

APRA Advisor

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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Debra Pass APRA@TEAMwi.com
Phone: 877.858.5047
Fax: 262.532.2430

W175 N11117 Stonewood Dr. Ste 204
Germantown, WI 53022

www.apra-usa.com

Policizing Reserves

Planning for future repairs and replacements is one of the most critical and beneficial things a homeowner association should do. A Reserve Study is a long range planning tool that identifies common element building and grounds components that have useful lives of 2-30 years, the current cost of repair or replacement of each and a funding plan to accumulate the money to accomplish the work.

A Reserve Study is an indispensable planning process. But the study itself doesn't commit the board or members to follow it. A formal policy should be adopted that *commits* the HOA and board to the reserve planning process and holds future boards to the standards. For that, a **Reserve Study and Funding Policy** is called for. Without it, a future board could decide to set the plan aside or worse, spend reserve funds on something they were never intended for.

A Reserve Study and Funding Policy obligates the homeowner association to follow the recommendations of the study. For many homeowner associations that have been handling costs by special assessment, this is a radical paradigm shift. So, formalizing the commitment to change will help ensure that some future board won't drop the ball or shift back to old and bad habits.

Below is a policy which can be adapted to your HOA's use. Whether you already have a Reserve Study or are thinking about getting one, consider enacting this policy to formalize the commitment.

Nottacare Condominium Sample Policy Resolution # _____ Reserve Study & Funding

WHEREAS, Section ___ of the Homeowner Association Bylaws grants the general power to conduct the business and affairs of the homeowner

association to the board of directors; and

WHEREAS, the board of directors has the responsibility to plan for the maintenance, repair and replacement of the common elements; and

WHEREAS, the members have the responsibility to fund the proper care of common elements; and,

WHEREAS, proper care of the common elements directly impacts the value of members' homes,

NOW, THEREFORE, BE IT RESOLVED THAT in order to properly maintain the common elements, protect market value of members' homes and livability in the community, the board of directors establishes a policy as follows:

Reserve Study Defined. The board shall follow a Reserve Study that includes this criteria:

- Identifies all components that are the homeowner association's responsibility to repair or replace that have a useful life of more than 1 and up to 30 years.
- Assigns a cost of repair or replacement to each component based on current area costs.
- Assigns a reasonable useful life to each component based on local conditions.
- A 30 Year Repair & Replacement Schedule which identifies the years when each component work will be performed including the inflation adjusted cost.
- Establishes a 30 Year Funding Plan which takes into consideration the costs of repairs and replacements, contributions from members, impact of inflation, revenue generated from invested reserve funds and taxes owed on interest earned. The Funding Plan shall include contributions from members adequate to meet projected costs

without the need for special assessments.

- The Funding Plan shall include a "Percent Funded" which indicates the percent of actual reserve funds on hand versus fully funded (100%).

Permitted Uses of Reserve Funds.

Reserve funds are to be used only for the repair and replacement of the specific components identified in the Reserve Study.

Annual Review. The board shall review and revise the Reserve Study annually to reflect changes in costs, inflation and interest yield on invested funds. Component information shall be amended to reflect new information received, component additions or deletions. With this revised information, a new 30 Year Reserve Study projection shall be generated and used in conjunction with the Annual Budget process.

Borrowing Reserve Funds. Under special circumstances, like an unanticipated Operating Budget shortfall or an emergency, and if allowed by state statute, the board may borrow from reserve funds. In such cases, the board shall adhere to a strict repayment plan that will replace borrowed reserve funds within 12 months.

Investing Reserve Funds. In order to reduce the amount of member contributions, the board shall invest reserve funds to generate interest revenue that will be added to the reserve account. Unless otherwise approved by the membership, all investments will be FDIC (Federal Deposit Insurance Corporation) insured or guaranteed by the United States Government. Investments should take into consideration the repair and replacement schedule so that there is no loss of interest for early withdrawal. The board shall review the reserve fund investment plan at least annually to ensure that the funds are receiving competitive yields and make prudent adjustments as needed. The board may hire an investment advisor to assist in formulating an investment plan.

Performing the Reserve Study & Annual Review. To ensure objectivity and competence, the board shall hire

only a third party Reserve Study professional with experience, references and credentials to do the Reserve Study.

Dated: Month, Day, Year

IM Encharge

President - Board of Directors **APRA**

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Ask the Professional Reserve Analyst

Question: Our HOA is trying to get on track after years of self management and neglect. Lots of people were well intended but hadn't a clue of what being a board member really meant. Any advice on getting pointed in the right direction?

Answer: One of the first things to get done is a reserve study so that the scope and cost of your current and future repairs can be fully understood. Consider hiring a homeowner association management company to handle your business. There is simply too much going on for unpaid and untrained volunteers, even if they have the best of intentions. And no one should have to enforce rules on or collect money from their neighbors.

Above all, be patient but persistent. Change comes slowly to some. Years of management by neglect is a hard mindset to change. Encourage more flexible minds to run for the board.

Question: Our HOA is considering doing a reserve study. We have an owner who is a CPA that says he will do one for nothing. While free is a good price, what are the downsides of this arrangement?

Answer: HOA members (regardless of profession) are rarely qualified to do reserve studies unless they have extensive construction cost estimating background and knowledge of HOA operations. A reserve study is meaningless if the numbers are not reality based. Homeowners typically do not have access to reliable construction cost information or contractors so end up guessing at or using off the cuff estimates given by contractors over the phone. Accurate reserve studies require site work by trained experts that know what they are looking at.

The issue of conflict of interest with a homeowner generated reserve study is also a real one, especially if you have members pressing for lower homeowner fees (almost always the case). There will be a steady pressure to suppress reality to justify reducing fees. This is always detrimental to the asset values and livability of the community.

Have your Reserve Study done by a trained professional with both credentials and references to prove capability. Having and following a good Reserve Study can dramatically increase asset values and marketability. Having none or a bad one is like an appendix: absolutely useless and one day may do you in.

Question: The board recently decided that each owner should maintain the fence that adjoins the property even though the fences belong to the HOA. They say it's to save the homeowner association money.

Answer: If the fences are common elements, the board cannot unilaterally reassign maintenance responsibility to the owners. To do this, an amendment to the governing documents must be approved by the owners. But even if it could be done, this is ill advised. One of the advantages of an HOA is reducing the cost of maintenance by joining together and making sure the maintenance gets done properly and in a timely manner. Requiring individual owners to be responsible is more expensive and bound to fail due to inadequate or improper maintenance.

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Watering Wisely

As your homeowner association enters its highest water demand season, there are several conservation techniques that will help you do the job a bit better.

Compost, mulch and barkdust. hold water like a sponge, slowly releasing moisture when plants need it. In this environment, plants grow deep roots, reducing how much and how often sprinkling and fertilizing is needed. If your planting beds are bare dirt, consider an application of these recommended amendments to promote root growth, reduce water consumption and reduce weed infestation. Also leave grass clippings to build up mulched soil that uses less water.

Wash your plants. Airborne urban pollution can leave a layer of residue on plants and soil that inhibits water absorption. One easy way to counteract this is by spraying the planting beds and turf down using a hose end sprayer filled with inexpensive liquid dishwashing soap. As strange as it sounds, it actually breaks up the residue and reduces water tension, allowing better water absorption.

Sprinkler Tune-Up. Adjust all your sprinkler heads to irrigate living things, not walks and driveways. Replace leaky faucets and broken sprinkler heads. Water turf areas about 1" a week.

Sprinkler Enhancements. Install a rain sensor to override the automatic sprinkling system when it rains. Where possible, install drip irrigation systems to trees, shrubs and flowers. Gets water directly where it's needed. If you are using hoses to irrigate, install hose timers to control the flow.

Xeriscape Your Plants. Xeriscape refers to creative, attractive landscaping that provides a diversity of seasonal colors and textures while reducing outdoor water use by 30 to 50 percent. Nurseries carry numerous local specific trees, shrubs, perennials and ground covers which are pest resistant and low water-using. Visit them and ask for suggestions.

Wildflower Extravaganza. A typical landscape can be up to 90 percent Kentucky bluegrass lawn. Bluegrass

requires 25 to 30 inches of water each growing season. Confine lawn to high traffic areas. Instead, wild flowers and native grasses make excellent lawn substitutes, especially in large open spaces and low use areas. Planting a variety of plants with different heights, colors and textures creates interest and beauty.

Watering wisely creates a healthier landscape and reduces one of the community's most costly budget items. This is one area where your investment will pay BIG dividends. Water on!...rather, water *off!* **APRA**

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Mushroom Madness

While fungi (mushrooms) are considered a delicacy when found on your plate, when found in wood, they cause dryrot, a wood "cancer". And like cancer, it's best to avoid the conditions that cause it. In the case of structures, the culprits are improper materials, flashing and design.

Dryrot's name is a misnomer because the rot occurs in wet conditions, not dry. It occurs when water is allowed to penetrate wood in places and in a way where it won't dry out. Wood destroying fungi require a food source, oxygen and favorable temperature in order to survive. It's a vicious circle:

Moisture promotes fungi which increases wood permeability which allows moisture to penetrate further which encourages more decay, etc. etc.

There are three classes of dryrot:

Brown Rot Wood decayed by brown rot looks like dry leather and breaks easily into small cubical pieces. Wood strength decreases as the growth spreads. Most of the damage to structures is caused by brown rot.

White Rot Wood decayed by white rot often assumes a bleached appearance, frequently has black lines through it and feels spongy. Wood strength decreases gradually. If caught soon enough, white rot may be treated by bleach spray and scraped away. It is important to correct the moisture problem that caused the wet wood in the first place.

Soft Rot This looks like brown rot but the affected wood softens gradually from the surface inward developing cavities (invisible to the naked eye) within the wood cell walls.

Four Principles of Dryrot Prevention

1. Build with properly seasoned wood.
2. Keep wood dry.
3. Break contact of wood and soil.
4. Where soil must contact wood, use properly pressure treated lumber.

The odor of mold and mildew inside the home is a sure sign of condensation and dryrot. Warm weather condensation can be reduced with fans and by decreasing the humidity of crawl spaces with adequate ventilation.

When mold and decay occur, the problem is either water conducting dryrot or dryrot growing on wet wood. Water conducting dryrot feels leathery and can often be peeled off in sheets. The other form of dryrot feels powdery or stringy. The only way to get rid of molds and decay fungi embedded in wood is to remove the piece. Frequently extracting a rotted structural piece can be an expensive proposition. Prevention is far cheaper.

A common source of dryrot is wood decks. Wood decks should be constructed of either cedar, redwood, sunwood or pressure treated lumber which all resist dryrot. The deck should

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have at least a 1/2" air gap between it and the siding that allows water to run down between. The deck should have positive drainage away from the building. The deck door should have proper flashing to prevent water intrusion. Indoor/outdoor carpet should be removed from the deck during the rainy or winter season since it traps moisture and promotes dryrot.

Windows and doors are a prime location for dryrot due to improper flashing and caulking. They all should have drip flashing over the top edge and proper caulking around all edges. Where there is more than a 1/4" gap, backer rod (flexible foam rope) should be laid into the gap and then sealed with a high quality silicon caulk.

Another major source of water intrusion that promotes dryrot is improper "kick-out" flashing. Kick-out flashing is found near the rain gutter where the roof meets a vertical wall. It "kicks out" rain water which runs along the vertical wall that would often miss the gutter and run behind the siding and get trapped in the wall. Missing kick-out flashing can cause huge dryrot damage. Have a competent roofing contractor check your roofs for proper flashing.

Finally, do an annual inspection of all siding, trim and decks to detect dryrot in its early stages. Since it spreads like cancer, the sooner you remove it, the less costly the correction. Deterrent is the best policy when it comes to dryrot. Declare war and never, never, never, never, never, NEVER give up. **APRA**

HOA Wellness Survey

The health of a homeowner association is important to measure from time to time. Fortunately, even poor health is curable but identifying the problem precedes the cure. Here are a series of self-diagnosis questions:

1. Are all board meetings open to members? Yes No
2. Are all rules necessary, reasonable, uniformly enforced and include a right of appeal? Yes No
3. Do owners have an opportunity for input at board meetings? Yes No
4. Are all meeting minutes made available to members? Yes No
5. Do new owners receive informational packets to get them started on the right

foot? Yes No

6. Is there an Owner Forum provided at board meetings to allow member comment? Yes No

7. Does your HOA have and follow a Reserve Study? Yes No

8. Does the board consult with an attorney when proposing to new policies or rules? Yes No

9. If self managed, do you have a reliable system for emergency response? Yes No

10. Do you have a sustained volunteer recruitment program? Yes No

11. Does the board follow an Annual Planning Calendar? Yes No

12. Regular financial reports reviewed by the board and then distributed to the members? Yes No

13. Are records available for inspection by members? Yes No

14. Is a newsletter distributed on a regular basis? Yes No

15. Are rules and architectural guidelines that are easily available to the owners? Yes No

16. Are rules and policies written in a positive tone to encourage compliance rather than dictatorial that promotes defiance? Yes No

17. Do members receive timely notice of rules and policies? Yes No

18. Are members kept informed of ongoing litigation? Yes No

19. Are members given a chance to comment on proposed rules and policies? Yes No

20. Does the HOA have a website which has regularly updated need-to-know information? Yes No

This survey hits on many things that smooth out HOA business. Requesting feedback is an important step to promoting volunteers. Adapt to your use so that you can get a clear picture on where there are wound that need treatment. Heal thyself! **APRA**