

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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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."

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 owners in an immediate financial crisis.
- May be uncollectible if an owner's equity is small.
- Are always politically 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.

A reserve "philosophy" should be a fundamental HOA policy. The best way to solidify that philosophy is with the adoption of a Reserves Resolution. This resolution reflects the desire of owners to do long range reserve planning and funding. Such a resolution curbs the impulses of some boards "to raid the cookie jar" by misspending reserve money or failing to add to reserves when the plan clearly calls for it. A Reserves Resolution is a critical step toward proper care of the community.

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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Ask the Professional Reserve Analyst (PRA)

Q In an HOA, who typically pays for a cracked window (called a "stress crack" by the window repair company)? Our CC&R's require the HOA to cover repairs and maintenance of "exterior finishes" but windows are not specifically mentioned.

A Usually, window repair is an owner responsibility unless the governing documents indicate otherwise or the problem is related to structural settling. If structural settling caused the cracked window, the HOA should do the repair and stabilize the structural issue as soon as possible. Of course, if the crack is present in this unit, other units should be checked for similar problems.

Q Who is responsible for maintaining chimney caps and chimneys? Some board members say that because only some units have fireplaces, those

owners are responsible, not the entire association. Please advise.

A If your homeowner association has exterior maintenance and repair responsibility, that includes chimney caps and chimney repairs even if only some have them. The HOA concept is based on sharing costs to save money. Trying to allocate every cost based on benefit just doesn't work. The benefit differential is usually considered in the assessment level that each owner pays. If it isn't, it's not going to change because it takes 100% of all owners to agree to change it. Better to focus on the big picture. All will profit in the end.

Q Our HOA has provisions in the governing documents requiring Board approval for certain additions like awnings. The Board recently received several requests for awnings and has decided not to allow awnings of any kind. Is this a correct interpretation of the Board authority?

A It's reasonable for members to assume that since the awning option is mentioned in the governing documents, the intention was to allow them. The Board cannot enact a policy that contradicts the governing documents.

If the Board feels that awnings aren't desirable in any form, the governing documents should be amended by an appropriate vote of the membership. Otherwise, the Board should honor the provision as it is written, arrive at a awning standard and approve requests under those conditions.

Adopting a standard is important because of consistency, quality and curb appeal considerations. It also saves both Board and petitioner a lot of time and guesswork. **APRA**

A pig bought on
credit is forever
grunting.

Spanish Proverb



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Contracting Contractors

Finding qualified contractors for renovation work takes both planning and an awareness of an Insider Tip: There are contractors that specialize in working with homeowner associations. This isn't just a marketing ploy. Working with the Board, the extra paperwork and long time lines associated with HOAs takes a special breed of contractor. Most don't have the patience, professionalism or interest to meet the challenge. To them, your HOA is just another notch in their gun. To you, it's your all in all.

Finding those special contractors isn't easy but here's another Insider Tip: HOA management companies know who they are and will usually share the information hoping to get your business. Those managers won't use just any contractor. They expect professional results in a timely manner at a fair price. Other sources of contractors are HOAs in your area, wholesale supply companies and local trade associations. Before leafing through the Yellow Pages, make calls to those who know the players.

In preparing to discuss your renovation project with qualified contractors, you need to have a basic idea of what you want, also called "Scope of Work". This short phrase is large in significance.

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Defining a "scope of work" could be a voluminous task if it involves structural repairs. Don't go it alone. To get the kind of results you need, you should hire a specialist to properly define that scope of work. Architect and engineers earn their living doing this. (Again, HOA managers know who they are). These professionals can provide the scope of work, design corrections and improved material alternatives.

With a properly defined scope of work, you can get apples to apples bids from three or more qualified contractors. It may take five or six bid requests to get three proposals. Not all contractors you identify may be available.

Get references from the contractor and call the references. Ask for a previous job site and go look at it. Visit the contractor's business office to check out their facilities and equipment.

Part of any renovation job is the performance contract. Insider Tip: All contracts are written in favor of the party that writes them. While all contractors have their own, it is in the HOA's best interest to include an addendum written by an HOA attorney that promotes the HOA's best interests which include:

1. Parties to the contract
2. Scope of work

3. Compensation
4. Schedule for payments
5. Time period for work
6. Standard of performance
7. Labor and material warranties
8. Indemnification
9. Lien waiver requirements
10. Insurance requirements
11. Licenses and permits
12. Penalty for contractor delays
13. Default provisions
14. Change order requirements

Contracting with good contractors takes time. Start early, ask informed questions and use good advisors in reaching a successful conclusion. **APRA**

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Decks: The Weakest Link

When it comes to HOA building maintenance, decks are often the weakest link. It seems many builders have not grasped the concept of positive drainage (water running *away* from the building). Installing proper and adequate flashing seems to be an elusive concept as well. These two glitches are a major source of water intrusion and expensive structural repairs.

Some Boards seek to minimize the HOA's exposure to problems by making owners responsible for these limited common areas. But this is illegal unless approved by an appropriate vote of the members and ill

advised from the perspective that decks are attached to buildings that the HOA is responsible to maintain. Allowing an owner to futz with the weakest link is only asking for trouble. Odds are that either the owners won't do it properly, on time or at all. All this will lead to costly repairs.

Annual deck inspection and correction by knowledgeable contractors can eliminate most of these problems. However, arranging unit access or climbing ladders to inspect is difficult so the tendency is to "let it ride" for years. Meanwhile, water and dryrot do their dirty work. This issue is important enough that visual inspection should be done every year, hassle or not.

While most decks are constructed of cedar or redwood, many are now taking advantage of recycled materials for the decking (like Trex Deck). Many wood decks have a finish or coating. Coatings include elastomeric paint (flexible and water repelling), latex or oil enamel paint, heavy body stain, waterseal and urethane. Some decks sport a lightweight concrete topping, tile or outdoor carpet. Knowing what kind of finish you have is critical to proper maintenance.

When performing inspections, signs that the coating has failed include:

- ~ Cracks in the deck coating
- ~ Nails popping through the coating
- ~ Delaminating paint and,
- ~ Bubbles in the coating.

Also check metal flashing for rust, pulling loose or breaks. Check deck condition for softness by pressing down with your foot. Soft decking is indicative of dryrot or termites.

Observe what's on the deck, like plants, tables, umbrellas, grills, carpet, etc. Table legs, grills, sharp objects and high heels can damage soft deck coatings. Plants should be raised off the deck surface with casters to allow proper air circulation and should never be allowed to rest on the deck rails since they pose an additional safety hazard if they fall. Outdoor carpet is bad news for wood decks as it captures moisture and retards drying.

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Preventive maintenance extends a deck to its maximum useful life of 15-20 years. Decks should be cleaned annually to remove dirt, algae and moss. Heavy coating applications should be reapplied every 3-5 years. Lighter weight deck paints, stains and sealers need to be reapplied every 1-2 years. As a rule, it is best to leave wood decks unpainted since there is a high likelihood that the paint will not adhere well. Painted wood decks tend to absorb and retain moisture which leads to premature failure.

When selecting a deck coating, get details about brands from the internet by searching "deck coating products". Virtually all manufacturers have websites with specifications and warranty information.

Proper flashing is extremely important to route water away from the buildings. "L" flashing is used at the building wall to deck junction to seal this critical point of water intrusion. "Drip edge" flashing is used at the outer edge of the deck and has a small bend on the bottom lip will kick water away from the deck as it runs off. Check your coating manufacturer's specifications for flashings to ensure yours are compatible. You may need to remove and replace what you have.

Door thresholds, entry door and screen door clearances are another item to think about. You may need to budget for shaving doors down or raising

threshold heights when applying a new coating over an old coating.

Before applying any new coating, the decking must be in good repair and prepared properly to accept the coating. NEVER install a coating over bad wood since it will only mask a problem that will get bigger and cause the coating to fail as well.

Thanks to Bill Leys of Deck Master for selected excerpts. [APRA](#)

2006 APRA Symposium

Mark your calendars, or better yet, **register today** for the APRA Symposium which takes place at the Westin Mission Hills Resort & Spa in Rancho Mirage California on Saturday, May 6, 2006.

Besides professional level building product presentations, there will be lively discussion and debate about risk management techniques and preferred reserve funding methods.

If you are in the business to perform reserve studies, **this is a do not miss event!**

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See the APRA Symposium Brochure for details. Register today and save!

Riding a Dead Horse

Indian tribal wisdom says that when you discover you are riding a dead horse, the best strategy is to dismount. However, in modern organizations, new "improved" strategies have been developed:

- ⊗ Buy a stronger whip
- ⊗ Change riders
- ⊗ Say "This is the way we always have ridden this horse"
- ⊗ Appoint a committee to the study the horse
- ⊗ Arrange to visit other sites to see how they ride dead horses
- ⊗ Modify the standards to include riding dead horses
- ⊗ Create training sessions to improve riding ability
- ⊗ Compare the state of dead horses in today's environment
- ⊗ Pass a resolution declaring: "This horse is not dead"
- ⊗ Blame the horses' ancestry
- ⊗ Harness several dead horses for improved performance
- ⊗ Declare that "No horse is too dead to beat"
- ⊗ Provide funding to increase the horse's performance
- ⊗ Do a study to see if a contractor can ride it cheaper
- ⊗ Declare the horse is better, faster and cheaper dead
- ⊗ Form a committee to find uses for dead horses
- ⊗ Revisit the performance requirements for dead horses
- ⊗ Elect the dead horse to Board President

From an anonymous but very wise source.

Why Not Join APRA?

Membership in [Association of Professional Reserve Analysts](#) is extended to professional reserve study providers and other service providers offering products and services to homeowner associations.

If you qualify, why not join APRA to promote your interests?

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