



community of excellence
winner—communication



Clearwater Key Association

A Season of Change

The Clearwater Key Association has always enjoyed a spacious setting and a beautiful stretch of beach on South Beach in Clearwater, Florida. With a \$1,000,000 major refurbishment of their 12-story building, the view from the beach to their home is also a major attraction. Manager Ron Vassallo, who has been at Clearwater Key a little over a year, has helped the board implement their dreams and says, “The place is absolutely beautiful. We’re the hottest building on the beach.”

And besides the aesthetic enjoyment, there is a practical payoff. Ron notes, "In the last four months, a dozen units have sold in our building and with decent prices,"—real news in the current economic climate.

Big changes require communication, and that is the division where Clearwater Key Association placed as a winner in the Communities of Excellence contest. Ron began his evaluation of Clearwater Key, also known as South Beach IV (SBIV), by first gathering information from the residents to evaluate their needs, wants, and wishes before proceeding with any business plans and recommending improvements. "When I came in here, the board of directors had established goals, and it was my job to put together a mission plan to accomplish those goals. I started the process by reviewing the residents' needs and wants and developing a wish list before beginning a survey of the building and its immediate and long-term needs to see what there was to work with. It was now time to sit down with the board to review the first facts established



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and to match those facts with the goals of the board. It was obvious, at that time, that SBIV needed a lot of attention after 26 years of relatively no changes. The board was very diversified and open-minded and interested in an approach that most boards would not even be interested in talking about. Without the leadership of this board, there would be nothing else to report.”

The goals were now focused around financing a renovation project. “There was a pretty good financial mix of residents in the building,” Ron reports. He found that one-third of the residents would have problems if fees were raised, one-third weren’t sure, and one-third could deal with increased fees. “We had to begin at the beginning,” Ron says. “I brought in a general contractor who has had considerable experience

in constructing buildings just like SBIV, instead of a structural engineer. The contractor started at the top and finished at the bottom and after three weeks of crawling around the building, we had a complete report, including remaining useful life on all major components and everything that needed fixing. We put together a list of things that needed to be done in one year or less, three years or less, and ten years or less. If we did everything that needed to be done in three years or less, it came out to be around \$1,000,000, and that would have required a sizable special assessment.”

With this information, there was a basis for a detailed plan of action, and given Ron’s background, he could now develop an aggressive business plan. His previous experience includes work as the CEO of a national manufacturing company with facilities located inside prisons; a regional bank executive; and an author of three books, including one entitled *Change Your Mind to Change Your Body*. His expertise provided an alternative for Clearwater Key. “A manager who works for a management company, most likely, would not be allowed to do some of the things that I could do under the board of directors. The board and I put together a short-term and long-term business plan to review; I was allowed to use my experience and knowledge as a previous banker/CEO to structure a working business

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plan utilizing a business loan instead of a special assessment. I knew that avoiding a special assessment would at least get the attention of the residents to listen."

"This was a very difficult task because the economy and especially banks were in a tough situation," Ron explains. "Banks were afraid to talk about new loans, especially condominium loans, which only a few banks entertain. I told the bankers, many of whom I knew, that this loan would be one of the best loans they ever put on their books. Needless to say, after almost three months of working directly with the loan officer, the loan was approved." This bank did later encounter deficient loan difficulties, and Ron reports, "The lender said that the SBIV loan was reviewed by government auditors who told the lender that this loan was one of the best underwritten loans in the bank." Ron comments, "I had to convince the bank president and the underwriting staff that this was a great loan because of the good cash flow based on monthly maintenance fees, no delinquencies, and no foreclosures; the source of repayment was perfect along with a strong balance sheet."

Ron concluded that a loan was the best answer after looking at the alternatives. "I didn't want to wipe out our cash or do a sizable special assessment," he states. "If everyone had to come up with \$10,000 today, it would put some people in financial distress or foreclosure, or force them to sell in a down

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market." In spreading out the cost, he figures, "If you put the money in the bank, at the end of 10 years you would have \$12,000 to \$13,000. But if you pay SBIV \$50/month, you have only paid \$6,000 in additional maintenance fees." Another benefit to spreading out costs rather than having a special assessment comes by not pre-paying for benefits (if you sell) for the next resident. Ron states, "Most people in condominiums in Florida sell in seven to ten years, so when a new resident comes in, you didn't pay for their share of the special assessment. The assessment is paid fairly over the life of the components."

"People slowly started understanding that the interest expense was small, with the favorable rates at the time of the loan. Not only did we get to keep a strong balance sheet, but SBIV is in fantastic financial condition and the business plan provides for the loan to be paid off in four years instead of ten," Ron explains. With the extra \$56/month that the loan required, a reserve model, including useful life, was built to the year 2032. "What we did from an income point of view was make the loan a forever loan (even after it is paid off)," he explains. "Not only do you budget for the real useful life of items for reserves; this becomes a bonus after the loan is paid off and you start accumulating funds from the continued \$56/month increase four years earlier to use for emergencies, which are common in condominium living. I made a promise to the board and residents that the business plan model would provide a guarantee, with the exception of an unknown emergency, hurricane, etc., that the 2010 and possibly 2011 budget would include no future special assessments or monthly maintenance fee increases. With nearly three-quarters of this year completed, the 2010 budget is ready with no

increases to report. This is a first for SBIV."

This major renovation project will also help avoid spending money on temporary fixes. "In some cases, we have spent a little more money for a better quality renovation," Ron remarks, "but then we don't have to do it again before its useful life is over. One example of that was dealing with ongoing problems from rain water lying on the parking surface for days. By excavating the proper drainage layout around the building and parking areas, the parking lot is preserved—a small cost to fix a major problem," Ron notes. "With the building up-to-date now, I can adjust reserves each year to their useful life. In a condominium, your job is not to wait for things to break. The board is responsible to keep the building safe and in like-new condition in order to maintain values. Often it's cheaper to replace, repair, or renovate near the end of an item's useful life rather than waiting until the component in question is totally broken. After our projects are completed, Clearwater Key expects to spend well under five percent of their budget on repairs/updates next year and continue to fatten its balance sheet."

The project encompassed painting, roof replacement, under-cover garage piping and ceiling, parking lot paving, new air conditioners for common areas, a new fire alarm system, new landscaping, new elevators, and the clubhouse kitchen. Some work is still in progress, such as

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the mail room lobby, but the bulk of the renovation was completed in four months with the contractor on the property at all times of construction.

Ron explains, "We coordinated with all of the vendors and communicated with the residents on a daily basis, and the project moved along with hardly any hitches or resident complaints. It was an exciting project because there were so many things taking place at one time. It caught the attention of other associations in the area, in such a way that others want to model after our business plan. The residents, not only from our building but neighboring buildings also, have been stopping in saying, 'Wow, what a difference!' The real estate agents seem to love us for the last four months."

Applying the same principle to another major expense, insurance has also been financed. Though rates are promised to go up ten percent next year, Ron calculates, "We don't have to special assess or raise rates for increased insurance premiums in the budget because we will continue to finance in the future and decrease the reserve put aside in the insurance reserve account."

Ron comments, "Getting residents to buy into the loan package was the biggest challenge after selling it to the board. This is fresh territory for most association boards—loans and debt—but it's now a good thing and I still have my job." The Clearwater Key Board sought the advice of their attorney and accounting

both inside and outside the association to ensure that the business plan was sound and legal. Ron's recommendation: "In business, be close and honest to your banker, your CPA, and your lawyer, and you will be surprised how much you can achieve."

Ron has implemented a faster delinquency policy that would expedite any future lien filing and foreclosure action. "By working closely with our attorney, we had an unwelcomed opportunity to utilize the plan on a recent delinquency that ended with the association taking over the unit in lieu of foreclosure from the lender. Today, we have a tenant in the unit and are collecting our monthly fees plus additional funds."

The SBIV community enjoys a pool and clubroom, which recently had wi-fi service added. "It's amazing how many people are now using the clubroom," Ron remarks. In 2008, the community enjoyed a "Season One" pool party with live entertainment, plenty of food and drinks, and poolside dancing, with neighboring buildings invited to join in. In September 2009, by popular demand, there was a "Season Two" pool party scheduled, followed a week later with a ladies' fashion show.

Resident committees are being put together for current and future issues. A decorating committee is being formed because interior decorating is on the horizon. A rules and regulations committee is in the works to work on the association documents, and a recreation committee will plan for future social functions.

SBIV has a pro-active board with goals and a mission plan. The proof was in the last election with an overwhelming resident response to keep the same board in place. "However," Ron notes, "we all know better than to let down our guard and responsibilities as to our fiduciary

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responsibility to the residents.” The board and manager are working with their attorney to update the ancient, original documents—the next challenge to bring in change.

To facilitate the communication and information about necessary changes at SBIV in condominium living, Ron has used a newly designed website. It includes information from budgets to newsletters, board minutes, pictures, documents, and a live webcast of board meetings. “We are going through an education period here with our site and adding information as we see fit.” Ron explains, “With the website, we provide a variety of information in a user-friendly style. It is a fast way to relay a message to our residents. In business, you learn ‘location, location’ and in a condominium association it’s ‘communication, communication.’”

Ron is always on the lookout for possible improvements and for changes or new alternatives headed their way. One change he anticipates is that electric/hybrid cars that need a power source may have to be incorporated



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into the future of associations. "Boards and managers need to start looking at the future to anticipate changes that are going to affect condominium living. If the government mandates hybrid cars, what are we going to do?" Ron ponders, "Does that mean installing hitching posts with electric meters all over the property?"

Ron feels that the key to the positive momentum at Clearwater Key is the people. "We have a great board in place, and as long as they continue to be an active board with vision, SBIV will continue to be a hot place in the real estate market." The SBIV Board is a mix of vocations, ages, and length of residency in the community. Board members have management, accounting, legal, computer, and security experience, all of which is beneficial in serving the community. "The board president, Olga Milne, has been a resident in the building for 25 years and she is well-respected and well-loved as she has dedicated many

years in board service," Ron observes, "and there is the balancing bonus that three directors are first-time board members." Ron describes their approach as being 'transparent'—"You have to do the right thing; tell the truth about everything; don't be afraid to admit if there are mistakes made. This is where the SBIV board is in sync; together board and manager, we don't do anything without consulting and talking about it. We're trying to show by leading that this is a condominium community, and we all need to be involved, and everybody gets the credit. If there is a problem, we immediately handle it. Our goal is not to be in a position where the board operates in the dark—we get as many people involved as we can and we communicate our every move. Working with people is always interesting. Listen and learn and grow—I love it! You get to see different personalities and how they interact."

Ron recommends that communication be used as the foundation for all association managers to work from first. "Communication is the key—in my opinion—and without it nothing positive is ever accomplished. You can know every regulation in the book, but if you cannot implement an action plan that produces positive results for the residents, you're in the wrong job description or with the wrong management company." Ron believes his success comes from implementing, from day one, an open-door policy, telling the truth always, communicating often, keeping the board fully abreast of all situations, and working from a short- and long-range plan of action. "The property manager should also be looking at how to coordinate between the board and the budget," Ron advises. "The board should understand that the association is a business. Look at your building and what it needs, talk to the people to find out their wants and needs, listen to satisfied as well as unsatisfied residents, and show that you are on top of your profession."

This process is working for SBIV—"The board is popular at this time, even though the train and the bus are always in a position where one can get thrown under it; for now, I'm still liked," Ron laughs. Change is looking good at Clearwater Key! ■



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