

MEMORANDUM

ITEM NO. I.3

TO: CAPISTRANO BAY DISTRICT BOARD OF DIRECTORS

FROM: AD-HOC COMMITTEE TO STUDY CONTRACTED MANAGEMENT OF CAPISTRANO BAY DISTRICT
COMMITTEE MEMBERS: NADINE LEVINSON, STEVE SCHWARTZ AND DAVID WILSON

DATE: JULY 18, 2011

RE: FIRST REPORT – SCOPE OF PROJECT

EXECUTIVE SUMMARY

Since authorizing formation at the June 28, 2011 meeting, the Ad-Hoc Committee established to study the merits of a contracted management model for Capistrano Bay District (CBD) has already received input and feedback from residents on this controversial subject. The initial committee members met to discuss the process the committee will follow to study the issues. The three Ad-Hoc Committee members unanimously agree that additional committee members are desired to participate. Common issues important to homeowners include maintaining quick response times to resident requests, onsite management, expertise of contracted managers, and cost benefit concerns. A process of interviewing staff and directors of other special service districts, utilizing resources available through California Special Districts Association, clearly defining and categorizing the needs and responsibilities of CBD residents and directors, and ultimately analyzing the cost and benefits of a contracted management vs. district employee model will result in a final recommendation to the CBD Board of Directors. This process may take between 3 and 6 months.

PURPOSE OF COMMITTEE

Committee Members Nadine Levinson, Steve Schwartz and David Wilson were appointed by District Board at their regularly scheduled meeting on June 28, 2011. Other homeowners in attendance at the meeting were invited to join the committee, but turned down the invitation. Recently the subject of contracted CBD management was raised by resident Chris Miller, and reviewed by the board at their April 2011 meeting. Shortly following receipt of Mr. Miller's communication, it was time to develop the new fiscal budget for 2012.

During the budget planning process, expense related questions were raised in a number of areas which include: legal and consulting fees, audit and financial statement preparation, insurance, and security, among others. It became clear that many of these functions could be centralized and made more efficient. At the June 28, 2011 meeting, the 2012 budget was approved with much discussion on the subjects of efficiency and expense savings, and the subject of contracted management was once again raised. It is for this reason the committee was formed to review, evaluate and make recommendations about the managerial functions and duties of CBD.

HISTORICAL REVIEW

Resident and former CBD Director, Sheila Bullock, provided the Ad-Hoc Committee members a copy of a committee report from 1996. A Citizens Ad-Hoc Committee which included Don Brady, Joe Dunn, Jim Gilloon, Ralph Mardsen and Roger Davisson, Chair, addressed the issue of "road management" and presented a "Preliminary Committee Report" submitted to the District Board on August 27th, 1996 (Attached). They noted in their committee report that they never had "an official general meeting", although they heard from most of the people who had an "interest in the issues."

Three issues were addressed by the 1996 Ad-Hoc Committee:

1. Should the District become managed "by an outside contractor" with a professional management firm or have an employee of the District who "reports directly to the Board"?
2. Would full-time or part-time management be needed?
3. Should security and maintenance be outsourced?

The main issue pertinent to our newly appointed Ad-Hoc Committee Mandate is issue #1, dealing specifically with in-house management or outsourcing. The 1996 Committee seemed unsure of the exact tasks and time required by the District for a general manager, thus they recommended starting with part-time employment, adding hours as needed. Security and maintenance were recommended to be outsourced.

OUTSIDE MANAGEMENT vs. DISTRICT EMPLOYEE

In its analysis, the 1996 Ad-Hoc Committee referred to the other 4 districts in Orange County like CBD, and found all four to have full-time in-house managers. Since the 1996 report, one of those 4 districts, has moved to a contracted management style.

The 1996 Ad-Hoc Committee Report concluded that an "in-house" manager was needed as this person would be able to best deal with the special "complex bureaucracies", would be on-site, would be dedicated to Beach Road and its people and unique issues. The assumption in the 1996 report was that a Property Management company (PMC) did not have expertise with a District community, but instead only with homeowners associations. The 1996 Committee concluded that a PMC would not have the governmental knowledge needed by our District. The Report stated financial implications of lowered costs (with lowered services) if a PMC were hired; however, there was no data presented in the 1996 report that would provide the evidence needed for a cost comparison of equivalent services of a CBD employee model versus outsourcing to a PMC.

In addition to providing a copy of the 1996 report, Sheila Bullock, offered some of her own ideas about employing a PMC (Bullock's comments attached). Her comments are helpful, as they allow this 2011 Ad-Hoc Committee to address several common issues, beliefs and assumptions among CBD

homeowners. We do agree with Sheila Bullock that this Ad-Hoc Committee should be expanded. Additional homeowners who express an interest in this subject will be asked to join. We hope Sheila will reconsider joining as she has much expertise in this area.

In reviewing the 1996 Report, reading Sheila's July 1, 2011 letter and beginning informal discussion with Beach Road neighbors, our committee has focused on common community assumptions and beliefs which will need to be assessed in order to make any recommendations about management.

1. Hiring a PMC will mean CBD will be unable to appropriately and in a timely fashion, address the various situations that challenge the quality of life of people living on Beach Road.
2. Hiring a PMC precludes having onsite presence of a general manager (GM)—specifically the same GM that is familiar with our residents and homeowners and who can "be available to quickly deal with situations as they arise" and to be available on site for emergencies.
3. PMC will not provide adequate legal, "engineering", "construction", or landscaping.
4. The motivation to move to a PMC is based on a motivation to "save money".
5. A PMC is like an HMO, implying that the PMC provides inferior or "less than" services for less.

We acknowledge that the 2011 Ad-Hoc Committee will study comprehensive cost comparisons, but more importantly will focus on a qualitative assessments which lead to improved efficiencies, decreased risk, and maintaining (or improving) the quality of life of Beach Road residents. Initial progress has commenced to help define the wants and needs of CBD residents and directors, and to provide summaries of the responsibilities of our current General Manager and time expended on various tasks and outcomes. The 2011 committee will survey other Districts, who now do have a PMC, asking: Why did they change from in-house to PMC? What is their level of satisfaction with the PMC? What may be better under a PMC? What was lost by changing to a PMC?

We will explore the resources available to us through California Special Districts Association (CSDA) with respect to issues involving compliance and preserving our Special District status. The CSDA Mission Statement is: The California Special Districts Association provides legislative advocacy, education and member services for all special districts. Our membership in this organization provides access to useful tools and resources for district managers and directors in compliance and governance issues.

After gathering the needed data to make an objective assessment, the Ad-Hoc Committee will propose appropriate CBD specific options, with pros and cons. The Ad-Hoc Committee advocates having several community meetings to allow for adequate and optimal community communication and feedback as this committee pursues an optimal management model for board recommendation. We will keep the CBD Board apprised by monthly updates at the District Meeting. Eventually after all the data is in and the community appraised, we will make recommendations to the District Board for their consideration.

Nadine Levinson (Homeowner)

Steve Schwartz (CBD Director)

David Wilson (Homeowner)

ITEM NO. I.3

TO: Don Russell, District Manager
FROM: Sheila Bullock
DATE: July 1, 2011
SUBJECT: Suggested contracting with outside Management Firm

I am enclosing a copy of the report on this subject submitted to the District Board of Directors in 1996. I have re read it and think that they have made several very valid points. At that time, there was no consideration given to having both a District Manager and a professional management company. I felt then, and continue to feel, that there should always be a District Manager with his/her office on the road who would be available to quickly deal with situations as they arise. There should always be a person available to be on site at times of emergencies who is very familiar with our community (not just the person on duty at that time).

I am against the District's contracting with an outside management firm for the following reasons. I dislike the idea of our using a professional management company's legal people, their engineering people, their construction people, their landscaping people, etc. in order to save money. Would we continue to work directly with Securitas or would security be covered by the outside company, too? To me it sounds like having to use an HMO and taking whoever is assigned to you rather than being able to choose the doctor of your choice. It is not as if we didn't have funds to spend on the outsourcing of certain programs, projects or problems – we are not a poor community. We expect the fees that we pay to be used in a manner that is in the BEST interest of the homeowners – not in a penny pinching way that would be less than first class.

I certainly think that a financial study should be done by the Board of Directors (or by an ad hoc committee as done before) to thoroughly compare the cost of having:

1. a District Manager on site (as we have always done) and also contracting with a management company to cover situations that are beyond the District Manager's area of expertise. Research should include the quality of the work done by the management company and if they have experience with some of the problems that are particular to our community.

or

2. a District Manager on site and only contracting with outside entities as needed. If the day to day responsibilities are considered too much for our current Manager, maybe an assistant manager is needed who would have some of the skills that he does not. I'm sure that the salary of an assistant would be less than the fee of any management company. I realize that certain items need to be done by professionals (such as legal work), but again we want the best advice, don't we – not the cheapest!

A matter of this importance should definitely be given an open hearing and community input should be encouraged. I believe that prior to such hearing a thorough amount of research must take place. In my opinion, the creation of an ad hoc committee would be the best way to proceed. The current Board should develop the guidelines that they wish the committee to follow. Members of the committee should be persons who are well respected in the community (as was done in 1996). I suggest people such as Joe Dunn, Bob Bancroft, Lonnie Laster and other recent members of the District Board.

As Joe Dunn said, "You get what you pay for". I highly recommend that Joe be invited to meet with the Board of Directors, and the ad hoc committee if created, in order to share his experience and expertise in the field of management. Please take advantage of our luck in having such an experienced person in our community who would hopefully be available for consultation.

CAPISTRANO BAY DISTRICT

35000 Beach Road Capistrano Beach, California 92624 Phone & Fax: (714) 496-6576



Board of Directors

W. Huber Pres.
B. Rose Vice Pres.
W. McConnell
S. Bullock
R. Trefle

Manager
M.D. Farrier

TO: Board of Directors

FROM: Roger Davisson, Chairman
Citizens Ad-Hoc Committee

DATE: September 5, 1996

SUBJECT: Preliminary Committee Report
Regular Meeting 406 - August 27, 1996

The committee included Don Brady, Joe Dunn, Jim Gilloon, Ralph Marsden and me, acted fairly informally and were available to the people on the road, even though we did not have an official general meeting. I think among the five of us we heard from, either in writing or in person, most the people on the road who have interest in the issues.

We primarily addressed the main issue, of road management, leaving many open questions to the Board, because they are implementation issues. The fundamental question that seemed to be on everyone's mind is whether this road should consider getting managed by an outside contractor, that is, a professional management firm, rather than by an employee of the District, who reports directly to the Board, does not have a separate corporation and gives all of their energy, (whether it be full time or part time), to us, not doing a number of other communities as part of a business. The answer was not at all obvious. In fact the committee was not unanimous. I think those of us on both sides of the question understand and are sympathetic to the other side.

We did a fairly thorough plus and minus analysis. We talked to people in other districts. It turns out that there are only four (4) Districts like ours in Orange County. They are all managed by full time in-house managers.

We also queried people about their experiences with managers and whether they considered going contract and why. We concluded that the pluses of having a dedicated manager who gets to know the people and our issues, and learns how to deal with the complex bureaucracies that we have to deal with, is a better way to go. Even though the contract managers put out very nice proposals, when you look beneath the surface it is fairly clear that none of them have the experience of dealing

Citizens Ad Hoc Committee Report
August 27, 1996

with these agencies, because they have only worked for homeowners associations, and they don't have the quasi-governmental functions that we have. This is not to say that some of them could not pick it up, but it would take time. We also considered the economic issue; one argument is that if you go contract, you save money because you don't have a full time employee. As near as we could tell (and as Bill Huber implied, there is not yet enough data to be sure on this), there are not great savings to be had for that route. A lot of the things that need to be done on a daily basis would have to be arranged for and paid for through a contract manager. The economics that they might achieve by being a manager of multiple associations did not seem to be significant. So we recommended to the Board that we go with an "in-house" manager that reports to this Board, as we have done in the past.

Now a sub question is, do we need a full time manager or is the job doable by someone less than full time. We studied the job description and got some input from the Board and from Mary about the manager's activities and we came out with a definitive, "we don't know." We suggested that it is worth trying a part time approach and seeing how it goes. If it is not adequate then expand the role to more time. You could even "fine-tune": try a four hours a day, then six hours or up to eight if needed. One advantage of a part time person is that you might find a semi-retired person who is probably too qualified to be a full time manager and may have had a bigger job and is now in semi-retirement and would be willing to give extraordinary skills to us on a part time basis. That is an implementation question.

Finally we looked at ancillary questions about some of the services on the road, particularly security and maintenance. There we are really agnostic, because we are not sure about costs. But, based on some of the bids that we got, and the analysis that we did on the costs we are incurring now, it looked to us that it was very worth while to try going outside for both of those services. Again, there was not unanimity; there are some real negatives not to having employees that know us and that we get to know. There were some real positives too. It looks like the cost might be a push, but we would get some liability off our back in terms of potential lawsuits. So we suggest that the Board, (and we are happy to help review the results), go for some bids in both of those areas, and see whether the economics make sense. Obviously when we find some contractors that are willing to do those jobs we should check them out with people they have worked for and see how their experience has been and make a decision armed with those facts, both as to costs and performance.

So in sum, keep management inside (try part-time to see if it's adequate), but look at going outside for security and gardening/maintenance, if we receive good bids and positive reference checks.

Don Russell

From: David Alban [dalban25@msn.com]
Sent: Saturday, July 23, 2011 7:52 PM
To: drussell@capobay.org
Subject: FW:

ITEM NO. I, 3

Don;

I didn't see my e-mail listed on your Agenda concerning an outside management company and the officer carrying a weapon, so I'm resending just in case it didn't go through the first time. Thankyou

David Alban
35451 Beach Road

From: dalban25@msn.com
To: drussell@capobay.org
CC: capobeachus@cox.net; surfish465@aol.com; bruinsma74@msn.com
Subject:
Date: Tue, 12 Jul 2011 07:37:34 -0700

Beach Road Board of Directors;

I believe Jerry Southwick stated my feelings very well concerning the issues of a Management Co. taking over on Beach Road and the issue of the Officer wearing a weapon .

So let me say that I do not like the idea of an outside Management Co. at some off-site location running the affairs of our community. I also like to have the Officer, who has years of training and experience carrying a weapon, to have that weapon on his person.

Sincerely,
David Alban

35451 Beach Rd.

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