



Association of Professional Reserve Analysts

The ADVISOR

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Association News



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Featured PRA Member



Michael McDermott
Browning Reserve Group
APRA President

Michael C. McDermott is the current President of APRA and Operations Manager at the Browning Reserve Group (BRG) where he is responsible for operations, systems development, employee training and quality control. Mike holds APRA's Professional Reserve Analyst (PRA) designation, is a registered Nevada Reserve Study Specialist (RSS), and received a BS in Electrical & Electronic Engineering degree from Sacramento State.

Mike was a homeowners association resident in the early 1970s prior to a Navy enlistment and Sprint career as a technician and later as a finance department Software Engineer. Before joining BRG in 2005, Mike provided software consulting services to BRG and participated in reserve site visits and industry events. Transition to BRG was a natural, albeit unanticipated, move when his department at Sprint was outsourced coinciding with newly enacted California legislation mandating

annual reserve disclosures, so annual Updates without Site Visit Reserve Studies became Mike's initial responsibility.

Mike envisions the reserve study industry expanding beyond the current core HOA client base to encompass municipalities, public and private schools, water and sewer districts, park districts, resorts, houses of worship, commercial properties and all places where long term physical plant responsibilities exist. He also sees APRA leading the reserve study industry with innovative training, process maturation, and standards development with a clear focus on providers, clientele and legislators.

Mike and wife Nora have two adult daughters and two grandchildren. Mike is an Amateur Radio operator and volunteers with the Sacramento Sheriff's Department, Ronald McDonald House, and Blood Source. He witnessed Thrust Supersonic Car break the sound barrier and Spaceship One become the first privately funded manned rocket to reach space, and Mike was a California state AYSO soccer champion

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Overcoming Reserves Resistance

By Richard Thompson of Regensis Reserves

The scenario is common. The HOA is aging, roofs is overdue for replacement, decks are too, paint is peeling and, on the whole, the community is looking pretty ragged. Previous boards have muddled by with patch and repair rather than renovation but the new board sees the writing on the wall: major work can't be put off any longer.

The board meets, discusses the needs, 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 and (hang on to your wallet) that 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 one on 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. A Reserve Study 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. 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 monthly contributions is the 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 monthly, each owner contributes 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 pays 24 of 360 months worth. There are no gaps in contributions and all pay. More importantly, the money is available when needed. 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, the 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 along. 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 mark them 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 contracts.

Having informed third parties helps tremendously and it's well worth it to have a professional like a Professional Reserve Analyst (PRA) 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 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.

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