan.

What is the entire scope of the project?

- Do you have a clear picture of the whole project and all parties needed to complete the project's scope? What is the project timeline, and what is the estimated cost for completion? Do you have a company you know and trust and want to work alongside? Have they provided a complete bid to do the work? Are they reputable in the community?
- It is always best practice to obtain 3-4 bids for comparison. Try to compare apples to apples. Ask for references. Get to know these companies. What is their customer service like after the project is completed?

Ask questions, this will help start the process. Your next course of action will depend on the answers to these questions. Maybe you will need to start with amending the documents and cleaning up delinquencies. Or perhaps you just need to amend the budget and set a special meeting for the homeowners. Feel free to reach out to your local banker with questions or concerns.

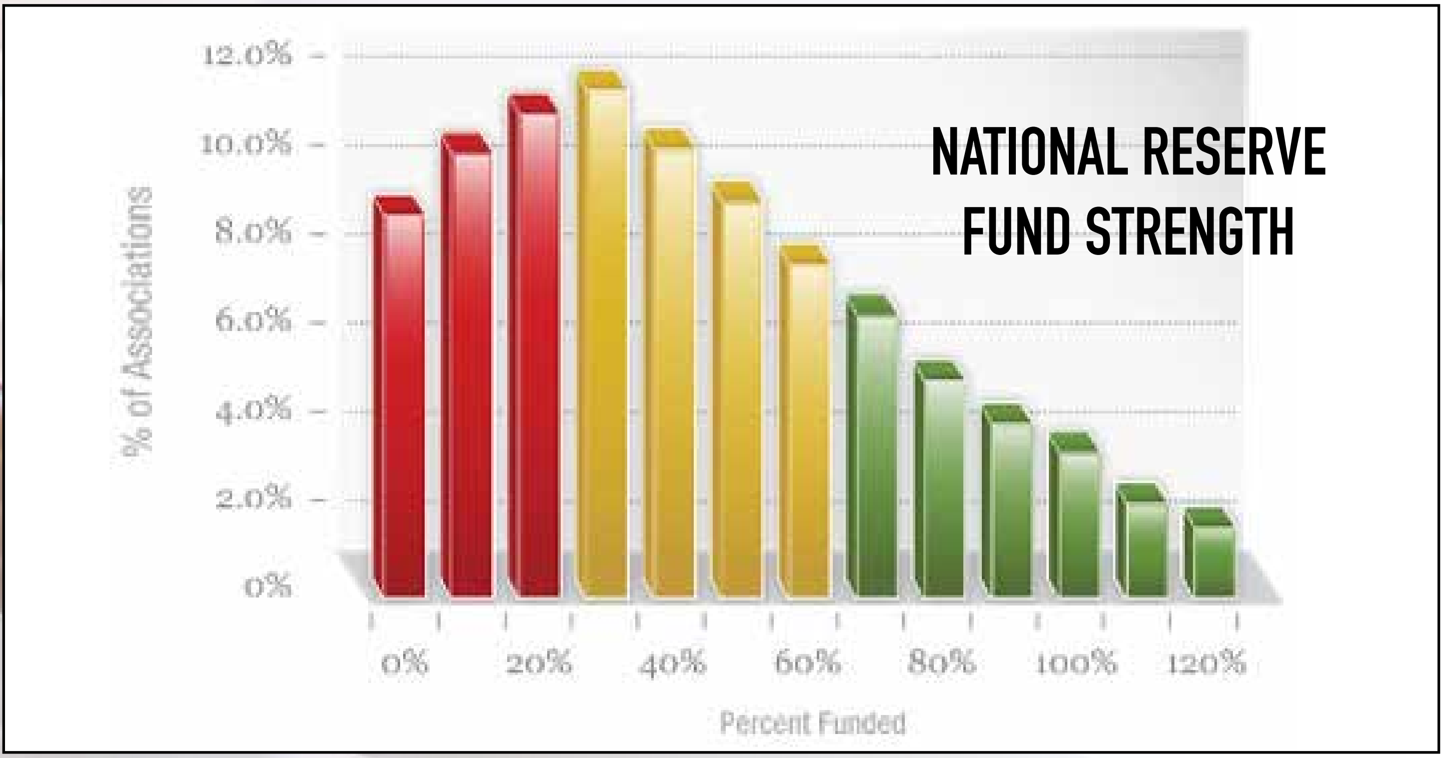
A RESERVE STUDY Primer

BRYAN FARLEY, RS
Association Reserves, CO

When living in a homeowner association, what are the things to think about? Some considerations may include: location, amenities, how much are the dues and assessments?

One important topic that may be only discussed every five years is, ***"Is the Reserve account adequately funded?"***

Based on statistics of over 70,000 homeowner associations, the answer most likely no. On average, about 40% of associations are in the 'Fair' range, meaning that there is a 10%-20% chance of risk of special assessment. Approximately 30% of associations are in the 'Weak' range where the risk of special assessment and deferred maintenance jumps to 30%-60%. However, 30% are 'Strong' range and experience a less than 1% chance risk of special assessments and other cash flow issues.



How can a savvy owner know whether or not their association is at risk for special assessment and why should they care?

A special assessment is fee levied on current homeowners to cover expenses or projects. For example, if there is a 10 unit condominium with a $30,000 roof to replace and no money in their reserve account, then each owner must pay a $3,000 special assessment to cover the cost of replacement. The reason this is a problem is that this situation can be easily avoided if the prior board and owners had been putting money away for this predictable expense. If a potential buyer is not aware that the reserve account was not sufficiently funded for this expense, then once they move in, the new homeowner will have to foot the $3,000 bill.

A Reserve Study is the tool used to establish whether or not an association is at risk for a special assessment or deferred maintenance as well as providing direction and recommendations to current owners on how to be proactive with their funding. A professionally completed Reserve Study will ensure that every owner, regardless of when they happen to live at the property (or when a project needs to be paid for), will pay a fair and equitable portion of the reserve expenses.

A Reserve Study helps boards explain how funding for the maintenance of the common area elements benefits all owners right away, as well as in the long run. As soon as an Association begins to implement the Reserve Study report, current member-owners benefit in several ways:

- **Reduced conflict.** Assessments based on a Reserve Study are founded on hard facts and objective analysis. Owners may still disagree about how quickly to top off their Reserve Fund,

Continued on page 26

Continued from page 25

but with the report in hand; discussion can proceed from a baseline of accepted facts.

- **Predictable costs.** Without a Reserve Study, owners never know when the next maintenance surprise will bring about a sudden Special Assessment. Once leaders start to act on the Reserve Plan, owners know what to expect, and develop confidence in their Manager and Board.
- **Enhanced resale values.** Savvy buyers take Association fees into account when they decide how much to offer for a unit. One of the most frequent objections selling agents hear from prospects is, "How do I know fees won't go up after I buy?" A professionally-written Reserve Study is the best response to this concern, because it provides exactly the disclosure buyers are entitled to and the assurance they need.
- **Lower costs.** Deferred maintenance will only be more expensive the longer it is ignored. For example, do you suppose a wood siding project cost more in 2019 or in 2022? If a board in 2019 deferred a large siding project in hopes that they would have more money in the future may be shocked to find that the costs for the exact same project have now greatly increased.

In addition to the points above, the Reserve Study will also promote fairness among all owners, present and future. A Reserve Study must provide the following factors when providing funding recommendations:

1. **Adequate Reserves when Required**
2. **Budget Stability**
3. **Fair Distribution of Contributions**
4. **Fiscal Responsibility**

To elaborate, the Reserve Funding Plan must provide adequate funds when they are expected to be required at a future point in time. If $30,000 is needed in the year 2025 for a new roof, the Funding Plan should yield a Reserve Balance of at least $30,000 in that year. Because associations are corporations and their members expect the corporation to be run in a stable manner, it is important that the budget be designed for year to year stability. Large assessment changes from year to year indicate instability, and homeowners deserve a degree of stability in order to plan their own budgets.

To be fair to the owners and to stay away from accusations of "self-dealing," it is important to offset inherently unstable periodic Reserve expenses with a stable Reserve income stream. It is fundamentally unfair (and potentially irresponsible) to burden one set of owners with the cost of a replacing a Reserve component that deteriorated over a period of many years. This means that in addition to spreading the Reserve contributions fairly among the present unit owners, it is important to spread the Reserve contributions fairly among current and future owners.

Board members are "fiduciaries" (caring for the assets of others), and they have to act in a fiscally responsible manner, making sound, business judgement decisions. Board members are corporate officers of multi-million dollar Real Estate corporations. A Reserve Study will act as the board's guide in making responsible, informed plans as they fulfill their job to "maintain, protect, and enhance" the assets of the corporation.

Rather than being in the dark about upcoming projects, current homeowners should utilize the data provided in a Reserve Study to assess the current trajectory of an association's reserve account. This data, provided by a credentialed professional, will bring insight and order to a distracted and cluttered housing environment and allow homeowners to make wise decisions about the care of their properties.

Bryan Farley, RS is the president of Association Reserves, CO/UT/WY. Bryan has completed over 2,000 Reserve Studies and earned the Community Associations Institute (CAI) designation of Reserve Specialist (RS #260). His experience includes all types of condominium and HOAs throughout the Rocky Mountains.

PCAM Q&A

Charity Avé-Lallemant

CMCA®, AMS®, PCAM®

WHAT LEAD YOU INTO THE MANAGEMENT INDUSTRY?

A friend introduced me to a developer between semesters of college, and my first role was as an activity director of a mixed use highrise community comprised of age restricted condos, restaurant retail space, and dorms for international university students. I never looked back, working with communities in Atlanta, DC, and Denver. 25 years later, my passion is enhancing the lived experience of people within communities.

WHAT IS YOUR FAVORITE PART OF THE JOB?

I appreciate the ability to interact, understand, and translate between multiple trades. I enjoy the challenges of multitasking and problem solving, as well as the opportunity to make change now that can impact the future of these communities. It's a great privilege to find opportunities to correct and move forward with a foundation that can be supportive of all human rights.

WHAT IS YOUR BEST ADVICE FOR SOMEONE STARTING OUT IN COMMUNITY ASSOCIATION MANAGEMENT?

Practice active listening. If you aren't listening, you can't guide. Work on your poker face but never suppress who you are! Leave each community better than you found it. Join CAI, then volunteer with your local chapter. Don't be intimidated by experienced managers, ask someone to be your mentor. Pursue the CMCA, AMS, and PCAM credentials. Don't forget to give back.

HOW DID YOU BALANCE THE WORKLOAD OF CLASSES AND PREPARING FOR THE PCAM?

I timed my PCAM application around my preferred case study location; I was able to qualify for the case study held in conjunction with our national conference in Washington, D.C. I communicated with my staff, boards, volunteers, friends, and family, setting very clear boundaries about my schedule and availability. I will never forget hitting "send" on my final submission as DC erupted in racous cheers as we won the Stanley Cup. I wasn't at the game, but I had my own cheering to do.

WHAT KEEPS YOU GOING IN THIS INDUSTRY?

"Oh the humanity" is my favorite GenX answer. I studied creative writing and anthropology, and am fascinated by the human experience. I like working with people, and I like the diversity of the talents required for the job. I love creating a sense of belonging for everyone.

WHAT IS SOMETHING YOU WISH PEOPLE UNDERSTOOD ABOUT PROPERTY MANAGERS OR THIS INDUSTRY?

I wish people understood the nuance between a commercial or rental property manager and those of us who work with community associations such as condos, co-ops, special districts, and HOAs. I wish more people knew managers are committed to the community as a whole—not just the board or the management company. Community association managers are advocates, not adversaries.

DO YOU WANT IN?

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CAI Continues to Urge Changes to Updated Condo Lending Requirements

BY DAWN BAUMAN, CAE AND C. SCOTT CANADY
COMMUNITY ASSOCIATION GUIDANCE, FEDERAL ADVOCACY

The House Financial Services Committee yesterday received testimony from Federal Housing Finance Agency Director Sandra Thompson. In a memo, CAI urged members of the committee to ask Thompson about ways to improve access to mortgage credit for condominium and cooperative homeowners and homebuyers residing in structurally safe buildings.

We pointed out the Fannie Mae and Freddie Mac condominium and cooperative policy directive is disrupting access to mortgage credit for homeowners in safe buildings. In a survey of the condominium industry, 72% of respondents were impacted by the new guidelines, 45% reported mortgage closing delays, and 28% indicated the guidelines caused loan denials in condominium projects with no identifiable structural or financial integrity issues.

We shared our work with other stakeholders, including the National Association of Realtors, Mortgage Bankers Association, and the Community Home Lenders of America who also requested FHFA suspend and revise the new guidelines.

CAI and other stakeholders have provided constructive feedback on policies to improve condominium and cooperative building safety and access to mortgage credit. After receiving stakeholder and customer feedback, Fannie Mae and Freddie Mac proposed revisions to FHFA. Regrettably, FHFA has delayed the release of any revised guidelines.

We provided specific policy solutions.

Preserving the safety of condominium and cooperative housing is a key priority of CAI. We've submitted feedback on FHFA's temporary guidelines, requesting the following revisions:

- Elimination of forward-looking, speculative questions that condominium association boards and managers are unable to answer factually.
- Elimination of questions that exceed the core competencies of condominium association boards and managers (e.g., questions that require board members or managers to render a legal opinion).
- Targeting risk management activities to condominium projects most likely to benefit from scrutiny (e.g., condominium projects over 20 years old and located in areas at higher risk of salt-based corrosion).
- Streamlining questionnaires implementing temporary guidance to effectively collect relevant information and reduce burdens on condominium association boards and managers.

We urged the House Financial Services Committee to ask specific questions of FHFA Director Thompson to better understand why changes haven't been made and to determine if they are forthcoming.

CAI will continue to advocate for changes to the Fannie Mae and Freddie Mac condo and housing cooperative lending guidelines to ensure capital in the condo marketplace.

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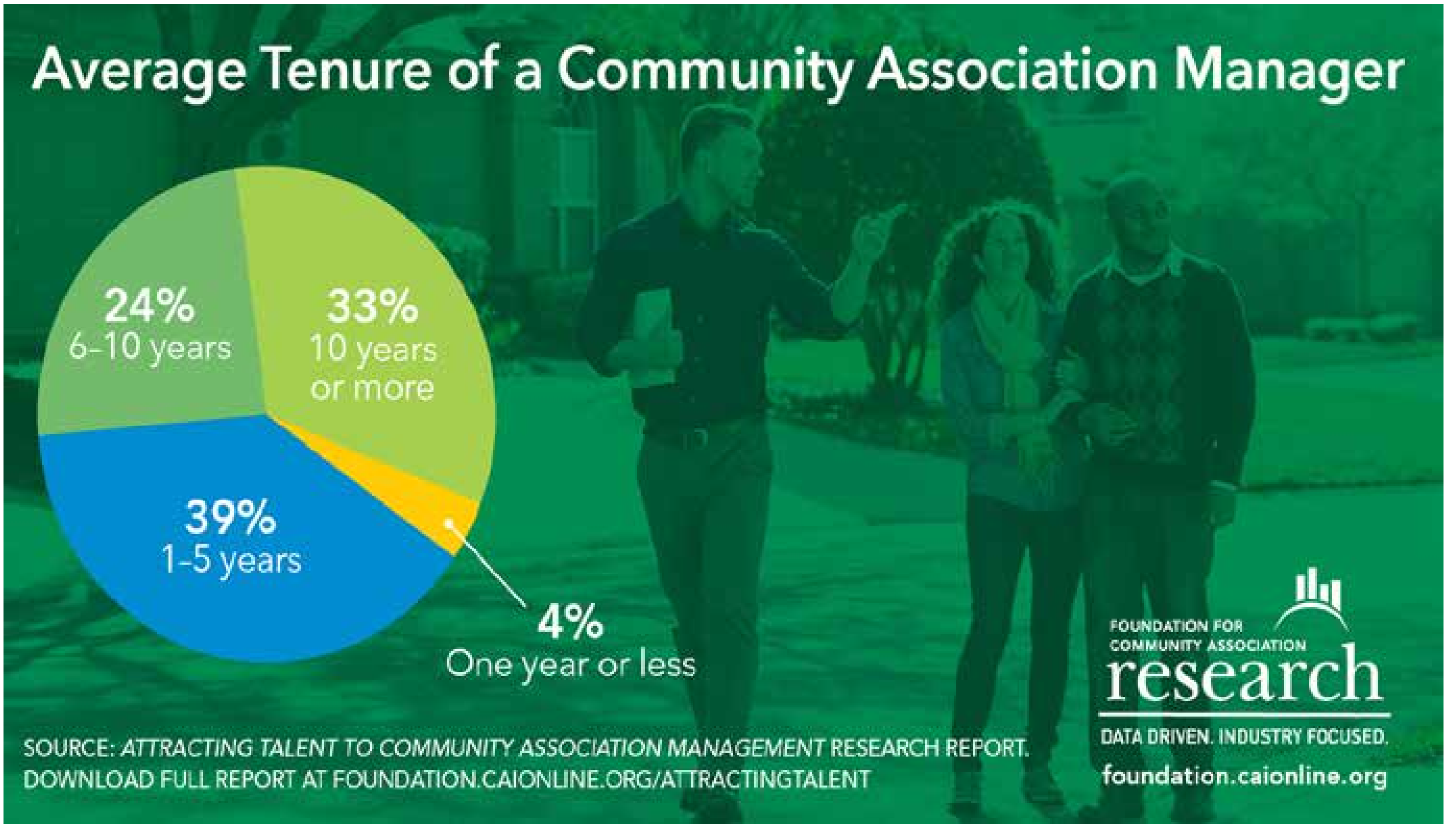
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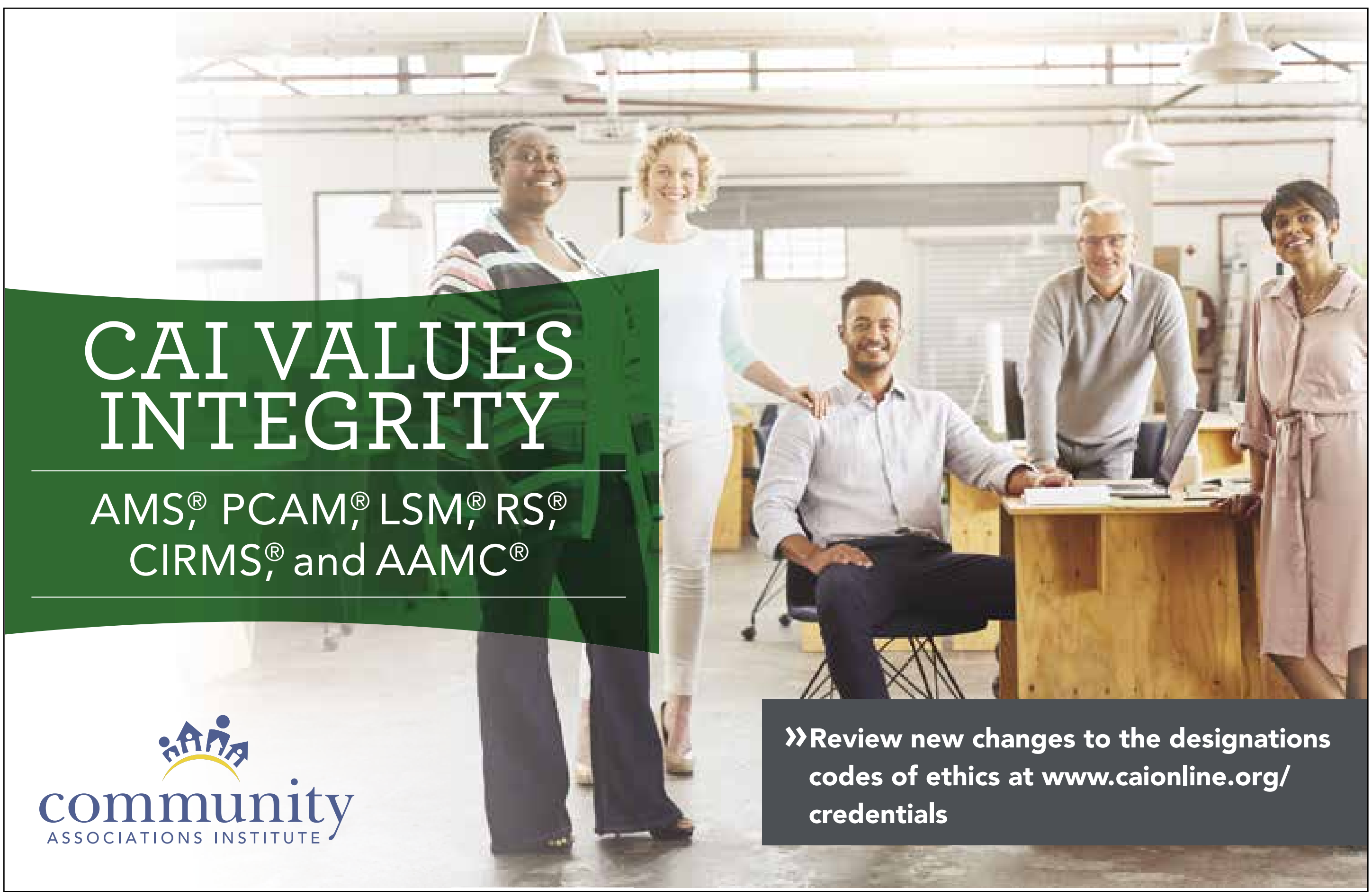
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NAME	ORGANIZATION	DESIGNATION	AWARD DATE
Patricia Garner, CMCA, AMS		AMS	06/10/2022
Patricia Garner, CMCA, AMS		CMCA	05/26/2022
Leslie M. Ashford, CMCA, AMS	Hammersmith Management, Inc.	AMS	05/05/2022
Jaime Williamsberg, CMCA, AMS, PCAM	Hammersmith Management, Inc.	PCAM	06/02/2022
Patricia Bayer, CMCA	Colorado Association Services-Lakewood	CMCA	06/07/2022
Lisa Bradley, CMCA	DMB Community Life, Inc.	CMCA	05/10/2022
Cori Tiffany, CMCA	Cherry Creek HOA Professionals	CMCA	05/03/2022
Gregory Ociepka, CMCA	SkyRun Vacation Rentals - Breckenridge	CMCA	05/26/2022
Greg Mock, CMCA	Colorado Association Services - Ft. Collins	CMCA	05/05/2022
Richard Hamp, CMCA, AMS		AMS	04/28/2022

If you are a manager, insurance and risk management consultant, reserve provider, or business partner wishing to enhance your career, the information at www.caionline.org can help you. CAI awards qualified professionals and companies with credentials to improve the quality and effectiveness of community management.

CAI-RMC MISSION STATEMENT

To provide a membership organization that offers l earning and networking opportunities and advocates on behalf of its members.

Welcome New Members

Mary Gotchey

Jason Walther

Noah Winningham

Kimberly Jackson–Advance HOA Management

Daniel J Mcgrath–Advocate Construction

Joseph Mullan–Allegra Marketing, Print, Mail

Isaiah Vigil–Blue Hawk Management

Cori Tiffany, CMCA–Cherry Creek HOA Professionals

Patrice Diem–Crystal Lakes Road and Recreation Association

Michael Bauer–East West Urban Management, LLC

Heather Brown–East West Urban Management, LLC

Amanda King–East West Urban Management, LLC

Drew Smith–GAF Roofing Material Manufacturer

Rob Buffington, CMCA–Gordian Staffing

Charity Avé-Lallemant, CMCA, AMS, PCAM–Hammersmith Management, Inc.

Jessica Ramos–Hammersmith Management, Inc.

Alan Vogl–Hammersmith Management, Inc.

Tye Seilhan–Haven Community Management

Jon Rea, CMCA–Heather Gardens Association

Matthew Gassen–HOA Capital

Luke McFetridge–Kellison LLC

Zach Milewski–National Pavement Partners

Lisa Daigle–OneWay Community Management, LLC

Ana Hernandez–Service Plus Community Management

Hector Ortega–Service Plus Community Management

Kelly Hubert–Summit HOA Services, Inc

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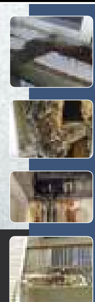

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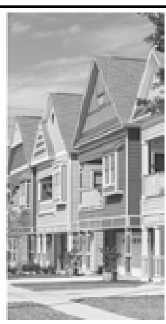

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CAI-RMC EVENT CALENDAR

September

9	**Fri**	**Business Partner Forum**
26	**Mon**	**Mountain Conference & Annual Meeting**

October

21	**Fri**	**Annual Clay Shoot**
25	**Tue**	**Community Association Workshop**
28	**Fri**	**Member Outreach**
28	**Fri**	**CEO Forum**

November

1	**Tue**	**Peak 3 - Insurance**
15	**Tue**	**2023 Sponsorship Sales Q&A (Virtual)**
18	**Fri**	**Manager Forum**

December

2	**Fri**	**Annual Celebration & Board Installation**

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