

- 4) Requires an HOA board to review the reserve study annually and consider and implement necessary adjustments to reserve fund planning.
- 5) Requires reserve studies to include, at a minimum:
 - a) Identification of major components the HOA is required to repair, replace, restore, or maintain with a remaining useful life of less than 30 years;
 - b) Identification of the probable remaining useful life of the components identified in a).
 - c) Estimated repair, replacement, restoration, and maintenance costs associated with the components identified in a).
 - d) Estimated annual reserve contributions necessary to defray the costs identified in c); and,
 - e) A reserve funding plan to identify how the HOA plans to fund the contributions estimated in d).
- 6) Provides that “major components” include gas, water, and electrical service lines where the HOA is responsible for maintenance or replacement.

This bill:

- 1) Sunsets the existing HOA reserve study requirements on January 1st, 2032, and, beginning on that date, revises the study with the following requirements:
 - a) Requires the HOA, rather than the board, to conduct a reasonably competent and diligent visual inspection of major components at least once every three years as part of a reserve study;
 - b) Requires the HOA to update the reserve study annually; and,
 - c) Requires the HOA to consider and implement necessary adjustments to reserve funding based on the annual review.
- 2) Retains existing reserve study content requirements, including identification of major components, their remaining useful life, cost estimates to repair, replace, restore, or maintain them, and a reserve funding plan, but:
 - a) Revises the calculation from an “annual contribution” to an “annual reserve account transfer;” and,

- b) Adds a requirement that the study include the minimum reserve contribution level necessary to prevent the reserve account balance from falling below zero over a 30-year period.
- 3) Requires the HOA to annually fund the reserve account at least at the minimum reserve contribution level identified in the most recent reserve study.
- 4) Provides that, if the HOA cannot meet the minimum reserve funding level without exceeding existing statutory assessment increase limits, the HOA shall, notwithstanding those limits:
 - a) Levy a reserve special assessment—in an amount necessary—to allow the HOA to fund the minimum contribution level without another reserve special assessment within nine fiscal years.
- 5) Specifies parameters for reserve special assessments:
 - a) Requires that all funds collected through a reserve special assessment be deposited into the reserve account and treated as reserve funds;
 - b) Requires the amount of the reserve special assessment be sufficient to prevent the reserve account balance from falling below zero over the following 30 years; and,
 - c) Prohibits an HOA from levying a reserve funding special assessment more than once every nine years.
- 6) Provides that the revised reserve study requirements and new reserve funding mandates, including the minimum funding requirement and special assessment provisions, become operative on January 1, 2032.

Background

HOAs. HOAs are the legal governing bodies of common interest developments (CIDs). These developments cover a variety of community arrangements, including apartment complexes, housing cooperatives, condominiums, and planned unit developments. In 1986, California enacted the Davis-Stirling Act, which outlines the requirements for CID and HOA governance, including assessments and other fees, maintenance responsibilities, and elections. There are over 50,000 HOAs throughout California, covering 36.3% of the state's population. In L.A. County alone, there are over 16,500 HOAs.

Davis-Stirling Act. The Act went into effect in 1986 and is the primary state law governing CIDs and HOAs in California. The Act provides the legal framework for the creation and management of HOAs, including rules related to governance,

assessments, dispute resolution, maintenance responsibilities, and member rights. The law aims to balance the authority of HOAs with the rights of individual property owners, ensuring that communities are managed efficiently and fairly. Over time, the Act has been amended to address the evolving needs of CIDs and HOAs, including increased transparency, accountability, and consumer protections. Key provisions of the Act include requirements for open meetings, financial disclosures, election procedures, and architectural review processes. The Act also provides mechanisms for resolving disputes, including internal dispute resolution and alternative dispute resolution before certain legal actions can proceed. As the majority of new housing construction in California is part of an HOA, the Act plays a critical role in shaping the environment and governance of these communities and the tens of millions of residents who reside in them.

Comments

- 1) *Author's statement.* "California is home to thousands of common interest developments (CIDs), where homeowners rely on their association to maintain shared property and ensure long-term safety and financial stability. In my district alone, 70% of associations are 20 years or older and 73% are condominiums. Communities are managing aging buildings that require significant long-term maintenance. While state law requires associations to conduct reserve studies and plan for major repairs, it does not require them to fund those future obligations. By 2027, Fannie Mae and Freddie Mac will raise from 10% to 15% the minimum an association has to focus on reserves. If an association cannot meet this requirement, owners will have trouble selling due to a lack of mortgage financing. Strong neighborhoods are built on financial preparedness. California homeowners deserve the peace of mind knowing their HOAs are equipped with the tools and resources they need to meet the long-term needs of their community. With secure reserve funding, communities can maintain infrastructure proactively, avoid costly special assessments, and support long-term housing affordability."
- 2) *The Importance of Funding HOA Reserves.* HOA reserves are funds set aside by an HOA to pay for major components that the association is obligated to repair, replace, restore, or maintain (e.g., residential roof replacement, major pool repairs, paving of association-owned roads, etc.). By carefully planning for reserves and raising funds over time through budgeted regular assessments, HOAs can plan for large, anticipated expenses in a way that does not trigger sudden, burdensome special assessments for HOA members.

When an HOA's reserves are not well-funded, the association may struggle with deferred maintenance and its associated consequences without new

assessments. Additionally, according to the bill's sponsor, "Many lenders are now refusing to write mortgages for condominiums if the association has underfunded reserves. Fannie Mae and Freddie Mac require an association to have a minimum of 10% in reserves and will increase that level to 15% starting in 2027." This bill is intended to address those issues by requiring an HOA to fund its reserve to at least the minimum contribution level determined by the reserves study that is already required in existing law.

- 3) *HOA Reserve Studies.* Under existing law, HOAs are required to periodically assess their long-term repair and replacement obligations through reserve studies. At least once every three years, the HOA board must conduct a reasonably competent and diligent visual inspection of the accessible areas of major components for which the association is responsible, where the replacement value of those components is at least one-half of the association's gross budget, excluding reserves, and must review that study annually and make appropriate adjustments to its reserve analysis. The reserve study must identify major components with less than 30 years of remaining useful life, estimate their remaining life and repair or replacement costs, calculate the annual contribution needed to fund those obligations, and include a reserve funding plan. In this sense, existing law requires HOAs to periodically identify foreseeable capital needs and map out a strategy to pay for them.

However, while the Act requires reserve planning, it does not mandate actual funding at any particular level. As a result, some HOAs may defer reserve contributions to avoid near-term assessment pressure, even if that increases future risk. Rather than spreading costs over time through gradual increases in regular assessments that contribute to the annual budget, this can lead to large, one-time assessments when major components ultimately fail, even when the need for repair or replacement was foreseeable and identified in prior reserve studies. Furthermore, underfunding can then spill into broader financing and insurance problems. For example, Fannie Mae's current condo project standards treat projects with significant deferred maintenance or unsafe conditions as ineligible until repairs are completed, require lenders to scrutinize special assessments, and note that projects budgeting less than 10% of HOA assessment income toward reserves may be at increased risk of deferred maintenance and special assessments. Fannie Mae also requires adequate master property insurance for condo projects and has suspended waivers for certain project insurance deficiencies, which means deteriorating conditions or weak project finances can make HOA units harder to finance and thus sell.

- 4) *Unexpected Costs & Other Affordability Issues.* While the need to fund HOA reserves at a proper level, as specified, can be deemed important to prevent

deferred maintenance, assure federal mortgage lenders, and control costs, the mechanisms for funding an HOA's reserves in this bill may result in large, unanticipated one-time assessments on owners. As written, this bill would *require* an HOA to levy a one-time reserve special assessment—"in an amount necessary"—to allow the association to fund the minimum contribution level without another special assessment within nine fiscal years, if the HOA is unable to fund that amount without exceeding the limitations on assessment increases in existing law. The intent is to prevent multiple special assessments from being levied again within nine years, but it could have the unintended consequence of making the one-time special assessment exorbitant. If the assessment levied on each association member *must* account for nine years in advance, that could lead to major required expenses, especially when accounting for future rates of inflation and costs of materials.

Another provision refers to caps in existing law on regular and special assessments without a vote of the membership. In practice, this could mean that a one-time reserve special assessment is levied without a cap *and* without a vote of the membership. In essence, a special assessment could not only exceed the typical cap of 5% of the HOA's budgeted expenses for the year, but also do so without a majority of the members weighing in. Given the needs on an HOA over a nine-year period, owners could be handed bills for tens of thousands of dollars—raising affordability concerns, even if it's truly "one time."

In order to address these concerns, the author has agreed to amend the bill to make the following amendments to the bill:

- 1) Require an HOA include a statement in its reserve study that beginning January 1, 2032, state law will require that an association's projected reserve account balance does not fall below zero over a thirty year period, and that annual minimum reserve account transfers and special assessments may be necessary to fulfill this obligation.**
- 2) If an HOA's projected reserve account balance is expected to fall below zero over a 30 year period, require the HOA transfer a minimum of 15 percent of its gross annual budget to its reserve account each year until its reserve account balance is no longer to projected to fall below zero.**
- 3) If the specified percentage in 2) is insufficient to fund the minimum contribution level, then require HOAs:**
 - a. Levy a special assessment to fill the gap.**

b. If a special assessment, capped at 5% of the annual budget without a vote of the membership, is insufficient to fill the gap, then have members vote to exceed the cap at an amount necessary to fund the minimum contribution level.

4) Clarify that all funds collected through the reserve funding special assessment shall be deposited in the association’s reserve account and considered reserve funds.

5) *Opposition.* The primary concerns raised by those writing in opposition are surrounding the reserve funding special assessment funding mechanism, and whether obligating HOAs to actually fund their reserves would worsen affordability issues facing members of HOAs. Another concern raised is whether setting the minimum threshold at zero does enough to prevent issues surrounding poorly-funded reserves, such as deferred maintenance.

6) *Double-referral.* This bill is also referred to the Senate Judiciary Committee.

Related/Prior Legislation

SB 1007 (Menjivar, 2026) — among other things, would cap HOA regular assessments, without a vote of the members, at an increase of no more than 8% from the previous regular assessment. *This bill is pending in the Assembly Housing and Community Development Committee.*

FISCAL EFFECT: Appropriation: No Fiscal Com.: No Local: No

POSITIONS: (Communicated to the committee before noon on Wednesday, June 10th, 2026.)

SUPPORT:

CAI-CLAC (Sponsor)
California Association of Community Managers (CACM)

OPPOSITION:

California Association of Realtors
Center for California Homeowner Association Law
Consumer Federation of California
Housing and Economic Rights Advocates (HERA)

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