Private communities face risk

Many homeowner groups flirt with fiscal disaster by failing to spend adequately on upkeep.

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SACRAMENTO -- "Welcome to our neighborhood," reads the sign in the development once known as Franklin Villa. "No gangs. No drugs. No guns."

What started 35 years ago as a pleasant community run by a private homeowners association has become an object lesson in the worst that can happen when such a neighborhood starts to unravel.

Its original owners moved out, new owners failed to maintain the property, neglect accelerated into falling property values, then crime and eventual collapse. Now, state and local taxpayers are paying $80 million to turn it into a nonprofit housing complex called Phoenix Park.

While extreme, it could be the fate of thousands of privately run communities throughout the nation that are flirting with declines by failing to spend adequately on upkeep, even as owning a home in private communities has become the nation's fastest-growing lifestyle.

Amid more than 260,000 private communities nationally and 36,000 in California, at least one-third have steadily put off raising necessary assessments for fear of political conflict, and now need repairs and face-lifts for which they significantly lack money, say those who monitor homeowner association finances.

"If you give me a list of 30 names, 10 are on the list," says Robert M. Nordlund, owner of California's Association Reserves Inc., which analyzes private communities in 41 states, Canada and Mexico. For those 10, he said, "the deficit is so significant they'll need one or more special assessments to make it up."

In Tampa, Fla., Len Colodny, president of the Lake Place Condominium Association, faces the challenge of asking the residents of his neighborhood to pay a one-time special assessment of up to $4,000 per home to pave streets, rebuild a wall and make other repairs caused by years of deferred maintenance.

Colodny says he expects significant opposition from fellow residents of his 18-year-old, 90-home complex, but adds, "If you can't afford to take care of the place, you can't afford to live here."

One-half to three-fourths of the state's older private communities have reserve funds too small to meet their physical needs, Colodny estimates, saying that newer developments "can get away with lower maintenance. But if they haven't been saving up they're going to run into that cycle, too."

The trend, especially in older privately run neighborhoods, represents a striking parallel to the financial deficits plaguing local and state governments. As the public sector has delayed maintenance, many private association boards also are watching streets, pools, balconies, siding and clubhouses slowly deteriorate while their reserve funds contain half or less of the money needed to eventually fix them. And just as city halls and statehouses fear raising taxes, voluntary, often-inexperienced association boards fear the wrath of homeowners over possible higher assessments.

As a result "they tend not to do that, or raise them in very small increments," says Tyler Berding, a California attorney who specializes in private communities.

Many states lack reserve fund requirements for privately run communities, while those with laws typically set few requirements.

In Florida, which with California contains 40% of the nation's condominium communities, association boards must calculate appropriate reserve funding. But a majority vote among members can block the assessments needed to reach it.

There, Nordlund says, older residents of such neighborhoods tend to think, "Why do I care about the roof in five years?"

But underfunded reserves could threaten the 40-year-old culture of living in a privately run neighborhood, which is where 80% of all new homes are built nationally, according to the Community Associations Institute of Alexandria, Va. The group, which advises association-governed communities, estimates that 50 million Americans -- nearly one in six -- live inside such communities with half paying between $100 to $200 a month to maintain them.

In California, private communities with monthly or yearly dues now contain more than 25% of the state's 12 million places to live and 60% of its new housing. Many of the state's 477 cities encourage privately run communities inside their boundaries because they build and maintain their own streets and parks, even as their residents also pay property taxes to support city facilities.

Though newer communities need fewer repairs and typically have up to 80% of what they need to keep up appearances, they also can run into trouble if their developers set assessments too low to maintain them.

That happened to Ken Nelson, a small businessman and the first president of the 256-home Wolf Creek Estates Homeowners Association in Plano, Texas, where he says the association "ran out of cash 60 days after I was elected."

The developer had set annual dues at $420. "From the day I got elected that was my No. 1 issue," Nelson says. "The crowning achievement of my life is an 83% vote to double our dues."

But such votes typically are more critical for private neighborhoods built during the 1970s and early 1980s.

A recent study by the Oakland accounting firm Levy and Co. estimated that reserves for communities more than 21 years old -- nearly half the private neighborhoods in California -- are typically about 40% funded. Experts recommend at least 70% and many prefer 100%.

Low interest rates have kept reserve funds from building in recent years. Associations can foreclose on homeowners who don't pay their dues, so residents often are wary of raising them.

That means new buyers most likely will have to pay higher fees to compensate for what previous owners failed to assess themselves, experts say.

Community Associations Institute officials say they don't think the problem is that serious in California. But new buyers' complaints have prompted California real estate agents to push for rules that better warn potential home and condominium buyers of a private community's true financial picture.

They say they've been stung by clients' unhappiness over unexpected bills to fix shared facilities within a year or two of moving in.

New legislation by Assembly Member John Laird, D-Santa Cruz, would make private communities offer easy-to-grasp snapshots of their finances and assessments. The bill faces its first hearing Wednesday.