How is the HOA (or YOUR HOA) Doing?

By Kelly G. Richardson, Esq., CCAL

If you are reading this, you probably either live in a common interest development ("CID" or "HOA") or are considering it. How does one determine whether a CID residence is a good investment, or if your HOA is healthy? Is it simply price and "location, location, location"? A well-run association in a poor location may be more desirable than a poorly run association in a great location. Consider these factors:

Maintenance
Is the property well-maintained? Peeling paint, dead plants strewn in the walkway, and laundry hanging from balcony rails are not good signs. Some associations pinch pennies, deferring maintenance so to artificially hold the line on 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 infrequently (or too frequently) may be disorganized. Can you observe a meeting? The conduct at the meeting speaks volumes about the way the CID actually operates.

Board Minutes
Board minutes must by law be made available to members within 30 days and are a very informative resource. Are there minutes? Do they reflect regular meetings? What do they tell you about what the Board is addressing?

Rainy Day Money – Reserves
The law requires HOAs to have very detailed reserve funding disclosures, so read those disclosures! A short-sighted HOA skimps on reserve fund saving to artificially avoid assessments increases, but that is actually a form of growing indebtedness. Some day that association will need to get a loan or impose a special assessment because it is not ready for major repairs. Healthy HOAs plan ahead, exercising fiscal discipline, and following the guidelines of a professionally prepared reserve study.

Management
Professional management is not a luxury but cut rate management or even self-management is often chosen by boards trying to keep costs under control. However, the toll on the directors is often far greater than the cost savings would indicate. Look for the HOA with top quality, credentialed management. If the HOA has a "PCAM" credentialed manager, that indicates the manager has achieved the highest available credential. If the HOA skimps on management, directors may be overloaded. Good managers make board service more. . . well. . . 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 leads to a more cohesive community, with less conflict.

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

Financials
How many members are delinquent? Is there a budget? How long has it been since assessments were increased? The cost of operating CIDs 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 use restrictions and maintenance provisions in the CC&Rs 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 nobody (and no HOA) is perfect, including you.