



**MANAGEMENT PARTNERS**  
I N C O R P O R A T E D

July 7, 2011

Mr. Paul Chenette, Board President  
Canyon Lake Property Owners Association  
31512 Railroad Canyon Road  
Canyon Lake, CA 92587

Dear Mr. Chenette:

Enclosed is a white paper on alternatives for a long term approach to management services for the Canyon Lake Property Owners Association (CLPOA). This report was completed at the request of the Board to provide a foundation for moving away from interim management services.

In March 2010, Management Partners began providing interim general management services after the departure of a long-term General Manager. Management Partners initially provided a two-person team that focused on stabilizing operations and dealing with the morale and human resource issues critical to maintaining operations.

In April 2011, Management Partners began phasing down interim management services. In approving the wind-down of interim management services (scheduled to end on October 31, 2011) the CLPOA requested that Management Partners prepare a white paper report on management alternatives to assist the Board in determining the best approach for long term executive management in anticipation of ending the interim management services contract.

The white paper outlines the advantages and disadvantages of several management models utilized by California POAs and related organizations. It outlines the key components and decision structure for the alternative management options utilized by California POAs and related organizations. The objective of this analysis is to clearly articulate the options available to the Board for corporate management of the Association and provide answers to basic threshold questions about the alternative models. Following Board direction an appropriate RFP process can be implemented, or the Board can proceed to recruit a General Manager.

Sincerely,

Andrew S. Belknap  
Regional Vice President

## EXECUTIVE SUMMARY

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The Canyon Lake Property Owners Association, by virtue of its population and unit size, along with the amenities it offers, is quite atypical for a property or home owners association. In many respects it is more like a small incorporated city, albeit regulated in a different manner.

There are quite a few alternative management options available to the CLPOA. This report highlights the types of associations and how they differ. It then provides details on a few large scale associations and contract cities that have similar characteristics to the CLPOA. Next, the report discusses three basic forms of management for large property owner associations like the CLPOA. These are:

**1. A General Manager employed by the association**

Under this model, management services may be delivered either by a contract GM or a GM that is an employee of the association.

**2. Corporate contracted management**

Under this approach all services are delivered via contract, as the association would not be a direct employer and would delegate operational duties to a third party (e.g. a management company).

**3. Professional Employer Organization**

Under this model, the association would have a General Manager (employee or contractor), with employee services provided by a Professional Employer Organization (PEO). PEOs serve as the human resources department for other companies. They may also provide a lower cost employment model due to the economies of scale and benefits that they can offer as an employer of employees and specialists in HR and employment law issues. This approach is commonly known as “employee leasing”.

While the employment a General Manager as a direct employee of the association is the standard model used by most organizations similar to the CLPOA, there are alternative models that have significant advantages. And, of course, each has its disadvantages. In the end, there is no simple answer to which is the best method of association management, although the larger and more complex the association, one would tend to lean towards having association employees with specialized services outsourced. An association General Manager’s success depends on their relationship with the board. Thus, the selection process is the critical factor. Success in hiring a management firm depends on how well the association drafts the contract requirements and how well they are understood by the management firm, as well as the experience of the firm.

Irrespective of the specific management model that the CLPOA chooses, Management Partners recommends that the association retain the services of a professional and experienced manager to guide the day-to-day operations of the association. The myriad benefits of professional management are acutely important to efficient administration of a multi-million dollar per year organization like CLPOA. The standard governing / management structure across the country for large scale associations and municipal governments, is policy guidance by a board (or council) and daily management by an experienced

professional. This avoids the inevitable pitfalls of management by committee (if the Board or Council runs the organization directly) and provides a measure of separation between politics and executive decisions with regard to fiscal matters, employee issues, and service provision.

## **BACKGROUND**

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### **The Community**

Located in western Riverside County, the Canyon Lake Property Owners Association (CLPOA) began as a master-planned community of custom-built homes in 1968. At present, CLPOA is a community of 4872 residential units and lots located within three enclaves: (1) a central community of 4724 residential lots situated around the lake, an 18-hole golf course and a network of suburban streets, (2) a community of 123 lots for manufactured homes, called the Fairway Estates, and (3) a community of 25 residential units developed on 5+ acre parcels.

Canyon Lake is a 383-acre lake within a private gated community. The man-made lake has 14.9 miles of shoreline and was formed by the installation of a concrete dam in 1927. CLPOA leases surface rights to the lake for the enjoyment of its 11,000 residents.

In addition to the lake, the community has an 18-hole golf course and several other amenities that include: 16 parks and beaches, an equestrian facility, a little league baseball facility, a tennis center, swimming facility, recreation programs, a senior facility, two restaurants, basketball courts, a campground for recreational vehicles, and central community Lodge with meeting and banquet rooms.

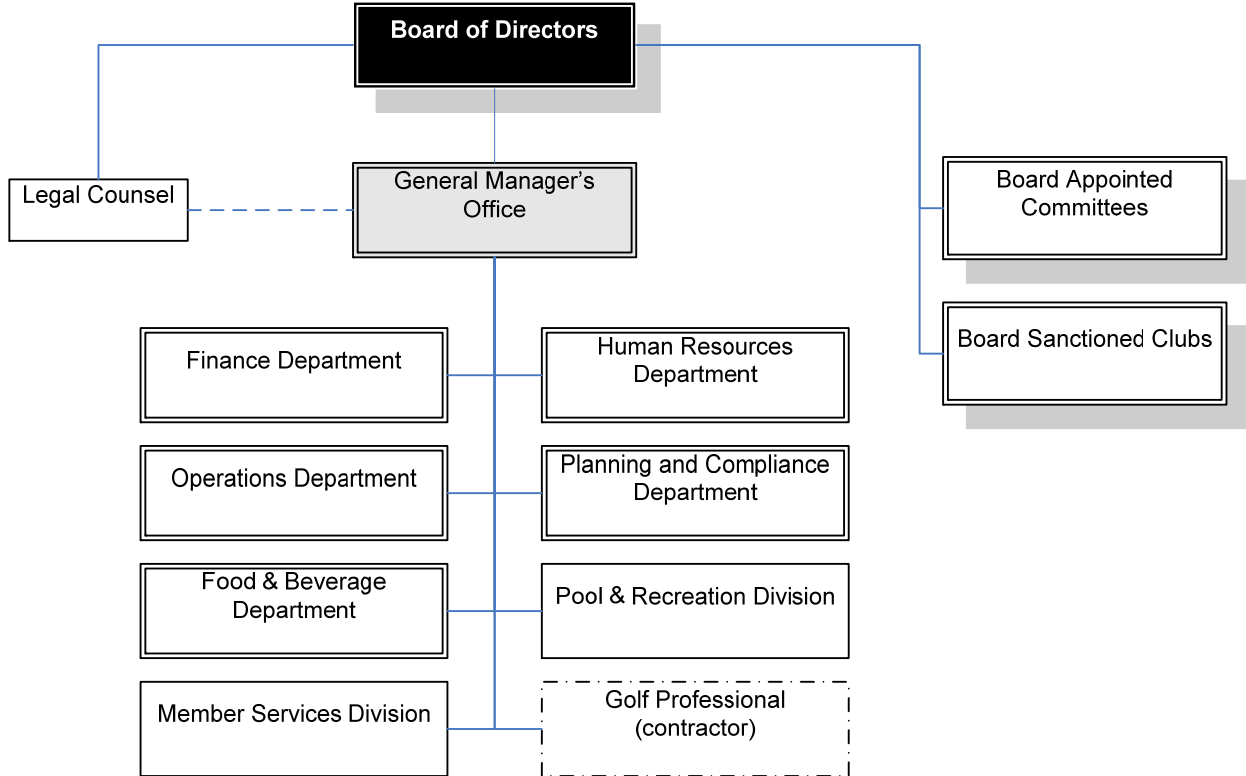
### **The Organization**

The Canyon Lake Property Owners Association is a California mutual benefit, nonprofit corporation that manages a community association under the Davis Stirling Common Interest Development Act. The Association is governed by a 5-member Board of Directors. Annual elections are held to select members of the Board. Staggered election cycles mean that each year, 2-3 seats on the Board are on the ballot. Board members serve two-year terms and are limited to serving two consecutive terms for a total of 4 years of service. Responsibility for personnel and administrative operations is delegated to a General Manager, who serves at the pleasure of the Board of Directors.

CLPOA owns, maintains and operates common property and facilities, such as streets, parks, green belts, recreational and service facilities. It adopts and administers rules and regulations to promote a quality living environment. It levies assessments to generate the revenue necessary to finance its operations and to perform the responsibilities placed upon the Association by its Articles of Incorporation, By-Laws, and the Declarations of Restrictions recorded against the tracts within the community.

CLPOA's operating budget for Fiscal Year 2010-2011 is approximately \$12 million. The POA also has reserve accounts with FY 2010-11 contributions of approximately \$4 million. CLPOA employs a staff of 54 full-time, 33 part-time, and 26 seasonal/temporary employees. Below is an organization chart for the CLPOA.

**FIGURE 1: CLPOA ORGANIZATION CHART**



## The City of Canyon Lake

The City of Canyon Lake was incorporated on December 1, 1990. The City is an autonomous municipal corporation and has a separate menu of services and responsibilities. The City is governed by an elected City Council and managed by a City Manager.

The City is responsible for land use as well as the health, safety, and welfare of Canyon Lake residents. In carrying out its jurisdictional responsibilities, the City passes a variety of ordinances and contracts for police, fire, animal control, planning and engineering services. CLPOA and the City cooperate with one another in carrying out their respective responsibilities.

## The CLPOA and Management Partners, Inc.

Since March 2010, the CLPOA has contracted with Management Partners, Inc. for corporate management services. This arrangement followed the abrupt departure of a long time General Manager. During most of this time, David Rudat served as General Manager and Jovan Grogan served as the Assistant General Manager. With the departure of David in April 2011, the Board accepted a proposal from Management Partners for Jovan to serve as the Interim General Manager through October 2011.

In addition to daily oversight and management of the CLPOA, both managers have led to organization complete the following:

- Classification and Compensation Study for senior management positions

- Competitive bid and contract award for a new Auditor
- Competitive bid and contract award for a new Golf Pro
- Competitive bid and contract award for a new Inspector of Election
- Competitive bid and contract award for a new legal counsel
- Competitive bid, contract award, and completion of a 3-year pavement management program
- Coordination and training for Committee chairpersons
- Development of the 2011/2012 operating and capital improvement project budgets
- Executive recruitment for a Director of Finance
- Installation of a new Point of Sale System throughout the community
- Installation of security cameras at the Country Club
- Interior updates at the Lodge (TVs, bar and patio furniture)
- New internal controls (spending authority and check signing practices)
- Re-established catering services at the Lodge
- Re-opened the Lighthouse Restaurant as a Bar and Grill
- Review of reserve fund disbursements for the last two fiscal years
- Road reconstruction from the Main Gate to North Gate
- Sale of surplus equipment and vehicles
- Transition corporate, HR and collection legal services to the new legal counsel
- Manage the hiring and transition process for a new Director of Finance

At present, the Board has tasked the Interim General Manager with the responsibility to oversee daily operations and continue the on-going improvement efforts that have begun to-date. These include:

- Administer a comprehensive review of the CLPOA Rules and Regulations
- Direct technology improvements (i.e. replacement of accounting system and server upgrades)
- Implement a strategic planning process for existing and new capital projects
- Improve customer service with regard to patrol citations and rule violations
- Manage competitive bid processes for expiring contracts and maintenance projects (i.e. community patrol contract, road engineering services, and new gate cameras)
- Oversee capital improvement projects included in the 2011/2012 budget
- Oversee the completion of a classification and compensation study for all positions
- Review proposals and oversee the development of an updated reserve study for the repair and replacement reserve fund

As this interim management stage is now winding down, the CLPOA requested that Management Partners prepare this report on permanent long term management alternatives. This will assist the Board in determining the best approach for long term management services in anticipation of completion of the interim management services contract with Management Partners.

The report which follows outlines the key components and decision structure for the alternative management options utilized by California POAs and related organizations. The objective of this analysis is to clearly articulate the options available to the Board for

corporate management of the Association and provide answers to basic threshold questions about the alternative models.

## **CLPOA Comparison with Other Common Interest Developments and Contract Cities**

### **Comparison to Common Interest Developments**

A Common Interest Development (CID) describes a type of real estate and home ownership. They include groups of single family houses, townhouses, garden-style units, and large buildings like apartment style condominiums. The most common type of homeowner association is the nonprofit corporation; however, older associations may be unincorporated associations. There are over 48,000 CIDs in California as shown in Table 1.

**TABLE 1: NUMBER OF OWNER COMMON INTEREST DEVELOPMENTS (CIDs) BY NUMBER OF UNITS**

| Size              | Number |
|-------------------|--------|
| 2 – 5 units       | 3,890  |
| 6 – 10 units      | 7,162  |
| 11 – 15 units     | 3,622  |
| 16 – 20 units     | 2,989  |
| 21 – 25 units     | 1,876  |
| 26 – 50 units     | 5,746  |
| 51 – 100 units    | 5,275  |
| 101 – 150 units   | 2,881  |
| 151 – 325 units   | 3,235  |
| 326 – 500 units   | 698    |
| 501 – 1,000 units | 501    |
| 1,001+ units      | 485    |
| Unclassified*     | 10,321 |
| Total             | 48,681 |

\*Size was not specified.

Source: California Association of Community Managers

Based on the above information, with 4,800 units, the Canyon Lake Property Owners Association is among the largest associations in the state. This is an important finding in that the CLPOA, by virtue of its population and unit size, along with the amenities it offers, is quite atypical for a property or homeowners association. In many respects it is more like a small incorporated city, albeit regulated in a different manner.

There is some overlap in what is considered to be a homeowners association versus a property owners association, but for the purpose of this report, these associations can be divided into several groups:

1. Condominiums and townhouses
2. Neighborhood associations
3. Full service communities

The CLPOA would be classed as a full service community, the most complex and uncommon type of CID. All of these types of associations have covenants, conditions, and restrictions (CC&Rs) that govern the appearance, use of the property, and the structure of the organizations.

**Condominium associations and townhouses** are generally responsible for the maintenance of common areas, including parking and alleyways, but are not responsible for street maintenance and other types of municipal services. Management of these smaller associations is typically provided by a management company which provides general management, financial, and contract management for maintenance. While our analysis has been limited to publically available information, such associations do not typically function as employers instead, they delegate management and operational roles to a management company or specific contract service providers.

**Neighborhood associations** include broader areas that generally receive municipal services from the city or county that they are located within. Such associations are generally focused on the appearance of the area and have limited maintenance responsibilities that are focus on common areas (community meeting rooms, pool facilities, and neighborhood parks). Some neighborhood associations are responsible for maintaining streets, while others have no responsibility because their streets have been accepted by the surrounding city or county as components of the municipal roadway system. Association management is generally provided by a management company and supports the board and helps to oversee association finances. As with condominium associations and townhouses, neighborhood associations do not generally function as employers instead they delegate management and operational roles to a management company or specific contract service providers.

**Full service communities**, such as the CLPOA are generally the only CID projects which are large enough to act as direct employers for service delivery. In many respects these communities are similar to California “contract cities”, a streamlined type of local government that generally relies upon a small central staff and delivery of services by contract. Such full service communities provide a range of amenities to their members in the form of (1) facilities, programs and classes for recreational activities; (2) club house amenities that can include restaurant and bar operations; and (3) a network of parks and outdoor common areas. The size and breadth of services provided by full service communities necessitates administrative functions that are staffed by personnel who provide many or all of the following services:

- executive management
- home owner and escrow administration
- human resources administration
- information technology services
- planning and development services
- public relations/communications
- rule enforcement

In addition, full service communities often have in-house maintenance units for routine upkeep and repairs to recreational and common area facilities. Conversely, they frequently contract out maintenance areas such as roadways, street lights and signals, street sweeping and major repairs that require bonded and licensed contractors. Similar to contract cities, full service communities strive to employ a small central staff and utilize the expertise of private sector companies for infrequent activities and in areas where market efficiencies can provide services at a lower cost.

Table 2 compares several associations that fall within the designation of a full service community across the nation. The information is provided to illustrate the varied staffing and

budget levels of the organizations. The differences are most likely due to the amenities offered by the community and the amount of services provided by the city or county in which the association is located. Regional cost differences also impact the budget figures. Some associations are in County Service Areas which can be formed to provide residents in rural areas with services that are not generally provided by existing business or government agencies. New developments are also typically initially managed by contract, which may be continued or transitioned to management by association staff.

Some of the associations in Table 2 are condominiums, senior living facilities, and homeowner associations that only cover the buildings and common landscaped areas. Others are larger property owner associations, such as Canyon Lake, include infrastructure such as streets, restaurants, recreational facilities (e.g. golf courses, tennis centers, parks and beaches, as well as community swimming pools). These larger associations can function like a small city providing the various non-public safety municipal functions, such as street maintenance, parks and recreation services, planning and development review services as well as corporate support functions such as information technology, human resources, board clerk, and public relations.

**TABLE 2: ASSOCIATIONS, HOUSING UNITS, AND ANNUAL BUDGETS**

| Association Name                                 | Housing Units | FTEs | Annual Budget                 | Cost per Housing Unit | Amenities/Comments  |
|--|---------------|------|-------------------------------|-----------------------|---|
| Canyon Lake POA, CA                              | 4,800         | 58*  | \$11,976,070                  | \$2,495               | 383 acre lake, campground, country club restaurant, equestrian center, golf, lodge, 3 parks, senior center, pool, tennis courts         |
| Scottsdale Ranch Community Association, AZ       | 3,938         | 6    | \$1,521,477                   | \$386                 | Community Center, 42 acre lake  |
| Boca Pointe Community Association, Inc., FL      | 4,000         | 68   | \$5,000,000<br>\$18,318,027** | \$1,250<br>\$4,580**  | Acres of lakes, parks, dining, tennis, fitness, 2 assisted living facilities. Golf club membership is optional and has separate budget. |
| Sunriver Owners Association, OR                  | 4,206         | 20*  | \$4,346,565                   | \$1,033               | Golf, 2 aquatic facilities, tennis. Majority of homes are vacation retreats   |
| Spring Valley Lake Association, CA               | 4,212         | 9    | \$4,108,362                   | \$975                 | Community building, equestrian clubhouse, 200 acre lake, golf and country club  |
| Issaquah Highlands Community Association, WA     | 4,540         | na   | \$2,457,131                   | \$541                 | 19 parks, open space, walking trails multi-sport courts, basketball courts, community meeting rooms                                     |
| Mountain Park Ranch Homeowners Association, AZ   | 5,818         | 8    | \$2,339,923                   | \$402                 | Park, tennis courts, 3 recreation centers with pools, lakes. City of Phoenix maintains "wall to wall"                                   |
| Sun City Lincoln Hills Community Association, CA | 6,703         | 190  | \$12,905,993                  | \$1,925               | 2 lodges, sports complex, restaurant, café, tennis, golf. City of Lincoln maintains the streets   |
| Woodbridge Village Association, CA               | 9,591         | na   | \$8,676,471                   | \$905                 | 22 pools, 15 parks, 1 community center, 2 lakes with beach club, tennis courts  |

|   |       |     |              |         |  |
|---|-------|-----|--------------|---------|--|
| South Riding Proprietary, Inc., VA      | 5,500 | 12* | \$6,300,000  | \$1,145 | 4 pools, 14 parks, golf, tennis, have sheriff patrol, streets are State owned and maintained |
| First Colony Community Association, TX  | 8,428 | na  | \$7,459,645  | \$885   | Club house, 8 pools, 6 lakes, 11 tot-lots/ playgrounds                                       |
| Kiawah Island Community Association, SC | 4,115 | na  | \$10,517,729 | \$2,556 | Community center with fitness equipment and pool, lodge, boat launch dock                    |

\* plus part time or seasonal employees

\*\* includes golf course and club

In Table 2 some associations have a relatively large budget with few employees, which indicate a high level of contracted services (e.g. Spring Valley Lake and South Riding). Conversely, other associations have a large number of employees and comparable lower sized budgets, which is an indication of a low level of contracted service (e.g. Canyon Lake, Boca Point and Sun City). For an individual CID the cost differences between the two forms can only be compared by issuing a Request for Proposals (RFP).

### **Comparison to Contract Cities**

Although the City of Canyon Lake provides some services, notably police, fire and land use, to local residents, the Canyon Lake Property Owners Association is an example of a full service community which operates much like a small city or municipal corporation, due to its service profile. As with small cities, full service associations can have their own staff or use contractors to provide services. There are 77 California cities that are members of the California Contract Cities Association (CCCA). CCCA was formed in 1957 by the cities of: Lakewood, Bellflower, Duarte, La Puente, Norwalk, Paramount, Rolling Hills, and Santa Fe Springs. Table 3 lists six contract cities that carry similarities to Canyon Lake. For analytical purposes, the City of Canyon Lake is included in the list and a special grouping has been created to illustrate the joint budgets of the City and the CLPOA.

It should be noted that cities derive revenues mainly from sales and property taxes, not assessments, and that such cities generally provide police and fire services in addition to other municipal services.

**TABLE 3: CONTRACT CITIES: STAFFING, HOUSING UNITS, AND ANNUAL BUDGETS**

| City                                    | FTEs  | Housing Units | Annual Budget | Budget per Housing Unit |
|---|-------|---------------|---------------|-------------------------|
| Canyon Lake Property Owners Association | 58.0* | 4,800         | \$13,088,905  | \$2,727                 |
| City of Canyon Lake                     | 5.0   | 4,800         | \$4,176,725   | \$870                   |
| CLPOA + City of Canyon Lake             | 63.0  | 4,800         | \$17,265,630  | \$3,597                 |
| Artesia, CA                             | 29.0  | 4,697         | \$7,352,261   | \$1,565                 |
| Santa Fe Springs, CA                    | 371.0 | 4,976         | \$31,274,500  | \$6,285                 |
| Ripon, CA                               | 81.0  | 5,129         | \$17,291,545  | \$3,371                 |
| Indian Wells, CA                        | 35.0  | 5,137         | \$41,970,538  | \$8,170                 |
| La Puente, CA                           | 48.5  | 9,761         | \$22,251,220  | \$2,280                 |
| Lakewood, CA                            | 177.0 | 7,470         | \$67,733,627  | \$2,466                 |

\*plus 24 part-time employees

Cities have been moving towards providing more of their services by contract. Contract services typically employed by such cities include:

- Attorney services are contracted from local firms
- Fire and emergency services under contract from the county fire department or a joint powers authority (JPA) that combines several fire departments
- Fleet maintenance or specialty maintenance services to private firms
- Golf under private contracts (including maintenance), especially pro shops and restaurants
- Janitorial services to private firms
- Landscaping to private firms
- Libraries under contract with the county or JPA
- Policing under contract from the county sheriff
- Recreation classes by private providers, e.g. yoga classes
- Street sweeping to private firms
- Tree trimming to private firms
- Worker compensation can be managed by a third party administrator

At the basic service level, the question of using staff versus contract services depends on whether the service requires specialized expertise or equipment. If the required staff and equipment cannot be kept busy over several years, it makes sense to contract for the service. This includes highly technical services, such as engineering or information technology, and the use of expensive equipment, such as street paving machines. Providing a one time or annual program might also call for contract services versus hiring staff.

## MANAGEMENT ALTERNATIVES

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In completing this analysis Management Partners identified many management firms that provide basic management services, such as Board support, general management, accounting, real estate sales, and legal services to CIDs. It appears that smaller CIDs use a turnkey contract approach to obtaining the management and operational services they need. These management firms typically have extensive experience in the smaller association venues, but do not have large organization management experience. These smaller associations do not have the types of large maintenance requirements (e.g. street paving) found in the larger property owner association like Canyon Lake and small cities.

There are basically two forms of management for large property owner associations like the CLPOA. These are a General Manager employed by the association or corporate contracted management. We include analysis of a third option below, use of a Professional Employer Organization, at the request of the CLPOA Board.

**1. A General Manager employed by the association**

Under this model, management services may be delivered either by a contract GM or a GM that is an employee of the association.

**2. Corporate contracted management**

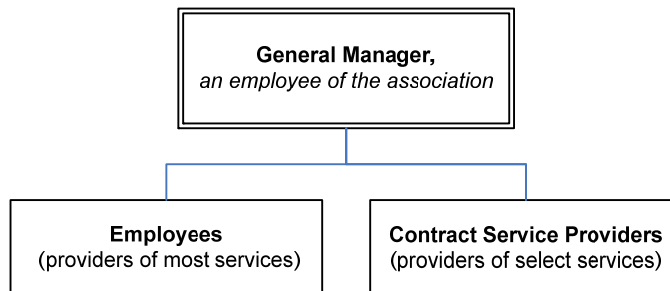
Under this approach all services are delivered via contract, as the association would not be a direct employer and would delegate operational duties to a third party (e.g. a management company).

**3. Professional Employer Organization**

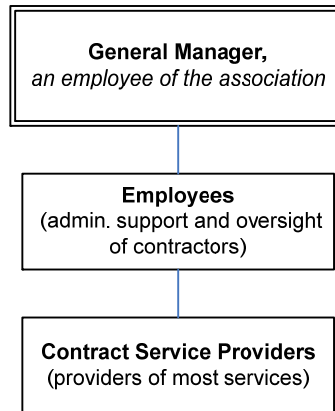
Under this model, the association would have a General Manager (employee or contractor), with employee services provided by a Professional Employer Organization (PEO).

All three forms make decisions on the level of staffing by employees versus the level of contracted services. These decisions rest with the Board of Directors and there are seven primary models from which to choose. The variations are outlined below, with high level organization charts to illustrate the differences.

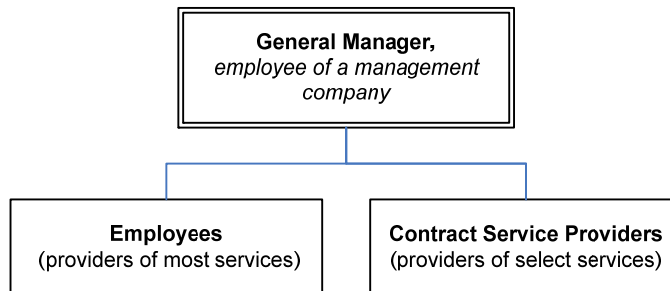
1. General Manager as an association employee with most services provided by association employees and select services contracted to private firms.



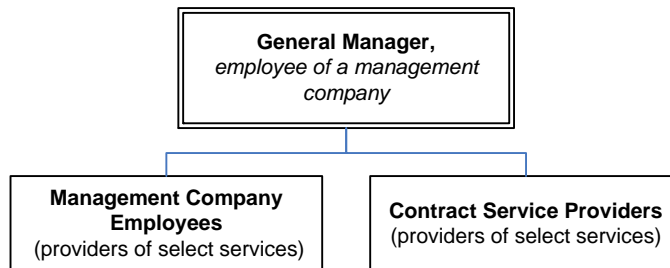
2. General Manager as an association employee with a small support staff under a model where contractors provide most services.



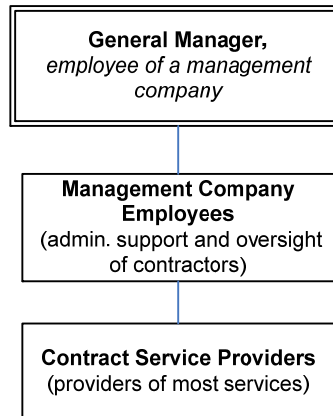
3. General Manager provided under contract with a management firm and most services are provided by association employees and select services contracted to private firms (e.g. the current interim form in Canyon Lake).



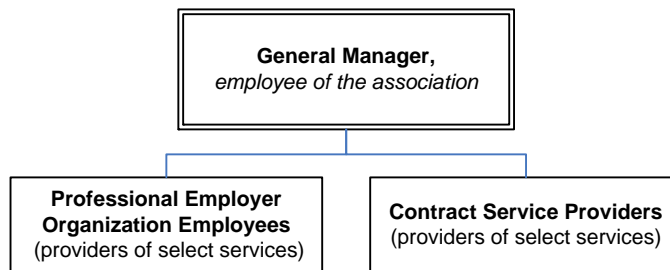
4. All management and services provided under contract with a management firm that has their employees providing services.



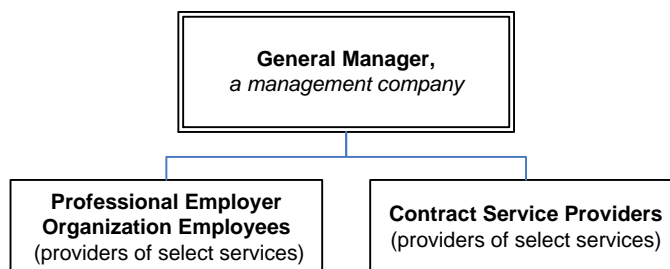
5. All management and services provided under contract with a management firm with some of their support staff overseeing subcontractors.



6. An employed General Manager, with employee services provided by a Professional Employer Organization and select services contracted to private firms.



7. A General Manager as an employee of a management company, with employee services provided by a Professional Employer Organization and select services contracted to private firms.



## Analysis

First, there are a few notable differences between having a General Manager as an association employee or a General Manager provided under contract with a management firm. These differences are noted in the Table 4 below:

**TABLE 4: DIFFERENCES BETWEEN GM AS ASSOCIATION EMPLOYEE VS. MANAGEMENT COMPANY EMPLOYEE**

| <b>Areas of Divergence</b>                           | <b>General Manager as an Association employee</b>  | <b>General Manager as a Management Company Employee</b>   |
|--|--|---|
| <b>Employment Terms</b>                              | Typical employment contracts provide for a severance package of 6-12 months upon termination without cause                 | Typical management company agreements allow for changing of the General Manager within the contract period without penalties and provide the Board with final approval of the placement |
| <b>Availability of Specialized Support or Advice</b> | Limited and depends on the professional network and experience of the manager  | Management companies often have internal and external resources that can assist associations when specialized assistance or advice is needed  |
| <b>Local Ties and Connections</b>                    | Employees tend to develop personal and professional connections that can be useful to better understand and resolve issues | Managers from a management company may not be locally connected and can be viewed as outsiders or temporary support   |

Second, there are both advantages and disadvantages to the management models where (1) association employees provide most services and select services are contracted; (2) alternative models that use management employees and/or contractors to provide most services; and (3) other models that center on the use of a Professional Employer Organization (PEO), with supplemental support from contract service providers.

## **Association Employees** *(with select services contracted out)*

### **Description**

Under this general model, the association board appoints a General Manager, which is usually done with a contract. Depending on the extent of services provided, department managers may be hired as association staff. For example, if there are many miles of streets to be maintained, then a manager would be hired to administer any contracts for street maintenance. There may be regular services required that justifies hiring staff to maintain the streets, e.g. pothole repairs, painting lines, repairing street signs. On the other hand, if an association was part of a county service area that provided street maintenance services, a street maintenance manager would not be needed on the association staff.

Since the General Manager would be hired with a contract, a management firm could also provide the General Manager to oversee the association employees. The management firm could also provide some of the general services, such as accounting and payroll.

### **Requirements**

Having association staff requires having the following functions (which could be contracted):

- Personnel functions associated with recruitment
- Payroll and benefit functions
- Employee liability coverage and workers compensation
- Human resource functions associated with employee relations

### **Advantages**

Advantages of having a General Manager and employees:

- Ability to provide more direction to staff and change priorities
- Employees can take ownership and have a career ladder
- Knowledge retention is enhanced from long term employees
- There are many CIDs as well as contract cities in California whose managers provide a pool of experienced talent when recruiting a replacement for the General Manager

### **Disadvantages**

The disadvantages of having employees:

- The need to have a personnel, payroll, benefits administration and worker compensation functions. And there is additional work for the attorney
- Replacement of employees can take a longer recruitment and hiring period
- The potential in some organizations for board members to become involved with the hiring / management of employees
- Relative to a contract relationship there is a time consuming and lengthy process required to terminate unsatisfactory employees, with the possible threat of wrongful termination lawsuits
- It may be difficult to recruit employees, especially for small organizations with little career advancement potential

## **Contracted Services (*management and contract service providers*)**

### **Description**

All of the management of the association would be contracted out. There could be employees of the management company for specific services or the services could be provided by subcontracts. The management firm could have a public works manager with a staff. The management company would decide whether to hire employees or contract for services, unless specified otherwise in the contract.

### **Requirements:**

General personnel services, payroll, workers compensation, benefits administration, and employee liability can be covered by the management company as part of the contract requirements. The association would still need general liability, umbrella, earthquake, fraud, and other corporate insurance policies.

### **Advantages**

The advantages of contracted management are:

- No personnel, payroll or benefits administration functions required by the association
- Liabilities are covered by the management company contract
- Limited liability for wrongful termination lawsuits
- Larger management companies can provide temporary fill in when an employee leaves
- Faster replacement of employees who leave
- Expertise from their other management company employees is available
- Solutions to problems and improvements in efficiencies can be shared across clients of the management company
- Ability for the board to request that a management firm employee be replaced

### **Disadvantages**

The disadvantages of contracted management are:

- Replacing a management firm and its employees / subcontractors may be disruptive and result in a loss of institutional knowledge
- Management firm employees may have a higher turn-over rate than association employees (e.g. promotions within the management firm may take place across several contracted associations)
- There may be a general feeling that a management firm is distant and not part of the community
- Board members may not have as much control as they would like depending upon the terms of the management contract

## **Professional Employer Organization (*with select services contracted out*)**

### **Description**

Professional Employer Organization (PEO) serve as the human resources department for other companies. PEOs specialize in all human resource functions and can alleviate the need for HR administration and expertise within a specific company. They may also provide a company with a lower cost employment model due to the economies of scale and benefits that they can offer as an employer of employees and specialist in HR and employment law issues. Under this model, the PEO is the employer and the association in-effect, leases and directs the work of PEO employees that would ordinarily be directly employed by the association or a management company. Select services can also be contracted to private firms if it is deemed beneficial to rely on specific industry sectors for cost or service reasons (e.g. contract out street maintenance or landscaping if the quality and cost is beneficial).

The implementation of this model can be irrespective of the employment type for the General Manager. The General Manager that is a direct employee of the Association or one that is a contractor can oversee all of the management of the association under the PEO model.

Under this model, the board and the General Manager would decide whether to hire employees or contract for services, whereas the PEO would be chiefly responsible for HR processing and employment issues. PEOs are typically compensated on a monthly flat fee basis per employee.

**Requirements:**

General personnel services, payroll, workers compensation, benefits administration, and employee liability can be provided by a PEO. The association would still need general liability, umbrella, earthquake, fraud, and other corporate insurance policies.

**Advantages**

The advantages of a PEO are:

- No personnel, payroll or benefits administration functions required by the association
- Liabilities may be covered by the PEO
- Limited liability for wrongful termination lawsuits, depending on the circumstances
- Decreases in HR insurances (health benefits, workers compensation, and employment practices liability) may result in a financial savings, even after payment of the PEO fees

**Disadvantages**

The disadvantages of a PEO are:

- Largely untested in the large scale association and contract city arena. Management Partners could not find an example of a large scale common interest development with a similar service profile as the CLPOA that uses the PEO model
- May create a disjointedness between the line managers
- Employees may feel that employment services support is distant and developing a relationship and trust with corporate PEO employees may be difficult

## **ALTERNATIVES WHICH FIT THE CANYON LAKE ENVIRONMENT**

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The Canyon Lake Property Owners Association is more like a small city than most property owner associations. This is due to its size, the variety of amenities and the general complexity of the organization necessary to operate at this scale. Also as this discussion notes it is, by virtue of these distinctions, unlike most CIDs. While most CIDs are operated via a management contract, such an approach may not be optimal for the CLPOA. The scope of operations and unique nature of the community undercut some of the “standardization” benefits of a contract operations, and make the knowledge retention loss potential inherent in a contract operation a bigger risk. The Board will have to consider how these variables impact a decision on long term management.

One approach would be to continue with the basic model of operations which has served the CLPOA for many years, which would entail the hiring of a General Manager as an employee. The fact that the community has operated in this manner and the advantages noted above suggest it may be a good option. This model may be enhanced by consideration of a contract model approach for some of the operations which the CLPOA currently operates with its own staff, such as restaurant operations, which are often contracted as a specialty. A sample executive recruitment brochure for a General Manager is attached to this report as Attachment A.

It would certainly be possible for Board to develop an RFP for contract services, obtain proposals and evaluate the potential for any economic benefit from this approach to operations. A draft framework for an RFP is provided as Attachment B. Obviously this RFP would need to be modified extensively to capture the needs of Canyon Lake. This process itself would take several months as the Board would need to be involved, as would the community at large.

Another approach Board might wish to consider would be to continue to contract executive management services, while directly employing other employees assigned to work for the contracted General Manager. While this approach is well suited to a temporary assignment where intervention and realignment actions are necessary, it may not be necessary for long term use. The chief advantage is the relative ease with which a management change can be accomplished, but the costs associated with such an approach are typically higher than would be the cost of an employee.

Still, another approach would be for the CLPOA to seek proposals from Professional Employer Organizations and evaluate the service offerings and financial savings that such organization may provide. The board will still need to make a decision on the structure of its General Manager services, an employee or a contractor. It should be noted that the use of the PEO model is mutually exclusive with the use of a management company.

## **CONCLUSION**

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There is no simple answer to which is the best method of association management, although the larger and more complex the association, one would tend to lean towards having association employees with specialized services outsourced. An association General Manager's success depends on their relationship with the board. Thus, the selection process is the critical factor. Success in hiring a management firm depends on how well the association drafts the contract requirements and how well they are understood by the management firm.

Lastly, irrespective of the specific management model that the CLPOA chooses, Management Partners recommends that the association retain the services of a professional and experienced manager to guide the day-to-day operations of the association. The myriad benefits of professional management cannot be understated. The standard governing and management structure across the country for large scale associations and municipal governments, is policy guidance by a board (or council) and daily management by an experienced professional. This avoids the pitfalls related to lack of experience and accountability associated with management by committee (if the Board or Council runs the organization directly) and provides a measure of separation between politics and executive decisions with regard to fiscal matters, employee issues, and service provision.

## ATTACHMENT A

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### Sample General Manager Executive Recruitment Brochure



INVITING APPLICATIONS FOR

## GENERAL MANAGER

CANYON LAKE PROPERTY OWNERS ASSOCIATION  
CANYON LAKE, CALIFORNIA

*The selected candidate will have demonstrated: (1) a commitment and an ability to engage residents in addressing issues critical to maintaining a high quality community; (2) an ability to provide the leadership and management capacity necessary to effectively carry out the Association's daily operations; and (3) an ability to interact effectively with other jurisdictions and financial partners in the region to leverage resources for the community's benefit.*





## THE COMMUNITY

Located in western Riverside County, the Canyon Lake Property Owners Association (CLPOA) began as a master-planned community of custom-built homes in 1968. At present, CLPOA is a community of 4872 residential units and lots located within three enclaves: (1) a central community of 4724 residential lots situated around the lake, an 18-hole golf course and a network of suburban streets; (2) a community of 123 lots for manufactured homes, called the Fairway Estates; and (3) a community of 25 residential units developed on 5+ acre parcels.

Canyon Lake is a 383-acre lake within a private gated community. The man-made lake has 14.5 miles of shoreline and was formed by the installation of a concrete dam in 1927. Rainwater coming from the San Jacinto Mountains and surrounding valleys supplied the lake with water until 1955, when an agreement between the Elsinore Valley Municipal Water District and Temescal Water Company brought a more stable supply to the reservoir.

CLPOA leases surface rights to the lake for the enjoyment of its 11,225 residents. Lakeside parks, swimming areas, fishing "holes," beaches, a slalom course and a jump lagoon, a gas dock, and rental slips make the lake a busy place. Each year the Association stocks the lake with a generous supply of catfish and bass, which supplement a plentiful population of crappie and bluegill. More than 2,500 boats are registered with the Association annually.

The Canyon Lake Golf Course was established in the early 1970's as a 9-hole course. The course is now a private SCGA rated 18-hole, par-71 and 5,927-yard regulation course with a driving range, putting green, and Pro Shop. The course rating is 68.7 and has a slope rating of 123 on Bermuda grass and was designed by Ted Robinson, ASGCA.

In addition to the lake and golf course, the community has several other amenities that include 16 parks and beaches,

an equestrian facility, a little league baseball facility, a tennis center, swimming facility, recreation programs, a senior facility, two restaurants, basketball courts, a campground for recreational vehicles, and central community Lodge with meeting and banquet rooms.

## THE ORGANIZATION

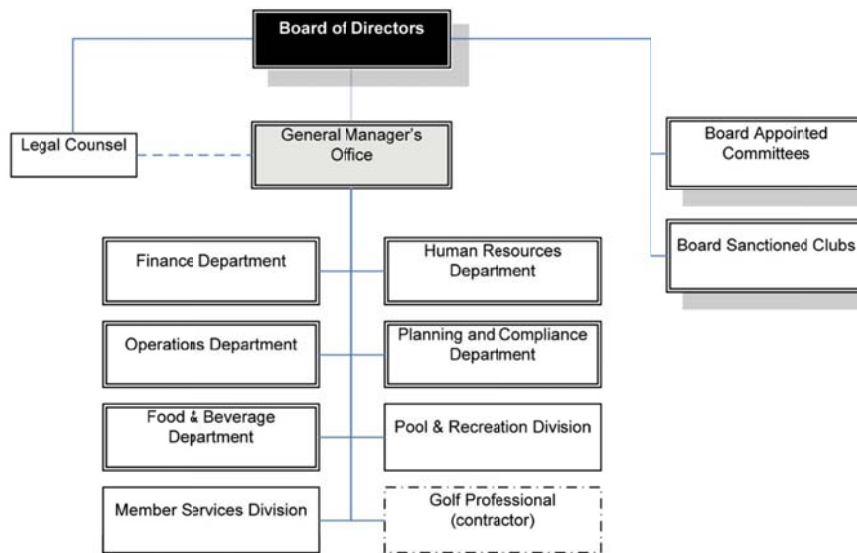
The Canyon Lake Property Owners Association is a California mutual benefit, nonprofit corporation that manages a community association under the Davis Stirling Common Interest Development Act. The Association is governed by a 5-member Board of Directors. Annual elections are held to select members of the Board. Staggered election cycles mean that each year, 2-3 seats on the Board are on the ballot. Board members serve two-year terms and are limited to serving two consecutive terms for a total of 4 years of service. Responsibility for personnel and administrative operations is delegated to a General Manager, who serves at the pleasure of the Board of Directors.

CLPOA owns, maintains and operates common property and facilities, such as streets, parks, green belts, recreational and service facilities. It adopts and administers rules and regulations to promote a quality living environment. It levies assessments to generate the revenue necessary to finance its operations and to perform the responsibilities placed upon the Association by its Articles of Incorporation, By-Laws, and the Declarations of Restrictions recorded against the tracts within the community.

CLPOA's operating budget for Fiscal Year 2010-2011 is approximately \$12 million. The POA also has reserve accounts with FY 2010-11 contributions of approximately \$4 million. CLPOA employs a staff of 54 full-time, 33 part-time, and 26 seasonal/temporary employees. The following graphic is an organization chart for the CLPOA.



### CLPOA ORGANIZATION CHART



#### THE CITY OF CANYON LAKE

The City of Canyon Lake was incorporated on December 1, 1990. The City is an autonomous municipal corporation and has a separate menu of services and responsibilities. The City is governed by an elected City Council and managed by a City Manager.

The City is responsible for land use as well as the health, safety, and welfare of Canyon Lake residents. In carrying out its jurisdictional responsibilities the City passes a variety of Ordinances and contracts for police, fire, animal control, planning and engineering services. CLPOA and the City cooperate with one another in carrying out their respective responsibilities.

#### ABOUT THE POSITION

The General Manager works under the broad direction of the Board of Directors, and establishes strategic goals, work

plans, and budget plans that are consistent with the mission of the CLPOA and its governing CC&Rs (Covenants, Conditions, and Restrictions). This position leads the management team and works closely with City representatives, other governmental entities, community groups, and volunteer groups within the Association.

The General Manager will plan, organize, and direct the formation of Association programs and services, and evaluate the attainment of Association goals and performance standards; write clearly, concisely, and persuasively, in a variety of styles and in an appropriate manner for a wide range of audiences; make effective oral and written presentations before groups and individuals; exercise sound judgment and apply effective problem-solving skills; assimilate and evaluate data and trends; negotiate contracts; plan major projects and set budget priorities; cultivate and maintain effective relationships with the Board, its committees, staff, Association members, inter-governmental agencies, consultants, contractors, vendors, auditors, and others contacted in the course of work.



## THE IDEAL CANDIDATE

The successful candidate will be an outstanding leader with a demonstrated record of integrity. He/she will also have the ability to help the Board of Directors and the organization make significant strides in accomplishing Board objectives.

### THE IDEAL CANDIDATE SHOULD HAVE KNOWLEDGE OF:

- Principles of community management, economics, program management, intergovernmental relations, and human resources
- Public and legislative affairs
- Golf course and leisure services programs
- Principles of leadership, employee relations, and management development
- Budgeting principles and project management practices
- Principles of negotiation, contracts administration, and public and community relations

### THE IDEAL CANDIDATE SHOULD POSSESS THE FOLLOWING EDUCATION, TRAINING, AND EXPERIENCE:

#### REQUIRED

- Ten or more years of broad and progressively responsible executive management, planning, operations, finance, and intergovernmental relations experience, including executive leadership in a related industry
- Bachelor's degree in Not-For-Profit Management, Public Administration, Business Administration, or a related field is required

#### DESIRABLE

- Master's degree in Not-For-Profit Management, Business Administration, Public Administration, or related field is desirable
- Certification in property or business management from a recognized association such as CACM (California Association of Community Managers), CAI (Community Associations Institute) or equivalent training and certification
- Prior experience leading an entire organization and having accountability for Board relations of a public or not-for-profit entity is highly desirable

## SCHEDULE AND SALARY

The search began in June and will conclude when a highly qualified candidate is employed. The first round of application screening will occur on Monday, August 1, 2011.

The compensation package for this position includes a base salary range of \$xxx,xxx to \$xxx,xxx. Compensation with the range will depend on experience and qualifications. CLPOA offers a competitive benefit package that includes Association paid health, dental, vision and retirement.

## HOW TO APPLY

If you are interested in this outstanding opportunity, please submit a detailed resume with current salary and references to:

**Mr. Paul Chenette**  
**President of the Board**  
**Canyon Lake Property Owners Association**  
**31512 Railroad Canyon Road**  
**Canyon Lake, California 92587**  
**Tel: 951-244-6841, ext. 210**  
**Fax: 951-244-6845**

**Apply by: ASAP**  
**jobs@canyonlakepoa.com**  
**Electronic correspondence preferred**

Resumes will be screened and the most qualified candidates will be invited for preliminary interviews. Once a mutual interest in the position has been established, references will be contacted. A background check and drug screening will be conducted prior to final selection. For more information and a detailed job description for this position, visit our website at [www.canyonlakepoa.com](http://www.canyonlakepoa.com). EEO/ADA

## **ATTACHMENT B**

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### Sample Request for Proposals for Home Owner Association Management Services

#### Introduction and Background

The Board of Directors ("Board") for Canyon Lake Property Owners Association (CLPOA) is accepting proposals for turnkey community management services of CLPOA. CLPOA is a guard gated community comprised of 4,800 residential units located in City of Canyon Lake, California.

The successful proposer will be selected by the Board in the Board's sole discretion based on several criteria to be described in this Request for Proposal (RFP), and the final judgment of the Board based on its assessment of the various proposers. The decision of the Board shall be final, and there shall be no appeals allowed. The Board must interview the specific manager that will be assigned to the community.

The total cost of the proposal effort, including without limitation, preparation and presentation costs, travel, models, and any other item associated with the marketing of the project shall be borne solely by the proposing company, and under no circumstance shall the Board or any entity or person associated with the Board be liable for any of said costs.

The existing General Manager for CLPOA is under contract with the Association, which is scheduled to end on October 31, 2011. Accordingly, the successful proposer must be ready to take full control of the community management project ("Project") on November 1, 2011. It is anticipated that a three year contract will be issued to the successful proposer, with an option for the Board to renew the contract on the same terms that are applicable to the initial year's contract. A 60 (sixty) day termination notice by the Board will apply in any resulting contract.

This RFP is designed to allow the proposer the latitude to inform the Board of its individual approach to performing the Project, with each proposal setting forth a detailed statement of the services to be performed. This proposal must cover at least the items outlined below.

Description of the Canyon Lake Property Owners Association (CLPOA)

Located in western Riverside County, the Canyon Lake Property Owners Association (CLPOA) began as a master-planned community of custom-built homes in 1968. At present, CLPOA is a community of 4872 residential units and lots located within three enclaves: (1) a central community of 4724 residential lots situated around the lake, an 18-hole golf course and a network of suburban streets, (2) a community of 123 lots for manufactured homes, called the Fairway Estates, and (3) a community of 25 residential units developed on 5+ acre parcels.

Canyon Lake is a 383-acre lake within a private gated community. The man-made lake has 14.9 miles of shoreline and was formed by the installation of a concrete dam in 1927. CLPOA leases surface rights to the lake for the enjoyment of its 11,000 residents.

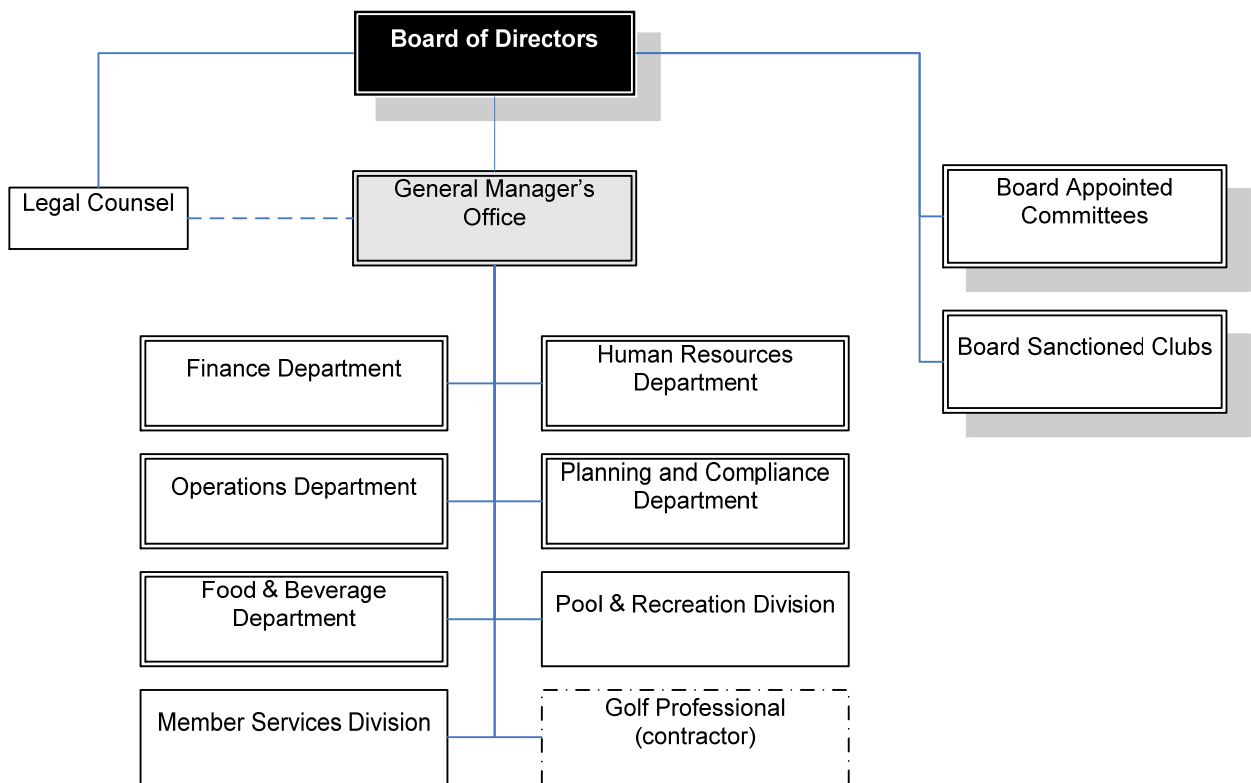
In addition to the lake, the community has an 18-hole golf course and several other amenities that include: 16 parks and beaches, an equestrian facility, a little league baseball facility, a tennis center, swimming facility, recreation programs, a senior facility, two restaurants, basketball courts, a campground for recreational vehicles, and central community Lodge with meeting and banquet rooms.

The Canyon Lake Property Owners Association is a California mutual benefit, nonprofit corporation that manages a community association under the Davis Stirling Common Interest Development Act. The Association is governed by a 5-member Board of Directors. Annual elections are held to select members of the Board. Staggered election cycles mean that each year, 2-3 seats on the Board are on the ballot. Board members serve two-year terms and are limited to serving two consecutive terms for a total of 4 years of service. Responsibility for personnel and administrative operations is delegated to a General Manager, who serves at the pleasure of the Board of Directors.

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CLPOA Organization Chart



The City of Canyon Lake

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The City is responsible for land use as well as the health, safety, and welfare of Canyon Lake residents. In carrying out its jurisdictional responsibilities, the City passes a variety of ordinances and contracts for police, fire, animal control, planning and engineering services. CLPOA and the City cooperate with one another in carrying out their respective responsibilities.

### Site Visits

All proposers are expected to make a detailed site investigation to familiarize themselves with the layout and content of the Community before submitting their proposals.

Arrangements for such site visits can be coordinated through:

CLPOA Board President at (xxx) xxx-xxxx.

### Scope of Services

The Project Manager shall furnish all those services necessary to provide a turnkey full service community managed project, including, but not limited to management of contractors providing services for

- (1) Maintaining common area facilities, including maintenance and repairs
- (2) Landscaping
- (3) Security and Gate Access
- (4) Street Cleaning
- (5) Rule and Regulation Enforcement
- (6) Timely preparation of the yearly budget.
- (7) Accounting and financial reporting for board meetings.
- (8) Preparation and issuance of payments to service providers following approval by the Board
- (9) Issuance of CC&Rs and other governing documents required by sellers of homes in the Project and for other purposes as deemed necessary by the Board
- (10) Issuing notices to homeowners:
  - a. CLPOA meetings
  - b. Ballots to home owners for election of Board members
  - c. Association rules and regulations

- d. Invoices for CLPOA dues and collecting payments for same
- (11) Attending and recording the minutes of all Board meetings, and executive sessions.
  - (12) Staffing the CLPOA office (six) hours per week (optional, to be addressed in proposal).
  - (13) Furnishing any and all other services necessary to provide a turnkey professional job of community management for the Project. The management company must have and employ its own resources to independently manage the day to day business of the CLPOA.
  - (14) Disclose any third party contracts, such as for bookkeeping or accounting of CLPOA business.
  - (15) Provide the most recent financial reports to those requesting the information within five (5) business days of receiving the request.
  - (16) Provide assistance to officers and directors of the CLPOA with regard to specific fiduciary duties.
  - (17) Assist in properly establishing and maintaining the CLPOA committees designated by the Board.
  - (18) Attend, take minutes and keep complete records for all covenant hearings.
  - (19) Timely prepare the annual audit in coordination with the CLPOA's CPA.
  - (20) Provide at least semiannually a report to the Board of the CLPOAs' current banking status. Provide the Board recommendations to minimize risks and confirm the best banking options.
  - (21) At least twice a month do a drive and walk through in and around CLPOA to monitor and record activity, violations, common areas and recreation center concerns. Take notes on the perimeter walls, buildings and landscaping in close proximity. Make recommendations on Master Association landscaping. Check the golf course tunnel and landscaping that affect the appearance of CLPOA. Provide a report to the Board.
  - (22) Keep in regular contact with the guards and discuss any concerns or suggestions. Report these discussions at each monthly Board meeting.
  - (23) Prepare/contribute an article to each monthly newsletter.
  - (24) Assist in the development and implementation of/ or furnish a community web site.
  - (25) Disclose the management software that will be used to manage the community. Outline the abilities of this software.
  - (26) Describe how you will manage various issues reported by homeowners and give a general timeframe of how long it will take you to respond.

## Evaluation Criteria

A number of factors will be evaluated by the Board in selecting a management company for this Project. All of the following factors, in addition to individual assessments by the Board members of the most qualified candidate, for this assignment will be considered. Proposer should explicitly describe the following issues and qualifications:

1. Proof of Expertise.
2. Evidence of Risk Management, Including Insurance.
3. Proper Internal Financial Control Systems.
4. Disclosure of Subcontractor Contracts.

In addition the following factors will be considered in conjunction with one another, no single factor or factors will be given extra weight, but all factors will be given equal weight, and a composite judgment of the most suitable candidate for this Project will be determined by the Board in its sole discretion.

- (1) The Board desires to maintain a safe and secure environment for its residents, and guests. Therefore providing a safe and secure environment is a key criterion for this Project.
- (2) The Board also desires to maintain and enhance the appearance of our community. This is important not only to the enjoyment of the community by everyone, but is essential to protecting and enhancing the property values within our community. Therefore, the maintenance and enhancement of the appearance of the community is a key criterion for this Project.
- (3) The experience of the proposer in successfully managing other projects of this type and size will be an important factor, as will the experience of the individual assigned to be the primary manager for this project. Each proposer shall submit a list of current and past projects which are representative of the CLPOA community, together with the name and phone number of the person to contact as a reference.
- (4) The Board has a particular interest in cost control. Therefore, we will be evaluating not only the costs of the proposer, but will be looking for cost containment and reduction actions that the successful proposer plans to bring to the Project, including but not limited to competitive bidding for community services contractors.
- (5) The proximity to and timely responsiveness of the proposer to the CLPOA and its requirements will be a key factor in evaluating proposers. The Board provides on-

site office space to the proposer to use one day a week and at other times as the need requires, to increase its availability and responsiveness to residents and the Board, and to improve its readiness to perform its responsibilities. Proposer's proposal will address any of its plans to utilize this office.

#### Obligations of the Management Company

Proposer shall describe in detail the services and facilities that it will perform and furnish in conducting the Project.

#### Compensation

Proposer shall provide in its proposal the detailed basis of compensation for the project. Optional compensation approaches shall be proposed, including an "all inclusive" rate (excluding postage) and a basic per house pricing option.

#### Proposed Contract

Proposer shall furnish as part of its proposal a suggested form of agreement which shall be subject to the negotiation of the parties. This agreement shall incorporate all applicable terms of the proposed agreement, including but not limited to compensation, insurance, indemnification of the CLPOA, Board and its members, statement of services to be provided, termination, warranty of services and other provisions typically included in agreements for the same or similar services.

#### Information for Submittal of Proposals

Proposal shall also include:

1. Proof of Expertise.
2. Evidence of Risk Management, Including Insurance.
3. Proper Internal Financial Control Systems.
4. Disclosure of Subcontractor Contracts.

Any questions relating to your proposal should be directed to CLPOA Board President at (xxx) xxx-xxxx.

31512 Railroad Canyon Drive  
Canyon Lake, CA 92587