

A SUCCESSFUL BOARD

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PROBLEM

Three years ago at a Homeowner Association meeting, the previous Board of Directors proposed raising the dues to implement a long range maintenance plan without future special assessments. The plan was overwhelmingly approved by the Homeowners.

The funding plan was implemented however the maintenance plan (specifically painting) was not and as a result the property has declined. Now, the current Board must develop a new plan to address this situation. Does this sound familiar?

Common Board Problems

My experience with four Boards is that they have common problems: more requirements than money, more opinions than facts, and more activity than results. Yet there is a way to succeed.

VALUES

The foundation for Board success starts with values. Defining values ensures that Board members are all working with the same general principles and direction in mind. While each Board should define their own set of values, there are common core values.

Common Core Values

Philosophically, Boards have to:

- (1) Place community interests above personal interests,
- (2) Operate as a team rather than individuals,
- (3) Treat Homeowners as customers, and
- (4) Be proactive – in everything.

Operationally, Boards have to:

- (1) Plan well - and well in advance,
- (2) Develop a community consensus for their goals and direction that addresses Homeowners' priorities and satisfaction,
- (3) Involve the Homeowners in participative management by providing them with options for key decisions,
- (4) Be financially prudent in meeting their fiduciary responsibility,
- (5) Execute their plans within the constraints of time, money, and quality, and
- (6) Communicate, communicate, communicate.

GOALS

In addition to values, communities should have a vision or direction as defined by goals which are measurable. All communities have at least three goals: Value, Beauty, and Friendliness.

Value is making the community distinctive, competitive, and financially healthy. Enjoying high property value appreciation as a return on Homeowner investment of dues and special assessments. This should concern the Board.

Beauty is having an attractive and functional community. Coupled to this is operational excellence in delivering services to the community. These concern the Community Manager.

Friendliness is having friends rather than strangers as neighbors, serving the community via the Board or Committees, and helping develop a consensus on key decisions. Homeowners should volunteer their time, not just ideas.

HOMEOWNER VIEWPOINTS

How should the current Board proceed with this maintenance and credibility problem? The first step is to understand your customers, the Homeowners, potential viewpoints and take this into account when formulating a new maintenance plan.

Homeowners may think that:

- (1) Dues were collected already to pay for this maintenance,
- (2) The maintenance plan was not implemented without good reason,
- (3) The Reserves Account was still funded this year with a substantial balance,
- (4) The property appearance has declined, especially compared to new, abundant competition,
- (5) Homeowners have made repairs at their own expense (eg, replace exterior wood rotting caused by a lack of paint),
- (6) Homeowners selling their homes have experienced less than market appreciation recently,
- (7) Communication to Homeowners on the maintenance plan and its implementation progress has been nil,
- (8) The Board has not executed its fiduciary responsibility. (This responsibility is more than just accounting for monies collected, but also ensuring monies are spent where promised and the community is in better shape after having served on the Board.), and
- (9) Homeowners may have less trust and confidence in the Board's ability to plan and implement.

SOLUTION

The solution comes in two parts: (1) a choice of options to solve the immediate problem and (2) a long range plan to prevent future problems. To start, the Board should prepare to hold a Special Homeowners Meeting with the following agenda:

Describe the Maintenance Problem

The Board should reset Homeowners expectations by acknowledging the current maintenance status. If the new Board is to be trusted, they have to represent truth and reality. Acting defensive will be counter-productive.

Explain the Cause of the Problem

The Board should openly explain WHY the maintenance plan was not implemented (ie, lack funding, money spent in other areas, other spending more than planned, lack available vendors, dropped the plan, etc). The purpose here is not to assign blame but to regain trust with the Homeowners towards establishing a new and credible plan.

Present Immediate Maintenance Options for the Homeowners Selection

To solve the immediate problem, the Board should prepare at least three options for Homeowners consideration and selection. In this way, the Board is asking the Homeowners to participate in the decision-making process and thus increase their buy-in of the resulting plan. These options, representing immediate implementation (next six-months), should be presented objectively by the Board with their pros and cons summarized. Generally, Homeowners are more reluctant to accept a single solution dictated by the Board.

In preparation for the meeting, the Board should consider a wide-range of options and rank them based on a pre-set criteria. Only the top three options should be presented at the meeting. The Board should look at this as a business transaction, because that is the general perspective of Homeowners. In other words, the Homeowners were sold a product for a certain price and a specified delivery date. Now will the Homeowners be asked to pay more, for a later delivery date, and for a worse product? Given the facts, maybe the Board should

use all existing funds completely BEFORE asking Homeowners for more money. Homeowners may not appreciate shouldering all of the solution for a problem not of their making.

For example, one option might be painting the siding on all buildings but not the trim. This would be cheaper than painting everything and enable a change in exterior color if desired. This may be enough to solve the immediate appearance problem.

The options should be fully assessed and this will require real work of the Board. What maintenance will occur, who will do the work, when will the work be done, how much will the work cost, how will the cost be funded and on what schedule? Cost and schedule quotes should be committed by vendors to be meaningful. A cash flow analysis should be prepared by the Community Manager to lend credibility. Whatever the current Board promises as an option, they must be able to deliver - completely!

Build a Homeowners Consensus on One Maintenance Option

At the Special Homeowners Meeting, the Board should be open and objective. In the end, the Board needs to develop a consensus for one option. Developing this consensus is a process of collaboration: listening patiently to Homeowner concerns, helping Homeowners understand the plan is at least reasonable though possibly not the best in their individual views, and being open to integrating Homeowner suggestions into the plan to promote ownership. A majority vote is NOT a consensus.

Establish a Date for a Long Range Maintenance Plan

The Board should commit a date for presenting a long-range maintenance plan to the community. Be careful about the date; Boards should under-promise and over-deliver.

In this way, the Board is both addressing the immediate problem and trying to prevent its reoccurrence. This plan represents a long-term pact between the Board, Community Manager, and Homeowners – not to be broken without substantial reason.

LONG RANGE MAINTENANCE PLAN

After the immediate problem is addressed, the Board should begin preparation of long-range maintenance and funding plans for presentation to the Homeowners.

Goal

The plan should be designed to achieve the community's goals. If no goal exists, the Board needs to define one. For example, a goal might be "ours is a premier community and should remain distinctive from, and competitive with, newer communities so as to enjoy the highest property value appreciation".

The long range plan should consist of the following:

Capital Items List

What are the capital/maintenance items of the community, their effective age, and their estimated cost? Actually inventory your community's assets and evaluate their effective age. Consider what maintenance action should be taken and when. Some items may only need repair, others require replacement, and still others a combination of repair now (to prolong life) and replacement later. Get age and cost estimates for repair and replacement from your Community Manager and/or Vendors.

Financial Policy

How will capital maintenance improvements be funded? How does the Board ensure all Homeowners pay equitably for these improvements? There are generally three options: (1) All dues, (2) All special assessments, or (3) a Combination.

All Dues - means raising the dues sufficiently to eliminate future special assessments. Calculate the total maintenance needs for the next five years and average the total into a

monthly amount. Just raising the dues may not be adequate considering cash flow (dues contribution to a reserves account may not be fast enough to accommodate the near-term maintenance spending). This approach is the most equitable for all Homeowners however some may want to keep their money until absolutely necessary.

All Special Assessments - sounds very equitable; Homeowners pay just when maintenance needs arise. However some people may buy and sell their homes at convenient times and thus avoid a special assessment even though they contributed to the wear and tear. Most Homeowners dislike special assessments because they represent a surprise – and they are a surprise if the Board did not plan far enough in advance. If a special assessment is needed, it should require a defined time of notice (6 to 12 months) to Homeowners before collection begins.

A Combination - is a mix of dues and special assessments involving the use of reserves as a savings account. Many Associations live basically with only a checking account, while most Homeowners also have a savings account. The savings account should have a minimum balance (usually 33 to 50% of the annual operating budget) with surplus funds used specifically for the Capital Items List. This will reduce funding spikes and allow for emergency situations.

Maintenance Plan

When will the capital maintenance improvements be made and how will they be paid for over the next five years? Five years is the longest practical planning horizon. Calculating when items will reach their full age and require maintenance will produce annual funding requirements with spikes. The Board should smooth these spikes where possible by collecting funds early or stretching out maintenance items lives.

Communications Plan

How will Homeowners be regularly advised of progress in implementing the plan or changes being considered to the plan? Homeowners may assume the worst unless told otherwise. The Board should explain how funds are being used with a list of annual projects and their progress reported regularly to Homeowners in a newsletter.

In addition, the long-term maintenance plan should be published annually so Homeowners understand what has been accomplished and what is ahead. In this way, Homeowners can plan their finances to accommodate future dues and/or special assessments – without surprises.

Condo-Like Maintenance

In developing the five year plan, the Board may also consider the option of condo-mizing their community. Condos generally have the Association responsible for all exterior maintenance. Townhomes sometimes have the exterior maintenance as a shared responsibility which is difficult to explain and tedious to implement. New townhomes being built are generally condo-mized even though they are not condos. Older townhome communities should consider changing their by-laws to remain competitive with newer communities. Before conversion though, all homes should be raised to a par level before the Association assumes responsibility.

SUMMARY

Being a Board member is a difficult job, especially to do well. Homeowners have high expectations and low patience. Dealing with diverse volunteers, very long range plans, and consensus building is hard but not impossible. Boards can leave a legacy; they can gain the respect and gratitude of their communities, and a wonderful sense of personal satisfaction.