EMERGENCY PLANNING FOR HOAs
An emergency plan is an essential part of risk management
PAGE 12

THE SELF-MANAGED HOMEOWNERS ASSOCIATION
The Basics of Volunteer Led Management
PAGE 22

CREATING A FINANCIAL HISTORY OF YOUR HOA
Organizing past financial data helps boards make sound decisions
PAGE 26

ECHO journal

SERVING HOA BOARD MEMBERS & HOMEOWNERS

ISSUE ONE 2021

IN THIS ISSUE: FINANCIAL & RISK MANAGEMENT BEST PRACTICES

What's Your HOA's Risk Temperature?

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Echo
5669 Snell Ave., #249
San Jose, CA 95123
408.297.3246 | info@echo-ca.org
www.echo-ca.org

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Features

Happenings

Lessons of Leadership from the U.S. Military Forces

Understanding the role of the HOA Board is a fundamental aspect of managing the HOA business. The board is the executive committee, elected by the "shareholders" – the homeowners – and is responsible for the strategic and operational success of the business.

An HOA is NOT a government entity. It is a business entity, hopefully, duly recorded with the California Secretary of State and incorporated to minimize liabilities (although non-incorporated HOAs are common). Team dynamics can strengthen effectiveness or create inefficiencies leading to dysfunction. Since you own the HOA, the Board of Directors – the leadership – should be a cohesive and a trusted team.

Effective teamwork is essential, especially in the case of U.S. Special Forces. There is no room for dysfunction as lives and the mission depend on cooperation and good decisions. We can learn from the essence of their management style:

1. **Integrity** – The consistent and open dealing with the community and other board members in a fair and impartial way. This is particularly important when considering the individual wishes of homeowners and the needs of the community. Are actions considered or rules promulgated respectful of the homeowners and to the betterment of the community.

2. **Servant Leadership** – Elected to office, board directors have a constituency: Homeowners. Board members serve at the homeowners' pleasure and not to a clique of homeowners or any individual, including oneself. Work for the good of the whole and not for the good of the one or a few. As a board, the 'buck stops here'. Accept and embrace this responsibility.

3. **Excellence** – Within the resources of the HOA, the work done should be the very best possible, in the timeliest manner, and in the best interest of the community. Zero defects… nothing short of excellence is good enough.

These simple principles of leadership will serve the management team of your HOA well. They will help the leadership focus on the essentials of their work: Trust. Dedication. Excellence. Nothing less. United on the mission for the association and stewards of the resources with which they have been entrusted.

Leadership is challenging but if these simple leadership concepts are adopted and adhered to, board members will find their jobs intrinsically rewarding and greatly appreciated by the community.

Good luck and stay safe,

ECHO EXECUTIVE DIRECTOR

BY SHARON GLENN PRATT, ESQ.

What's Your HOA's Risk Temperature?

Expensive problems can come out of nowhere for a common interest development. That is when difficult decisions must be made, such as how to get members to back a special assessment, how to deal with a lawsuit, or how to fix a community whose members are constantly maligning the board and one another online. These common threats can turn into big monetary losses or worse. A good board can address these threats before problems arise to minimize the risk.

This quiz is designed to allow an honest self-assessment of any homeowners association that is subject to the Davis-Stirling Act. There may be multiple answers on each question that apply to your association, check all that apply. Total your answers to see how your HOA risk temperature measures up using the key on page 12!

1 INSURANCE

The board has insured against all anticipated risks with sufficient limits and consulted with coverage experts to be sure that coverage is adequate.

☐ **0 Degrees**

The association has a broker who specializes in HOAs. The board continues to renew the policy each year but is unsure what coverages are in place.

☐ **10 Degrees**

The board buys the minimum insurance possible to save money and is not sure what is in place.

☐ **40 Degrees**

The association has no insurance.

☐ **50 Degrees**

2 THE OPEN MEETING ACT

The board ONLY discusses board business at meetings and does not engage in email discussions. Executive sessions are limited to the topics of Civil Code § 4935. An agenda is properly posted and board members do not deviate from it at the meetings.

☐ **0 Degrees**

The board is strict about limiting discussions to meetings, but due to Covid, the board has had some impromptu meetings.

☐ **10 Degrees**

Email meetings of the board are held frequently because it is more convenient.

☐ **40 Degrees**

There is really only one person on the board who makes all the decisions, so the board allows them to take action without a meeting.

☐ **50 Degrees**

The board cannot get through the meeting agenda due to constant arguing.

☐ **50 Degrees**

3 RESERVES

The board hires a reserve specialist who comes onsite and works closely with the board each year to ensure that the reserve study includes everything that is the responsibility of the association, and it reflects the accurate useful life of all components.

☐ **0 Degrees**

The reserves are fully funded.

☐ **0 Degrees**

Reserves are funded over 60%.

☐ **30 Degrees**

One of the directors prepares the own reserve study to save money.

☐ **0 Degrees**

The reserves are less than 50% funded because the members cannot afford higher dues.

☐ **50 Degrees**

Reserves? What reserves?

☐ **40 Degrees**

Continued on page 10

Continued from page 9

GOVERNING DOCUMENTS

4

Every director is thoroughly familiar with the association's CC&Rs, bylaws and rules and follows them. The board consults counsel for interpretation and updates them as needed.

☐ **0 Degrees**

New directors receive initial training from more seasoned directors and from counsel.

☐ **0 Degrees**

Some items in the governing documents do not reflect current law, so the board ignores those parts of the governing documents.

☐ **40 Degrees**

The governing documents have not been updated in years and they do not reflect current law.

☐ **50 Degrees**

The board and manager rarely get legal advice when interpreting the CC&R provisions.

☐ **40 Degrees**

MEMBER HARMONY

5

There are one or more "difficult" owners who are constantly criticizing and threatening the board.

☐ **50 Degrees**

Elections are conducted strictly according to the law and new candidates run for the board each term.

☐ **0 Degrees**

When there is litigation with an owner, the board turns it over to insurance and counsel and is no longer involved.

☐ **30 Degrees**

The board involves as many owners as possible on committees.

☐ **0 Degrees**

The board initiates Internal Dispute Resolution (IDR) early when there is an issue with an owner.

☐ **20 Degrees**

The board has not communicated to members via newsletters or special meetings in a long time.

☐ **50 Degrees**

The board does not always get legal advice before making controversial decisions.

☐ **30 Degrees**

MONEY

6

The board is deferring maintenance and repairs because members cannot afford them.

☐ **50 Degrees**

Association dues have not been increased in many years.

☐ **0 Degrees**

There are several owners who pay assessments very late, but the board lets it go. After all, they are neighbors.

☐ **30 Degrees**

Each board member reviews the financials every month, and the whole board has been trained by its CPA on how to read financials.

☐ **0 Degrees**

The board trusts that the manager and treasurer are keeping track of the money. Isn't that enough?

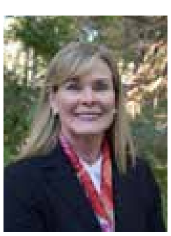
☐ **20 Degrees**

The board sets a realistic budget each year after studying the expenditures of the previous years.

☐ **50 Degrees**

The manager is the only one who has access to the checkbook and check register.

☐ **30 Degrees**



Sharon Glenn Pratt is the founder of the law firm of Pratt & Associates, APC. She has over 30 years of experience specializing in civil litigation, contract review and preparation, CC&R and Rules interpretation and enforcement, construction and architectural review, Fair Housing law, civil restraining orders, financial issues, elections and recalls, corporate governance, and Anti-SLAPP law. She also practices real property law including construction, easements, boundaries, nuisance, premises liability, and neighbor law. Sharon received her Juris Doctorate from the University of Santa Clara Law School and her B.S. in Business Finance from the University of Southern California.

ANSWER KEY

After adding up all your answers, check below to see what your HOA's risk temperature is.

400+ DEGREES = TOO HOT!
Consider this a risk emergency! The risk is off the charts and it's time to make some drastic changes.

300-399 DEGREES = FEVER
The association is at high risk. Check out which problems caused this score and address each of them pronto.

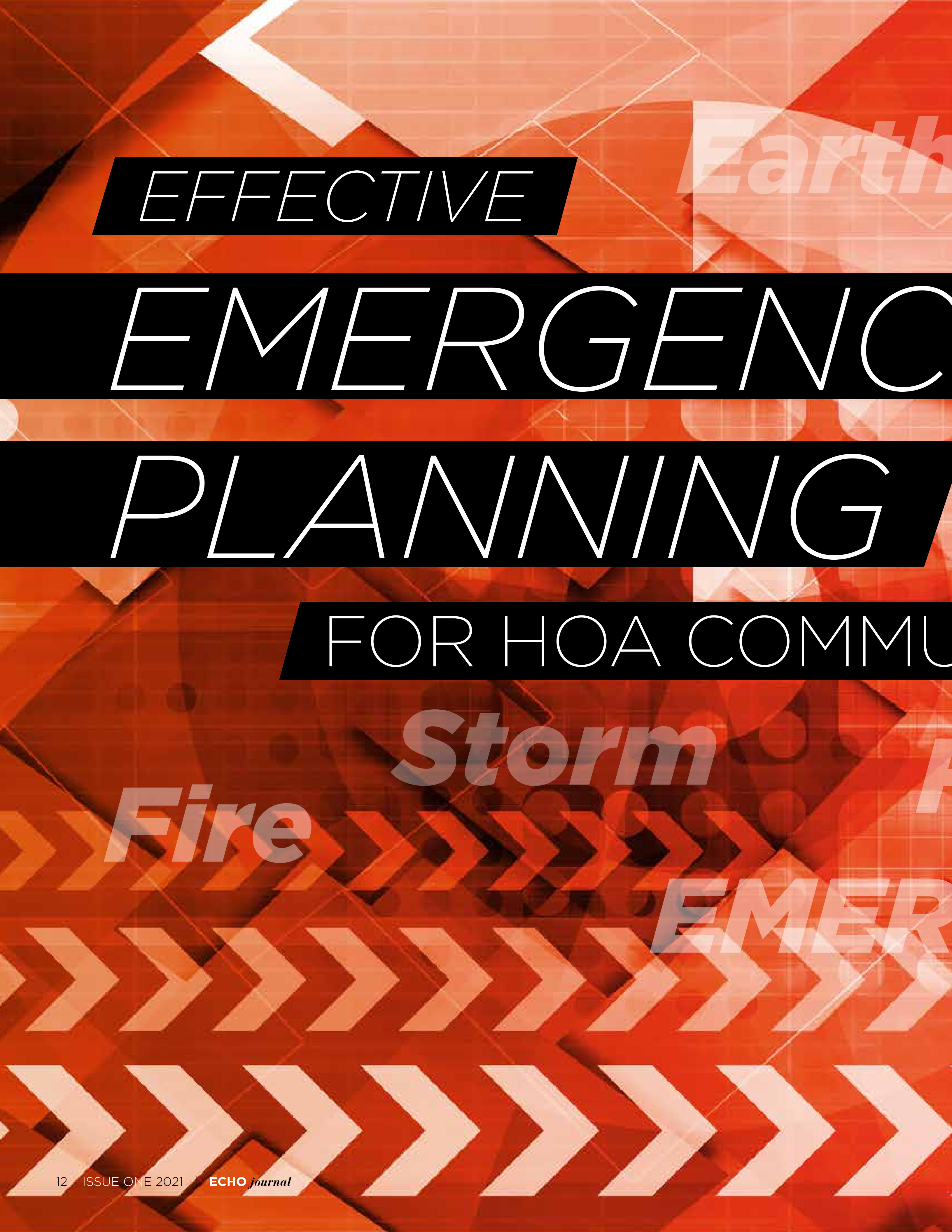
200-300 DEGREES = FEVERISH
This risk level needs improvement. Some risky decisions or omissions are being made. Time to correct.

100-200 DEGREES = LOW FEVER
Low fever. The association is doing a fair job at managing risk. There is room for improvement.

50-100 DEGREES = NORMAL TEMP
Normal temperature. Good job managing the risks! Now how about those last couple of things?

0-50 DEGREES = COOL AS A CUCUMBER
Excellent job at managing risk. Keep up the good work!

EFFECTIVE EMERGENC PLANNING FOR HOA COMMU



BY MARIA NEUMANN

ARE YOU READY?

Nothing is more essential to managing risk than a plan for property emergencies. Time is of the essence. Water soaks in, wicks up walls, flows into electrical outlets and the cleanup grows more expensive. A clean water spill (water from a sink, bathtub or shower) can be dried easily, but if not handled correctly 24-36 hours later mold can begin to grow on porous materials.

Property emergencies usually fall into three categories:

- Environmental (earthquake, storms, wildfires)
- Maintenance (broken pipes, angle stops, badly installed refrigerators/dishwashers, clogged gutters, ejector pumps, etc.)
- Accidents (unattended candles and cigarettes, falling asleep in the bathtub, etc.)

Many community managers have maintenance checks. It is just as important to plan for emergencies.

LINE UP EMERGENCY VENDORS. Using the calm time before the event to interview and select emergency vendors will allow for a better selection of quality services when the emergency happens.

HAVE THE RIGHT INSURANCE AND INSURANCE COMPANY. Selecting a company and carefully reviewing the policy are essential during less pressured times. The cheapest is not always the best. Develop rapport with the agent and underwriter to ensure that the client – rather than shareholders – comes first. Have insurance documents readily available and especially for HOAs, understand insurance coverage and deductibles.

Educate Homeowners and Tenants About Emergency Procedures

Occupants need to be educated about how to turn off water, electricity, and gas. Every home should have

Continued on page 14

Effective Emergency Planning for HOAs

Continued from page 13

an emergency contact list.

The emergency contact list in the case of fire should have a vendor or staff member identified to board-up damaged and unoccupied buildings, for both safety and security. They should be available 24/7. On the list, consider a fencing contractor, an electrician and the effected utility providers.

If the property was built before 1980, an environmental hygienist will be needed to test for asbestos. This can be done in advance of an emergency, but testing can be quite costly. In a fire, asbestos materials can contaminate contents and other building materials. A professional tip: Do not begin remediation measures until there is a proper inspection and the work to be done is crystal clear.

Most remediation contractors can do the board-up and some can do the electrical. Water, sewage, mold, and trauma are all part of the professional toolbox of remediation contractors. Each remediation contractor offers different services and have different specialties.

FULL-SERVICE VS. SPECIALTY.
A remediation company that provides basic services likely will only dry rather than demolish and replace a structure. The advantage of this type of specialty remediation contractor is that they focus only on the aspects of the job that will get the occupants back into the damaged area faster and likely for less money.

More expensive areas of a home or common area with heavy structural damage or damage to expensive structures, such as kitchen cabinetry, carpets, and walls, will take more time and require the services of a full-service contractor. A specialty remediation company that only does emergency remediation, focuses on only the remediation aspects caused by the event (fire, water, etc.) and not on the reconstruction. A specialist will usually cost less per job because they focus on solving the most immediate problems, which allows use of the area much sooner. Reconstruction can then occur on a more deliberate schedule, in a less hurried fashion.

INSURANCE VENDOR LIST.
Insurance companies have a "preferred vendor list"; however, it is illegal to recommend a vendor unless asked. Vendors on the

insurance company list have pre-set agreements with remediation companies to keep costs down. It is important to vet the contractors on the insurance company's recommended list ahead of an emergency event.

PAPERWORK. Get liability and worker's comp insurance information, contractor's license and a W-9. It is easy and important to confirm your contractor is licensed simply by visiting the Department of Consumer Affairs Contractors State License Board web-portal at www.cslb.ca.gov/findmylicensedcontractor.

REVIEWS & RECOMMENDATIONS. Personal recommendations are a good way to begin a search for a contractor. Technology has made vendor searches much easier but should not take the place of proper vetting of contractors. A good online presence does not always equate to good service. There are several online services available that rate companies including Yelp, Google, Angie's List, and the Better Business Bureau. Using industry association member directories, like Echo's Professional Service Provider Directory, will ensure that the companies work in the HOA business and that they are affiliated with others in the industry. Finally, it is suggested that at least three contractors are compared against an objective criterion to ensure the best possible outcome.

PUBLIC ADJUSTER (PA). This is a difficult decision to make, especially with large losses. PAs will promise to maximize the insurance claim while minimizing the inconvenience. Most of them are good at that. Who pays the PA? Not the insurance company, perhaps the private party hiring them, but likely they receive a fee from the vendors working on the project. A PA is unnecessary if the vetting of the insurance company was done correctly before the emergency event. The insurance company and the agent/broker can be particularly helpful. A direct relationship with them could be a lifesaver in time and money.

If the insurance company denies the claim, it will not cost any more to call the PA at that point and see if there is recourse available. It is important to at least have a PA on the emergency response vendor list. Finally, it is important to have

Continued on page 16

Effective Emergency Planning for HOAs

Continued from page 15

adequate counsel, someone with emergency experience to oversee the legalities of the entire situation.

Most qualified contractors exchange business with other qualified contractors. They do not want to lose the repeat business, so getting a referral from other contracts in non-competing areas can net good results. A remediation company that does not do asbestos and regularly works with another asbestos company as a partner will make sure that the project does not get slowed down.

When the Emergency Happens

The call comes in at 4 a.m., professionals are mobilized to secure the situation while occupants and family must be carefully comforted. There is no rush to call the insurance company. They can be called in the morning. Take plenty of pictures for claims; be direct with the restoration company and ask for many photos. If there is water damage, it is important to log moisture readings. Careful notes should be taken of anything to be discarded. Get rid of the fire chasers that say they have been sent by the fire department, insurance company and/or divine powers. These carpetbaggers can create more distraction than value and often interfere. Lean on the restoration company for the correct sequence of remediation, testing and demolition. By hiring a professional, the process is more controlled and less stressful.

MOLD. Mold needs three things to grow, moisture, food, and warmth. Moisture can come from unvented cooking and hot showers, a broken/leaking pipe or roof/window leaks. Its food source can be drywall, furniture, or studs in the wall, along with any porous building material. Remediation usually starts with demolition of anything that cannot be cleaned, and this must be done under containment. It is nearly impossible to get an accurate bid for clean-up. Once the wall is opened the mold contamination could be minimal or extensive. Get a bid to open the wall enough to see what the problem is and then get a real bid. Or get a “not to exceed” contract and make sure to post-test for mold, and the company agrees to come back until the mold is gone. Mold cannot be handled by spraying with bleach unless it is a nonporous surface like tile. Studs can be dry ice blasted or sanded to get rid of mold, then sprayed with an antimicrobial. Sometimes it is necessary to then encapsulate the area with paint as well. Very rarely is mold covered by insurance and if it is, there is usually a cap.

TRAUMA. (i.e., blood and other bodily fluids) Anything porous (rugs, carpets, beds) must be disposed of in hazardous waste containers. Any drywall needs to be removed. Everything is cleaned under containment and all materials are treated as if the person had a highly infectious disease. Again, not cheap but at least covered by insurance.

CLEAN WATER, GRAY WATER & SEWAGE. Clean or gray water should dry in three to four days unless the tenants are turning off the machines at night because they are too noisy. The remediation company should come back and check that the machines are drying all the affected areas properly. Moisture meters tell the remediation company if there is still moisture present.

Sewage underneath the building, either from a broken pipe in a bathroom or kitchen usually is not noticed right away. If food particles sit for more than a few days, they become full of bacteria and need to be removed with the same care as sewage. Most of the time these jobs are billed as time and material and insurance will rarely cover the expense. Again, these jobs are very hard to bid since the work is out of view. It is prudent to get a not-to-exceed contract or hire a trusted plumbing contractor.

Time is the enemy. If the call comes in the middle of the night, do not wait until noon to respond. Insurance companies pay for after hours emergency calls because they know that starting right away is the least expensive route.

Most remediation contractors and insurance companies use industry-related software which provides the pricing for the services needed. The remediation contractors will justify their bill to the insurance company directly and receive their money after the client. The cost savings are in remediation versus demolition, since occupants are able to remain in their homes and avoid secondary damage.

Many homeowners, community managers and HOA residents learn the necessity of emergency preparedness the hard way. It is rare to find anyone who has been in the CID industry for any length of time who does not have an emergency incident horror story.

Preparation is the key and a good emergency response plan requires as much advance preparation and planning as possible. Starting early – and in an orderly fashion – can overcome many problems when an emergency occurs.

Maria Neumann is the owner of Fire & Water Damage Recovery. Fire & Water Damage Recovery specializes in contents restoration including antiques, artwork, fine fabrics, rugs, wood furniture, documents, books, photos and electronics; professional pack out and inventory service. She serves the San Francisco Bay Area, San Jose, and San Joaquin County.

BY KEVIN BOLAND, CIC, AIC, LUTCF

THE

KEY COVERAGES TO PROTECT CONDO OWNERS

There are wonderful benefits to living in a condominium association. A few include not having to mow the lawn, or rake the leaves, and not having the big expense of replacing a roof.

Another nice benefit is having neighbors nearby for a safe sense of community. One topic that can be challenging for condo owners, however, is knowing what type and what limits of insurance to get to be protected if an urban or wildfire occurs. This article describes the five key coverages every condominium owner needs to be insured wisely.

1. Personal Property

If a major urban or wildfire destroys a home, money will be needed to replace all personal property. This includes home appliances, furniture, clothes, pictures, entertainment systems, sports gear, mirrors, and memorabilia. Remember that certain types of property like jewelry, watches, fine art, imported rugs, cameras, and high-end computers have only about $500 in base policy coverage. If a special someone has a $5,000-wedding ring, additional dollar coverage is needed to protect it in case of theft!

2. Interior Building Component Coverage

This is a type of property insurance where condo owners must be very careful not to be underinsured. In some associations, the CC&Rs require the condo owner to be responsible for insuring their interior building components.

If the CC&Rs state this, this means the owner needs to pay to repair or replace the kitchen cabinets, counter tops, hard wood floors, pantry, and the bathroom sink, shower, and floors. This also means paying for a new furnace and heating ducts and vents, a hot water heater, and an air conditioner. It is not easy to put a number on it, but most condos with 1,000 square feet or less need about $100,000 in coverage. If the condo is larger or upscale, much more is needed. Remember that it is the owner's responsibility to know if the CC&Rs require them to insure these interior building components or not. Some condo associations Master Policy will insure the interiors, so it is recommended to contact the board and/or the association's insurance agent to find out! If the Association's insurance does cover the interiors, then owners can save on their insurance costs!

The great news is that getting the right type and limits of condo insurance is not that expensive, so be a wise owner and insure properly.

3. Additional Living Expenses

The third type of coverage that comes with Condominium Insurance is Additional Living Expense, or ALE (if you love acronyms). The insurance company will pay the rental expense of living somewhere else while the condominium is being repaired after a Fire or other covered loss. It can take up to a year or more to rebuild after a major fire loss. Here is a recommendation: Multiply the monthly cost to rent a condo likes yours by 24 months, and this is the dollar amount of coverage that you need. Like extra layers of clothes on a cold day, it's smart to have a little more than a little less coverage!

4. Loss Assessment Coverage

The fourth type of coverage is called Loss Assessment. Here is an example of how this coverage protects a condo owner. Let's say that a clubhouse was destroyed by a fire, and the local Building Code expenses were, surprisingly, $80,000 more than existing insurance coverage. The hard working board must then declare a Special Assessment to cover the cost. Each owner will be responsible to pay $5,000 ($80,000 ÷ 16 owners). The Loss Assessment Coverage in the condominium policy will pay this bill for the owner! Nice!

5. Personal Liability Protection

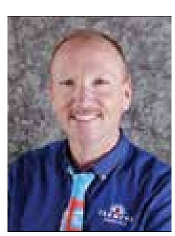
The fifth coverage needed in a condo policy is Personal Liability Protection. Imagine a homeowner is responsible for causing a fire when a space heater malfunctions, or a candle catches a curtain on fire, or Christmas lights overload a circuit, and this fire destroys three homes. The wise homeowner will have high liability limits because the building costs could easily be $1,000,000. A minimum of $1,000,000 in liability coverage is recommended. Liability insurance also protects the owner if a dog bites someone, or if the owner or their children injure someone away from the home on a bicycle, playing sports, or hitting them with a golf ball! Please note that Intentional Acts are not covered, with the exception of children under the age of 13. Insurance carriers will normally defend an owner when children under a certain age cause property damage or injury intentionally.

Summary

The great news is that getting the right type and limits of condo insurance is not that expensive, so be a wise owner and insure properly.

It's a good idea to take a video or pictures of all personal property and the interior building components and keep them in a safe deposit box at the bank. This way if there is a fire, there is proof of the valuable items and the insurance carrier can see exactly the quality of the interior home.

Homeowners should be proactive and speak with an HOA insurance agent to get the right coverages and limits to protect belongings against future fire or covered interior water losses.



Kevin Boland, CIC, AIC, LUTCF, is a specialist in writing Master Policy Insurance for condo and PUD Associations. He lives in a condo and serves on its HOA board. Kevin runs the Farmers Insurance agency out of Novato, CA with his wife of 30 years, Audrey. Kevin is a frequent participant at Echo events and a regular content contributor.

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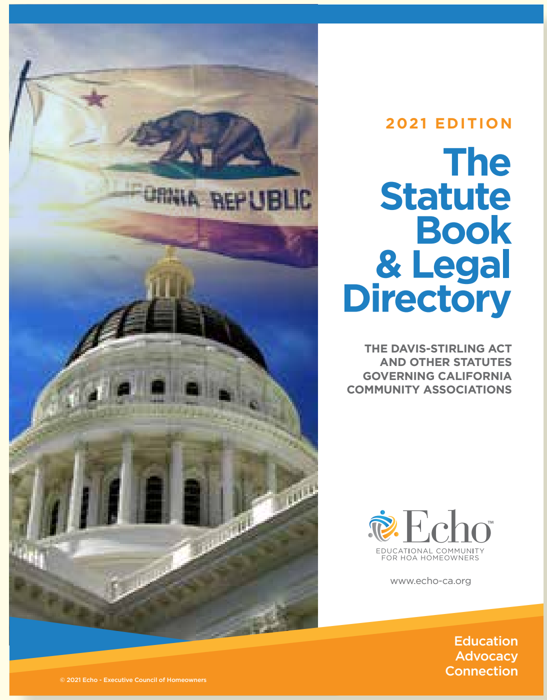

The **2021 Statute Book** is now available in an expanded version to include the Davis-Stirling Act and other laws and case citations governing California community associations.

This comprehensive reference provides the legal framework for HOA board members, homeowners, and professionals in an easy-to-use coil bound format.

Available to Echo HOA members for download from the online store or as a printed booklet. Order your copies today!

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VISIT THE ONLINE STORE

Th

of Volunteer Le

At last count, California is home to over 54,000 homeowner associations. 20,000 of those describe themselves as self-managed or volunteer led. These include large suburban residential and condominium communities and urban high-rise communities with employees fulfilling management duties to small single-family and condominium communities that are governed and managed by volunteer community members. No matter the size of the community or the number of employees, all California homeowner associations are required to adhere to the California Common Interest Development Act, better known as the Davis Stirling Act. The Act is found in California Civil Code (CCC) sections §§ 4000-6150 and governs all common interest developments. For volunteer-led self-managed communities, compliance with these laws can be confusing, time-consuming, and often distract boards of directors from developing a strategic plan for their communities and good governance. Volunteer-led, self-managed communities can consider these “basics” to ensure compliance, sound business judgment, and peace of mind.

PUT TOGETHER A TEAM. Boards of directors of self-managed HOAs are volunteers and community members and often not familiar or conversant in mind-numbing HOA law. The first order of business for newly elected or organized boards is to put together a team of experts that can advise the board on all aspects of HOA governance. Team members should include an attorney specialized in California HOA law, a bookkeeper or CPA with non-profit organization experience, an insurance professional familiar with community association insurance requirements, and a reserve study professional. To get the most out of the team, the board can invite these professionals to attend one board meeting per year to educate and update board and community members about new laws, trends, and best practices in HOA governance.

PRIORITIZE FINANCIAL REPORTING. In January of 2019, new requirements for boards of directors review of HOA financial statements were added to CCC §§ 5500 and 5501. Additionally, changes were made to CCC § 5380(b)(6) regarding fund transfer requirements. Comprehensive financial reporting and review are essential to board decision making, financial stability, and member well-being. Financial reporting must be timely, compiled and presented in a professionally organized manner. It must be explained and understood by board members and interested community members. Best practices suggest that volunteer, self-managed boards engage an independent third-party bookkeeper or CPA to compile and produce financial reports no later than the 15th of the month for the prior month.

BY JOHN CLIGNY, AMS, CAMEx, CCAM-HR

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CREATE AN ANNUAL CALENDAR. The governance and administration of homeowners associations are compliance-based, requiring an organized approach. The creation and utilization of a comprehensive annual governance calendar is critical, and its importance cannot be overstated. The calendar should include all the administrative, compliance, financial, and property management activities required for the board of directors to meet their fiduciary duty to ensure that the association exercises its rights and duties described in the association's governing documents.

MAKE GOOD POLICIES AND REVIEW THEM REGULARLY. California HOAs literally come with user manuals. These include: Articles of Incorporation, CCRs, Bylaws, Rules, the Davis Stirling Act, and Corporations Code. However, boards of directors need to adopt policies to interpret, streamline, and apply HOA law to themselves and their community members. Policies can include voting and election rules, assessment collection, enforcement, fines, and penalties, architectural control, electronic communication, open meeting act, board members code of ethics and standards, and many more. Policies need to be clear, concise, and easily understood. They should be reviewed regularly to assess continued appropriateness and account for any revisions or additions to HOA law. Above all, board policies should foster and encourage a sense of community, good governance, and support the sustainability of property values.

VALUE COMMUNICATION. Generally, surveys of residential community member satisfaction indicate that HOA members feel they don't know what's going on, and their concerns are not heard. Volunteer-led, self-managed association boards of directors must embrace the transparency and disclosure provided by regular and timely communication with community members. Board-to-member communication can take many forms including newsletters, email bulletins, and flyers. However, communication also includes well-drafted board meeting agendas and minutes, annual budget and policy disclosures, financial reviews, and reserve study findings. Board members can encourage member engagement using the annual meeting of the membership, town-hall meetings, surveys, and the disciplined use of a homeowner forum during regular board meetings.

ENCOURAGE MEMBER AND BOARD MEMBER EDUCATION. Living and being a volunteer leader in a homeowner association is complex and often adversarial. Tension arises at the intersection of perceived property owner rights and association governance. Member education provides

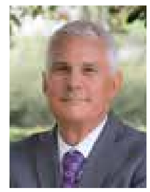
Continued on page 24

The Self-Managed HOA

Continued from page 23

opportunities for new community members to learn about association governing documents and expectations. Board member training and development teaches volunteer community leaders about HOA governance and best practices. Boards may also benefit from specialized training in board dynamics, decision making, policy governance, and conflict resolution.

Homeowner association communities that choose self-management or are compelled to self-manage, because of size or budget constraints, provide community leadership for thousands of California homeowners. Steven Covey, in his best-selling book, *The Seven Habits of Highly Effective People*, advises to "put first things first." Volunteer-led, self-managed homeowner associations can benefit from the same advice. Adopt these association management basics and settle in for a fulfilling and satisfying experience in self-management.



John Cligny, AMS, PCAM, CCAM-HR is a veteran portfolio manager and community association management executive. As co-founder of Association Consulting Group, John is a trusted advisor primarily focused on educating and advising community association board members on effective governance to promote a positive public opinion of homeowner associations and community management. John is a frequent speaker and panelist on a wide range of community association topics and issues.

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An Educated Board Helps to Make HOA Management Easier.

A simple fact: it's easier to work with an educated and informed HOA board. Echo education helps board members better understand and differentiate their role from their manager's role. All board members and homeowners from the communities you manage are encouraged to attend our events – whether they are in-person or online. ***Register a board member today and make your job easier!***

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Creating a Financial History of Your HOA

Our HOA created a lengthy financial history that has provided useful information for our board and members in comparing current and future budgets, checking on reserve study data, examining special assessments, and deciding on current capital spending.

The existence of organized information created from past spending data can greatly complement the monetary decisions made by your board. We all know that 'money' is usually a principal topic – and concern – of home owners associations, whether it is the fiscal decision-making of the board or discussions with members who must pay monthly fees and special assessments.

Why is a Financial History Important?

A common problem, perhaps faced by your board, is the lack of historical data of HOA finances. When does this missing data become important?

- Suppose it is time for you to adopt a budget for 'next' year. Hypothetically all members might remember that the budget went up 9% last year but not recall that there were no increases for the three years before that. A financial history can contain that information.
- Suppose the reserve study needs to include the projected cost for the controls of the fire protection system. While your reserve study vendor can supply a cost, it would be helpful to be able to review HOA records of the actual past cost, to verify replacement date, and to review information on the vendor who last replaced the controls. A financial history can contain that information.
- Suppose a member of your HOA sells their unit. Working with their tax advisor they can potentially offset taxes on the sale (assuming rising real estate prices), if they have appropriate data available on capital expenditures for common areas during the period of their ownership. They probably are aware of past special assessments; however, it is unlikely they are aware of other common area capital expenses paid from reserve funds that would, if known, be potentially useful in reducing tax obligations. A financial history can contain that information, while at the same time leaving tax questions to be answered by your member's tax advisor.

Each of the items above, and so many other money questions, can be answered with the creation of a single widely-available document containing the financial history of your HOA. Even if you have an external management company, these records may only be available off-site in that company's files as raw data, for it is unlikely that the data have been put into a form – tables and/or graphs – that present the data in a helpful, historic format.

Start Small

Our HOA history document began with the creation of a one-page table with annual total budget data. The simplest of tables was created with one row for each year for which we have data (25 years), and with columns as shown in the table for: fiscal year, total budget amount, and year-to-year percentage increases in the total budget.

Hypothetical Total Budget by Fiscal Year

Fiscal Year	Amount	Yr.-to-Yr. Incr. %
FY 95	$ 326,324	
FY 96	340,640	4 %
FY 97	360,060	6 %
•••	•••	•••
•••	•••	•••
FY 18	600,891	0 %
FY 19	600,891	0 %
FY 20	600,891	0 %
FY 21 proposed	654,971	9 %
	Average	3.3%

You can then make this simple table available for all residents prior to the open board meeting in which the budget for next year is adopted. Based on its information, members could acknowledge that, 'yes,' the budget did go up 9% last year, but now we know it was stable for several previous years. Members might conclude that your board has acted frugally, and can be prepared to discuss more reasonably the need for a larger than average increase for the proposed budget for next year.

We grew the content of this table over time, by adding columns that divided each annual budget amount into two parts:

1) the amount raised from monthly assessments and
2) the amount raised from other income (for example fees for parking a second car).

Then we added graphs to display the information visually. Then we selected a subset of data for the last 10 years to provide a more recent picture, with averages computed for increases in our recent 10-year period.

How Financial History Topics Grow

As the next step in creating our history we gathered information on past reserve studies. Often the main focus of those studies is the 'percent funded,' so we created a table with a column of these data from each past reserve study. Again, over time other columns were added, and then graphs were prepared as visual displays of the data, providing a better understanding of progress in handling reserve items.

A member of our HOA provides an annual reserve study presentation at a board meeting. A handout with sample data supports this presentation. Our history includes this handout, making this material readily available for future presentations.

We include many other topics in our financial history, including:

- Year-end financial statements
- Special assessments
- Common area percentages for each unit (variable percentages in our case)
- Benefits received from monthly fees
- Utility usage
- Capital spending
- Information tax advisors can use, if applicable, to reduce taxes on the sale of units.

Continued on page 28

Where Do You Find Past Data?

Access to past data becomes crucial in creating any historical document. If you are lucky you have a long-time resident who has maintained past financial documents. If you are self-governed, someone must ('should' might be more appropriate) have boxes of past data. If you have an external management company, they will have records, either on paper, or hopefully in computer files.

No matter what the source of your data, be ready to expend considerable work to find and present meaningful information.

Lessons Learned

We all know that the availability of past financial data presented in an organized format can be helpful – sometime invaluable – in current financial decision-making. If you decide to create your own HOA financial history keep the following in mind.

- Start small focusing on useful data with simple data tables, and slowly over time add more sophisticated data analysis and visual presentations like graphs.
- Be prepared to expend energy locating useful data from multiple sources such as your management company or individual HOA members.
- Create a single document as doing so provides terrific accessibility, as that document can be provided to all members on the HOA website if available, or by distributing electronically or on paper.
- Since you are probably producing information that has never been previously available, take pride in whatever you are able to provide, however limited it might initially be.

Don Beil is an HOA board member of the Bellevue-Staten Condominium Association, a high-rise condominium community in Oakland, CA. He has 46 years of experience as a university faculty member and administrator, primarily teaching computer science to deaf students. He loves to write and is published widely. He can be reached through the Echo office.

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Legislative Session – 2020 Results

For more information, visit the HOA Advocacy section at the Echo website: www.echo-ca.org/article/hoa-advocacy/

2020 is the second year of this legislative session. The list below contains the bills most likely to impact common interest developments and their final disposition within the legislature.

New bills for 2021 session were introduced in January and February. We will report on the 2021 legislative session in the next issue of the *Journal.*

2020 Legislation

AB 2227

AUTHOR: Irwin
SUBJECT: FDIC & Fidelity Bond Coverage
STATUS: Dead
POSITION: Watch
SUMMARY: Would require that association funds transfers greater than $10,000 receive prior written approval from the board of directors, that association funds shall be deposited in an institution insured by the FDIC, and that the association maintains certain types and levels of coverage for its directors, officers, and employees.

AB 3182

AUTHOR: Ting
SUBJECT: Short Term Rentals
STATUS: Signed by Governor
POSITION: Watch
SUMMARY: This bill would make void and unenforceable any governing document that prohibits the rental or leasing of any of the separate interests in a common interest development. It provides that an owner of a separate interest in a common interest development is not subject to provisions that effectively prohibit or unreasonably restrict the rental or leasing of any of the separate interests, including accessory dwelling units. The bill would not apply to a provision in a governing document that prohibits short-term rentals of 30 days or less.

SB 182

AUTHOR: Jackson
SUBJECT: Fire Retardant Roofs
STATUS: Vetoed by Governor. In Senate
POSITION: Watch
SUMMARY: Within a very high fire severity zone, requires an association to allow an owner to use at least one type of fire retardant roof covering material that meets certain requirements as defined in the section and in the International Building Code.

SB 969

AUTHOR: Wieckowski
SUBJECT: Association Elections
STATUS: Dead
POSITION: Watch
SUMMARY: Includes among the permissible reasons for disqualifying a person from nomination as a member of a Board of Directors of a common interest development, if the person has served the maximum number of terms or sequential terms allowed by the association. Requires additional persons to be appointed and overseen by the Inspectors of Election to also satisfy the criteria of who may be an independent third party.

SB 981

AUTHOR: Archuleta
SUBJECT: Email Delivery of Documents
STATUS: Dead
POSITION: Watch
SUMMARY: Would require an association to deliver documents by email unless a member has not provided a valid email address. Requires an association to make a good faith effort to acquire member email addresses. Additionally requires an association of at least 50 separate interests to maintain an association website, with certain exceptions.

SB 1340

AUTHOR: Wilk
SUBJECT: Inspection of Decks and Balconies
STATUS: Dead
POSITION: Watch
SUMMARY: Existing law requires an inspection of exterior elevated elements and waterproofing in an association. This bill would eliminate the prohibition against the contractor performing the inspection from bidding on the repair work.

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March 13, 2021 | 8:00 am - 1:30pm

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8:00 - 8:55 am	**Vendor Chat Rooms**
8:55 - 9:00 am	**Opening Remarks**
9:00 - 9:50 am	**HOA Board Financial Basics** Presented by David Levy, CPA
9:50 - 10:10 am	**Reserve Funding Concepts Made Simple** Presented by Roy Helsing
10:10 - 10:30 am	**Questions & Answers**
10:30 - 10:50 am	**Break | Vendor Chat Rooms**
10:50 -11:30 am	**Directors & Officers Insurance: The Board's Shield** Presented by Kevin Boland
11:30 - 11:45 am	**Questions & Answers**
12:00 - 12:20 pm	**Break | Vendor Chat Rooms**
12:20 - 1:10 pm	**Election Law, Rental Requirements & ADUs** Presented by Amy Tinetti, Esq.
1:10 - 1:30 pm	**Questions & Answers**

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