

Condo dues need new approach

By Ilyce Glink and
Samuel J. Tamkin
Tribune Content Agency

Q: I live in a 30-unit condo association that has very inadequate cash reserves. Prior owners neglected the building's maintenance for years, leaving the current owners responsible.

We usually need to require two extra monthly assessment payments from homeowners each year to simply hobble along until the next catastrophe. The former president was reluctant to raise dues, as he contended that an increase in the assessments would affect resale values of our condos.

I became the new president of the condo association last year and felt the way things had been done was dishonest for new unit owners, because the dues listed on the sales sheets did not reflect what was actually paid.

I see two viable remedies to this situation. The first is to raise sufficient funds in order to become financially sound. We'd do this with a special assessment. The other alternative is to raise the monthly association dues to a level that will not only cover what is spent but contribute to the reserves. The special assessment would require 75% of the owners to vote for this change. It might be a hard sell.

Either alternative seems more aligned with an honest and transparent approach to our condo budget. What do you think we should do?

A: You're on a tough path, but we think it's the correct move and we commend you in your efforts to align your association's expenses with the income it receives from the unit owners. If it helps, you're not alone. There are literally tens of thousands of associations across the country dealing with



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exactly the same problem.

There is an inherent conflict between an association's attempt to keep its assessments low and what it needs to spend to maintain and keep up its property. Many associations hire outside companies to evaluate the condition of the building and then deliver a report on what needs to be done. The report typically includes a set of projections covering the anticipated cost of all of the items that will need to be taken care of over the near and longer-term.

The companies that prepare reserve studies (also known as reserve reports) also provide the association with an estimated amount of cash the association needs to have on hand to pay for future expenses. With this information, the board can then calculate what the assessments need to be to cover the expected expenses. It can also help determine whether a special assessment is needed.

Perhaps you've already commissioned such a report. If not, this is a helpful step in documenting the current physical condition of the property and the cost to remedy any outstanding issues.

The next step is conveying that information to unit owners, along with the possible remedies, along with a projected timetable for repairs and how much it's going to cost.

These reserve studies

can be difficult to read for most boards and unit owners. The financial projections covering the work that needs to be done are often devastating.

So, what should you do? Well, if you know what repairs, replacements and maintenance needs to be done and have an idea of what those costs will be, you're going to have to bite the bullet and raise the assessments. You may also need to have a special assessment to bulk up on the reserves already on hand. Or, you can look into setting up a line of credit that the building can tap in case of a true emergency.

The next step is communicating what's happening in a clear, concise and easy-to-understand way. You know instinctively these proposals will likely not go over well with your fellow unit owners. The truth is, many homeowners simply don't have the funds to pay large special assessments. They may have to put up their units for sale. While that's unfortunate, if you don't take care of the property, it will deteriorate and the value will decline.

The earlier the building starts properly funding its ongoing expenses and reserves, the better off it will be. To help your fellow owners understand what's happening, consider attaching a letter that lays out the case for why assessments are being raised and by how much. If you're concerned that some owners won't be able to afford the increase, offer to meet with them privately to see if there's anything that can be done to help make this necessary increase more palatable in the short term.

Ilyce Glink is a financial journalist and book author, and Samuel J. Tamkin is a real estate attorney. Contact them through the website ThinkGlink.com.

What responsible board members are stuck with