



Transitioning an Association from Self-Managed to Professionally Managed

Changing your Association from self-managed to professionally-managed is an important decision for any Board of Directors. We hope you will find this information helpful as you consider this alternative for your community association.

The major responsibility of any community association Board of Directors is management. Although the association can hire assistance in operations management and property maintenance, the Board remains responsible and accountable for HOA management policy.

There are **three** basic management alternatives for the Board to consider:

1. **Self-management by the Board of Directors.** The Board establishes policy and procedures, and employs several companies and/or individuals by contracting for various maintenance and operating services, and the Board supervises their performances.
2. **Self-management utilizing a Community Manager plus staff, all employed by the Board of Directors.** The Board employs a full-time community manager/administrator who assumes all maintenance and operation responsibilities. Under this alternative, the Board sets policy, supervises the manager, approves the budgets, and monitors expenditures.
3. **Professional management utilizing a Community Manager employed by the management company.** The Board contracts with a professional management company for property maintenance, operations, and management responsibilities using the management company's employees. The Board is responsible for setting policy and approving an annual budget.

In any community there are various factors, such as resources, complexity and available talent, which influence the type of management that is appropriate. Important factors to consider include:

1. **Community Size and Complexity.** Generally the larger the association and more diverse its services, the more sophisticated the management system and skill required.
2. **Financial Resources Available.** The smaller the available funds in an association budget, the lower the level of affordable management sophistication.
3. **Complexity of Community.** The more complex the community, and the more sophisticated care and attention it requires, the more sophisticated and experienced the management personnel must be.
4. **Availability of Appropriate Volunteer Resources.** The less the owners are willing, or able, to volunteer time to carry out administrative functions and the less the administrative talents needed are available, the more contractual talent will be required of the management company.
5. **Extent of Services and Amenities.** The greater the number, variety and complexity of association services and amenities, the greater the administrative burden.

At first glance, it may appear that hiring a management company will increase the cost of running the association. You will be paying a "management fee" that you don't have to pay with an independent CAM, however, there are several other ways that a management company can help you reduce your other costs.

ADVANTAGES OF PROFESSIONAL MANAGEMENT

1. Support team. Management companies have personnel with varied expertise available at any given time to assist the on-site manager and the Board of Directors or committees as needed. The support team would be available to assist the manager or Board of Directors in developing policies, homeowner's handbooks, assisting in holding annual election meetings, special homeowner's meetings, etc.
2. A management company will have tested operational systems and proven procedures already in place.
3. A management company relieves the Board of employer/personnel burden and the task of service contractor selection and supervision.
4. There is a depth of personnel to prevent disruption of service because any one person is not available.
5. A management company can be more neutral and impartial in implementing and enforcing Board policy and CC&R's. The management company would treat this as a business and all homeowners will be treated fairly and professionally as a third-party. This relieves, or insulates, the Board from personal homeowner interference or attack. A management company has on-site training, education and replacement personnel available to the association.
6. All bookkeeping functions are performed in the management company's administrative office. The advantages is that it offers a check and balance system in addition to reducing the association's on-site staff. The bookkeeper will have the benefit of supervision by a Controller, and in the case of absenteeism, a back-up bookkeeper can step in at any time so as not to interrupt accounting services for the association.
7. Cost savings to the association in the selection of subcontractors. Many large management companies have subcontractors in all fields of maintenance to whom they give a great volume of business. Many times they can secure substantial discounts which are passed onto the association due to the volume of business the management company is giving to that subcontractor. In addition, the management company will only recommend experienced, proven subcontractors...people who have earned their respect and who have a good track record with the management company at other associations.
8. A management company is better qualified to hire and terminate employees and to perform an on-going evaluation of the on-site staff.

DISADVANTAGES OF SELF-MANAGEMENT

1. The Board becomes an employer and must deal with resulting personnel issues.
2. Difficulty finding and retaining the appropriate combinations of skill and experience to coincide with existing budget.
3. Additional costs incurred due to the need for replacement because of illness, vacations and disruptions that result from unexpected terminations.
4. The Board must have sufficient volume of the right work for talent hired to achieve appropriate cost-benefit ratio.
5. If accounting is done on-site, it is impossible to have a check and balance system in place and is also very costly.
6. Board time and involvement. The majority of Boards do not have sufficient time to commit on a day-to-day or month-to-month basis.

When the Board determines that management by a professional management company is the preferred method, and that a competent and experienced company is available at a fee which the association is willing to pay for services rendered, then the process of finding the right management company begins. Define your requirements and identify qualified Management Companies to ask for a bid. Make sure you define the criteria that are important for you in the selection process. Selection criteria examples to consider include:

- **Reputation/feedback** from references in the area, is this a company you can trust to do what is best for your community?
- **Contract flexibility** – will you be locked into an agreement that won't allow changes?

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- **Customization** – does the management company force processes on the Association? Or can they tailor their services to meet the needs of the community?
- **Quality of the people** – look beyond the sales team to understand the quality of people in the company – how does the company hire, develop and retain employees?
- **Understand the total cost** – some companies have a wide variety of surcharges/extra fees that can increase the cost of their services.

If you let the community manager manage, then the time involvement for the Board and/or their appointed committees will be less. Remember...as the Board of Directors, one of your main functions is to direct and advise the management company. The many hours per week involved in accomplishing property tasks will be the responsibility of your new management company and its staff.