

Considering Self-Management

There's More To It Than You May Think

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Summary

Transitioning management firms is a complex and costly undertaking for any community association, and it disrupts the ownership's standard ways of knowing who to contact and where to pay assessments, making things difficult for them. However, if the Board determines a change is necessary, solid planning and great communication with membership are key to a smooth management transition.

October is my favorite month of the year. Autumn is upon us and with it brings foggy mornings, crisp sunny afternoons, football season, changing leaf colors and budget season. Yes, I said budget season. It's the time of year that I sit down with my clients and discuss their plans for the upcoming year and how to best achieve their goals for their Association. Inevitably, there will be those Board members, when considering cost savings, that will contemplate self-management. The annual management expense an Association pays can be one of its highest.

When considering only the math, eliminating one of the highest expenses and turning those services over to volunteers can seem like a huge cost savings. However, the management of an Association is a lot like an iceberg. You only see a small portion of it at the surface and it's what's under the surface that can sink your ship. A volunteer Board should be sure it fully understands its legal requirements and obligations before it makes the decision to go it alone. For the purposes of this article, I am referring to self-management as management by only volunteer homeowners.

In my experience, the decision to terminate professional third-party management and go-it-alone usually comes after some version of one of the following reasons:

- The Association is a very small homeowners' association of single family homes with no common areas and an active Board who have the time and willingness to tackle the many required tasks of overseeing their community.
- The Association has a very efficient, capable manager who makes management of the Association seem effortless thus Board members may think to themselves, "I can do that."
- The Association has struggled with their manager and finds themselves doing most of the work already. They say to each other, "Other than paying our bills, I don't really know what our manager does." Instead of looking for a new management company, the Board wonders if they shouldn't just do it themselves.
- The Association has certain projects or actions they want to undertake but their management company keeps telling them they aren't permitted or management makes the process to complete the project seem more complicated and expensive than it needs to be.

I have had the experience of transitioning communities to self-management. I have also had the experience of transitioning some self-managed Associations back to professional management. The one commonality that both situations have are the volunteers. A dedicated, engaged, involved and capable Board of volunteers is an Association's most valuable asset. They can be the glue that holds the community together and just seem to get things done. With that said, there have been many times when a self-managed Association will contact my company looking for quotes. It is usually because the very active Board members who did the work of managing the Association have left the Board and the new volunteers are amazed at how much work is involved and find it taking

over their life. Whatever your association's status, a Board should make sure it fully understands the pros and cons to becoming self-managed.

Quality of Life

I share an office with a manager who also serves as the president of her Condominium Board. I will often hear the story of how owners will come knock on her door to ask questions about the pool, complain about parking or find out when the next meeting will be held. "Even with a professional manager, I still devote a tremendous amount of time to the Association. I can't even imagine how much that would increase if we were self-managed." When a management company handles the stressful work of fielding calls and complaints from owners and following up on unpaid assessments, board members' lives become much less stressful. In addition, if you're in the unfortunate position of being unable to find owners willing to volunteer for association projects, an outside company can relieve your burden. One item a Board who is contemplating self-management should consider is the dreaded 2:00 am emergency call. Who do owners call if they have water coming through a light fixture or a car went through your entrance monument?

Financial Record Keeping

You have the dream team of a Board including a treasurer who is a CPA! But does your Board fully understand accrual accounting, restricted funds, fund accounting and the requirements for audits and reserve studies in accordance with state laws and your governing documents? Does your Board have the understanding, expertise and time to ensure that late fees and interest charges are applied correctly? Some Associations can have Declarations that detail different assessment allocations depending on the unit type. Does the Board have the confidence that they are assessing the homes correctly? If your association has challenges with unpaid owners, does it have a good collections attorney and will that attorney even handle the matter if a Board member keeps the books? Do you have a high percentage of owners who use auto pay and will transitioning to self-management eliminate that payment method? Will your association have a need to obtain a loan at any time in the near future? Some banks who offer Association lending may only work with Associations who are professionally managed. Also, the Association has a legal obligation to provide owners access to financial records so a self-managed community should ensure it has a process or the technology in place to accommodate those requests. Finally, the Board should have a formal risk management process in place to make sure bank accounts are reconciled correctly, fidelity insurance is adequate and that there is a backup Board member who is willing to take over should your current treasurer need a break.

In addition to the daily accounting that needs to be handled, other financial tasks your Association must manage may include: annual federal tax return, annual corporate renewal with the Secretary of State, requirements around performing or waiving your annual audit, ratification of an annual budget, FHA approvals, resale and escrow disclosures and demands, legal requirements around general liability and other forms of insurance and a slew of requirements and best practices around the collectability of unpaid assessments.

Vendor Management

A Board should recognize that they will now become responsible for the hiring, firing and oversight of the vendors working at their Association. From landscapers to gutter cleaners, attorneys to auditors, requests for bids, development of the scope of work, verification of qualifications, insurance and warranty will now need to be handled by volunteers. A Board will want to make sure they have experienced professionals like attorneys, insurance professionals and auditors available when complex situations arise.

Okay, okay, okay, I can't scare you. You've thought long and hard reviewed your Association's history and as a Board you are unanimous in your decision to terminate third party management. A few more things you must do first:

Verify your Governing Documents

Some Declarations may either require professional management, or require a formal vote of the owners before it can be self-managed. Carefully review your governing documents to verify if there are any such provisions for your Association. Better yet, consult with your Association's attorney if you aren't sure.

Involve your Community

Be open with the members of your community. There will be bumps, and some errors made. If you decide to self-manage, make sure you inform the members of the process. Some owners may feel strongly one way or the other.

While the decision is ultimately that of the Board, it is a large decision that will impact all the owners. If your membership is willing to pull together and interact and be supportive of the process then you can be successful and at least get a sense if there is a pool of volunteers to glean from.

Self-managing takes knowledge and effort. The Board has an obligation to uphold the Association's Governing Documents, protect the community and people's investments. Whether your association consists of 4 units or 400, it is and should be conducted as a business. The Board has the responsibility to act reasonably and properly. If the required expertise is present, sufficient time can be devoted to this duty, and the necessary qualities are present in your Association then self-management is a viable option. In closing a Board should weigh carefully how many homes comprise the Association, how many services, common areas and obligations it is responsible for and the requirements put upon the Board by various regulatory mechanisms. Add up those factors and then multiply it by the scrutiny of the owners, divide by how much time you can devote to your volunteer position and then make an informed decision about your next steps.