



NEWS AND VIEWS

for Homeowners Associations

OVERCOMING APATHY - CREATING COMMUNITY!

BY DAVE BROCK, PCAM

The benefits of living in a "community association" or "homeowners association" are many, such as the ability to purchase housing in neighborhoods that only offer more expensive housing options. Also, sharing facilities such as pools, spas, and other common facilities allows for usage and enjoyment while not having to bear the entire cost of maintenance and replacement. These are just two examples of the advantages of HOA ownership.



However, life in a community association can also carry challenges that often go unaddressed and sometimes lead to significant problems that become expensive to resolve. Such challenges can result in needing to sell and leave the community often with negative feelings about condominium ownership. If the difficult issues of HOA living could be addressed, owners would more fully embrace ownership and life in a HOA, and be less likely to leave. Values would be enhanced as fewer condos would go on the market.

What are those challenges that occur in too many HOA's? Apathy, conflicts between residents over noise, parking or

Overcoming Apathy - Creating Community!: continued on page 3.

ANNUAL DISCLOSURE REQUIREMENT CHANGES

Effective January 1, 2014, the major revision of the Davis-Stirling law became effective. One of the most important changes in the law concerns the annual required disclosures that every common interest development (i.e. HOA) must provide to each owner every year. The disclosures that were required in the past have now been placed into two different reports. They are now called the "Annual Budget Report" and the "Annual Policy Statement".

The law concerns the organization and does not change the elements of the disclosure items. However the items required may be greater than what some associations routinely distribute. The intent of the law is to organize it for simplicity and clarity, with the Annual Budget Report changing each year, while the Annual Policy Statement should not change as frequently. Regardless, they are both required to be distributed at least 30 days prior to the start of the new fiscal year. November is the last month of the year in which this material must be assembled for calendar year associations. The specific sections of the law that can be referred to for more specific information are Sections 5300 and 5310. Below is a summary of the actual requirements for each report.

ANNUAL BUDGET REPORT

1. Approved operating budget and reserve allocation for the next fiscal year.
2. The most current Reserve Study which contains the following information:
 - a) The Executive Summary from the most recently updated Reserve Study.
 - b) Reserve Funding Disclosure Form/ Table
 - c) Board statements regarding the reserve study. See article in this newsletter.
3. Master Policy Insurance and information regarding other policies.
4. Insurance disclaimer language verbatim from Civil Code
5. Association Loan Statement (if applicable)

ANNUAL POLICY STATEMENT

1. Communication with the Association statement
2. Overnight Mailing Address statement
3. Secondary Address statement
4. General Notices statement
5. Association Minutes statement
6. Assessment Collection Policies statement
7. Collection Policy
8. Association Rules and Regulations including Fine Policy, if any
9. Dispute Resolution Procedures (ADR/IDR Rules)
10. Architectural change rules and procedures

RESERVE STUDY ANNUAL DISCLOSURES - BOARD RESPONSES

California State Law requires annual disclosures by the Association to its members. An important aspect of these disclosures pertains to the reserve fund and its adequacy to meet the future needs of the Association.

Most of the requirements will be satisfied by the reserve study itself, however there are four issues that the Board needs to address and provide to the owners as a part of the annual disclosure requirement.

Those items requiring board discussion and disclosure are:

- A statement as to whether the board has determined to defer or not undertake repairs or replacement of any major component with a remaining life of 30 years or less, including a justification for the deferral or decision not to undertake the repairs or replacement.
- A statement as to whether the board, consistent with the reserve funding plan has determined or anticipates that the levy of one or more special assessments will be required to repair, replace, or restore any major component or to provide adequate reserves therefor. If so, the statement shall also set out the estimated amount, commencement date, and duration of the assessment.
- A statement as to the mechanism or mechanisms by which the board will fund reserves to repair or replace major components, including assessments, borrowing, use of

other assets, deferral of selected replacements or repairs, or alternative mechanisms.

- A general statement addressing the procedures used for the calculation and establishment of those reserves to defray the future repair, replacement, or additions to those major components that the association is obligated to maintain.

In the thirty days prior to the distribution of the budget, the Board should meet and address these specific issues in order to meet their disclosure duty to the owners:

1. Review the Reserve Component List (may be called "Asset Listing", and look at the "Useful Life" or "Remaining life" column. Any item with a zero remaining life, if any, should be addressed. The board will need to provide a reason as to why these components are not being addressed. It may be that it appears that the component is still in good condition, (i.e. there have been no repairs necessary, or indications of a problem) and that the Board has determined to wait until there is indication that the end of the life is closer.
2. The Board will need to address the question of whether or not there may be a special assessment. Either the answer is no special assessment is anticipated, or a special assessment may be necessary. If the latter is the case, the Board will need to provide the following information: i.e. approximate amount, the

commencement date and duration of the assessment.

3. The third issue for the board to address is to provide a statement as to how reserves will be funded. This may include a statement such as: "Reserves will be funded by appropriately sized budgeted monthly contributions". Or if the Association determines to take the position of non-funding reserves, the Board will need to provide language to answer this question. It is advisable to always fund reserves, unless the latest reserve study shows the reserves to be 100% funded.

4. Finally, the Board will need to provide a general statement which addresses the procedures used for the calculation of the reserves. If a professional study was obtained for that year, the Board can state that the reserve contributions are based on a recently completed Reserve Study prepared by an independent, credentialed Reserve Study professional, and that a further explanation of methodology is available in the Reserve Study itself.

It is always best for the association to retain the services of a professional reserve study provider every year who can advise the Board in responding to the reserve study. Volunteer board members should never take on risk or liability that is not necessary. Working with a reserve study preparer, and following the recommendations provided every year will help greatly in avoiding unnecessary liability.

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Overcoming Apathy - Creating Community! continued from page 3.

other issues, conflicts of interest and personal agendas, and a lack of community. Conflicts and disputes arise in single family neighborhoods, however, in condominium living where owners live close to each other and common areas are more limited, disputes seem to occur more often.

The words "association" and "community" both carry strong meaning in terms of good and healthy interaction between people. Unfortunately, most of the interaction in associations is negative, revolving around rules enforcement, and collection of monies to maintain the property.

It's very common that in most associations barely a handful are willing to serve on the board and many associations wonder if anyone will be replace them on the Board ever. So what can be done to encourage owner involvement?

The answer is both simple and complicated, at the same time. It is simple because the answer is obvious, but complicated because it takes effort and perseverance.

The simple answer is: get to know your neighbors in an informal and friendly atmosphere. Look for ways to connect owners twice a year, such as a summer bar-be-que, and perhaps a holiday gathering of some sort, such as a dessert and coffee time.

You will find that once owners get to know each other, they will more readily agree to work on a project together, join a committee, or the Board. So many current board members want to get off the board, but **do not** approach

owners about serving on the Board right away. Begging or desperate pleas for volunteers are rarely effective. Make your social events just about having fun and getting to know each other.

November is the ideal time to begin thinking about having a holiday party. Again, it doesn't have to be complicated. Invite your neighbors and ask them to bring their favorite dessert to share. Or perhaps do an event with appetizers and wine or coffee. The purpose of a gathering should not be about association business, but rather just getting to know your neighbors. Business can occur at another time, but a social event helps to build the basis for healthy business interaction later.

Why is this difficult to accomplish? It takes some work and persistence to coax people out of their comfort zones and make new friends. While it takes effort to become friends, once friendships are made the benefits are obvious.

Starting small is acceptable, the important thing is just to start. The word will spread and more owners will attend next time.

Another great idea to encourage owner involvement is to welcome new owners to the property. Find out when a unit closes escrow, and knock on their door and welcome them. New owners are generally very excited about their new home and this is the time to take advantage of that energy and excitement. Let them know about the community and when the Board meets, and invite them to visit a meeting. Don't assume if they attend that they are ready to serve on the Board.

Speaking of meetings, in order to encourage owners to serve on the Board, don't make the meetings long, laborious and boring. No one wants to be on that kind of a board. It's fine to have fun but get the business done efficiently. A well run board is the best way to get people to serve.

Enjoy the upcoming holiday season, and I hope you make some new friends in the process.

DROUGHT LEGISLATION

Due to the drought California is experiencing, Governor Brown has issued an executive order voiding all CC&R provisions which effectively prohibit homeowners from following government or public agency water conservation measures. While this may not be the end of those vivid green lined streets and yards, it does mean homeowners will be able to plant more succulents and other plants that need less water to thrive. Lawns should only be watered twice a week, and associations will be barred from fining homeowners who fail to water their lawns during a drought declared state of emergency.

As instructed, help conserve to make California drought free and say goodbye, for now, to lush green lawns. This restriction on associations' ability to enforce their landscaping rules is already in effect. Therefore, it is recommended that you consult with your legal counsel before enforcing any rules and regulations that may be affected by the bill.

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WHEN SHOULD YOU PAINT?

Isn't asking a painter that question just like asking Colonel Sanders how often you should eat chicken? I guess it could be. But who else can you ask?

A few years ago a condo property manager called and asked, "How much to paint 145 doors? 2 or 3 of them need to be replaced." I answered him and wished him good day. The next three years, he called me each spring and asked for a price to paint the same 145 doors. Each year more doors needed replacement. This last May I got the call again. "How much to paint 145 doors? Now 25 to 30 doors need to be replaced." The price of procrastination had reached 15 to 20 thousand dollars to replace all these extra doors. I asked him why they hadn't just painted the doors before. "The board couldn't make

up their mind." he responded regretfully. Exterior paint deterioration is just like that. It doesn't wait for you to make up your mind.

Paint on the outside of a building is not merely adornment. It preserves your building. In the case of things which rot and rust like wood and steel, paint saves you money. Just like changing your oil protects your car's engine, a paint job protects wood and steel. And just like "saving money" by putting off your oil change for a year or two can cost you your engine, "saving money" by putting off your paint job can cost you the exterior of your building. Deterioration happens, sunny day after rainy day. (Luckily, there is very little paint breakdown on clear nights, so your poor hardworking paint gets a little time off!)

When should you paint? Wood and steel? Every 5 years. Sooner, if it looks bad. If it looks bad, you have damage. Paint the damaged areas NOW. Stucco? A different story. Paint it every 10-12 years. Stucco doesn't deteriorate as fast as wood or metal. There you are: exterior painting in a nutshell.

By the way, the Colonel just called back. He said, "Every day, boy. Every day."

By Greg Lewis of Ferris Painting, Inc. Greg can be reached at 818-951-3207.

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