

DOCUMENTS NEEDED TO START BUDGETING PROCESS

1) Current Year Actual vs Budget Report to locate budget variances

2) Year-to-date General Ledger

Paid monthly, quarterly, annually

Seasonal expenses

If paid monthly, are there the same number of expenses and months lapsed during the current year?

Scan expenses to see that all are properly classified

3) Any expected rate changes

4) Any changes in services

ASSESSMENT CHANGES 2021-2022

TABLE 2 – 2-10 UNITS
Number of Responses - 50

	2022	2021	\$ Change	% Change
Average	\$385.31	\$368.97	\$16.34	4%
Median	\$331.00	\$310.75	\$20.25	7%
Changed	19			
No	31			
Change				

TABLE 3 – 11-25 UNITS
Number of Responses - 31

	2022	2021	\$ Change	% Change
Average	\$418.02	\$391.73	\$26.29	7%
Median	\$395.00	\$375.00	\$20.00	5%
Changed	20			
No Change	11			

**TABLE 4 – 26-280 UNITS
Number of Responses - 43**

	2022	2021	\$ Change	% Change
Average	\$490.49	\$460.44	\$30.05	7%
Median	\$471.00	\$435.00	\$36.00	8%
Changed	35			
No Change	8			

Nearly all the larger associations had an assessment increase for 2022 and the increases were sizable. Median and average assessments are higher than the associations with fewer than 26 units. Nearly all the larger associations have professional management (but not all). From my review of the list, all have professional reserve studies done and have them updated every three years. Perhaps more is being funded into the reserve account.

Note: This table and the previous ones have some different associations reporting information. The important takeaway is the assessment increase from 2021 to 2022.

Monthly Assessment:

What is the average or median monthly assessment for area associations? I maintain a database of mid-to-large size associations which currently has 83 associations in it. In that database, there are numerous financial datapoints collected since 2005. For this analysis, I evaluated from 2009 to 2021. The data is a year behind – 2009 is for calendar year 2008 and fiscal years ending in 2009.

Year	Average Assess	Median Assess	Median Operating	Median Reserve	Operating Percent	Reserve Percent
2009	\$440	\$377	\$281	\$101	72.1%	27.9%
2010	454	394	287	101	73.0	27.0
2011	446	391	284	113	70.0	30.0
2012	446	394	290	118	68.8	31.2
2013	453	399	282	121	68.9	31.1
2014	464	403	290	122	69.8	30.2
2015	462	407	286	128	68.0	32.0
2016	466	414	281	130	67.3	32.7
2017	477	410	285	136	66.6	33.4
2018	487	423	291	142	67.4	32.6
2019	504	432	293	146	66.2	33.8
2020	520	445	302	143	67.9	32.1
2021	536	450	315	154	68.3	31.7
\$ Change	96	73	34	53	-3.8	3.8
Percent Change	21.8%	19.4%	12.1%	52.5%		
2022	525	461				

UTILITY COSTS

MEDIAN **AVERAGE**

2018 **\$ 81** **\$ 86**

2019 **83** **87**

2020 **90** **96**

2021 **96** **100**

PERCENT INCREASE **19%** **16%**

SAMPLE UTILITY RATE INCREASES

MARBORG – GOLETA	7/1/22	5.93%
MARBORG – SANTA BARBARA	7/1/22	3.00%
CITY OF SANTA BARBARA – WATER	7/1/22	Varies 5.00%
CITY OF SANTA BARBARA – SEWER	7/1/22	7.94%
MONTECITO WATER - Usage	7/1/22	2.80%
GOLETA WATER - Usage	7/1/22	9.02%
SOLVANG WATER – Usage	8/1/22	18.2%

**COMMON AREA MAINTENANCE COSTS
(Landscape, Pool, Minor building maintenance)**

	<u>MEDIAN</u>	<u>AVERAGE</u>
2018	\$ 104	\$ 153
2019	108	164
2020	109	161
2021	108	153

Minimal Change in Recent Years

COMMON AREA MAINTENANCE COSTS

Costs are driven by increasing wages, material costs, government compliance and inflationary pressures.

Service providers are having to reassess their contracts based upon these upward cost pressures

Associations may feel compelled to shop/re-bid service contracts to save money

Are you dissatisfied with your current vendor?

If not, you may become unhappy if the current vendor is replaced

Limited number of service providers in our community

Price is not the only variable to take into consideration when selecting vendors.

INSURANCE COSTS

	<u>MEDIAN</u>	<u>AVERAGE</u>
2008-2018	\$ 60	\$ 70
2019	68	76
2020	72	82
2021	75	86
PERCENT INCREASE	25%	23%

CURRENT INSURANCE ISSUES

THANKS TO TIM CLINE, CLINE INSURANCE AGENCY, SANTA MONICA

- 1) PROXIMITY TO BRUSH – RATES FLAT TO EXTREME**
- 2) INSURERS ARE NOT RENEWING**
- 3) REPLACEMENT COVERAGE MAY NOT BE AS COMPREHENSIVE**
- 4) SCOPE OF NATURAL DISASTERS (HURRICANES, EARTHQUAKES)**
- 5) FLORIDA CONDO COLLAPSE**
- 6) UMBRELLA PREMIUMS MAY INCREASE – LARGE JURY AWARDS**
- 7) DO NOT UNDERINSURE – D&O COVERAGE WON'T COVER THE BOARD**

'EXTREME' INSURANCE EXAMPLE

AREA ASSOCIATION RECEIVED ITS ANNUAL RENEWAL FOR 2022-23

EARTHQUAKE PREMIUM INCREASE – 13.5% - \$3.86 PER MEMBER PER MONTH

**PROPERTY LIABILITY PREMIUM INCREASE – 1116% INCREASE
11 TIMES THE CURRENT RATE**

PREMIUM INCREASE - \$292 PER MEMBER PER MONTH

PREVIOUS INSURANCE COST - \$55.56 PER MEMBER PER MONTH

NOW - \$351.11 PER MEMBER PER MONTH

DO WE HAVE TO FUND RESERVES?

Kelly Richardson, attorney HOA Homefront, Pasadena – August 2022

The HOA boards have some strong financial oversight responsibility. See Civil Code Sections 5500 and 5502, which place some strong responsibilities on HOA boards to monthly review a list of financial reports and to scrutinize larger HOA expenditures. Associations are not required by statute to deposit money in the reserve account, but are required to make very detailed disclosures to members (and, by extension, prospective purchasers) regarding the state of the HOA's reserve savings.

Raven's Cove Townhomes vs. Knuppe Development Co (1981)

"We conclude that since the Association's original directors (comprised of the owners of the Developer and the Developer's employees) admittedly failed to exercise their supervisory and managerial responsibilities to assess each unit for an adequate reserve fund and acted with a conflict of interest, they abdicated their obligation as initial directors of the Association to establish such a fund for the purposes of maintenance and repair. Thus, the **individual initial directors are liable** to the Association for breach of basic fiduciary duties of acting in good faith and exercising basic duties of good management."

CASE LAW IS JUST AS IMPORTANT AS STATUTORY LAW

FUND YOUR RESERVES!

CERTIFICATES OF DEPOSIT THROUGH BROKERAGE ACCOUNTS

Term	Minimum	Rate
3-month	\$1,000.00	3.20%
6-month	\$1,000.00	3.70%
9-month	\$1,000.00	3.75%
1-year	\$1,000.00	3.90%

U.S. Treasury Bills	YTM (%)
3-Month	2.60%
6-Month	3.33%

PRIOR NEWSLETTER RESOURCES

South Coast Homeowners Association | 2022 Newsletters
(southcoasthoa.org)

ASSOCIATION MONTHLY ASSESSMENT AND EXPENSE TRENDS
2009-2021

TRENDS IN ASSESSMENT CHANGES 2021-2022

(Note: Newsletters from 2000-2022 are on the www.southcoasthoa.org website along with outlines and materials from prior programs