This article was published by Cedar Management Group and edited (italics) to meet Nevada Statute requirements before posting to hoasupport.com. (See below). Additionally, please note: In Nevada, Reserve Studies and Funded Reserve Accounts are required by law. Additionally, please remember, owners pay Assessments, not Dues. You can't un-join an HOA.

How Is Inflation Affecting HOA Assessments?

Assessments are or *will be* on the rise in most homeowners associations, thanks in large part to inflation. But, how is inflation affecting HOA assessments exactly?

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Homeowner Assessments are not fixed rates. These Assessments can go up and down *(rarely)* depending on a number of factors. While a decrease in Assessments is not always noticed, homeowners are usually alarmed when they are faced with the opposite. More often than not, inflation *(or poor money management)* is the culprit behind an increase in HOA Assessments.

To understand how inflation affects HOA Assessments, it is necessary to first look at how associations determine these assessments. At the helm of every homeowners association is a set of board members responsible for **preparing the budget**. This budget includes projections for the upcoming year's expenses. From this budget, the board will divide the total cost of anticipated expenses among the homeowners in the community, themselves included.
Since Assessments rely heavily on projected expenses, there is a positive correlation between these two elements. When expenses go up, Assessments follow suit. And, typically, expenses go up because of inflation (and possible other reasons), which causes the cost of goods and services to rise. *Regardless of these other factors, the Board has a fiduciary responsibility to adequately (as defined by Nevada Law) fund the reserves.*

The Impact of Inflation on HOA Reserves

Inflation affects an association's finances in more ways than one. Aside from its influence on HOA Assessments, inflation can also directly impact an association's reserve fund.

In Nevada, homeowners associations collect reserve contributions from members. These contributions are typically included in the calculated Assessments for the year. Reserves are set aside to cover the cost of major repairs and replacements in the future. For example, playground equipment might reach the end of its useful life 10 years from now. To replace it, the association must set aside money for the next 10 years. Otherwise, there would be no funds to pay for the replacement.

Reserve funds are somewhat complicated because they account for all the assets in a community. Boards have to hire professionals to conduct a **reserve study** *(or update it minimally every 5 years in Nevada)*. This study will then inform them how much money must be set aside each year to keep the fund at a healthy level. *ADEQUATE RESERVES are defined in Nevada to be what the reserve study calls for*. But, inflation can also cause reserve studies to become outdated. With a high inflation rate, reserve studies can quickly turn inaccurate. And, an inaccurate study will likely result in a reserve fund that does not meet the right level of funding. Of course, this can be easily fixed by updating the reserve study more frequently. Keep in mind, though, that this will likely mean having to raise reserve contributions, too.

Other Factors That Cause Rising HOA Assessments

It is no secret that inflation affects HOA assessments, but it is not the only one. Here are other factors that can affect HOA Assessments:

- **Rising Wages.** When labor costs increase, vendors have to pay their employees more. The same goes for homeowners associations that employ their own in-house workers. This will lead to a high cost of services, thereby causing Assessments to rise. *For example, in Nevada, the minimum wage just increased in 2022.*
- **High Delinquency Rates.** If an HOA has a high number of delinquent owners, it will have a harder time reaching its optimal budget. As such, many boards overshoot Assessments calculations or levy special assessments to cover these delinquencies.
- **Additional Amenities or Services.** A homeowners association that intends to add more amenities or services for the community *will need* to increase its Assessments.

Inflation Impact on HOA Assessments: How to Adjust the Budget

It is important to adapt when external economic factors shift. An association's budget should reflect these changes or risk falling into a deficit. Remember that a budget deficit can force an HOA board to either levy special assessments *which take the vote of the owners or a Special*

Reserve Assessment, which, in Nevada, does not require a vote. Taking out a loan can be an option, but should be a last resort. None of the option is particularly favorable to the association or its members.

Here are some tips on how associations can adjust their budget when inflation strikes.

1. Get an Estimate from Vendors

When the cost of goods goes up, vendor rates go up as well. As such, associations should expect their vendors to raise their fees. Before renewing contracts with existing vendors, boards must inquire about any price hikes. Asking for an estimate is a good way to do this.

If the association can't accommodate the increase, it may be time to look for a new vendor. Boards must not be afraid to shop around. Though, it may be tough to find a vendor if your community is located in a small town or city.

2. *Reduce* Costs

Instead of raising Assessments, another option is to *reduce* costs where possible. Boards should look at their budget and determine which expenses are essential and which are not. Non-essential expenses should be the first to go or get a budget cut.

Of course, cutting corners can be a slippery slope. If an association cuts too much of its expenses, it might result in lower curb appeal and property values, causing the community to suffer.

3. Look to the Law and Governing Documents

Inflation affecting HOA Assessments is a given, and most HOAs respond by raising the assessments. But, depending on where the HOA is, there may be a limit to Assessments increases. *Unless in the documents, Nevada HOAs are not limited to how much the assessments can be increased.*

For instance, according to **Arizona law**, homeowners associations can't raise the Assessments by more than 20 percent than the previous year's Assessments. The only way to bypass this is by obtaining a majority vote from members of the association. It is also necessary for associations to refer to their governing documents. Some HOA bylaws and CC&Rs don't allow boards to increase Assessments by a certain amount or percentage.

Inflation Impact on HOA Assessments: Watch Out for a Delinquency Spike

Inflation can trigger a domino effect in homeowners associations. When inflation goes up, Assessments go up with it. And, when Assessments go up, homeowners are less likely to pay, especially if the increase is too high.

While homeowners do have an obligation to pay Assessments, they also have other financial responsibilities — responsibilities that inflation may have also impacted. As such, when strapped for cash, many homeowners will prioritize their own bills rather than the association's bills. This can lead to a spike in delinquencies.

How Is Inflation Affecting HOA Assessments? Explained!

Clearly, inflation has a direct impact on HOA Assessments and assessments. Because inflation is out of an association's hands, it is important to focus on the things within the HOA's control instead. This means adjusting the budget to account for inflation and making sure the association does not go into a budget deficit.

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