

Arkansas

Association

Economic Contributions

And Value-Added Benefits



2016
Community Association
Fact Book
Part Five

for

Arkansas Community
Associations –
Economic Contributions
& Value-Added Benefits



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—From *A Declaration of Principles*, jointly adopted by a Committee of the American Bar Association and a Committee of Publishers

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California Bureau of Real Estate

California Law Revision Commission

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Notes on Community Association Data: The *Fact Book* is based on information from seven data sources grouped in two categories:

- Public Data: (1) Census data, (2) American Housing Survey (AHS), (3) State data, (4) Related housing industries data such as that from the National Association of Realtors (NAR) and National Association of Homebuilders (NAHB), and
- FCAR and CAI Data: (5) FCAR data accumulated over time, (6) CAI data, also accumulated over time, and (7) Data provided by CAI members.

The public data is largely from the Census and the American Community Survey (ACS). This data has a lag time to publication, i.e., certain of the ACS 2016 data may not be available until late in 2017. Some public association data is available from individual states. This state data, also, may have a lag time from collection to publication. Usually, both the few states with association data and the ACS data lack specificity in critically identifying the three basic types of associations: condominiums, cooperatives and planned communities. Similarly, the public data may count certain association units, but not the entities (the associations) themselves. From a timing viewpoint, FCAR, CAI data and CAI member data are more readily available. Because of the timing issue, the *Fact Book* data generally may be one year ahead of public data.

Introduction to CAI & FCAR

It's been said that the growth of community associations (condominiums, planned communities and cooperatives) offers the greatest single extension of homeownership opportunities since the housing reforms of the New Deal and the provision of GI Bill benefits just after World War II. The Community Associations Institute estimates that in 1970 there were 10,000 community associations nationwide. In 2016, there are approximately 342,000 associations housing approximately 68 million Americans.

The [Community Associations Institute](#) (CAI) is an international nonprofit 501(c)(6) organization founded in 1973 to foster competent, responsive community associations through research, training and education.

The [Foundation for Community Association Research](#) (FCAR) is a nonprofit 501(c)(3) organization devoted to common interest community research, development, and scholarship. Incorporated in 1975, the Foundation supports and conducts research in the community association industry.

Understanding the Importance of Four Areas

The *Community Association Fact Book 2016* and its seven parts are published by FCAR. These seven parts document the history, current status, trends and future issues of U.S. community association housing in general. The *Fact Book* also provides community association information on a state-by-state basis. The *Fact Book* will address the following four areas:

- 1. Evidence-Based Decisions:** Facilitate the creation, publication and analysis of credible data such that evidence-based decisions on various community association issues and topics can be made.
- 2. Contributions to the Economy and Society:** Demonstrate the role of community associations in maintaining housing as shelter, as a neighborhood benefit, as an investment and as a contributor to this country's Gross Domestic Product (GDP).
- 3. Core Services:** Provide an understanding that the three core services delivered by associations (governance, community and business-like services) – are complementary to a broad range of both local and national housing goals and to related public policy considerations.
- 4. Associations as a Housing Market:** Demonstrate that all three types of community associations (condominiums, cooperatives and planned communities), in and of themselves, are an important housing market that needs to be understood and analyzed in a comprehensive manner.

The seven parts of the Community Association Fact Book 2016

- Statistical Review
- Fact Book
- Chronological History of Federal Involvement
- 51 State Summaries
- 51 State Summaries - Economic Contributions & Value-added Benefits
- 52 State Summaries & U.S. Summary – Condominium Unit Owners 55+
- Large-Scale Association Survey Results

Association Economic Contributions & Value-Added Benefits at a Glance

Community Association Contributions to the Economy: In the aggregate, community association housing had a market value of just over \$5.545 trillion dollars at 2016 Q4 [Estimate based on the [Federal Reserve Z.1 Financial Accounts](#)]. According to the [National Association of Homebuilders](#) (NAHB), the housing industry's contribution in terms of new construction to the economy **averages 15%-18% annually**. This represents the combined impact of [Private Residential Fixed Investment](#) and [Housing Services](#). The Residential Fixed Investment component contributes from 3%-5% while the Housing Services component contributes 12%-13%. These percentages vary with fluctuations in the nation's economic cycles. Community association housing is an important and growing component of both Residential Fixed Investment and Housing Services. Using NAHB historical estimates, community associations contribute 4.0% to 4.3% to GDP. Associations not only are a place to live, they are a place to work and to create jobs.

Community Association Economic Contributions 2016		
All Associations & Their Homeowners – Categories 2016	Year One	Three Year Cumulative
<i>Volunteer Leadership & Governance:</i> Meeting legal & fiduciary requirements, achieving cooperation & compliance with association goals	\$1,929,000,000	\$5,787,000,000
<i>Homeowner Property Tax Payments:</i> Providing further economic support for local government services	\$81,962,000,000	\$245,886,000,000
<i>Homeowner Improvements within their Home/Unit:</i> Upgrades and additions including changes to systems enhancing conservation and facilitating accessibility	\$73,670,000,000	\$221,010,000,000
<i>Association Housing Services:</i> Operations, Physical Asset Management, Major Repairs & Replacements, Capital Improvements, Conservation & Sustainability, Contingencies	\$93,500,000,000	\$280,500,000,000
Total	\$251,061,000,000	\$753,183,000,000

Introduction to Community Association Economic Data

As of 2016, there are approximately 342,000 community associations (condominiums, cooperatives and planned communities) in the U.S. The elected homeowner volunteers that serve on the board of directors of these non-profit associations are responsible for governing, managing and maintaining their communities that come in various sizes, types and configurations.

These associations often have unique characteristics based on the following:

- *Size*: Some are two-unit associations in urban communities that may be 100 years old (and converted in the 1960s to condominiums).
- *Scale*: Other associations may be large scale planned communities with several thousand units.
- *Cost*: Typically, associations are created to meet the affordable housing needs of the general homebuyer, but some are developed for those age 55+ or for the very affluent.
- *Purpose*: Most associations are entirely residential while others are mixed use (with some commercial occupancies) and yet others are truly unique such as garage condominiums and boat dock condominiums.

Community associations are developed and operate in an intergovernmental system composed of some 90,000 units of local and state governments, the federal government and [Special Purpose/Special Tax Districts](#). See the [Community Association Fact Book 2016](#) to gain a more complete understanding of community associations.

This unique combination of *size, scale, cost and purpose*, when combined with the requirements of the intergovernmental system, creates a situation where there is little substantive data available on community associations in all their various characteristics. This situation also arises because associations are not treated as distinct housing entities or housing markets in national data collection activity such as that performed by the US Census, the [American Community Survey](#) (ACS) and the [American Housing Survey](#) (AHS), or in state corporate filings. In a limited number of states, however, some detailed information and data about community associations are collected.

Parts [One](#), [Two](#), [Three](#) and [Four](#) of this *Economic Contributions/Value-Added Benefits Report* contain housing and association data that was gathered and analyzed by the [Foundation for Community Association Research](#) (FCAR) in conjunction with the [Community Associations Institute](#) as a means to quantify the economic impact of community associations and their homeowners in the U.S. economy.

Like other economic data, the association data is generalized based on availability, but the data makes the point that community associations are an important part of the housing sector and, in certain respects, should be considered as discrete housing markets compared to traditional single family homes (not in associations).

Part [Five](#) utilizes this data and other information to demonstrate the economic importance of both *community associations* and *community association homeowners* to a given state's economy.

Part [Six](#) takes a brief summary look at this same data as it applies to all community associations and association owners in the 51 states and the District of Columbia.

Part One: Understanding the U.S. Economy and Housing

1.1 U.S. Gross Domestic Product (GDP)

[Gross Domestic Product](#) (GDP) is the monetary measure of all the products and services produced during a given period, reported annually, with four quarterly reports. According to the [Bureau of Economic Analysis](#) (BEA), the US-GDP in Quarter 4 (Q4) 2016 was the largest in the world:

▶ \$16,813,300,000,000 (trillion) dollars in [chained](#) 2009 dollars. [In [current dollars](#), the 2016 GDP was \$18,869,400,000,000.]

▶ See BEA [National Economic Accounts](#) for GDP in Current Dollars and Chained Dollars. See also BEA [Concepts and Methods of the U.S. National Income and Product Accounts](#) and [Gross Domestic Product: First Quarter 2017](#) (Advance Estimate).

1.2 New Construction Housing and GDP

According to the [National Association of Homebuilders](#) (NAHB), the housing industry's contribution in terms of new construction to the US-GDP [averages 15%-18% annually](#). This represents the combined impact of [Private Residential Fixed Investment](#) and [Housing Services](#). The Private Residential Fixed Investment component contributes from 3%-5% while the Housing Services component contributes 12%-13%. These percentages vary with fluctuations in the nation's economic cycles.

▶ New Construction Housing Annual Percent Contribution to GDP is 15% - 18%

1.3 New Construction Housing Contribution to GDP

Based on NAHB data, and using an estimate of 16% (combined for Private Residential Fixed Investment and Housing Services), the impact in chained dollars of all new construction housing (both within an association and not within an association) to the US-GDP in 2016 is significant:

▶ \$2,690,000,000,000 (trillion) dollars

Part Two: Understanding Community Association Housing and GDP

2.1 Association Housing Economics – The Basics

(1) Start-up Economics - Assessments: NAHB data covers only new housing construction activity while relevant aggregate community association economic data also must track activity from start-up through governance and operational phases of the association. Community associations have certain financial activity in the start-up phase (legal creation) of the association that are not necessarily reflected in financial reports both before and after the community transitions to homeowner governance.

The legal start date for a community association is when the governing documents are recorded in the land records of the relevant local governmental entity. The assessments (or fees) owed by the association homeowner (or unit owner) start at the recording date. The community has no actual homeowners at the time of recording, and no income other than what the developer contributes as the legal owner of all the unsold units. The developer controls the association and controls the board of directors. At some point, however, usually at a date specified in the governing documents or when a specific percentage of the units have been sold to homeowners or third-party investors, control will be turned over to the owners who will elect the board of directors.

(2) Start-up Economics – Initial Contributions: When a community association is initially developed, each first buyer of a home or unit usually is required to pay two months (or more) of association assessments at settlement to fund the association’s “capital account”, in addition to paying a pro-rated portion of the annual or monthly assessment. This capital account payment serves as “start-up” funding to help the association maintain a sound financial basis early in its operations and governance as well as to reduce the developer’s financial obligation.

(3) Two Ongoing Economic Engines: After start-up by the developer and certainly by the time of transition to homeowner control, the homeowners’ (i) *payment of regular assessments* and (ii) *regular contributions to a reserve fund(s)* for major repairs, replacements and possible new capital improvements, are the *two economic engines* that drive the association forward.

Assessments: Assessments are payments to the association levied on each unit (home) in the community on a pro-rata basis to fund the cost of governance, management, operational expenses and reserves. The initial assessment typically is paid by the community’s developer on all recorded but unsold units, sometimes including mandatory contributions to the reserve fund. The unit owner (whether the developer or an actual purchaser) always is liable for paying the assessments on their unit. These assessments often include infrastructure items that are not part of typical (non-association) housing such as maintaining street lights, repairing sidewalks and streets, and maintaining recreational facilities. During the economic crisis, many mortgage lenders delayed foreclosing on delinquent association borrowers to avoid taking title to the home and thus having to pay assessments (as an association homeowner).

Reserve Funds: The association could have several funds depending on the physical complexity of the community, one as a reserve fund for major repairs and replacement of the physical components of the property for which the association is responsible, and the other as a capital improvement fund to add new components such as new amenities. Generally, around 10% to 30% of the association's annual budget will be placed in a reserve fund for major repairs and replacement of common property. Reserve funds and capital improvement funds belong to the community association and not to the current owner. When the unit is sold, the new owner has the benefit of those funds.

(4) Sources of Association Revenue/Funding: While not all associations obtain revenue from each of the categories below, and while there are many other creative ways associations raise funds, the association will (or may) obtain revenue during a budget year from a variety of sources depending on the size and complexity of the association as a housing management organization. For example:

- Regular assessments
- Reserve fund assessments
- Special assessments
- Interest earned on reserve fund accounts
- Late fees charged for late payments of assessments
- Reimbursement assessments (as needed from specific owners)
- Compliance fees charges for violations of governing documents (as needed)
- Capital contributions from new owners
- Move-in and Move-out fees
- Rental fees from amenities, if any, like laundry equipment and club house rentals
- Cell phone tower leases, cable TV leases
- Fiscal year re-allocations of excess revenue for federal tax reasons
- Loans secured by assessment collections for unanticipated expenses
- Small Business Administration (SBA) or bank loans
- Catastrophe loans or assistance grants from state agencies
- Commissions and revenue-sharing opportunities from onsite retail and service operations, such as a golf clubhouse, restaurant or swimming coach.
- Settlements with the developer, contractors and others for construction or repair-related problems.
- Municipal services reimbursement (in a few jurisdictions like [New Jersey](#) and generally only for trash and recycling [for example](#)).

Associations vary in whether they obtain revenue from these “Revenue Sources” and how they use that revenue if they obtain it. Loans of any type must be paid back, but they often smooth out assessments so that homeowners are not burdened with a sudden, unanticipated increase in assessments or a special assessment. Any excess funds not used for operations generally are put into reserves or used to lower the next year's assessments. Condominium and planned community associations strive to break even to minimize federal taxation of excess income if their CPA elects to file the 1120 corporate tax return (using Internal Revenue Code 277) as opposed to the 1120-H form (using Internal Revenue Code 528). Housing cooperatives used different tax strategies.

Associations are typically nonprofit entities under state corporation laws, but they generally are not tax exempt under federal taxation. Condominiums and cooperatives can never be tax exempt under federal income taxation. In certain instances, some planned communities have obtained IRS tax exempt status.

(5) Expense Structure of Associations: Like Revenue Sources discussed above, the Expenses Structure of associations vary by similar factors as mentioned. Nevertheless, the list below includes typical categories:

- Allocation to reserve funds
- General Insurance (required by governing documents, state statute or mortgage lenders)
- Catastrophic insurance (flood, wind, earthquake, sinkhole, subsidence)
- Risk management (code compliance, fire marshal and elevator inspections, compliance with insurer inspections, snow/ice/runoff/retention pond maintenance, security and mass alert systems,)
- General maintenance (painting, general electrical, plumbing, paved surfaces, HVAC maintenance, pest control)
- Major maintenance (roof, sewer, gutters, catch basins, code compliance)
- Trash removal and recycling
- Landscaping, trees and environmental concerns including water management
- Information technology (website, social media, online access)
- Governance & Education (attendance at CAI and state sponsored programs)
- Community engagement (newsletters, annual meetings, community wide events and activities)
- Financial management (budget preparation and monitoring, financial reporting, audit/review/compilation, state & federal taxation, cash flow management, investment strategies)
- Asset management evaluation (reserve studies, insurance replacement cost valuations, probable maximum loss studies)
- Association Management (around 35% of associations are self-managed)
- Legal expenses (consulting, dispute resolution, litigation if required)
- Administrative (postage, copying, record storage and retrieval, resale documentation)

2.2 Association Housing and New Construction

The 2016 Census data indicates that over [70% of new housing built for sale](#) was in a planned or managed community governed by an association's board of directors. Additionally, [NAHB data indicates that most new subdivisions](#) are built as community associations. See also the Census and the American Housing Survey [2016 Characteristics of New Housing Report](#) for more data on the use of associations in new construction. According to FCAR data, the estimated 342,000 community associations in the U.S. include approximately 26,300,000 housing units and comprise around 25% of the current national housing inventory. In terms of new construction, however, the Census indicates that 70% of new housing built for sale is in an association so the percentage of housing units in community associations is expected to rise accordingly.

2.3 New Construction Association Housing Contribution to GDP

Using the NAHB new construction data as an initial benchmark (see #1.3 above) and using a conservative reduced percentage estimate from the Census of new housing in an association as an outer measure (see #2.2 above), based on 50% (instead of 70%) of new construction housing in an association,

▶ \$1,345,000,000,000 – the economic contribution of all association homes in new construction housing – to GDP in 2016.

Part Three: Understanding Community Association Housing and U.S. Financial Accounts

3.1 Federal Reserve Statistical Release Z.1

The [Financial Accounts of the United States are provided in the Z.1 Report](#):

“The Financial Accounts of the United States include data on the flow of funds and levels of financial assets and liabilities, by sector and financial instrument; full balance sheets, including net worth, for households and nonprofit organizations, nonfinancial corporate businesses, and nonfinancial noncorporate businesses; Integrated Macroeconomic Accounts; and additional supplemental detail.”

3.2 U.S. Balance Sheets and Market Value of Housing

The Federal Reserve Statistical Release Z.1, contains Balance Sheet Accounts of the estimated total market value of all owner-occupied homes, including second homes and selected other types of household real estate. At the Fourth Quarter of 2016 (Q4 2016) this market value was:

▶ \$23,102.4 trillion dollars (\$23,102,400,000,000) – market value of all U.S. housing at Q4 2016

3.3 Community Association Housing in the U.S. Balance Sheets

Conservative analysis of the number of residential units situated in community associations, shows that this sector represents, at a minimum, 25% of U.S. housing. Using the Federal Reserve Z.1 Market Value, the market value of the community association housing component is around:

▶ \$5.545 trillion dollars (\$5,545,000,000,000) – market value of association housing at Q4 2016.

Part Four: Understanding the Broad Impact of Community Associations

4.1 Community Associations and Value-Added Benefits

Community associations are housing management organizations that deliver *three core services* to their homeowner members: Governance Services, Community Services and Business Services. Community association housing is an important and growing component of both Private Residential Fixed Investment and Housing Services. Using NAHB estimates, community associations in new construction contribute about 4.0% to GDP.

In addition to housing, community associations provide several value-added benefits and functions to their local area and local government during the life span of the association:

- **Place to Live:** Associations are desirable places for either first or second homes. See the [Zogby Community Association Owners Surveys](#) and [Beaverdam Run Condominium Owners Survey](#)
- **Economic Engines:** They are significant economic engines for local job creation and a source of contracts for existing and new local service providers. For example, see [Bureau of Labor Statistics on Community Association Managers](#) and the [Aspen Residential Generation Employment Study](#)
- **Environmental Stewardship:** Associations are active in using sustainable environmental practices to control costs and because it is active stewardship. See the [Prairie Crossing Homeowners Association](#) and [Orland Park Competes in the Green Program](#)
- **Reduce Certain Local Government Functions:** Associations also reduce certain costs for local government by performing services such as trash pickup, police patrol, [storm water management](#) and [infrastructure maintenance](#).
- **Association Owners Contribute Double Dollars:** Many association owners, however, still pay property taxes for those same services (e.g. storm water management and infrastructure repair and replacement). See Korngold on [Cutting Municipal Services](#).
- **Support for Widespread Home Values:** Associations maintain their common areas and require maintenance of their homes. These actions may help maintain real estate values in nearby more traditional neighborhoods and subdivisions. See Fannie Mae on [Neighborhood Analysis](#) and Scheller [Neighborhood Governments and Their Role in Property Values](#).
- **Help Maintain a Mortgage Lender's Asset (Association Home):** Associations are obligated to maintain common areas and sometimes certain parts of the homes, such as mowing the yard, even when delinquent owners fail to pay assessments. Lenders benefit even if they may lag in enforcing loan covenants that include assessment payments. See Sterk, [Maintaining Condominiums and Homeowner Associations](#)
- **Supporting Data for Appraisers:** Appraisers also benefit because the association, as a well-maintained housing organization, often can minimize the impact of a downward slide in local and regional home prices. Traditional homes often depend on supporting data by ZIP codes. See [Fannie Mae Appraisal Requirements](#)

- **Sources of Local Government Leadership:** Local governmental entities such as school and [hospital boards](#), park districts and similar entities conduct elections for members. These elections often have candidates running for those offices who are current or former community association board members. As candidates, these association volunteers already understand what it means to (i) be [involved](#), (ii) to [run for an elected position](#) and, if elected, (iii) the [obligations required](#) by charters, bylaws and similar regulations and (iv) [budgeting processes](#).

See the [Community Association Fact Book 2016](#) for additional information on the economic impact and role of community associations.

4.2 Key Association Definitions:

Community Association

The umbrella term “community association” describes a real estate development in which the homeowners are bound to membership by deed to the development through a set of recorded governing documents that require adherence to a set of rules and payment of assessments. This term includes entities known as homeowner associations, property owner associations, planned unit developments, condominiums, cooperatives, planned communities and townhouse associations. The governing documents determine the type of entity, not the architectural style. Membership in the community association is automatic upon purchase of the home and, unlike other civic or fraternal associations, community associations are not voluntary. Membership in the association only ceases when the homeowner no longer holds title to their unit.

There are three basic types of community associations, all operating as primarily residential communities.

- Planned Communities: (51-55% of all community associations)

In a planned community, each member (owner) owns a dwelling unit/home and the lot on which the dwelling is located. A nonprofit corporation or entity (the community association) holds title to the common areas which are subject to recorded Covenants, Conditions & Restrictions (CC&Rs). The planned community is governed and managed by a board of directors elected by the owners. The homeowner’s deed requires membership in the corporation.

There may or may not be a specific state enabling statute. Planned communities are referred to by a number of different names that reflect diverse architectural styles and regional nomenclature variations, such as Homeowner Association (HOA), Property Owners Association (POA), Townhome Association and Planned Unit Development (PUD).

- Condominiums: (42% to 45% of all community associations)

In a condominium, each individual member holds title to a specific unit and an undivided interest as a “tenant-in-common” in the common elements. A community association is not a condominium unless the undivided interests in the common elements is vested in the unit owners. Unlike in a planned community or in a cooperative, the entity (the condominium association itself) does not own the common elements. These common elements generally include the structural components, the exterior of the building or buildings, the grounds, the amenities, and all portions of the property other than the units (as defined). The condominium is governed by a board of directors elected by the owners. The condominium is subject to a recorded Declaration of Condominium (Declaration). There is always a state enabling condominium statute.

- Cooperatives: (3% to 4% of all community associations)

In a cooperative, a corporation holds title to the entire project, the units and the common elements. The corporation holds the mortgage (if there is one) to the common elements although the individual owners may have loans on their ownership interest in their units. The owners (or members) are stockholders in the corporation. A proprietary lease or occupancy agreement gives each member exclusive use of a unit for a specified period of time. The cooperative is governed by a nonprofit board of directors elected by the owners. There may or may not be a specific state enabling statute.

See the [Community Association Fact Book 2016](#) for a detailed discussion of the three basic types of associations.

4.3 Legal Status, Governance and Operations

Legal Status: Most community associations are organized as nonprofit corporations under state laws, but they are not treated as nonprofit entities (tax exempt) under federal income tax laws. Condominium and cooperative associations cannot be tax-exempt [501(c) entities] under federal taxation regulations. With few exceptions, all three types of associations pay federal and state tax.

Because community associations are largely creatures of both statute and document drafting, specific legal requirements vary from state to state and document drafter to document drafter. Many states have adopted some form of the [Uniform Common Interest Ownership Act](#) (UCIOA 1982, 1994 2008, 2014) that attempts to establish uniformity of law regarding all three types of community associations in a single statute.

Governing Documents: The basic governing documents of community associations include: (1) A Declaration or a Declaration of Covenants, Conditions & Restrictions (CC&Rs), (2) Bylaws (3) Articles of Incorporation (usually), (4) Plat or Survey and (5) Rules & Regulations. Terms vary by the basic type of association. Community associations can also be subject to subdivision and/or map act requirements, zoning requirements, federal flood insurance regulations and other legal requirements.

Function: Community associations are housing management organizations that deliver three core services to homeowners: Governance Services, Community Services and Business Services. Community associations not only are a place to live, they are a place to work and to create jobs.

Infrastructure: Community associations own or are responsible for the infrastructure within the common elements (common areas) that contain their homes. Associations are responsible for maintaining shared facilities, open spaces and amenities, often including streets, roads and utility systems (sewer and water piping), esplanades, sidewalks, parking lots, lighting systems, recreational facilities and more.

Services: In conventional residential communities (that are not part of a community association), local government provides basic services, such as trash/recycling pickup, storm water system management, fire/police/EMS response – all of which are funded by, and included in, local property taxes. Because community associations are considered “private” entities (particularly when they restrict access and their streets are private), they often must pay the municipality or private contractors to provide the basic residential services normally funded through property taxes. Community associations fund the cost of such services from homeowner assessments.

Double Taxation: This doubling of payments for certain services (payment by property taxes and payment by association assessments) is sometimes referred to as “double taxation.” These extra or double payments for certain services typically continues for the life of the association. Trash collection and waste water management are two examples.

Code/Building Compliance: In traditional (non-association) subdivisions and traditional homes, property taxes levied by local government provide and pay for various code, zoning, environmental and similar enforcement and inspections. Community associations often perform very similar services or aspects of those services. This performance arises because, in addition to meeting local government requirements, the association must conduct its own property inspections and maintain community architectural compliance. The cost of this internal compliance is paid for via homeowner assessments while at the same time each association owner pays for property taxes for the same or similar services.

Maintaining Asset Values: An essential function of community associations is to maintain commonly-owned assets and property components to ensure the integrity and value of the shared and individually-owned real estate assets (the homes/units). Effective community associations look for ways to manage the cost of shared services and asset maintenance in order to stabilize owner assessments while still meeting the requirements of local government and obligations under the recorded governing documents.

Governance: Community associations are self-governed, i.e. the members (homeowners) are collectively responsible for the governance, operation, management and maintenance of the community property and its common facilities and areas. This responsibility is vested in the association’s board of directors sometimes with the assistance of committees.

Around two-thirds of community associations engage professional managers to assist in carrying out some or all of these functions. Association board members are volunteers, and, even though they may “work” 5-10 hours each week for their community, they are unpaid. The value of their service is not reflected in association financial reports and in many statistical reports.

Value of Volunteer Service: There is no formal national data source that directly tracks the economic value of volunteer contributions necessary for the successful governance and operation of community associations. There are generally-accepted methods, however, to quantify the economic value of volunteer work. The current designated value of volunteer work is \$24.14 per hour, based on Bureau of Labor Statistics data, indexed by [Independent Sector](#) (as of 2016). This value is based on average hourly earnings of all production and non-supervisory workers on private, non-farm payrolls, based on yearly earnings reports provided by the Bureau of Labor Statistics. Independent Sector indexes this figure to determine state values and increases it by 12 percent to account for employee fringe benefits.

The guidelines provided by Financial Accounting Standards Board (FASB) state that the value of volunteer services should be included in financial statements only if the volunteer is performing a specialized skill for a nonprofit entity. The general rule of applicability is whether the organization would have purchased the services if they had not been donated. This is definitely true for community associations – if the volunteer board of directors did not provide the core services, the association would need to hire outside contractors and professionals.

Part Five: ARKANSAS - Associations Contributions to the State's Economy

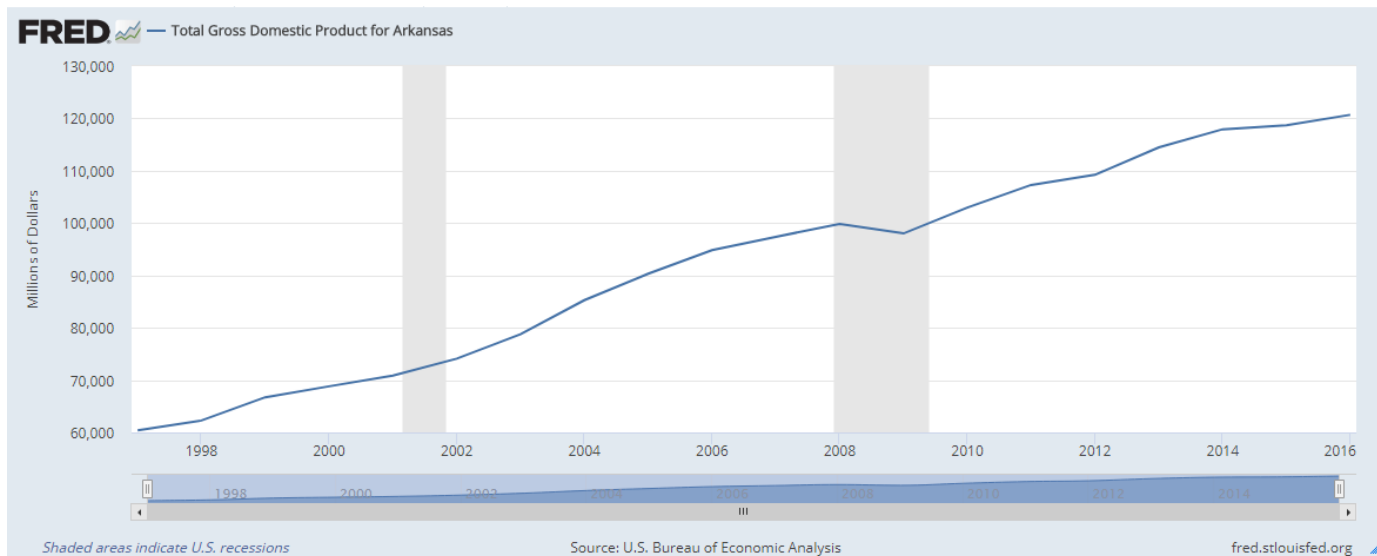
5.1 Arkansas Community Associations – 2016 Selected Economic Metrics

See [Part Four of the Community Association Fact Book State Summaries](#)

State	Association Rank	Estimated Number of Associations	Estimated Associations in the State as Percentage of All Associations	Estimated Number Living in Associations
Arkansas	48	Less than 1,000	0.2%	150,000

Estimated Board & Committee Volunteers	Estimated Value of Board & Committee Time	Estimated Value of Homes in Associations	Estimated Association Housing Services: Operations, Physical Asset Management, Major Repairs & Replacements, Capital Improvements, Conservation & Sustainability, Contingencies
5,000	\$4,200,000	\$12,160,000,000	\$203,000,000

5.2 Arkansas GDP: In 2016, Arkansas's GDP was \$120,689,000,000.



<https://fred.stlouisfed.org/series/ARNGSP>

https://www.bea.gov/newsreleases/regional/gdp_state/ggsp_newsrelease.htm

5.3 Measuring Economic Impact of Community Associations

Community associations are housing management organizations that provide three core services to homeowners: Community Services, Governance Services and Business Services. In performing these core services, community associations:

- Pay local, state and federal taxes,
- Support and create local jobs,
- Pay twice for certain local government services, and
- Reduce the burden of local government,
- Enhance real estate values in a broad manner
- Protect lender collateral
- Utilize the governance and managerial energy of elected boards of directors and volunteer committee members

From another perspective, the performance of these core services can also be explained by way of three comparisons each of which demonstrate the contributions of associations:

(1) Community Associations Compared to Traditional Subdivisions:

Association homeowners pay assessments based on either the annual budget divided equally among all homes or on some standard measure such as ad valorem taxes or square footage to support repair, maintenance and replacement of commonly-owned infrastructure (streets, sidewalks, parking garages/lots, security gates, retention ponds and sewer systems, parks, and recreational facilities). In non-association housing such as housing in traditional subdivisions or zoning parcels, this infrastructure is usually owned, maintained and replaced by local and/or state government and paid for by property taxes.

(2) Community Association Fees Compared to Property Taxes

Homeowners in a community association may experience a form of “double taxation,” e.g., property taxes may include the cost of municipal trash disposal and snow removal, but most community associations must contract separately for these services, at additional cost, because the local government does not service “private” communities. The extra cost for these services is passed on to association homeowners through their assessments. Property taxes are tax deductible, but association fees (that pay for the same or similar functions) are not tax deductible.

(3) Community Association Services Compared to Local Government Services

Because community associations provide some services normally provided by local government, including maintenance of common facilities and property such as streets, sidewalks, parking lots, lighting, parks/recreation amenities, and community security, this reduces the economic burden (cost) of local government in providing or contracting to have these services performed for associations. There is no metric to track either (i) the exact economic value of this reduction of expense to local government or (ii) of the additional property tax revenue collected by local government for services not performed by local government for associations.

5.4 Market Value of Arkansas Association Homes Using the Federal Reserve Z.1 Balance Sheet Approach

► \$12,159,000,000 market value of association Arkansas homes at Q4 2016.

5.5 Arkansas New Construction Housing in Associations – Measure of Economic Contributions to U.S. GDP Using the NAHB Approach

Arkansas Association Contributions to U.S. GDP 2016	
One Year, New Construction	\$2,950,000,000

5.6 Economic Impact of Arkansas Association Homeowners – Home Improvement

In 2016, there are 26.3 million homes in 342,000 community associations. These association homeowners engage in home remodeling – the complimentary role to that of the association establishing a reserve fund for future repairs and replacement of common property and such other property for which the association may be responsible.

According to a [remodeling study by the Joint Center for Housing Studies at Harvard](#), all homeowners will have spent approximately \$294,680,000,000 on home improvements and maintenance during 2016. These improvements range from Kitchens & Bathrooms, to energy retrofits, to accessibility improvements (to facilitate aging in place). In 2012, there were 716,000 remodeling contractors with 69% being self-employed contractors. As remodeling continues to grow in all sectors of housing, the number of those employed will continue to increase.

Association owner home improvement remodeling is the functional parallel to the association's similar efforts for maintenance and repairs. Both activities create and sustain jobs and local economies. More jobs and more salaries mean more personal consumption primarily at local businesses. More jobs also mean more state and local taxes to pay for governmental services and improvements. This type of multiplier effect is well known in macro-economics. Based on the assumption that around 25% of the 2016 home improvement expenditures are made by homeowners in community associations, then approximately:

► \$73,670,000,000 was spent by all association homeowners nationwide in 2016 on home improvements. See #5.8 below.

5.7 Economic Impact of Arkansas Association Homeowners – Property Taxes

This data is based on [NAHB Property Tax Metrics by State for 2015](#). The community associations themselves sometimes also pay both state and federal income tax and certain state level fees. This type of tax/fee cost data is not analyzed, but it generally is not material to association budgets and expenditures when the association files under the most used Federal Income Tax Forms. The data is presented more directly in #5.8 below.

5.8 Arkansas Community Associations & Their Homeowners – Estimated Economic Contributions

Association & Homeowner Categories 2016	Year One	Three Year Cumulative
<i>Volunteer Leadership & Governance:</i> Meeting legal & fiduciary requirements, achieving cooperation & compliance with association goals	\$4,200,000	\$12,600,000
<i>Homeowner Property Tax Payments:</i> Providing further economic support for local government services	\$55,000,000	\$164,000,000
<i>Homeowner Improvements within their Home/Unit:</i> Upgrades and additions including changes to systems enhancing conservation and facilitating accessibility	\$162,000,000	\$486,000,000
<i>Association Housing Services:</i> Operations, Physical Asset Management, Major Repairs & Replacements, Capital Improvements, Conservation & Sustainability, Contingencies	\$205,000,000	\$615,000,000
Total	\$426,200,000	\$1,277,600,000

Part Six: All U.S. Community Associations & Homeowners – Estimated Economic Contributions

As a housing form, community associations began over 175 years ago. Prior to the New Deal, however, the great arc of housing reforms from the Progressive Period dealt primarily with slum and blighted housing. The New Deal provided long term amortized mortgages and minimum property standards in order to obtain FHA insured mortgages. This began a shift to homeownership. Just after WWII, the [National Housing Goals of the 1949 Housing Act](#) set forth a goal of providing “decent, safe and sanitary” housing. While planned communities and housing cooperatives were modestly used for housing, it was the FHA adoption of mortgage insurance for condominium homes in 1961 that began the steady expansion of community associations (in all three types) as a housing form. Today, the housing needs of many Americans are met by the use of community associations. More importantly, community associations provide this housing by using direct homeowner involvement that fosters self-governance, financial efficiency and sustainable land use practices during a time of environmental uncertainty.

Community Association Economic Contributions 2016		
All Associations & Their Homeowners – Categories 2016	Year One	Three Year Cumulative
<i>Volunteer Leadership & Governance:</i> Meeting legal & fiduciary requirements, achieving cooperation & compliance with association goals	\$1,929,000,000	\$5,787,000,000
<i>Homeowner Property Tax Payments:</i> Providing further economic support for local government services	\$81,962,000,000	\$245,886,000,000
<i>Homeowner Improvements within their Home/Unit:</i> Upgrades and additions including changes to systems enhancing conservation and facilitating accessibility	\$73,670,000,000	\$221,010,000,000
<i>Association Housing Services:</i> Operations, Physical Asset Management, Major Repairs & Replacements, Capital Improvements, Conservation & Sustainability, Contingencies	\$93,500,000,000	\$280,500,000,000
Total	\$251,061,000,000	\$753,183,000,000



About Community Associations Institute (CAI)

Since 1973, Community Associations Institute (CAI) has been the leading provider of resources and information for homeowners, volunteer board leaders, professional managers, and business professionals in nearly 350,000 community associations, condominiums, and co-ops in the United States and millions of communities worldwide. With nearly 35,000 members, CAI works in partnership with 63 affiliated chapters within the U.S, Canada, United Arab Emirates, and South Africa, as well as with housing leaders in several other countries including Australia, Spain, Saudi Arabia, and the United Kingdom.

A global nonprofit 501(c)(6) organization, CAI is the foremost authority in community association management, governance, education, and advocacy. Our mission is to inspire professionalism, effective leadership, and responsible citizenship—ideals reflected in community associations that are preferred places to call home. Visit us at www.caionline.org and follow us on Twitter and Facebook @CAISocial.

About the Foundation for Community Association Research

The Foundation provides authoritative research and analysis on community association trends, issues and operations. Our mission is to inspire successful and sustainable communities. We sponsor needs-driven research that informs and enlightens all community association stakeholders—community association residents, homeowner volunteer leaders, community managers and other professionals and service providers, legislators, regulators and the media. Our work is made possible by your tax-deductible contributions.

Your support is essential to our research. Visit foundation.caionline.org or e-mail foundation@caionline.org.

For suggestions, additions, or updates to this Community Association Fact Book State Page, please e-mail foundation@caionline.org.



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ABOUT THE FOUNDATION FOR COMMUNITY ASSOCIATION RESEARCH

Our mission—with your support—is to provide research-based information for homeowners, association board members, community managers, developers and other stakeholders. Since the Foundation's inception in 1975, we've built a solid reputation for producing accurate, insightful and timely information, and we continue to build on that legacy. Visit foundation.caionline.org.

The statistical information in this report was developed by Clifford J. Treese, president of Association Data, Inc., in Mountain House, Calif. A member of CAI almost since its inception, Treese is a past president of CAI and the Foundation for Community Association Research. We are grateful for his continuing support of both organizations.

Additional statistical information published by the Foundation for Community Association Research is available at foundation.caionline.org.

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