WAKE UP CALL

An Iowa community faced a bevy of maintenance challenges without the funds to pay for needed repairs. Homeowners had to learn important lessons about communication and collaboration to protect their investments.

BY JEFF WESTENDORF, CMCA, AMS

IMAGINE THE SCENE: It's a hot day in July, and you have just been elected board president of the Cobblestone Owners Association in Urbandale, Iowa.

At the same time, the suburban Des Moines neighborhood has a new management company. Together, they find the 157-unit townhome community has more than 100 deferred maintenance requests, roofs at the end of their useful lives, and rotten cedar shake siding that is 35+ years old. On top of that, water intrusion in many units is causing interior damage, and another summer storm is on the way. The cherry on top: when the new association president discovers his home has structural dry rot from exterior water intrusion that has occurred over many years. Many homeowners have birds and other animals burrowing through the siding and nesting in exterior walls. Bats gain access through several units through the outdated roofs.

This is the scenario incoming President Mark Walter and community manager Jeff Westendorf of West Property Management encountered at Cobblestone in July 2021.

CRITICAL CONDITIONS

But wait, the situation gets worse. Leadership finds the operating fund is nearing a zero balance. The reserves fund will bottom out at approximately $346,000 or only $2,200 per unit. There is no finance committee and very little owner participation. The association has never had a reserve study. Assessments are only $250 per unit per month with most of that spent on operational costs. The board implemented austerity measures and voted to borrow from reserves to pay outstanding operational repair bills.

Almost immediately, management obtained bids for a reserve study and began educating the board and community on reserve planning. The community's first reserve study was conducted in October 2021. One month later, the board adopted a reserve study charter and formed a five-member finance committee.

Each committee member brought extensive experience in large capital projects, fundraising, and strategic planning that allowed them to quickly learn about reserve studies and funding plans. With more than 15 years' experience helping financially troubled communities, I served as nonvoting staff member to the committee.

With the committee in place, we kicked off a detailed process to conduct a reserve study, educate homeowners to build consensus, and ultimately develop a broad financing plan and reserve study policy. These documents became a roadmap for the association to use as it navigates capital project planning, budgeting, and owner communication for the next few years.

The committee met over the winter to verify reserve study data, including replacement costs and useful lives for key components such as roofs, siding, gutters, downspouts, concrete, and a swimming pool. It also made updates to the study and started developing various funding plans. By March 2022, the committee had prepared a presentation to share with owners in 16 small group meetings, both in person and via Zoom.

OWNER RESPONSE

Most reactions from homeowners were of shock, anger, and disbelief about the poor physical condition of the property and the lack of financial resources available. Cobblestone faced more than $8 million in immediate capital replacements according to the study.

A fully funded reserve fund of more than $9.2 million would be needed. With only $410,000 available, reserves were only 4.4% funded and facing a per unit deficit of over $56,000.

Owner Cora Bartemes says, "I was surprised at the dire financial report as well as the deteriorated condition of some homes and how little we knew about homeowners associations."

Another owner, Jan Hollebrands, simply says, "I was so unhappy and angry about the increase in dues. I still am!" Despite her resentment, she realized changes were necessary. "It was either spend more or lose our equity."

Most of the owners accepted the reserve study and recognized that significant changes in assessments were needed. Reserve study committee member Jim Johnson laments, "A hard-core group of owners would not accept the findings and worked aggressively to convince others that the numbers in the study were wrong, inflated, and not real."

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Others blamed the new management, the reserve study committee members, current board members for authorizing the study, past board members for allowing the association to not save enough over decades, past owners who moved, and even some blamed themselves for allowing it to get this bad.

Recent buyers were the ones most hurt and shocked by the situation. Some had been promised by real estate agents, past managers, and former board members that there was a plan and plenty of money. As owner Pam Gumm says, "I learned that when I bought my property, I failed to look at our long-term financial stability."

The reserve study committee solicited feedback from owners and recommended an increase in monthly assessments from $250 to $758 per unit. This prompted heated discussions as well as boisterous

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board and town hall meetings where angry owners attacked the plan, management, committee, and the board. Owners ultimately voted down the assessment increase, leaving the board unable to fix the property and raising assessments to only $271 a month.

In 2022, more than 20 units went on the market, but they didn't move and sale prices were reduced. Sellers often had to make concessions to buyers to pay for future assessment increases or special assessments. Many buyers demanded a price reduction to compensate for the unfunded liability caused by the poor condition of the property.

Board president Mark Walter, who had strategically ushered the community through a year of turmoil, resigned.

CHANGES AHEAD

Changes in leadership exacerbated the situation. Six of the seven board members who originally agreed to the reserve study resigned or left the community.

After a few months of calm, new board president Zac Parry asked the community to submit new funding plans to the finance committee. This process led the committee to present three new options for consideration that combined increased assessments with a corresponding special assessment.

Townhall meetings in fall 2022 vetting the three plans were often angry and unruly. It was a chaotic and conflict-driven time that pitted owners against each other and created divisions that may exist for years.

Letter writing campaigns, distributing door-to-door flyers, plastering posters in unit windows and on cars, postcard mailing campaigns, and homeowner education sessions at the library were among the events and activities during this time. The board responded to all communications. Owner forums at board meetings were well attended and often more than 20 residents spoke at them. Secret strategy meetings between groups of like-minded owners also were held.

Finally, at a special owners meeting in December 2022, a 69% super-majority of owners approved increases to monthly assessments. Owners agreed to pay a monthly assessment of $550 and a $7,000 special assessment with the understanding that each fiscal year going forward, assessments will increase by 5% so the community can qualify for a loan to replace siding.

The $7,000 special assessment was paid in 2023 by nearly all units, which allowed for $2.5 million in critical structural repairs, new roofs, gutters, and downspouts on all 157 units.

Today, with just over $1 million in reserves and growing at more than $62,000 monthly, Cobblestone qualified for a loan of up to $6 million with a 15-year repayment plan to replace siding throughout the property.

"There will always be a group of people not happy with the results, but I am very glad we did it," says owner Maya Fonseca of the community's financial transformation. "I am proud of our community and how it has adapted to the changes."

BREAKING THE CYCLE

Despite the volatile emotions and anxiety caused by the situation, the Cobblestone community was ultimately able to put

STEPPING UP. Cobblestone board member Phyllis Swink, an original owner, and board president Zac Parry faced a lot of emotions dealing with major financial and repair issues in the community.

COURTESY JEFF WESTENDORF / COBBLESTONE OWNERS ASSOCIATION

EXTERIOR DECLINE. Siding deterioration is evident at the Cobblestone community in Urbandale, Iowa.

aside differences and unite to raise assessments and fund reserves.

At the final board debate, Parry summed up the contentious period: "Setting dues in an arbitrary way has only served to hurt those who have bought into Cobblestone. Those buyers expected a certain cost to live here, and now all of us are surprised or overwhelmed by our association's current needs.

"Not properly representing and disclosing the true cost of living here is unethical. We must break the cycle of under-representing what it costs to live here."

Today, Cobblestone is blessed with a great board and more than 30 amazing owners who volunteer on six committees sharing their time and expertise. The revitalization of Cobblestone and a new culture of fiscal responsibility is well underway so future generations will not have to face these trying times again. **CG**

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TACKLING THE BEAST: PRACTICAL ADVICE

Based on their experience, Cobblestone residents have this advice for other community association board members and managers facing trying times:

- Educate the entire community about reserves and funding plans. Don't rely on others to do the right thing long-term.
- Hire a manager who can educate and implement reserve studies and funding plans.
- Communicate constantly with owners.
- Have a good plan, revise it regularly, and fund your reserves. Do not kick the can down the road.
- Bring new community members up to speed.
- Diversify the board by having input from committees and community members.
- Understand the purpose and impact of special assessments and assessment increases. They are hard pills to swallow, but failure to properly budget and fund reserves will eventually lead to lost property values, decreased living conditions, inability to sell, and conflict in the community.
- Elect great leaders who put community interest before self-financial interests.
- Fund reserves now or be faced with monstrous debt which every owner is obligated to pay. Lack of reserve funding is like living off your credit cards.
- Focus on percent funded and not an arbitrary reserve dollar amount.
- Set short-term funding goal at 30% and a long-term goal of 70%. —J.W.

COMMUNITY ASSOCIATION MAINTENANCE

We are familiar with maintaining our bodies by going to the gym and our teeth by visiting the dentist and our car by taking it to a mechanic. All these activities take time, energy, and resources of varying degrees; they require work.

Maintenance is a common term, but it has a special meaning for community associations. Maintenance is at the core of a board's mission to "maintain, protect, and enhance" their communities. To expand on that mission, a board should apply maintenance (maintain), apply preventive maintenance (protect), and increase or improve in value, quality, desirability, or attractiveness (enhance).

Why is maintenance an essential element of a board's mission? If a board fails to maintain its community, it will quickly fall into disrepair and begin a downward spiral that is hard to reverse. The usual outcome is special assessments, board recalls, bank borrowing, and political upheaval leading to more chaos. Look no further than news reports on significant special assessments community associations are imposing for deferred maintenance and the struggles the owners are having to pay increased assessments.

On the other hand, if maintenance is applied intelligently with a maintenance plan and a maintenance program accompanied by a properly prepared and funded reserve study, the community will enjoy desirable common areas and thrive at reasonable expense. There are three reasons or pillars of a well-maintained community all auguring for regularly applied maintenance: financial; environmental; and community stability. These cascade from one to the other in succession.

Financial. According to a report by Jones Lang LaSalle[1], you can achieve a 545% return on investment by performing preventive maintenance. The exact savings are difficult to enumerate in all cases because they are largely unseen. But you can imagine that the wood-framed deck that has its surface coated on a regular basis with deck coating doesn't have to have its wood joists or pickets replaced. Nor does the wood refuse need to be sent to the landfill. The savings when a deck doesn't fail and injure its owners can be immeasurable; a few years ago, a deck collapse in Berkeley, Calif., killed seven college students. These are just the most visible examples of how regularly scheduled inspections coupled with regularly applied maintenance can save a community millions of dollars.

Environmental. There are few things more important to society than lowering our carbon emissions. If every community association in the U.S. adopted maintenance, those emissions would be sizably reduced. One of the primary causes of environmental degradation is the premature replacement of building components such as wood, stucco, and concrete. A maintenance plan, maintenance program, and funding through a reserve study reduces premature failure of these components. That means there is less need for materials to be buried in a landfill.

Community stability. A community preventive maintenance plan and maintenance program to implement the plan, and a regularly updated reserve study funded in conformance with its recommendations will save the community significant amounts of money. Those financial savings quickly translate into community stability and maximize property values. This also will reduce the probability of special assessments or borrowing to fund capital replacements or repairs. Boards can adopt a much more positive demeanor since they are maintaining their community by the book; they are doing everything they can do to maintain, protect, and enhance their community. There is also less management turnover since there is less board turnover.

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1. Jones Lang LaSalle, Determining the Economic Value of Preventive Maintenance, http://cdn.ifma.org/sfcdn/docs/default-source/default-document-libr'arv/determininq-the-economic-value-of-preventative-maintenance.pdf?sfvrsn=2