

## Eight Warning Signs for HOA Communities

Most HOA boards and communities are winding up the year and focusing on the future. Annual budgets are finalized, reserve funds reviewed, and we look forward to the implementation of our plans in 2026.

This should be a time of hopefulness and optimism, especially after the goodwill of the holiday season. But this year, my normally positive outlook and excitement for new plans and projects has been checked by an unsettled feeling that common interest developments (CIDs) – the once lauded panacea for the affordable housing crisis – seem to be laboring under the weight of uncontrollable costs and a pressing, complicated regulatory environment.

To be sure, HOAs and CIDs are here to stay, but truth be told, I have concerns. Over the last several years, the HOA industry has been besieged by a multitude of external pressures and internal challenges. Boards are facing issues that make managing an association increasingly difficult. Volunteer directors are being forced to address a myriad of issues, from balcony inspections and reconstruction to compliance with nonfunctional turf regulations to dealing with community behavioral issues without the leverage of a meaningful fine. These unforeseen and often uncontrollable mandates drive costs and requirements well outside of budgets and estimates for reserves and beyond the affordability of many existing homeowners.

For the first 30 or so years after the passage of Proposition 13 (the Jarvis-Gann Initiative), which limited the ability of government to impose taxes to support communities, CIDs and HOAs flourished. People were able to find adequate and affordable housing even in densely populated areas in California. The dream of an affordable home was realized. But that was then, when things were shiny and new, and the world had not caught on that municipal authorities were no longer financially

responsible for the community and taxes did not support the common areas in HOAs. HOA boards were responsible for maintenance, repairs, and compliance.

Now, after more than 30 years, HOA communities are starting to show their age, and community assets are in need of investments. Unfortunately, communities often prefer not to increase assessments or spend reserves, which has resulted in the deferment of repairs, maintenance, and replacement of community components. Such inattention can lead to catastrophic events (such as the deadly collapses of the Surfside tower and the Berkeley balcony) and can cause significant distress for some members of the community as unforeseen or new events create unexpected spikes in the community's funding needs.

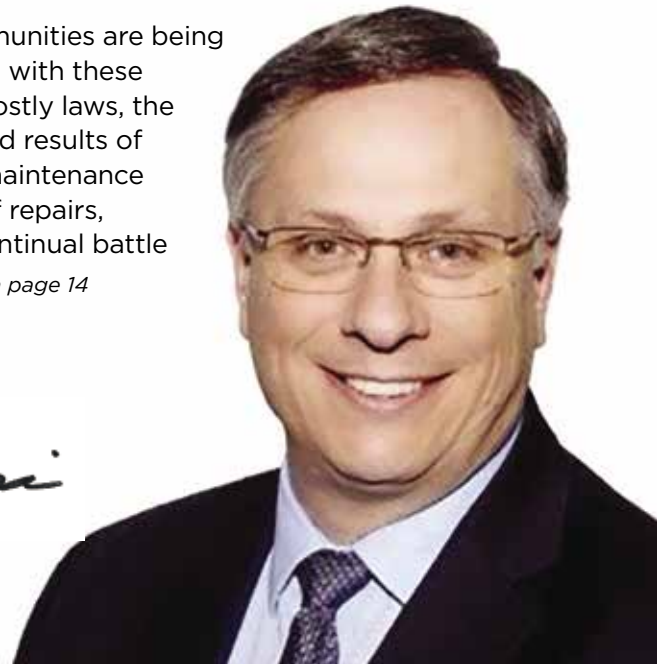
There are many reasons for these unforeseen needs for funding. For example, society has learned to leverage HOA communities by imposing its will through sweeping initiatives that have material implications, either directly or indirectly, for HOAs. One such initiative is the new law to save potable water, known as the "nonfunctional turf" law. The January 1, 2029, deadline is coming up shortly, and it will cost many CIDs more than a million dollars to comply. And most HOA communities were unaware of this unfunded mandate which was imposed on HOAs as a direct result of the will of society to address water issues in the West.

HOA communities are being challenged with these new and costly laws, the ravages and results of deferred maintenance and lack of repairs, and the continual battle

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ECHO CHIEF EXECUTIVE OFFICER



## CEO's Message

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between individual and community rights with the gradual erosion of the board's authority. This is what today's volunteer HOA boards are asked to navigate. And the pressure never seems to let up. We owe immense gratitude to those who serve on HOA boards. They truly are carrying an increasing weight to maintain their HOA communities and ensure that they are complying with the multitude of new laws and restrictions cast upon them. How can we help homeowners be prepared for the future, and how can we evolve the business model to ensure quality, affordable housing, and a sustainable future?

Following are eight critical and unrelenting stressors threatening HOA governance. This list is

certainly not all-inclusive or absolute, but it is the start of a hard conversation about what HOA governance must overcome to continue to be successful. My intent is to start the conversation, as the solutions will need deliberation.

1. **One size does not fit all.**

Laws and regulations are often passed without respect to demographics in the HOA community. External forces sometimes fail to adjust their mandates for the type and age of residents, the age and size of the community, and the wealth of the homeowners in the community, which causes friction and inequity.

2. **There is ambiguity about the legal form of HOAs.** HOA homebuyers often fall in love with their new home but are

naïve about what it means to live in a CID governed by a board. This knowledge void leads to confusion and conflict in communities. Many frustrated buyers learn the hard lesson that they bought a home *and* they bought the common area. They are responsible for their home and often are surprised to learn that they are also responsible for maintaining and complying with laws in the common areas.

3. **Homeowners are apathetic until an issue affects them personally.** Apathy is common among homeowners. In fact, it is one of the most common complaints from boards and managers. They cannot get their homeowners to be involved. This is for good reason, especially if the homeowner does not understand what they bought when they purchased a home in a CID.

4. **The HOA model empowers volunteers to be responsible for millions of dollars and multitudes of lives.**

Volunteer boards often are responsible for million-dollar budgets, and most directors competently serve. Still, the multimillion-dollar asset of the community is placed in the hands of a few elected homeowners who may or may not have the time, skills, and attributes to manage a community. This can lead to overreliance on contractors, special assessments, nasty community in-fighting, and a breakdown of trust within the community. Worse yet, it can lead to indecisiveness and poor decision-making.



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5. **Imperfect information leads to an expensive model.**

Most decisions are made with imperfect information. Information in a transaction is usually asymmetrical: one side knows more than the other. Therefore, boards must use their best judgment. This is risky and can result in a higher cost for the service and perhaps issues with the purchase. It is a bit like buying a used car. It could be a great deal or it could be a lemon ... but it sure is a beautiful color! You just don't know what's under the hood until you drive it for a while.

6. **The complexity of running an HOA is compounding over time.**

As governments and some service providers look to HOAs to solve larger societal issues such as wildfire remediation, electrical panel fires, and water conservation, municipal authorities and state legislators are happy to stand aside to let homeowners and boards take on this responsibility, including the cost of reconstruction or the impact on a community asset. Statutes and regional code, such as the balcony bill and regular balcony inspections, add enormous short-term and continuing costs for associations. The impending requirement to remove potable irrigation water from nonfunctional turf is also putting incredible financial pressure on communities. These expensive and complex issues are catching homeowners and their boards by surprise, and the financial disruption resulting from compliance has serious direct implications on individual homeowners, especially in less-wealthy communities or

those with many fixed-income residents.

7. **The nature of a nonprofit HOA is to minimize its cost of operations, not to make money.** Perhaps this is obvious, but often homeowners do not understand how to live in a cost-maintenance community. The board's job is to spend assessments wisely to maintain the HOA. To do this, boards must set priorities and a clear mission for their communities.

HOAs are nonprofit organizations. This means that they operate not to make a profit but to accomplish a mission. To accomplish the mission, they focus on doing projects while expecting a relatively even stream of predictable revenues (assessments). Predicting

annual revenues is relatively easy for HOAs. Forecasting expenses and reserve balances is challenging.

It is tricky to understand and manage the two types of HOA expenses: 1) those that are reasonably predicted and controllable, and 2) those that are unpredictable and hard to control. Understanding and properly predicting expense behavior should underpin healthy HOA financial planning. However, it is difficult. Even the experts, such as reserve analysts and construction estimators, have difficulty forecasting costs (and this is their profession). Expecting a volunteer HOA board member to be knowledgeable in this field is a lot to ask. Ultimately, however, it is the ability to predict

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cost behavior that helps the HOA weather hard times and maintain an adequate, healthy financial profile. In the end, it is the board that is responsible for the community's financial health and security – not the CPA, manager, or reserve specialist, but the board.

8. **Social inflation is uncontrollable, difficult to predict, and often very expensive.** Social inflation is the driver of unexpected and uncontrollable costs. What happens when society imposes conditions on an HOA without the HOA being directly involved with the action and sometimes with little or no time to react to the new policy or regulation? Social inflation

is often accompanied by rapid changes in the costs necessary to comply. The rise in insurance rates, for example, is often the result of an increasing number of lawsuits and enormous judgments against the underwriters. Social inflation also includes those mandated costs society elects to improve our state or country. These include policies requiring HOAs to minimize the use of water on landscapes; addition of electric vehicle charging stations; and the transitioning of lawn mowers, trimmers, and blowers from gas to electricity. The ethics of these policies may be laudable, but the costs to implement the changes are often high and fall on unsuspecting HOA boards that must deal with the impact on community finances.

HOA boards are expected to manage these challenges and maintain a positive sense of community. I don't think this was the expectation when governments and land developers proposed CIDs as a new way to create housing supply at affordable prices. It seems they were narrow-sighted. The world has changed dramatically. It is complicated and complex, and the challenges facing HOA directors seem only to be growing and causing more stress on those who join the HOA board. Staying ahead of change is difficult, managing compliance with new policies is exhausting, and adjusting to uncertainty in a dynamic world is unquestionably expensive. And making sure all of this is communicated to a community of friends and neighbors is scary. Boards must deal with these concerns and stay ahead of the challenge. Fortunately, those reading this article have a resource in Echo.

As members of Echo, HOA boards and homeowners have a fair, impartial, and trusted resource to help them learn about and manage their communities. The job isn't easy, but it is certainly meaningful and necessary. And Echo is here as your advocate for the boards and homeowners in association communities. We inform and educate homeowners about the roles and responsibilities of living in a CID, and we help them avoid the pitfalls of HOA living in hopes of making things better.

Our mission is to educate, advocate, and build connections for our members, to ensure that their HOA model fosters an improved quality of life in association communities. We are Echo.

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