

# Dissecting the Management Fee

What Every Board Member Should Know

By Weldon L. Brown, CPM, CCAM



You're in the office and the telephone rings. The voice on the other end asks, "What would you charge to manage a 151+ unit HOA? We need a ballpark figure so we can talk it over with the other members of the board."

Most community association managers have received calls such as these. The caller assumes that association management can be priced like eggs in the supermarket, and he's shopping around to find out where eggs are the cheapest. Some managers, anxious to get what business they can, are quick to respond without knowing anything about the property in question. They answer with a standard price-per-door.

"We'll charge you "\$10 per unit per month," they'll say. What these managers may not realize is that (a) such a figure may bear no relation to what the actual cost of management may be, and (b) the figure may result in unfair discrepancies to the association and/or management. In fact, \$10 per door may be too high for the services required or for what the association can afford with the current budget.

What I will discuss in this article is a method of pricing your HOA management services that covers your costs for services required and a reasonable profit to the management company.

Let's begin with costs. Before you do anything else, you must find out what your required management services are costing in man-hours. How many man-hours does it take to deliv-

er the required services that our association is demanding? Time is money, a commodity that you even sell to your employer. Every business must look at cost, and, in the management service business, time (service hours) is all that are sold.

## Community Manager's Services

Inspections, site visits, capital improvement supervision, board meetings, travel time, office hours per month, travel expenses, and office supplies.

## Executive Services

Board meetings, site visits, management survey, inspections and specifications writing, monthly accounting review, budget preparation, travel

time, and travel expense.

## Accounting and Clerical Services

Receipts accounted for monthly; disbursements (invoices, payments), monthly billing, payroll checks, monthly account report, association member statement and preparation, statement duplication, board consultation, cost of advance personal funds.

All of these items have to be considered in determining your HOA management services costs. Some association managers, when they see this list, are amazed at the amount of work they do. It all takes time, and time is money, which must be accounted for. As a board member, remember that not all associations require the same level of

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<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	• Property Manager added as an additional insured
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<b>PROPERTY COVERAGE</b>
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	• Guaranteed replacement
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	• Building Ordinance Coverage Included
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	• Five percent (5%) earthquake deductible
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<b>LIABILITY</b>
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	• \$10,000,000 Liability Limits on Liability, D&O and property managers

\*Actual policy forms dictate coverages

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management services and not all management companies provide the same level of service.

The cost of management is not minimized because of the size of the community association. Functions of a manager for associations are driven by the cost of manpower and not the size of the community. Refer to Table 1 to see what a \$30,000 community manager will cost your management company.

Follow this breakdown to see what your \$30,000 association manager is costing per hour:

**Manager Cost Per Hour**

\$57,765 cost to employer  
 \$57,765/year / 2,086 hours/year =  
 \$27.69 per-hour cost  
 This per-hour cost does not

include overhead and profit. Management will need to use an overhead and profit factor of 3 times the hourly cost, which in this example is \$83.07 per hour.

The same formula is used on all in-house management team staff to arrive at man-hour cost prior to determining the management fee. The total of all man-hour wages multiplied by the (3-times factor) makes up the management fee. You are used to seeing services billed this way for your association. Lawyers and Certified Public Accountants charge and bill in this manner for services rendered for actual time spent.

The difference between professional association managers and the two preceding professionals is that

managers have to estimate in advance (based on sometimes sketchy information) the amount of time that is going to be invested in a business management relationship. Before a management cost estimate can be quoted, your association manager must go through the analysis shown in Table 2 on the next page.

A sample Association Management Pricing form is on page 12 for your use. With these facts, figures, and forms, you as board members can do your own due diligence. Remember, *the more services wanted means more time*. Be careful and realistic in your requirements for there are hazards in taking the low bid and may be many bumps in the road. **NOW YOU CAN DO THE MATH!**

*Weldon Brown is the owner of Weldon L. Brown Company, Inc. in Riverside and a founding member of this chapter.*

**Table 1.  
 Cost of Employing a Community Manager  
 As of March 2002**

Salary		<b>\$30,000</b>
Statutory Overhead		
FICA	7.65%	
Workers' Comp	11.00%	
FUTA	.60%	
SUI	2.80%	
ETT	.10%	6,795
Employee Benefits		
Health Insurance	2,600/yr	
Vacation	4.00%	
Holidays	2.80%	
Sick Days	4.80%	
Personal Time	2.80%	
Education	1,200/yr	
Auto	<u>3,600/yr</u>	11,720
Business Overheads		
Rent	1,800.00/yr	
Telephone	2,600.00/yr	
Copier	2,500.00/yr	
Computer Services	800.00/yr	
Insurance	1,200.00/yr	
Amortized Capital	<u>350.00/yr</u>	9,250
		<b>\$57,765</b>

**Table 2**  
**An industry study revealed the following data in June 1991:**

PREPARED: June 1, 1991

**TIME STUDY/HOA HOURLY COST BREAKDOWN**

**ASSOCIATION MANAGER**

(At \$50 per hour) Back Charge Employee time at 3.3X hourly rate Company Average		<u>TIME</u>
<u>Board Meetings:</u> 7 Man hours	Prep Time (5 Board packages) Board package enclosures, copy, Collate, index, distribute Agenda	7 Hours
	2 Man hours Board Meeting	2 Hours
	1 hour driving time	1 Hour
	2 Man hours Follow-up on action items – Board directive from meeting	2 Hours
<u>Walk Throughs:</u>	1 hour minimum/very 100 units	2 Hours
	1 hour driving time (2 times per month)	2 Hours
<u>Violation Letter Cost:</u>	Minimum _ hour to write one(1) violation letter, Take violation, research file, back up material, Prepare, transcribe, copy file, copy violation File, postmailing. A _ addition if violator responds	_ Hour
	Full Service Contracts get 10 letter included per Month or 10 letters \$12.50 each; \$25.00 per hour.	
	Financial Service Contracts: \$18. Per letter rate \$36. Per hour	

**FINANCIAL**

**ADMINISTRATIVE ACCOUNTING**

*Average Community Association:		<u>HOURS</u>
	4 hours average at \$50 per hour = \$200.	4 Hours
Includes:	Bank Reconciliation Accounts Receivable Reconciliation Review of Receipts and Disbursements Preparation of Journal entries Posting Review of statements Copying & filing Financial footnotes, if necessary	

**STAFF ACCOUNTING**

*Average Community Association"		<u>HOURS</u>
I Accounts Receivable	1 Hour	1 Hour
Receipts	Post Reconciliation Verification	
Statements	1 Hour	1 Hour
	Printing Monthly Mailing	
Delinquencies	1 Hour	1 Hour
	Report 2 <sup>nd</sup> Reminder Notices on 10 <sup>th</sup> of month Other Delinquency activity and follow-up	
II Accounts Payable	2 Hours X Twice per month	4 Hours
	Sort, Code, Input, Verify, Check correspond w/P.O.'s, Track Balances, Mail Payables	

Man Hours to Manage HOA:

**AVERAGE MAN-HOURS FOR EACH 100 UNIT HOMEOWNER ASSOCIATION  
 UNITS—MINIMUM 25-30 HOURS PER MONTH ADD 15 HOURS FOR EACH 100 UNITS**

**\$50 PER HOUR COMPANY AVERAGE  
 \$1250 - \$1500 MANAGEMENT FEE RANGE**

**ABOVE HOURS DO NOT INCLUDE INCOMING OR OUTGOING TELEPHONE CALLS TO  
 ASSOCIATION MANAGER, ACCOUNTING DEPARTMENT OR ESCROW DEPARTMENT.**

**SAMPLE**

ASSOCIATION MANAGEMENT PRICING FORM

PROPERTY \_\_\_\_\_

NO. OF UNITS \_\_\_\_\_ RESIDENTS \_\_\_\_\_ OFFICES \_\_\_\_\_ STORES \_\_\_\_\_ BOAT SLIPS \_\_\_\_\_

AGE AND PRESENT CONDITION OF PROPERTY & IMPROVEMENTS \_\_\_\_\_

MILES FROM OFFICE \_\_\_\_\_ NUMBER OF EMPLOYEES \_\_\_\_\_

	NO. PER MONTH	HOURS EACH	TOTAL HOURS	COST
<b>I. PROPERTY MANAGER'S SERVICES</b>				
A. Inspections	_____	_____	_____	_____
B. Site Visits	_____	_____	_____	_____
C. Trades Supervision	_____	_____	_____	_____
D. Owner/Investor/Association Meetings	_____	_____	_____	_____
E. Travel Time: \$.per hr X ...hrs:	_____	_____	_____	_____
F. Office Hours per Month	_____	_____	_____	_____
G. Travel Expense..mi X ...per mi	_____	_____	_____	_____
H. CC&R Compliance	_____	_____	_____	_____
I. Civil Code Compliance	_____	_____	_____	_____
TOTAL COST _____				

<b>II. EXECUTIVE SERVICES</b>				
A. Owner/Investor/Association Meetings	_____	_____	_____	_____
B. Site Visits	_____	_____	_____	_____
C. Surveys/Consultations	_____	_____	_____	_____
D. Inspections	_____	_____	_____	_____
E. Statement Review	_____	_____	_____	_____
F. Budget Preparation, Account Supervision	_____	_____	_____	_____
G. Travel Time: \$...per hr X...hrs	_____	_____	_____	_____
H. Travel Expense..mi X ...per mi	_____	_____	_____	_____
TOTAL COST _____				

<b>III. ACCOUNTING &amp; CLERICAL SERVICES</b>				
A. Receipts account for - days per mo	_____	_____	_____	_____
B. Disbursement: invoices, payments	_____	_____	_____	_____
C. Monthly billing, Collections, Delinquencies	_____	_____	_____	_____
D. Payroll: check issued; 1099's,Tax, Audit/review assistance	_____	_____	_____	_____
E. Owner/Association Stmt preparation	_____	_____	_____	_____
F. Resident Stmt and preparation	_____	_____	_____	_____
G.Maintenance Request, Escrows	_____	_____	_____	_____
H. Owner consultation, Correspondence	_____	_____	_____	_____
TOTAL COST _____				

IV, SUBTOTAL BEFORE OVERHEAD AND PROFIT \_\_\_\_\_

V. OVERHEAD AND PROFIT	3 X sub total cost	\$ _____	per unit
A. General Overhead (phone, rent-ins, utilities, etc.)			
B. Marketing			
C. Profit and Contingencies			
TOTAL COST _____	monthly		

VI. TOTAL per unit

Monthly Fee \$ \_\_\_\_\_ / Number of units = \$ \_\_\_\_\_ X \_\_\_\_\_ = \_\_\_\_\_ Annual