

APRA Advisor

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WHAT IS APRA?

THE ASSOCIATION OF PROFESSIONAL RESERVE ANALYSTS IS A NONPROFIT CORPORATION CREATED 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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Ask the Reserve Study Expert

Q What is a **Professional Reserve Analyst (PRA)**?

A A **Professional Reserve Analyst™** is the designation awarded to members of the **Association of Professional Reserve Analyst**. PRAs are required to meet high standards of professionalism, education and experience. See www.apra-usa.com for details.

Q What is a reserve study and how can it help a homeowner association?

A The Reserve Study analyzes repair and replacement needs like roofing and painting that happen every year and provides a funding plan for accumulating money to perform this work when its needed. A reserve study is based on visual observations as opposed to forensic testing (tearing walls and roofs apart to see what's underneath). The Reserve Study assumes that regular and adequate maintenance is being done to prevent premature repairs or replacements.

There are several steps in completing a reserve study:

1. Identify the building and grounds components for which the HOA has maintenance responsibility that have a useful life of between three and thirty years (the norm).
2. Measure and assess condition of each component in order to establish a current cost of repair or replacement and a remaining useful life.
3. Produce a thirty year repair and replacement schedule which shows all events by component and cost.
4. Produce a funding plan that advises the HOA how much money needs to be raised each year to meet projected



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costs. The plan should include the effects of inflation, return on invested funds and taxation.

Q Why is a reserve study necessary?

A A reserve study is one of the most critical planning tools a homeowner association needs. A reserve study allows the board to properly plan maintenance and allocate costs fairly to *all* members. If these events are not planned for years in advance, the financial burden will fall on owners at the time the work is needed in the form of a special assessment. Special assessments are unfair because previous owners got the benefit of the the assets without contributing a fair share of the cost. Special assessments are unpopular and may be difficult for some to pay.

Q What kinds of things should be included in a reserve study?


A Each homeowner association has a number of reserve “components” which relate to the HOA’s maintenance responsibilities. Simple garden style condominiums with no pool or clubhouse have around 15 components while high rise condominiums could have 100 or more. To determine the component list, a knowledgeable professional conducts and inventory. For a handy checklist, see the **Reserve Component Checklist** on the last page.

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Reserve Study & Funding Policy

Planning for future repairs and replacements is one of the most critical things a homeowner association (HOA) should do. A Reserve Study is a long range planning tool that identifies common area building and grounds components that have useful lives of 3-30 years, the current cost of repair or replacement and a fair Funding Plan to accumulate the money to accomplish the work.

Having a written **Reserve Planning and Funding Policy** is equally important. It is a policy that commits the HOA and Board to the reserve planning process and holds future

Boards to the standards. Without it, a future Board might decide on its own to set the plan aside or worse, spend reserve funds on something they were never intended for. Here is a sample policy that can be adapted to an HOA’s use:

Reserve Study & Funding Policy
WHEREAS, Section ___ of the Bylaws of [Name of Homeowner Association] grants the general power to conduct the business and affairs of the Association to the Board of Directors, whose members shall be members of the Association; and

WHEREAS, the Board of Directors has the responsibility to plan for the proper maintenance, repair and replacement of the Association common area; and

WHEREAS, the members have the responsibility to fund the proper care of common area; and,

WHEREAS, proper care of the common area directly impacts the value of members' homes,

THEREFORE, be it resolved that in order to properly maintain the common area, protect market value of members' homes and livability in the community, the Board of Directors establishes a policy as follows:

Reserve Study Defined. The Board shall have a Reserve Study performed that includes this criteria:

List of Components Criteria. All components shall be included that are the homeowner association's responsibility to repair or replace that have a useful life of 3 to 30 years.

Basis for Repair/Replacement Cost. Assigns a reasonable cost of repair or replacement to each component based on current costs for the area.

Component Useful Life Criteria. Assigns a reasonable useful life to each component based on local conditions.

Projection Period. A 30 Year Repair & Replacement Schedule shall identify the years when each component work will be performed including the inflation adjusted cost.

Funding Plan. The Reserve Study shall use a 30 Year Projection Period which takes into consideration the costs of repairs and replacements, contributions from members, impact of inflation, revenue generated from invested reserve funds and taxes owing on interest earned. The Funding Plan shall include monthly contributions from members adequate to meet projected costs without the need for special assessments.

Percent Funded. The Funding Plan shall include a "Percent Funded" factor (actual reserve funds on hand compared to the ideal funds balance of 100%). If Percent Funded balance is below 100%, the Funding Plan shall provide regular contribution increases over coming years to attain the 100% level without special assessments, if possible.

Permitted Uses of Reserve Funds. Reserve funds are to be used only for the specific components identified in the Reserve Study.

Borrowing Reserve Funds. The Board may borrow money from reserves for emergencies or unexpected expenditures however, the money must be repaid with interest within one year.

Investing Reserve Funds. In order to reduce the amount of member contributions, the Board shall invest reserve funds to generate interest revenue that will accrue to the reserve funds balance. Unless otherwise approved by the membership, all investments will be FDIC (Federal Deposit Insurance Corporation) Insured or guaranteed by the United States Government. Investments should take into consideration the repair and replacement schedule so that there is no interest penalty for early withdrawal.

The Board may hire an investment counselor to assist in formulating an investment plan. The Board shall review the reserve fund investment plan at least annually to ensure that the funds are receiving competitive yields and make prudent adjustments as needed.

Annual Review & Revision. The Board shall review and revise the Reserve Study annually to reflect changes in costs, inflation, interest yield

on invested funds plus modification, addition or deletion of components. With this revised information, a new 30 Year Reserve Study projection shall be used in conjunction to assist in the Annual Operating and Reserve Budget process.

Who Performs the Reserve Study, Annual Review & Revision. To ensure objectivity and competence, the Board shall hire only a third party professional with experience, references and credentials to do reserve planning analysis.

Signed: _____, 200__

President - Board of Directors

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Rainy Day Planning

A homeowner association (HOA) board's responsibilities can be summarized as "the maintenance and enhancement of association property and harmonization of the residents." To achieve these objectives, rainy day planning prevents disaster from "raining" down. Rainy day planning is anticipating events far in advance and being prepared to deal with them.

One key rainy day planning strategy is the scheduling and funding of future repairs and replacements, called "Reserve Planning". A Reserve Plan is the outcome of a "Reserve Study" which identifies all the grounds and building components for which the association has maintenance responsibility that have a 3 to 30 year life span. Each component is measured, assessed for condition and repair or replacement cost computed. This information, when combined with an inflation factor, tax considerations and return on invested reserves, produces a custom thirty year maintenance schedule and funding plan designed to keep the association assets looking good and home values their highest.

Reserve planning became popular in the 1980's when twenty year old homeowner associations started falling apart. Twenty years is the time when roofs, siding, decks, fencing, pools and roads begin to fail. HOAs that failed to anticipate these events ended up in a series of large and unpopular special assessments. Above the wailing and gnashing of teeth was overheard the cry, "There must be a better way!"

Reserve planning identifies predictable events and charts a plan that is fairly funded by all owners along a thirty year time line. Bottom line: No more special assessments and a system that anticipates the knowable.

It's common for certain owners to resist paying money for reserves. It's human nature to put off until tomorrow and hope tomorrow never comes. Here are some of the common saws: "Assessments are already too high" and "I don't plan to live here that long". These statements are short sighted.

A reserve plan pays only for assets being used up. It's like refilling the tank of a rental car before returning it. You only pay for the gas used. Similarly, roofs, paint, roads and other association assets get used up. With reserve planning, the people that get use of them pay for the part they used up...no more, no less.

From a board's perspective, planning for future repairs and replacement is part of fiduciary responsibility. Often,

there are millions of dollars of assets in the board's safekeeping. And more importantly, the board is entrusted with the biggest and dearest asset most people have...their home. Reserve planning recognizes that trust.

Prospective buyers also consider the issue of reserves. No reserve plan and little money set aside exposes the buyer to a frightening reality: Special assessments are certain but when they will fall is uncertain. Wise buyers steer clear of such ill prepared HOAs. Lenders also consider reserves when making loans since the ability for the association to maintain its assets directly impacts a lender's collateral. Attracting buyers and financing is fundamental to sustaining high market value. If buyers and lenders go away, home prices drop.

In many states, reserve planning is described in or mandated by law. It is also an accepted planning standard nationwide. It is fair to all owners and maintains the association assets systematically and responsibly. It's the right thing to do. Before disaster rains down on your community, have a Reserve Study performed and begin funding it now.

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Reversing The Death Spiral

There is a term for homeowner associations that don't plan. It's called: "The Death Spiral". This applies to associations that have neither a plan nor money to properly maintain the property. These folks have a kind of myopia...an inability to see their assets deteriorate right before their eyes complicated further by the belief that someone else will pay for the problem in the future.

In recent years, a tool has been developed that reverses the Death Spiral, or better yet, prevents it to begin with called the "Reserve Study". The reserve study identifies major repair and replacements like painting, roofing and fencing that happen between 3 and 30 year intervals. For example, paint lasts about 6 years on average, while asphalt shingles last 25 years or more. The study provides a fair funding plan to make sure enough money is there when these components come due.

Reserve planning gets to the essence of the shared destiny of homeowner association living. Homeowners that choose common wall living assign exterior maintenance responsibilities of their home and other commonly held assets to the association. Since owners buy and sell, come and go at different intervals, a special system is required to address maintenance of major expenses

and to balance out the costs fairly. A long range reserve plan projects maintenance requirements and costs over a thirty year period and divides the costs up monthly so that each owner pays a fair share of the expenses. Moreover, the plan provides present and future Boards with a sensible roadmap to handle major maintenance.

If your community is in a Death Spiral...reverse the avoidable with a reserve plan today. Don't die a slow death. Reserve properly and keep your assets alive!

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Have a Question?

APRA is dedicated to providing clear and effective solutions to your reserve planning issues. If you have a question about the process and the benefits, why not email our panel of experts. Selected questions will be included in future editions of the **APRA Advisor**? [Click here to email.](#)

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Christmas
& a
Prosperous
New Year**

