

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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Refined Like Fine Wine

A Reserve Study is an essential part of running a homeowner association (HOA). It provides the board with a systematic way to track the repair and replacement schedules of HOA assets over a thirty year period and a plan to distribute the costs of those events to the members who benefit from them over the time line. With adequate funding, repairs and replacements gets done with they are due.

There are just too many advantages to proper reserve planning to ignore. The board is succeeding in a fundamental charge to protect and maintain the HOA's assets. This has a direct impact on members' home values. Conversely, the board that does not have or follow such a plan is failing in its fiduciary duty.

While thirty year plans are fine and dandy, thirty years is a long time and things can happen that are impossible to predict. Inflation moves up and down as does return on invested reserve funds. Construction costs can be higher or lower based on competition, the state of the real estate market and the price of oil in the Middle East (talk about unpredictable!).

Preventive maintenance are those things that, if left undone, have huge impact on a component's useful life. For example, if a roof is not kept clean of moss, the normal useful life of the roof could easily be cut in half. Siding that is not repaired and caulked on a regular basis can fail years sooner than it should plus lead to structural dryrot. Failure to perform regular and adequate preventive maintenance can severely undermine the prognostications.

How well the board invests reserve funds also has an enormous impact on the funding model. Improving the rate of return an average of only 1 to 2 % over the thirty year period can reduce owner contributions by many thousands of dollars.

The message is clear: A Reserve Study is an essential planning tool for all HOAs but to be truly useful, must be refined over time. The annual budget review is the logical time to assess the condition of the Reserve Study. A judgment should be made on the life and cost assumptions of each component included in the Study. Do the original assumptions still hold true or is there need for some revision? These judgments should be made by an objective and knowledgeable individual like a Professional Reserve Analyst™ (see www.apra-usa.com).

As the saying goes, "Change is inevitable" is particularly true about Reserve Studies. If your HOA has no Reserve Study, arrange to have one performed as soon as possible. If you have one, hurray! Now, get out your clippers and start pruning. It's like tending a vineyard. If neglected, the fruit will wither. Having and following a Reserve Study will produce great fruit, refined like fine wine.

By Rich Thompson - Regenesi **APRA**

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Ask the Professional Reserve Analyst (PRA)

Q I am Chairman of the Finance Committee. In preparing this year's budget, I noticed several transactions charged to reserves that look like they should have been paid from the operating account: landscape renovation and tree pruning. Your thoughts?

A Reserve studies deal with any repair or replacement item that has a useful life (usually) of 2 to 30 years. Under this definition, both items qualify as reserve expenses. However, if the expense is small and the operating budget can support it, paying for it out of the operating account would be okay. If not, it's also okay to get reimbursed from the reserve account.

Q Is there a rule of thumb about how much the average HOA should have in reserves? We want to start saving for future renovation projects and some have suggested 10% of our monthly fee be set aside..

A If it were only that simple. Reserve funding is driven by the number and kind of components it includes.

Sometimes the components are few and simple; sometimes the number of components is many and complex. To further complicate the issue, certain components may be repaired or replaced in phases. For example, a 100 unit condominium may have one to five painting phases. Each phase is considered a component for purposes of the study.

Then, the issue of funding level comes up. If the HOA has less money than it should (too often the case), then current members are obligated to make up the difference in addition to what normally would be required. HOAs that currently have 100% of necessary funds, will charge their members much less.

Q I live in a condominium with three buildings and the one I live in has an elevator that needs substantial repairs. The board plans to assess all repair costs to our building. Can the board charge only our building or must all owners share the cost?

A Unless the governing documents specifically allocate elevator expenses and repairs to certain units, the costs are spread among all unit owners and that can't be changed unless 100% of all owners agree to it.

Q Our board billed us for a special assessment to construct a guardhouse and gate. The money was paid but the gate and guardhouse project was cancelled. We have asked for a refund many times. The board responded that the funds will be applied to our HOA fees.

A The purpose of this special assessment was specific. If the project did not take place, the money should be refunded to those that paid it. Applying it to HOA fees is fine as long as each owner approves doing that. The board has no authority to change the use of the funds on its own. And the more time that passes, the higher the likelihood that some that paid the special assessment might no longer be owners. This board needs to refund or credit back the money immediately.

Do you have a question for the

*Professional Reserve Analyst? Email
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The following earned their Professional Reserve Analyst™ credential this year:

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The Importance of Preventive Maintenance

One of a homeowner association's primary charges is maintaining the common elements. When done properly, the members are happier and homes sell quicker and 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



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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 handle HOA business prudently. 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. Close

By Rich Thompson - Regensis 

Paint Preparedness

Is your HOA preparing to paint? If so, should you use an elastomeric, acrylic latex or oil alkyd paint? Will a certain primer make the finish coat last longer? Can you deter mildew? What about a warranty? Who will inspect the painter’s workmanship?

If you are not a painting expert, it’s prudent to start with a major paint supplier before calling any contractors. A knowledgeable paint consultant will help select color options, provide a manufacturer approved set of specifications and oversee the contractor's work. The specs ensure a well executed paint job and validate the warranty. Best of all, these services are offered FREE in exchange for providing the paint.

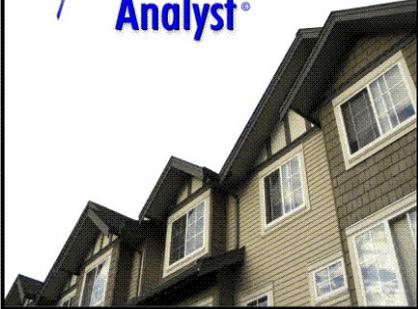
After contacting the paint supplier representative, a site inspection is the first order of business. The rep will evaluate the current condition of the paint and surfaces plus identify existing and potential problem areas. With this information, the specs will be developed which include the preparation techniques, primer, finish coat and application instructions for each type of surface.

After acceptance of these specifications by the board, it’s time to solicit bids. The specifications will expedite the bidding process and ensure that all proposals received are for equal work and like materials (apples to apples). To do otherwise, requires comparing incongruous proposals and likely voiding the material warranty.

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Once the contractor is selected, the specifications should be a condition of the contract. When the work commences, it becomes the paint company's job to monitor the contractor's work to ensure compliance with the specs. Progress inspections should be completed after cleaning, sealing, priming, patching and painting...before the contractor is allowed to proceed. Your consultant will also prepare a final punch list for the contractor. The job isn't finished until he is completed the list.

Get contractor lien releases with each progress payment. Issue a check payable to both the contractor and supplier or purchase the paint and have it delivered to the site to ensure you get the product that you bargained for.

Your paint supplier is your ally so work closely with him and prepare early. If you plan a summer project, start in early winter. Contractors are easier to deal with and you often will get better pricing and scheduling. Paint on!

By Rich Thompson - Regensis **APRA**

While it's understandable that some folks may not relate to long range planning for practical reasons, the truth is that Americans in general, regardless of age, live "in the now" and reluctantly engage in advance planning. This attitude is reinforced by the incredible abundance with which our country is blessed. There is also a pervading sense that no matter what happens, something or someone, will be there to catch us if we fall. Bankruptcy laws are a case in point: If a personal or business plan doesn't work out, there is limited personal liability.

Homeowner associations are based in the premise that sharing common property makes the unaffordable affordable. The framework allows ownership of parks, pool, ponds and other expensive amenities that few homeowners alone could support. In common wall communities, individual owners turn over their exterior building maintenance duties to the association and agree to pay a fair share of the costs. Sharing such costs reduces costs to the individual if proper planning and execution are involved.

Reserve funding is an issue that frequently causes HOAs to stumble. The premise of reserves is that money is set aside systematically to pay for big ticket items like roofing, painting and street maintenance. Since these repairs and replacements crop up infrequently, when they do, the costs are significant. If there has been no systematic accumulation of money to pay for them, guess what? Special Assessment Time!

Special assessments are the product of poor planning. They penalize current owners who are unfortunate enough to live in the community when major costs come due. Prior owners skate on their obligations leaving current owners to hold the bag. Special assessments are particularly burdensome because they:

- Put some in a financial crisis.
- May be uncollectible.
- Are always unwelcome and,
- Pressure the board to defer needed maintenance to avoid the turmoil.

HOAs that fail to plan for major long range expenses typically do not handle routine maintenance very well either. The two seem to go hand in hand. Those HOAs typically keep fees unrealistically low, and, by so doing,

services are starved, maintenance lags and curb appeal suffers. Curb appeal directly impacts market value of the homes so in a real sense, owners are cutting their own throats.

There is a fundamental conflict of interest at work here: The long term financial and maintenance needs of the community conflict with the individual homeowner's short term desire to hang on to the money a.k.a. the Green Banana Syndrome. A homeowner living in a stand alone home has the luxury or misfortune of doing business this way while a homeowner association will fail miserably if it does. Consider the negative effects of Green Banana thinking on your assets. If such is the case in your community, be aware that you are on a slowly sinking banana boat and need to take action before you drown. **APRA**

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Green Bananas

A manager of a seniors homeowner association once commented "We have to approach long range planning carefully around here. Many of our residents won't buy green bananas."

Construction Terminology

- Contractor - A gambler who never gets to shuffle, cut or deal.
- Bid Opening - A poker game in which the losing hand wins.
- Bid - A wild guess carried out to two decimal places.
- Low Bidder - A contractor who is wondering what he left out.
- Engineer's Estimate - The cost of construction in heaven.
- Project Manager - The conductor of an orchestra in which every musician is in a different union.
- Critical Path Method - A management technique for losing your shirt under perfect control.
- OSHA - A protective coating made by half-baking a mixture of fine print, red tape, split hairs and baloney-- usually applied randomly with a shotgun.
- Delayed Payment - A tourniquet applied at the pockets.
- Completion Date - The point at which liquidated damages begin.
- Liquidated Damages - A penalty for failing to achieve the impossible.
- Auditor - Person who goes in after the battle is over to bayonet the wounded.
- Lawyer - Person who goes in after the auditors to strip the bodies. **APRA**