

When will it end?

(a supplement to Issue #12, [WBH News](#))

A homeowner came to a board meeting recently complaining about the continued increase in HOA fees. His question was “When will these regular increases in HOA fees end. When will they end?”

As one might guess, HOA fee increases are the number one issue in associations and it wasn't a surprise to hear this question. So, here is how we would answer it as it pertains to West Bluff Hills.

Everything revolves around the amount of money required to manage the property yearly plus the extra costs for replacement and repair of the major components (roofs, paint, asphalt etc). Let's take a look at the operating costs first.

The basics: We operate on a budget of \$324,000 yearly. As costs go up, so must the income from HOA fees. If the board goes over budget then likely the new budget and HOA fees will go up accordingly for the next year. If, however, the board is able to operate significantly below budget then it is possible to have no or little HOA fee increases for the following year. In 2019, the board was very frugal with our money yet some unforeseen and unallocated expenses ran us over budget. But...read on.

The reserve fund is really the big culprit. We discussed this in [Issue #4](#). Think of the reserve fund as a savings account. Right now, our savings account has about \$400,000 invested in CDs. But, to be on track to properly repair all the things that will need to be repaired over the coming years, we should have about \$900,000. So, to catch up, we have to contribute a large percentage of our HOA dues to the fund. About 28% of your dues are designated for the reserves. If you pay \$340 per month, then \$95 of it goes to this fund.

There are a few ways to deal with this problem. We could stay the course and continue to fund the reserves as we have with increases every year in addition to increases that may be required to account for cost of living increases.

Yearly increases just for the reserve contribution (not the budget component) would vary over the years from about \$4 more per month to \$12, but again this increase will happen year after year. Theoretically, if all goes as planned, in 30 years, we would finally reach our 100% goal. In that year, (2050), your monthly share for the reserves will be \$338. When the day comes to sell your condo, the prospective buyers will be looking at some pretty high HOA fees.

A second solution would be to have a special assessment to bring up our reserve fund to where it should be now. We have \$400,000. We need another \$500,000. Divide 500,000 by 80 (number of condos), you get \$6250. That would

be the amount each owner would have to contribute. If that was done, we could give everyone an immediate reduction in HOA fees. We would be earning interest on \$900,000 and not \$500,000 and if our CD investments could keep up with inflation, and if the boards of the future didn't squander the reserves on frivolous projects, yearly increases would be necessary only for increases in the operating budget. Simply stated, some of that \$95 per month that we now pay would disappear. The actual amount though would require running the reserve study again with the new 100% funded value.

We know of condo projects where the reserve funds are near or over 100%. For some of them, the interest on the reserves churns out more income than they need and they have had no increase in dues for years. If our board declared no HOA fee increases this year, we would be suspicious and ask to review the numbers. If an owner runs for a board position with the campaign promise of "[No HOA fee increases](#)", be realistic, it will only put us further into debt.

"When will it end?" The answer is it will never end, well at least until 2050.

Survey: What do you think? 1) Continue on the 30 year plan with modest increases yearly or 2) Have a special assessment and see lower HOA fee increases. Drop us a line at WestBluffHills@gmail.com and let us know!