



The Oaks Community Association

5607 Jackson Valley Road • Lone, Ca. 95640-9629

Phone 209-274-6056 Fax 209-274-6058

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BOARD OF DIRECTORS MISSION STATEMENT – JULY 2020

The mission of the Oaks Community Association Board of Directors is to provide its members and residents with a secure and pleasant place in which to live, or invest, and a place that will retain or increase the value of the real property in which they have invested.

The Board is chartered with upholding and revising, as is appropriate, all governing documents of the Association, along with fiscal reviews, budgeting and responsibility in order to maintain and improve the community quality and improvements short term and plan appropriately for long term.

BOARD OF DIRECTORS QUALIFICATIONS

3.2 Candidate and Director Qualifications. Members must meet the qualifications in the subsections hereafter to be eligible for nomination as a candidate for, or to serve as a Director, on the Board. a. *Candidates Must be Members.* The Association must disqualify the nomination of a candidate who is not a Member of the Association at the time of nomination.

b. *Prior ownership for One Year.* To be eligible for nomination and/or to serve on the Board, a candidate for the Board or serving as a Director must be the record Owner of a Separate Interest for a period of at least one year, proof of which must be a recorded deed. Persons holding a fee simple interest in a Separate Interest merely as security for the performance of an obligation are not eligible to either be a candidate for or to serve on the Board.

c. *Member in Good Standing.* To be eligible for nomination and/or to serve on the Board, the person or impersonal entity must not be delinquent by more than sixty (60) days in the payment of any regular or special Assessment (following proper notice, hearing, and a finding by the Board), except: i. A person may not be disqualified from nomination for nonpayment of fines, fines characterized as assessments, collection charges, late charges or costs levied by a third party.

ii. A person may not be disqualified from nomination because the person has paid the regular or special assessment under protest.

iii. A person may not be disqualified from nomination due to delinquent assessments if the person has entered into a payment plan with the Association pursuant to Civil Code §5665 and is fulfilling the terms of the payment plan.

d. *Co-Owners Eligible for Only One Position.* To be eligible for nomination and/or to serve on the Board, the person or impersonal entity must not have a record fee simple ownership interest in a Separate Interest which is part of the Development with another person or impersonal entity concurrently serving as a Director. Where two or more co-owners concurrently seek election to the Board, only the first nomination will be effective.

e. *Criminal Conviction.* A person who has disclosed, or concerning whom the Board has become aware, of a past criminal conviction that would, if the person is elected, either prevent the Association from purchasing the fidelity bond coverage required by Civil Code Section 5806, or any successor statute, or which conviction would cause such coverage to be



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terminated, is ineligible for nomination to the Board. Each nominee, at the time of nomination, shall disclose the existence of any past criminal conviction and the details thereof, with sufficient details in order to allow the Association to determine whether the criminal conviction will prevent the Association from purchasing the required fidelity bond coverage.

f. *Internal Dispute Resolution.* Before any candidate for nomination or serving Director may be disqualified, the person or impersonal entity must be provided the opportunity to engage in internal dispute resolution as provided in the Davis-Stirling Act.

BOARD RESPONSIBILITIES

Many new board members want an introductory guide that states in one place what are their duties and by what authority do they operate. This article discusses general concepts and law related to the powers and duties of association boards. You should be aware that the law differs between the various states, and therefore a board member should seek legal advice before acting.

Complying with Governing Documents and State Law

Each board member should know the sections of their state law that apply to HOAs (for California, it's the [Davis-Stirling Act](#)). For condominium associations, the State statutes on condominiums must be strictly followed. He or she must also follow faithfully the governing documents of the association. Board members must be familiar with the declaration or CC&Rs, the bylaws, and other controlling documents which form a contract among the homeowners within the HOA. Sometimes the governing documents will conflict with the provisions of the State statutes. In general, the condominium or association statutes will prevail over conflicting provisions of the declaration or bylaws (except when the statute specifically authorizes the declaration or bylaws to do otherwise).

The declaration or covenants generally rule over conflicting provisions of the bylaws, and the bylaws generally govern over conflicting provisions of any rules and regulations or house rules adopted by the board. Although at first the concept of following the law and governing documents may appear simple, in practice this can be a difficult and confusing undertaking, and it may require professional assistance.

Maintaining the Common Areas

One of the main function of most HOAs is the repair and maintenance of common areas and building exteriors. The maintenance responsibility for an association is established in the declaration or bylaws. In most associations, those parts of the property that are shared between the home owners are maintained by the association. Responsibility for those portions of the property over which an owner has an exclusive right to use or possess will fall upon the individual owner. Learn more about the differences in [HOA and homeowner maintenance responsibility](#).

In almost every HOA, there seems to be unlimited needs and desires among the membership for repair and maintenance work. The difficult task for the board is to prioritize these tasks and decide how and when the various maintenance tasks are to be performed. This means that the board must become familiar with the property and what is needed. Then, the board must carefully consider what are its budgetary restraints. Finally, the board must [develop a plan for meeting its responsibilities](#). The plan should include periodic inspections of the property, a schedule for performing various repair and maintenance tasks in an orderly and comprehensive manner, and a plan for emergency expenditures. If



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the board does not plan adequately, what typically occurs is a breakdown of various components and an onslaught of emergency expenditures.

For example, if the board delays replacement of a roof, it may find that it is spending an inordinate amount of money patching a deteriorating roof on an emergency basis. Over time, the cost of patching can become more expensive than the re-roofing job would have been in the first place. A great deal of money could be saved by careful planning.

Managing Budgets and Assessments

Related to the duty to maintain the property is the duty to adopt budgets and collect assessments from the homeowners. In a way, an HOA is merely a conduit for the homeowners to pay for the various expenses of operating the property.

Establishing a Budget

In order to determine the budget and monthly assessment, the board must decide what are the necessary expenses and costs of operation and administration, plus a reasonable reserve. The monthly assessment is then determined by dividing the annual budget among and between the unit owners, but we'll discuss this more later.

The budget process must involve a careful review of past budgets and the actual costs, plus a careful examination of anticipated costs and expenses, including obtaining bids and quotes for various services (such as landscaping, laundry, etc.). Of course, in determining the budget the board must also consider the amount of money that can reasonably be collected from the homeowners.

The amount of the monthly assessment cannot be so high that it will negatively affect the property values in relation to other HOAs in the area or cause economic hardship to the owners. At the same time, the assessment cannot be so low that the HOA is unable to meet its basic responsibilities for repair and maintenance of the property, to keep the property in good condition, and to have an adequate reserve for emergencies and future repair or replacement.

The Importance of Reserves

The issue of reserves is often neglected by the board. It is not enough for the board to budget for the existing costs and expenses, but it must establish a reserve for three purposes.

Emergencies - Unless the board has a fund from which to handle emergency or unexpected costs, the association will be vulnerable. The board must assume that some unexpected expenditures will be necessary.

Deferred Repair or Replacement - The board must find out the estimated useful life of its structural and mechanical components, surfaces of the buildings and common areas, energy systems and equipment, and then determine a reasonable amount for the owners' monthly contributions to a reserve. Unless this reserve is established, the homeowners who use the property will not be contributing towards the replacement of the property in the future, leaving future owners with the full cost of major repair or restoration (such as roofing, paving, siding, HVAC, and other major components). The most fair way of handling deferred maintenance (and one that keeps the assessments from going too high) is for the board to divide the cost of future repairs between the current owners (through a reserve or through financing



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whereby the cost of restoration is spread out over time) and to the future owners (through a special assessment levied at the time of the restoration work).

Bad Debt - An association does not have "deep pockets." The only money it generally receives is the assessment payments of the owners. If some of the home owners go into bankruptcy or simply cannot make payment, there will be a budgetary shortfall. Because the budget is determined and then divided amongst the home owners, bad debt will cause a shortfall. It is necessary for the board to determine the anticipated shortfall from bad debt and to budget accordingly. The past history regarding bad debt can be useful in determining the expected shortfall, but other factors such as the number of cases in collections and the general condition of the economy also may be considered.

Assessment Collection

After knowing that an HOA budget is nothing more than dividing up the expenses among the homeowners, it's easy to see that the failure of one homeowner to pay his or her fair share of the expenses means that his or her neighbors are the ones left paying the delinquent owner's bills. This, of course, is unacceptable. Therefore, the board has a duty to take every reasonable action to collect the assessments. The board may not waive or excuse, or otherwise forbear the payment of assessments.

Those homeowners who refuse to pay their assessments should be pursued in court, and every reasonable action should be taken to compel payment. Most associations have lien rights in the unit and can foreclose, take ownership or possession of the property, or garnish the wages or bank accounts of the delinquent owners. Most HOAs have the ability to recover from the delinquent owner, the costs of collection, including attorneys' fees and legal costs. In addition, because it is unfair for some owners to pay on time, and others to cause the association to incur expense from late payment, it is appropriate for the board to charge a reasonable late charge (in accordance with its governing documents and applicable law).

Fiduciary Duty and the Business Judgement Rule

The board members owe a fiduciary duty to the home owners to manage and operate the association using the care that an ordinarily prudent person would use under the same or similar circumstances (The Business Judgement Rule). This means that the board must exercise business judgment in making decisions while operating or managing the association. Business judgment involves making rational, informed decisions in good faith. The board must strictly follow the law and its governing documents and apply and enforce them in a fair and uniform manner. The board must obtain and consider all of the relevant facts and circumstances, identify the various options available to the board, and carefully weigh which course of action would be in the best interests of the association and its membership as a whole.

Board members cannot act out of passion or prejudice, personal self-interest or gain, or through revenge or other negative motivations. The rational basis for all decisions must be the best interests of the association consistent with its purposes. This fiduciary duty owed by each board member to the home owners is the same one that directors of publicly traded corporations owe to their shareholders. Of course, the directors of major corporations are sophisticated and experienced business persons and they have professional executives, accountants, and attorneys to assist them at every step.

Although the extent and scope of activity of an HOA board of directors is much more limited than the activities of a major corporate board, it still behooves the board to engage professionals to some extent before making major decisions. Most associations retain professional managing agents to operate the day to day affairs of the association and to guide and assist the board in setting policy and establishing procedures to meet its responsibilities. In addition, every association should have an accountant and an



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attorney, and consult them when appropriate, and have tax and financial advisors to help handle and invest funds.

Adoption and Enforcement of Rules

The board has a duty to uniformly enforce the governing documents against the owners and other residents of the property. A board does not have the authority to waive or excuse compliance with the requirements of the CC&Rs. However, certain actions will not always clearly violate the CC&Rs. The board of directors therefore has to reasonably interpret its governing documents, and to adopt rules and regulations to supplement, explain and administer the enforcement of the basic rules of the association. Learn [how to adopt provisions and amend governing documents](#).

In deciding how to enforce the governing documents, the board must carefully consider the nature and scope of an infraction and try to address the situation in a manner that is reasonably related to the severity of the violation. In general, the board should first try informal approaches to obtain compliance and then increase the severity of the consequences to an owner who continues to violate the rules. The purpose of all enforcement activity is not to punish the violator but only to encourage and obtain full and permanent compliance. Where the violation threatens the safety of person or property, or when there is a flagrant violation, the board may have no choice except to take the violator to court and seek a court order requiring compliance. Learn about [fining to help enforce the rules in HOAs](#).

The Politics of HOAs

Homeowners must organize politically and to elect their representatives to the board of directors in order to administer the HOA. It is the duty of the board to ensure a fair and free board election on an annual basis. The board must establish procedures necessary to be sure that there are qualified candidates and that each home owner has the opportunity to vote and participate in the political process (Learn [the importance of election rules and how to establish them](#)). The board should share with the homeowners all of the information and facts of the problems and issues that face the association, and patiently explain the rationale and reasoning behind board decisions. The homeowners are entitled to be fully informed about the conduct of the board, and to exercise oversight through the political process.

Most associations allow the homeowners to address the board at the regular meetings of the board and at the annual meeting (a requirement in California). These meetings are a great opportunity for the board to communicate with the home owners and to obtain input and advice from the members.

Another duty of the board is to appoint board officers, such as the president, secretary or treasurer of the association. It is important for the board to exercise careful oversight of the actions of the officers between meetings of the board. The officers should account to the board for any decisions or actions taken on behalf of the association. It is necessary for the board to hold regular meetings in sufficient frequency to properly and efficiently handle the affairs of the association. Most boards meet monthly or quarterly.

Representing the Homeowners as a Whole

The purpose of the board is to represent the interests of the unit owners as a whole, as these interests relate to the property. Therefore, the board is the appropriate entity to pursue claims and rights of the unit owners with respect to the entire property (such as claims against the developer for defects, tax relief, and dealing with third parties related to real property rights). In general, any matter that affects the collective interests of the unit owners (as opposed to the individual rights of an owner) is appropriately handled by the board.

All amendments to the governing documents, easements, concessions, licenses, and dedication of the property must be handled by the board (although the approval of the owners may be necessary). In



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addition, the board must ensure that all tax obligations of the property as a whole have been met, and that the property has the necessary and required insurance. The requirements for insurance will be set forth in the declaration and applicable statutes. On behalf of the association and its members, the board should insure the property against casualty and loss and should obtain liability coverage including directors and officers' liability insurance, and bonding. In addition, the board should hold the proceeds of insurance in trust on behalf of the owners to ensure the proper restoration of damaged property.

Keeping Books and Records

Although the board is the entity responsible for making the decisions on behalf of the owners, the association still belongs to the homeowners who have a right to be fully informed about the HOA. The board must keep detailed and accurate records. This includes accurate copies of the HOA's...

- CC&Rs
- Articles of incorporation
- Bylaws,
- Plats of survey
- Rules and regulations (and all amendments of these)
- Minutes of all board and owner meetings
- Insurance policies
- Contracts, leases, and other agreements in effect
- Current list of the names and addresses of the members
- Copies of ballots and proxies from past elections
- Itemized accounting of the budgeted and actual receipts and expenditures of the HOA with supporting budgetary and financial documents

Home owners should have reasonable access to these books and records for a proper purpose and consistent with the requirements of applicable law.

Handling Emergencies

The board is not the insurer of the property and is not a police force. It need not undertake to protect the owners from criminal conduct or casualty. However, in emergency situations, the association may be in the best position to minimize damage and to correct any problems.

Most CC&Rs authorize the board to enter the individual dwelling units for emergency purposes to protect the property or residents from harmful conditions. When acting under emergency authority, the board should limit its actions to only those made necessary by the emergency at hand and defer all other actions. For example, if the plumbing in a unit fails, the board may enter the unit and stop the water incursion and to take action to minimize the water damage to the unit and other property.

Beyond what is reasonably necessary to alleviate the emergency at hand, the board should not infringe upon the authority of the individual owner to repair or maintain his or her unit. Emergency actions should be measured responses to the circumstances of a particular crisis, and the board should take care to limit its involvement to only what is absolutely necessary.



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Human Rights and Accommodations

The law requires that housing, and all associated services and facilities, must be available to persons without discrimination on the basis of race, color, religion, gender, familial status (children under 18), disability or national origin. The board is the entity responsible for making sure that the association operates in a manner that does not unlawfully discriminate. The language of association rules and enforcement must be neutral as to the protected classes. Typical problem areas are rules and facilities that discriminate against children and families, or facilities or rules that fail to reasonably accommodate the needs of disabled persons (in rules, policies, practices, or services to afford a person with a disability equal opportunity to use and enjoy a dwelling).

Other issues that arise are subtle forms of racial and ethnic discrimination as it relates to extended family living in a unit, celebration of holidays, or unequal treatment in making appointments to office, granting of privileges, or enforcement. In addition, depending upon the facts and circumstances, the board may have a duty to address and stop unlawful discrimination committed by the individual owners, residents, or vendors of the association. This area is one ripe for litigation and therefore the board should consult with competent counsel when addressing these issues.