



LMS Across The Board

MANAGEMENT COMPANY OF THE YEAR

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Where What's New Reaches You...

October 2007

Financing Options For Special Assessments

By Brad L. Schneider CPA, CondoCPA

In a perfect world there would be no special assessments. Every Association would adequately fund for the future and the upcoming major projects would be paid for out of the investments accumulated in the Replacement Reserve Fund. Some Associations have done a very good job and rarely if ever see the likes of the Special Assessment.

The Special Assessment has been the savior of many associations when they have a major project that just won't wait. Whether it is a by-product of a Chicago Façade Ordinance inspection or just an unforeseen replacement that is suddenly necessary, the Special Assessment is the answer in many cases.

How to Bill the Special

There are many ways to bill the Special Assessment. The easiest way is just to let the unit owners know that there is a large project that needs to be funded and their share will be due on a specific date. What if this Special Assessment becomes a large burden on the unit owner? I was recently at a Board meeting for an exclusive condominium building located downtown and was informed by a Board member that his share of the last special assessment was \$80,000. While there are some wealthy owners that can afford a special assessment of this magnitude in a lump sum amount, most unit owners will not be able to come up with the money that easily.

If the Special is a financial burden that is not easily absorbed by a unit owner they will need financing options. If the Association provides the financing options then they are taking the risk of default onto the Association. Although this is quite common, there are other alternatives.

The Bank Line of Credit for Unit Owners

Offer an open house for Banks to provide information on financing options for the unit owners. If the unit owner has equity, they should be able to get one or all of the following options:

1. Lower interest rate line of credit on their own unit.
2. Second mortgage
3. Refinance their current mortgage to include the additional amount needed to pay the special assessment.

Association Financing Options

Most associations that are billing a large special assessment will ask for up-front payments for those that have the money. These unit owners either have the money available or have decided to go with one of the above financing options. If the unit owner cannot get the financing on their own then the Association will offer them terms that mirror a bank loan that will be needed by the Association. The Association will need to finance the Special Assessment funds that have not yet been collected.

Most banks will give the Association a line of credit until the construction has been completed and then will convert the loan into a mortgage loan, usually amortized over a maximum length of between 5 and 10 years. In order to qualify for a loan the bank will look at the current rate of delinquencies. If the delinquencies are more than 10% it will be almost impossible to obtain a loan.

Some of the issues of obtaining the loan through the association are as follows:

1. The Association has taken on the risk of a unit owner default.
2. The Association can provide an incentive to the unit owners to obtain their own financing by having the Bank open house, billing the financed special assessment with a higher rate of interest than a typical home line of credit. (There is no reason that the interest rate has to match the interest the bank will charge. Discounts for

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- paying the special upfront, may not be legal in Illinois. Ask your Association's attorney.)
3. When negotiating the loan with the bank, ask if there are any prepayment penalties.
 4. How often can prepayments be applied to the loan for unit owners that want to pay-off the balance later and for unit owners that move out and are required to pay the remaining portion?
 5. In addition to the rate of interest to be charged on the loan what is the "Effective rate" of interest when you include the points charged on closing the loan, (if any)?
 6. What other covenants will the bank require for the Operating funds and remaining Reserve funds? Many management companies have all their operating accounts at one bank and will not want a covenant that requires them to move those and/or the management company's lockbox to another bank.
 7. What kind of paperwork will be required by the bank after the loan has been made and will it require the paperwork monthly, quarterly or annually? Some ask for financial statements and/or tax returns and even monthly receivable aging summaries.
 8. Remember that most of the errors a management company will make are on a payoff of a special assessment where interest has been charged.

Consider hiring an accounting firm to assist if the payments will continue over a long period. There are many disputes on underpaid special assessments with management companies.

Sometimes these disputes will lead to the Association changing management companies. The amount of extra time that a CPA firm will spend on quoting unit owner payoffs after the initial set up is very minimal.

Proper accounting for a special assessment is crucial to avoid miscommunications with the Board and unit owners. Make sure that you set up a separate set of expense codes for the different categories of expenses that are to be funded by the Special Assessment.

Summary of Financing Options

To summarize, there are several ways to pay for a large project.

1. Replacement Fund investments.
2. Combination of investments and a special assessment.
3. Unit owners taking out owner financing to pay for the project which will be billed in a special assessment to them.
4. The Association financing the unit owners paying the special assessment over time. This will usually be done in a line of credit that is converted to a short term mortgage loan.

New Communities

We would like to welcome the following new communities:

Since 1971, Lieberman Management Services has provided property management services to communities throughout the Chicagoland market.

Our firm has achieved success by addressing our clients' needs coupled with our philosophy which centers on the belief in talent: the right person in the right position. Maintaining that focus along with our commitment to excellence in the areas of technology, planning and management plays an essential role in assisting Associations to achieve their goal of preserving and enhancing their assets.



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CAMBRIDGE CHASE**
Mundelein



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Chicago



PONDS OF NAPERVILLE
Naperville



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UNION SQUARE
Chicago



Customer Service Request:
Visit our website at
www.LiebermanManagement.com
or call: 847-459-0000

If you have questions, input, suggestions or comments for the Lieberman Management Services newsletter *Across the Board*, e-mail us at: acrosstheboard@lmsnet.com



[Monday, October 8th](#)
Columbus Day

[Sunday, November 11th](#)
Veteran's Day

[Wednesday, November 21st](#)
LMS Office Closes At 3:00 p.m.

[Thursday, November 22nd](#)
Thanksgiving Day - LMS Closed

[Friday, November 23rd](#)
LMS Office Closed

**24-HOUR
EMERGENCY
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2008 Budget Process

By Linda Sehnoutka

The 2008 budget planning process is a serious business of Lieberman Management and all its Property Managers. Annually, all managers meet with the Lieberman Management Team in July to discuss the upcoming budget planning schedule, new data and tools which guide Property Managers in preparing the critical information necessary to formulate expenditures. These are the stepping stones of the plans that outline the management of your property.

Each year Lieberman Management works diligently to create improved techniques and formulas to make this process as smooth as possible so Property Managers can communicate to their board and prepare them for the future.

What is a budget? A budget can be interpreted and defined in many forms; however we believe a budget is:

- B** - Building a bridge to get you through a successful new fiscal year
- U** - Understanding your property, homeowners, and all elements that make it a success.
- D** - Delivering a sound plan for the future growth and expectations of each unique property.
- G** - Gathering proposals for projects, new and old, which help formulate a sound budget.
- E** - Evaluating each account code and projecting where enhancements are needed.
- T** - Thinking of all elements which make management of Association living dreams come true.

In order to make all the elements above a success, the Lieberman Management Team stresses the need to create a calendar to meet important deadlines so the delivery of a new fiscal budget meets the expectations of the Association Board and its Homeowners.

This calendar is used by all Lieberman Management Services personnel as a guideline in meeting deadlines for the entire team involved in preparing your budget. This team consists of: LMS Executives, Property Managers, Accounting, Administration, Resident Services, and MIS Departments. We all strive to make the management planning of your new budget a success.

THE LMS BUDGET PLANNING CALENDAR - 2008

July 18-July 20	Budget calendar created
July 23-Sept. 14	PM delivers budget draft to LMS Executive Team
July 23-Sept. 19	PM makes changes, gives to LMS Executive Team (if necessary)
Aug. 6-Sept. 21	PM delivers 1st draft to Board
Aug. 13-Oct. 17	PM makes changes requested by Board and gives to LMS Executive Team
Oct. 26	PM gives budget to the LMS Production Department for mailing. LMS Chief Financial Officer receives 12-month detail total spreadsheet to log into Budget Tracking System
Sept. 13-Nov. 16	PM advises the LMS Management Team when the budget is adopted, orders coupon books and provides entire budget to accounting to log into 2008 Budget Tracking System

LMS - Leadership, Management, SUCCESS!

Please refer to your Community Declarations in regard to the procedure for adopting a new fiscal budget. New budgets should be formally presented to the community members thirty days prior to adoption. Adoption by the Board of Directors must be at an open Board meeting.

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Employee Profile - Sheri Mehling, A Property Manager Pioneer

By Linda Ellsworth

Sheri Mehling arrived at Lieberman Management Services, Inc. in January of 2000 as a portfolio manager responsible for serving several associations. She was excited and eager to get started. She started her CAI, Community Associations Institute professional classes and got involved.

The following seven years revolutionized how LMS property managers are introduced, what their work load and processes look like, and how they are trained. Sheri was a major player in the entire process, pioneering much of what is used today.

In January 2002 she was promoted to Regional Director, a new supervisory position for LMS, responsible for supervising a mixture of portfolio and on-site properties. She dug in and worked to write the LMS Rules and Philosophy for the Regional Director position.

The following years brought several retreats for Regional Directors, company wide Kick-off and quarterly meetings, our Management Operations Manual (MOM), and a

comprehensive manager training manual complete with quizzes and worksheets. Sheri was an important contributor and personally responsible for many of these items.

In July 2007 Sheri was promoted to Vice President with additional responsibility for our Resident Services Team. Her immediate goals are to formalize our resident services new hire training, improve ongoing training and procedures to make sure that the expectations of LMS's clients are both met and exceeded.

Sheri brings an immense passion for her work, our company and everything she does. She loves to read books with a multicultural theme, watch and play tennis, and spend time with her two Chihuahuas.



Sheri Mehling
Vice President

Lieberman Management Services Celebrates 36th Anniversary!