

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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Refined Over Time

A Reserve Plan is an essential part of running a homeowner association. It provides the board with a systematic way to track the repair and replacement schedules of HOA assets over a, typically, thirty year period. And the funding plan can provide a fair way to distribute the costs to the members who benefit from them.

A properly funded Reserve Plan eliminates the need of special assessments which are unfair to those that have to pay them. And with adequate funding, repairs and replacements get done when needed instead of piecemeal or deferred altogether.

While thirty year plans are dandy, thirty years is a long time and things can happen that are impossible to predict. The rate of inflation moves up and down as does the rate of return on invested reserve funds. Construction costs can vary radically based on competition, the state of the real estate market and the price of oil in Iraq (talk about unpredictable!).

One of the biggest wild cards in this thirty year projection is how well preventive maintenance is done. Preventive maintenance are those little things that, if left undone, have huge impact on a component's useful life. For example, if a roof is not kept clean of debris and moss, or small seam separations repaired, the normal useful life could easily be cut in half. Siding that is not inspected, repaired and caulked on a regular basis can fail years sooner than it should or create significant water intrusion damage. So failure to perform regular and adequate preventive maintenance can undermine the reserve study forecasts significantly.

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 sometimes hundreds of thousands of dollars if the common elements are significant.

The annual budget review is the logical time to assess the condition of the Reserve Plan. A review should be made on the life and cost assumptions of each component included in the Plan every year. Do they still hold true or is there need for some revision? These judgments should be made by an objective and knowledgeable consultant like a Professional Reserve Analyst (PRA). PRAs have proven experience in the art of reserve planning. For a list of PRAs, see www.apra-usa.com.

There are just too many advantages to proper reserve planning to ignore. The board that follows a reserve plan is succeeding in a fundamental charge: to protect and maintain the HOA's assets which often has a direct effect on members' home values. Conversely, the Board that does not have or follow such a plan is guilty of failing in its fiduciary duty. The implications are clear and significant. The wise board chooses the high road.

The message is clear: A Reserve Plan is an essential planning tool for all HOAs but to be truly useful, must be tweaked and refined over time. It's like tending a vineyard. Left untended, the harvest (value) will diminish.

As the saying goes, "Change is inevitable...except from vending machines" and this is particularly true about Reserve Plans. If your HOA has no Reserve Plan, arrange to have one performed as soon as possible. If you have one, hurray! Now, get out your clippers and start pruning. An annual review and update will produce great fruit. **APRA**

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Ask the Professional Reserve Analyst

Q What percentage of our HOA fee should go toward funding our reserves?

A Oh, that it were so easy. Reserve funding plans are derived from an analysis of the current balance in reserves, the yield on invested funds, the rate of inflation, the components, their life cycles and current cost of repair or replacement. The various factors can skew projections a lot and, to make matters more complicated, underlying assumptions can change every year.

A reserve study is a "living" document since much of what drives the funding is changes over time. Without a comprehensive analysis of reserve needs by an informed consultant, the board will never have the proper information to determine how much money needs to be collected to pay for reserve events. Putting 10%, 20% or 30% of the HOA dues into reserves is meaningless unless this amount truly addresses the need.

There is no one-size-fits-all formula for reserves. A custom reserve analysis is needed followed by an annual review and update to tweak the assumptions that have changed.

Q Our HOA was built in the 1970s. Should we reserve for things like landscaping and trees?

A Landscaping is one an HOA's biggest assets and has a significant impact on home values just like paint and siding. And like paint and siding, landscaping wears out by dying or overgrowing its location. Similarly, landscape design preferences change over time. Thirty years ago, extensive lawns were popular. Now, planting beds with colorful native drought resistant native species are the norm for both curb appeal and lower maintenance.

So, yes, reserving for landscaping and trees is appropriate. Reserves can be accumulated to maintain what you have or to renovate and replace it with a new design if appropriate. The older the HOA, the more likely an overhaul is due. A landscape design architect can provide the design and specifications needed to bid a landscape make-over.

Q Our members prefer to fund reserves by special assessments instead of regular monthly contributions. What are the pros and cons?

A Special assessments are always unfair to some or many of those that have to pay them. A fair funding plan distributes reserve costs to those that get the use and benefit of the reserve components. Since HOAs are made up of moving parts (owners buy, owners sell) that can change many times each year, unless reserve funds are collected monthly, some owner in the future will be required to pay an obligation that rightly belongs to a former owner.

Special assessments are always unpopular so many boards delay imposing them which often contributes to additional and expensive repairs like dryrot.

Some special assessments may be uncollectible. There is always some owner that is out of work, on a fixed income or having financial difficulty. If one or several owners don't pay, others must pay more to raise the money needed to pay for the repairs.

For reasons of fairness and ease of collection, it's much better to collect smaller and consistent amounts for reserves.

Q We have ten different condominium buildings and the board is thinking about breaking up painting into five different years and phases. Thoughts?

A It is not a good idea to break up painting into phases for a number of reasons:

1. The buildings will be upgraded at different times which will create a value disparity in the units. Buyers perceive newly painted units as more attractive and, thus, more valuable than those that have older paint. Painting all buildings simultaneously will eliminate that difference and the natural griping that follows from owners who don't like paying to improve someone else's unit.
2. Painting contractors offer better per unit pricing for bigger jobs. All contractors factor in job set-up costs. If there are five phases, you are paying five times the set-up expense. Do it all at the same time and get much better pricing.
3. If you have five different painting phases, you will have five times the disruption. Do it all at once and get it over with. **APRA**

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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 neighborhood, 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. In these communities, 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 or Deepak Chopra which recommend this color for inner peace and serenity.

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 House Beautiful 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 Fuschia 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](#)

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Refining Design

One of the most influential committees often found within a homeowner association is the ARC (Architectural Review Committee). This committee's mandate is to oversee modifications to member units/homes that are consistent with approved policy and to preserve or enhance property values.

It is common for governing documents to reference architectural design or restrictions but the criteria is usually far from complete or can get outdated. The board has the authority to expand the criteria as long as it's in line with the governing documents. If not in line, the governing documents must be amended. It's always a good policy to circulate any new design policy with the members for review.

The Architectural Design Policy should be easily accessible to all members, ideally, on the HOA's website. Regular reminders of the policy should be noted in newsletters with something like "The HOA has appearance and design standards which must be approved by the Architectural Review Committee. The ARC policy can be found on our website or call xxx.xxx.xxxx for a copy. Direct all requests to _____".

There may be architectural design changes needed as time passes and materials options improve. For example, cedar shake roofs may have been the standard in 1980 but cedar shake roofs are expensive, costly to maintain, have a short useful life and a higher fire risk. Alternatives like 40 year architectural composition roofing that mimic the shake look make better sense, reduced cost and maintenance and are fire resistant. There are other design changes that may make sense

like this one.

Another reason for design change is to achieve contemporary styling. Paint color, in particular, can make a tremendous difference in curb appeal and home value. While that chocolate brown paint looked groovy in the 1970s, buyers don't buy it now. It is very important not to lock the community into a color palette that is detrimental to resale value. Color palettes should be reviewed at least every five years to make sure the community is keeping pace.

Fencing has also undergone vast improvement in material and design. That privacy wall sided to match the building can be replaced with a contemporary design that achieves privacy with cheaper and easier to maintain materials.

One of the most significant design values is landscaping. Developers often install landscaping that looks great during the sale phase but over years overgrows or otherwise becomes unsuitable to a mature landscape look. There are new plant species available that improve appearance while reducing maintenance and water requirements.

While the ARC has a fair amount of power to review and approve requests, the board has the ultimate responsibility for decisions. There should always be an appeal process that provides for Board review. Appeal can be simplified if the board also acts as the ARC

One important ARC philosophy is to promote good design rather than block creativity. Pay close attention to this one. The attitude of the ARC should never be: "NO...now what was your question?" Remember, members are often passionate about their ARC requests. Compromise if possible. Or, if the request has some merit in the overall design policy, suggest trying to get it approved at the next Annual Meeting as a new standard. That leaves the door open to a "maybe" if a majority of the members agree.

Refining design standards takes time like a fine wine. Recognize that tastes do change. The wise ARC keeps a finger on the pulse of design. **APRA**

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Let's help keep our postal service busy since they are saying that e-mail is cutting into their business profits, and that's why they need to increase postage costs again. You get the idea! If enough people follow these tips, it will work. **APRA**