

CAI-Channel Islands Chapter Luncheon:

FINDING THE MONEY!

Tuesday, June 25
Los Robles Greens, Thousand Oaks




1

Program Speakers:



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2

FINDING THE MONEY!


Given the current times, funding your association's needs can be quite challenging and overwhelming. How do you put together a budget with inflation working against you, outrageous insurance premiums, and maintenance or capital improvement projects that the association cannot defer?!



3

FINDING THE MONEY!

- Strategic funding
- Rising insurance costs are impacting the industry
- Emergency Special assessments / Capital improvement projects
- Loans / investments
- Raising Assessments
- Special Assessments vs. Emergency Assessments
- Reserves
- Bids



4

FINDING THE MONEY!

- Strategic funding: What's in your budget?
- Needs vs. wants – Putting together a funding plan.
- Combating Cost
- Budgeting Tips for Inflation



5

Why is an Annual Budget necessary?



The Budget provides a means for:

- Planning community projects
- Managing the community's financial operations
- Providing continuity of services
- Minimizing unexpected expenditures
- Establishing the annual assessment

- Budget should include the Operating and Replacement Fund / anticipated Revenues and Expenses



6

Business Judgment Rule

Make sure your Decisions were Documented to be:

- In good faith
- In the best interests of the Association
- Characterized by due diligence



7

THE BOARD'S FIDUCIARY DUTY

- Reserve Studies are required to be done, however not required to be followed
- Contributing less to Reserves than recommended compounds the deficit over time
- Funding for future significant shortfalls may require a vote of the membership
- Future owners may need to pay for insufficient past funding



8

FINDING THE MONEY!


- Rising insurance costs are impacting the industry: How do we pay for outrageous insurance premiums?



9

FINDING THE MONEY!

- Emergency Special assessments
- Capital improvement projects:
 - New Amenity, i.e., something that did not previously exist
 - Costs more than 5% of Annual Budget
 - If a Special Assessment of > 5% is Needed to Fund Project
 - Significant Alteration in Appearance



10

**Capital Improvements & Reserves:
Membership Approval Not Required if....**



- Building Code Changes (earthquake retrofitting)
- Inspection Requirements (balcony bill)
- Safety/Security Purposes
- Upgrades of Materials & Technologies < 5% of Annual Budget



11

FINDING THE MONEY!

- Loans / Investments: Looking at Governing documents -do we need BOD approval to take out a loan and how to pay back.



12

FINDING THE MONEY!

- Raising Assessments: Knowledge of what you know about your budget during the process is VIP
- Civil Code allows the Board to raise assessments up to 20% without a vote of the membership



13

FINDING THE MONEY!

- Reserves – what can we use that money for?
- Long term vs short term must budget out or you'll never be on target.



14

CAN WE BORROW FROM RESERVES?

- 1) Must state intent to consider the borrowing in a notice of meeting, including: Reasons for borrowing, options for repayment, and whether a special assessment may be considered.
- 2) Once authorized, reasons for borrowing must be recorded in the minutes, including when / how it will be repaid.
- 3) The borrowed funds must be repaid within one (1) year (renewals are possible for an extended period of time). If necessary, a special assessment shall be levied.
- 4) If the borrowed funds are used for litigation, notification must be provided in the next mailing - as well as availability of an accounting of those expenses (on at least a quarterly basis).



15

Adequate Reserves - Updated Standards

A replacement reserve fund and stable and equitable multi-year funding plan that together provide for the reliable and timely execution of the association's major repair and replacement projects as defined, herein, without reliance on additional supplemental funding.

In practice....

- No Project Delays
- Funding without reliance on Special Assessments or Loans
- Short-Term & Long-term Stability
- Sufficient Margin in Reserves



16

Common Mistake

Hoarding Reserves

Commonly recognized by:

- "But we can't spend that..."
- "Those are our savings!"
- "Aren't we already underfunded?"
- "Everything's so expensive!!!"
- "Kicking the can down the road."



17

FINDING THE MONEY!

Bids: Good for 30-60 days? Then what?

"The decision to do nothing is different than doing nothing".



18

FINDING THE MONEY!




19

FINDING THE MONEY!



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20
