



HOA Homefront

What To Look For In A Community Association Manager, Part III - The Contract

By: Kelly G. Richardson

The last HOA Homefront column addressed credentials and certifications for common interest development managers. [If you missed it, you can find it on HOAHomefront.com]. After deciding what type of management services to retain, and selecting the manager, the final step is the contract.

Determine the desired level and amount of services, and then look at price. Hiring a manager solely on price is a mistake, because you may learn that "you get what you pay for." Major factors affecting the management fee are:

- (1) Level of service desired.
- (2) Workload, or number of accounts handled by the manager.
- (3) Quality of personnel □ higher qualified managers require higher salaries.
- (4) Charges for extra services such as longer meetings, escrow demands, or lien fees. The association should receive a schedule of such charges and fees along with the contract. Look beyond the bare base fee quoted, and make sure the fee matches the level of service your association desires and can afford.

Reviewing the contract:

Before signing the contract, hopefully legal counsel will review it for you, but at least look for some key issues. Space does not permit a complete list, but here are some you may wish to consider.

Workload:

How many other associations is the manager to handle along with your association, and how larger are the other accounts? Fifteen may be fine, and two others may be too much, depending upon the nature

of the other accounts and the nature of service your association desires.

Vendor tie-ins:

Does the company require, or just offer, additional services such as recording liens, or does it have an affiliated vendor to which it refers ordinary non-management work, such as maintenance or repairs? Such services are convenient, but the association should have the choice, not the obligation. There might be a choice between convenience and the possibility that the services could be obtained at lower cost elsewhere.

Term of contract:

The contract may require the commitment to a specific term. Commencing management of an association involves much start up organizational work, and it can take months before the firm begins to realize any profit from its fee. A general manager of course desires some job security, so that kind of contract also will often have a guaranteed term. It is not fair to the management firm or manager to resist any minimum guaranteed term, but include a cancellation right with a reasonable buy out fee.

Does the contract automatically annually renew?

Unless there is a thirty day cancellation right, resist automatic renewal, because after the first year there is no reason to lock in most associations year after year.

Funds handling:

Will the company deposit association's money in its trust account and sign checks? This is far more convenient for the company, but the better choice is to require that the account be the association's, with general account checks signed by two directors and reserve checks by three.

Fidelity insurance:

Does the management firm's insurance include fidelity (dishonesty) coverage? Most experts recommend fidelity insurance in an amount sufficient to cover at least three full months of assessment receipts. \$25,000 of such coverage may seem sufficient, unless that policy limit applies to all its clients. Is the insurance covering only your association or is the amount spread between fifteen others?

Timothy Cline, a leading insurance broker, recommends confirming there is a "specific fidelity coverage limit not shared by other associations by obtaining fidelity coverage in the name of the Association with a 'management agent rider'" included.

On the other hand, Michael Berg, another leading broker, says there are programs in which the management firm is the named insured on bonds for each client, so the company has bond limits totaling the needs of all its clients.

Find a good manager; carefully review the management contract; request reasonable changes; start a strong manager-association relationship — and keep it for a while!

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