

FUNCTION OF AN HOA BOARD OF DIRECTORS †

There are many owners and renters who may not fully understand or appreciate the importance of an HOA Board. The following quote is from the State of Colorado website regarding HOAs:

“A homeowners’ association (HOA) is an organization that makes and enforces rules for properties and common areas within a planned community. Anyone who purchases a property in the community is automatically an HOA member required to pay dues, which typically go toward paying for communal amenities and maintenance. An HOA board is composed of community members elected by unit owners. HOAs are primarily governed by their individual bylaws, articles, rules, and regulations. However, there are also applicable provisions set forth in the Colorado Common Interest Ownership Act (CCIOA)”

The Shadow Run HOA Board of Directors is entirely voluntary and members do not receive any salary for their positions. Since the HOA is a non-profit company, it requires time and effort to carry out the necessary functions to assure proper management. Without dedicated and competent individuals working together, the chances of managing the HOA successfully are greatly reduced and this threatens the financial investment of owners.

For all owners, it is important that they become familiar with certain aspects of HOA management. Reading the bylaws as well as the Covenants, Conditions and Restrictions as found on the Heritage Property Management – Grand Junction website under the Shadow Run HOA section is strongly recommended.

EXPLANATION OF HOA AND BUSINESS TERMINOLOGY

Annual Budget:

This budget is for the upcoming year and is presented in a tabulated form. It is an estimate of costs that are expected to be incurred in the next year and allows the HOA board to watch areas that might show signs of increasing too much as well as look at new costs and whether or not they might be recurring in the future. The Board evaluates these costs to see if they are affordable and they might be prioritized according to available HOA money. During the year the board can monitor whether or not the HOA is over or under budget.

Annual Expenses:

These are costs that are placed in the yearly budget and are usually recurring, such as landscaping, road repair and general maintenance costs. These costs are typically paid for from HOA dues.

Capital Expenses:

These expenses are generally thought of as costs for future planned projects of the HOA that do not fall under maintenance and usually involve large outlays of money, such as new paint for the entire HOA, deck upgrade or replacement and new roofing. How much the projects will cost is estimated and an analysis must be done to show how the projects will be paid for with future funds.

Reserve Fund:

The reserve fund is money that is set aside for planned capital projects, emergencies and other unexpected expenses. In order to avoid imposing special monetary assessments on owners, it is vital that an adequate reserve of money be available.

Reserve Study:

This is a physical and financial assessment of the HOA. It basically evaluates the projected capital expenses and the status of the reserve fund. Just as a household may come up short for money to meet expenses, an HOA may not have enough money in reserve to afford meeting maintenance and future needs. Without an adequate assessment of reserve money available, the HOA may not have enough projected money to complete new projects such as deck repair, new roofing, etc.

Capital Budget:

This is a budget that is plotted out over the next several years. It may go out as many as thirty years; but, for our purposes, the capital budget will go out four years beyond the annual budget. This does not mean the HOA cannot consider other capital projects but four years provides a more realistic idea of what to expect in funding needs. As one project is completed, new ones can be added or removed in future capital budgets, depending on circumstances.

SWOT Analysis:

SWOT is an acronym that represents the first letters of the word **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats. It is a valuable planning tool to see where the HOA stands regarding the environment in which it exists and how that may affect future planning. For example, a strength of Shadow Run is its location but a weakness is that there is a high turnover of owners and residents. An opportunity is to have better interaction among the owners and a threat is the current economic climate of high inflation. The world is a complex place and it can (and often does) affect our investment at Shadow Run.

Black Swan Event:

In economics this refers to an unforeseen catastrophic event that can have damaging effects on the economy. The dot.com bubble of 2001, the financial crisis of 2008 and the COVID-19 pandemic are three examples of black swan events. Even though these events were not predicted, they were devastating and odds are that more will happen in the future. To be protected from the unexpected costs to the HOA, it is vital to be sound financially and have a healthy reserve fund.

Colorado Common Interest Ownership Act (CCIOA)

This is a Colorado law that governs the formation, operation and management of HOA's. To read a brief description of this law, copy the following link and paste it in your URL box then press enter:

https://leg.colorado.gov/sites/default/files/state_law_governing_homeowners_associations_-_issue_brief_8162017.pdf

Aligned Incentives:

A term that addresses the problem in any company where individuals tend to act in their own self-interest instead of working toward a common goal that will benefit the company as a whole. In an HOA, which is a non-profit company, there is a tendency for each individual owner to worry about their own property or financial interests and not the common physical and financial welfare of the entire HOA. This is especially important in planning for future capital projects that will require saving money for the reserve fund. It is important that all owners understand that they must have the aligned incentive of a healthy HOA both physically and financially.

Appreciation:

The increase in the value of an investment is called appreciation. Over time the value may increase simply because of improving economic conditions, but the proper maintenance of a home is also closely related to its resale value.

Depreciation:

Over time, the value of a residence can depreciate, or decrease in value. Again, the economy can cause this but it is usually the curb appeal of a home that affects the value most. Poor investment of funds can ruin an HOA rapidly. A run-down neighborhood can scare off prospective buyers quickly and once a location is deemed undesirable, it is hard to change the view.

Disruptive spoilers:

Practically every company, organization or team has these types of people. For whatever reason, they are critical, uncooperative and/or contrary to the progress of the HOA. They don't constructively contribute their time but seem to find fault with others and they exercise their position as an owner inappropriately. It is well-known that HOA politics can be quite rude and nasty, which prevents many talented HOA owners from volunteering their abilities to manage the organization successfully. HOA owners should be on the lookout for these types of individuals and not give them power. If they obtain a position of authority, the outcome is often a dysfunctional Board of Directors and bad management.

Business Failure of an HOA:

An HOA is a non-profit business and, just like for-profit businesses, HOAs can fail. If not managed properly, an HOA can find itself without adequate cash flow and money reserves to maintain upkeep. HOAs can get into too much debt and even face bankruptcy if not properly managed.

Special Assessment:

In an HOA this refers to an extra monetary charge to owners when an unexpected need requires the Board to collect extra money. This is usually a last resort but may be necessary if there is some unforeseen event that requires extra money for capital investment. A special assessment can be a severe financial burden that can result in decreased property value and make selling a townhome more difficult.

Priority-based Budgeting:

The Board makes budget decisions and dedicates funds based on the needs of the community. Using available cash flow wisely and having an adequate reserve fund require finding a balance between immediate needs and future capital projects.

Internal controls:

This business term refers to accounting and documentation measures put in place for preventing fraud, embezzlement and mismanagement of business funds. A weakness of HOA's is that Board management can be inadequate if qualified people do not oversee operation of the HOA. Heritage Property Management is important in its role of keeping financial records, contracts, and other documentation to allow the Board and owners to have transparency in how the HOA is performing. Monthly financial reports are made available on the HPMGJ website under the Shadow Run tab. Owners are urged to check this information regularly and contact the Board if there are any questions.

Covenants, Conditions and Restrictions:

"CC&R (Covenants, Conditions, and Restrictions) is a real estate term that relates to the rules and limitations of a planned community. These rules define what you can and cannot do with your property. The purpose of CC&R's is to preserve and even enhance property values in the HOA. In most cases, CC&R's are initially created by the real estate developer. They are intended to provide the HOA a framework by which to carry on business for the owners. Also, CC&R's give its board of directors the legal authority to enforce the said rules." ¹

The Board of Directors uses CC&R's as a tool in managing the HOA. These documents are very important and owners are advised to become familiar with them. Although there is extensive material in these documents, most answers to questions about HOA function and rules can be found in them.

Utilitarianism:

The belief that an action is right insofar as it promotes well-being, and that the greatest benefit of the most people should be the main driver of conduct. It is a governing principle for organizations responsible for the welfare of others.

¹"What Are CC&Rs in HOAs?", HOALife ©2022 HOA Inc., No author <https://www.hoalife.com/blog/ccrspg>.
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