

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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Kicking the Can Down the Road

Picture this: The HOA is aging, roofs are overdue for replacement, decks are too, paint is peeling and, on the whole, the buildings are looking pretty ragged. Previous boards have muddled by with patch and repair rather than major renovation or kicked the can down the road hoping a new board will deal with it. But major work can't be put off any longer.

The board meets, discusses the priorities and assigns a committee to get bids. Within 60 days, the committee tenders its report which indicates the reserves are woefully inadequate to the tasks at hand. Applying the pittance in reserves to the project costs leaves it \$10,000 per member short. \$10K is not chump change but considering what needs to be done, it's a bargain, so the board organizes the information and presents the findings to membership in a "Coming Soon to Your Neighborhood: A Special Assessment" letter.

The day the special assessment letter hits launches a scene out of the French Revolution. Angry phone calls rattle the lines, mobs pound on board member doors, and cries of "OFF with their heads" are heard. These guys are angry! Friends and neighbors are turned on one another and recriminations abound.

Does this sound familiar? After years of previous boards living in Wonderland, this board had the common sense to recognize simple physics: All things wear out and return to the dust from whence they came. They also recognize that the board was elected to manage the business of the HOA. Managing the business does not include sitting idly by while the buildings deteriorate and property values tumble. The fiduciary duty they assumed demands that action be taken.

This avoidable scenario invariably

happens in HOAs that lack a proper reserve plan. The Reserve Study, as it is called, identifies all the building and ground components that are the HOA's responsibility to maintain, measures each of them, assesses their condition, projects a useful life and repair/replacement cost. All this information when projected out 30 years with an inflation factor provides the board a schedule to follow for both repairs and funding. It answers the mystery, "How much should we have in reserves at any given time?"

Funding reserves by regular contributions is the only fair way to address this need. Special assessments penalize those that have to pay them since former owners were able to skate without contributing a dime. With a 30-year reserve plan funded regularly, each owner can contribute a fair share based on the time in ownership. For example, if an owner owns for three years, he pays 36 of 360 months; one that owns for two years only pays 24 of 360 months worth. There are no gaps in contributions and all pay their fair share. More importantly, the money is available when needed and the board knows when to spend it. Advance planning! What a concept!

While a reserve study is indispensable for future planning, it can't solve immediate and pressing needs like our scenario. For this, the board must follow a different strategy. In most cases, the board has the authority in the governing documents to pass special assessments. The fact that some owners voice dissent doesn't mean the board shouldn't move ahead with their fiduciary duty. In HOAs, majority rules, not consensus. However, out of respect for members and their concerns, the board should hold an informational meeting explaining the "whys and wherefores" and to answer questions.

If the board does not have authority to pass special assessments, the matter must be formally presented to the

members. If so, do this at a special meeting called for this purpose. Send and retrieve proxies from members prior to the meeting so a quorum is assured. Do not mail ballots out on a matter of this importance. It's too easy to ignore them or vote "No" without considering the Big Picture. The meeting should include a detailed presentation of the facts and recommendations from professional consultants that have no financial interest in the renovation contracts.

Having informed third parties helps tremendously and it's well worth it to pay an architect or engineer to make the case. Do not skip over the case building phase of this meeting. Like a good trial lawyer, establishing the need for special assessment should be made point-by-point until the jury has little option but to agree. The board can usually sense when that point has been reached. A strong indicator is when individual members stand and give their support. Take your time on this one.

If the board, after careful planning and case making, still cannot muster the majority vote for special assessment, the next board meeting minutes should reflect the facts so the directors won't be held accountable for the results. And don't let this die on the vine. Matters will only get worse as assets age. Move forward with a professional reserve study to help build the bigger case, analyze the reasons for failure and repeat the process taking a different approach until successful. **APRA**

Ask the Professional Reserve Analyst (PRA)

Q A couple of our six building condominium roofs are beginning to fail. We recently performed a reserve study and discovered we do not have enough in reserves to do all the roofs let alone the other components for which the HOA is responsible. In order to avoid a special assessment and/or increase in maintenance fee to catch-up, some directors are suggesting doing one building at a time. Another is suggesting we let the residents in each building pay for their own roof replacement. Do you have a good response?

A Replacing roofs one building at a time is usually a bad idea. It complicates the maintenance and warranty issues and provides some unit owners with an improvement that all do not enjoy. Units in buildings with new roofs sell for more than those with old roofs so it creates a value disparity as well which will create a stage for conflict between members.

The HOA cannot circumvent its maintenance responsibility by passing it off to owners. Besides contradicting the governing documents, individual owners simply will not do it properly. If money is lacking, a special assessment is called for and the board has a fiduciary duty to move forward with it. And the reserve plan needs an adequate funding plan so this problem doesn't continue.

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Q 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 down sides of this arrangement?

A HOA members (regardless of profession) are rarely qualified to do reserve studies unless they have extensive construction estimating background and knowledge of HOA operations. While CPAs are

trained to crunch numbers, these numbers need to be reality based to be meaningful. Otherwise, GIGO (Garbage In Garbage Out). The average owner does not have access to reliable construction cost information or contractors so would end up guessing. Accurate reserve studies require site work by trained experts that know what they are looking at and what current costs are.

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

Have your reserve study done by a trained professional with both credentials and local references to prove capability like a PRA credentialed member of the Association of Professional Reserve Analysts. 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.

Q Our HOA is new. Currently, we are revising the governing documents and having heated debates regarding fences, sheds and swing sets. Our ownership is mixed, some young families, middle aged professions without children and retired professionals. Some outspoken board members want total prohibition of these items. How do we create a compromise that will suit everyone?

A Unless there are architectural design restrictions against fences, play equipment and sheds on owner property already in the governing documents, the board has no authority to dictate other than what is placed in the common area. Owners are free to do as they please on their own property as long as it's legal and complies with city/county building code.

The related issues of noise, quality of installation and curb appeal that is harmonious with the prevailing colors and architecture are something the

board can be involved with but not to the same degree as common area control. For example, if an owner decided to construct a fence out of used pallets, it would definitely degrade the area property values. The same could be said of play equipment if the kids were allowed to create havoc day and night.

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Preventive Maintenance Manual

A well-thought-out preventive maintenance program is going to save a homeowner association significant money over the long haul. Components and equipment not properly maintained wear out prematurely and cost the HOA far more money than it would have cost had they been maintained properly. Unfortunately, HOAs are notorious for not doing adequate preventive maintenance and, as a result, raising the cost of assessments unnecessarily. The more complex the HOA, the more important it is to have an adequate maintenance program. While it is critically important that high-rise structures have complete preventive maintenance programs, is also necessary that even small HOAs have such programs in order to maximize the use of the assessments.

The heart of a preventive maintenance program begins with a complete maintenance manual. That manual

should contain three parts:

1. Collection of repair manuals for all manufactured components. Making a copy of the manuals helps ensure they do not get lost (like, leaving them taped to the back of the appliance, tossed in a drawer, or buried in some records box in someone's house!).

2. Summary by component of the maintenance to be performed, the frequency and the skill required. For manufactured products, the manufacturer's maintenance recommendations should be followed. On components without such recommendations, maintenance requirements can be researched. Some preventive maintenance is simply doing periodic inspections. These inspections should be performed by those with the proper qualifications and skills. For example, it is reasonable to expect a manager to inspect storm drains for clogs, but not reasonable for a manager to inspect roofs for wear.

3. Checklist for the board to follow. The checklist can be reviewed periodically to ensure that the work is being accomplished. This checklist may be, in fact, a number of checklists combined into a master checklist. For example, most irrigation valves require minimal inspection with maintenance scheduled quarterly. Adding a requirement that the landscaper accomplish and complete a form or mini-checklist as part of his contract results in a series of documents that roll in and support the master checklist. Some required maintenance will be under contract (for example, most elevator maintenance is included in the maintenance contract). In these cases, however, it is important to ensure all required maintenance is in those contracts.

The manual is both useful for ensuring adequate maintenance is accomplished and a budgeting tool to ensure adequate money is collected to perform the maintenance. Some maintenance and inspections will be operating costs done annually (monthly, quarterly or semi-annually, etc.). Others may take place at a lesser frequency and become part of the reserve budget.

Without a proper maintenance manual,

preventive maintenance becomes sketchy at best - but more often simply non-existent. The result is early failure of components, residual damage, and increased costs that could be avoided. Does your homeowner association or those you manage have an adequate manual?

By Roy Helsing PRA **APRA**

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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

House of a Different Color

Beauty is in the eye of the beholder. However, when it comes to exterior paint colors in a homeowner association, beauty takes on a whole new meaning. While a majority of homeowners opt for neutral colors that generally blend well with the neighbors, there are those that prefer to make a STATEMENT! The option to paint one's home Fluorescent Fuschia is in the Bill of Rights, isn't it?

A lot of the paint controversy begins in the beginning, when the developer chooses a color pallet for the HOA. Some of these developers only see shades of grey or beige. In these HOAs, there is a sea of monotone housing colors capped with monotone color roofing. This is called the Military Camouflage Look: starched, pressed and blends with the landscaping.

While this look may warm a Brigadier General's heart, some homeowners want their home to stand out. These folks will petition the board to allow colors that often deviate significantly from the standard. And they can be very passionate about it, citing such authorities as Feng Shui which recommend this color for inner peace and serenity.

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.

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Paint color can add or detract significantly to a property's market value. Studies have shown that most buyers are attracted by certain colors and repelled by others. To determine this, scientists presented laboratory rats with color options and rewarded with food pellets for choosing one over another. (Just kidding.) Like clothing, house color preferences are usually a product of fashion. And just like wardrobes, hot colors and combinations change. They are dictated by architects and designers who do their best to get folks dissatisfied with what they already have.

Some people claim to know what they like in a paint color. But more than often, choices are driven by the latest edition of Architectural Digest or a home improvement show. This isn't altogether bad. If there wasn't a certain amount of prodding going on, paint colors would rarely change.

But for the most part, HOA members are usually pretty satisfied with the colors they have. So, the board has the challenge of balancing most members' inclination to stay with the color they

have versus the wild eyed radicals that prefer that new neon colors they saw on a Shock Tarts package. Where is the middle ground?

When the HOA has direct control over the paint selection and application, it's wise to bring in a local paint consultant that can provide contemporary color options. Most major paint supply stores have in-house consultants available for no charge that can prepare color boards with three or four color combinations for all the members to view. In common wall communities like condominiums, the board can poll the members on preferences and even allow residents of different buildings to decide among themselves which combination they like for their building. This approach is democratic, takes the board out of the decision equation and defuses most of the contention.

In single family homeowner associations, the color issue is more chromatic. While the Appearance Standards may dictate specific color choices, some members may be inclined to roll right passed them. They figure once the Fluorescent Fushcia paint is

applied, who's going to mind? These are the cases you read about in the paper. Mr. Homeowner standing defiantly in his front yard challenging the board to make him repaint his house. The media delights in painting the board petty and the homeowner much put upon. Big Dictatorship against the Little Guy. Controversy sells papers.

But a big reason that most folks live in HOAs is for better control and consistency of the neighborhood look. That doesn't mean that there can't be flexibility in the color scheme, just that the majority of the owners should be in agreement on it. To that end, and because color preferences do change over time, the board should establish a process to consider variations from the norm.

A year before the next paint cycle is the logical time for common wall communities. For single family HOAs, it makes more sense to establish an approved color palette with a margin for flexibility of, say, 10% lighter or darker. This allows for a myriad of variations without extremes. The wild eyed radicals aren't going to like it but, then again, there is very little they do like.

Whether it be horses or houses of a different color, taste is an elusive element. Use a color consultant for options and remove the board from this field of land mines. **APRA**

Annual Planning Calendar

This one page action plan assists the board in organizing and completing homeowner association business effectively. It also advises owners and residents in advance so they can plan accordingly. Compile one in conjunction with the Annual Budget to list cyclical maintenance events like gutter cleaning and window washing. Add time frames for major renovation like painting and roofing so residents can plan vacations around them. Schedule meetings and other events a year in advance so owners know when they can petition the board.

This kind of long range planning gives the members the feeling that someone is

actually steering the ship rather than being keel hauled behind it. In also counteracts the notion that the board is operating behind closed doors or in secret. Post the Event Calendar around the property, put it in your newsletters and on the HOA website. Here's a sample:

JANUARY

8 Annual Homeowner Meeting
10 Get proposals: roof replacement, pool replaster, treework
11 Inspect decks
15 Year End Financials to CPA
20 Sweep parking lots

FEBRUARY

13 Board Meeting
~ Review roof, pool replaster proposals
Newsletter

MARCH

File tax return by the 15th
Annual fire extinguisher inspection

APRIL

1 Maintenance Committee Inspection
15 Pool replaster project begins
Dewinterize Buildings
Walkthrough with Landscaper
Clean Clubhouse and stairwell carpets

MAY

5 Work Party - Plant spring flowers
12 Board Meeting
25 Pool Opens
Newsletter
~ Send Pool Rules
~ Announce Summer Social
Clean gutters
Wash windows
Sweep parking lots

JUNE

Roof replacement project begins
Deck repair project begins

JULY

15 Summer Social
20 Treework begins

AUGUST

15 Board Meeting
~ Appoint Budget Committee
Newsletter

SEPTEMBER

10 Close Pool

12 Chimney Inspections & Cleaning
15 Budget Committee Meeting
~ Review manager's draft budget
~ Review insurance coverage
~ Appoint Nominating Committee
25 Wash windows

OCTOBER

5 Work Party - Plant fall flowers
Winterize Buildings
15 Mail winterization notices
22 Walkthrough with Landscape Contractor

NOVEMBER

1 Grounds Committee Inspection
22 Board Meeting
~ Review & approve budget
Newsletter
~ Request Board Candidates
~ Announce Christmas Party
25 Mail budget & fee notice

DECEMBER

5 Clubhouse Cleaning Party
12 Christmas Party at Clubhouse
15 Clean gutters

Questions? Call the manager at Phone 222.222.2222.

With a Planning Calendar, there are fewer surprises, more gets done and there will be greater harmony in the community. [APRA](#)

Ahead of the Game

Deferring maintenance of HOA common elements has negative and lasting effects. While postponing maintenance may seem to be a money-saving technique, the consequences are usually a much higher cost.

Painting is one of the largest elements of routine common area maintenance for many associations. If ignored, a poorly maintained paint finish will lead to extensive costs for the homeowner association at the time such upkeep is eventually completed. The paint on the exterior of any building is a very important component of any maintenance plan. Wood trim should be painted every 3-4 years. The complete painting of buildings should be done every 6-8 years.

Drainage. Rain gutters are an important component of the common area which need twice annual cleaning (more often where there is heavy tree coverage) to help insure proper water run-off. Clogged and overflowing gutters cause premature trim and siding rot.

Light fixtures and poles need to be serviced regularly. Salt air, in particular, can rapidly deteriorate and short-circuit light fixtures.

Concrete sidewalks and slabs to be inspected annually for cracks and raised areas, as well as degradation of the surface. Raised areas create a trip hazard which can be corrected by grinding or removal and replacement.

Asphalt needs to be repaired and seal coated every 3-5 years to properly protect it so it will achieve its maximum useful life of 25-30 years.

Roofs need to be part of Spring and Fall maintenance plan. They need to be inspected and serviced by a qualified roofing maintenance contractor.

Recreation Areas. Playground equipment should be inspected and maintained frequently to ensure child safety.

Directional signage should be in good repair and easily readable in order to assist emergency response services like police, fire and pizza delivery. Directories with name and addresses also facilitate emergency response. The directory should be regularly updated for accuracy

Reserve Study. Completing and annually updating a reserve study will help the board to schedule, budget and properly maintain the common elements. It is highly recommended that the study be done and updated by experienced professionals like PRA (Professional Reserve Analysts) members of the Association of Professional Analysts. See www.apra-usa.com for a directory PRA credentialed members. [APRA](#)