

400's—Administration

401. Management

The management function of a community association is administrative in nature. The Board of Directors is the principal policy making body for the association. Their role is to govern by establishing policies, operational standards, procedures, fiscal policies and eventually the association's operation budget. Implementing policy governance means the Board does not get involved in the day-to-day operations of the association. The role of the community management professional is to implement the policies and procedures established by the board.

There are various approaches to association management; including the use of unpaid volunteers, hiring association paid staff or utilizing a third party management firm, each of which has its pluses and minuses. Whatever the level of management services selected for the association, clearly defined tasks, and responsibilities will contribute to the overall successful management of the association.

Although the governing body of the association may be willing and capable of managing the physical plant of the association, it may be unwilling or unable to manage the fiscal responsibilities mandated by the governing documents and compliance with existing law. This service may be provided by a management company or financial institution, which will provide fiscal billing for members and in some instances, pay the bills incurred by the association. A higher level of service than that provided by a financial institution may be required to assist the governing body in sound fiscal control management.

The hiring of professional management, whether they be a direct employee of the association or a management firm, is a critical administrative task. Community association management has become a highly technical profession requiring a trained practitioner educated in the State-specific laws in managing California community associations.

As laws continue to be added each year requiring additional compliance of the duties and responsibilities of the board of directors, the association may be well-served to hire skilled professionals in the management of a community association.

The best approach to use when hiring a professional management firm is to clearly articulate prescribed desired and undesired results from management. If this does not occur, it will be impossible and unfair to evaluate the results. It is important to evaluate results and not procedures.

Professional management company

The higher level of fiscal management, or financial service, can usually be obtained through a professional management company. The customary financial service provided by a management firm may include, but is not limited to: collection of assessments, payment of bills, preparation of comprehensive financial reports, which includes: a balance sheet, an income vs. expense statement, receipts and disbursement journal, check register, and delinquency reports. Delinquency follow-up reports and a current members listing are other types of reports that can be generated.

Fiscal billing and collection

An association electing to contract with a management firm that offers minimal fiscal services, or fiscal billing and collection activities (other than delinquency collection), should budget an amount of \$10/unit/month or \$350, whichever is greater.

Financial service

An association electing to contract with a management firm that offers a higher level of fiscal service, or financial service including billing, collection, payment of invoices, preparation of financial statements and fiscal compliance to California Civil Codes should budget \$13/unit/month or \$850 per month, whichever is greater.

Third-party common-interest specialist

The association may wish to contract for management by a third party professional management company specializing in common-interest subdivisions. Not all associations require the same level of management services and not all management companies provide the same level of services.

The cost of professional management is not minimized based on the size of a common interest subdivision. Duties performed are defined in the contract between the board of directors and the managing agent. Functions identified in the contract are driven by the number of hours it requires to perform the required services and not the size of the subdivision. The basis for this approach is legal and statutory as current laws do not differentiate between size or type of common interest subdivisions, or the types of amenities contained within, or whether the subdivision is attached or detached.

When budgeting for professional management in the common interest subdivision, many factors must be considered to facilitate the overall success of the community association. A proposed contract from any service provider that is not sufficient to meet the needs of the community and its future growth will most likely not meet the requirements of Civil Code Sections 5300-5320. This may jeopardize the fiscal health of the community and the owners, and create potential liability to the governing body.

Administration and compliance program

The administration and compliance program encompasses all financial activities of a routine basis for any given fiscal year. They include day-to-day communication and problem solving with unit owners on common area issues and communication with subcontractors performing services for the association. Also included is record keeping for the association, the paper documentation required by law for compliance with State, federal and local regulations and requirements, as well as the attendance at the board of directors meetings and the annual meeting of the association members.

Many new compliance requirements for common interest developments are added each year through legislation. Most new requirements will require additional budgeting costs to Cost Manual line items such as legal, accounting, insurance, management, and education. It is advisable to identify any new laws added each year and budget for any cost required for implementation.

An association that elects to contract for an administrative and compliance program that includes financial services, administrative duties, and compliance with State and federal laws and regulations should budget \$17/unit/month or \$1,900/month, whichever is greater.

Full-service management

Full-service management for the association typically includes the aforementioned administrative services, financial services, support of physical services such as customer service and maintenance requests, plus other administrative services such as recordkeeping, communications with owners, and coordination of meetings. The base management fee should provide for a defined number of personnel hours per month for the management firm to assist the client association. This should include an hourly fee for every hour spent in excess of the defined monthly hours. This fee is exclusive of reimbursable association operating expenses, costs, escrow transactions, collection charges, and implementation of new legislative requirements.

An association that elects to contract for a full service management program, as well as defined management services including the creation and implementation for maintenance of physical components, should budget based on project type.

Some associations may choose to employ a full-time association manager and other staff to perform similar functions “on-site” for the day-to-day operations. The salary for the manager or any employee will depend on a number of factors, including experience and training. An employee manager is referred to as the general manager and the contract should be negotiated by the board of directors in advance of the annual budget. This arrangement is typically found in communities with 300 or more units. Annual salaries for general managers can range from \$50,000–\$160,000, based on experience and the type of community they will manage.

General managers for high-rise and large-scale or master planned communities will typically command higher salaries due to the skill set necessary. High-rise communities, depending on the complexity and needs of the infrastructure, should consider budgeting for a chief engineer or plant facilitator. Chief engineers are usually

certified in two or more trades. Careful consideration should be given to all staffing requirements for these types of communities.

If an association wants to have an “on-site” manager but does not wish to become the employer, it should contract with a managing agent who will hire the general manager to be placed on-site. An association electing to implement this employee program should budget for the salary requirements plus an additional 35%–40% for payroll costs and benefits, exclusive of the basic services included in the base management fee.

As developments increase in size, the work to be performed intensifies as the number of members who have access to management increases with each unit added. Additionally, as the association ages, the cost to perform services (administration) intensifies as the reactive mode of operation is more time consuming and costly to perform.

Summary

Whatever form of financial, administrative, or management program is budgeted for the association, the following cost guidelines have been developed from actual industry practices:

- *Small associations*
with less than 12 units self-managed
\$10 per unit per month or
\$150 per month, whichever is greater
- *Fiscal billing and collection activities (other than delinquency collection)*
\$10 per unit per month or
\$350 per month, whichever is greater
- *Financial service*
including billing, collection, payment of invoices, preparation of financial statements, and fiscal compliance to California Civil Codes
\$13 per unit per month or
\$850 per month, whichever is greater
- *Administrative and compliance program*
which includes financial services, administrative duties, and compliance to regulations and California Civil Codes

\$17 per unit per month or
\$1,900 per month, whichever is greater

- *Full-service management program*
which includes financial services, administrative program, as well as defined management activities involving the creation and implementation of plans for the maintenance of physical amenities—larger associations
\$20–\$30 per unit per month or
\$4,000 per month, whichever is greater
- *Full-service management program by full-time association employee*
large associations
\$4,200 or more (depending on size) a month per manager plus 35% for payroll costs and benefits
- *Full-service management by product type*
Attached units
Base fee of \$2,500/month or \$15–\$20/unit/month, whichever is greater.

Mid-Rise Condominiums (30–60 feet high): Base fee of \$3,500/month or \$25–\$35/unit/month, whichever is greater.

High-Rise Condominiums (over 70 feet): Base fee of \$4,500/month or \$35–\$50 unit/month, whichever is greater.

Detached Units

Master Planned Communities: Base fee of \$2,500/month or \$15–\$20/unit/month, whichever is greater.

Planned Developments: Base fee of \$2,500 or \$15–\$20/unit/month, whichever is greater.

Some mid-rise projects can be as labor intensive as a high-rise project and, conversely, some high-rise projects may be less labor intensive. Costs will depend on the complexity and level of service provided.

If on-site staff is added, additional budget line items should be factored in for personnel costs. These costs are not included in the base management fee. Any employee hired by the association or provided through the management

company will cost the rate of the salary commensurate with current market conditions plus 35–40% for payroll costs and benefits.

Other typical services required but not included in the above programs include, but are not limited to:

- Coordination of alternative dispute resolutions litigation
- Minute taking and preparation of meetings of the association
- Collection of delinquent accounts
- Property inspections
- Rules enforcement/proceedings
- Architectural processing and monitoring
- Attendance at association meetings beyond one per month
- Transfer of owner documentation
- Securing proposals for subcontractors work (particularly with reserve items)

These services are typically charged on an hourly basis to the association that may cost \$55 or more per hour depending on the complexity of the program. Amounts that are less than or exceptionally higher than what is covered under this section must be submitted with the appropriate substantiating documentation.

402. Legal Services

The association may require counseling services of an attorney for any number of reasons. It is considered advisable to budget during the early years of an association's existence for these counseling services. For projects less than 12 units, the figure of \$850 per year should be sufficient, and for projects more than 12 units, use the figure of \$1,500 per year or \$50 per unit per year, whichever is the larger amount.

If the association becomes involved in litigation that requires the payment of a substantial amount for attorney fees and costs, and such expenses can be anticipated for a budget year, the regular assessment should be increased

to defray these costs. In those cases where the expense is an unexpected one, the money may have to be raised by a special assessment.

403. Accounting

Civil Code sections 5300 and 5305 require that the CC&Rs or bylaws of a common interest subdivision provide for the preparation and distribution of an annual operating statement and a balance sheet of the association to members within 120 days after the close of the fiscal year. In any fiscal year in which the gross income to the association exceeds \$75,000, these fiscal year financial statements must be the result of an external review by an independent public accountant. Even where an external review is not required, an expense will be incurred by the association unless a member of the association with accounting expertise is willing to donate his/her services.

According to Civil Code section 5300, the board of directors is required to give annual financial statements to all members. These statements include, but are not limited to, an annual proforma operating budget. See Civil Code section 5300 for details about other requirements.

For associations with expected gross annual income of more than \$75,000, the cost of an uncertified audit or financial review may begin at \$1,200. As the number of units increase, so will the cost. Therefore, we recommend budgeting \$1,200 per year or \$15 per unit per year, whichever is greater. The minimum cost for a certified audit ranges from \$1,800–\$4,500 depending on the size of the community.

For associations with expected gross annual income of less than \$75,000, financial review/tax preparation can be expected to cost \$750 per year.

It is a good practice to obtain quotes from several accountants as the basis for the budgetary estimate for the annual review or certified audit and preparation of federal and State tax returns.

404. Education

Due to the sophistication required in running a homeowners' association, it is incumbent that board members and officers be familiar with the laws, regulations, codes, governing documents, etc. that impact their fiduciary duties and responsibilities. Courses and seminars are available through various industry groups such as the Building Industry Association (BIA), Community Associations Institute (CAI), California Association of Community Managers (CACM), Executive Council of Homeowners (ECHO), etc. There are also courses available at community colleges, adult education programs, etc.

Since board members change and courses are not always available when needed, the cost for education should be continuous. The recommended minimum is \$2 per unit per month or \$25 per month whichever is greater, but no more than \$3,000 per year. This is based on the assumption that not all board members will attend courses at the same time, or even the same course. Another way for boards to keep abreast of current changes in the laws, etc. is to purchase reference material and/or industry periodicals.

Note: If education is provided as part of the Association management contract, it is not necessary to budget separately for this item. Provide a copy of the management contract when submitting the Duplicate Budget Package.

In addition to this manual, DRE publishes another manual titled *Reserve Study Guidelines for Homeowners' Association Budgets*. Also, two other good sources for real estate law and regulations are the *Real Estate Law Book*, published by DRE, and the *Condominium Blue Book* published by Branden E. Bickel, B&B Publications.

405. Miscellaneous

This category encompasses the purchase and repair of supplies and equipment for the conduct of the association's business and the cost of renting business office, storage and meeting space if such space is not available within the subdivision common area. If office and storage space within the common area is non-existent or inadequate, it may be necessary to rent such space from a resident within the subdivision or in a nearby community. Additional expenses could include newsletters and/or correspondence.

Frequently the common area does not include a meeting room large enough for regular or special meetings of the members of the association. Such rooms are generally available at no cost or at a nominal cost in churches, schools, or other public buildings.

It is recommended to budget \$4–\$5/per unit per month for this category.