“CONFLICT AT YOUR ASSOCIATION – YOU DON’T SAY!”  WEBINAR OUTLINE

& Kelly Richardson, Esq, CCAL  www.rhopc.com

In this discussion, Robert & Kelly identify common “root causes” of association conflict, so you can make minor adjustments in order to live more peacefully and productively.

Opening remarks:

• Remember that few board members or business partners are truly experts in their field. Conflict is reduced when board members come with a spirit of learning (not firm spirit of “I know it”), and rely on informed business partners (attorneys, managers, Reserve Study providers, etc.).

• Don’t automatically identify a person as “evil” or an “angel”. Give everyone the benefit of doubt, and appreciate that there may be important underlying circumstances of which you are unaware.

...which leads us to the first key point:

1) **Community associations need to be all about community.**

   • **Shared** ownership
   
   • **Shared** control
   
   • **Shared** responsibility
   
   • **Shared** cost
   
   • Not everyone is going to get their way.
• Understand that the community serves the needs of the majority (not the vocal minority). Get comfortable that there will always be some level of dissent.

• It’s not mine or yours, the community is ours!

2) Ignorance of Governing Documents and Use Restrictions

• It’s not about me being right and you wrong (or vice versa) indicating conflict between two people. We all agreed upon purchase to be led by a set of Governing Documents and Use Restrictions. What you or I think is “fair” or “right” or what your Real Estate sales agent said (or didn’t say) is not relevant, so separate between a knowledge deficit and an integrity deficit.

• Didn’t read/understand Governing Documents (BEFORE closing the sale), or doesn’t understand concepts such as “common area” and “exclusive use common area”

• Uncomfortable with the concept of shared ownership

3) Appreciate that everyone has different experiences.

• Never lived in a community association before

• People at home during the day, or people working during the day

• Families with children

• Homes close to the pool/trash/clubhouse/elevator/laundry...

4) Confusing your “Day Job” with your “Night Job” (Board member)

• Day Job – vertical chain of command, one person answers to another person of higher authority

• Night Job – Board members are volunteers, sharing decision-making and financial responsibility among the team/group.
• Individual Board members (President, Treasurer, etc.) and the Manager all serve the needs of the community. One person does not wield power or authority. Community Associations are a Team sport!

5) Keep the Four Worlds of this “Common Interest Community” in Balance

• It’s a Corporation (led by Governing Documents and Use Restrictions, formalities to follow)

• It’s a Business (cash flow, budgets and financial controls need to exist)

• It’s a Real Estate project (it is a significant Real Estate investment, worthy of care and maintenance)

• It’s a Community (neighbors, friends, & families)

These are often competing interests or styles! Use discretion in achieving balance. Avoid emphasis on the aspects of one “world” to the exclusion of the others!

6) Budget Realistically

• Focus on your objective to protect, enhance, and maintain the common areas (not minimize expenses and assessments or trying to keep the status quo)

• You can never keep your assessments low enough. It’s a strategy doomed to fail. Don’t even try.

• Deficit budgets (scarcity in general) create tension and conflict.

• The “Fairy Godmother” doesn’t exist, so she won’t save your association. Quit relying on her!

7) Choose your words carefully – frame your financial discussions accurately to minimize pushback and conflict
• Reserve contributions are not “for the future”. Expenses occur in the future, but Reserve contributions offset the cost of ongoing, day-to-day, week-by-week, month-by-month deterioration. The ongoing cost of deterioration is as real as any other bill.

• It is unfair for an owner to not pay their fair share (the bill for ongoing deterioration that occurred while they lived in the association).

8) Save money & reduce financial stress. Maintain your Common Areas!

• Spending money to maintain common areas saves significant (budget-breaking) cost overruns due to deferred maintenance.

• Spending money to maintain common areas enhances curb appeal and home values!

9) Reserve Contributions – they’re very affordable!

• Avoid the stress of “not having enough in Reserves”. Typical condominium Reserve contributions are only a few dollars a day, similar to a premium cup of coffee.

• Expenses will happen whether you’re financially prepared or not. If your contributions are not offsetting ongoing deterioration, you’re essentially planning for a special assessment or deferred maintenance. Reserve contributions are much cheaper!

• Adequate Reserve contributions are not an “all or nothing” proposition. If you are underfunding your Reserves, increase your Reserve contributions this year, then a bit more next year, and so on. Over the course of 2-5 years, you can eliminate this cause of stress!

For additional resources, see: www.ReserveStudy.com and www.RHOPC.com

You can view the recorded webinar by clicking on this link: https://youtu.be/3HmeGV9w3eA
Post-webinar Q&A session:

Q: Our HOA board says state law and the governing docs for our HOA are advisory only, and that state-law-required annual audits or elections without proxy voting (prohibited by the By-Laws) will continue to be ignored. Audited annual financial statements have not been sent to Owners for several years.

A: Bluntly, you need a new board. The law and governing documents are mandatory, not a suggestion. If the HOA winds up in court, it may be headed for a rude awakening. Help your board wake up, or elect those who will pay attention.

Q: What can be done about a Board member that is disruptive, does not support BoD decisions and is very divisive? He ignores or doesn't agree with the CC&Rs, State Law, and chooses which rules the BoD should enforce. His house is an eye sore within the community and when challenged on it states that his house is his business. Can he be sued?

A: The board as a group, not any one individual, decides things. So if one homeowner director is allowed to violate the documents or law, the board is responsible to stop him. With regard to disruption, associations should have meeting and board conduct rules. It is not fair to the rest of the board or to the homeowners attending meetings to have deliberations derailed by un-neighborly behavior.

Q: When our 66 homeowners learned that the Board would be making a decision about changing the paint color on the buildings, some were aghast that we had not originally planned on having them participate by voting for their preference. Please give other examples where we should seek homeowner input prior to making a final decision.

A: While the Board has the authority to make such a decision, this is a good example where their style of governance affects the community. For such a significant project, having an open comment period, or asking for homeowner help on a committee would go a long way towards having homeowners feel comfortable with board transparency, building community spirit, and having owners feel valued.
Q: Your list of root causes suggests a theory that proper understandings would prevent conflicts from arising. Another theory is that conflict is inherent in shared ownership and proximate residence, just as it is among members of families, and it’s poor mechanisms of, and training in, conflict management that make conflicts escalate. Please comment.

A: As long as there are humans involved, there will be conflict. Our goal was not to eliminate conflict, just help attendees identify common sources. Once identified, board members could make appropriate minor adjustments in their actions, style, or words that would yield big paybacks of minimizing conflict.

Q: When there is conflict amongst homeowners, do you have strategies to overcome the community angst?

A: See above – as long as there are humans involved, there will be some level of conflict.

Q: There is conflict at our association regarding definition of roof and parts covered by HOA: i.e. are eaves considered part of the roof or a separate entity. What exactly is included in a roof structure that would be included in coverage by our association?

A: Presuming roofs are defined as a common area maintenance responsibility in your Governing Documents, eaves (and gutters and downspouts) are generally considered part of the roofing system.

Q: Our Board is not open/transparent enough with the homeowners, creating tension and conflict. How can we make them be more transparent (open) when asked questions, short of removing them from the board?

A: Most people don’t respond well to being “made” to do anything! Run for the board on the platform of having a more “open” style. That’s a great way to see if others agree with you that this is important.

Q: How can the Board be more transparent?

A: That is a broad question! First, know and follow the Open Meeting Act. Strictly. Second, the Board should communicate regularly and meaningfully with the membership. Third, make sure the draft minutes are available for all to see soon after the board meeting.
Q: Our concern is “apathy at our association”. I suspect that we are not alone in finding that only a small percent of our homeowners can or will step up to serving on the board or some of the standing committees. I’m interested in learning tips to make service easier...and more motivating. For instance how about remote attendance to board meetings? Stipends for board members and standing committee chairs? Other ideas or enticements?

A: Sounds like the Board is doing a great job of keeping the corporate ship running smoothly. And it sounds like you know your homeowners well enough to know that they are not inclined towards community association governance. You could start by having refreshments at monthly meetings and the annual meeting (welcoming presence and involvement), celebrating holidays with decorations or a party/BBQ. Any form of compensation to directors is a terrible idea. That compensation will destroy that person’s volunteer immunities, which are far more valuable than any small amount of assessment discount they might otherwise receive. Increasing communication with the neighbors will usually help connect homeowners to their association.

Q: Our HOA uses a reserve company to prepare an annual reserve study. In the reserve study report, the reserve company calculates and discloses the “accrued liability” and the “projected cash reserves”. What is the meaning and usefulness of the “accrued liability” calculation?

A: “Accrued Liability” is more commonly known as the “Fully Funded Balance” (FFB), which is the deteriorated value of your Reserve Components. Since Reserve Studies are regularly prepared in advance of the Fiscal Year End, Reserve Balance is sometimes described as the “projected” (end of year) Reserve Balance. The comparison between an association’s (projected) Reserve Balance and the FFB is called Percent Funded, an important measure of how well Reserve contributions have kept pace with Reserve deterioration.

Q: Our reserve company calculates our annual reserve contribution by assuming that the projected ending cash reserve balance for each fiscal year is at least 10% of the projected expenditures for the same year. Is this standard?

A: There are four Reserve Funding Objectives defined in National Reserve Study Standards (NRSS). You’ve described a slight variation on “Baseline Funding”, which is when an association defines success when the Reserve Balance is cash-positive.
Maintaining the Reserve Balance at or above 10% of that year’s expenses is a slightly more conservative variation of a Baseline Funding objective.

Q: We have a master owners’ association comprised of separate owners’ associations representing 7 different parcels including 2 home owners’ associations, a commercial owners’ association, and 4 other parcels, all who share common elements. The members of the master association board are supposed to consider the best interest of the property overall, but some of the board members seem to consider the interests of their own association, first. How can we get everyone on the same page?

A: Mixed use communities are by nature saddled with additional sources of conflict. The question is too complex to pretend to provide a short or pat answer. But a start would be strong management and legal counsel, and a discussion between boards about the issues of conflicting interests.

Q: Our developer maintained ownership of 51% of the property for 9 years following completion of the condo project. Now is beginning to sell some of his units, but insists that buyers provide him with proxy. As majority owner, he makes decisions independently without consulting homeowners. This is a mixed commercial/residential complex. Is there any precedent to developer/majority ownership? There are only 6 residential units and 8 commercial units and the decisions are typically in favor of the commercial units, which are owned by this person. Do the other owners have any weight in this? Why have a board if one person makes decisions?

A: As above, mixed use communities are by nature saddled with additional sources of conflict. Add a majority owner, and by nature there is little to be handled “democratically” at this association. By the way, association proxies are revocable - and the new owners can simply do so as soon as they take ownership.

Q: How can you motivate volunteer board members to follow-up with actions and responsibilities that need to get done?

A: Board members need to hold their colleagues accountable - but why isn’t the manager being assigned actions? Directors make decisions, the manager carries out the decisions.
Q: Short of having a formal Board training, which other material would you suggest for new Board members?

A: New boardmember training is often provided by your local chapter of the Community Associations Institute (www.caionline.org) for a very nominal fee. CAI membership is a very basic step to learn how to govern better, and boards should adopt a policy of encouraging CAI membership by directors.

Q: Can a Director of H.O.A. be in charge as a manager who was fired and be Director both? Is this not a conflict of interest?

A: Wearing two hats as a boardmember and manager is a fundamental source of conflict and tension.

Q: How long can an association postpone needed repairs or replacements because "it's not in the budget"?

A: Indefinitely. But the longer they wait, the more expensive the eventual repair or replacement will likely become, the more home values will suffer, and the greater liability exposure the board invites. In other words, postponing “because we didn’t fulfill our responsibility to maintain the assets of the association because we failed to raise sufficient funds” is almost always an expensive and unwise decision.

Q: What responsibility does a developer have to establish a reserve fund prior to completion of the development? In this case the developer is taking over 20 years to complete and assets are wearing out.

A: All board members, whether homeowners or Developer representatives (employees), have the responsibility to run the association in the best interests of the association.

Q: Can a Board create an Architectural Review Committee without laying out the terms and activities in writing for owner review prior to implementation?

A: Enforcement without rules or standards is sure to create conflict!
Q: Under what circumstances can a reserve component be removed without homeowner approval?

A: If you mean removed from the Reserve Study, that is a decision made between your Reserve Professional, management, and the Board, coming together to ensure that the component is effectively handled in the Operating Budget if it is removed from Reserves. This could mean handling tree trimming from the expanded ongoing Landscape Maintenance contract instead of as a separate Reserve project, or including funds for ongoing partial replacement of pool furniture in the Operating Budget instead of “all at once” through Reserves. If you mean removing an asset from the association (taking it out of service), that’s a more delicate question not simply answered in this forum. Both, by the way, are well within the Board’s area of responsibility.

Q: Is landscape restoration a reserve item or an operating cost?

A: National Reserve Study Standards (NRSS) define a Reserve Component as a project that is the maintenance responsibility of the association, life limited, with a predictable Remaining Useful Life, and above a minimum threshold cost. Major landscape restoration projects often nicely meet that criteria.

Q: Can funds for the expense of the Reserve Study be taken from the existing Reserve Fund?

A: A Reserve Study fails being a “maintenance responsibility” of the association, and typically the cost of a Reserve Study falls below an association’s level of Reserve significance. So budgeting for professional services such as a Reserve Study update is more appropriately handled through the ongoing Operational Maintenance Budget.

Q: Your 4 aspects omit "government". Haven't CIDs been found to be quasi-municipalities and their officials limited-purpose public figures?

A: No, not in the sense you mean. CIDs are private associations, and the law governing them is the Civil Code, not the Government Code.

Q: Does this concept of "ownership" change much when things like the pool and community center are a leasehold of say 25 years vs ownership?

A: In general, if the asset is a common area maintenance responsibility, the Board is responsible to provide for the maintenance of those assets, whether “owned” or
“leased”. Only when the lease is about to end is when the maintenance question gets more complicated.

Q: Our BoD does not enforce all of our CC&Rs. What can be done to ensure that they stop enforcing some CC&Rs and not others? Selective enforcement?

A: It is possible you may not know that your board IS enforcing the CC&Rs, but often boards properly keep their disciplinary actions confidential. If in fact the board is not uniformly enforcing the CC&Rs and rules, that is a problem.

Q: We have conflict because some members wish to hire a security guard due to recent break-ins. There is no line budget for this and the budget to do major repairs and repaint of Reserves is already low. How to handle?

A: Sounds like it is time to raise assessments so there are sufficient funds to offset ongoing deterioration (Reserve contributions) and provide for new expenses that may be appropriate in our changing times and neighborhoods!

Q: We have owners who are attorneys, challenging HOA docs and threatening litigation because they insist the HOA is misinterpreting the documents. Would you suggest that the matter be turned to the HOA's attorney for response?

A: Yes. Prepare by first confirming the association’s interpretations and actions are defensible! Challenges are unfortunate, but best the issue be handled by the association’s attorney who can answer the challenges appropriately.

Q: What suggestions do you have to deal with a board President and manager who collude by manipulating the agendas, meetings, minutes, contracts, etc. and take action outside of their legal authority?

A: The President serves at the pleasure of the rest of the Board, and can be replaced at any time. The Manager is an association vendor, and violating the law is most likely a breach of their management agreement. You have the wrong President and the wrong manager, based on your description.

Q: Do you have any strategies to allow a professional manager to live in harmony in their own HOA given that they know too much about how the HOA should be governed?

A: Keep your head down, maintain a low profile. Don’t volunteer and attempt to bring your professional expertise to the situation and create a potential conflict of
interest. Any criticisms of the current manager will appear that you are trying to land the account for yourself. You can’t win. Just enjoy your home, observe, and learn good things to imitate and bad things to avoid.

Q: What about conflict with respect to rules: residents who don’t comply, residents threatening to sue, or Board failure to act/enforce?

A: That’s tricky. Boards need to address the issues and enforce rules consistently, and make sure their position and procedures are “right”. Note that what may appear to be a board that doesn’t care may be a board dealing confidentially (fines and pending litigation) with the owner, in Executive Session, which is exactly appropriate. Make sure your rules are written for the good of the community, and are enforceable. If a particular rule hasn’t been enforced for a period of time, inform the owners that beginning after a grace period (to give people a chance to adjust) the rule will begin being enforced.

Q: We need roof replacement and not sure how to decide whether an assessment needs to be done after paying for the expense.

A: Look at your Reserve Study. That is your multi-yr plan for caring for the major assets of the association. Hopefully you’ll find funds set aside for the roof replacement, and enough Reserve income to rebuild the Reserve Fund in time for the next expense (asphalt care, repainting, elevator modernization, etc.). If you don’t have a current year Reserve Study, get one! This is how you responsibly prepare for inevitable major expenses at the association, year after year.

Q: Can you address stress and conflict within the board of directors? Specifically, what to do when rules of order are not followed in board meetings, minutes of meetings don’t exist or are not accurate; multiple quotes for maintenance work are not obtained, etc. I am a newly appointed board member concerned about lack of process and therefore potential liability.

A: Serving as an effective board is a challenge, it is not intuitive. It may be time to reach out for board member orientation or training from your management company, your attorney, or a consultant. Push your board colleagues to make this investment. It will likely be a great investment of time all board members and for your association!
Q: How can we enforce the rules? We fine owners for violations but they refuse to pay. Fines cannot be collected if dues are paid and fines expire if not paid for a long period of time. Collecting through small claims court is time consuming, expensive and creates ill will. The HOA has no real way to enforce the rules that are on the books.

A: Too many issues to address in this format. Communicate and over-communicate. Running an association takes time and money, and building “community” requires reminding everyone that they need to participate by acting in the “common good”. Build a culture so that people are embarrassed when they receive a notification, not an adversarial culture where it is the first blow of a fight. And at the end if all else fails, that’s why you have legal counsel. If members are not paying their fines, you may need to resort to the legal process.

Q: Do you have tips for a new board replacing a board that neglected both maintenance & reserve studies?

A: Start one step at a time. Likely you are working with the budget set by the last board, so your task this year may be to investigate the situation, create a plan, and communicate (sell the plan and the budget for the coming year!) to the owners. Depending on the severity of the situation, you may need to pass an immediate special assessment in order to provide the funds to care for the association. Remember – maintenance is not expensive. Timely maintenance saves money by preventing (very) expensive deferred maintenance, while maximizing home values.

Q: The anti-tax environment in the country has filtered down to our association. How should we respond?

A: Communicate. Show what is being done for their money, and the value they obtain Owning a property costs money, and so does keeping it in good condition.

Q: What is the process (or decision points) to dissolve our HOA: vote of the board?, vote of homeowners?, both?, then dissolving the legal entity? We are a planned community, and we have very few common area assets, most which we believe could be taken over by the city.

A: Sounds like you need a good sit-down meeting with your attorney to discuss pros and cons, and a potential action plan. It is extremely rare that dissolution of an association is necessary and beneficial for the members.
Q: How do you convince the community to save or spend money on building maintenance (especially things that are not "pretty" or even visible) when different owners have different economic circumstances?

A: Your job as a board member is to protect, enhance, and maintain the assets of the association. That means budget for assessments to provide enough income to meet the expenses of the association. Then spend the money necessary to care for the association (hidden or not) to prevent expensive deferred maintenance and protect property values. If owners cannot afford to live in your nice association, I’m sure they’ll move to a home more suitable for their economic circumstances.

Q: We have no strategic plan, so Board loses sight of what is important to homeowners. Should we have a strategic plan?

A: Absolutely. Associations that have a plan have a much better chance of creating a great future for their association. Know and articulate your characteristics (miles of biking and walking trails, views from each home, relaxing pool area, etc.) and what gives pride of ownership. Have a “sales brochure” available for Real Estate agents to use. Update your Reserve Study regularly to have a financial plan, so you have a sustainable budget that provides for the ongoing maintenance and replacement of your common areas.