

MEMORANDUM

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To: Board of Directors, Somersett Owners Association
From: Nancy Kerry, Management Consultant to BOD
Re: Overview of Options for Management of Somersett Owners Association
Date: August 25, 2021 Board Meeting

BACKGROUND

The Association's current management agreement with First Service Residential ("FSR") expires on or about December 31, 2021. In preparation for the expiration of that Agreement, and in the fulfillment of their duties as fiduciaries, the Board of Directors has been considering the current needs of the Association and options for management services to meet those needs.

In early 2021, several Board members brought up the subject of reviewing the contract with FSR, evaluating current management service levels and considering alternatives.

As the ideas regarding the current contract, service levels, and management alternatives and options grew into salient points of view, the Board determined it would be best for the community to thoroughly evaluate and consider all of the options. To achieve that goal, the Board has taken the following actions over the past several months:

- March 11, 2021: Board workshop discussing management structures, options and alternatives
- March "Happenings Article" written by Board President, Mark Capalongan to SOA discussing the Board's initial thoughts and interests on the subject matter.
- March – April: Board members received inquiries from community members expressing interest in pursuing a thorough analysis on the subject of SOA management; Board members reached out to HOAs that have transitioned from one form of management to another to inquire about procedures, lessons learned, and speak directly to Board members. Community members expressed interest and concerns on the subject during Board meetings.
- April 13, 2021: Virtual Town Hall with Board members and community members (via zoom) discussing management structures, options and alternatives. Board members answered a lot of questions, reviewed potential financial impacts regarding self-management versus external management. Community members expressed both interest and concerns on the subject.
- April 14, 2021: Board of Director's meeting; Board discussed the importance of conducting a thorough analysis on the subject of association management and approved consulting services agreement with management consultant, Nancy Kerry (author of this report); Board directed Ms. Kerry to begin a thorough review and comparison of alternatives and options.
- April 20, 2021: Workshop discussion with Mr. Steven Parker, President, First Service Residential, Nevada, Ryan Fields FSR's Community Manager to SOA, and some board members to discuss concerns, service levels, and options under consideration.

- May 1, 2021: Board set up new webpage on the SOA website: “Future of Management of the SOA” and has uploaded reports, information, materials, and updates to that page to provide the community access to information and documents material to the subject.
- May 5, 2021: Several hours-long workshop with Mr. Steven Parker of FSR and the Board; discussions included potential changes to the Agreement with FSR to improve services. The discussion identified areas in which services to association members could be improved. Mr. Parker provided detailed personnel costs and information as to the various ancillary benefits and services provided by FSR to associations.
- May 5, 2021: Update on process posted to website.
- May 12, 2021: BOD meeting: Board and consultant provided updates on progress.
- April – May: Management consultant held numerous virtual and phone meetings gathering information from other associations including board members, community managers, and vendors and service providers to discuss management options, alternatives, risks and benefits. Interviews include, but are not limited to the following:
 - Virtual meeting with Steve Neilson on April 26, 2021; Mr. Neilson is a current board member of Val Vista Lake (AZ) and a referral from Mr. Steven Parker. Mr. Neilson shared his experiences when the Board acted primarily in the role of general manager of the association and outsourced a variety of other services. He shared results of not having any professional staff to assist the Board, which he did not recommend.
 - Sun City Anthem, a homeowners’ association in Henderson, NV. Sun City Anthem was managed by FSR for many years and in 2016 transitioned to an internal management team. Conversations included Bella Meese and Tom Nissen, board members at the time of transition; Sandy Seddon, current Chief Operating Officer of the Association since the time of transition to internal/self-management.
 - Virtual meetings with Village Management Systems, which appears to be one of the preferred software programs utilized by numerous associations with internal management structures.
 - Multiple meetings and interviews with accounting software developers providing A/P and A/R services for self-managed homeowner associations as consideration for a comparative accounting system.
- May 26, 2021: Management consultant presented comprehensive report to the SOA Board titled, “Analysis Management Options” comparing and contrasting management structures both the outsourced (using professional management companies) and internal structure. The report is incorporated heretofore by reference. The report included financial comparisons and analysis and concluded with the following options:
 - Option 1. Maintain the status quo (continuing with current Agreement with FSR as-is).
 - Option 2. The Board could serve as Association managers
 - Option 3. Negotiate a new agreement with FSR
 - Option 4. Enter into a new agreement with a different management company
 - Option 5. Establish an SOA internal management structure

The Board directed the consultant to engage in a parallel approach pursuing Options 3, 4, and 5 at the same in an effort to keep all reasonable options on the Table. As a result, the consultant was directed to prepare an RFP for new management services, while also conducting

interviews and discussions with insurance and accounting brokers to determine impediments to an internal structure.

- June 4 & 11, 2021: Consultant update on progress posted to community website.
- June 16, 2021: In accordance with direction provided by the Board of Directors, a Request for Proposals (“RFP”) was prepared and released on June 16, 2021 inviting proposals from management firms who may wish to be considered for managing the SOA.
- June 15-18, 2021: Consultant updates posted to community website related to the progress of this effort, in addition to other tasks that have been added.
- June 17-25, 2021: Consultant reached out to insurance companies attempting to locate a broker willing to review current policies and coverages. Located the former Broker for the SOA and solicited his agreement to review current coverage levels and provide the Board information regarding risks/benefits of changing management companies or establishing their own structure. Also reached out again to vendor service providers regarding accounting systems and received similar response to wait until the decision regarding management.
- June 30, 2021: Board meeting during which Board and consultant provided community update. During this same meeting, the Board also agreed to have consultant take on additional work to update SOA policies and standards of practice.
- July 16, 2021: Received 6 proposals in response to the RFP, which were delivered to the Board of Directors (without the financial information) to review prior to the Board meeting.
- July 21, 2021: BOD meeting during which financial proposals from management firms were unsealed by the Board. Board directed its management consultant to conduct a thorough analysis of the financial differences among proposing companies and scheduled a special meeting for August 10, 2021 to receive and review the analysis.
- July 22, 2021: Management firms were contacted (those that submitted a proposal) and were provided supplement questions to answer. Those answers were incorporated into the analysis and evaluation of proposals. Responses from firms were posted to the webpage.
- July 30, 2021: Consultant update regarding the project summarized the avenues for management as compared to the options presented in the May 26, 2021 report. The update was posted to the community webpage. Also posted to the webpage is the consultant’s analysis of the proposals including financial analysis as directed by the Board.
- August 4, 2021: Received late responses to the supplemental questions from FSR, which were posted to the website and agenda packet.
- August 10, 2021: Special meeting of the BOD. The Board reviewed the consultant’s report and discussed whether they wanted to interview the firms. Board decided to interview two firms to be conducted prior to the August 25, 2021 Board meeting. At this same meeting, the Board heard from the SOA’s former insurance Broker who assured the Board the SOA’s insurance rates are based on claims, history, and coverages not management structure; the Broker also expressed concerns regarding current coverage levels and advised the Board on the non-renewal by Travelers.
- August 11, 2021: Proposing firms were contacted by consultant informing them of the Board’s decision at the previous evening’s meeting. Firms selected to interview were contacted and schedules aligned for a virtual interview.
- August 23, 2021: Interviews conducted with two firms proposing to manage the SOA.
- August 25, 2021: Board meeting to discuss everything analyzed, reviewed, evaluated, and considered in regards to the various options to manage the SOA.

ANALYSIS

As noted in the background section of this report, the Board of Directors has undertaken a comprehensive evaluation and analysis of various options for management of the Association. For the past six (6) to eight (8) months, the Board has held numerous meetings and discussions on the topic of association management. The Board solicited proposals from management firms, evaluated and analyzed those proposals, held regular board meetings during which the subject has remained on the Agenda to provide the Board, its consultant, and community members the opportunity to discuss the issue. The Board has received comments, answered questions, and provided feedback and kept the community apprised of their perspectives and thinking.

The Board retains all avenues to proceed with managing the Association in accordance with the governing documents. Further analysis on the options includes, but is not limited to, the following:

Options

- Option 1. Status Quo – enter into a new Agreement with FSR.

Analysis: The Board retains the option to negotiate a renewal with FSR. FSR submitted a proposal in response to the RFP addressing accomplishments and offering to continue to provide services through new and improved Board-management relationships although specifics were not included.

- Option 2. Enter into a new agreement with a different management company

Analysis: Request for Proposal (“RFP”) was issued June 16, 2021; Proposals were received a month later. The Board unsealed the financial bids at their July 21, 2021 meeting and thereafter requested an in-depth analysis be completed prior to a special meeting of August 10, 2021. Supplemental questions were provided to bidders on July 22, 2021. At their August 10, 2021 meeting, the Board reviewed the report and selected two firms to interview (Taylor and Associates and CAMCO). Interviews with the firms were not conducted prior to the writing of this memo and therefore, the Board’s thoughts and results from those interviews will need to be verbally shared by the Board at their August 25, 2021 meeting.

- Option 3. Establish an SOA internal management structure

Analysis: The Board and community have received information as to the costs and risks versus benefits, the financial impact of such a change, and the suggestion from those who have engaged in this type of transition in other places to “go slow,” analyze all the options and recognize the financial benefits to the SOA on their own should not be the driving force. Also, financial savings would be dependent upon the Board’s internal employee structure and would be offset in year one through increased expenses to establish a team, set up infrastructure (office furniture to accounting software).

Overall, there are risks and benefits associated with each option, depending upon one’s point of view. Further, there are financial impacts among each option, although, a financial savings resulting from establishing an internal management structure could be offset by increased expenses in year one.

FINANCIAL IMPACT

Resale Document Fees

One revenue center for management firms is the resale document fees – and some of the firms easily admit the fees are in fact a source of consistent and positive revenue. As noted in the August 10, 2021 report analyzing proposals, all of the management firms charge a fee for producing the resale

document package. The maximum amount of fees an Association is able to charge is set forth in NRS 116. Not all of the firms charge the maximum amount. Generally, the resale package fee is \$185/per sale; the demand letter and documents are \$150/per sale and the new owner account fee is \$350. Estimating the number of resales in a given year at approximately 250 sales, the fees being collected by the firms is approximately \$175,000. In all cases, 100% of the fees are retained by the management firms to offset the cost of document production and other charges to the Association, and primarily to produce revenue for the firms.

Should the SOA decide to establish an internal management team now or in the future, the resale document fees would be a source of revenue the SOA currently allows FSR to retain. Between the resale document fees and management fees the SOA would not have to pay should it establish an internal management structure, the SOA would see a positive financial benefit between \$250,000 to \$350,000 from these two sources. However, that positive cash flow would be offset by an increase in staffing and outsourced services (accounting, perhaps some personnel and legal expenses). In turn however, the SOA would see an increased level of accountability and better contract management (during the process of analyzing management options, several issues occurred demonstrating improved management and oversight resulted in direct financial benefit to the SOA).

An in-depth comparison of the financial impact was provided to the Board in the May 25, 2021 Analysis of Management Options incorporated heretofore by reference.

RECOMMENDATION

The method of management is a decision that rests solely with the Board of Directors; there are many positive benefits and reasons to select any one or another method. The Board has carefully exercised its fiduciary duty to thoughtfully evaluate its options. The Board has also been engaging with FSR and its staff, has met with employees, spoken to leadership and sought improvements. The Board has sought and reviewed proposals from other firms and considered internal management.

This decision is the Board's to make granted to the Board in the Association's 2002 Bylaws, Article III "Directors," §3.01, the Board may "*delegate the management of the activities of the corporation to any person, or persons, a management company or committees however composed, or otherwise delegate any or authority of the Board, provided that the activities and affairs of the association shall be managed and all corporate powers shall be exercised under the ultimate direction of the Board,*" (emphasis added). In other words, all governing documents and the state legislature grant to the Board authority and discretion regarding how the Association is managed.

ATTACHMENTS

All of the documents related to this project (analyzing webpage options) and that are mentioned in this report have been previously provided to the Board and community through agenda packets, or through regular updates posted to the Somersett.org website under "Future Management of the SOA". Therefore, the documents are not attached to this memo, but are heretofore incorporated by reference as they contain quite a bit of information conducted throughout this project.