A high-contrast, black and white photograph. In the upper left, a hand is shown holding a pitchfork. In the upper right, a funnel is positioned to pour a thick stream of white powder or granules down into a dark container. The background is dark, making the white elements stand out.

by Debra H. Lewin

# Good Medicine

It may be good for the st, but getting homeowners to swallow a dues increase requires a little sweetening

**A**ssessments are going up. It's news few homeowners want to hear and fewer boards want to announce. But even in these tough financial times, it can be done without outraging homeowners, recalling board members or getting out the pitchforks.

Most boards sympathize with homeowners who are struggling to make ends meet; they want to cut costs and keep expenses low. Some want to suspend reserve contributions until the economy recovers. Unfortunately, this bumps right up against the board's legal obligation to protect and maintain the community.

AND IT'S SHORTSIGHTED. The choice comes down to pay (a reasonable amount) now or pay (too much) later. Keeping costs artificially low—through deferred maintenance or suspended reserve contributions—not only postpones the inevitable, but actually increases expenses in the long run, which can open a door to disaster.

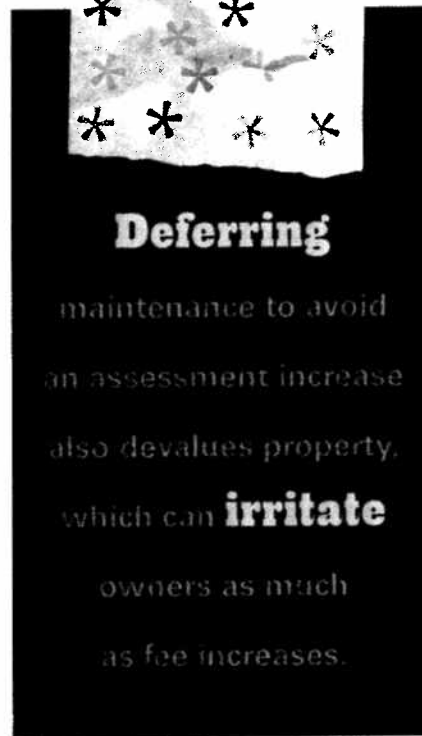
Deferring maintenance to avoid an assessment increase also devalues property, which can irritate owners as much as fee increases. "Homeowners who see a lessening of the value in their home and surrounding community environment caused by lack of maintenance will have a valid concern. Many times, the increase is to counter just that issue," says Jo-Ann M. Greenstein, CMCA, AMS, PCAM, of RealManage in Anthem, Ariz.

So how can boards or managers help homeowners understand that assessments are good for their long-term financial health, even if they are distasteful now?

#### EDUCATE AND INFORM

**Develop a vision statement.** Don't wait for times to get tight to examine the association's financial realities. Residents, as well as future board members, need to have a view of the association's financial position. Greenstein believes "the long-term financial health of the community is in everyone's best interest." To achieve that, she recommends developing a vision statement. "Every community, from 20 homes to 2,000 homes, needs to adopt a vision statement and a long-term financial plan. This will enable members to understand and accept an assessment increase. If the board sets the tone this way, the logic of the assessment increase will be an outgrowth of the plan," Greenstein says.

**Update owners frequently.** Keep owners up to date on the association's economic situation so they're prepared—and, hopefully, in agreement—when the inevitable increase becomes necessary. In these unstable times, let them know how the association's investments are performing each quarter when the statements arrive. Sure



it's bad news, but maybe not as bad as it could be. Honest bad news is always better than dishonest good news.

**Apprise rather than surprise members.** This allows them to do some planning of their own. "Homeowners who understand the need for regular assessment increases can plan accordingly for those increases in their own family budget," Greenstein says.

Greenstein says the best thing to tell owners to make it easier for them to accept a dues increase is, "The truth! There are only a limited amount of expenses that any community association can control with certainty." Throughout the year, as economic conditions change, inform them as quickly and as honestly as possible. Don't wait until a new budget is presented at the end of the year to ambush owners with a long list of factors that led to the assessment hike.

**Educate.** Michael Nagle, an attorney in Columbia, Md., and a member of CAI's College of Community Association Lawyers (CCAL), states in his book, *Member Dues*, "Informed members will understand the need for fee (increases). ... Send a personal explanation of assessments to each owner. Outline the fee structure and the budget allotments for these fees. Ensure that owners understand association expenses

in terms of improvements, additions and services," he says.

This type of education becomes particularly important when homeowners compare their assessments with other associations. "The neighboring association has much lower assessments, and it has a golf course," is a typical lament—if owners don't understand the comparison isn't valid. The condition of the property, loan repayments, reserve funding levels, utilities, number of homes and many other factors add up differently for each association.

**Put fees in perspective.** One of the important points boards and managers can make with owners is that assessments are not an extra expense. People who own homes outside an association have to pay individually for the same things assessments cover—trash removal, water, landscaping and maybe utilities—either as direct out-of-pocket expenses or indirectly in a higher rent payment.

On the other hand, people who own homes in an association actually pay less for these obligations because the association—or a management company's many associations—has collective buying power and can often negotiate favorable rates with vendors. Viewed in this light, assessments are actually a very economical approach for individual homeowners.

**Explain the law.** Not only are assessments not an extra expense, but according to the National Consumer Law Center's *Guide to Surviving Debt*, they "should be considered a high priority." The Boston-based center ranks community association assessments as important as mortgage payments and real estate taxes.

That's because homeowners legally obligate themselves—albeit indirectly—to pay these fees when they purchase a home in a community association. The problem is they don't always realize it or understand that assessments are in a different category than, say, the cable bill. The obligation is legally attached to the property, so failing to pay can lead to a lien on the home.

Homeowners aren't the only ones



bound by the law. The association, too, has a legal responsibility to all owners—and the authority—to levy, collect and disburse assessments. Failing to collect assessments from some homeowners leaves the board on the hook to all the others who are entitled to a well-run association. In addition, when some owners are permitted to shirk their financial obligations to the association, the board exposes itself to charges of favoritism.

**Paint a picture.** Showing residents what conditions would be in the association without an assessment increase can be an eye-opener. The pool will close two hours earlier each day, the pot holes in the parking lot won't be repaired this year, lighting in the halls won't be upgraded. Once they understand the trade-offs, an increase is more acceptable.

No one wants to see curb appeal erode. "Reasonable homeowners understand and accept (a fee increase), provided the overall integrity and appearance of the community is not compromised," Greenstein says.

They also don't want a special assessment in a year or two. This is an important part of the picture, and it's only fair to let owners know if they don't pay now, they will pay later. Avoiding a special assessment is a strong selling point for a regular assessment increase.

## BUILD TRUST

**Establish trust.** Homeowners want to know their assets are in good hands. Let them know that association leaders take their fiscal responsibilities seriously. Publish the association's investment policy, and let owners know it governs the board's actions.

Also, let owners know the board is committed to maintaining property values and controlling costs. Give them examples. "The management company and board work in concert with contractors to provide a steady level of service with less than inflationary increases. They strive to negotiate contracts to the best of their ability and for the longest periods

of time, which makes prudent financial sense," Greenstein notes. Pass that type of information along to homeowners.

**Provide incentives.** Sometimes a board can compensate for a dues increase, to some degree, with a little creativity. "The association can offer a discount to anyone who pays a year's worth of dues" at the beginning of the budget year, suggests Nagle. "Associations benefit if they use the funds to make early payments on association obligations, since some vendors offer a discount for early payment." This not only improves cash flow, but assessment discounts "reward lump-sum payers and ensure that installment payers bear the cost of spreading dues payments over the year," he says.

A discount amount might be based on savings from reduced billing and accounting expenses, printing and mailing fewer coupons and savings from paying vendors early.

Some condominium associations offer assessment discounts to residents who have installed energy-efficient appliances. This becomes meaningful if the association pays for gas or electricity.

Another compensation that can be used in some cases is itemizing parts of the assessment that might be tax deductible for the homeowner. Hunters Wood Condominium in Reston, Va., raised assessments in 2005 to repay a \$2 million loan that had been used for a capital improvement project. It has since issued payment coupons with each own-

er's portion of the loan repayment broken out from the total amount.

**Maintain reserves.** We all do it—when money is tight, the first thing we stop paying is our savings account. For associations, it's bad policy that puts boards in jeopardy in the short term and owners in jeopardy in the long term. On a practical level, failing to fund reserves, like deferring maintenance, just delays the problem and enlarges it.

Senior citizens, as well as young people living in condominiums they consider starter homes, often ask why they should have to contribute to reserve funds when they won't be around in a few years. The problem with this short-timer thinking is these people are themselves using the streets, buildings, amenities and other common assets paid for by members who lived there before. All members need to understand they're contributing incrementally to use and enjoy the community each year they live there.

**Fear no number.** Don't be intimidated by the amount of the assessment. If residents are concerned that home sales will drop if assessments are high, let them know "high" is relative. The issue isn't the amount of the assessment, but what it covers. Well-informed buyers understand what they're getting for their money and can recognize whether it's a good value. In fact, a savvy buyer might be suspicious of a low assessment, fearing special assessments to come.

Remind homeowners there's no such thing as "too high" if they're getting necessary goods and services at the best rates.

As bitter a pill as fee increases may be for some residents, most would rather see their fees increase by actual—and reasonable—amounts over time than be crushed with an enormous catch-up increase or a special assessment later. The difficult part, of course, is helping them understand the choice. **CG**

DEBRA H. LEWIN is senior director of CAI's Community Associations Press.

**YOUR TURN:** How has your board persuaded homeowners to accept an assessment increase? Send a letter to *Common Ground*, 225 Reinekers Lane, Suite 300, Alexandria, VA 22314.

## ATA-GLANCE

**When an assessment increase is necessary, there are ways to make it more palatable.**

**EDUCATE AND INFORM.** Keep homeowners informed so there are no unpleasant surprises. Explain how their money is being used, what the law requires and how proposed expenditures will help maintain property values.

**BUILD TRUST.** Let homeowners know that the board takes its responsibility seriously. More important than the amount of the assessment is what it covers.