A NEW ROOF, FOR THE COST OF A HAMBURGER?

Too often association boards will elect to balance the budget by underfunding the reserves to either avoid or lessen the impact of an assessment increase. In the short term, the members may praise the board for keeping the assessments low, but the long term effect is likely a future large assessment increase or a Special Assessment when it comes time to replace a worn out component, often at the worst of times.

About 15 years ago the California state legislature placed in the Civil Code a requirement that community associations have professional reserve studies conducted on a regular basis that project the useful life of the various components with an estimate of their replacement cost. At the time, it seemed that this would become a helpful management tool for boards and managers to insure that funds would accumulate and be there when it came time to replace large ticket components like roofs or streets. Still, a large number of associations are underfunded.

One explanation may be that the reserve studies aren't being reviewed as they were intended. After the annual disclosure process, the documents may just be put in a drawer until the following year. Perhaps, since boards are required to review the financial status of their communities on a quarterly basis, a copy of the ***Reserve Summary*** could be put in the board meeting packets to keep the information up front.

Nobody likes assessment increases, but to put budgeting in perspective for the members, it has to be viewed as short term (operating) and long term (reserves) financing for associations. When approached in this way, the separation makes it easier to explain to the members the real cost of maintaining their community.

The monthly operating expenses are easily explained. Everybody knows that utility costs increase on a regular basis. Insurance premiums increase after natural disasters (*or a large claim*). And, petroleum products, affected by world events and other factors, will increase the cost of fuel and products for all of us as well as most of the association's vendors; these costs will be passed on.

It may be hard to visualize the cost of replacing the roofs twenty years hence, but since the funding is cumulative, it is clear that a few dollars - say the cost of a *hamburger*, per Unit per month into the roof reserve ***can*** make the difference. It may be even harder to explain to the lady with the leaky roof (who has always paid her assessment on time for the past 20 years) why the funds aren't there to replace **her** roof.

I suggest that before meetings, the board of directors take the time for a quick review of the Articles of Incorporation. It will explain that the basic and *primary duty of the board is to maintain the property for the health and welfare of the Owners*. **The only way to achieve that goal is by properly funding the reserves, *one hamburger at a time.***

Dan Buckner, Community Manager for 37 Years (Retired).