

APRA Advisor

Association of Professional Reserve Analysts 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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Reserve Ability

Maintaining the common elements is a core purpose of every homeowner association (HOA). Those common elements can be as simple as an entry monument or as involved as siding, painting, roofing, landscaping, pools, paving and much more. All of these components wear out at some point and must have substantial repair or replacement. The costs are high and funds must be accumulated to address those costs. All of this needs thoughtful advance planning which is summarized in a Reserve Study.

A reserve study identifies the common elements that the HOA is responsible to maintain, the life expectancy of each component and a current repair or replacement cost. This information, when combined with the current rate of inflation and return on invested funds over a projection period of, normally, 30 years will produce an annual contribution amount adequate to meet those future costs. By collecting reserve contributions monthly (normal for a condominium), costs are fairly distributed among the owners that benefit. Whether an owner is long term or short term, the amount of individual reserve contribution is directly related to the individual benefit received.

While a reserve study may or may not be required by state law or the HOA's governing documents, no HOA should be without one. Properly maintaining the common elements directly affects the livability and market value of the member homes or units.

Each year, the reserve study needs to be reviewed and revised for accuracy. The reserve fund balance, inflation rate and investment rate always change. Any reserve events that actually take place should be amended for price and particulars. Any known material or labor cost changes need to be revised. Going through this exercise and

reforecasting the 30 year projection ensures that the board always has the best information available and that reserve contributions are keeping pace with costs.

One way of funding reserves is by special assessment. Basically, when money is needed, current members pony up the money. Several complications exist with special assessment funding:

1. **Owner Vote Might Be Required.** The board may not have the authority to approve a special assessment and must obtain a vote of the members. It is not uncommon for the level of vote needed to be quite high, like 2/3 or 3/4 of all members. This could make getting approval for a special assessment extremely difficult.

2. **They're Unfair.** A special assessment impacts only current members, regardless of time in ownership. So owners that have not enjoyed the facilities are forced to pay for those that have benefitted but have sold their property.

3. **Hard to Collect.** At any given point in time, a certain number of members are unable to pay a special assessment due to divorce, job loss, disability, illness or other valid reasons. The result is the same: cashflow problems for members mean cashflow problems for the HOA. The HOA can file a lien but that doesn't mean the money comes when needed.

Another challenge to getting a reserve study done or funded is **Short Term Thinking Syndrome (STTS)**. HOAs with large numbers of seniors often have little interest in investing in long range planning. Many members see reserves as paying for a benefit they will not enjoy. The truth is reserves pay for assets as they are being used up. When collected monthly, reserve contributions merely pay for what the current residents got the benefit from. Paying into reserves is like refilling the gas tank of a

rental car. You only put back what you used. If your HOA suffers from STTS, point out the reality of what is happening. Most of these folks want to be responsible and will cooperate when the reality is explained.

Reserves in a homeowner association are an absolute must. Having the right amount of funds and a reliable schedule for getting the work done is a fundamental that no HOA board should be without. The **Association of Professional Reserve Analysts** is the nation's trade organization for reserve study professionals. Most of our members have the coveted PRA (Professional Reserve Analyst) designation that denotes years of experience and expertise. To contact our members, go to www.apra-usa.com **APRA**



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Ask the Professional Reserve Analyst

Q I attended a seminar which discussed the importance of maintaining uniformity of appearance of our units and how lack of uniformity can affect property values. Is there somewhere I could get more information or documentation about uniformity and property values?

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 area, consistency and quality control are lost. Uniformity does not 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 Our Board struggles with understanding how far the HOA should intrude in unit owner remodeling projects. We have assumed that the owners' contractors are getting proper permits to do the work. Should we verify this before giving the Green Light?

A There are many examples of owners and their contractors who have unwittingly compromised bearing walls and supports or extended utilities in an illegal manner. Anytime there is major structural work, utility renovation or demolition going on, a permit is required and the owner or contractor is responsible for getting them.

If the proposed remodel includes utility or structural work, the plans and permits should be reviewed by the HOA's architect or structural engineer to ensure the work is in compliance with code and accepted construction procedures. The owner should pay the reasonable cost and no work should take place until the architect or engineer approves the plans.

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Q One of our homeowners runs a construction company and wants to bid our work. He isn't licensed or insured. Comment?

A The HOA should only hire contractors that are licensed, bonded and insured. It is usually a bad idea to hire homeowners even when they are properly licensed. If it doesn't work out, you not only would have to fire a contractor, you will alienate a neighbor. Plus, there is an unavoidable conflict of interest in this kind of arrangement.

Q I've read that we only owe taxes on our reserve interest income, but according to the IRS form for a homeowner association, we should also include any excess assessment income over expenses that is added to reserves. Our expenditures are quite variable from year to year, with some years seeing significant additions to reserves and other years draw-downs.

A The IRS terminology is confusing (go figure). Typically, an HOA does not have "excess assessment income". There is, or should be, an amount collected with the regular assessment that is designated for Reserves. The problem is that many HOA budgets do not actually plan for reserves or include it in the budget. Reserves only happen by sheer luck, when there is money left over, and when

does *that* ever happen? So from the IRS's definition, if reserves aren't planned, money left over could be considered "excess assessment income" and taxable.

Reserves should not be funded by "what's left over" at the end of the year. Proper reserve planning requires a Reserve Study that outlines a long range (typically 30 year) maintenance schedule and funding plan that systematically sets money aside for repairs like painting, roofing, etc. This should be performed by a knowledgeable Reserve Analysis.

The IRS also requires that reserve funds be held in a separate bank account apart from operating funds. If funds are being accumulated exclusively for capital repairs and replacements, no taxes are owed on the funds themselves although the interest earned is taxable. If an HOA has any significant reserves, a knowledgeable CPA should assist in filing the proper form (1120 or 1120H).

APRA

Ever hear this kind of thunder roll through your community? At the core of this storm is a pernicious contradiction. Members want the property taken care of but expect the Board to do it on a slumlord's budget. With too little money chasing too many expenses, maintenance suffers, home values slide and livability diminishes. Yet, year after year, the Spend No Money Drum gets beaten.

But it wasn't always thus. In the beginning, when the homes were new and the future bright, members basked in the glow of their own ignorance. The developer kept the homeowner fees low and, heck, why shouldn't they be? It doesn't cost anything to maintain something that's new. Let's worry about that when the time comes. Well, the time is now, the pot is empty, the assets worn out and recriminations abound. A \$3000 special assessment! Who's responsible for this? Why wasn't money being socked away years ago? I can't pay it! I *won't* pay it! Where's my lawyer?

It's at times like these that outside professionals are called for. The Board is authorized to hire the expertise it needs to run HOA business. HOA consultants like managers, lawyers, architects and engineers can assist the Board in making its case to the members. In the case of deferred maintenance and inadequate reserves, the Board should hire a Reserve Analyst to perform a Reserve Study. A Reserve Study will consider *all* the repair and replacement issues, not just the urgent ones. A Reserve Study looks thirty years down the road and charts a course to proactively deal with these issues. The Reserve Study will identify priorities which the Board can further prioritize according to funding.

Hiring a knowledgeable consultant to supervise each project is a real bonus. For example, roofing projects should have a roofing consultant who can detail the scope of work, draft a contract, gather proposals from qualified contractors, ensure that the project is done to proper specifications and lien waivers executed. Consultant oversight ensures that the material warranty is not voided because of faulty

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installation. The cost of a consultant is typically only a small percentage of the total project cost. Clearly, this is an investment worth making. The same principle applies to other major projects like structural repairs, painting and landscape renovation.

Playing catch up on major repairs costs a lot of money over a short time period. In an effort to soften the blow to the members, the tendency may be to piecemeal the repairs over a number of years and break large costs into more manageable chunks. But, piece-mealing causes the costs to go *up!* The bigger the project, the cheaper the cost per unit. Piece mealing also creates an imbalance in member asset values. If Building A gets new paint this year, those units are more attractive and valuable from a buyer's perspective than those in unpainted Buildings B, C and D. This inequity will lead to resentment among the members that didn't get the benefit of the repairs.

To avoid these costly traps, the Board should only perform complete projects. If repairs must be split up by years, do them by type, not location. If painting is to be done, do all buildings at the same time. Same for roofing. Do it all at once, minimize disruption, get it over with and save a bundle.

If your HOA is suffering from deferred

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Pernicious Contradiction

There is a vicious rumor going around. The Board is talking about raising the dues again and everyone's up in arms. They raised the dues last year! And the year before! It's time to fire up the tar and pluck the chicken!

maintenance, consider raising the money to do multiple projects the same year. For example, if siding needs to be replaced, those energy inefficient windows should be replaced as well. The improved livability and value increase always far exceeds the cost so this is one of the best investments the members can make. And just consider the advantages to ending the bickering, debate and back biting. The sooner completed, the sooner the community chest will swell with pride and past resentment forgotten.

So, recognize your HOA's pernicious contradiction when it raises its ugly head. This is one monster that's best dealt with directly and quickly. The harmony of your community hangs in the balance. [APRA](#)

Why Not Join APRA?

Membership in Association of Professional Reserve Analysts is extended to professional reserve study providers and service providers offering products and services to homeowner associations.

Why not join APRA to promote your interests? For more, click on this ad or see:

www.apra-usa.com

2007 Symposium Recap

This year's APRA Symposium on April 28th in Las Vegas was a huge success with a record number of attendees from all parts of the country:

Don Barry	Advanced Reserve Solutions
Judith Bulicz	Nevada Reserve Studies
Steve Bulicz	Nevada Reserve Studies
Derek Eckert	Association Reserves
Damian Esparza	eReserves.com
Vernon Funn	Association Studies.com
Steve Grant	Facility Engineering Services
Ahmed Hann	Association Reserves
Roy Helsing	The Helsing Group
Dick Hertel	CID Reserve Studies
Dan Huntley	Reserve Funding by WSSC
Jeff Karimi	Christison Company
Ernie Lahti	Applied Reserve Analysis
Tom Larson	Facility Engineering Services
Greg Lason	HBIS

Linda Luana	Applied Reserve Analysis
Justin Maier	Reserve Advisors
Mike McDermott	Browning Reserve Group
Peter Miller	Miller & Dotson
Paul Mueller	Reserve Advisors
Tom O'Neill	Reserve Analysis Consulting
Greg Pettersen	Reserve Data Analysis
Gary Porter	Facilities Advisors
Larry Richardson	The Helsing Group
Steve Richtsmeier	The Helsing Group
Ted Salgado	Reserve Advisors
David Schwindt	Schwindt & Company
Michelle Stephans	Reserve Advisors
Doug Taylor	Nevada Reserve Studies
Richard Thompson	Regenesis
Todd Walter	Reserve Advisors
Les Weinberg	Reserve Studies

The topics discussed included:

- **Reserve Study & Commercial Banking.** Alan Crandall, Regional VP of Community Association Banc explained the process for making reserve studies attractive to commercial lenders.
- **Reserve Study Legislation.** This was a roundtable discussion of various states that are currently revising their reserve study legislation including Nevada, California, Oregon and others.
- **Asphalt Paving Installation & Maintenance.** Mike Casey of Lamb Asphalt, Nevada's largest asphalt maintenance company, gave a bottom up overview of paving construction and renovation.
- **Dryrot & Mold Solutions.** Rich Senatore of Ceraclad Siding Systems presented an overview of common water intrusion points and solutions. He included an examination of rain screen siding available for residential use that deters water intrusion.

Ample time was also devoted to networking with peers so all could get a better understanding of the reserve study industry everywhere it exists.

Our 2008 Symposium is scheduled for Saturday May 3rd in Orlando FL. It's never too early to mark your calendars for the reserve study industry's best event! Won't you join us? [APRA](#)

APRA Grows Again

APRA's goal has been to attract the reserve study industry's brightest and best. The organization now boasts 26 reserve provider companies with 29

PRAs (Professional Reserve Analyst). For a current list of members, go to www.apra-usa.com Our most recent additions are:

Casey O'Neill
Reserve Analysis Consulting
Sausalito California

Robert Browning
Browning Reserve Group
Sacramento California

Alan Ruth
CS Consulting Service
Las Vegas Nevada

APRA also accepts Affiliate Members (companies that serve our industry). Our most recent affiliates are:

Alan Crandall
Community Association Bank

Judy Cook
Cook Company

If you are a reserve study professional or are an affiliated industry, you should join APRA. For a membership application, go to www.apra-usa.com and click on "Membership". [APRA](#)

Car Talk

A young boy had just gotten his driving permit and asked his father if he could use the family car. His father said: "I'll make a deal with you. You bring your grades up, study the Bible more, get your hair cut and then we'll talk about it."

After a month, the boy again asked his father if he could use the car. The father said: "Son, I've been very proud of you. You've brought your grades up, studied the Bible diligently, but you didn't get your hair cut."

The young man replied: "You know Dad, I've been thinking about that. You know Samson had long hair, Moses had long hair, Noah had long hair, and even Jesus had long hair."

Dad responded, "Yes, and they walked everywhere they went." [APRA](#)