# Not Increasing Assessments? Good For You – Or Is It?

By Mark K. Payne on February 12, 2007

Occasionally, we'll hear from an association's board of directors about how proud they are that they haven't had to raise assessments for some period of time – 10 years, plus or minus. Typically, they are touting what great stewards they have been of their members' money, and how grateful the members should be. Oftentimes, the comments come in the heat of candidacies for election of members to the board of directors. Sometimes, they even wonder out loud why their members don't appreciate the money saving efforts of the board. What they are missing follows.

Everybody knows that the cost of living increases every year. The only question is how much. The cost of buying goods and services routinely increases, and nobody is exempt. That goes for your association as well. Over the years, the cost of insurance increases, as does the cost of landscape maintenance, painting, management services, accounting and legal services, wages of employees; and the list goes on and on. When we hear that an association has not increased its assessments at least to cover the increased cost of goods and services, then the only conclusion that can be drawn is that the association is no longer providing the same services that it once did, or that the quality of the services has declined. The question becomes, "what has been cut out?"

Without having this question answered, it is apparent to us that, without the same services, or level of services, the value of units in the community has most likely decreased. The properties are not being maintained in the manner that they should be, or the grounds are not kept up to par, or the quality of management services has declined. Perhaps, in order to save money, the association has decided not to incur attorneys fees, and therefore, is not aggressively pursuing delinquent owners, causing fewer and fewer people to actually bear the burden of the expenses.

These cost saving efforts commonly come at the expense of the reserve fund. As costs go up and revenues stay the same, the board dips into the reserve fund to make up the shortfall. Sometimes, this “borrowing” becomes so addictive that it goes on until there is no reserve fund left, at which point, the only way to fund the painting project, or re-roofing, or asphalt replacement, is to levy a special assessment. Special assessments can be difficult to approve, and collect; there is no longer any money to make up shortfalls, and the community continues in a condition of ever declining repair, with corresponding declines in members’ home values. What was once a well kept, thriving, desirable community, becomes one in which home values no longer compete with the market, investors buy up units as rental properties, and ultimately, it becomes nearly impossible for an owner to sell, what for many is their largest investment.

What does all of this mean to you? As an owner, if your board is bragging about how they have been able to maintain assessments without increasing them for any significant period of time, start asking questions. Can I see the budget? How does it compare with last year’s expenses? How do last year’s expenses compare to the previous years’ expenses? How much money do we have in reserves? Has the board conducted a recent reserve study? How does the amount of reserves compare to what the reserve study recommends? Are there services no longer being provided because the funds no longer exist to pay for them? How do the communities’ amenities look – better or worse than they used to? How is the community being maintained? What is the level of delinquencies in the community?

These are all questions that the board should be asking as well. Failure of the board to adequately answer these questions can be indicators that the board is not carrying out its fiduciary duty to its members. Failure to increase assessments over time with the increased cost of goods and services is a clear symptom of a board’s failure to carry out its fiduciary duty.

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