



SPECIAL ASSESSMENTS: TOOL OR WARNING SIGN?

When They Make Sense - and What Repeated Special Assessments May Be Telling Your Board

A practical guide to using special assessments responsibly, understanding alternatives, and avoiding a cycle of surprise charges to homeowners.

Because Communities Deserve Better!

Community Association Management, Limited

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A Special Assessment Is a Tool - Not a Budget Strategy

Special assessments can be necessary and responsible. An unexpected infrastructure failure, uninsured loss, urgent life-safety repair, or major capital need can require funding that the association does not have available through its current operating budget or reserves.

The problem is not the existence of a special assessment. The problem is when special assessments become the association's normal way of paying predictable expenses or making up for years of inadequate operating assessments and reserve contributions.

The standard

Special assessments should be the exception for extraordinary needs - not a substitute for realistic annual assessments, routine maintenance funding, or disciplined reserve planning.

Appropriate uses may include

- A major sewer or utility failure that was not reasonably anticipated
- Significant storm, flood, fire, or other damage not fully covered by insurance
- An urgent life-safety or code-related repair
- A critical capital replacement when existing reserves are insufficient
- A major unforeseen expense that cannot reasonably be absorbed through the current operating budget

1. What Special Assessments Are Not For

A special assessment should not be used simply because the Board would prefer not to increase regular assessments. Predictable costs belong in the annual budget, and predictable major replacements belong in a reserve funding plan.

- Recurring budget shortfalls
- Routine landscaping, pool service, janitorial work, or general maintenance
- Annual insurance premiums, management fees, utilities, or routine professional services
- Regular reserve contributions that should have been included in the annual budget
- Repeated predictable repairs that indicate a component should be addressed through the capital plan

A recurring special assessment is not really "special"

If the association repeatedly needs extra owner charges to pay normal obligations, the underlying issue is usually the budget, reserve funding, or both.

Do not confuse lower regular assessments with lower cost

Keeping regular assessments artificially low does not eliminate the association's expenses. It changes when owners pay them. A predictable annual increase is often easier for owners to plan for than a large, unexpected lump-sum charge after the need becomes urgent.

2. When Special Assessments Become a Warning Sign

Repeated special assessments deserve a deeper financial review. They can indicate that the association's normal funding structure is no longer aligned with its real obligations.

Warning sign	What it may indicate
Special assessments every year or two	Regular assessments may be set below the true operating cost of the association.
Special assessments for routine expenses	The operating budget may be structurally inadequate.
Major replacements consistently exceed reserves	Reserve contributions, study assumptions, or cost updates may be insufficient.
Projects repeatedly deferred until failure	The association may be trading planned capital spending for emergency spending.
Owners are surprised by foreseeable projects	Long-term planning and communication may not be reaching the membership.

Underfunding shifts the burden

When current owners use community assets but the association does not fund their predictable deterioration, future owners inherit the bill. Special assessments can therefore become an intergenerational fairness issue as much as a cash-flow issue.

3. Choosing the Right Funding Tool

When a significant funding need arises, the Board should evaluate the full financial picture rather than defaulting immediately to a special assessment.

Funding tool	Best suited for	Key consideration
Operating assessment increase	Recurring operating costs	Addresses the ongoing cost permanently instead of creating another shortfall next year.
Reserve funds	Planned major repair/replacement of reserve components	Use should align with the reserve plan and governing documents.
Special assessment	Extraordinary or urgent need, or a major funding gap	Creates an immediate owner obligation and may require specific approval procedures.
Association loan	Large project when spreading payments is appropriate	Financing changes timing, not total cost; debt service becomes a future budget obligation.
Project phasing	Work that can safely be divided over time	Should not be used to defer urgent life-safety, structural, or rapidly worsening conditions.

A loan can reduce the immediate shock - but it does not make the project cheaper

Association financing can be appropriate when a large project must proceed but requiring the entire cost immediately would create significant owner hardship. The Board should still evaluate interest cost, repayment term, collateral or assignment requirements, future assessment capacity, and the effect of debt service on the operating budget.

4. Before Approving a Special Assessment

A Board should be able to explain not only what the money is for, but why the need exists, why the proposed amount is reasonable, what alternatives were considered, and what happens if the project is delayed.

- ☐ Is the expense truly extraordinary, urgent, or outside the existing budget and reserve plan?
- ☐ Was the project or component previously identified in the reserve study?
- ☐ If it was foreseeable, why are existing reserves insufficient?
- ☐ Have current bids, engineering information, or other cost support been obtained?
- ☐ Are contingency funds appropriate for the project?
- ☐ Could a regular assessment increase, reserve funding, financing, or project phasing be more appropriate?
- ☐ Do the governing documents or applicable law require a particular Board or owner approval process?
- ☐ How will the assessment affect owner affordability and delinquency risk?
- ☐ What is the communication plan before invoices or payment coupons are sent?

Know the approval requirements before announcing the assessment

Special-assessment authority and approval thresholds can vary by governing documents and applicable law. Some associations may require an owner vote above a certain amount or for certain purposes. Boards should confirm authority and procedure before communicating that an assessment has been approved.

5. Communication Can Determine Whether Owners Understand the Decision

Owners may still dislike a special assessment even when it is necessary. Clear communication does not eliminate the cost, but it can reduce confusion and help owners understand why the Board reached the decision.

A strong communication should explain

- What happened or what project must be completed
- Why the work cannot reasonably be delayed
- What the project is expected to cost and how the amount was developed
- What funds are already available from reserves, insurance, or other sources
- Why the remaining amount cannot be paid through the current operating budget
- What alternatives the Board evaluated
- The assessment amount, due dates, and available payment options, if any
- What the Board is changing so the same funding problem is less likely to recur

Do not sell a special assessment as "free money"

Every special assessment is paid by the owners. The Board should focus on the community need, the funding gap, and the most responsible way to allocate the cost - not on making the assessment sound painless.

How Community Approaches Special Assessments

Community treats special assessments as one option within a broader financial-planning process. The first objective is to understand why the funding gap exists and whether the proposed assessment is solving an extraordinary problem or masking a recurring one.

- Review the operating budget and reserve position before recommending a funding approach.
- Compare major capital needs with the reserve study and current project costs.
- Help the Board evaluate the practical differences among reserve funding, assessment increases, special assessments, financing, and project phasing.
- Coordinate financial reporting so the Board can see the effect of the decision on cash, reserves, and future budgets.
- Support clear owner communication about the reason, amount, timing, and purpose of the assessment.
- Encourage Boards to correct recurring budget or reserve deficiencies rather than relying on repeated special assessments.

The question to ask

Is this special assessment solving an extraordinary event - or revealing a financial-planning problem that still needs to be fixed?

Board Special Assessment Checklist

- ☐ The need is extraordinary, urgent, or otherwise cannot reasonably be funded through existing resources.
- ☐ The Board understands why current reserves and operating cash are insufficient.
- ☐ The amount is supported by current bids, estimates, or professional information.
- ☐ The Board evaluated reasonable alternatives, including reserve use, regular assessment changes, financing, and phasing.
- ☐ Approval requirements in the governing documents and applicable law have been confirmed.
- ☐ The owner communication explains both the immediate need and the long-term financial plan.
- ☐ The Board has considered owner affordability and delinquency risk.
- ☐ If the funding gap resulted from chronic underfunding, the future budget or reserve plan is being corrected.

Educational Notice

This white paper is intended for general educational purposes and is not legal, tax, accounting, engineering, reserve-study, or other professional advice. Association governing documents and applicable law vary. Boards should consult the appropriate professional when a specific issue requires legal, accounting, tax, engineering, or reserve-planning guidance.