SENATE JUDICIARY COMMITTEE
Senator Thomas Umberg, Chair
2025-2026 Regular Session

AB 2050 (Caloza)
Version: June 18, 2026
Hearing Date: June 30, 2026
Fiscal: No
Urgency: No
ID

SUBJECT

Common interest developments: reserve accounts

DIGEST

This bill requires an HOA, beginning January 1, 2032, to fund its reserve account on an annual basis in at least the minimum reserve contribution level, and if the reserve account is projected to fall below zero at any time over the following 30 years, to transfer 15 percent of its gross annual budget to its reserve account each year, and to levy a special assessment if the HOA is unable to fund the reserve account in at least the minimum reserve contribution level through its gross annual budget, as specified.

EXECUTIVE SUMMARY

Common Interest Developments (CIDs) are self-governing housing developments comprised of individually-owned housing units and common space that all homeowners and residents of the CID can enjoy. CIDs are managed and governed by homeowner associations (HOAs), of which every owner within the CID is a member. Current law requires HOAs to inspect every three years the major components of the CID for which the HOA is responsible and conduct a study of the HOA's reserve account requirements related to the projected maintenance expenditures of the HOA for the next 30 years. However, current law does not require the HOA to fund its reserve account. AB 2050 requires that HOAs, beginning January 1, 2032, to fund their reserve accounts on an annual basis in at least the minimum reserve contribution level, and requires the HOA to transfer 15 percent of its gross annual budget to the reserve account each year if the reserve account balance is projected to fall below zero at any time over the next 30 years. It also requires the HOA to levy a reserve funding special assessment if the HOA is unable to fund the reserve account in at least the minimum reserve contribution level with transfers from the gross annual budget, as provided.

AB 2050 is supported by the Community Associations Institute – California Legislative Action Committee and the California Association of Community Managers (CACM). It

is opposed by the Center for California Homeowner Association Law, the Consumer Federation of California, and Housing and Economic Rights Advocates (HERA). It previously passed out of the Senate Housing Committee by a vote of 7 to 1.

PROPOSED CHANGES TO THE LAW

Existing law:

1) Establishes the Davis-Stirling Common Interest Development Act, providing rules and regulations governing the establishment and operation of residential common interest developments (CIDs) and the rights and responsibilities of a CID's homeowner association (HOA) and its members. (Civ. Code §§ 4000 et seq.)

2) Specifies that a CID is created whenever a separate interest coupled with an interest in a common area or membership in an association is conveyed, provided that a declaration, condominium plan, if any, and a final map or parcel map are recorded. (Civ. Code § 4200.)

3) Requires the declaration to contain a legal description of the CID, a statement that the CID is a community apartment project, condominium project, planned development, stock cooperative, or a combination thereof, and set forth the name of the HOA and the restrictions on the use or enjoyment of any portion of the CID that are intended to be enforceable equitable servitudes. (Civ. Code § 4250.)

4) Provides that, unless otherwise provided in the declaration of a CID, the HOA is responsible for repairing, replacing, and maintaining the common area; the owners of each separate interest are responsible for repairing, replacing, and maintaining their separate interest; the owner of each separate interest is responsible for maintaining the exclusive use common area appurtenant to that separate interest; and the association is responsible for repairing and replacing the exclusive use common area. (Civ. Code § 4775.)

5) Requires the board of directors of an HOA to cause to be conducted, at least once every three years, a reasonably competent and diligent visual inspection of the accessible areas of the major components that the association is obligated to repair, replace, restore, or maintain as part of a study of the reserve account requirements of the CID. (Civ. Code § 5550.)

6) Requires this study pursuant to (5), above, to include the date and amount of any change in regular assessment or special assessments needed to fund the reserve funding plan, and requires that this plan be adopted by the board at an open meeting. (Civ. Code § 5560.)

7) Requires the signatures of at least two directors of the HOA, or one officer who is not a director and one who is, for any withdrawal of funds from the HOA's reserve accounts. Prohibits the board from expending funds from the HOA reserve fund for any purpose other than the repair, restoration, replacement, or maintenance of, or litigation involving the repair, restoration, replacement, or maintenance of, major components for which the HOA is responsible. (Civ. Code § 5510.)

8) Permits an HOA board to authorize the temporary transfer of funds from a reserve fund to the HOA's general operating fund to meet short-term cashflow requirements or other expenses, if the board provides notice of its intent to consider such an action at a board meeting, and requires the HOA board to issue a written finding in the board's minutes explaining the reasons the transfer is needed, and describing when and how the funds will be repaid in the reserve fund. (Civ. Code § 5515.)

9) Specifies that, when a decision is made to use reserve funds or to temporarily transfer funds from the reserve fund, the HOA must provide general notice to the HOA members of that decision, and the availability of an accounting of those expenses, as specified. (Civ. Code § 5520.)

This bill:

1) Requires, beginning January 1, 2032, and for the reserves study described in (5), above, that the HOA cause the visual inspection to be conducted every three years, and adjusts this requirement to apply when the current replacement value of the major components is equal to or greater than one-half of the gross budget of the HOA, not excluding the HOA's reserve account. Requires the board to update the study annually and consider and implement necessary adjustments to the HOA's funding of the reserve account as a result of that review.

2) Requires, beginning January 1, 2032, the reserve study to include, in addition to the requirements described in (5), above:
    a) The minimum reserve contribution level to prevent the projected HOA reserve account balance from falling below zero over the following 30 years; and
    b) A statement informing the HOA that, beginning January 1, 2032, state law will require the HOA to take certain actions if the HOA projects the reserve account balance to fall below zero over a 30-year period, including transferring a minimum of 15 percent of its gross annual budget to the reserve account and, under specified conditions, levying a reserve funding special assessment, as prescribed.

3) Requires, beginning January 1, 2032, an HOA to fund its reserve account on an annual basis in at least the minimum reserve contribution level included in the most

recent study of the reserve account requirements, and requires that, if an HOA's reserve account balance is projected to fall below zero at any time over the following 30 years, the HOA must transfer at least 15 percent of its gross annual budget to its reserve account each year until its reserve account balance is no longer projected to fall below zero.

4) Specifies that, if the HOA is unable to fund the reserve account in at least the minimum reserve contribution level through its gross annual budget, the HOA must levy a reserve funding special assessment subject to the same provisions as a standard special assessment. Specifies that, if the reserve funding special assessment is insufficient to meet the minimum reserve contribution level due to the cap on special assessments without a vote of the members, the HOA must have the membership vote on approving an amount exceeding the cap that is necessary to fund the minimum level.

5) Specifies that all funds collected through the reserve funding special assessment must be deposited in the HOA's reserve account and considered reserve funds.

6) Prohibits an HOA from levying a reserve funding special assessment more than once every nine years.

7) Makes the provisions described above operative on January 1, 2032.

COMMENTS

1. Author's statement

In support of this measure, the author states:

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 more than 20 years old and 73% are condominiums, meaning many 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.

The lack of reserve funding is also impacting the ability of homeowners to sell. Fannie Mae and Freddie Mac now requires an association to show it has at least 10% of its budget focused on reserves. This amount is likely to increase to 15% by 2027. If an association cannot meet this requirement, owners will have trouble selling their residences 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 reliable infrastructure, properly managed common areas, and secure reserves, neighborhoods can thrive and homeowners can live with confidence in their community—not just today, but for many years to come. Adequate reserve funding will promote safer homes, encourage proactive maintenance, and help prevent sudden and costly special assessments that burden homeowners and support long-term housing affordability.

2. Common Interest Developments

Common Interest Developments (CIDs) are self-governing housing developments comprised of individually-owned housing units and common space that all homeowners and residents of the CID can enjoy. Arrangements of CIDs can vary widely, from condominiums, townhouses, and detached single-family homes, to apartment-like high rises. They may be comprised of only a few housing units, or thousands. CIDs are commonly referred to as homeowner associations, or HOAs, for the body that provides for the CID's self-governance. There are an estimated 51,700 CIDs in the state, housing an estimated 14,489,00 Californians.[1]

The laws that regulate CIDs are encompassed in the Davis-Sterling Common Interest Development Act (Civ. Code §§ 4000 et seq.). Many of the rules and structural elements of a CID are determined by the Declaration of Covenants, Conditions, and Restrictions (CC&Rs) that are filed with the county recorder when the CID is established by the developer. All homeowners in the CID are members of the HOA, which is often incorporated as a mutual benefit corporation upon the formation of the CID. The HOA manages the CID and maintains its common space. To do so, the HOA elects a board of directors (board), and passes bylaws outlining the governance rules of the HOA and its board of directors.

The board has a number of duties and powers for the management of the community, including setting the regular, monthly assessments that members must pay in order to cover communal expenses. The board may increase the regular assessments every year by as much as 20 percent without approval of the membership. (Civ. Code § 5605.) When a homeowner in the CID does not pay their assessments, the HOA board has the authority to impose a lien and foreclose on the individual's property. (Civ. Code §§ 5660, 5700.) The HOA may also impose fines on individual members for violations of the rules of the HOA.

[1] Foundation for Community Association Research, *Community Association Fact Book 2025: 2025 U.S. National and State Statistical Review* (2025).

An HOA board also can establish rules governing a broad variety of topics relating to the CID and what members can and cannot do with their individual units and in the common areas. The HOA exists as essentially its own, self-governing municipal government for the development, "regulating many aspects of [the homeowners'] daily lives." (*Villa Milano Homeowners Ass'n v. Il Davorge* (2000) 84 Cal.App.4th 819, 836.)

There is no agency that oversees HOAs or resolves HOA issues, so typically HOA disputes must be resolved in court. The rules on individual homeowners can be enforced by the association or by other individual homeowners through a lawsuit. In addition, an individual homeowner may sue the HOA for failing to comply with the Davis Sterling Act or the board for failing to fulfill one of its duties, though provisions of the Davis Sterling Act require arbitration in many circumstances before a suit can be brought.

3. HOAs must maintain the CID's facilities and plan for this maintenance

The Davis-Sterling Act also sets out the various responsibilities for the maintenance of the facilities of the CID between the HOA and the individual homeowners. The HOA is generally responsible for repairing, replacing, and maintaining the common area in the CID, while each owner is responsible for repairing, replacing, and maintaining their separate interest in the CID (typically their individual unit). (Civ. Code § 4775.) Exclusive use common areas appurtenant to an owner's separate interest must be maintained by the owner of the separate interest, while the HOA is responsible for repairing and replacing this exclusive use common area. (Civ. Code § 4775(a)(3).) An exclusive use common area is a portion of the common area designated by the CID's declaration for the exclusive use of one or more, but fewer than all, owners of a separate interest in the CID, and which is tied to the respective separate interest or interests. (Civ. Code § 4145.) They are typically balconies, patios, exterior entryways, and designated parking spaces.

The Davis-Sterling Act requires that the HOA complete what is called a reserve study at least every three years. (Civ. Code § 5550.) The study must include: an identification of the major components of the CID that the HOA is obligated to repair, replace, restore, or maintain that, as of the date of the study, have a remaining useful life of less than 30 years; identification of the probable remaining useful life of the components with less than 30 years remaining, as identified; an estimate of the cost to repair, replace, restore, or maintain the identified aging components; an estimate of the total annual contributions necessary to defray the cost to repair, replace, restore, or maintain the identified aging components at the end of their useful life, beyond the current total reserves; and a reserve funding plan that indicates how the HOA plans to fund the contributions required to repair, restore, replace, or maintain the identified aging components. (Civ. Code § 5550.) To complete this reserve study, the HOA board must arrange for a visual inspection of the accessible areas of the major components that the HOA is obligated to repair, replace, restore, or maintain.

4. AB 2050 requires HOAs to put money into their reserve fund

However, while the Davis-Sterling Act requires an HOA to complete these reserve studies, it does not require that the HOA actually fund its reserves. This can lead to significant financial and operational issues for the HOA when it needs to actually do repairs or major maintenance work, as it may then be forced to assess the members a special assessment that runs into the thousands of dollars per member, or else put off needed or essential repairs. The news is rife with stories of HOAs that have put off important maintenance in aging CIDs only to end up with a major, unavoidable cost and no good way to pay for it outside of a large, unexpected assessment upon their members.[2]

In addition, Fannie Mae, one of the main government-sponsored enterprises that backs mortgages in the U.S., recently amended its rules for eligible mortgages on properties in HOAs to require that an HOA allocate 15 percent of its annual budget to replacing the its reserves.[3] When an HOA does not meet these requirements, the units within the HOA will not be eligible for a mortgage backed by Fannie Mae, and the owner may have a difficult time selling the property since buyers will not be able to obtain a conventional mortgage for the property. Thus, it is in an HOA's best interest, even if individual members do not want to pay more in monthly dues, for the HOA to put funds aside for their reserves.

AB 2050 adds a requirement into law that HOAs fund their reserves annually to at least the minimum reserve contribution level included in the HOA's most recent reserve study. If the HOA's reserve account balance is projected to fall below zero at any time over the next 30 years, AB 2050 requires the HOA to transfer at least 15 percent of its gross annual budget to its reserve funds each year, until the reserve funds balance is no longer projected to fall below zero. If the HOA is unable to fund the reserve fund in at least the minimum reserve contribution level with the regular monthly member dues, AB 2050 would require the HOA to levy a reserve funding special assessment to do so instead. This assessment would still be subject to the five percent cap of the HOA's budgeted gross expenses, though if a special assessment under that cap limit is still insufficient, AB 2050 would require the HOA to hold a vote of the membership on whether to impose a special assessment above the cap to fund the necessary level for the HOA. AB 2050's requirements would not go into effect until January 1, 2032, thus giving HOAs five years to prepare for its implementation and hopefully increase their reserves on their own.

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[2] Nine Burns, "Modesto HOA increases monthly dues at Walnut Orchards as residents launch recall effort of board," CBS News (Aug. 15, 2025) https://www.cbsnews.com/sacramento/news/modesto-walnut-orchard-hoa-increases-monthly-dues/.

[3] Fannie Mae, *Lender Letter LL-2026-03: Updates to Project Standards & Property Insurance Requirements* (Mar. 18, 2026) https://singlefamily.fanniemae.com/news-events/lender-letter-ll-2026-03-updates-project-standards-property-insurance-requirements.

These requirements and the appropriate level of involvement of the state in an HOA's reserve funds raise important questions. HOAs undoubtedly need to put money aside for large, anticipated maintenance and repair projects, and not enough HOAs are currently putting a sufficient amount of funds into their reserves. However, the current system, in which HOAs must conduct reserve studies, but where ultimately the decision of how to fund the reserves is left to the HOA, provides HOAs with the flexibility to determine what best works for their community to raise the funds for their reserves. This flexibility can be helpful, given the great variety of HOAs that exist throughout California. By placing a strict funding requirement on HOAs, AB 2050 will certainly remove some of this flexibility for HOAs. It likely will also contribute to increases in HOA dues, and possibly result in special assessments in certain circumstances, even though the limits on dues increases and the size of special assessments contained in Civil Code section 5605 still apply.

But when an HOA defers maintenance, current owners simply push off the costs of those maintenance projects onto future owners, hoping perhaps that the deferred maintenance does not become an issue before they leave the HOA. Instead of consistent, distributed costs for maintenance, the costs for maintenance then are dumped upon future owners all at once when the maintenance simply cannot be deferred any longer, transferring those costs from the previous owners who benefited from the CID and its common areas onto the future owners. In this way, current owners avoid paying for those costs by placing them upon future owners instead. Yet, in the meantime, the aging facilities slowly become less safe for the residents, the values of units within the property are impacted by the lack of maintenance, and future prospective buyers may be foreclosed from obtaining loans to buy a unit within the HOA altogether. AB 2050 tries to head off these tragedies of the commons by requiring that HOAs consistently fund their reserves.

5. Arguments in support

According to the Community Association Institute – California Legislative Action Committee, which is the sponsor of AB 2050:

> As amended in the Senate Housing Committee, the bill, beginning January 1, 2032, would require an association to transfer an amount equal to above 15% of its operating budget to reserves, if the association is projected to run a deficit over the 30-year time span of the study conducted by a licensed reserve specialist. These fund transfers would continue until the fund is projected to be in the positive. If necessary, the board could also utilize a reserve special assessment of no more than 5% of the budget once every 9 years to assist the effort of achieving a positive fund balance.
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> This approach reflects a simple but critical principal: pay now or pay later. Adequate reserve funding prevents deferred maintenance, costly emergency repairs, and steep

special assessments that place sudden financial burdens on homeowners. By promoting disciplined, forward-looking funding practices, AB 2050 helps protect property values and the long-term affordability of common interest developments.

More importantly, stronger reserve funding will also help associations meet secondary mortgage market expectations. For example, Fannie Mae requires condominium associations to allocate at least 10 percent of their total annual budget assessment income toward reserves, and Fredde Mac similarly applies a 10 percent reserves allocation for established and new condominium projects. These entities are expected to raise the reserves allocation to a 15 percent starting as early as 2027. The calculation is straight forward: the lender (or professional performing the condominium review) divides the association's annual budget replacement reserve allocation by its total budgeted assessment income to confirm the required ratio. By encouraging more consistent reserve contributions, AB 2050 supports loan eligibility, market stability, and access to financing for homeowners.

6. Arguments in opposition

According to the Center for California Homeowner Association Law, which opposes AB 2050:

The Legislation raises a number of policy questions:

1. The requirement to have a reserve funding plan in place has been law since 2005; yet apparently few HOAs have sufficient reserves. Like the original legislation, AB2050 has no enforcement mechanism either. So why would HOAs fund reserves under AB2050 if they haven't funded them sufficiently in 20+ years? Will HOAs accelerate the use of foreclosure as the "enforcement" tool?
2. If required to fund reserves, will California homeowners be able to KEEP their homes? AB2050 will put at risk seniors, homeowners who lost their jobs or had hours cut during covid and first-time buyers of an affordable HOA home purchased through a local government program – homeowners like those in Yorba Linda.
3. The chief funding mechanism seems to be the special assessment, which often requires a homeowner vote; there is no mention of homeowner participation in these funding decisions let alone a homeowner vote.
4. After HOAs collect the money, who will control the bank accounts? Will the cash be banked in federally-insured financial institutions? OR will industry law firms and property managers continue advising California HOAs to risk it in the capital markets? Many HOAs have already deposited millions of dollars of homeowner money in UNINSURED Merrill Lynch and Morgan Stanley and other investment banking accounts.
5. Will the reserves actually be spent to finance the reserve plan? OR – as is happening now – will reserves be REMOVED by property managers and boards for operating costs and by law firms for litigation – and never restored? 6. Will

HOAs continue using foreclosure to force payment of special assessments to fund reserves?

SUPPORT

Community Associations Institute – California Legislative Action Committee (sponsor)
California Association of Community Managers (CACM)

OPPOSITION

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

RELATED LEGISLATION

Pending Legislation:

AB 2692 (Irwin, 2026) permits the CC&Rs of a CID that have terminated to be reinstated by approval of the owners of the development's separate interests, as specified, limits the applicability of its provisions to the County of Los Angeles, and repeals its provisions on January 1, 2028. AB 2692 is currently pending on the Senate floor.

AB 1184 (Patterson, 2025) excludes a vote for an amendment of an HOA's operating rules from the requirement that the vote be held by secret ballot by the procedures required by the Davis-Sterling Act, among other things. AB 1184 is currently pending before this Committee and will be heard on the same day as this bill.

Prior Legislation:

AB 805 (Torres, Ch. 180, Stats. 2012) comprehensively reorganized and recodified the Davis-Sterling Common Interest Development Act into its current code sections and Civil Code sections 4000 et seq., and made a number of substantive changes to the Act.

(Sterling, Ch. 874, Stats. 1985) established the Davis-Sterling Common Interest Development Act.

PRIOR VOTES:

Senate Housing Committee (Ayes 7, Noes 1)
Assembly Floor (Ayes 59, Noes 7)
Assembly Judiciary Committee (Ayes 10, Noes 1)
Assembly Housing and Community Development Committee (Ayes 11, Noes 0)
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