



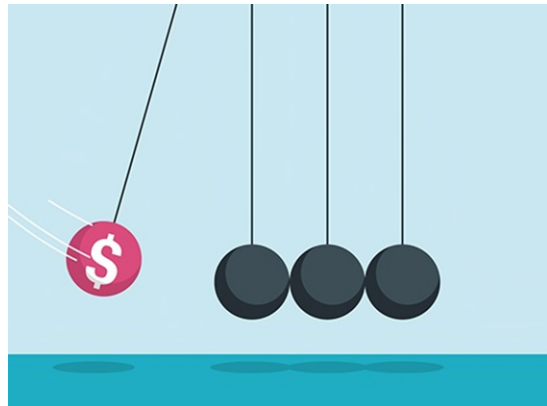
COMMUNITY BUILDER

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Prepare for Impact: The Effect of Inflation on Associations

Inflation and an economy in turmoil are at the forefront of most minds today. We feel the impacts in our own personal lives, but what about associations? During a recent webinar a poll of board members showed that most associations are feeling the pressure of higher costs. Additionally, there is a compounding effect of other issues such as legislative changes and the long-term impacts of COVID making it even more difficult to navigate.

The webinar presented this 'current reality' for associations. Panelists Brad Pomp, President, Gregg Hale, SVP Acquisitions and Training, and Traci Lehman, SVP Midwest and South Regions, further discussed the topic by highlighting some early warning signs and actions the board should take if they notice any of the warning signs in their association. To watch the webinar, please [CLICK HERE](#).



The following is a summary of the webinar:

The impact of rising costs and the increase of homeowners having trouble paying assessments mean the association must be on high-alert to mitigate impending impacts.

What are the warning signs?

If an association is faced with one or more of the following, it is a strong indicator that the board should act.

- Declining cash-on-hand or tightening cash flow
- Increasing delinquencies and requests for payment plans
- Inability to fund reserves according to the budget
- Necessity to borrow funds from reserves to pay for operating expenses

Considerations for the board while working on the budget:

- **New laws** in some states that require full-funding of reserves and added services like regular reserve studies and building inspections.

- Costs have and will continue to increase; there is no getting around it. The board must be very judicious and **maintaining or lowering assessments is not recommended.**
- Rely on strong vendor relationships and **ask vendor partners to come to the table to discuss service levels, costs, travel fees,** and more. Remember that vendors want to keep the association's business.
- **Postpone certain projects if possible;** if component condition is good and safety is not a concern, postponement may help to lessen the overall impact of cost increases.
- **Pay special attention to utilities.** Consider ordering an audit, research installation of timers and sensors where applicable, consider energy efficient improvements, and reduction of heating/cooling of clubhouses.
- **Review income sources and consider ways to enhance cash flow.** Consider value of on-site versus contracted services, revenue sources that could be increased, etc.

Is there anything the board should avoid doing?

- The board may be tempted to **cut services to improve the bottom line;** certain services must be maintained pursuant to the governing documents. Cutting services can open the association up to the risk of homeowner complaints and litigation.
- **Changing insurance and cutting coverage** can be risky. Insurance premiums have skyrocketed, but shopping and going with the lowest bidder is usually a mistake. Boards should rely on strong relationships with insurance agents who specialize in association insurance to ensure proper coverage is maintained.
- **Failing to rely on professionals** can result in increased costs in the long-term. Engaging management, legal counsel, CPAs, insurance agents and other reputable vendors will help ensure the board is making informed decisions.

What can the board do now as far as delinquency management?

- **Review the association's assessment management policy;** consider updating the policy as it relates to automation of notices and legal actions like liens, as well as parameters for homeowners to make payment arrangements.
- **Incorporate an 'allowance for doubtful accounts' into the operating budget.** This represents assessments the association does not expect to be able to collect during the fiscal year and provides a more accurate picture of the association's accounts receivable and available cash. It is reflected as a negative income line on the budget and as a contra-account under accounts receivable on the balance sheet.
- **Seek education on legal remedies available to the association** by consulting with legal counsel. At the same time, be discerning about the frequency and involvement of legal counsel to save on costs.

Communication with homeowners is imperative.

- Keep homeowners 'in-the-know' by **communicating frequently and consistently.**
- **Open meetings and virtual meetings** encourage homeowners to stay up-to-date on the tough considerations and decisions the board is making.
- Any avenue of **transparency** – like eBlast updates and posting meeting minutes online – should be utilized so the homeowners can see the process for the decisions that affect their investment.

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