

SOUTH COAST HOMEOWNERS ASSOCIATION

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UPCOMING SOUTH COAST HOA MEETING – JANUARY 26

It’s time for our annual law and legislative update for the New Year. Our attorney panelists, James H. Smith (Grokenberger & Smith – Santa Barbara) and David A. Loewenthal (Loewenthal, Hillshafer & Rosen – main office Sherman Oaks) are planning to discuss numerous topics including:

- Senate Bill (SB) 150 – Applicability of Rental Restrictions
- SB 209 – Electric Vehicle Charging Stations
- SB 563 – Open Meeting Act, email, executive sessions, actions without a meeting
- Assembly Bill (AB) 771 – Documents to be provided to a buyer
- Numerous New California Court Cases affecting HOA Operations such as Architectural Guidelines, Maintenance Responsibilities, etc.

Compared to the past two years, there have been more significant changes made to the Davis-Stirling Act and the Civil Code which govern your association. Mark your calendars now.

Date – Thursday, January 26, 2012

Time – 7-9 PM (Refreshments 6:45!)

Place – Encina Royale Clubhouse - 250 Moreton Bay Lane, Goleta

(Fairview exit off 101 - north 2 blocks to Encina Road, right one block to Moreton Bay Lane - left into Encina Royale - clubhouse on the right just inside the entrance)

LEGISLATIVE CHANGE TO THE USE OF EMAIL BY ASSOCIATION BOARDS OF DIRECTORS – EFFECTIVE JANUARY 1, 2012

By: David A. Loewenthal, Esq.
Loewenthal, Hillshafter and Rosen, Attorneys at Law

Editor's Note: Mr. Loewenthal is a frequent contributor to South Coast HOA. He has been a presenter at our annual law updates (next one January 26 – see page 1) and has provided articles for our newsletter. This new law will be covered in more detail at the January 26 meeting. Here is a preview. His contact information appears at the end of the newsletter.

SB563: Notice/Meetings: SB563, which will be codified into Civil Code Section 1363.05, **will likely be the new law that affects Board of Directors, managers and the overall operation of an association the most going into 2012.** As we are all aware, current law sets forth requirements for meetings of the Board of Directors of the Association and requires notice of the time and place of a meeting of the Board of Directors to be given to the membership of the association at least 4 days prior to the meeting, except under very specific circumstances, i.e., an emergency meeting. SB563 will require a notice of the time and location for a meeting that will be held solely in executive session to be given to members of the association at least 2 days prior to the meeting, except for emergency meetings (1363.05(g)). The executive session board meeting must have an agenda; however, we would recommend that the agenda be very general, i.e., use the language of Section 1363.05 regarding executive session, i.e., litigation, contracts, member discipline, personnel matters, member assessment payments. Executive session board agendas will now be available to a member for inspection and copying if requested. The Bill also provides that if a member consents, notice may be given to the member electronically. The Bill also deletes provisions that would generally allow the Board of Directors to consider any proper matter at a meeting even if it had not been noticed as an action item for the meeting.

This Bill is also being viewed as the end of Boards conducting business via the use of emails. Since the inception of emails, many boards have operated and made decisions without a meeting via unanimous written consent of the entire board. As has been the case over the last decade, many statutes that are now signed into law pertain to the issue of transparency with respect to the information available to the member as to the governance of the association, obtainment of documentation, books, records, etc. SB563 is a progression of these earlier transparency laws.

SB563 does not necessarily preclude Board members from limited communication via email; however, the bills' clear intent is to prohibit decision making through the use of email meetings, with the exception of emergency meetings. Thus, it confirms that Boards may not take action outside of a duly noticed Board meeting, except as to those actions that have been delegated to the manager, officers or board committee (less than a majority of the Board).

Emails may still be used as a method of conducting an emergency meeting if all members of the Board, individually or collectively, consent in writing to that action, and if the written consent or consents were filed with the minutes of the meeting of the Board. Written consent to conduct an emergency meeting may be transmitted electronically.

Interestingly, SB563 will allow meetings to be conducted by the Board via a teleconference as

long as it is an open meeting and would allow owners to attend the meeting via telephone or video conference. As such, in the event that a meeting will be conducted via a teleconference, there must be a minimum of one physical location that members may go to in order to listen and participate in the meeting and at least one member of the Board of Directors must be physically present at that teleconference site. (Civil Code Section 1363.05(b)).

Violation of any of these provisions could allow a civil claim by an owner. If an owner prevails, he would be entitled to reasonable attorneys' fees and costs and up to a \$500 per violation penalty. An Association is not entitled to attorneys' fees and costs if it prevails, unless it can show that the lawsuit was frivolous.

WHAT IS YOUR NEW YEAR'S RESOLUTION?

How About a Healthier, More Affordable, and Valuable Home for You, and Some Solar for Your Association?

By Mike Hackett, NRG Answers, LLC, *energy savings management*

Editor's Note: Mr. Hackett and his firm are new members of South Coast HOA. Mr. Hackett had experience working with HOAs in Oklahoma prior to moving to our area several years ago. For questions please contact Mike Hackett, NRG Answers, LLC, mike@nrganswers.com, 805.403.6450.

So, you recycle your Christmas tree, the wrapping paper, and everything you can, turn down the thermostat, forego the AC, and consider yourself both energy and environmentally conscious. Good and valuable actions.

But, when it comes to significant improvements to your home, its energy efficiency and overall comfort, what actions have the greatest impact?

Experts say a simple, but thorough, home energy audit, followed by a "tune up" of the heating and ventilation systems, sealing the ducts and infiltration areas is almost always the easiest and least expensive way to improve your home's living environment and reduce your utility bills.

Did You Know?

- *25-50% of energy loss in most homes is caused by leaks in the building envelope*
- *Up to 60% of your indoor air can be drawn from your attic and crawl space, reducing the air quality in your home*
- *Duct leakage accounts for a loss of 15 – 25% of the energy consumed by your home's heating & cooling system*
- *Utility costs have increased 34% since 2002, with further rapid increases projected as fossil fuel prices escalate.*

Advantages of An Upgrade

You enhance the comfort of your home, increase its efficiency, and reduce your energy bills all at the same time when you pursue a focused home energy upgrade.

Cost Of An Home Energy Audit

The cost of an audit will depend on the size of a home, but for HOA residences can be quite reasonable, often with group discounts available. This expense can be quickly recovered in lower utility bills, and the benefits of enhanced comfort, and a healthier living environment.

Should you decide to replace windows, doors, your heating or air conditioning systems, or other appliances, then you can assess each action individually for expected efficiency gains versus expense, and paybacks, and decide which, if any, steps are right for you and your budget.

Financing - Rebates Available, Others Are Taking Advantage, Why Aren't You?

Many homeowners can pay for a home energy improvement project outright. But, both State and County incentives and financing programs can make your decision infinitely easier. Rebates of up to \$4,000, available through local utility companies, make these projects even more affordable. www.energyupgradeca.org.

emPowerSBC, a financing program recently started by Santa Barbara County, works with 2 local credit unions to arrange low interest loans for residences, both within and outside Santa Barbara and Goleta city limits, to support home energy improvements of up to \$25,000, including solar panels. www.empowersbc.org

Why not take advantage of these programs funded by your taxpayer dollars, lower your utility bills, and enhance the comfort of your home all at the same time? These rebates, incentives, and lower financing terms have a limited shelf life. Better to act now before they expire.

Other Advantages - Besides Your More Comfortable, More Affordable Home

- Protects the value of your largest asset – your home
- Lowers your maintenance costs
- Re-Financing – becomes easier, often with more attractive terms
- When you decide to sell
 - Your listing price is higher
 - Your selling price is greater
 - Your home spends less time on the market
 - Your home/unit is distinguished from similar properties by its energy saving features

Solar for Your HOA – Pool, PV, Both?

Solar, both for pooling heating, and electricity (PV) to reduce the energy costs of irrigation systems or other uses, are worth investigating. Incentives are still available.

Why Pool?

Solar pool heating will normally pay for itself within 2 swim seasons. Enjoy the pool with little or no energy costs during the summer. More importantly, your pool will be comfortable. Those members who want to swim first thing in the morning can do so, without complaint. Members who like to swim for exercise, or therapy, or just to relax will appreciate a new solar pool heating system, and so will their family, friends, and guests. Systems can be customized to fit the size of your pool. The reduced operating costs will make your pool, often underutilized, a real asset for your association, and help protect the association from rising energy costs.

Why Solar Panels?

Often overlooked by HOAs are the advantages of a solar panel system to provide power for the association's irrigation pumps, parking structure or outside lighting, clubhouse, or other common area energy demands. Solar panels can make a huge dent in your association's energy bills. Panel selection, concentrating on efficiency, is a major factor. Sizing the PV solar system is critical.

The Solar Evaluation Process

A proper solar assessment will determine whether an HOA's pool is a good candidate for solar pool heating, or whether the irrigation system or other energy consumers will make solar PV worthwhile. Exposure to the sun's rays, also known as insolation, is an essential factor. Shading reduces the efficiency of both solar pooling heating systems and solar panels. An expert on site evaluation is required.

What Can/Should You Do?

- For Your Home
 - Schedule a home energy audit
 - Discuss the results with the home energy specialist
 - Understand the available incentives and financing
 - Prioritize your energy savings projects
 - Decide what changes fit your budget
 - Do the installations
 - Enjoy the savings, and enhanced comfort of your energy efficient home

- For Your Association
 - Schedule a solar pool and electricity assessment
 - Discuss the results with the solar specialist
 - Understand the incentives and financing options available to HOAs
 - Share the assessment, energy savings, and financing information with your Board
 - Determine if a solar pool, or PV installation, or both, are sound investments for your HOA
 - Approve installations that
 - will significantly reduce the HOA's energy bills
 - improve and protect the quality of its assets
 - enhance the use and enjoyment of the members

South Coast Homeowners Association – January 2012
YEAR-END FINANCIAL AND TAX NOTES

By: Michael J. Gartzke, CPA

Get Balances on Certificates of Deposit Now!: Approximately 70-75% of associations have a calendar year-end (December 31) for income tax purposes. As part of the tax preparation and/or financial statement development for the year end, bank balances need to be verified and interest (such as it is) posted. Many banks have stopped issuing monthly or quarterly statements for their CDs. Some will allow you to access information online, if you are set up for it. Your accountant will need this year-end bank statement to review/audit your financial statements and/or prepare your tax returns. The first half of January is a great time to contact the banks and have them fax or email account statements and interest information to you. 1099s issued by banks usually do not show account balance information, only interest earnings during the year.

CPA Review Required when Revenues exceed \$75,000 annually – if an association receives \$75,000 or more in revenue (assessments, interest, laundry, etc.) during the year, California Civil Code Section 1365(b) requires that the Association have its financial statements reviewed in accordance with generally accepted accounting principles by an independent certified public accountant

FDIC Limit of \$250,000 is now Permanent – The increased FDIC limit of \$250,000 per “depositor” (not account) has been made permanent. You will have FDIC insurance on all bank accounts which aggregate \$250,000 or less at one financial institution. Please note that some brokerage money markets (e.g. Fidelity, Schwab) are not insured by the FDIC. Also, some of these money market accounts have been paying minimal interest (0.01%). While banks aren’t paying much, they usually are paying more than 0.01%.

Federal Tax Deposit Coupons Discontinued – Many of you received a notification from the IRS to enroll in the Electronic Federal Tax Deposit Payment System (EFTPS). This is due to corporations and other business no longer being able to send income tax payments to your bank or Federal Reserve Bank starting January 1, 2011. While there is a small balance exemption for payroll taxes, the exemption does not apply to small Federal income tax balances. Associations will have to enroll in the IRS EFTPS program, if you have not already done so. Estimated tax payments are subject to this new system, as well. Follow the instructions on the form to enroll. Customer service is available at 1-888-434-7338. You will need a personal ID # (PIN), your tax ID #, bank account information and a primary contact phone number to enroll.

1099 Filing Requirement – Homeowner Associations continue to have a filing requirement with the IRS for payments made to service providers during calendar year 2011. Requirements for filing 1099s for these payments are:

- Total Paid \$600 or more during the year
- The service provider was not a corporation
- Paid for services such as landscaping, maintenance, repairs, professional services, etc.

You will need the provider’s name, address, tax ID # or social security number. If a social security number is used, then the 1099 is issued in the person’s name, not the name of the business. If you have financial management or bookkeeping services, then your professional

should prepare the 1099. In some cases, your tax preparer can prepare them but only if you ask them to. This is not part of tax preparation services. Forms are due to the service providers by January 31. If you are responsible for preparing the forms, forms can be ordered (not downloaded) from the IRS at www.irs.gov or available for pick up at a local IRS office. Some tax preparers will stock the forms.

New California Nonprofit Corporation Reporting Requirement – The Franchise Tax Board has established a new reporting requirement for small nonprofit corporations with revenues less than \$25,000 per year. This new requirement can affect small homeowner associations with assessments and other income below \$25,000. It does not change anything for associations with more than \$25,000 in revenue. Previously, if an association had nonmembership income of less than \$100 and revenues of less than \$25,000, it did not have a tax filing requirement with the Franchise Tax Board. Now, these small nonprofits must complete an online form 199N with the FTB (www.ftb.ca.gov) or submit Exempt Organization form 199 as a paper return like exempt organizations with receipts greater than \$25,000. Information needed to file 199N:

- California Corporation Number
- Entity name of the organization
- Federal employer identification number
- Account period beginning and ending (also known as your tax period / tax year)
- Entity's mailing address
- Any other names the organization uses
- Name and address of a principal officer
- Entity's amount of total receipts (the gross receipts must be \$25,000 or less)
- If the organization terminated or went out of business, if applicable
- If the entity started business within the current account period
- Contact person's name and telephone number

HOA FINANCIAL DATA COMPARISONS AND TRENDS RESEARCH PROJECT

By Michael J. Gartzke, CPA

Author's Note: I prepared this article for the 2011 Common Interest Realty Association Accounting Conference presented by the California CPA Education Foundation. Additional information about this conference appeared in the December 2011 newsletter.

I have been providing accounting services to homeowners associations since 1986. Since that time I have performed many review engagements for associations in southern Santa Barbara County (primarily from Goleta, Santa Barbara, Montecito and Carpinteria). Over the years, I

had received numerous inquiries from board members, managers, etc. as to how their association(s) compared to other associations in the area. At the time, I could share my perceptions of the trends and how their associations compared with others, but I did not have data to support my opinion.

To address this issue, in 2005, I developed a spreadsheet that captured annual data from each association’s reviewed financial statements. From that database, I prepared a one-page analysis showing minimum, maximum and median amounts for a number of association financial categories such as cash per unit, fund balances, expenses by major category, regular monthly assessment, reserve fund assessment and more. During the review engagement, I would update the spreadsheet and print the analysis showing that association’s data against the totals at that time.

Several years later, I added a pie chart showing how the association’s assessment was allocated among five major categories – utilities, insurance, common area maintenance, general and administrative expenses and reserve funding. I also added a bar chart showing their data, measured on a per unit per month basis, compared to the median (half above and half below) so that I could easily show an association if they were above or below the median amounts of their peers.

Comparing one association to another can be difficult. I use these comparisons to highlight the differences between them. For example, an association might have master-metered interior water included in their assessment, increasing utility costs. A planned development may not carry insurance on the dwelling units. Another may have security services at its entrance gate. Common area (and reserve components) can be vastly different as well. Not all associations have pools. Some are built on public streets while others have extensive private roads and parking areas. Some associations are responsible for building maintenance. Others do not.

It has been six years since I started the database of my client associations. There were 55 review engagements at that time. There are now 68. Fifty of the original 55 are still in the database so 18 have been added since then. The median sized association has changed very little, ranging between 45 and 50 units during the 6-year period. The average year built is 1979-1980.

A common complaint among association members is that their assessment is increasing at a rate greater than the Consumer Price Index. Does the mix of utility costs, insurance, common area services and aging buildings correlate to the CPI to some degree?

To start with, here is the data description and CPI rates for tax years 2005- 2011.

| | 2005 | 2006 | 2008 | 2009 | 2010 | June 2011 | Percent Change |
|---------------------------|-------------|-------------|-------------|-------------|-------------|------------------|-----------------------|
| Number of Associations | 55 | 60 | 63 | 64 | 68 | 67 | |
| Median Size (units) | 50 | 45.5 | 48 | 47 | 49 | 50 | |
| Average/Median Year Built | 1979 | 1979 | 1980 | 1979 | 1980 | 1980 | |
| CPI - LA Urban/Clerical | 188.5 | 196.5 | 202.9 | 212.3 | 211 | 218.2 | 15.8% |

Some additional information to note –

- 2011 column will still have data from the end of 2010 if the association’s review had not been completed by June 30. This is true for nearly all fiscal year reviews and some December 31 reviews.
- 2007 annual data was not available. This does not affect comparisons from 2005’s data to current data.
- Each annual column will contain the prior year’s historical data from the review engagements. For example, the 2005 column contains year ended December 31, 2004 data and fiscal years ending in 2005.

The tables that follow track the data and trends associated with common measurements from association financial statements.

- Cash
- Assessments Receivable (in bad debt section)
- Fund Balances
- Assessment Income
- Investments Rate of Return
- Operating Expenses
 - Utilities
 - Common Area Maintenance
 - Insurance
 - General and Administrative

| Cash per Unit: | 2005 | 2006 | 2008 | 2009 | 2010 | June 2011 | Percent Change |
|-----------------------|-------------|-------------|-------------|-------------|-------------|------------------|-----------------------|
| Median | \$2,966 | \$3,093 | \$3,912 | \$3,830 | \$4,301 | \$4,563 | 53.8% |
| Average | 3,580 | 4,396 | 4,536 | 5,838 | 6,098 | 6,321 | 76.6% |
| 75 Percentile | 4,175 | 5,291 | 5,855 | 6,078 | 6,514 | 6,514 | 56.0% |
| 25 Percentile | 2,125 | 2,125 | 1,954 | 2,543 | 3,062 | 3,190 | 50.1% |

Combined cash (operating + reserve) balances improved substantially. The median association cash balance increased by nearly \$1,600 per unit. The “75 Percentile” line represents the amount where 75 percent of the associations are at or below. The “25 Percentile” line represents the amount where only 25 percent of the associations are below.

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| Operating Fund per Unit | 2005 | 2006 | 2008 | 2009 | 2010 | June 2011 | Percent Change |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|------------------|-----------------------|
| Median | \$200 | \$171 | \$215 | \$260 | \$469 | \$498 | 149.0% |
| Average | 248 | 280 | 197 | 312 | 591 | 637 | 156.9% |
| 75 Percentile | 361 | 414 | 474 | 657 | 815 | 892 | 147.1% |
| 25 Percentile | 44 | 32 | 8 | 59 | 167 | 188 | 327.3% |
| Negative – Associations | 12 | 14 | 16 | 12 | 6 | 8 | |

Operating Funds are operating assets (cash, net receivables, prepaid expenses) less operating liabilities (accounts payable, prepaid assessments, funds borrowed from reserves, etc.). Substantial improvement was noted here as well. The number of associations with negative operating fund balances (liabilities greater than assets) decreased from 16 at the end of 2008 to 8 currently.

| Reserve Funds per Unit | 2005 | 2006 | 2008 | 2009 | 2010 | June 2011 | Percent Change |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|------------------|-----------------------|
| Median | \$2,658 | \$2,886 | \$3,362 | \$3,543 | \$3,893 | \$3,987 | 50.0% |
| Average | 3,199 | 4,308 | 4,222 | 5,689 | 5,684 | 5,893 | 84.2% |
| 75 Percentile | 3,664 | 4,836 | 5,160 | 5,848 | 5,810 | 6,230 | 70.0% |
| 25 Percentile | 1,832 | 1,972 | 1,937 | 2,302 | 2,673 | 2,673 | 45.9% |
| Negative balances | 1 | 0 | 2 | 0 | 0 | 0 | |

Nearly all of the associations have a professional reserve study prepared in accordance with the Civil Code. Most are prepared by a reserve specialist. Most are funding in accordance with the reserve specialist's recommendation. In spite of the current state of the economy and the difficulty in collecting assessments, these associations have substantially increased their reserve funds in the past six years as more associations have become aware of the importance of reserves.

| Operating Assessment: | | | | | | | |
|------------------------------|-------------|-------------|-------------|-------------|-------------|------------------|-----------------------|
| Per Unit Per Month | 2005 | 2006 | 2008 | 2009 | 2010 | June 2011 | Percent Change |
| Median | \$229 | \$234 | \$273 | \$281 | \$287 | \$289 | 26.2% |
| Average | 247 | 295 | 325 | 334 | 346 | 347 | 40.5% |
| 75 Percentile | 275 | 313 | 330 | 354 | 371 | 367 | 33.5% |
| 25 Percentile | 176 | 177 | 217 | 226 | 240 | 233 | 32.4% |
| Percent of Total Assessment | 75.1% | 77.2% | 75.4% | 74.9% | 74.5% | 74.4% | |

To keep pace with rising costs and to increase fund balances, operating assessments increased between 26% (median) and 40% average during the six year period. Increases leveled off over the past 2 years. Operating assessments make up approximately 75% of the total assessment but this allocation can fluctuate between 50 and 90%.

| Reserve Assessment: | | | | | | | |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|------------------|-----------------------|
| Per Unit Per Month | 2005 | 2006 | 2008 | 2009 | 2010 | June 2011 | Percent Change |
| Median | \$78 | \$74 | \$86 | \$101 | \$101 | \$103 | 32.1% |
| Average | 79 | 78 | 96 | 106 | 108 | 110 | 39.2% |
| 75 Percentile | 104 | 104 | 132 | 135 | 142 | 143 | 37.5% |
| 25 Percentile | 53 | 50 | 60 | 68 | 69 | 67 | 26.4% |
| Percent of Total Assessment | 24.9% | 22.8% | 24.6% | 25.1% | 25.5% | 25.6% | |

Allocations for the reserve portion of the regular assessment increased by amounts similar to that of operating assessments. The median amount increased \$25 per month while the average increased \$31.

| Total Assessment: | | | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|-------------|------------------|-----------------------|
| Per Unit Per Month | 2005 | 2006 | 2008 | 2009 | 2010 | June 2011 | Percent Change |
| Median | \$301 | \$318 | \$364 | \$377 | \$394 | \$400 | 32.9% |
| Average | 327 | 373 | 420 | 440 | 454 | 457 | 39.8% |
| 75 Percentile | 390 | 405 | 480 | 495 | 505 | 501 | 28.5% |
| 25 Percentile | 245 | 238 | 290 | 300 | 320 | 320 | 30.6% |

This is probably the most popular metric reported to the associations each year – how their regular assessment compares to the median. Since 2005, the median has increased by \$99 per month, a nearly one-third increase. The CPI for the same period went up less than 16% so the median assessment increased by an amount twice the inflation rate.

| Special Assessments - Associations | 2005 | 2006 | 2008 | 2009 | 2010 | June 2011 |
|---|-------------|-------------|-------------|-------------|-------------|------------------|
| | 5 | 12 | 11 | 14 | 9 | 6 |

Special assessments arise for a number of reasons. After Hurricane Katrina, insurance premiums for some associations increased substantially that were not budgeted for at the beginning of the year. One local water district increased rates for condominiums by \$30/unit per month mid-year. This resulted in several special assessments. Major maintenance

projects are also subject to special assessments. It appears that some associations may be electing to defer major maintenance projects subject to special assessment as a result of current economic conditions.

| Investment Income: | 2005 | 2006 | 2008 | 2009 | 2010 | June 2011 |
|---------------------------|-------------|-------------|-------------|-------------|-------------|------------------|
| Median | 1.29% | 1.75% | 2.86% | 1.91% | 1.22% | 0.83% |
| Average | 1.50% | 2.23% | 3.68% | 2.11% | 1.20% | 0.98% |

Back in 2004-05, we saw interest rates drop to what we thought were historical lows. Associations earned less than 1.5% on their cash that year. Rates increased until the upheaval in the financial markets in the fall of 2008. Since then, interest rates on cash investments have continued their freefall. Even with only half the year completed for 2011, the median and average rates dropped further to less than 1%.

Operating Expenses:

When I prepare financial statements, I categorize operating expenses into one of four main categories – utilities, common area maintenance, insurance and general and administration. I format the income statement to subtotal expenses by these main categories which facilitates developing the data shown below. Expenses such as income taxes and bad debt expense become part of administration while security services are usually included under common area costs.

| Utilities: | | | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|-------------|------------------|-----------------------|
| Per Unit Per Month | 2005 | 2006 | 2008 | 2009 | 2010 | June 2011 | Percent Change |
| Median | \$63.20 | \$64.39 | \$71.70 | \$71.39 | \$69.04 | \$66.54 | 5.3% |
| Average | 61.86 | 65.12 | 74.80 | 74.63 | 69.54 | 66.82 | 8.0% |
| 75 Percentile | 83.06 | 90.80 | 104.35 | 108.72 | 97.70 | 96.94 | 16.7% |
| 25 Percentile | 37.91 | 37.95 | 48.12 | 45.71 | 37.66 | 37.66 | -0.7% |

Surprisingly little has changed in this category of costs. Municipal utilities such as water and trash have increased steadily in recent years. Wet winters help reduce common area water costs. Natural gas costs spiked after Katrina but have stabilized recently. Electric costs have also remained stable. I recently consulted with an association that was considering establishing a solar electric production facility. The sales personnel worked up numbers based upon a 5% annual increase in electric rates. A review of the past 15 years of electric bills showed an average increase of 1% per year in the association’s electric costs. Conservation measures can also play a role in reducing costs.

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| Common Area Maintenance | | | | | | | |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|------------------|-----------------------|
| Per Unit Per Month | 2005 | 2006 | 2008 | 2009 | 2010 | June 2011 | Percent Change |
| Median | \$93.31 | \$94.61 | \$99.09 | \$92.73 | \$102.84 | \$102.22 | 9.5% |
| Average | 111.78 | 138.58 | 145.95 | 149.17 | 156.07 | 157.23 | 40.7% |
| 75 Percentile | 127.21 | 151.25 | 159.99 | 152.80 | 157.29 | 158.18 | 24.3% |
| 25 Percentile | 70.04 | 65.81 | 67.42 | 72.06 | 76.15 | 77.61 | 10.8% |

Although the median amount hasn't changed much, the average cost has gone up 40%. Associations with higher monthly assessments tend to have them because of the common area services and responsibilities they have, such as landscaping, building maintenance and amenities.

| Insurance | | | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|-------------|------------------|-----------------------|
| Per Unit Per Month | 2005 | 2006 | 2008 | 2009 | 2010 | June 2011 | Percent Change |
| Median | \$48.64 | \$54.22 | \$63.42 | \$59.64 | \$64.94 | \$64.30 | 32.2% |
| Average | 57.59 | 69.45 | 76.89 | 73.88 | 75.07 | 74.86 | 30.0% |
| 75 Percentile | 73.78 | 79.40 | 100.88 | 87.74 | 93.26 | 93.26 | 26.4% |
| 25 Percentile | 35.66 | 38.53 | 49.30 | 46.10 | 45.47 | 41.81 | 17.2% |

Insurance premiums jumped dramatically after Hurricane Katrina in the summer of 2005. Premiums have stabilized or decreased for many associations in the past year or two but are still 30+% higher than six years ago. Some associations made changes in their coverages.

| General & Administrative | | | | | | | |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|------------------|-----------------------|
| Per Unit Per Month | 2005 | 2006 | 2008 | 2009 | 2010 | June 2011 | Percent Change |
| Median | \$23.98 | \$26.04 | \$31.52 | \$37.26 | \$35.24 | \$34.99 | 45.9% |
| Average | 30.81 | 34.99 | 47.20 | 46.43 | 46.41 | 47.02 | 52.6% |
| 75 Percentile | 33.29 | 38.92 | 46.17 | 47.44 | 51.08 | 52.07 | 56.4% |
| 25 Percentile | 19.92 | 20.08 | 23.44 | 24.72 | 27.09 | 27.87 | 39.9% |

I was surprised how much this category had increased since 2005. As noted earlier, bad debt expense is included here and several thousand dollars of uncollectible assessment can have a significant impact on costs. Legal rates (and fees) are increasing. Are accounting fees?

At the conclusion of each review engagement, I provide the association with comparative data and graphs to help explain where they rank compared to other area associations. Association clients have told me that having this information from their accountant provides the Board with a credible defense of their budgetary policy in the eyes of their membership.

SOUTH COAST HOA WEBSITE UPDATED

The South Coast HOA website has been updated for our content as well as links to other HOA sites and information. Here's a sample of what you'll find at www.southcoasthoa.org

You remember there was an article in the newsletter but can't remember what issue - go to this link for a table of contents for newsletters from 2005 - date

<http://www.southcoasthoa.org/newsletter-content/>

You would like to retrieve a prior newsletter or simply review its content (or download/print) - All newsletters from 2000-2011 are here:

<http://www.southcoasthoa.org/prior-year-newsletters/>

Older newsletters - 1999-2005 - are indexed by subject

<http://www.southcoasthoa.org/documents/schoa-newsletter-index.pdf>

You are looking for professional services. Our newsletter sponsors appear at the end of each newsletter as well as here

<http://www.southcoasthoa.org/professional-sponsors/>

You want to look up something in the Civil Code or want to know the status of pending legislation or review a draft of proposed legislation or new laws. The California Legislature website has that information. See the California Legislation link on our site

<http://www.leginfo.ca.gov/>

Regional, Statewide and National HOA groups have information on their websites that you can access. These links also appear on our site

Executive Council of Homeowners (ECHO) - <http://www.echo-ca.org/>

Community Associations Institute - National (CAI) - <http://www.caionline.org/>

CAI - Channel Islands Chapter - <http://www.cai-channelislands.org/>

CAI - Legislative Action Committee - <http://www.caicalif.org/>

I often wonder how often the site is accessed. I do know that I have been contacted by people around the country who have found the site via google and/or other search engines. I hope you find it useful. Please share this information to those associations who are not members.

A membership application appears on our site - <http://www.southcoasthoa.org/membership-application/>

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