

**CID HOMEBUYERS' GUIDE**

**TABLE OF CONTENTS**

**Preface**

**Introduction**

**The Common Interest Development**

**TYPES OF CID's**

**What Is Owned**

**Disclosures**

**Governing Documents**

**Dispute Resolution**

**Your CID's Finances**

**Your CID's Meetings**

**The Board Of Directors**

**Officers**

**Maintenance And Repair Of The CID**

**Management**

**Insurance**

---

**Preface**

The CID Homebuyers Guide is designed to provide general information in response to some of the more frequently asked questions regarding living or owning in a Common Interest Development ("CID"). This does not contain legal information or guidance, and is to be used as a general source of information. If you wish to research the subject matter further, you may wish to consult with an attorney, accountant, or other appropriate professional.

## **Introduction**

CID's have become a popular way of providing housing through planned communities. There are an estimated 41,000 homeowner associations in the state, with over 9 million Californians residing in them. CID's, also sometimes referred to as homeowner associations ("HOA's"), can have as few as two and as many as over twelve thousand dwellings. Generally speaking, CID's provide a framework for owners that share a common interest, which may include buildings, swimming pools or streets.

Most of the laws governing CID's are found in state law commonly referred to as the "Davis-Stirling Act" (California Civil Code Sections 1350 through 1379). Certain other federal, state and municipal laws also apply, as well as judicial decisions interpreting those laws. CID's also are governed by specific requirements contained in documents called the "Governing Documents," which include Covenants, Conditions and Restrictions and Rules and Regulations. Such documents are discussed further herein.

## **THE COMMON INTEREST DEVELOPMENT**

### **What Is A "Common Interest Development"?**

A CID exists where land is divided into separate ownership interests tied together in a common interest by a required membership or by commonly owned property. A CID has a declaration of Covenants, Conditions & Restrictions ("CC&R's") recorded with the appropriate County Recorder, and a shared interest of some type between owners. A Condominium is only one of the four forms of a CID (see Page \_\_\_). CID's are usually residential.

### **Does One Have To Join The CID?**

An owner becomes a member of the CID by virtue of their ownership in the CID.

### **What Is Does A CID Do?**

A CID is simply the embodiment of all of the owners in the CID, and exists to protect and preserve the common interests of all the owners.

### **Why Buy Into A CID**

A CID provides greater benefit to individual owners made possible through common ownership. Owners can co-own community facilities, such as

swimming pools, parks, recreational facilities, and even lakes. Costs are shared, and property maintenance and architectural standards can be kept high. The CID also takes on some of the burden of ownership which might otherwise be an individual owner's responsibility in a non-CID property, such as gardening service or maintenance of utilities. Moreover, CID's provide an affordable option for housing by increased density, and economies of scale in maintenance. Finally, CID's usually provide a method for the community to preserve high standards of appearance and property values.

### **Other Considerations Of CID Living.**

CID's take on much of the responsibility that would ordinarily be handled by the homeowner in a non-CID home. This also means that the CID member agrees not to make many unilateral decisions regarding the appearance, maintenance and improvement of the home. For example, a CID member might have to seek authorization to change the exterior appearance of the home, or make certain remodel changes. By living in a community, the CID homeowner must cooperate with the community to maximize the benefits of CID living.

### **CID Is A Legal Concept**

A home in a CID may be attached or detached. The lifestyle of attached living is similar to community living. An attached home may be constructed similar to an apartment. However, owners have substantially different responsibilities than renters or non CID-homeowners. CID owners are subject to the rules of the community, and are asked to participate in the management of that community.

### **My Home Is A Condominium Conversion. What is that?**

Since the common interest development is a legal form of ownership, one can be created from an existing development. Developments that are converted are usually converted to a condominium development. Conversion may be from a non-CID project, such as a rental property, or it may be from a stock cooperative or community apartment in which the members have decided to convert their property. Since conversion is principally a reformation of the legal title, there may not be a government requirement that a conversion include any renovation of the property.

## **TYPES OF CID's**

### **Into What Kind Of CID Am I Buying?**

There are four basic types of Common Interest Developments in California. One cannot tell the kind of CID simply by looking at the building itself. The four types of CID's are the:

**Planned Development,  
Condominium,  
Stock Cooperative, and  
Community Apartment**

### **How Do I Know What Kind of CID Home I Have?**

The type of CID should be identified on the first page of the homeowner CID's Covenants, Conditions and Restrictions ("CC&R's").

### **Is One Type Of CID Better than another?**

Generally, no. The forms are similar as to use, occupancy and restrictions. However, the availability of financing may differ.

### **Planned Development**

A planned development consists of property is split into different pieces called "**lots,**" which usually are land. The planned development may not have any common area, or if there is common area, it may be owned by the CID.

### **Condominium**

A condominium consists of a division of property not only into different homes, but into two different types. The "**separate interest**" or "**Unit**" is the dwelling itself, and usually defined as "airspace." The "**common area**" is everything other than the separate units. The precise description of the unit will be found in a recorded document called the "**Condominium Plan**" or "**Subdivision Map.**" The owner receives a deed of ownership in the particular unit as well as an equal undivided interest in the CID's common area. So, for example, in a 48-unit development on Main Street, the owner of Unit 8 would have a deed showing ownership of Unit 8 plus a 1/48 undivided ownership interest in the common area.

### **Stock Cooperative**

A stock cooperative is usually referred to as a "co-op." In a stock cooperative, a corporation owns the entire real property. The homeowner does not receive a deed, but a share of stock in the corporation, tied to the right to

## **CONFIDENTIAL – not to circulate outside committee**

occupy a specific home in the property. The stock co-op will normally have one share per unit. Few, if any, new CID's are formed as stock cooperatives.

### **Community Apartment**

Community apartments are, at times, referred as “own your own.” The building is owned in a “common tenancy” fashion. The deed the community apartment owner receives may not mention any specific dwelling, but may simply state the owner owns one equal share of the property. So, in the example of the 48 homes at 1 Main Street, the deed may state that the homeowner owns a 1/48 interest in the entire property of 1 Main Street. The deed provides a homeowner the right to occupy a specific home in the community apartment project. Few, if any, new CID's are formed as community apartment projects.

### **WHAT IS OWNED**

#### **What Do I Own?**

In a planned development, you own a lot, and possibly shared ownership in the common area.

In a condominium, you own a unit and you share ownership of all the common area.

In a stock cooperative, you will own a share of stock in a corporation which owns the property, along with the right to reside in a given home.

In a community apartment, your ownership interest is expressed in a shared deed, with a document confirming your right to reside in a given home.

#### **The Separate Interest**

Your separate interest in a CID is the property which you own to the exclusion of others. In a planned development it is called a “**Lot,**” and is usually a defined piece of land. In a condominium, it is called a “**Unit,**” and is usually consists of the interior airspace. This separate interest will be mentioned in your grant deed, and described in your CID's **Condominium Plan** or **Subdivision Map** (explained below).

#### **What is Common Area?**

Everything other than the separate interests in your CID is “Common Area.”

#### **What is Exclusive Use Common Area?**

## **CONFIDENTIAL – not to circulate outside committee**

A CID may provide for exclusive use common area(s). Certain common area that is not part of the separate interest (i.e. the unit), but is used only by one dwelling is called “Exclusive Use Common Area.” Exclusive use common area may include porches, balconies, exterior doors, windows, or even individual water heaters or individual air conditioning equipment. The CID still may prescribe how such areas are used and maintained.

### **DISCLOSURE**

#### **WHAT INFORMATION OR DOCUMENTS IS A CID REQUIRED TO GIVE A SELLER, AND WHAT SHOULD THE BUYER RECEIVE PRIOR TO TRANSFER OF OWNERSHIP?**

Under Civil Code Section 1368, if a member of the HOA makes a request in writing, the CID is required to provide to the member, within ten days, the following:

1. All of the governing documents, (Condominium Plan or Subdivision Map, CC&R's, Bylaws, Rules and Regulations, Articles of Incorporation) and any amendments to the governing documents.
2. If there is a restriction in the governing documents limiting the occupancy residency or use of the unit on the basis of age.
3. Certain CID financial documents including the current assessment collection policies, operating budget, and a summary of the CID's insurance policies
4. A written statement as to the amount of the current CID regular and special assessments and fees, and the amount of any unpaid assessments, fines or penalties owed by the above-referenced owner, including late charges, interest and collection costs
5. Any notice previously sent to the owner which sets forth any alleged unresolved violation of the governing documents.
6. If a construction defect lawsuit is pending, a copy of the preliminary defect list provided to the members, or if a defect case was settled, a disclosure as to what defects will and will not be repaired.
7. Any changes in the regular or special assessments which have been approved but not yet due and payable.

**Please note: There are other documents which may be requested by the buyer which are not listed in this law, such as HOA minutes.**

#### **WHAT SHOULD THIS DOCUMENTATION COST THE BUYER?**

## **CONFIDENTIAL – not to circulate outside committee**

The cost of the documents should cost the member only the actual and reasonable cost to make the copies.

### **TRANSFER FEES? IS THERE A LIMIT?**

Yes. A CID can only charge its actual cost in changing its records as a transfer fee. However, there are often fees charged by the CID's management firm in connection with lender certifications and other tasks in connection with an escrow.

### **GOVERNING DOCUMENTS**

#### **What Are The "Governing Documents"?**

A CID is defined and governed by its governing documents. These documents can be lengthy, and often complicated. However, each is important, and should be reviewed by the prospective CID member. They include covenants, conditions and restrictions ("CC&R's") and rules and regulations.

#### **Articles Of Incorporation**

If the CID is incorporated, there are Articles of Incorporation which state the correct name of the CID. If the CID is not incorporated (and many are not), then there will be no articles of incorporation.

#### **Subdivision Map Or Condominium Plan**

The document which divides the land into lots is usually referred to as a "Subdivision Map." The document which divides the property into condominium units is usually referred to as a "Condominium Plan." The Map or Plan is recorded with the county recorder, and is therefore a public document. It defines the "common area" or "exclusive use common area" as well as the "separate interest" (i.e., the lot or unit).

This document can be very important in resolving questions such as "is my balcony part of the unit or is it exclusive use common area?"

#### **Covenants, Conditions and Restrictions**

Covenants, conditions and restrictions ("CC&R's") establish a legal framework for co-ownership of the development. The declaration of covenants, conditions and restrictions, is recorded, and therefore also is a public document. If a CID does not have a recorded official copy of the CC&R's, it can be retrieved with the assistance of a title company or the county recorder's office.

## **CONFIDENTIAL – not to circulate outside committee**

CC&R's provide for how the property is used, and how it will be taken care of. CC&R's legally are a lengthy contract binding all owners in the development – whether or not an owner has read it or agrees with it. They can be amended only by a vote of the CID members (except in certain narrow and extraordinary circumstances defined by state law) and such amendments are required to be recorded with the County Recorder.

### **I See My CC&R's Contain Use Restrictions. What Are They?**

CC&R's affect how you live in the CID. There usually will be a section in CC&R's called "Use Restrictions" which list a number of prohibited activities or uses. Those restrictions can range from limits on pets to parking restrictions or even rental restrictions. In a multi-story condominium building, they may even state what type of flooring surface is permitted. In addition to use restrictions, CC&R's will usually also indicate what the CID will maintain or repair, as opposed to the maintenance or repair responsibilities of the individual member.

Owners must abide by the use restrictions in the CC&R's.

### **Bylaws**

Bylaws usually do not address issues regarding the property, but should contain the CID's governance procedures and its most basic corporate operations. Annual meetings, voting procedures, the role of officers, election of the board of directors, qualifications of directors and other topics are normally found in the Bylaws. Bylaws are not typically recorded, and technically are not public documents. They can be amended only by a vote of the membership.

### **Rules/Regulations**

In addition to the requirements in the CC&R's, CID's also adopt rules and regulations, which must be consistent with the CC&R's. They are passed and amended by the CID board of directors, and do not require a membership vote. The rules must not conflict with state law or other governing documents. They are not effective until distributed to the membership in written form. Members must be notified in advance of proposed rules or changes to the rules.

CID's are required by law to have rules regarding:

- Elections,
- Collections of assessments,
- Architectural standards, and
- Discipline and enforcement of rules, including a schedule of fines.

CID's may pass rules on other subjects, including parking, pool usage, meeting conduct, and clubhouse usage.



### **How Do I Know What to Look For In Reviewing the Governing Documents?**

Governing documents, particularly CC&R's, can be lengthy and complicated. Normally, the portions of the CC&R's that directly affect members the most are the **"Use Restrictions"** and the portions that restrict an owner's right to maintain, repair, and improve the owner's home as well as an owner's conduct (e.g. quiet hours or parking restrictions). The governing documents will also define the CID's obligations to repair, maintain, and replace common area components as well as enforcement of the governing documents.

### **Can Governing Documents Be Changed?**

Yes. Governing documents can be changed by the CID on a membership vote (except for Rules, which are changed on board vote). They can also be changed in less obvious ways, such as by a California court decision or changes in federal or state law. Legislation changing federal or state law, or appellate court opinions interpreting existing law may in effect "amend" provisions in the governing documents, although the change will not be reflected on the pages of the governing documents.

### **What If There Are Contradictions Between The Governing Documents?**

Sometimes as governing documents are drafted or amended, contradictions can be created. The CC&R's take precedence over Bylaws and Rules. Bylaws control over Rules. Contradictions should be resolved through amendment, if possible, to avoid future confusion.

### **What If I Find Parts Of The Governing Documents That I Do Not Accept?**

Governing documents are enforceable against all members, even if they disagree. By virtue of membership in the CID, one is held to have agreed to abide by the governing documents.

### **Illegal Restrictive Covenants In CC&R's**

CC&R's, particularly in older CID's, may contain covenants banning occupancy by persons of a certain race, ethnicity, religion or age (such as a ban on children). Such restrictive covenants have been illegal and unenforceable in California for decades, but may not yet have been removed from your CID's governing documents. There is an easy legal procedure available to remove such illegal language.

## **DISPUTE RESOLUTION**

### **What If I Have A Dispute With My CID Or One Of My New Neighbors?**

In a common interest development, as with any neighborhood, disputes arise from time to time. Neighborly and cooperative management of disputes can contribute greatly to the positive aspects of CID living.

CID's are required to have in place procedures to help neighbors resolve disputes between each other or with the CID. There should be in place an **Internal Dispute Resolution** ("IDR") procedure, in which the CID designates someone to help try to resolve such disputes.

In the event IDR does not succeed, there is still one more alternative to litigation. Prior to filing a lawsuit, members and the CID are required to offer **Alternative Dispute Resolution** ("ADR") to the other side. This requirement also gives everyone an opportunity to cool off before making a decision that everyone may regret later. ADR can be **Mediation** or **Arbitration**.

There are two basic methods to try to resolve disputes without the need for lawsuits and court action. Those methods are mediation and arbitration.

#### **Mediation.**

Mediation is a discussion between parties, aided by a mediator, who is a facilitator in that discussion. Mediation is not designed to determine who is right and who is wrong, but to try to find a point of compromise at which both sides can agree.

#### **Arbitration.**

Arbitration is a hearing, usually far less formal than court trial, in which both sides present their side of the dispute to a neutral person called an arbitrator. The arbitrator may be a lawyer, or a retired judge, or anyone else the parties agree to accept. The arbitrator hears the dispute and renders a decision. That decision can be binding or non-binding, depending upon what the parties agree in advance.

## **CID FINANCES**

All CID's incur expenses maintaining, repairing, replacing, and operating the development. Those expenses are typically shared by all members pursuant to a formula set forth in the CC&R's. To meet those expenses, the CID will levy assessments upon all owners.

The fact that money is paid to an entity called "the CID" may create the impression that the CID is something separate from the owners. It is not.

### **Bank Accounts**

CID's should have two basic bank accounts, holding two different types of funds.

One bank account, often called the “**operating account**” is used to pay for day-to-day expenses such as management (if any), utilities, painting and gardening.

Another account, called the “**reserve account**,” is designed to help the CID pay for major repairs and replacement of CID common area items. At least every three years, the CID is required to have a “**reserve study**” performed to project how long major components of the building (i.e. roofs, pavement, etc.) will last and how much it should cost to repair or replace them. The reserve study helps the CID prepare for those expenses by calculating what the CID should deposit in the reserve fund.

A CID with a well-funded reserve account is less likely to need special assessments and loans to finance major repair or replacement items. A well-funded reserve account is one indication of a well-run CID, with members that plan ahead.

### **ASSESSMENTS**

There are four basic types of assessments, “**regular**,” “**special**,” “**emergency**” and “**penalty**.”

A regular assessment is usually imposed on a monthly or quarterly basis. Some refer to the regular assessment as “dues.” These assessments are used to pay the CID's operating account needs plus its reserve account requirements. Generally speaking, regular assessments can be increased up to 20% per year by the board of directors without a membership vote. Increases greater than 20% must be approved by a membership vote.

A special assessment is separately imposed, and is limited to a specific amount of money over a specific period of time. Special assessments in the amount of up to 5% of the CID's annual budget may be set by the board without a membership vote. Special assessments larger than this require approval of the membership.

Emergency assessments may be imposed by the board of directors under extraordinary circumstances.

A penalty assessment is often referred to as a fine, and is imposed by the board of directors due to a violation of the governing documents. The fine cannot be imposed unless the board has given the member a chance to discuss the matter first. Penalty assessments are sometimes necessary to help bring a member back into compliance with the governing documents.

### **Budgets**

CID's are required to annually prepare, adopt and distribute to all members a budget. Prior to purchasing a home in a CID, buyers should have received the most current budget. A written, well organized budget, updated and distributed annually, is one sign of a well-run CID. The budget helps members to understand how and why the assessment amounts were set.

### **Member Access To Financial Information**

Members have the right to inspect and even copy most CID records, including financial records. There are some exceptions, such as records of member discipline, or other such confidential matters. Member access to financial records is obtained through a written request to the board of directors or the CID's management company (if any).

### **Audits**

A common topic of discussion in CID's is whether or not the CID is regularly audited. However, the term "audit" is a specialized term in accounting, and an audit is a very involved verification by the accountant of the CID's income and expenses. Audits are expensive, and most CID's do not obtain audits. More commonly, CID's hire accountants to perform a review, in which the accountant confirms that the records are in good order and being kept in accordance with generally accepted accounting principles ("GAAP"). In a review, the accountant does not verify the accuracy of the numbers.

### **What Happens If A Member Does Not Pay Their Assessment?**

Because CID's are non-profit organizations, it is very important that all members pay their assessments on time. When members fail to do so, the CID may impose late fees, penalties and collection fees. If the member still does not pay, the CID may place a lien on the home until the obligation is paid – including attorney fees. This process is prescribed in state law. Some homeowners who are critical of their CID or their board of directors choose to withhold payment of their assessment in protest. However, homeowners should pursue other avenues of redress, as state law does not provide for this form of protest. The CID's collection processes involve many warnings and disclosures, but could result in a lawsuit or even foreclosure.

## **CID MEETINGS**

There are two basic types of meetings: **Membership meetings** and **board of directors meetings**.

### **Membership meetings**

Membership meetings are open to all CID members. Decisions are made by membership vote and not a board vote. Votes at membership meetings are conducted by secret ballot. CID's must conduct at least one membership meeting per year, at which directors are elected. Usually, these "**Annual Meetings**" include a financial report and such other business as has been announced in advance to all of the membership. Membership meetings held in between Annual Meetings are called "**Special Membership Meetings.**" These meetings can be called for many reasons, usually to vote upon items which the Board may not decide but which require a membership vote. These meetings can be called by the board or by a petition of members, pursuant to the governing documents.

### **Voting At Membership Meetings**

Voting in a CID membership meeting may be accomplished in three basic ways: By **attending and voting**, by **ballot in lieu of attendance** (also known as an "absentee ballot"), and by **proxy**.

### **Voting In Lieu Of Attendance**

Many CID's offer the option of voting in lieu of attending the membership meeting. Sometimes these are referred to as "absentee ballots" since the member is not personally attending the meeting. State law mandates a detailed procedure required for ballots cast in advance of the meeting, which boards and managers should follow (Civil Code section 1363.03).

### **Proxy**

A proxy is a written statement that one member is granting to another person the right to vote that member's ballot at a meeting of the CID. A proxy is signed by the member granting it, designates who is the recipient of the proxy, and grants the recipient the right to vote the member's ballot.

### **Quorum**

A quorum is the minimum number of members who are participating (in person, by proxy or by absentee ballot) in order to have a membership meeting. The quorum is normally defined in the governing documents. If not enough

## **CONFIDENTIAL – not to circulate outside committee**

members participate to achieve a quorum, the CID cannot have a membership meeting.

### **Secret Ballots**

Most votes by CID membership must be by secret ballot, whether or not the governing documents require it. Voice votes or other non-secret votes are not permitted for most membership decisions.

### **Board meetings**

A CID makes its normal business decisions through a governing board of directors. The board meets as per the requirements of the governing documents, but at least quarterly. The three types of board meetings are Regular, Special and Emergency meetings.

**Regular meetings** occur on a regular schedule at a designated meeting place.

**Special meetings** are meetings that need to be called between regular meetings. Four days advance notice of these meetings must be given to all members.

**Emergency meetings** are meetings which must address an urgent matter that cannot wait for the four days advance notice.

### **Can I Attend Board Meetings?**

Any member can attend meetings of the board of directors, except for the executive session, which is closed.

### **What Is Executive Session, And Why Cannot I Attend?**

Some matters of CID business need to be kept confidential, and so are handled in executive session. Executive session is closed to members, and so very limited matters can be addressed in executive session. Only member discipline hearings, CID employee matters, discussion of litigation, delinquent member payment plan discussions, and formation of contracts can be discussed in executive session.

### **Minutes**

Just as with any corporation, a CID must keep minutes of its membership meetings and board meetings. These minutes are not transcripts of the entire meeting, but only a recitation of the basic facts and actions taken. Draft minutes

should be available to all members within thirty days after a meeting. The Board or the manager is to keep custody of the CID approved minutes. The approved minutes of the membership and board meetings are official records of the corporation.

### **Can I Speak To The Board Of Directors At The Meeting?**

Every board of directors meeting must provide for an **open forum**, in which members can speak to the board on any matter. The board can set reasonable limits on open forum.

### **THE BOARD**

According to state law, a CID cannot function without a board of directors. In addition, it is impractical for an CID to have all decisions made by all of the members, so most decisions are made by a board of directors.

**Powers And Limits.** The powers of the Board, and the limitations on board authority, should be found in the CC&R's and Bylaws. Decisions which are outside the power of the board must be submitted to the membership for vote.

**Selection.** Normally, directors are elected by the membership at a meeting of all the members. However, in the event of a vacancy due to resignation, the board usually has the power to appoint a replacement director.

**Qualifications.** The qualifications to serve on the CID board are normally found in the CID Bylaws. However, in addition to the legal requirements, one should remember that board service is a commitment. Service on a board of directors requires a dedication to the interests of the CID as a whole.

**Other Information.** The length of a term of a director, the number of directors, and nominating procedures should also be found in the Bylaws or Rules and Regulations.

### **Officers**

Officers are normally directors, and are elected by vote of the directors, and serve at pleasure of the board. Officers can be elected or removed by the board of directors at any time

### **President**

## **CONFIDENTIAL – not to circulate outside committee**

The President normally is the chair of all CID meetings, and is the chief officer of the CID. However, the President's power is limited to that granted by the Bylaws.

### **Vice President**

The Vice President fills in for the President to chair meetings if the President is not available. Depending upon the Bylaws, the Vice President may also have other duties.

### **Secretary**

The Secretary normally keeps the minutes of all CID meetings (board of directors and membership meetings), and co-signs with the President important documents such as board of directors resolutions or other legal documents.

### **Treasurer**

The Treasurer normally is charged with overseeing the CID finances, and making sure that proper reports are provided to the board of directors at each regular meeting. The Treasurer should be someone who understands finances, budgets and basic recordkeeping.

## **MAINTENANCE AND REPAIR OF THE CID**

Normally the governing documents will provide guidance as to what the CID maintains or repairs, and what the homeowner maintains or repairs. If the governing documents do not say otherwise, the David-Stirling Act does provide some guidance for CID's and their members.

**Unit or Lot.** Normally, repair and maintenance of the member's lot or unit is the responsibility of the member.

**Common Area.** Normally, common area is maintained and repaired by the CID. The definition of common area is found normally in the governing documents, usually in the condominium plan or subdivision map.

**Exclusive Use Common Area.** Under the Davis-Stirling Act, exclusive use common areas are normally maintained by the member and repaired by the CID. Exclusive use areas may be specified in the governing documents, and also in the Act. Exclusive use common area is used only by the member, but is not owned separately, as it is still common area. The CID still may control how the exclusive use area is used and how it is maintained.



## **MANAGEMENT**

To manage a CID, one must have a working knowledge of buildings, finances and CID law. One managing a CID should have good interpersonal skills, be organized, and a good record-keeper. This can be a difficult role to fill.

**Self-Management.** Many CID's choose to be self-managed. A self-managed CID will use volunteers within the CID to fulfill the various functions required to manage the property. While much less expensive than professional management, self-management places a heavy load on the board.

**Professional Management.** Many CID's hire professional managers or management companies to help them operate. There are a number of ways to use professional managers. Some CID's hire their own manager as an employee of the CID, while others hire a management company that will designate a particular manager to manage the CID.

**Full Management.** Full management services are a function of the contract between the CID and the management company. Such services often include management of the CID's finances and buildings. Managers will often attend meetings of the board or membership.

**Financial Management.** Due to the higher cost of full management services, many CID's choose to retain a management company only to handle the finances. The board of directors and committees handle issues regarding the buildings and grounds.

### **Are Managers Required to Be Licensed or Credentialed?**

Managers are not required to hold any license, education or credential in order to manage a CID.

### **What is a Certified Common Interest Development Manager?**

State law now provides that managers may qualify for the title of Certified Common Interest Development Manager ("CCIDM"). To attain this certification, a manager must attain at least thirty hours of specified course work in topics including California CID law, and pass an examination. Providers of this education must be certified by the Department of Real Estate.

While the CCIDM designation is not mandatory, it is mandatory for a manager to disclose to the CID the fact that the manager is not a Certified Common Interest Development Manager.

### **Are there other indicators of a manager's qualifications?**

There are a number of organizations which offer credentials to CID managers. Among those are the Community Associations Institute and the California Association of Community Managers. Ask your manager what credentials they have.

## **INSURANCE**

As with a home or business, insurance can help protect the CID in a number of ways. As an owner in the CID, protecting the CID in effect helps protect each owner. Insurance policies are lengthy contracts under which the insurance company agrees to pay for certain things, depending upon conditions written in the policy. There are many types of insurance which CID's often obtain. To check which types of insurance your CID has, you may want to confirm this with the CID's insurance agent.

### **General Liability Insurance**

General liability coverage is insurance protecting the CID from claims or lawsuits against it. State law also provides protection for the members of CID's from personal liability arising out of lawsuits against the CID if the CID maintains certain minimum levels of insurance. For CID's with one hundred homes or less that minimum is two million dollars (\$2,000,000), and for CID's consisting of more than one hundred homes that minimum is three million dollars (\$3,000,000).

### **Property Insurance**

Property insurance protects against damage to the CID property caused by certain defined perils. The extent of property insurance depends upon how the insurance contract is written. Some items including mold, dry rot and earthquake damage are normally excluded from property damage insurance policies.

### **Individual Homeowner Insurance**

A CID homeowner may obtain their own insurance coverage, apart from that of the CID. Such insurance might cover damage to the interior of the home, replacement housing if the home is damaged, or even special assessments imposed for major repairs. Some CID's require their members to have such coverage.

### **Earthquake Insurance**

Earthquake insurance is usually not a separate policy, but is an amendment to the property insurance policy in which the exclusion of earthquake damage is removed. Such insurance is expensive and has a high deductible (usually at least 10% of the policy coverage). Many CID's therefore do not carry such insurance.

**Directors and Officers Insurance**

Directors and officers coverage (also known as “D&O” insurance) is a type of insurance which protects the board members and officers from lawsuits alleging negligent exercise of their duties. State law provides personal immunity for volunteer officers and directors so long as the CID has certain minimum levels of directors and officers insurance. For CID’s with one hundred or fewer homes that minimum is five hundred thousand dollars (\$500,000), and for CID’s consisting of more than one hundred homes that minimum is one million dollars (\$1,000,000).

**Fidelity Insurance**

Fidelity coverage protects the CID from dishonesty of employees or fiduciaries. Such coverage is sometimes called a fidelity bond.

**Payment Bond**

CID’s pursuing construction projects may purchase a type of bond, in which the bonding company agrees to guarantee that the subcontractors and material suppliers will be paid. Payment bonds protect the CID from mechanics liens.

**Performance Bond**

CID’s pursuing construction projects may purchase a type of bond which guarantees that the contractor will finish the project. These bonds can add significantly to the cost of a project, and are often sold by bonding companies concurrently with payment bonds.

**Workers Compensation Insurance**

State law requires employers to carry workers compensation insurance, to protect employees from injuries sustained in the course of their work. CID’s which have employees must carry this type of insurance, and so should the CID’s vendors.

----- END-----

**GLOSSARY/INDEX**

**CONFIDENTIAL – not to circulate outside committee**

**Alternative Dispute Resolution** – Also known as “ADR,” a method of resolving disputes without a trial in court. The most common methods are arbitration and mediation.

**Amendment** – Changes to the governing documents are called amendments

**Annual Meeting** – The membership meeting CID’s are required to have once each year, which normally includes financial reporting and election of directors.

**Arbitration** – Alternative dispute resolution method, involving an informal trial outside of court in front of one or more arbitrators. Arbitrators may be retired judges, lawyers or other persons accepted by both sides. Arbitration may be binding, or non-binding.

**Articles of Incorporation** – A document filed with the Secretary of State which establishes the corporation.

**Assessment** – A required payment by a member to a CID.

**Association** – A grouping of like interests

**Audit** – A detailed verification by an accountant, in accordance with generally accepted accounting principles, verifying not only acceptable record keeping but confirming the accuracy of the figures recorded in the records.

**Board of Directors** (also referred to as “Board”) – The governing body of a CID. Normally elected, although replacements can be appointed. Number and qualifications of directors normally are set by the governing documents

**Budget** – The estimated income and expenses of a CID for the coming year.

**Bylaws** – A governing document which normally sets the procedures for how the CID operates as a corporation.

**Certified Common Interest Development Manager** (“CCIDM”) – One who has met the education requirements under state law and is permitted to use the title.

**Committees** – A group formed normally by board motion to assist the board. Committees make recommendations for the board.

**Common Area** – the property interests owned in common by all owners in the CID, and is usually defined by a subdivision map or condominium plan.

**Common Interest Development** (also known as “CID”) – A development which consists of a shared ownership or mandatory membership and which has a recorded declaration of covenants, conditions & restrictions.

**Community Apartment** (also known as “own your own”) – A form of CID in which the owners all share ownership of the development as tenants in common, which permission to occupy a specific dwelling.

**Condominium** (also known as “condo”) – A form of CID in which a development is divided into “units” and “common area.” Owners own a unit and an undivided interest in the common area.

**Conversion** – The process in which a development is legally changed from one form of real estate ownership to another.

**Condominium Map** – A governing document, this is filed with the County Recorder and defines the locations and boundaries of the units and common area.

**CONFIDENTIAL – not to circulate outside committee**

**Covenants, Conditions & Restrictions** (also known as “CC&R’s”) – A governing document, this is filed with the County Recorder and provides for how the property is used, and how it will be taken care of.

**Director** – A member of the board of directors. Normally elected at a membership meeting, may be appointed in the event of a vacancy.

**Directors and Officers Insurance** (also known as “D&O”) – Insurance coverage protecting directors from claims of board negligence or breach of duty.

**Discipline of members** – may include fines or even suspension of privileges. Cannot be imposed without notice to the member and a hearing

**Disclosures** – Statements designed to inform a prospective buyer

**Earthquake Insurance** – Insurance covering the CID from damage in earthquake. Expensive, this insurance also carries a higher deductible than a normal property insurance policy

**Emergency Assessment** – A membership payment requirement passed by the board of directors to deal with a need of the CID which cannot wait for membership approval.

**Emergency Meeting** – A meeting of the board of directors without normal notice to the members, due to emergency that cannot wait for normal notice of a special meeting.

**Exclusive Use Common Area** – Common area set aside for the use of only one dwelling. Definition may come from state law as well as governing documents

**Executive Session** – Closed session of board of directors meeting, in which only certain defined topics may be discussed.

**Financial Management** – Arrangement for management services in which the management vendor manages only the CID’s money, and does not manage the property.

**Fidelity Insurance** – Insurance which protects the insured from dishonest acts by the insured’s employees

**Fines** (also called penalty assessments) – financial discipline, in which member after a board hearing is assessed an amount of money in response to a violation of the governing documents

**Full Management** – Arrangement for management services in which the management vendor manages both the CID’s money and its building and grounds

**Governing Documents** – the Articles of Incorporation, Condominium Plan or Subdivision Map, CC&R’s, Bylaws, and Rules

**Internal Dispute Resolution** – Method of alternative dispute resolution in which a member of the CID acts as a representative of the association to attempt to resolve conflict with a member.

**Liability Insurance** – Insurance which protects the insured from claims of negligent personal injury or property damage claims

**CONFIDENTIAL – not to circulate outside committee**

**Lien** – a claim made directly against property. A common method of enforcing assessment obligations is the recording by the CID of a lien against a member's property in the CID.

**Lot** – In a planned development, the separate interest owned by the member, defined by a subdivision map

**Mediation** – Alternative dispute resolution technique involving a disinterested third party, selected by agreement of the disputing parties, who attempts to persuade the parties to resolve their differences.

**Minutes** – The written record of a corporation, reflecting meetings conducted and actions taken

**Notice** – The advance announcement of an act or event, usually in CID's referencing a meeting

**Officers** – Elected by the board of directors, officers normally include a president, vice president, secretary and treasurer.

**Open Forum** – The required portion of every board meeting, in which members are provided an opportunity to address the board of directors on items on or off the agenda.

**Open Meeting Act** – A 1996 addition to the Davis-Stirling Act, it requires board of directors meetings to be held with notice to members, open to members, and with minutes promptly distributed

**Operating Account** – The bank account in which the CID receives assessment payments and from which it pays its bills

**Payment Bond** – A type of insurance to protect from mechanic lien claims by guaranteeing the payment of the contractor's subcontractors and suppliers

**Penalty Assessment** (also known as "fine") – Discipline in a financial form (see "Fines" above)

**Performance Bond** – A type of insurance to protect the customer by guaranteeing that the contractor will finish the project or the bonding company will do so.

**Planned Development** – One of the four types of CID's, this involves a development split into ownership interests called "lots."

**President** – The chief officer of a CID, usually calls and chairs meetings of the board and sets agendas. Normally elected by vote of the board, and, as any officer, serves until the board votes to replace the officer.

**Property Insurance** – A type of insurance protecting the insured's property from damage. Exclusions may greatly affect the benefit of the insurance policy.

**Proxy** – A written statement by which one member grants to another the right to vote for a member.

**Quorum** – the minimum number of members participating to have a membership meeting, or the minimum number of directors attending to have a board meeting.

**Recorded/recording** – The act of filing a real estate related document with the County Recorder.

**CONFIDENTIAL – not to circulate outside committee**

**Regular Assessment** (often called “dues”) – The allocation of the CID’s operating budgetary income needs among the membership, usually in a monthly or quarterly payment

**Review** – The verification by an accountant that the client’s books and records are in good order, but does not verify the books and records are accurate.

**Reserve Account** – The account maintained by the CID to accumulate in advance funds needed for major repair and replacement items.

**Reserve Study** – The review of the CID’s need for major replacement and repair items, with a projection of the anticipated life of those items and the projected cost of replacement or restoration of those items.

**Rules** (also often known as rules and regulations, or “house rules”) – The only governing document passed solely by vote of the board. Rules normally govern conduct of members in the community, and may cover many topics.

**Secretary** – The corporate officer who is responsible to keep minutes.

**Secret Ballot** – Ballots which do not identify the voter

**Self-management** – Management services are provided by CID volunteers without compensation

**Separate Interest** – In a condominium, a “unit”; in a planned development, a “lot”; in a stock cooperative or community apartment, the right to occupy a given dwelling

**Special Assessment** – A payment obligation imposed for an expense not budgeted by the CID and therefore not covered by the CID’s regular assessment

**Stock cooperative** – A form of CID in which a corporation owns the entire development and each member owns a share of stock in that corporation

**Subdivision Map** – The recorded document defining the boundaries of the property interest for a planned development, and some older condominium projects

**Transfer Fees** – Fees charged by the CID connected to the transfer of ownership of a property interest in a CID

**Treasurer** – The officer normally charged with monitoring the CID’s finances

**Unit** – The property interest separately owned by a condominium owner

**Use Restriction** – A limitation upon specific uses of the CID property interest, which must be recorded in the CC&R’s

**Vice President** – The officer normally charged with chairing the CID board meetings in the absence of the president

**Volunteer** – One performing work without any compensation other than reimbursement of actual out of pocket costs.

**Workers Compensation Insurance** – Insurance policy required by state law to protect employees of the insured, as well as to protect the employer from personal injury claims by the employees.

## **INTERNET INFORMATION RESOURCES**

### **PUBLIC INFORMATION**

#### **Corporations listings:**

Secretary of State web site <http://kepler.ss.ca.gov/list.html>

#### **Licensing information:**

Architects <http://www.cab.ca.gov/querylic.htm>

Attorneys <http://members.calbar.ca.gov/search/member.aspx>

Contractors [http://www2.cslb.ca.gov/CSLB\\_LIBRARY/Name+Request.asp](http://www2.cslb.ca.gov/CSLB_LIBRARY/Name+Request.asp)

Engineers [http://www.dca.ca.gov/pels/l\\_lookup.htm](http://www.dca.ca.gov/pels/l_lookup.htm)

Real Estate Licensees <http://www2.dre.ca.gov/publicasp/ppinfo.asp>

**Megan's Law information** <http://www.meganslaw.ca.gov/>

#### **Davis Stirling Act – Civil Code Sections 1350-1378**

(legislative site for Civil Code) <http://www.leginfo.ca.gov/calaw.html>

#### **CONTACT INFO FOR INVOLVED ORGANIZATIONS (those that endorse the Buyers Guide)**

CAR <http://CAR.ORG>

CAI <http://CAIONLINE.ORG>

CACM <http://CACM.ORG>

Congress of California Seniors <http://www.seniors.org>

ECHO <http://www.echo-ca.org>

IREM <http://www.irem.org>

-end-