

## **Editorial – 12/06/07**

### **Consequences of Unilateral Decisions made by SPMA**

The purpose of this editorial is to provide a perspective to Straus Park property owners from a viewpoint other than the recently published documentation provided by the Straus Park Master Association (SPMA). Numerous residents believe that the current SPMA did not represent their constituents properly during their officiating in 2007. I have personally collected a multitude of information through various sources including personal interviews, meeting attendance, telephone conversations and emails from numerous concerned residents. This commentary is a compilation of the information gleaned; most is objective, but some is based on conjecture due to information flow from SPMA being blocked through various means. This failure of the SPMA to provide information was not limited to just the residents but also to the sub-association officers who represent us all. I am providing this information to you in the following categories:

- 1. Communications (or lack thereof) by the SPMA.***
- 2. SPMA actions that cause property owners great concern.***
- 3. Bottom Line – What will all of this cost the association?***

The information contained in this editorial is just that, an editorial - based on all the information I could gather, organize, collate and disseminate in a logical format. In some instances, I make certain assumptions based on only a small amount of information being available. In those instances, I will, to the best of my ability, define them to insure that I don't inadvertently mislead the reader. If you have remarks concerning this editorial please address me, the Webmaster, since I'm the one presenting this information on behalf of concerned residents - or email me at [m81dude@gmail.com](mailto:m81dude@gmail.com).

#### ***1. COMMUNICATIONS (OR LACK THEREOF) BY THE SPMA***

Numerous articles have been written that provide counsel to Home Owner's Association (HOA) management and how to ensure maximum effectiveness. The clear bottom line of all authors comes down to effective communication with the property owners. In our Straus Park environment such communication is assured by the structure of the sub-associations representing their communities in the SPMA. The SPMA, in turn, takes those inputs and makes decisions based on representing the homeowners' interests by making proper managerial and fiscal decisions. Such effective communication must contain the following elements:

1. Open and honest feedback on important issues during the time they are under consideration
2. A clear and easy forum to provide input to the board with ideas and thoughts
3. Prompt and timely reporting on board meetings and results
4. Using the rule of thumb for best communication - "If in doubt, get it out"

Decisions by a board are typically sound and accepted by all if these rules are adhered to – even though 100% agreement will seldom occur. Vigorous, honest adherence to timely and total communication to owners, with accompanying rationale for changes and decisions is a critical foundation for success. And one should always remember, all board members are responsible as fiduciaries, with an obligation to spend the owners' funds in the best way possible. These thoughts should clearly be the foundation for our board as its key guiding principles.

Have these guiding principles been followed during 2007? Communications lines on various issues were completely closed down by the SPMA holding closed sessions and sealing the minutes. There were four such occurrences that dealt with terminating IPM and the hiring of a Community Manager. (North Carolina Sunshine Laws restrict the occasions when closed sessions may be held in organizations that are incorporated. Thus the procedure cannot be used to conceal anything – such as financial information – that members have a right to know.) The dealings that transpired during these

meetings caused one board member to resign. In addition to that, several of these meeting were held without the full board being present and with a substitute casting the deciding vote. The required notification was not given to the two members who missed the meeting during which the final vote was taken, thereby preventing them from voting. Furthermore, the written request by one of Straus Park's sub-association boards requesting that all Master Association board action on the hiring of a Community Manager be delayed until face-to-face meetings could be held with all of Straus Park's sub-association boards went unanswered. All of these meetings occurred since around August 15, 2007. The result was that several controversial issues were forced through the SPMA without proper representation. Did these issues have major impact on all our lives here at Straus Park? You answer that question.

## ***2. SPMA ACTIONS THAT CAUSE PROPERTY OWNERS GREAT CONCERN***

Here are the issues:

- ***THE TERMINATION OF THE IPM CONTRACT***
- ***THE HIRING OF AN EMPLOYEE TO SERVE AS COMMUNITY MANAGER***
- ***EXORBITANT FEES PAID TO A STRAUS PARK PROPERTY OWNER TO RECRUIT THE CM***
- ***ELIMINATION OF ECC PROFESSIONALS***
- ***HOUSING OF THE COMMUNITY MANAGER IN THE LAKE HOUSE***
- ***RESIDENTS HAVE LOST THE ORIGINAL INTENDED USE OF THE LAKE HOUSE***
- ***FAILURE TO PERFORM DETAILED COST ANALYSIS***

Each of these items has it's own story behind it and I will cover the issues in subsequent sections. The entire history regarding the way this SPMA board handled each of these items is complex and difficult to explain since many of the items interrelate. However, I will try, so please bear with me.

### ***THE TERMINATION OF THE IPM CONTRACT***

The termination of the IPM contract was a unilateral decision forced through by four members of the SPMA based on faulty criteria. The criteria comes in two forms, neither of which can be pinned down as the specific reason: First, the 2007 survey is touted as the cause, which if used is hardly representative of a reasonable sized portion of the Straus Park population. Only about 100 of the residents responded, of which 31% had negative comments regarding IPM's performance. If you do the subsequent math, based on about 285 properties, you'll come up with a solution that shows only about 10% of the total population had anything bad to say about IPM. That hardly seems a strong basis for the dismissal of a corporation that's been doing good work for the past five years and the risk we take in losing access to their corporate knowledge. Second, the SPMA was not happy with IPM's performance in certain areas and had a problem with the attitudes of some of IPM's higher level managers. Well, one would assume that such a situation could be ameliorated by proper and effective communication rather than arbitrarily eliminating the cause of the perceived indiscretions. I have in my possession a memo from IPM that states IPM's position and offers solutions to the difficulties presented. My information tells me that the SPMA did not respond to this memo and IPM was subsequently terminated. By the way, the SPMA set the termination date of the IPM contract at December 31, 2007, instead of letting it run through the end of January, 2008, during which time IPM would have been obligated to mail out all 2008 assessment notices and thus collect most of the 2008 assessments.

### ***THE HIRING OF AN EMPLOYEE TO SERVE AS COMMUNITY MANAGER***

I doubt seriously, after having looked closely at this issue and having seen the 2008 budget, that all issues concerning the hiring of the CM were properly reflected in the budget. I won't go into each of these items here, but they include things like the impact of the office environment on Lake House activities, tax/SSAN cost for having an employee, any backup support when the CM goes on vacation, gets sick, is in an accident or has a long term illness. Folks, there is no back up – all our eggs are in one basket. Looks like all the Condo and Townhome eggs will share the same basket. Well thought out by the SPMA? I don't think so.

### ***EXORBITANT FEES PAID TO A STRAUS PARK PROPERTY OWNER TO RECRUIT THE CM***

The entire hiring process of the CM is in question. I consider this item a conflict of interest and a violation of the board's fiduciary responsibility. A firm employing a resident/property owner in Straus Park was given a "no-bid" contract to recruit a Community Manager to replace IPM. There is no evidence that the SPMA made any attempt to utilize regional publications, other "head hunters" or even William McKee, who would have been happy to help out. Yep' folks, my reliable sources tell me the total recruiting bill may have been as high as \$20,000 which would be about 10% of our 2008 discretionary funds. Some finder's fee for recruiting an employee all the way from Pisgah Forest! Conflict of interest – you bet! Again, a decision in violation of the past board practice of requiring competitive bids for all "non-emergency" expenditures in excess of \$1,000.

### ***ELIMINATION OF ECC PROFESSIONALS***

The fact that the ECC professionals (a licensed landscape architect and a licensed architect) were eliminated can be validated in the 2008 budget, since they've been zeroed out. This is in violation of our Covenants and has caused a major problem this year already. Since IPM had contracts with and paid them, the professionals assumed they had also been terminated, because the SPMA didn't even have the courtesy to let them know what was going on and how they were going to be affected. Only pleadings by a current property owner member of the ECC brought the professionals to the November meeting. They had related their concerns to her and were totally disillusioned by the chain of events that essentially ejected them from the ECC. The President and Secretary of the SPMA were requested to attend the November meeting to explain the situation to the ECC and to the professionals. By the way, the entire ECC (even the homeowner members – except one) was amazed that this was even going on. OK folks – back to the first section regarding communication. Was it lacking? I say nonexistent!

### ***HOUSING OF THE COMMUNITY MANAGER IN THE LAKE HOUSE***

This one is easy too. Impact on current activities is a major consideration. The office is too small, can't accommodate a meeting area, has virtually no storage space and is barely adequate for one person. Add to that minimal security for computer equipment and for our historical documentation. Already there is discussion regarding additional storage space requirements and possibly finding other office space that is more suitable. Neither of these items is addressed in the 2008 budget.

### ***RESIDENTS HAVE LOST THE ORIGINAL INTENDED USE OF THE LAKE HOUSE.***

No longer can residents spend quiet time reading, playing the piano, or just enjoying the serene environment of the Lake House. Now, the office phone rings an inordinate amount, meetings are being held with the CM in the main room since his office is too small to accommodate more than one person. In short, the Lake House has become an office rather than its intended use.

### ***FAILURE TO PERFORM DETAILED COST ANALYSIS***

I don't think anyone sat down and did a task-by-task comparison and dollar for dollar analysis as to what each of the tasks cost us. The reason I don't think that was accomplished is because the 2008 budget would look different than it does and more line items therein would have been included. We have revenue from the Condos, Town Homes, and Mountainside, but where are the associated expenses for providing property management services to them?

### 3. BOTTOM LINE – WHAT WILL ALL OF THIS COST THE ASSOCIATION?

Side by side comparison of the 2008 budget assuming the continued employment of IPM for property management and ECC Administration VS the hiring of a Community Manager to perform those and other duties including the property management of the Condo, Town Home, and Mountainside sub-associations reveals the following:

#### ***BUDGETED EXPENSE DIFFERENCES FOR ITEMS RELATED TO CONVERSION FROM IPM TO COMMUNITY MANAGER:***

Decreased Expense - Elimination of the proposed 2008 IPM Contract = \$22,800

**Increased Expense** - Budgeted Salary, Overhead expenses for Community Manager = \$63,000

**Increased Expense** - Budgeted Gas Reimbursements, Prof Meetings, Subscriptions for CM = \$2,020

**Increased Expense** - Supplemental Accounting Support for Community Manager = \$3,500

**Increased Expense** - Office Expenses for Community Manager (Cell Phone) = \$800

**Increased Expense** - Internet Expenses for Community Manager = \$720

Assuming no additional heating or cooling expenses for the Lake House, what do we have? Additional expenses of \$70,040 vs. the elimination of IPM's \$22,800 annual contract or a net annual increase of \$47,240. **Total added expenses over the two year term of the CM contract = \$94,480.**

How can that be? We just got our notice and there is no increase in assessments. First, the board has gained tentative agreements (verbal only) from three of our sub-associations to terminate their IPM management contracts and let the Master Association (thru the Community Manager) provide property management services for the same fees now being paid to IPM. The board has also established a new ECC policy eliminating the use of paid professionals as members of the committee.

#### ***BUDGETED REVENUE DIFFERENCES FOR ITEMS RELATED TO CONVERSION FROM IPM TO COMMUNITY MANAGER:***

Additional Revenue from Property Management fees - Condos, Town Homes, and Mountains = \$18,255

Additional Revenue from the Elimination of ECC Professionals = \$12,000

These two actions generate additional annual income of \$30,255. **Total added revenue over the two year term of the Community Manager contract = 60,510.**

Thus we have a net increase in annual spending of  $(\$47,240 - \$30,255) = \$16,985$ . **Total net increased spending over two year term of the CM contract = \$33,970.**

We will spend an extra \$8,000 in Community Manager salary and overhead this year while still under contract to IPM. I estimate we will spend another \$4,000 or more this year outfitting the Community Manger with a computer, software, internet hook-up, office furniture, cell phone, etc. Oh, lets not forget the rumored \$20,000 recruiting fee. If it is true, we have \$32,000 of spending this year bringing the **total additional two-year contract (including recruiting and set-up) cost of hiring Community Manager to \$65,970. That is the difference in having continued with IPM for the next two years vs hiring the Community Manager.**

**But wait! – why didn't assessments go up? Other expenses are going up in addition to the \$16,985 increase directly related to replacing IPM with the CM.** To make everything work, the board has implemented another new source of income that had nothing to do with terminating the IPM contract and hiring a Community Manager. It is called a "New Owner Amenities Fee" and is budgeted to generate \$25,000 additional income per year. One would think that fee would be dedicated to long-range capital projects, **but the 2008 budget is based on it being used for current expenses.**

Don't be fooled by the "no increase in assessments"! **Gross Expenses of the association are going up \$47,240 per year while Net Expenses are going up \$16,985 per year as a result of the decision to replace IPM with the CM.** Add to this the probability that operating expenses have been underestimated.

**What if** we have to spend some of the \$12,000 ECC review fee revenue to pay professionals?  
**Fact:** This is a sure thing, since either full time or at the very least, part time pro's must used.

**What if** one or more of the sub-associations back out of the "deal" to be managed by the Community Manager, and we lose some of that \$18,255 in revenue?

**Fact:** At least one sub board is already questioning the wisdom of their decision to be "managed" by the Master Association's Community Manager.

**What if** we find out the \$25,000 from the "New Owner Amenities Fee" can't be used for current expenses as shown in the budget?

**Fact:** These funds should be collected and earmarked to ensure that monies will be available to procure and maintain "Owner Amenities". To use these funds for all current expenses is not appropriate and is a bastardization of the intent of such funds.

We are all old enough to know that city, county, state, and federal governments tend to underestimate cost and overestimate revenue. Our SPMA continues that government tradition.

## CONCLUSION

To the best of my ability, I have attempted to bring everyone up-to-date on what has happened in recent months. I have no doubt that the four board members involved in supporting the changes believed they were doing the right thing in replacing IPM with a Community Manager. Given the same facts, honorable people can disagree. It is a shame that property owners were not given **all** the facts prior to **any** action being taken.

Where does that leave us? The 2008 SPMA Board will soon assume office. Many tough decisions lie ahead, but with open lines of communication, widely supported and workable solutions can be fashioned and implemented. The solutions lie in their hands.

Please stay involved in your community – the quality of your future here in Straus Park depends on it.