

APRA Advisor

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Association of Professional Reserve Analysts (APRA) is a nonprofit corporation established in 1995 by principals of America's leading reserve study companies. The purpose of APRA is to provide a forum to establish a common base of knowledge, standards of care and professionalism within the reserve study industry.

The **APRA Advisor** is a bimonthly publication designed to expand the understanding of reserve planning and increase awareness of **Professional Reserve Analysts**.

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Looking Good

One of the advantages of a homeowner association is being able to enforce appearance standards which are designed to protect property values. Research has shown that if all homes follow the same basic theme, the average buyer is willing to pay more.

Most subdivisions have appearance standards, but, in truth, only a lawsuit can stop someone determined to violate them. Since most neighbors hate confrontation, appearance standards usually go by the wayside opening the door to the things like RVs parked along side the house, tarped "classic" cars, hubcap sculptures and eye wincing paint colors. Thus, the need for appearance standards and the enforcement thereof.

The governing documents usually outline the appearance standards when they are very strict but often say little when they're not. They may define the standards but not the enforcement method, leaving the board in an awkward position when confronted with multiple appearance "challenges".

This is a great topic for the Resolution Process. Resolutions are board policies that deal with complex issues like collection of money, pets, parking and appearance standards. Resolutions provide a framework to deal with them effectively. By the way, resolutions **cannot** amend or change the meaning of the governing documents, only expand on the authority. Amending the governing documents requires an appropriate vote of the owners.

After your Appearance Standards Resolution is drafted, ask your attorney to review it for compliance with state statutes and your governing documents. Then, allow the other owners to participate in the outcome. Once drafted, it should be circulated to all the owners for a 30 day review and comment period. The approval process

shouldn't be rushed. Change is difficult for some.

A good way to broach the subject with the membership is to send out a newsletter discussing the main reason why they are necessary: to preserve property values. Consistent appearance standards are in all owners' best interests. Describe how, for example, junk vehicles, unkempt lawns, collapsing fences and peeling or hot pink paint drag property values down without pointing fingers or naming names. Encourage attendance to a special meeting to discuss the Appearance Standards Resolution.

After the new Appearance Standard Resolution is cussed, discussed, amended and approved, it's time to start enforcement. Select the closest equivalent you have to Henry Kissinger and a Mafia Hitman. If you have none of these, after appropriate written notifications, make good use of your attorney to turn up the heat. Never be guilty of selective enforcement. Treat everyone the same.

Appearances do count and it's up to the board to watch dog what happens in the community. Don't wake up one day and ask "Where am I going and why am I in this handbasket?"

By Rich Thompson - Regensis, Inc.
APRA

SHARE THE LOVE!

The APRA Advisor is published every other month and available free to anyone that would like to receive it. Share it with the entire board or office. To be added to the list, simply email APRA@teamwi.com

APRA offers the Professional Reserve Analyst (PRA)[™] credential to members that qualify by related education, years of experience and client references.

APRA members provide high quality reserve study service throughout the United States and Canada.

APRA Institute offers professional reserve study provider education with its Annual Symposium, Webinar Series and PRAs-Only website resources.

**For contact and membership information:
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Association of Professional Reserve Analysts



Ask the Professional Reserve Analyst

Q Our homeowner association's landscaping is looking pretty ragged after 30 years and needs renovating. Our landscape contractor has offered to put together a design that he will install. Do you think this will work?

A Landscaping is one an HOA's biggest assets. Renovation should be done thoughtfully since you will live with the results, good or bad, for many years. A landscape plan is something normally provided by a landscape construction and design consultant, not a landscape contractor. In designing the plan, there are several critical considerations:

- funds available
- plant selection
- ease of maintenance
- drainage correction
- planting bed to turf ratio
- adequacy of irrigation system

The landscape design plan should strive to include hardy native species that are pest resistant and drought tolerant to

reduce cost and ease maintenance. Reducing the turf area will significantly reduce water needs and cost. The landscape plan and execution will cost a fair amount of money but the end result will be increased home values and livability. Don't chintz. Hire the best landscape designer you can and spend the money. If you have limited funds, after the basics like irrigation and drainage are covered, phase in the plan over several years starting with curb appeal first.

Q We have just circulated our proposed budget for member review and several have commented that our dues are already higher than other HOAs in the area. Have you ever done a survey of fees so we have something to compare to?

A Assuming your budget is formulated with factual information, the result is what is required to pay for real operating and reserve costs. However, there are many homeowner associations that do not fund their budgets properly. Many put *nothing* in reserves and this generally should account for 20-40% of the total fee. Still others self manage in

a foolhardy attempt to save money. It doesn't. It costs plenty in substandard service, inadequate maintenance and falling market values. Besides, who wants a 24/7 job with ongoing criticism and no pay?

So a comment like "We charge higher fees/dues than XYZ HOA" is meaningless without knowing the particulars of XYZ's budget, the extent of their amenities and maintenance responsibilities, if they are self managed or professionally managed and a host of other variables that can skew the bottom line dramatically. So, no study exists because there are simply too many variables for it to be meaningful. But here is a good and honest response to inquiring members:

"Our budget is barely adequate to fund a reasonable level of maintenance, services and reserves that the members expect and state statute requires. The board has considered and explored options to reduce cost without cutting the quality of service and has made cuts where possible. But quality of service is necessary to sustain the value of our homes and cutting quality will only cut our market values and saleability. The proposed budget is the result of careful analysis and we need every penny to get the job done properly.

Q Please discuss the importance of maintaining uniformity of appearance of condominium units and how lack of uniformity can affect property values. I'd like to make the case for my board of directors.

A The reason for the homeowner association maintaining control over the exterior appearance is two fold:

1. Common wall housing typically has a "theme" that if compromised, reduces unit value. To maintain the theme uniformity will help support the highest market values.

2. To control the consistency and quality of maintenance and repairs. If each owner is allowed to modify the common areas, consistency and quality is lost. Uniformity doesn't mean that changes can't be made. It only means

that if an owner proposes a change, like the addition of storm door, the association should establish a standard for it that includes durability, color, style, make and model so that all such changes are uniform.

Some changes like air conditioners, whether roof mounted, on the ground or through the wall cause other problems in the common area like heat, noise, leaking in the walls, roof leaking, etc. The board should think through each new modification carefully as to both the curb appeal and maintenance issues.

Q What's the big deal about having a reserve study? Our homeowner association has been around since 1970 and we've done without one until now. We just pass a special assessment whenever we need money.

A There are many good reasons to have and following a well written reserve study but here are two fundamental reasons:

1. A reserve study lays out a long range (usually 30 year) repair and replacement schedule so that the board can plan properly for major renovations and costs. Putting together a proper scope of work, getting bids, scheduling the work and coordinating it with residents is complicated. It takes time. The more time for planning, the better.

2. Common elements deteriorate over time, not all at once. It is fair that those that receive the benefit from those assets contribute a fair share of the repair costs. Special assessments put all the cost on an unfortunate few and let those that have moved on get away without paying their share. If reserve costs are broken into monthly shares (common in condominiums), each unit owner pays exactly the number of months in ownership, no more, no less. This is both fair and ensures that the money will be there when it's needed without the need of special assessments.

*Do you have a burning question for Ask the Professional Reserve Analyst? Email your question to info@apra-usa.com. **APRA***

SAVE THE DATE

APRA's 2015 Symposium will be held in Las Vegas May 2-3. Learn cutting edge reserve study techniques. Network with your peers. PRAs earn Continuing Education Credits. Early registration and member discounts apply.

Reserve Study Tutorial

Every homeowner association should develop a long range plan to properly maintain common area components like roofs, siding, paving, fences and decks. Having such a plan has a number of significant advantages that relate directly to member home value, marketability and livability, Consider that:

- ✓ Buyers finding lack of reserves back out of real estate purchases.
- ✓ Lenders finding lack of reserves may not lend money.
- ✓ The board has a fiduciary responsibility to plan for predictable expenses.
- ✓ The costs of maintaining the property will be fairly shared by all owners.
- ✓ The Reserve Study provides a predictable maintenance plan.
- ✓ A healthy Reserve Fund helps bolster the highest market value of the homes.
- ✓ Adequate reserves prevent special assessments which are both unfair and difficult to collect.

Here is a step by step tutorial for conducting a Reserve Study:

Step 1 - Make a List of Common Element Components Identify all components that have a useful life of 2 to 30 years, such as decks, gutter and downspouts, roofing, paving, pool equipment and fences.

Step 2 - Determine Life Expectancy & Replacement Cost Check historical records to determine an item's installation date and cost. Qualified contractors can also help with this if records are unavailable, especially if they have an opportunity to bid the work. Costs for labor, material and useful lives are also available through

recognized cost estimating resources like **RS Means** or **Craftsman Books**, which publish comprehensive and invaluable information which can be adapted to your locale.

Step 3 - Establish a Funding Plan The recommended 30 year funding strategy combines reserve contributions, expenditures, current inflation rate, current yield on invested reserves and taxes payable on interest. Combining these elements can produce a funding plan (monthly, quarterly or annual) that will adequately fund future needs and eliminate the need of special assessments.

Step 4 - Annual Review & Update All good plans need review and revision because key factors can change. Component life expectancy assumptions can vary due to use, weather and workmanship. Certain repair costs can fluctuate as will inflation rates and interest yields. Components may need to be added or deleted. Since reserve plans typically project over 30 years, making annual adjustments can have significant financial impact over those projections. The review is best done in conjunction with the annual budget review since reserves funding is a critical piece of that exercise.

Step 5 - Follow the Plan A well designed reserve plan not only provides a good roadmap for the board to follow, it holds the board accountable for what is done and when, instead of making it up as time passes. This is the key to successful planning. Have a good one and follow it.

Who Performs the Reserve Study? Professional Reserve Analysts (PRAs), members of the **Association of Professional Reserve Analysis**, specialize in this invaluable work. PRAs are held to high standards of experience and training. *For a list of PRAs, see www.apra-usa.com*

Healthy reserves are critical to the well being of every homeowner association. Investing in a comprehensive Reserve Study and following a carefully charted funding plan will reap huge dividends in the coming years. If your homeowner association hasn't already done so, get the ball rolling today! **APRA**

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Importance of Maintenance

One of a homeowner association's primary charges is maintaining the common elements. When done properly, the members are happier and homes sell for more (also a happy event). Proper maintenance requires consistency, planning and funding and is necessary to:

1. Protect and maintain member property values.
2. Protect the board from personal liability, and
3. Preserve legal options when a contractor fails to perform renovation properly.

Maintaining Property Values. The board has direct control over member home values, particularly in condominiums or planned communities with extensive common elements. How well those common elements are maintained directly affects how quickly homes sell as well as for how much. When maintenance slides, buyers (except bargain hunters) do take notice. Curb appeal is the number one key to home sales.

Protect from Personal Liability. One of the board's basic duties includes the duty to maintain, repair and replace common elements. What if the board ignores that charge? HOA boards are protected by the "Business Judgment

Rule", a legal theory designed to protect directors from personal liability for decisions made while on the board. However, the Business Judgment Rule does not protect against failure to "exercise ordinary and reasonable care."

Failure to act is no defense. The board members must act prudently to protect themselves. This issue also directly affects the effectiveness of Directors & Officers (D&O) Liability insurance. As a wise insurance agent once said, "D&O doesn't defend against stupidity."

Preserving Legal Options with Contractors. Many builders lean toward low cost designs and materials that are quick to assemble. Speed of construction can run roughshod over quality of construction due to lack of proper detailing. Since one facet of construction often conceals another (framing is covered by sheeting which is covered by vapor barrier which is covered by siding which is covered by paint, etc.), haste generally means sloppy installation that has dire consequences. Most construction defects, however, don't reveal themselves immediately. It may take years.

In the meantime, the HOA is charged with proper, adequate and consistent maintenance. That means that the roof is kept clean and in good repair, the gutters are kept clear so they don't overflow, siding is recaulked and railed periodically, etc. Failure to do these things can be used by a contractor as a defense for poor construction. If the HOA is faithful in doing its part, the case for construction defect is easier to prove.

Does your HOA have an adequate maintenance plan in place? If not, make the case today to ratchet up and get moving. There is simply too much riding on failing the charge. **APRA**

Maintaining Your Roof

A good roof is more than a component...it's essential. Roofing professionals generally agree that a good roof requires proper design, quality materials, and quality application in order to perform successfully. Yet once the roof is installed, nothing is more critical to its

long-term performance than establishing a program of regular inspections and proper maintenance. The National Roofing Contractors Association (NRCA) believes that the most effective way to keep a roof performing for a long period of time is to have a maintenance program with a professional roofing contractor. The contractor:

- Understands local building practices.
- Can recommend the roof systems best suited for the building.
- Has an experienced crew.
- Can respond quickly to problems.

Long-term warranties offered by many roofing material manufacturers do not guarantee satisfactory roof performance. Warranties often contain provisions which significantly limit the warranty and the consumer's remedies in the event that problems develop or damage occurs to the roof system. A maintenance program addresses leaks before they occur, allows for a planned program of capital expenditures and improves response time.

Consider adding this invaluable service to extend the life of your roofs and lower overall costs. Discuss a roof maintenance program with a reputable local roofing contractor.

By Rich Thompson - Regenesis, Inc.
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