

Professionally managed or Self-Managed:

Pros and Cons



Professionally managed: HOA hires a professional property management company to work with/advise the HOA Board in the management of community services, contracting, financial management, and compliance with State HOA law and HOA governing documents.

Self-managed: The HOA Board completes the total management of the community.

Ask if the community is self managed by home owners or through a professional management company (PMC). The larger the community the greater the need for a PMC to work with Board members on contracting, financial management, legal issues, etc. It's not so much a matter of cost but cost avoidance as inexperienced and volunteer Board members are generally not familiar with HOA operational needs and simply don't have the time or expertise to address the many issues in managing the HOA.

The downside to a property management company surfaces when an HOA Board yields decision making to the PMC with little oversight. PMCs are legally only to complete tasks at the direction of the Board and that which is in their contract with the HOA. Accountability for mismanagement of community assets, financial matters, and delivery of services rests with the HOA Board and when authority and decision making in completing deliverables is yielded to a PMC this makes the HOA (home owners) vulnerable to inefficient operations, financial irregularities, and overall degradation of services.

HOA Boards, Get Involved, manage, question!

There are many instances of financial mismanagement and theft of HOA funds. Almost every one of these cases could have been prevented with adequate and executed internal controls and an involved Board (and home owners).

Professional property management companies also have been known to convince HOA Boards to enter into litigation that may or not be needed or cost beneficial to the community and to promote capital improvement projects otherwise not needed. This happens with a passive Board that simply accepts everything a PM has to offer. There may be linkage between a PM and lawyers and/or construction companies with conflicts of interest difficult to identify. Furthermore, PMs may encourage a capital improvement

HOA Property Management Companies



Professional property management services (PMC) can provide effective, cost saving, and competent advisory, administrative, maintenance, and financial management services. Oversight of the PMC by the HOA is critical. The PMC works for the HOA and not the reverse. Boards must approve and review all work of the PMC.

Know this:

The property management company (PMC) works for the HOA and not the reverse: poor service, poor financial management, blame the HOA Board

PMC only do what is allowed by the Board, poor services in the community are most often due to negligence of HOA Boards in managing contracts.

PMC don't write HOA policy or independently make decisions concerning financial management, contract approval, covenant enforcement.

PMC's don't award contracts, they assist in the contracting process

Your HOA dues pay for PMC services, no fees should be separately charged home owners that are already paid for via HOA dues such as HOA home sale transfer fees

Can be replaced , generally 60 day transition period

Most States don't license PMCs making the role of the HOA Board to approve and review their work very important.

HOA contracts with PMCs should be specific and demands for quality measurement, concerns, controls , product/services and penalties for failure to deliver spelled out in contracts. Consider not allowing any direct fees such as the home sale transfer fee to be charged home owners. If a PMCs is relying on transfer fee income, which should never happen, this could place the PMC in jeopardy in providing services to the HOA in the event the anticipated number of homes sold is much less than anticipated: no contract should be written that in order to be successful and profitable depends on anticipated events!

Any special consultants hired to oversee capital improvement projects must be placed out to bid and the person hired must have credentials specific to the project. Question the need and cost for special consultants.

Professional Property Management Services (your HOA Board doesn't have the expertise or time to deliver quality management of community services but must take the time to oversee property management deliverables)

A PMC works with and advises the HOA Board in the delivery of community services including: ask about these services, costs to provide and experience in providing

Contracting for snow removal and landscaping services: work completed by PMC company/affiliate or independent
Compliance knowledge of State HOA laws and the HOA's governing documents

Financial management including accounts receivable and payable, investing HOA reserve funds, and fulfilling requirements for tax returns and financial statements

Receiving/coordinating responses to home owner inquiries and complaints

Coordinating /completing tasks involved in capital improvement projects and as applicable oversight costs

Experience, background check, smallest & largest client, similar clients

Advising on usage of HOA utilities and water usage

Community security management services

Completion of reserve fund studies

Review and management of the HOAs governing documents

Assist in budget formulation process

Conducting/participating in HOA community meetings and issuance of minutes of meetings

Coordinating legal actions: attorney not employed by PMC

General administrative services such as producing the community newsletter and directory, website services, answering services, hiring/firing HOA supplementary personnel, issuing notices of delinquency and covenant violations

Property inspection services

Works with committees and Board on approval—disapproval of landscaping and architectural requests

Oversight of community services for quality, cost effectiveness, and compliance with contracts

Ensure matters concerning insurance are addressed both for the community and Board members

Hours of availability , on-site presence, on-call services

Process for home owners to gain HOA governing documents/cost

Quick Tips: Selecting a Property Management Co. (PMC)

**Hire a local company
Banking needs are local, not out of state
HOA should choose/review vendors for contracts and not allow PMC to control contract bidding
Do they have adequate insurance: liability, fidelity, umbrella
Visit their office, meet the management
If licensed check their record for violations
Get references
Visit an HOA they manage, observe maintenance
All fees PMCs charge home owners must be supported**

Who Really Manages Most HOAs? What you should know!

Most HOAs are managed by HOA Property Management Companies (PMC). HOA Board of Directors are elected by home owners to manage the community finances and affairs but too often concede these responsibilities to a PMC. This happens due to the lack of experience and knowledge of HOA operations and HOA laws. A partnership between the HOA Board and PMC should be very beneficial to the community taking advantage of the expertise and skills offered by the PMC to ensure compliance with HOA laws, implementing quality controls over finances and services and implementing industry best practices and planning.



Problems can surface when a PMC gains too much control over the decision making process within an HOA. The assignment of accountability for delivery of services and financial management becomes blurred and often confusing to home owners. Note, in practice a PMC should not complete any task without the approval of the Board and quality control over services is ultimately the responsibility of the Board. Home owners inquiring about services generally deal with PMCs but corrective action on deficiencies is at the direction of the Board.

HOAs can replace a PMC for cause. In States with PMC licensing a home owner can file a complaint against the PMC with penalties for non-compliance with their guidelines and code of ethics. Home owners can replace/recall Board members that are negligent in their fiduciary responsibilities related to financial management practices and ensuring delivery of quality HOA services through PMC contracts.

Note, most HOAs use and need a management company.

Volunteers simply don't have the expertise required to manage the community assets, operations, and finances. The Board and management company are partners and the Board must have a level of trust with them but has a fiduciary responsibility to verify and oversee their work.

Fraud and mismanagement of funds: most misappropriation of funds and fraud are NOT committed by HOA Boards but HOA property management companies.

HOA Property Management Companies Licensing can bring accountability but?

Less than ten states require HOA property managers (PMs) to be licensed. This billion dollar+ industry has little to no oversight by any government agency, standards for entering and operating a business are null, background checks on PMs who handles hundreds of millions of dollars are not required, there are no educational requirements, and home owners and HOAs must seek out costly and time consuming legal solutions when PMs violate State laws and the HOA's own governing documents.



In those States that have licensing few strong consumer protections are provided. Mostly these laws are written by the industry to be regulated, are vague meaning assignment of accountability and responsibility are difficult, most promote the sales of educational courses sold by the industry to be regulated, dispute resolution processes are mostly underfunded and understaffed, and costly practices of fees assessed home owners without documentation and justification are not part of licensing rules.

Most home owner complaints received by State agencies directly involve PMs. HOA Boards of course enable the acts of PMs. However, strong licensing rules with direct verbiage on accountability and responsibilities supported by enforcement and penalties can make licensing effective and work for consumers and justify any cost to the PM in compliance measures, educational requirements, license fees, insurance, and background checks. The burden on business to meet licensing requirements will not preclude any person from entering the profession, increase the cost of PM contracts with HOAs, or result in increased HOA dues to home owners.

Nearly all States lack an accessible, affordable, and effective means for home owners to pursue their rights under State laws and HOA governing documents. Some states have requirements on mediation for dispute resolution between the home owner and the HOA but this process may only lead to more cost and time without agreeable solutions and ultimately end up in a court battle. Some states have Ombudsman with limited authority other than to hear and attempt to mediate a solution: simply doesn't work. State HOA Offices mostly don't get involved in dispute resolution and when they do often lack the authority to require HOA Boards to comply with the law driving even the most benign complaint such as refusal to allow access to HOA records into a costly legal case. Too often the home owner complaint directly involves the PM but with no licensing a home owner will find it next to impossible to gain a solution to the enforcement of their rights. However, with a strong licensing program with enforcement means most home owner complaints could be resolved. Optimally, an out of court binding dispute resolution process within a State HOA Office that could handle complaint filing, investigation, and render enforceable decisions could resolve all types of complaints for home owners that involve violations of either State law or HOA governing documents.



HOA Home Sales Transfer Fee

Costly, no receipt or justification, no benefit to the HOA, and no limit on amount, believe it! The fee is charged because it can and not for business reasons.



Costly, no receipt or justification, no benefit to the HOA, and no limit on amount, believe it! The fee is a duplicate billing of services already paid for with HOA dues, it is not mandated by law but if not paid the home sale can be frozen. This is the only billing/fee you will receive that has no explanatory invoice as to what was completed, when, and line item cost. No other business can get away with this pay on demand arrangement except HOA property management companies. The fee doesn't benefit the HOA, the HOA doesn't determine the amount, the management company retains the fee, the services that are supposed to justify the fee have already been paid for with your HOA dues, there is no limit on the amount charged nor any relationship between supposed services completed unique to the sale of a home and amount charged (range from \$100 to \$1,000+). The fee costs Colorado home owners upwards of \$10 million a year.

Some refer to the transfer fee as an estoppel letter/ Status Letter that is claimed to be required via some expensive process to document the home sellers financial status with the HOA relating to outstanding HOA dues, fines, fees and/or special assessments that must be settled prior to the sale. However, the Status Letter component of the Transfer Fee is nothing more a final billing that no other company charges for. The web site, www.coloradohoaforum.com, has an extensive discussion and study papers on this fee.

Home owners don't realize they can save hundreds of dollars by simply requesting all HOA home closing documentation and their final bill for no cost with a simple request. Also, there are companies that will process your Transfer Fee services for \$45-70. Your Realtor should help you save on transfer fee costs.

All Transfer Fees should be supported by an invoice to the seller indicating what was done and when, line item cost to earn the fee and certify no charge was previously paid for with HOA dues.



HOAs must insist that bidding on HOA contracts is not limited to the PMC preferred vendors!