

APRA Advisor

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WHAT IS APRA?

The **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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Ask the Reserve Analyst

Q What level of reserve funding should we consider a minimum level? *Sam Ross - Novato CA*

A Some state statutes require minimum thresholds for reserve funds. But those minimums don't address what is fair or legal. One of the main objectives of performing a reserve study is to determine the current Percent Funded. 100% funding is ideal because it distributes reserve expenses fairly to those that benefit from them.

If a reserve study indicates an HOA is, say, 35% funded, the reserve funding plan should chart a course toward 100% either by special assessment or over a number of months or years if special assessments can be avoided during the fund build up period.

The reason that some HOAs maintain substantially less than 100% is because the board or members have no plan and will to achieve 100%. Since all owners should pay for the portion of the assets they benefit from, the only way to accomplish this is with a 100% funding model. So, if you have a 30 year roof that costs \$60,000, \$2,000 should be set aside each year to meet the 100% funding objective. If less than \$2,000 is set aside, future owners will be required to make up the difference.

Failing to distribute expenses according to the allocation formula described in the HOA's governing documents is illegal. Changing that formula takes 100% agreement of the owners and, possibly, their mortgage lenders.

Failing to allocate reserve expenses fairly is contrary to the board's fiduciary duty and exposes board members to personal liability for the inevitable results: special assessments.

Since getting a 100% consensus of the members to change the expense allocation formula is impossible (who would agree to pay more?), the board's and HOA's only legal authority is to fund reserves 100%.

Q In preparing the 2005 budget, I noticed several transactions charged to reserves that look like they should have been paid from the operating account, a spa filter and tree pruning. Your thoughts?
Larry Leas - California

A By definition, reserve plans deal with any repair or replacement item that has a useful life of, usually, 2 to 30 years. Under this definition, both items qualify as reserve expenses. However, if the expense is small and the operating budget can support it, paying for it out of the operating account would be okay.

Q Our HOA is working on our budget. Is there a rule of thumb about how much the average HOA should have in reserves?



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A If it were only that simple. Reserve funding is driven by the number and kind of components it includes. Sometimes the components are few and simple; sometimes the components are many and complex. To further complicate the issue, certain components may be broken into phases. For example, a 100 unit condominium may have 2 to 5 painting phases. Each phase is considered a component for purposes of the study.

Then, the issue of funding level comes up. If the HOA has less money than it should (too often the case), then current members are obligated to make up the difference in addition to what normally would be required. HOAs that currently have 100% of necessary funds, will charge their members much less. That is the way reserve funding is intended to work.

Q Should we include landscape items in our Reserve Study plan? How about insuring trees?

A It's wise to include components like "Landscape Renovation" and "Treework" in the Reserve Study. All bushes and trees have a limited life. Bushes die and outgrow their location. While trees usually have a long life, they require corrective pruning that should be done every 3 - 5 years and it's expensive. Hiring an arborist to do a comprehensive inventory and report of the trees also makes a lot of sense. If each tree is tagged and referenced in the report, maintenance can be easily tracked. Consistent corrective pruning will extend the lives of the trees and keep them looking good.

Insurance for non-income producing trees provides limited coverage for claims related to fire, lightning, explosion, riot, aircraft, vehicles, vandalism and theft. Most of the claims are related to vehicle damage. Wind, freezing and pest claims are not honored.

And the insurance does not actually insure the trees for value but provides replacement in standard nursery sizes. In other words, that wind fallen 80 foot douglas fir will probably get you an 8 foot replacement. Based on the coverage available, \$5000 coverage will cover quite a few replacements.

To reduce the possibility of insect infestation, use native trees that are hardy and pest resistant. If you already have those prone to insects, consult with an arborist for the proper pest control or remove and replacement them.

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**.

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The Silver Lining

There has been a nasty rumor hanging around for years that homeowner associations are inherently flawed. The premise is that both volunteer and hired management are incompetent, invasive and tyrannical. Picture the Board trooping through the property with clipboard and citation ready to swat any owners that step out of line. Not a pretty picture for those that want "care free" living.

There are valid complaints about how some HOAs are being run and, in some cases, the board or manager may be autocratic or power mad. But don't confuse the power and purpose of a HOA Board with a corporate board like General Motors.

In GM's case, the board is composed of highly paid and trained professionals. They consciously can and do make risk management decisions based on whether profits will exceed the cost of defense litigation. They don't live next to the people impacted by their decisions. They rarely have to personally pay out of their own pockets for either bad or good decisions they make. And while GM execs may lose their jobs for bad decisions, they stand to profit enormously from good ones. None of this is true with HOA boards.

100% of all HOA boards are unpaid volunteers that, while usually competent in their chosen professions, are largely unschooled, unprepared and inexperienced in government and property management. Unfortunately, this can often be said of professional HOA managers who all too often have no professional training or license (real estate broker's or property manager's) to engage in highly complex people and real estate management. There is a widespread lack of information, training and experience.

Homeowner association management is by far the most complex of all forms of property management because the lines between management and residents are not rigid or definable by contract. There is an annoying "humanity" factor in homeowner associations that keeps getting in the way of business decisions. Residents are, after all, neighbors and not associates or clients.

A whole new paradigm emerges: Not only do homeowner association professional and volunteer managers need to be consummate business people, they need to be as compassionate as Mother Theresa. They are expected to intuitively know when business is off and humanity is on. It is a tightrope that even the most experienced managers fall from. With inexperienced managers, the falls are bound to be frequent.

Inexperience produces lack of planning because if you don't know what's coming next, how are you to plan for it? Lack of planning results in crisis management and crisis makes homeowners rightfully nervous and irritable. A case in point: Failure to have a long range Reserve Plan will produce deteriorating assets and unwelcome special assessments.

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Ever hear an HOA Board grumble about the lack of volunteers? Many complaining owners fall into the description of "never served on the Board, never will and mad because of what the Board is doing". Owners that choose passivity position themselves to be reactionary. What else can they do since they're not involved? ALL owners owe their HOA some degree of volunteerism. Those that don't will always have a hard time understanding the homeowner association concept. Stand up and be counted. If after serving, you still feel a gross injustice is being perpetrated, you're probably right. Work to throw the bums out.

All's not lost. While it's sometimes easy to assume a defensive posture in HOAs, defense rarely produces a successful outcome. Owner versus Board confrontation usually ends in a power struggle that technically one side wins but in reality both parties lose. Because, at the end of the day, both sides are neighbors which strikes way too close to home.

While the homeowner association system has its pitfalls, it also has tremendous advantages: Economies of scale that allow wholesale buying of products and services and access to amenities that few homeowners could afford on their own. Many haven't quite grasped what a gold mine they live in. It's our goal to point out just

what great possibilities there are. First, by sharing planning tools that work and secondly by seeking out products and services that will make homeowner association life a pleasure and not a pain. If Boards and managers take advantage of these nuggets, they will soon gain well deserved respect as they improve the livability of the HOA.

This is the "silver lining" that is waiting for homeowner associations to discover. It's there and it's real. Bring your picks and shovels and get to work!

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Appearances Do Count

One of the advantages of a homeowner association is being able to enforce appearance standards which are designed to protect property values. Research has shown that if all homes follow the same basic theme, the average buyer is willing to pay more.

Most subdivisions have appearance standards, but, in truth, only a lawsuit (or a Mafia hitman) can stop someone determined to violate them. Since most neighbors hate confrontation, appearance standards usually go by the wayside opening the door to the things like RVs parked along side the house, tarped "classic" cars, hubcap sculptures and eye wincing paint colors. Thus, the need for appearance standards and the enforcement thereof.

The governing documents usually outline the appearance standards when

they are very strict but often say little when they're not. They may define the standards but not the enforcement method. leaving the Board in an awkward position when confronted with multiple appearance "challenges".

This is a great topic for the Resolution Process. Resolutions are board policies that deal with complex issues like collection of money, pets, parking and appearance standards. Resolutions provide a framework to deal with them effectively. By the way, resolutions **cannot** amend or change the meaning of the governing documents, only expand on the authority. Amending the governing documents requires an appropriate vote of the owners.

After your Appearance Standards Resolution is drafted, ask your attorney to review it for compliance with state statutes and your governing documents. Then, allow the other owners to participate in the outcome. Once drafted, it should be circulated to all the owners for a 30 day review and comment period. The approval process shouldn't be rushed. Change is difficult for some.

A good way to broach the subject with the membership is to send out a newsletter discussing the main reason why they are necessary: to preserve property values. Consistent appearance standards are in all owners' best interests. Describe how, for example, junk vehicles, unkempt lawns, collapsing fences and peeling or hot pink paint drag property values down (without pointing fingers or naming names). Encourage attendance to a special meeting to discuss the Appearance Standards Resolution.

After the new Appearance Standard Resolution is cussed, discussed, amended and approved, it's time to start enforcement. Select the closest equivalent you have to Henry Kissinger and a Mafia Hitman (that's a joke folks). If you have none of these, after appropriate written notifications, make good use of your attorney to turn up the heat. Never be guilty of selective enforcement. Treat everyone the same.

Appearances do count and it's up to the Board to watch dog what happens in the community. Don't wake up one day and ask "Where am I and why am I in this handbasket?" Safeguard your HOA's appearance **today!**



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Deterring Dryrot

While fungi are considered a delicacy when found on your plate, when found in wood, they cause dryrot, a wood "cancer". And like cancer, it's best to avoid the conditions that cause it. In the case of structures, the culprits are improper materials, flashing and design.

Dryrot's name is a misnomer because the rot occurs in wet conditions, not dry. It occurs when water is allowed to penetrate wood in places and in a way where it won't dry out. Wood destroying fungi require a food source, oxygen and favorable temperature in order to survive. It's a vicious circle: Moisture promotes fungi which increases wood permeability which allows moisture to penetrate further which encourages more decay, etc. etc.

There are three classes of dryrot:

Brown Rot Wood decayed by brown rot looks like dry leather and breaks easily into small cubical pieces. Wood strength decreases as the growth spreads. Most of the damage to structures is caused by brown rot.

White Rot Wood decayed by white rot often assumes a bleached appearance, frequently has black lines through it and feels spongy. Wood strength decreases gradually. If caught soon enough, white rot may be treated by bleach spray and scraped away. It is important to correct the moisture problem that

caused the wet wood in the first place.

Soft Rot This looks like brown rot but the affected wood softens gradually from the surface inward developing cavities (invisible to the naked eye) within the wood cell walls.

Four Principles of Dryrot Prevention

1. Build with properly seasoned wood.
2. Keep wood dry.
3. Break contact of wood and soil.
4. Where soil must contact wood, use properly pressure treated lumber.

The odor of mold and mildew inside the home is a sure sign of condensation and dryrot. Warm weather condensation can be reduced with fans and by decreasing the humidity of crawl spaces with adequate ventilation.

When mold and decay occur, the problem is either water conducting dryrot or dryrot growing on wet wood. Water conducting dryrot feels leathery and can often be peeled off in sheets. The other form of dryrot feels powdery or stringy. The only way to get rid of molds and decay fungi embedded in wood is to remove the piece. Frequently extracting a rotted structural piece can be an expensive proposition. Prevention is far cheaper.

A common source of dryrot is wood decks. Wood decks should be constructed of either cedar, redwood, sunwood or pressure treated lumber which all resist dryrot. The deck should have at least a 1/2" air gap between it and the siding that allows water to run down between. The deck should have positive drainage away from the building. The deck door should have proper flashing to prevent water intrusion. Indoor/outdoor carpet should be removed from the deck during the rainy or winter season since it traps moisture and promotes dryrot.

Windows and doors are a prime location for dryrot due to improper flashing and caulking. They all should have drip flashing over the top edge and proper caulking around all edges. Where there is more than a 1/4" gap, backer rod (flexible foam rope) should be laid into the gap and then sealed with a high quality silicon caulk.

Another major source of water intrusion that promotes dryrot is improper "kick-out" flashing. Kick-out flashing is found near the rain gutter where the

roof meets a vertical wall. It "kicks out" rain water which runs along the vertical wall that would often miss the gutter and run behind the siding and get trapped in the wall. Missing kick-out flashing can cause huge dryrot damage. Have a competent roofing contractor check your roofs for proper flashing.

Finally, do an annual inspection of all siding, trim and decks to detect dryrot in its early stages. Since it spreads like cancer, the sooner you remove it, the less costly the correction. Deterrent is the best policy when it comes to dryrot. Declare war and never, never, never, never, NEVER give up.

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Watering Wisely

As your homeowner association enters it's highest water demand season, there are several conservation techniques that will help you do the job a bit better.

Compost, mulch and barkdust hold water like a sponge, slowly releasing moisture when plants need it. In this environment, plants grow deep roots, reducing how much and how often sprinkling and fertilizing is needed. If your planting beds are bare dirt, consider an application of these recommended amendments to promote root growth, reduce water consumption and reduce weed infestation. Also leave grass clippings to build up mulched soil that uses less water.

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Wash your plants Airborne urban pollution can leave a layer of residue on plants and soil that inhibits water absorption. One easy way to counteract this is by spraying the planting beds and turf down using a hose end sprayer filled with inexpensive liquid dishwashing soap. As strange as it sounds, it actually breaks up the residue and reduces water tension, allowing better water absorption.

Sprinkler Tune-Up Adjust all your sprinkler heads to irrigate living things, not walks and driveways. Replace leaky faucets and broken sprinkler heads. Water turf areas about 1" a week.

Sprinkler Enhancements Install a rain sensor to override the automatic sprinkling system when it rains. Where possible, install drip irrigation systems to trees, shrubs and flowers. Gets water directly where it's needed. If you are using hoses to irrigate, install hose timers to control the flow.

Xeriscape Your Plants Xeriscape refers to creative, attractive landscaping that provides a diversity of seasonal colors and textures while reducing outdoor water use by 30 to 50 percent. Nurseries carry numerous trees, shrubs, perennials and ground covers which are

low water-using. Visit them and ask for suggestions.

Wildflower Extravaganza A typical landscape can be up to 90 percent Kentucky bluegrass lawn. Bluegrass requires 25 to 30 inches of water each growing season. Confine lawn to high traffic areas. Instead, wild flowers and native grasses make excellent lawn substitutes, especially in large open spaces and low use areas. Planting a variety of plants with different heights, colors and textures creates interest and beauty.

Watering wisely creates a healthier landscape and reduces one of the community's most costly budget items. This is one area where your investment will pay BIG dividends. Water on!...rather, water *off!*

2005 APRA Symposium May 19-20, 2005

Association of Professional Reserve Analysts is hosting the 2005 Symposium to educate on reserve study related issues and discuss ways to become more competent/profitable. All reserve study providers, software companies and other interested parties are invited to attend. *Click this ad for more information.*

Caving In To Criticism

A father and his son once went to market with their donkey. The father rode the donkey and the boy walked. Onlookers said, "Can you believe it? There's a big strong man sitting on the donkey's back and the poor boy has to walk." So the father got off and the boy got on.

People said, "How terrible, this poor man walking and the boy sitting on the donkey." So both the father and son got on. But people said, "The poor donkey! Two people sitting on his back--that's terrible." So, the father and son got off the donkey. Then people said, "How crazy, the donkey has nothing on his back, and two people are walking."

Sometime later, the father and son were seen both carrying the donkey!

Most people want to be liked, so try to avoid criticism. The father and his son were doing what they thought was right. When people criticized them, they tried to please everyone. They ended up looking like a donkey.

HOA Boards handle difficult tasks. There will be differences of opinion on how to direct the course of business. It's important that the board consider input from constructive sources. It's equally important that discernment be used when the input is destructive. As Star Trek's James T. Kirk said, "One of the advantages of being Captain is being able to ask for advice without having to take it."

Does your Board cave in to criticism? The only way to avoid it is to do nothing, say nothing, and be nothing. Rather than making the same mistake as the father and his son, live what you believe. As long as you are making informed decisions, you are doing what you were elected to do. If some are critical, so be it. There are far worse reasons to be criticized.

"It is better. . .to suffer for doing good than for doing evil." *The Bible - 1 Peter 3:17*

Why Not Join APRA?

Membership in Association of Professional Reserve Analysts is extended to professional reserve study providers, reserve study software and other 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? For more, see www.apra-usa.com.