

Governance of the community is the responsibility of the HOA Board (or member elected representatives, whatever they are called). It is their responsibility to deal with several elements of administering the community. Each "main" position or officer on the Board has specific responsibilities in the governance of the community and although most of the tasks can be delegated to professional management, the oversight remains with the board members. If you are elected to be a board member take your job seriously, because you are the custodian of your neighbors money. See my articles on each of the board positions, President/CEO, Treasurer/CFO, Secretary and other board members.

FINANCIAL/BUDGETARY RESPONSIBILITY:

The primary purpose of the HOA is to create an annual budget to provide for the common needs, initiate the collection of assessments and pay for the common expenses in the community. Depending on the size and scope of the HOA, maintaining the common areas can be a very complicated and expensive task to accomplish. Further, they are making decisions that affect every member of the community, namely the amount you pay each month. Because of the complicated nature of the Budget process, most Boards (typically volunteers) and Managers (paid) try to simplify or normalize the task. For example, they will enter into multi-year contracts with service providers, so they don't need to go out to bid frequently. This is not a bad idea, because you want consistency in the services you receive, however, many of these contracts include automatic annual increases. In order to balance the budget, the HOA automatically increases the dues by a set percentage each year. This practice is not fair to you as a member of the community. For example if the dues are \$100 this year and say there is a 5% increase each year- it will be \$150 in about seven years. As a side note most states limit the percentage increase to the dues, over which the members need to approve the increase, but usually the limit is quite generous (20% or so). I address this in more detail in my budget article. In short, dues do not need to increase without very specific justification and in most cases should never increase. How can that be, you say! - Simple, if the board is doing their job, they make it routine to go out to bid on "All" services every year, including management. For obvious reasons Management does not like this approach, but after just a few years the process becomes much easier. In fact there are online tools for facilitating the process. So there should be no excuse for not fixing or reducing the dues of the association. The fact is, if the services you use and like, know that their business is at risk each year, they will not include an automatic increase in the fee. Additionally, they will focus on providing excellent service.

The next most important aspect of HOA governance is anticipating the future needs of the community. Specifically, projecting the replacement costs of the major components (such as roofs, roadways, painting, pool resurfacing etc). This responsibility requires careful consideration so I am working on a detailed article focusing on best practices for handling replacement reserves. In short, when a component fails or reaches the end of its useful life, it must be replaced and the question is, has the HOA placed enough in reserves to cover the replacement cost. If not, each homeowner will be assessed the amount of the shortfall, which can be significant (a small shortfall is desirable). This is important, not only to current homeowners, but to prospective homeowners. There are lots of articles on "buying a home in an HOA, on the web. I am considering an article on important questions to ask before buying a

home in an HOA. On the other end of the spectrum, the HOA has reserved more than is needed to cover the cost of the component. You might view this a desirable, but it depends on how much and what they do with the excess. If the overage is significant on one component, it is perhaps significant on all. That means that each month your dues have been too high. Better to err on the side of caution you say? Perhaps, but if your HOA's conservative estimates of the replacement cost and conservative estimates of component useful lives have resulted in excesses replacement reserve contributions, your dues are too high. There are companies that specialize in providing a Replacement reserve analysis and they are essential to keeping the HOA on track. However, these companies have a tendency to be very conservative, for obvious reasons, they do not want the Board blaming them for underestimating the reserves and sticking the homeowners with a special assessment. As a board, work with these companies, they are typically very skilled professionals, but be engaged and review the details and negotiate compromises if the report results in increases each year.

The first thing a buyer will look at with regard to the HOA is how much are the monthly dues. And sometimes that is all it takes for them to to make an offer. The bottom line is, keep your dues at a reasonable level and your home will sell quicker.

MANAGING THE MANAGER:

The next responsibility of the Board is managing the Manager.