**How are my HOA Dues set?**

The HOA Board has the fiduciary responsibility to protect and preserve the homeowners’ investment in their property and their community. Part of this responsibility is to set the annual HOA dues at the lowest level consistent with placing the community in a position to meet its financial obligations now and in the future. This condition is met when the present financial reserves, coupled with consistent yearly dues increases at (or near) CPI, result in barely adequate resources to fund all planned and reasonably predictable community expenses while maintaining an adequate minimum reserves level to meet most major unexpected expenses while avoiding special assessments.

**What is a “fiduciary responsibility”?**

A fiduciary is someone expected to act on behalf and in the best interests of another and, in particular, place the other person’s interests ahead of their own. In this case, the HOA members have elected a small number of their own to serve on the HOA Board and empowered them to make decisions on behalf of all the homeowners (as outlined in the HOA’s governing documents).

**Why should present homeowners pay now for work to be done well into the future?**

Besides a moral component that directs people to pay for the resources they consume, the short answer is to protect and preserve your investment. A “renter’s mentality” would involve not caring that the HOA is putting away adequate funds to meet major, long-term expenses – such as a roof that is not expected to need replacement for another twenty years – if they do not plan to live in the community that long. But an owner is not a renter – they have made an investment in their property and expect to maximize the return on that investment when they sell it. So consider the following – a potential buyer is considering two nearly identical properties. Both have roofs that are nearing their end of life and will need to be replaced in the next five years. The first association has monthly dues that are a few dollars higher but also has sufficient money in the bank to replace the roofs on schedule and even ahead of schedule if the conditions of the roofs deteriorate faster than anticipated. The second association has slightly lower dues, but also has very little money in its accounts and therefore plans to delay the roof replacement as long as possible (probably until secondary damage from leaks leaves it no alternative but to perform the work) and they will likely have to assess each homeowner several thousand dollars at that time. If you were the buyer, which property would you rather purchase, even at a higher price? If you were the seller, which property would you rather be selling? Is it worth a few dollars a month to ensure that you will be selling the first property and not the second?

**What is “CPI”?**

This is the Consumer Price Index, which is the most common metric of “inflation,” or the rate at which prices change. The Bureau of Labor Statistics tracks the prices of several different “baskets of goods” corresponding to broad categories of consumers and publishes the results monthly. While it is a very useful indicator over long periods of time and for large groups of people, it is usually a poor predictor for the actual change in costs seen by any particular individual or organization over a short time frame. Unfortunately, it is pretty much the best indicator we have. The hope is that basing decisions on it, and making frequent (i.e., annual) adjustments will place the HOA close to where it should be so that the adjustments can be kept reasonable and manageable.

**Why don’t I want my HOA dues to stay the same from year to year?**

The cost of most things trend upwards over time, therefore it is unreasonable to expect HOA dues to remain fixed indefinitely. The goal of the HOA Board is to match the dues level to the expenses of the Association. If the dues are held constant for an extended period of time, then one of two things is almost certainly happening – the HOA is falling behind in generating the income necessary to keep functioning or the dues have previously been too high and the HOA could have operated with lower dues while still meeting its obligations. Either case is an indicator that the Board has failed, at least partly, in its fiduciary responsibility to the homeowners – namely to set the dues rate at the lowest level consistent with meeting the financial obligations of the community.

**Why should the HOA retain a minimum reserves level that it has no plan to use?**

To avoid assessments. Major and unexpected expenses, such as a sewer line break, will occur from time to time. If the HOA is not in a position to fund these expenses, they will have to assess the homeowners who will have to come up with the funds almost immediately. Therefore the HOA must establish a minimum reserves level that it believes is adequate to cover the most likely types of occurrences and strive to maintain its reserves level above that minimum at all times.

**Why should the dues be set so as to be “barely adequate” to meet all expenses?**

Because any higher level would mean that the homeowners are not being charged the minimum dues consistent with meeting the HOA’s obligations.

**Why should special assessments be avoided?**

Not only do they place an unpleasant burden on the homeowners, but some may not be able to afford them and end up in foreclosure as a result. A history of special assessments that could have been avoided is a sign of poor planning and is seen as a risk factor by mortgage lenders. As such, the property value can be negatively affected. Recall that the HOA Board is charged with preserving the homeowner’s investment.

**How does the HOA Board determine the proper level at which to set next year’s dues?**

Through the use of a Capital Reserves Analysis (CRA). A CRA examines annual income (primarily from dues), annual expenses (water, trash, etc), and the major non-annual expenses (roofs, asphalt, etc) and plots the expected reserves level at the beginning of each year over a time of typically several decades – long enough to ensure that each non-annual expense occurs at least once. This plot is called the “reserves trajectory.” The goal is to set the dues at a level such that the trajectory will never drop below the minimum reserves level but will come close to it at least once. This is very analogous to how a mortgage company sets the monthly escrow charge each year.

**Why does a CRA need to be done every year?**

It doesn’t. But the expenses incurred by an HOA seldom change exactly at CPI and minor changes in annual expenses can have major long-term impacts. Just as a mortgage company revisits the question of how much money to charge for escrow each year, an HOA that re-analyzes its reserves situation each year is in the best position to make small adjustments early enough so as to minimize the impact on dues. This is particularly true for HOA’s operating well away from their optimal trajectory or that have major near-term expenses that are driving their decisions.