

Proposal for HOA Reserve Funds Reform
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Introduction

The content in this document will not change unless found to be inappropriate, ineffective or too costly to implement.

Issues for Reserve Fund Reform:

Require a reserve fund study every three years completed by a professional or using personnel within the HOA. Every five years the study will be completed by an outside/contracted service. Smaller HOAs of 50 homes or less and those with less than \$100,000 a year income will be required to complete the three-year mandate with internal personnel but not the five-year requirement. DORA will develop standard forms and procedures to complete this task and minimum requirements for an acceptable reserve fund study including certifying results and apprising homeowners and home buyers.

The result of all reserve fund studies will be posted on the HOA's web site, presented to homeowners at a community meeting and emailed to all homeowners.

The minimum content of the reserve fund study will be proposed by DORA and signed by a Board member and the person completing the study.

As part of the HOA registration process, the HOA will confirm the last time a reserve fund study was completed.

HOAs will complete an asset valuation and status study each year for use in completing reserve fund studies and in acquiring the community master insurance policy. This can be completed with internal resources or through a professional resource. DORA will develop and provide a template for use to complete this task to minimum requirements and procedures on disseminating information to homeowners, home buyers and others. This study will identify maintenance and repair issues that are identified and affect the value of the community asset.

The HOA will develop a response and plan to the findings of the reserve fund study and indicate how the financial obligations and funding requirements for homeowners will change as a result of the study.

Any special assessment related to the reserve fund study above X (to be determined) will require a vote by mail ballot vote of homeowners explaining at a minimum the total community amount of special assessment, the special assessment to each homeowner and how it will be collected, when the special assessment will begin, the reason for the special assessment and the consequences of not approving the special assessment. DORA will develop a standard form for use by HOAs for reserve fund special assessments.

HOAs deposit all reserve funds in a separate cash account.

The use of reserve funds can only be used to maintain and replace community assets, for items and issues identified in reserve fund studies and as defined in CCIOA. An HOA can borrow from the reserve fund in emergency and safety situations, for critical unplanned needs of the community and for health and safety issues in an effort to avoid costs associated with financial institution lending or to avoid a

special assessment. Such withdrawals will be explained to homeowners via email and at a community meeting, noted on financial statements and require a repayment plan to the reserve fund.

All HOA financial statements will contain a note on the adequacy of reserve funds

An HOA is required to maintain a level of at least 50% (or other amount to be determined) of the reserve fund study recommendation with the exceptions being after an HOA loan from the fund, upon a large withdrawal for planned events or due to other reasons deemed authorized in this proposal.

Page 2 of 2

Reserve funds will not be used to complete and pay for operational and routine tasks.

HOA time share communities will be required to abide by mandates in this proposal.

Enforcement of reserve fund mandates will occur through the HOA registration process when the HOA confirms the reserve fund study was completed in a timely manner. Non-monetary penalties and/or removal of a Board member(s) can be issued by the HOA Office similar to other penalties and authority the Office has with HOAs that don't register.

Reserve fund studies will be provided to HOA home buyers during the home closing process. DORA will develop a standard form to apprise home buyers of the status of reserve funds.

Excess HOA revenue in any given year can be used to replenish Reserve Funds or reduce or cancel any reserve fund special assessment.

Requires the declarant to provide a reserve study at the time the declarant turns the common interest community property over to the association, along with reserve funds recommended by the reserve study.

Reserve fund requirements pertain to all registered HOAs.

Reserve funds will not be used to finance new community improvements and amenities.

HOAs are not permitted to avoid reserve fund study requirements but can vote to approve or deny a special assessment proposed to fund the reserve fund.

HOAs will allocate at least 10% of homeowner assessment income to reserve funds. This percent can be reduced/adjusted as needed to attain reserve fund goals.

An HOA can take special action on the use and maintenance of community amenities in the event a reserve fund special assessment is not approved by the homeowners.

A semi-annual audit of reserve funds will be completed by the HOA and results posted on the HOA's web site, presented at an HOA community meeting and emailed to all homeowners.

An HOA can defer maintenance/replacement issues when such tasks were to be funded by reserves but the fund is deficient/special assessment has been voted down. All deferred maintenance/replacement of community property that would be financed by the reserve fund will be communicated to homeowners with an explanation of the deferred tasks, financial considerations in deferring tasks, when or if the deferred tasks will be completed/resumed and options available to gain funding for such tasks.

Homeowners can petition the Board to complete a reserve fund study or make a special assessment to create or replenish reserve funds at any time using vote by mail to authorize the study with a 50% plus one vote considered approving the petition.

Reserve funding of community assets will be based on the replacement cost of the asset(s)

An HOA can't acquire a loan to replenish reserve funds but will fund reserves via monthly assessments and special assessments.

Reserve funds will be deposited with a financial institution that is based in, registered in and regulated by Colorado government entities and not deposited in a financial institution in another state. Reserve fund investments are restricted to Federal financial instruments.

The specific use of HOA reserve funds will be described in the HOA Declaration including identifying all community assets related to reserve funding and the authority of the HOA Board to make decisions on delaying maintenance and availability of such assets in the event reserve funds are depleted to a level the assets are not functional or maintainable.