

APRA Advisor

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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Reserve Study Tutorial

Every homeowner association should develop a long range plan to properly maintain common area components like roofs, siding, paving, fences and decks. Having such a plan has a number of significant advantages that relate directly to member home value, marketability and livability, Consider that:

- ✓ Buyers finding lack of reserves back out of real estate purchases.
- ✓ Lenders finding lack of reserves may not lend money.
- ✓ The board has a fiduciary responsibility to plan for predictable expenses.
- ✓ The costs of maintaining the property will be fairly shared by all owners.
- ✓ The Reserve Study provides a predictable maintenance plan.
- ✓ A healthy Reserve Fund helps maintains the highest market value of the homes.
- ✓ Adequate reserves prevents special assessments which are both unfair and difficult to collect.

Here is a step by step tutorial for conducting a Reserve Study

Step 1 - Make a List of Common Element Components

Identify all components that have a useful life of 3 to 30 years, such as decks, gutter and downspouts, roofing, paving, pool equipment and fences.

(For a Reserve Component Checklist, see www.Regenesis.net)

Step 2 - Determine Life Expectancy & Replacement Cost

Check historical records to determine an item's installation date and cost. Qualified contractors can also help with this if records are unavailable, especially if they have an opportunity to bid the work. Costs for labor, material and useful lives are also available through recognized cost estimating resources

like **RS Means** or **Craftsman Books**, which publish comprehensive and invaluable information which can be adapted to your locale.

Step 3 - Establish a Funding Plan

The recommended 30 year funding strategy combines reserve contributions, expenditures, current inflation rate, current yield on invested reserves and taxes payable on interest. Combining these elements can produce a funding plan (monthly, quarterly or annual) that will adequately fund future needs and eliminate the need of special assessments.

Step 4 - Annual Review & Update

All good plans need review and revision because key factors can change. Component life expectancy assumptions can vary due to use, weather and workmanship. Certain repair costs can fluctuate as will inflation rates and interest yields. Components may need to be added or deleted. Since reserve plans typically project over 30 years, making annual adjustments can have significant financial impact over those projections. The review is best done in conjunction with the annual budget review since reserves funding is a critical piece of that exercise.

Step 5 - Follow the Plan

A well designed reserve plan not only provides a good roadmap for the board to follow, it holds the board accountable for what is done and when, instead of making it up as time passes. This is the key to successful planning. Have a good one and follow it.

Who Performs the Reserve Study? Professional Reserve Analysts (PRAs), members of the Association of Professional Reserve Analysis, specialize in this invaluable work. PRAs are held to high standards of experience and training. *For a list of PRAs, see www.apra-usa.com*


Healthy reserves are critical to the well being of every homeowner association. Investing in a comprehensive Reserve Study and following a carefully charted funding plan will reap huge dividends in the coming years. If your homeowner association hasn't already done so, get the ball rolling today!

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Ask the Reserve Analyst

Q Our homeowner association's landscaping is looking pretty ragged after 30 years and needs renovating. Our landscape contractor has offered to put together a design that he will install. Do you think this will work?

A Landscaping is one an HOA's biggest assets. Renovation should be done thoughtfully since you will live with the results, good or bad, for many years. A landscape plan is something normally provided by a landscape construction and design consultant, not a landscape contractor. In designing the plan, there are several critical considerations:

- funds available
- plant selection
- ease of maintenance
- drainage correction

- planting bed to turf ratio
- adequacy of irrigation system

The landscape design plan should strive to include hardy native species that are pest resistant and drought tolerant to reduce cost and ease maintenance. Reducing the turf area will significantly reduce water needs and cost. The landscape plan and execution will cost a fair amount of money but the end result will be increased home values and livability. Don't chintz. Hire the best landscape designer you can and spend the money. If you have limited funds, after the basics like irrigation and drainage are covered, phase in the plan over several years starting with curb appeal first.

Q We have just circulated our proposed budget for member review and several have commented that our dues are already higher than other HOAs in the area. Have you ever done a survey of fees so we have something to compare to?

A Assuming your budget is formulated with factual information, the result is what is required to pay for real operating and reserve costs. However, there are many homeowner associations that do not fund their budgets properly. Many put *nothing* in reserves and this generally should account for 20-40% of the total homeowner fee. Still others self manage in a foolhardy attempt to save money. It doesn't. It costs plenty in substandard service, inadequate maintenance and falling market values. Besides, who wants a 24/7 job with ongoing criticism and no pay?

So a comment like "We charge higher fees/dues than XYZ HOA" is meaningless without knowing the particulars of XYZ's budget, the extent of their amenities and maintenance responsibilities, if they are self managed or professionally managed and a host of other variables that can skew the bottom line dramatically. So, no, I've not done such a dues study because there are simply too many variables for it to be meaningful. But here is a good and honest response to inquiring members:

"Our budget is barely adequate to fund a reasonable level of maintenance, services and reserves that the members expect and state statute requires. The Board has considered and explored options to reduce cost without cutting the quality of service and has made cuts where possible. But quality of service is necessary to sustain the value of our homes and cutting quality will only cut our market values and saleability. The proposed budget is the result of careful analysis and we need every penny to get the job done properly.

Q Please discuss the importance of maintaining uniformity of appearance of condominium units and how lack of uniformity can affect property values. I'd like to make the case for my board of directors.

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 areas, consistency and...

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quality is lost. Uniformity doesn't 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 What's the big deal about having a reserve study? Our homeowner association has been around since 1970 and we've done without one until now. We just pass a special assessment whenever we need money.

A There are many good reasons to have and following a well written reserve study but here are two fundamental reasons:

1. A reserve study lays out a long range (usually 30 year) repair and replacement schedule so that the board can plan properly for major renovation. Putting together a proper scope of

work, getting bids, scheduling the work and coordinating it with residents is complicated. It takes time, the more the better.

2. Common elements deteriorate over time, not all at once. It is fair that those that receive the benefit from those assets contribute a fair share of the repair costs. Special assessments put all the cost on an unfortunate few and let those that have moved on get away without paying a penny. If reserve costs are broken into monthly shares (common in condominiums), each unit owner pays exactly the number of months in ownership, no more, no less. This is both fair and ensures that the money will be there when it's needed without the need of special assessments.

Do you have a burning question for Ask the Reserve Analyst? Email your question to info@apra-usa.com. Article used with permission from www.Regensis.net

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Spring Walk Through

Spring is the usually the best time to assess the condition of your homeowner association's assets. Sharpen your pencils, dust off your clipboards and prepare to scrutinize the buildings, grounds and amenities. Let's starting with the buildings. There's lots going

on, so pay attention.

At the roof line, scrutinize the chimney caps. Are any missing or rusted through that need replacing? Make a note by location. Next, look at the chimney chases (enclosures). The section above the roof line gets more weather than the sheltered part and the siding often needs repair or repainting. Next, check out the roof, if it's the kind you can see from the ground. Anything obvious that needs repaired or cleaned? Note any areas that have moss buildup so that moss killer can be applied during the summer. Since it's difficult to truly assess roofing condition from the ground and dangerous to be "mountain goat" on the roof, have a roofing contractor do the roof and flashing inspection. They have the knowledge, equipment and guts to do it right. Finally, the gutters and downspouts probably need a post winter cleaning.

Now, on to the siding and trim. Any popped nails that need to be resecured? Check the caulking joints around the windows, doors and trim. More than likely some have opened up and need recaulking. Any paint peeling? In particular check the south sides or those likely to receive more weather. Scrape bad areas, prime and spot paint, unless you are planning a project wide painting. Do you have synthetic stucco (EIFS-Exterior Insulation Finishing System)? An annual inspection by a trained inspector is highly recommended. EIFS hides and promotes dryrot that often cannot be detected by visual observation. Special moisture scanning equipment is required. For more on this, go to www.eifsinfo.net.

Decks should be checked for dryrot and ponding. Look underneath at the deck, supporting posts and joists and use a small screwdriver to probe for dryrot. Check the deck fences and rails. Replace bad wood as needed. Check the points of connection to the building since this is often incorrectly done and provides a point of water intrusion. Check flashing at sliding glass doors, again, a likely point of leakage.

Next, take a look at the grounds. For asphalt, the best time to do the sealcoating and general repairs is in

warm, dry weather. Don't forget to repaint curbs and parking spaces. Walk the concrete walks and look for tripping hazards caused by lifted, cracked or sunken slabs. Note the locations and get those areas ground down or removed and repoured. Moss and algae growth can cause slipping hazards. Treat or pressure wash as needed. This is particularly important in senior communities.

Next, on to fencing. Winter rains can change existing grade contours. Other than the posts, there should be no earth to wood contact which will promote dryrot and insect infestation. Check the posts to make sure they are solid and replace any that are dryrotted. Use only metal, redwood, cedar or pressure treated posts. Look for signs of sprinkler overspray on fences and have your landscaper adjust spray heads accordingly.

Check common area lighting for broken, cracked, or rusting fixtures. Consider upgrading older incandescent lighting to more efficient high pressure sodium, metal halide, halogen or fluorescent. The light levels will increase dramatically and the power bills will plummet.

Look for evidence of water ponding around building foundations. Fill and regrade for positive drainage. Ponding on walkways can be cured by clearing ground drains or installing drain tile pipe to carry water away. Clean out ground and storm drains.

Walk the common area landscaping with your landscape contractor and make a "punch list" of items needing attention. The sprinkler system should be checked for broken pipes, missing or broken heads, and clogged valves. Splash blocks can be added where downspouts dump into landscaped areas. Look for wet, spongy areas in the lawn indicative of drainage problems. If severe enough, the contractor can install drain tile pipe to dry the area out. Check for bare spots or pests in the lawn and ground cover.

Trees are one of your homeowner association's biggest assets and should be closely inspected at least every three years by an arborist. Look for split and

broken branches, disease and overgrowth that require knowledgeable "corrective" care. Don't rely on your landscape contractor who usually only contracts to do "maintenance pruning" to keep limbs off the buildings and walkways.

Inspect the pool and spa with the pool maintenance contractor. How's the plaster? Are the railings and coping stones loose? Are there potential trip hazards? Is it time to rebuild the sauna? Don't forget to do a safety check of the playground equipment.

Springing into action takes planning. First make a list of the problem areas and prioritize repairs. Don't delay contacting contractors since their "dance cards" fill quickly this time of year. Do your Spring Thing today!

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Right Roof Maintenance

A good roof is more than a component...it's essential. Roofing professionals generally agree that a good roof requires proper design, quality materials, and quality application in order to perform successfully. Yet once the roof is installed, nothing is more critical to its long-term performance than

establishing a program of regular inspections and proper maintenance. The National Roofing Contractors Association (NRCA) believes that the most effective way to keep a roof performing for a long period of time is to have a maintenance program with a professional roofing contractor. The contractor:

- Understands local building practices.
- Can recommend the roof systems best suited for the building.
- Has an experienced crew.
- Can respond quickly to problems.

Long-term warranties offered by many roofing material manufacturers do not guarantee satisfactory roof performance. Warranties often contain provisions which significantly limit the warranty and the consumer's remedies in the event that problems develop or damage occurs to the roof system. A maintenance program addresses leaks before they occur, allows for a planned program of capital expenditures and improves response time.

Consider adding this invaluable service to extend the life of your roofs and lower overall costs. Discuss a roof maintenance program with a reputable local roofing contractor.

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Dealing with Dryrot

Dryrot is always a concern in extreme weather locations that swing from hot and dry to cold and wet. Weather like this stresses building materials and creates ideal conditions for dryrot to develop. Taking steps to prevent it, and to catch it early when it does develop, can save big bucks.

Dryrot is a generic term for a variety of wood fungi which cause mildew, mold, staining and decaying in wood. In order for dryrot to develop, it requires a certain combination of moisture and heat and air. If the conditions are right, it can occur before you can visually detect it, sometimes within months. Infected wood loses its structural integrity. Damaged wood must be totally replaced or the fungi, which are living organisms, will continue to spread and cause more damage.

Dryrot can also attract pests such as termites, which will only compound the problem. Repairing dryrot cannot be postponed, because the damage and costs will only increase dramatically. Dryrot can be found many places but the most common areas are the bathroom walls/floors, around windows and sliding glass doors, decks, around roof gutters, improperly designed or installed roofs and in wet crawlspaces.

- ▶ Inspect the attic for roof leaks and moisture from improperly vented dryers or exhaust fans.
- ▶ Check interior walls around windows for mildew.
- ▶ Ask residents if any detect a persistent mildew/mold odor. Besides the damage dryrot does to wood, it can lead to concentrated mold that is a severe health problem, especially for those that suffer from asthma or other lung ailments.
- ▶ Check crawlspaces for ground water or wetness. Probe floor joists, posts and flooring with a small screwdriver in suspect locations.
- ▶ Probe decks and deck rails wood in suspect areas.

- ▶ Check the sprinkler heads to make sure there is no direct spray hitting the buildings.
- ▶ Check for dirt to wood contact on fences, siding and deck posts.
- ▶ Look for evidence of termites and carpenter ants, both moisture loving pests.

Dryrot doesn't happen by accident. It's the result of material, installation or design problems that need to be corrected along with the removal of the dryrot itself. Left to do its dirty work, dryrot can create enormous damage in a short period of time So when it comes to dryrot, *deal* with it.

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Why Not Join APRA?
Association of Professional Reserve Analysts extends membership to professional reserve study providers and service providers offering products and services to homeowner associations.

If you are a reserve study provider or serve homeowner associations by supplying materials or service, why not join APRA to promote your interests?

The APRA Advisor is circulated nationally six times per year to a targeted audience that wants and needs to know about your service.

For more on membership, see www.apra-usa.com.

2005 APRA Symposium May 19-20, 2005

Mark your calendar! The Association of Professional Reserve Analysts is hosting the 2005 Symposium to educate on reserve study related issues and discuss ways to become more competent and profitable. All reserve study providers, software companies and other interested parties are invited to attend. There is a modest attendee charge (*details to follow*).

Accommodations

Sheraton Tucson Hotel & Suites,
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\$84/night + tax for a deluxe room which includes a full breakfast buffet. Call (800) 325-3535 and mention Association of Professional Reserve Analysts for the discounted room rate. Hotel reservations must be made by Monday, April 18, 2005.

For more information, email info@apra-usa.com

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?** [Email info@apra-usa.com](mailto:info@apra-usa.com).