



How to Select a Management Company

MULCAHY Community Association Cheat Sheet®

**BRINGING ANSWERS
TO COMMUNITY
ASSOCIATIONS**

This publication discusses significant points of law as they apply to community associations and is not intended to offer specific legal advice or responses to individual circumstances or problems.

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COMMUNITY ASSOCIATION MANAGEMENT

Community associations throughout Arizona have three types of management; self management, an association with paid staff and a community association management company. Currently there are no laws that govern or regulate association management companies. Many associations rely on a community association management company to handle the day to day operations of the association. As with any business, internal changes will prompt the board of directors to make managerial changes from time to time.

When the working situation between a management company and association becomes untenable, the board of directors should ask the question, is the company or the manager the problem? A solution could be changing managers and should be asked of the company because there is a cost of time and money to change management companies by both parties.

Selecting a community association management company will take time to research and should not be completed without due diligence by the board of directors. The relationship between the association's board of directors and the association management is contractual; the management company works for and with the association's board of directors. Ultimately, the goal is to find a management company with the expertise and services that will meet the needs of the association. By matching association needs with a management company's strengths both parties will find a good working relationship. It is important to remember that the lowest bid does not always match the needs of the association.

MANAGEMENT COMPANY SELECTION PROCESS

Step 1: Identify and create a time line for the selection process. Select an unbiased committee who has the time to attend all meetings to identify, ask and evaluate a multitude of questions of the association and the management company. Keep in mind that a proposed change over date should be consistent with the time necessary to provide proper notice of cancellation of the present management contract. Determine when to notify the current management company of intentions to sever the contract. It is important not to leave the association uncovered.

Step 2: Start developing bidding specifications with two questions in mind, what is the association budget for management services?; 2) what level of service does the association require? Identify specifics and the requirements necessary to run the association.

Step 3: Identify a list a prequalified companies. You want a company that specializes in association management. Talk with other associations of similar size and type and ask if their association is being managed successfully. Ask about the management companies they had determined as qualified, but did not select. Check with local non-profit agencies that support qualified community association management companies. One size does not fit all with regards to a management company. A large master planned association needs many more services when compared to a small community association with no amenities.

Step 4: Narrow the field to 3 to 5 management companies by calling the companies pre-qualified and asking if they are interested in bidding for your association's management services. Have a general description of the association ready to share with the company. A refusal may mean they cannot adequately take care of your association. Obtain the firm's correct mailing address and to whom the request for bid should be addressed.

Step 5: Develop a Request for Bid. The request for bid should contain the following information and requests:

- **Date to tour the property,** do not accept a bid from a company who has not toured the property.
- **Date the bidding closes**
- **All contact information** regarding the association and where to send the bid.
- **A summary of the association,** to include the number of homes, acreage of common areas, special features, type of construction, current annual budget and current management expiration date.
- **Needs of the association** in categories such as: General administration, type of maintenance required, financial management expectations, enforcement expectations, newsletter and any other categories. Request that the basic bid price list the items covered in each category.

• **Ask for references and credentials**

• **Ask for specifics:** 1) Basic management fee; 2) hourly costs for services not covered in the basic fee; 3) independent contracting items and associated costs; 4) Collection costs for delinquent accounts; 5) Board and member meeting charges; 6) Proof of fidelity and/or liability insurance; workman's compensation insurance and other insurances such as Errors and Omissions. How much liability insurance is held?; 7) Charges for mass mailing and procedures; 8) Credentials that the assigned manager would possess; 9) Support services including accounting and service coordinator; 10) Emergency procedure details; 11) A list of specialized services; 12) governing documents may be included.

Alternately, the association may hold a Pre-Bidding Conference including a property tour. This gives bidders the same information at the same time on which to base their bid. Questions and answers should be recorded and mailed to all attendees and any absent bidders. *It is most important to give the same information to each bidder so that the association obtains an apples to apples comparison.*

Step 6: Close bidding, open bids received, compare and review bidders in an open discussion by the board of directors. Select those for further screening.

Step 7: Review of candidate's references, licenses, bonds etc. The committee or board of directors should review and validate all references, licenses, etc. submitted by the candidates and only call back the companies that have proper and complete credentials. Additionally, the board of directors should visit the management company offices and inspect all facilities, take notes and include them with the review.

Step 8: Selection process - Identify leading candidates - Do a final interview. Select two or three top bidders and request a final interview to include the manager that will be assigned to the association. For those not making the final cut, it is proper to send a thank you letter as a professional way to conclude the bidding process with them. Determine how many associations are managed by the potential new manager. Ask how the manager deals with homeowner involvement, difficult people. Pay attention to speaking ability, people skills, etc. **ASK QUESTIONS NOW.** What is the length of the contract? Take notes and review to determine which management company is a good fit—meeting association needs with the management company's expertise and abilities.

Step 9: Schedule a meeting with the association attorney to read the contract. The attorney will take any guess work out of the contract. They will help assure that the proposed change over date is consistent with the time necessary to provide proper notice of cancellation of the present management contract, that the association is adequately protected and that the contract is consistent with potential restrictions in the governing documents. The management company services contract will be one of the largest handled by the board of directors and it is important that both parties know what they are signing.

Step 10: Schedule a meeting with the Management Company. Following a discussion with the association attorney, schedule a meeting with the selected management company to complete the contact and determine turn over dates, movement of documents, etc.

CONSIDERATIONS & QUESTIONS TO ASK

Management Office:

What is the general appearance of the Corporate Office?
What is the age and experience of the firm and employees?
What are the hours of operation?
Does the company support continuing education for managers and staff?
Does the company bid vendor services competitively?
Does the company own any service companies/if so how do they solicit competitive bids?
Is there a positive attitude by principles and managers?
Does the staff have good people skills?
What is the philosophy of the management company?

Financial Aspects:

What bank charges will be assessed to the association?
How long does it take to deposit funds into the bank?
Can you track the association's money?
Is there a lock box?
How are assessments collected and handled after collection?
Whose name will be placed on the bank account?
Who prepares the financial statements and what credentials, experience and education are held?
What is the size of accounting staff with what procedural checks and balances are in place?
What is the process for bill payment?
What experience is held with regard to capital budgets and reserve studies and funding?

General:

Ask for samples of BOD meeting reports, and any other reports the association would need.
What insurances are held by the company and what is their carriers financial strength?
Does the manager understand the association's governing documents?
How often do you want inspections of the association?
The contract should allow either party the ability to terminate the relationship within a thirty day written notice without penalty.
Who answers the phones?
What is the average response time to homeowners?
How are messages conveyed to the manager, homeowner and BOD?

What are the extra charges that would be passed to the association?

Copies, postage, faxes, office supplies, Office materials, Delinquency letters, Violation letters, Demand letters, Compliance letters, Bidding on contracts, Managing contracts, After hour emergencies, Attendance at board meetings, Special assessment collections, Storage of records, Interfacing with an attorney, Record storage, Bank charges, Transfer fees, Demand fees, Lien Fees, Meeting minutes.