

# **COLORADO** Department of Regulatory Agencies

### Division of Real Estate

Colorado HOA Information & Resource Center

HOA Forum

Thank you for joining us! The presentation will begin momentarily





### HOA Forum – HOA Budgets

- Presented by:
- Nick Altmann HOA Information Officer
- Amanda Lopez HOA Program Assistant
- David Donnelly Education, Communication, and Policy Manager
- 1560 Broadway, Ste. 925,
- Denver, Colorado 80202



**COLORADO** Department of Regulatory Agencies Division of Real Estate

#### Disclaimer:

The information provided during this presentation is for educational purposes only and is not meant to provide, nor should it be construed as legal advice.

Any legal questions should be directed to a qualified attorney licensed in Colorado.



#### What Is the HOA Information & Resource Center?

#### What We Do

- Provide information to homeowners regarding their basic rights and responsibilities under the Colorado Common Interest Ownership Act ("CCIOA").
- Gather, analyze, and report information through complaints and HOA registrations.
- Create resource materials.
- Provide education and forums.
- Provide a website with information for the public.
- Register HOAs pursuant to \$38-33.3-401(1), C.R.S.
- Provide an Annual Report to the Legislature.

#### What We D<u>on't</u> Do

- <u>Cannot</u> provide legal advice.
- Do <u>not</u> act as an advocate.
- <u>Cannot</u> assess fines or penalties.
- Do <u>not</u> enforce an HOA's failure to register.
- Do <u>not</u> mediate/arbitrate.
- Is <u>not</u> a regulatory program.



# Today's Topics

- Budget Basics
- HOA Budgets
- CCIOA Requirements
- Industry Best Practices
- Do's and Don't
- Legislative Efforts



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### **Budget Basics**



### What is a budget?

- Estimation of revenues and expenses over a specified future period of time (one, two, three years).
- Financial plan to contribute to success of a financial undertaking.
- Useful in setting goals and planning for emergencies.



### **Budget Basics**



### **Budget Development Process**

- Establish assumptions for the upcoming budget period.
  - $\circ~$  Revenue and expense trends
  - Economic outlook
  - Interest rates and Consumer Pricing Index
- Determine cash flows (income and expenses)
- Reviewed by management and submitted for approval by the board of directors.



### **Budget Basics**



### How to Build the Budget

- Gather financial data

   Previous budgets
  - Financial statements
  - Bank statements
- Review contracts
  - $\circ$  Snow
  - Landscaping
  - o Management
  - $\circ$  Insurance
- Utilize accounting software
- Notate assumptions



## **HOA Budgets**

#### The Budgeting Process

- Check your governing documents first
- Form a committee
  - HOA Treasurer
  - Finance-savvy HOA members
  - Community association manager
- Consider goals of the community
  - Prioritize maintenance and improvements
- Estimate expenses and plan for reserves
  - Historical data and quotes from service providers
  - Consider speaking with a financial advisor
- Present to the board and homeowners for approval
  - Accept feedback and be prepared to adjust as needed
  - Be transparent with the community



## HOA Budgets

#### Revenues

#### Revenue

- Periodic, recurring homeowner assessments (monthly, quarterly, semi-annual, annual)
- Special assessments
- Working capital fees such as transfer fees, new buyer fees, status letter fees
- Rental income
- Financing (lines of credit, loans)
- Fundraisers/donations
- Investments
- Lifeblood of the association





## HOA Budgets

#### Expenses

#### **Operational**

- Maintenance
- Utilities
- Trash
- Landscaping
- Cleaning
- Security
- Repairs/replacements
- Taxes
- Insurance

#### <u>Administrative</u>

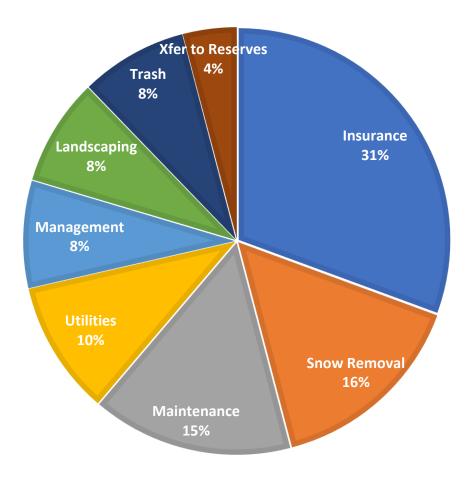
- Legal
- Accounting
- Management fees
- Regulatory Filings
- Postage/printing
- Office supplies
- Miscellaneous

#### Reserve

• Transfer to reserves



# HOA Expenses





ITEMS	Colorado Homeowners Association Budget Comparison			
	REVENUES			
Assessments Billed	109,600	122,050	122,050	136,950
Unpaid Assessments	(4,880)	(5,580)	(3,700)	(3,425)
Late Fees	1,000	1,000	1,000	1,000
Interest Income	190	225	204	200
Interest Income - Reserve	40	50	0	25
Other Income	0	0	0	1,250
Legal Recovery	0	0	0	5,000
TOTAL REVENUE	105,950	117,745	119,554	141,000
EXPENSES Administrative Expenses				
Management/Bookkeeping	42,800	48,400	48,400	42,000
Parking Enforcement	0	0	0	4,800
Office Expenses	6,000	7,000	7,800	9,000
Printing Expenses	7,200	7,200	5,400	2,200
Postage/Mailings	7,200	7,200	6,600	9,000
Archiving & Storage	265	320	1,224	1,225
Website	0	0	3,000	400
Meetings	250	225	360	360
Licenses/Fees	65	65	60	65
CPA Fees	1,400	1,000	1,500	1,500
Legal	11,000	6,000	1,500	2,000
Abatement Expense	10,000	6,000	1,500	2,000
Total Admin Expenses	86,780	98,410	97,526	117,550
Insurance Expenses				
General Liability	4,870	4,970	7,560	7,800
D&O	2,100	2,150	2,220	2,400
Workman's Comp	600	615	648	650
Total Admin Expenses	7,570	7,735	10,428	10,850
Reserves				
Reserve - Contingency	1,500	1,500	1,500	1,500
Reserve - Replacement	10,000	10,000	10,000	10,000
Total Reserve	11,500	11,500	11,500	11,500
TOTAL EXPENSES	105,850	117,645	119,454	139,900

100

100

100

1,100

**NET (REVENUES - EXPENSES)** 

Sample HOA Budget Report



# Accounting standards?

- With regard to accounting standards, the Colorado Common Interest Ownership Act ("CCIOA") only requires the use of an accounting standard with regard to the completion of an audit or review. For more information see sections 38-33.3-303(4)(b)(I) & (9)(b).
  - Generally accepted auditing standards
  - Statements on standards for accounting and review services
  - Independent and qualified person selected by the board, Board Treasurer







## 38-33.3-209.4(2), C.R.S.

Make your current fiscal year operating budget available to unit owners within 90 days after the end of each fiscal year.

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## 38-33.3-302(b), C.R.S.

HOA's may adopt and amend budgets for revenues, expenditures, and reserves and collect assessments for common expenses from unit owners;

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### 38-33.3-303(4)(a)(I), C.R.S.

Within 90 days of adopting the budget, deliver a budget summary, by first class mail or email, to all unit owners and set a date for the owners to approve (or veto) it. Provide for notice of the budget approval meeting per Bylaws.

United States ; if to approve to about any it, but your to stand return it with his infections is that House in which it shall have requested whe shall not the Objections in the second of that House challenges to pay the Soil. where with the Pyratics, to the attes it was, by which is dealt literary to remains and of a present by the threads of that Harves it attests Course a Low Bat on all such Cases the Views of both Houses shall be determined by your and the ground the Norma's of the Process withing for and agrees the Bell shall be entered on the formal of rich House respectively. 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### 38-33.3-303(4)(a)(II)(A), C.R.S.

Unless otherwise required in the Declaration, the proposed budget does <u>not</u> require owner approval and is deemed <u>approved</u> by the owners in the <u>absence of</u> <u>a veto at the properly noticed meeting by a</u> <u>majority of all unit owners, whether or not</u> <u>a quorum is present.</u>

If the budget is vetoed, the last proposed budget <u>not</u> vetoed by the unit owners must be used until a subsequent budget proposed by the executive board is not vetoed by the unit owners.

United States; If he opposed to shall says it but good he whall return it with he officians a that House in which it whall have required in fail on entions at large on that forward and present to committee at . If after with Reconsideration in the is of that How shall agree to pay the Bed The such the Officiens, to the above the most, by which is shall like with a consistent part of proved by two there is that the war of the form Course a Sone, But on all south Cases the Vites of both Houses shall be determined by your and the grand the Viennes of the Rosens witing for and the Beit shall be entered on the foremail of rick House respectively. 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### 38-33.3-303(4)(a)(II)(A), C.R.S.

Unless otherwise required in the Declaration, the proposed budget does <u>not</u> require owner approval and is deemed <u>approved</u> by the owners in the <u>absence of</u> <u>a veto at the properly noticed meeting by a</u> <u>majority of all unit owners, whether or not</u> <u>a quorum is present.</u>

This subsection, 38-33.3-303(4)(a)(II)(A), does <u>not</u> apply to a common interest community formed prior to July 1<sup>st</sup>, 1992, <u>if</u> the declaration sets a maximum assessment amount or limits any assessment increases to a specific amount.

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# 38-33.3-315, C.R.S.

Assessments shall be made no less frequently than annually and based on a budget adopted no less frequently than annually.

United States ; of the approve to about a on it, but your to stand return it with his Spectrum is that House in which it should have requested whe shall not the Objections at large on these functional and present to resonance with a Spectrum in the thread of that the exceeded large to page the Soil. where with the Africanes, to the other the new, by which it what Atrivia to remembered, and of africant by two threads of that the word of the become a low. But on all such Cours the Wites of both Hansis shall be determined by your and the Norman's of the Plances witeng for and again the Ball shall be interest in this format of rich House respectively. 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# 38-33.3-308, C.R.S.

Any changes to the budget must be at a properly noticed meeting.

United States ; of the approve to about a on it, but your to stand return it with his Spectrum is that House in which it should have requested whe shall not the Objections at large on these functional and present to resonance with a Spectrum in the thread of that the exceeded large to page the Soil. The such the Officiens, to Merches Henry, by which is shall literary to consistent part of proved by two therein of that the war at the barne a have. But on all such Easter the Units of back Hansis shall be determined by your and her Starting of the Provers withing for and again the Ball shall be entered on the formul of each Hanse respectively. 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# Recap of the Budget Process

Board creates proposed budget Within 90 days, Board delivers summary to unit owners and sets a date of a properly noticed meeting of the unit owners to consider the budget

Veto must be a majority of all unit owners at the properly-noticed meeting (whether or not quorum is met) If vetoed, the last proposed budget by the Board which was not vetoed stands until a new budget is adopted by the Board and not vetoed by the owners



# Industry Best Practices

- Communicate the budget process to the community openly and transparently.
- Do no forget about the reserve account! Schedule monthly deposits/transfers to ensure this account is funded. Although there are NO requirements in statute or rule, consider 15-20% of income.
- Consider speaking with a financial professional or reserve specialist.
- Although there are NO requirements in statute or rule, consider acquiring multiple bids from vendors to save money when planning the budget.
  > Board members have a fiduciary duty to the community; By conducting due diligence and acquiring multiple bids, Board members can ensure they are meeting their fiduciary obligations.
- Review your insurance policies early.
- Account for unit owner delinquencies.



# Do:

- Check your governing documents for an explanation of your community's budget formulation/approval process.
- Think long-term (three years out, five years out, ten years out).
- Re-negotiate terms/pricing to cut costs
- Get on top of delinquencies. Review and understand your community's collection policy and when appropriate, contact an attorney.
- Keep your community manager involved (if the HOA has one).
- Keep an eye toward the prize: enhanced property values!



# Don't:

- Wait until the last minute to prepare your HOA annual budget.
- Don't expect all your community members to understand financial documents. Make them available for review, but be prepared to answer questions. (e.g. why do we pay so much for snow removal when they do such a bad job?, what are we paying the property management company for when they never call me back?). Boards should be prepared to answer the hard questions. Owners should be prepared to ask the hard questions.
- Don't raise assessments without a valid explanation. Communicate with your owners what is needed in the community (e.g. increased savings, repair the roof, insurance premiums went up, etc.)



## Remember:

 HOA Board members have a fiduciary duty to make budget decisions based on what's best for the community, not themselves.



# Recent Legislative Efforts

- House Bill 23-1131 <a href="https://leg.colorado.gov/bills/hb23-1131">https://leg.colorado.gov/bills/hb23-1131</a>
- Prime Sponsor: Representative Ron Weinberg
- Would have required a majority of all unit owners in a CIC to be present at the meeting for the board to approve a proposed budget.
   A majority of all unit owners may then vote to veto the approved budget.
- Status: Lost. Did not become law.



# Recent Legislative Efforts

- House Bill 22-1387 <u>https://leg.colorado.gov/bills/hb22-1387</u>
- Prime Sponsors: Representative Brianna Titone, Representative Mary Bradfield, Senator Rhonda Fields, Senator Kevin Priola
- Would have required mandatory reserve studies for common interest communities that have major shared components, including common elements or property that the unit owners' association is responsible for maintaining, repairing, or replacing.
- Status: Lost. Did not become law.



# **Common Questions**

Q: Is there a limit to how much my HOA can raise dues?

A: Colorado law does NOT cap the amount than an association can increase assessments/dues on an annual basis. An association can typically raise dues as much as it needs to in order to meet its annual budget requirements. Any exception to this would be included in the association's governing documents and usually listed as an annual cap on the amount a board may raise assessments from the previous years. You will need to review your association's governing documents to determine if such a cap exists.



# **Common Questions**

Q: If the HOA passes a special assessment, should it be reflected in a new, amended budget?

A: Yes. New revenues means new budget. Follow the process as outlined in the previous slides.



# **Common Questions**

Q: What if we are pre-CCIOA?

A: For communities created prior to July 1, 1992, CCIOA does not define the budgetary requirements needed to pass an association's annual budget, therefore look to the association's governing documents for the budget process.



## Audience Questions?





# Useful Links

- Division of Real Estate's YouTube Channel: <u>https://www.youtube.com/c/doradivisionrealestate/videos</u>
- HOA Information & Resource Center's Website: <u>https://dre.colorado.gov/hoa-center</u>
- Contact Us: dora\_dre\_hoainquiries@state.co.us



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