



# NEWS AND VIEWS

*for Homeowners Associations*

DAVID BROCK, PCAM



## BUDGET DEVELOPMENT

Every Common Interest Development (CID) must prepare an annual budget and distribute it to all owners by first-class mail between thirty and ninety days prior to the start of the fiscal year. This process can be a challenging endeavor for most every Association. Generally always, financial issues pose some of the greatest political challenges for the association. Without fail, in every association there will be owners who think the assessments are already too high. Others believe that assessments need to increase to adequately provide for future capital improvements and to  
*(continued on page 2)*

## President of the Board!

Every organization must have leadership in order to function. Without question, organizations with a strong and cohesive leadership team in place are more stable and healthy. The nature of homeowner association leadership is based on a board of directors that are elected by its members. Clearly the Board, or leadership team, also must have a leader. The President of the association is the most important position of the board and the leadership ability of the President will largely determine how successful the Association operates. Much like the conductor of an orchestra, the job of President is to unite the performers and set the tempo. It is important to note, that as important the job of President is, the President does not have any more authority than that of any other Board member. The President cannot individually determine anything, and the President has only one vote on issues before the board. Let's look first at the unique role of the President and then we will examine the skills and qualities required of a great President.

The job of President involves the following primary functions:

- 1) Schedules and determines the Agenda for all meetings of the Association.
- 2) Chairs the Board meeting, keeping the discussion on subject, and not allowing tangents to develop. The goal of every meeting is to make decisions. The President should work to make sure that all members receive and

review material regarding the decisions to be made, prior to the meeting.

- 3) The President manages the board and not the association unless there is no management company. In managing the board, the President should make sure that the board is comprised of active and committed Board members. Each board member should have a job to do. The President must be sure that all board members are functioning in their assigned position while being careful to not do their work.

- 4) The Board President is the official spokesperson for the Association and represents the Board and Association to third parties. The job of representing the Association to vendors can be delegated to other Board members; however it is important that only one member be the contact with vendors, so that the Board always speaks with one voice.

- 5) The President must focus on the big picture for the Association. This includes understanding the needs and goals of the Association, and keeping the Board on task to address them through the course of the year. The President should be the first to recognize when outside help is needed such as legal or other technical advice.

- 6) One important need for every association is the recruitment of new board members to serve. The President should always be thinking about recruiting and training future Board members. Vacancies will always occur and most volunteer Board members don't want job security.

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*Budget Development, continued...*

maintain the property in a way that enhances pride of ownership and maintains property values.

A budget is a tool to plan for expenditures and is developed by predicting the future using the best information available at the time. A budget is not an iron-clad set of constraints; it is an estimate of what the HOA will need for the next year.

In the preparation of the budget, there are some important steps to follow:

1. The budget begins with having good financial reports for the current partial year, and the most recently completed full year. If the reports are properly created, the budget comparison report will be very helpful and the process is much easier.

2. Beginning with the historical record of expenses, determine how much money is needed to properly operate the association for each line item. Do not start this process by determining that you will maintain or lower the current dues amount. A typical association budget is broken down into four broad categories:

administrative, utilities, contract services, and maintenance.

3. With each category, it will be necessary to observe past trends for each line item. Call the utility providers, speak to your insurance agent, and consider checking with your current contracted vendors. It may not be a good idea to check with contracted vendors regarding future increases as you may not want to invite or suggest an increase.

4. Be sure to begin the reserve study early enough so that the recommendations are available by the ninth or tenth month of the fiscal year. Include the recommendations of the reserve study in your budget, or justify why you don't.

5. The determination of assessments is the last step in the budgeting process once you know what the needs of the Association are.

Some of the common mistakes in the budget process include:

1. Not funding reserves: currently lenders require associations to fund at least 10% of the operating budget into reserves at a minimum, or to explain why they are not following

the recommendations of the reserve study. Potential buyers are looking at the level of reserve funding as well.

2. Cutting maintenance expenses, similar to cutting reserves may be perceived as a short term win, however, it usually takes only two to three years for owners to realize that this was not a good path.

3. Not anticipating delinquent assessments - base it on actual numbers from the previous year. Many associations have experienced a loss of between ten and twenty percent of uncollected assessments in 2011. It is strongly recommended to include a line item for bad debt.

In conclusion, successful budgeting is a combination of skill and research combined with art and science. The board has a fiduciary duty to the membership to budget adequately for anticipated costs and proper reserve transfers. With historical data and logical reasoning, you can make the best possible predictions of future expenses and end up with the most accurate budget.

*President of the Board, continued...*

There are important qualities that every President should possess. First, any President of an Association should not be new to the board. It is always best to be trained for this position, and the best training comes from serving in another position on the board first. Board service on another HOA board or the board of a non-profit is also good training.

The qualities of a good President include being organized, an ability to see the big picture as well as the ability to create a team spirit. Good Presidents don't get involved in the minutiae but delegate those to other Board members, or a committee. In addition, excellent communication skills, both written and verbal, are essential.

In closing, the position of association President is not for everyone. Hopefully in your association the President is the leader that inspires confidence and earns the respect and trust of your owners.



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## Conflicts Abound in HOA Living

Conflict exists in many homeowner associations. Condominium ownership is ripe for conflict and the sad reality is that the price of conflict is great. We have seen board members leave their board because they just couldn't take it. There have been owners who want to sell and get out of the association because of the extreme nature of the conflict. Many people who are current owners of a condominium have stated that they would never buy another condo because of their observations of how boards appear to operate.

It is not difficult to see why conflict occurs in many HOA's given the "perfect storm" as Attorney Matt Ober of Richardson Harman Ober, PC has observed: In HOA's there exists multiple families and individuals living closely together, with common walls, floors and ceilings, and those individuals are governed by a complicated set of legal documents, changing state laws, and a volunteer Board of Directors, most of whom do not want the job. Additionally, two very important aspects of people's lives

are being affected: their homes, and their money. There is no question that conflict can become expensive, particularly in legal fees and time spent by Board members in addressing issues of conflict. It would be a great thing for both of these reasons if extreme cases of conflict could be avoided. This is not to say that disagreement or low levels of conflict can be avoided, as these are an unavoidable part of life. However if some proactive steps were taken by associations, it would help to reduce some major conflict from developing into a full-blown legal nightmare within your association.

Here are some proactive suggestions to help reduce the potential of conflict.

1) As a board conduct regular meetings monthly, or at minimum, quarterly, with posted agendas.

2) Make as many decisions as possible in the open, not behind closed doors. This means, no-email discussion or decisions.

3) "Open Forum" periods of the meeting are important, as owners

need to feel that they are heard. Board members should never try to participate in the "Open Forum" time, except to ask questions of clarification or to thank the owner for their input. There is no need to respond or defend prior board actions.

4) Treat every owner with kindness and respect, even if it is not deserved or reciprocated by them.

5) Be completely objective in every decision and vote for your association. Board members who operate properly as board members cannot decide issues based on their own desires, but rather on what is best for the association.

Some of these ideas are easier said than done, however as adopted, a board will benefit in reducing conflict and ultimately legal expenses.

The subject of conflict in associations will be addressed in depth at the next seminar on October 12th. Reservations are necessary and the information regarding making a reservation is contained in this newsletter.

## Legislative Update

As we enter the final months of the legislative year we are watching closely Assembly Bill 2273. The bill requires recordation of foreclosure sales within 30 days after sale and it also speeds up notification to HOAs if the HOA previously recorded a request for this information.

The recordation will identify the foreclosing party, which will enable HOAs to immediately begin invoicing for assessments instead of requiring the shortfall in revenue to be borne by the remaining owners.

If you are interested in helping to lobby legislators for this bill or other HOA related bills to be introduced in the future, you may provide your email to us for this purpose.

Send us an email at: [HOANewsletter@bevenandbrock.com](mailto:HOANewsletter@bevenandbrock.com) to let us know of your interest.

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*\*Seminar Announcement*

## CONFLICT MANAGEMENT IN HOA'S October 11, 2012

- The sources of conflict in HOA's.
- Available options to resolve conflict.
- Discover the required tools to minimize conflict.
- What is Internal Dispute Resolution?
- How is Alternative Dispute Resolution handled?
- Use of Rules and Regulations to avoid conflict.
- Mediation - Does it work?
- Creative Problem Solving approaches.
- Pro-active Conflict avoidance strategies.

### Speakers

Mr. Matt Ober, Esq; Partner, Richardson Harman Ober PC; Mr. Anthony Matthews; Mediator

To register for this seminar, you may call (626) 795-3282, Ext. 886; or by email at [HOASeminars@bevenandbrock.com](mailto:HOASeminars@bevenandbrock.com)

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### - NEW ASSOCIATION SPOTLIGHT -

Beven & Brock is pleased to announce management of the newly constructed Doran Gardens, a 57-unit Craftsman style property in downtown Glendale on W. Doran St. The property, while not fully sold out yet, is an affordable home ownership property with prices as low as \$231,000.00. We applaud Charles Loveman and the folks at Heritage Housing Partners for the completion of a very successful project.

HOMEOWNER ASSOCIATION NEWSLETTER