

July 2010

**Report to the Board of Directors  
of the Fairlington Commons Council of Co-Owners**

*From*

**The Committee to Study Professional Management<sup>1</sup>**

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In preparing this report, the Committee on Professional Management interviewed representatives from the Boards of Directors of three Fairlington communities: the Mews, the Glen, and the Meadows. We also met with representatives of three management companies: Community Management Corp. (CMC), CFM Management Services and Cardinal Management.<sup>2</sup>

We include as attachments the following documentation: the Board of Directors' Scope of Work from March 2010 (Attachment A); sample request for proposals for management services and list of available services from CMC (Attachment B); the current agreement between Cardinal and Fairlington Glen (Attachments C and C2); and responses to our questionnaires addressed to the Boards of the Glen and the Mews (Attachments D and E (with statement of work relevant to the Mews' CMC contract)). Attachments B through E, obtained from other associations, are intended for Board reference only and should not be made generally available to the public without prior approval from the pertinent association and/or management companies.

The community representatives were: Ronald Patterson, Treasurer of the Mews; Ms. Kathy Clatanoff and Ms. Margaret Windus, respectively President and Treasurer of the Glen; and John Thurber, President of the Meadows. Representatives from the management companies were as follows: from CMC, Christa Brady, Condo Division Director, and Jason Eglin, Property Manager of the Mews and the Meadows; from Cardinal Management Group, Thomas A Mazzei, CEO of Cardinal, and Terry McGuire, Property Manager for the Green and Glen; from CFM Management Services, Christiaan Melson, President, and Mike Maloney, Property Manager of the Arbor. The interviews were held between April 14 and June 2, 2010. Meetings were also requested with the Arbor and the Green but did not take place.

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<sup>1</sup> Members of the Committee were Noah Greenblatt, Chairperson and Member of the Fairlington Commons Board of Directors, Nicholas Lowry, Arnold Malin, and Margaret Shannon.

<sup>2</sup> The report conforms closely to the Scope of Work the Board provided in March 2010 and contains minor editorial revisions suggested by the Board.

### **Fairlington Communities**

#### **Mews:**

The Mews property manager, Jason Eglin, who is also the manager for the Meadows, coordinates with the Board on most matters, and RFPs for important work are prepared by CMC (Community Management Corp.) and submitted to the Board for review and release; ultimate selection is the decision of the Board. CMC provides most of the financial services listed in the handout (which remains confidential), although the audit is performed separately. The Mews is considering the retention of a full time employee, one who is currently a contractor of CMC. If retained, the administrative work associated with the employee (payroll and insurance matters for instance) would be in the hands of CMC.

The Reserve Survey, now required by Virginia law, was prepared by a separate company, Reserves Advisors, and reviewed every year.<sup>3</sup> The survey is extensive, with reserve projections for roofs and sewer as well as other items, extending as far as 2030.

In administrative matters, CMC provides preparatory documentation beforehand for each meeting after receiving draft minutes from the Secretary, which have been circulated to Board members. Those minutes are voted in the next meeting.

There is extensive legal review of condo documents, including contracts; Mr. Patterson indicated that thorough legal review has been successful in protecting the Board from any legal challengers, especially from co-owners, in the recent past.

Mr. Patterson's overall appraisal of CMC appears very favorable and he recommended that the Commons retain professional management, observing that the situation confronting Boards, in light of new legal requirements and the aging infrastructure of Fairlington, has become too complicated to reside in the hands of a Board without professional assistance.

#### **Fairlington Glen**

One of the principal areas of discussion was the Glen's decision in 2007 to end its contract with Legum and Norman, which had continued for nearly 20 years, and retain Cardinal Management Co. Ms. Windus stated that there were a number of small disputes that, taken together, and in the context of a mood in the community that invited change, prompted rebidding the management contract. Certain ancillary charges appeared too high (such as copying) and L&N's refusal to provide an electronic copy of the budget spreadsheet, claiming it was proprietary. The relationship with L&N had become strained and the attitude of the company seemed increasingly complacent.

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<sup>3</sup> *Va. Code Ann.* § 55-79.83:1 imposes these requirements.

Ms. Clatanoff and Ms. Windus, however, spoke in generally favorable terms of the Glen's experience with L&N and stated that if they were to re-bid the management contract they would suggest that L&N be among those that should be invited submit bids. They stated that L&N remains a reputable company and noted that there was considerable interchange of employees among the principal management companies.

The Glen has two full-time employees who handle routine maintenance under the supervision of Terry McGuire, the Cardinal manager of the property. For snow removal, these employees shovel of the sidewalks, while a contractor takes care of the parking lots. With respect to routine maintenance requests, residents can contact the two employees directly or through Cardinal, but it is the Cardinal property manager who sets the priorities. Cardinal handles the payroll and administrative matters relating to the two full-time employees, although they are technically Glen employees.

The Glen's contract with Cardinal, the Glen's representatives pointed out, was tailored to the specific preferences of the community in many respects. Cardinal retained some of the Glen's contractors with whom it had experienced during its L&N contract. For emergencies, Cardinal has a 24-hr phone contact and attempts to dispatch one of their on-call contractors as soon as possible. The Glen representatives said that they believed this arrangement had worked well in the case of most emergencies.

The Glen retained a separate firm to prepare a reserve study, which is used in developing the budget. The Board retains the primary role setting the Budget, although Cardinal does participate and offer suggestions. The property manager attends Board meetings and prepares an agenda, although is not involved in preparing the minutes, as is the case with the Mews.

Much of the experience with a management contract, Ms. Clatanoff and Ms. Windus observed, was dependent on the individual assigned as property manager. Mr. McGuire, the current manager, who has been with Cardinal for nearly 20 years, is one of their more senior managers and Ms. Clatanoff and Ms. Windus expressed high regard for his work.

Both emphasized, however, that it was necessary for the Board to remain actively involved in the community's management. The Treasurer, for example, continues to review invoices and discovered on one occasion an oversight by Cardinal. In writing checks once every three weeks, the company was late in paying a water bill; when the Treasurer caught the error Cardinal acknowledged the mistake and without dispute paid the overdue penalty. The most serious criticism that the Glen's representatives had regarding Cardinal was the turnover in property managers in the first year or two.

### **The Meadows**

The Meadows has retained CMC as its management company for nearly 30 years. Mr. Thurber stated that there was period in the years before 2002 in which the company was

given nearly a free-hand in running the condo, with little oversight or direct involvement by the Board of Directors. This resulted in much confusion in the priorities and standards of work and generally disappointing performance by contractors and the Meadows two on-site employees.

Mr. Thurber, who came on the Board in 2002, and other members of the Board consulted with CMC to seek ways of improving the overall management of the community. The Board felt it was worth making an effort, through candid discussion, to get better performance from its current company rather than re-bid the management contract itself. The Board's principal suggestion was that CMC provide a better qualified, more active property manager. For its part, the Board indicated that it intended to take a more active role in preparing budgets, running of meetings, and reviewing contractor proposals and performance. This discussion, and the replacement of the property manager by a more senior CMC staffer, resolved most of concerns facing the Meadows and relationship between the Board and the company since that time has in general been good.

CMC, Mr. Thurber pointed out, is willing to tailor a proposal according to the wishes of the community. Many of the RFPs are drafted by the Board, Mr. Thurber indicated, but CMC is mainly responsible for getting in touch with companies in the contracting community and, based on their reputations, seeking competitive proposals. The Board then reviews the proposals and makes its decision. Most of the budget preparation is done and has been done, since 2002, by the Board; the newsletter is prepared by the Board, in contrast to the practice prior to 2002. With regard to re-bidding principal contracts, Mr. Thurber observed that many contractors, such as the landscape contracts, seem to go through a cycle of initially favorable performance gradually lapsing into complacency.

CMC provides certain routine legal services, but for more complex issues, the Board retains its own law firm. CMC also handles violation letters, initial demand letters for late dues, and provides monthly accounting reports for the Board. However, for auditing and tax preparation, the Meadows retains an independent firm.

For emergency services, CMC provides a 24-hour phone number, but the responsive has sometimes been delayed. Mr. Thurber suggested this may be the case for emergency numbers provided by other management companies.

Apart from services included in the 3-year contract, the CMC contract with the Meadows, as with the Mews, contains a menu of per-item additional services for such functions as copying, retention and storage of records which are priced on a usage basis. The Meadows currently has many records stored with CMC.

The Meadows has two on-site employees; the administrative side of their employment (taxes, health insurance etc.) is handled by CMC.

The mandated reserve study, and its most recent update in 2008, was prepared by an affiliate of CMC, CMC Engineering Services, whose president is Ronald Kirby. CMC itself is, by the way, a subsidiary of larger management company, Associa, Inc. On the basis of the engineering survey, the Meadows has completed the relining of its lateral terracotta sewer lines at a cost of approximately \$750,000. This expense led to a depletion of reserves, but, according Mr. Thurber, has been well worth it.

As with our interview with representatives of the Glen, Mr. Thurber emphasized that experience with a management company is dependent on obtaining a competent property manager, and that it was necessary for the Board to remain actively involved in the community's management. Mr. Thurber, in general, praised CMC's work and recommended that we seek a proposal from the company. He declined to provide a copy of the contract, in part because of confidentiality concerns and in part because, in view of the difference in size between the Commons and the Meadows, the Meadows contract might not be fully relevant.

### **Management Companies**

#### **Community Management Corp.**

Mr. Jason Eglin, Portfolio Manager, and Ms. Christa Brady, Condo Division Director, gave a summary of the services offered by CMC to its management clients.

CMC is a subsidiary of Associa, Inc., a national property management firm with over a hundred properties in its portfolio in the Washington area. Recently, CMC has acquired Legum and Norman, the former manager of several Fairlington properties. Among the properties managed are Park Fairfax, as well as the Meadows (for more than 20 years) and the Mews (for approximately 5 years).

With both the Mews and the Meadows, CMC provides a "full service contract" rather than a financial only contract. The company supervises the on site employees of the Meadows and solicits bids for proposals for major work. An affiliate provided much of the support for the preparation of the engineering and reserve study. CMC has a staff of employees who can provide "handyman services" for occasional or incidental jobs; this staff can offer competitive bids against other vendors for such services, and provides an emergency contact number for plumbing and other emergencies. Mr. Eglin says he is on site at least once a week at the Mews and Meadows and often more frequently.

CMC has an affiliate that provides insurance services and can bid, on an arms length competitive basis, for coverage of managed properties. Ms. Brady observed that based on her experience with properties of comparable size to the Commons our current expenditure for insurance is perhaps \$5,000 too high.

The financial services, which would be a required part of any contract with CMC, would include setting up a full accounting and bookkeeping service with one of their banking

contacts; among the services that the CMC accounting division offers is monitoring of delinquencies, pursuing the early stages of collection and ultimately referral to an attorney, if necessary. CMC prepares the payment coupons books and allows for payment by mail and by credit card via an Internet based site.

As for any prospective transition, Ms. Brady explained that she encountered relatively few difficulties in her experience in the transition from Legum and Norman at the Mews a few years ago. With the Commons, it would be vital to get all financial documentation from Marsha Murphy to set up a fully automated accounting system. She expected that the transition from the signing of a contract to assuming management responsibilities would be at least 30 days and perhaps somewhat more. She seemed a little concerned that the Commons had not had a formal audit.<sup>4</sup> CMC's accounting would of course have to be audited by an independent firm.

### **Cardinal Management Group, Inc.**

Thomas Mazzei and Terry McGuire summarized the services offered by Cardinal to its management clients with special reference to their experience at the Glen and Green, the two properties in Fairlington managed by the company.

Cardinal is still an independent firm, with properties primarily in the Washington DC area, but with recent additions to its portfolio in Florida and North Carolina. Its principal competitors among the larger national firms are Associa (owner of CMC and Legum and Norman), First Services (owner of Armstrong and Wentworth Management companies, based in Toronto) and Century, based in Texas. Cardinal, owned by three brothers (there may be others with an equity interest), has over a hundred properties in its portfolio in the Washington area. Primary policy decisions for the company are in the hands of an Executive Committee of six members; Cardinal's total staff is approximately 120 employees, of whom 40 are "leased" employees that are on the staff for specific properties, but who for administrative purposes (salary payment, taxes, and benefits) are on the Cardinal payroll. Its largest properties in the Washington area are over 1,000 units.

Cardinal has managed the Green and the Glen since about 2005 (they were not precise about the date), having succeeded Legum and Norman. They described the transition as relatively smooth although there were delays in retrieving a full set of financial

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<sup>4</sup> *Va. Code Ann.* § 55-79.74:1 states that books and records must be kept "in accordance with generally accepted accounting practices." On advice of counsel and our certified public accountant, the Commons has relied on internal checks and has not obtained formal independent audits under self-management. Under professional management, checks and balances currently in place would probably no longer exist. In particular, we would probably not longer have a monthly report from a certified public accountant that was independent of the disbursement of payments. An independent audit would be extremely important to maintain proper checks and balances for the prudent financial management of the Commons.

documents. The company's representatives emphasized as strong points in its favor its small size, independence and gave special credit to its accounting division, which, they state, provide monthly financial data more promptly than most firms. They also stated that Cardinal applies a stricter prohibition on co-mingling of funds from different properties, even briefly, than many management firms. They expressed some surprise at our not having an independent audit and stated that that would probably be required by any management firm in order to establish a financial program for the Commons. The Cardinal finance department handles payment of routine bills, but on checks written for reserve account expenditures, the Cardinal management agreements usually require the signatures of two Board members.

With respect to the different management services rendered for the Glen and Green, we observed that the Green's contract was for approximately \$35,000 and the Glen's for over \$60,000. The representatives stated that this was essentially a reflection of the relative size of the two properties and that the basic contract was to a great extent determined by a "per door" or "per unit" cost. Cardinal's base contract, they stated, usually included a greater proportion of total costs than other sample contracts, which rely on a per-item or per-instance fee for a schedule of additional services, although Cardinal does have a supplemental schedule for additional miscellaneous services.

Unlike Associa and other larger management firms, Cardinal does not have any vendor affiliates providing insurance or engineering services. On standard contracts, such as painting, landscaping and routine resurfacing of parking lots, Cardinal will prepare the RFP and they have extensive contacts among the contractor community. With larger projects, such as roofing, Cardinal has relied on the engineering firms employed by individual communities, Restoration Engineering in the case of the Glen, to set standards, recommend a contractor and review contractor performance.

#### **CFM Management Services, Inc.**

Mike Maloney and Christiaan Melson summarized the services offered by CFM to its management clients with reference in particular to their experience at Fairlington Arbor.

CFM remains an independent firm, managing primarily properties within the DC beltway area, although it does provide "financial only" services to a few communities outside the Washington area. The representatives described CFM's two types of services, a full-service model in which the company provides an on-site manager who would typically supervise an on-site staff; and "financial services only" model, which would provide accounting, billing paying, co-ordination with auditors and attorneys in collection cases and help in budget preparation.

Mr. Maloney stated that, in any case where the management contract went beyond the financial services, CFM has always worked with communities which have on-site staff employed by the community. Having on-site staff, they have found, is the most efficient

way of maintaining a community in which much of the work consists of the smaller, miscellaneous jobs can be handled promptly without calling outside contractors who charge for each trip with multiple billings. On-site staff also facilitates co-ordination with residents. He supervises and assists the on-site employees (there are three at the Arbor). The property manager “supplements,” the CFM representatives stated, the skills and abilities of the on-site staff, as Mr. Maloney put it. To retain competent on-site personnel is expensive, he stated we should expect to pay at least \$60-75,000, in salary and benefits. At the Arbor, a recent budget provided for a management contract payment of \$47,000 (for the contract manager and the financial package) and over \$100,000 in employee-related expenses.

CFM also assists in preparation of contracts with “standard” specs in the request for proposals, such as painting and paving. With contracts requiring more specialized expertise, such as roofing or sewer work, CFM recommends the retention of a professional engineer to draft the RFP, select the contract and supervise the work. The sewer relining project has been primarily in the hands of Lateral Linings, Inc.; the Arbor has retained a number of different roof contractors over the past few years. At the Arbor, the property manager attends all Board meetings and two annual meetings.

The president offered, as a ballpark estimate, a per unit rate of \$7 per month for the financial only package, to \$16 per month for a full service contract. After the meeting we made a rough calculation on this basis. At \$7 per month per unit, the cost at the Commons would be approximately \$19,000 per year, somewhat less than our current accounting contract. Mr. Melson also stated that the market for professional management contracts is competitive and there are few secrets among those in the industry. After the representatives left, the committee members concurred that they made a very favorable impression as frank and competent professionals.

### **Concluding Observations:**

We believe that if the Board wants to pursue the matter of retaining professional management, it would be worthwhile to obtain proposals from each of the three companies mentioned above. The committee makes no specific recommendation and expresses no preference, since each company appears competent and no community expressed misgivings regarding its current management company. All companies seemed interested in our prospective business and willing to work with the Board to develop a feasible approach to management at the Commons. As a matter of personal and subjective impression, CFM and CMC created a somewhat more favorable impression than Cardinal. CFM, whose representatives were the least importunate, may on the other hand have a model which, relying on an on-site manager, would be least suitable to Commons because of its small size.

In terms of a possible timeline for any transition to professional management, the Board should be aware that any transition would take several months. Realistically, the Board,

should move promptly to seek formal proposals, review those proposals and make its decision. Future budgets would have to reflect the costs and savings involved in professional management. The costs would reflect the specific services covered by the contract (an independent audit, for example, might well be necessary if a professional management firm were retained); the savings, to the extent they are identifiable at this point, would relate to current accountant services and the community liaison position.

Respectfully submitted,

Noah Greenblatt  
*Chairperson*

Nicholas Lowry  
Arnold Malin  
Margaret Shannon  
*Members*

*July 2010*

Attachments