What boards can do to avoid special assessments

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Community Living

Possibly the most dreaded correspondence an owner in a community association can receive is notice of an upcoming special assessment. That's an amount of money to be paid on top of the regular monthly assessments, and it's usually big. As in hundreds if not thousands of dollars.

Why do boards levy special assessments? One reason is to pay for massive capital undertakings like balcony replacements or new roofs. Another is to cover budget shortfalls. When mortgage foreclosures and job cuts were rampant during the recent recessionary years, for example, financially strapped owners often stopped paying their dues. Some associations passed special assessments to make up the difference in order to pay the day-to-day bills. Other associations collected to launch or beef up their reserve funds.

Whenever possible and practical, association boards should try to avoid special assessments. The extra charges irritate owners and leave them with the impression of poor financial planning. Here are some tips for preventing that scenario:

Budget what the property needs, not what you want to pay. A common practice that drives association managers nuts is when boards decide to raise assessments by a certain percentage, usually a small one, or they refuse to raise them at all. That's the wrong approach, said Tom Skweres, regional vice president at ACM Community Management in Downers Grove.

"The simplest way to avoid a special assessment is to do realistic budgeting all along," he said. "A realistic budget is whatever amount you need to take care of your community and to put into reserves account according to the reserve study," he said. "Then do it every single year."

Stay out of court. Lawsuits are expensive even when the board didn't do anything wrong, said Salvatore Sciacca, president at Chicago Property Services in Chicago.

"Many lawsuits can be prevented if the association is conscientious in the sense of being compliant with condo law and whatever (court decisions) and legal requirements apply to them," he said.

Let the reserve study be your guide. A reserve study is one of the best tools for a board to understand its future liabilities, but it must be followed to assure money is available when it is needed, said Craig Finck, vice president at Alliance Association Bank in Plainfield and a former board president.

"Some associations are reluctant to build up reserves because they feel their owners will question the need for large reserve balances, but pre-funding capital expenditures is the most equitable plan for current and future residents," he said.

Keep tweaking your reserve study. It's not written in stone. The remaining life spans of the common elements and costs to replace them are professional estimates, which can be affected by weather, hard usage and bad luck.

"The associations that have done the best job of avoiding special assessments annually have their contractors monitor the common element components, so they have a very good handle on when those components are beginning to fail," said certified public accountant Chris Nyborg of Nyborg & Co. in Batavia. "By tackling the problems early, they avoid even greater expenditures down the road."

Borrow money for capital projects. That's the advice of Cathy Ryan, chief executive and president at Property Specialists Inc. in Rolling Meadows.

"Interest rates are so low that we have been encouraging our associations to accelerate their capital projects," she said.

For example, a property planning to replace worn-out roofs over four years could be better off replacing all of them at once. They get new roofs sooner and eliminate the bills for interim patches and repairs.

If you have been funding your reserves correctly, loan repayments can be made from that account, Ryan said.