Are Mammoth Homeowner's Associations financially stable?

By Chris Andrews
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In this difficult economy with widespread concern about the financial stability of our banking system and our government, it is worthwhile to ponder what is the financial status of the many homeowner's associations (HOAs) in Mammoth.

After all, HOAs represent small "governments" for their respective condominium-owning communities. Thousands of condominium owners throughout Mammoth are dependent on the sound financial planning of each of these "quasi-governments" via their association's Board of Directors.

This article provides some perspective from a reserve specialist who has prepared reserve studies for the vast majority of Mammoth/June area homeowner's associations. As Mickey Brown stated (Mammoth Times, April 3, 2009), buyers often do not do proper due diligence when evaluating the financial stability of a condo association before buying.

Prospective condo buyers should always ask to see a copy of the reserve study for a homeowner's association before buying a condominium. Additionally, they should ask to see the "Assessment & Reserve Disclosure Summary" that must be distributed to members annually per California Civil Code 1365.2.5.

A reserve study is a long-term capital replacement plan for condo associations required by the State of California every 3 years. It is used to determine how much an association should set aside from their monthly member fees for long-term capital replacement expenses such as roofing, painting, paving, spas, siding, etc. Without the benefit of a reserve study, homeowner's associations often have little or no money saved for long-term capital expenses and simply assume they'll deal with those expenses when they arise.

We do reserve studies for about 75+ of the total 100+ homeowner's associations in the Mammoth/June area. When we started doing reserve studies in the area in 1994, there was little focus on long-term capital expense planning at all. Many condo owners were content to pay for capital expenses via special assessments for each project as-needed. Because most construction was still relatively young (the "Honeymoon Phase," as I call it), the special assessments required to fund these tasks were tolerable.

But during the late 1990s to the present, many huge capital expense items "came due" – such as roofing, paving, full siding replacement, galvanized plumbing failures, etc. Overwhelming special assessments had to be levied. In some cases, the special assessments were up to $80,000 per owner.

In the past decade, many HOAs in Mammoth have seen a massive shift in reserve funding philosophy from denial of future expense realities to responsible funding. This has been due, to a large extent, to the diligent guidance from accounting firms such as Tomasch & Butner and Bill Greene CPA – who have encouraged their HOA clients to have reserve studies done and to follow the recommended reserve funding plans. They also made sure proper disclosures to HOA members are being done per California Civil Code. These disclosures can, in turn, be reviewed by prospective condo buyers so they can evaluate the financial status of each association and determine if large special assessments might be looming on the horizon.

In following a reserve funding plan, the theory is that condo owners pay for the depreciation of their common area assets for each year that they own their condo. Thus, there should hopefully be no need for unpleasant large special assessments that penalize condo owners who happen to own their unit when roofs, siding, or plumbing fails.

Thankfully, during the financial boom period that recently ended, many Mammoth condo associations were able to collect a lot of money for major building renovations from their members. Consequently, many of them could accomplish badly-needed facelifts at a time when HOA members could afford to pay.

As a result, there are a lot of Mammoth associations that have been completely renovated and are in excellent physical condition. Moreover, they have implemented many "smart construction" concepts that will dramatically reduce ongoing maintenance costs in the future.

For example, replacing warped wood siding with Hardieboard cementious siding that can double or triple the typical costly 4-year wood paint cycle. Or installing Trex decking and railing topcaps, which eliminate labor-intensive wood deck painting. Or installing no-maintenance stone "Ahwahnee-style" facings along the lower sides of buildings (the "snow zones") where siding & paint tend to deteriorate fastest.

For buyers of condos, one relatively useful financial disclosure that HOA's must distribute annually to their membership is the "Current reserve deficiency on a per-unit basis." This disclosure became required on January 1, 2007 as a result of State Assembly Bill 2100.

Civil Code 1365 (a)(2)(D) –The current deficiency in reserve funding

must be expressed on a per unit basis…

(Amount of money reflecting the 100% Funded Amount) MINUS (Cash in Reserves)

(Number of Units)

For example, if your association has 40 units and the depreciation-to-date is $100,000, but your association only has $60,000 in reserves, the "current deficiency in reserve funding" would be $40,000. Expressed on a per-unit basis for a 40-unit association would be a $1,000/unit deficiency.

But even this "measure of financial status" can be misleading. In most cases, when an association does a 30-year optimized cash flow analysis, there is usually one year in 30 years in which the reserves drop to their lowest levels. In that year, the HOA may be only 20-25% funded, yet the cash flow analysis shows that if they continue to follow their plan of healthy contributions to reserves, they will be able to fund the projected roofing, painting, paving, spa expenses, etc.

The question then becomes: "Is the association underfunded? Or is the current funding plan sufficient?"

The answer might be: "Yes, a 25% funded association is underfunded for depreciation-to-date, but if the current fee structure supports a funding plan that follows a 30-Year Optimized Cash Flow Analysis expense projection, then there should not be a problem, provided future expenses and income occur as projected."

So in order to truly evaluate the financial health of an association with a relatively low percent-funded estimate, look at the 30-Year Optimized Cash Flow Analysis to determine if a low percent-funded measure at the current point in time is actually part of the plan and if reserve cash balances are projected to ramp up hereafter.

As a general rule of thumb, based on doing reserve studies for most of the condominium associations in the Mammoth/June area, most typical associations should be funding about $1,500-$2,500 per member per year to reserves, with $2,500 for large luxury units. Thus if you have a 100-unit "typical" association, the reserve portion of the association's budget should be somewhere in the vicinity of $150,000 per year.

However, some "apartment style" condos have very efficient cost structures (e.g. small units, low exterior surface area, an energetic on-site manager who does a lot of maintenance, and smart board members...), so their annual reserve funding budget can, on rare occasions, be less than $1,000 per unit per year. The reserve funding amount varies to a large extent depending on how much surface area each unit has that is exposed to the harsh Mammoth climate and on the type of amenities (pool, spa, tennis) that must be maintained.

Additionally, there are other factors such as whether or not the association is poorly-funded for depreciation-to-date on roofs, roads, paint, etc. If so, they have to play "catch-up" and their annual reserve funding rates might exceed the typical amounts cited above.

That said, if you're thinking of buying a condo in an association where their reserve budget is, say, $400/unit per member, you should be skeptical. $400 per member per year is simply not enough to maintain exteriors & common area in Mammoth.

In summary, it has been a remarkable experience to observe the wise transition to prudent capital expense planning that has occurred in Mammoth homeowners associations during the past decade. Because many Mammoth HOAs have been completely renovated or have plans for future renovation built into their fee structure, future owners will hopefully not face huge surprise special assessments to fund capital expenses. For those HOAs, one can expect financial stability for years to come, provided that their Board of Directors continues the responsible funding plans currently in place and foreclosures don't become widespread.

Chris Andrews is a nationally-certified Reserve Specialist by the Community Associations Institute. He first came to Mammoth in 1964 camping with family at Twin Lakes. Later lived in Mammoth in 1974 and worked for Mammoth Mountain on night crew before attending U.C. Berkeley. Stone Mountain Corporation prepares reserve studies for over 75 homeowners associations in the Mammoth/June area.

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Just another day at Shady Rest Park... riding a dog.