

# APRA Advisor

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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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## The Special Assessment

The president of Coastal Village Condominiums hung up the phone after talking to the property manager and breathed a heavy sigh. After having to deal with several significant renovation projects over the past five years, there was more yet to come. How could this have happened? The HOA had spent several hundred thousand dollars already to fix dryrot. What now?

Coastal Village had the misfortune of being built with wood... wood framing, wood steps, wood siding, wood shingles. It was beautiful to look at, yes, but cold, rainy weather plus wood buildings, unless properly constructed and maintained, is a formula for disaster. In the case of Coastal Village, the condominiums were built with a decorative plywood panel. Where the siding panels met, battens (decorative wood strips) were installed to cover the seams. On several recent site inspections, it was noticed that in places there was mushroom growth coming from beneath the battens. Woodpeckers had also been drilling holes in the siding, a further indication of dryrot.

So what is dryrot anyway? In brief, dryrot is wood cancer. Actually misnamed, dryrot occurs under wet and cool conditions. Spores that thrive under these conditions grow and multiply, breaking down wood fibers and structural integrity of wood building materials. Dryrot spores love dark hidden places beneath the siding like studwalls, subflooring and floor joists. Unlike termites and carpenter ants, there is often no telltale signs until it erupts on the surface. A dryrot spot in the siding is often the proverbial tip of the iceberg. It is a call to action.

The board and manager met to discuss the preliminary findings. It was recommended that a detailed inspection be done to develop a scope of work that could be used as a basis for action.

Who was to develop this report? While a licensed building inspector can

identify dryrot, correction usually requires technical knowledge of construction materials and techniques. The board approved an architect experienced in dryrot and gave him the task of physically inspecting all buildings. Lastly, a written communication was mailed to all homeowners advising of the dryrot alert.

It took the architect several days to complete the site inspection. Siding was probed for softness and marked, crawlspaces were inspected for rotten subfloors or joists. It was obvious that there had been a major oversight in the original construction: the siding had not been preprimed before the battens were nailed on leaving raw wood underneath the battens. Over time, rainwater had seeped behind the battens, soaking the wood and giving dryrot a foothold. The weather sides of the buildings showed a greater decay but virtually all sides of all buildings showed varying degrees of deterioration.

The architect wrestled with the proper solution: Do a remedial repair (patch) or a comprehensive reconstruction? The board had experienced several partial fixes only to return to the problem all too soon. A special board meeting was called and all members invited to attend. The architect presented a comprehensive report detailing his findings. His recommendation: replace all siding and trim boards and perform needed repairs to the structure. The board's logical response was: How much is all of this going to cost?

**The Bidding Process.** An invitation to bid the project was sent to three experienced and qualified contractors. "Experienced" meant specific and verifiable dryrot repair experience. Area contractors were chosen for proximity and ease of warranty followup work. The use of in-state contractors also meant more recourse for warranty issues through the state Construction Contractor Board.

Interested contractors met with the architect at the property for a bidder's walk through. Questions were asked and answered. The architect also considered suggestions from the contractors on materials and correction techniques to use. The three hours were well spent and revised job specifications were sent out to the contractors within several days. The contractors were given 30 days to submit a written bid.

Once the bids were received, the board scheduled another open meeting to which homeowners were invited. The bid review meeting was most interesting. Dryrot repair bids generally cause much uneasiness. Why? There are always two parts to the bid: Part One offers a set price to repair what can actually be seen. Part Two deals with what cannot be seen on a "time and material" basis. So the board asked the logical question: How much should we plan for in total? The architect's best guess: triple the Part One bid.

There is an expression, "If you're going to New York, don't stop at Chicago". After discussing the dryrot repair bids, one board member suggested that if all siding was to be removed, why not replace the outdated single pane aluminum windows with more energy efficient windows at the same time? Aside from the fact that the cost of the siding repair alone was sizeable, the suggestion made a lot of sense. The board agreed to consider options and costs.

Then, a board member who was also a construction contractor decided to submit a bid to do the work. That bid was substantially cheaper than the others received. Since there was an obvious conflict of interest, the remaining board members agreed that if his bid was accepted, he would have to resign from the board. The architect inspected the contractor's work and references and reported back to the board that all was acceptable. Based on the recommendation, the board accepted his proposal and he promptly resigned from the board.

The stage was now set. Based on combined estimates to replace all siding, paint, roofs and install new windows, the board approved a special assessment of \$14,000 per unit.

An elaborate presentation was carefully prepared and laid out at the Annual Homeowners Meeting six weeks later. Samples of dryrotted siding, window and roofing samples were exhibited. There were several vocal owners that protested loudly. One howled "MISMANAGEMENT". Some had legitimate concerns about not being able to pay. However, most listened patiently to the discussion. All were given a chance to ask questions and voice their opinion. It was a long meeting. The board called for a vote and fell only a few shy of unanimous approval.

Following the meeting, a formal notice of special assessment was mailed to all owners of record. For those of limited means, a three year payment option was included while a discount was offered to those that prepaid.

It is said that an earthquake's after shock is often worse than the initial shockwave. After the special assessment notice was received by those that had not attended the Annual Meeting, the board was bombarded with phone calls from, you guessed it, those that did not attend the Annual Meeting. It was obvious that there was still more damage control to be done.

Another meeting was called and many that missed the Annual Meeting were in attendance, as well as others that had come before. Of course, there was a rehashing of old information for those that missed it the first time around. The board patiently indulged all input, positive and negative. While the meeting was long, this time it was different. Many of the owners that had attended the Annual Homeowners Meeting stood in defense of the board. By meeting's end, the overwhelming majority again affirmed the special assessment. Some thoughtful owners actually offered well deserved thanks to the board for their hard work job.

**The Moral of the Story:** This board undertook a huge challenge successfully using the following techniques:

**Teamwork.** Once alerted to a problem, a meeting of the board was convened, acted as a team which was crucial to success.

**Consultation.** A specialist was hired to

determine the scope of the problem and proper correction. That informed opinion served as a solid foundation for action.

**Communication.** Members were notified early and updated regularly.

**Integration.** All members were allowed to give input both pro and con.

**Patience.** The board systematically and implemented the plan.

**No Conflict of Interest.** When a board member wanted the job, he did not vote on the matter and stepped off the board when he was selected.

**Re-evaluation.** The board made necessary course corrections, like adding window replacement, when logic dictated.

**Leadership.** The board was elected to make tough decisions and understood the need to lead.

This board was successful by integrating all of the important components in order to sell a large special assessment. In so doing, it succeeded in achieving the ultimate goal of a well run HOA: Harmony.

*By Rich Thompson - Regenesi, Inc.*  
**APRA**

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## **Squeak Relief**

With the advent of condo conversions comes a number of older building structural issues that must be dealt with. One of the most annoying is sound transmission. While modern construction offers a myriad of sound blocking alternatives like concrete floors and double wall separation, older

construction comes with all the foibles it was born with and noise is usually one of them.

While wood flooring is popular among condo buyers, it often causes annoying squeaks in older buildings which drive downstairs residents to distraction. Since the problem is within the units, many HOA boards are reluctant to interfere but, let's face it, even though the noise may not be malicious, it does disturb the neighbor and the HOA has an *obligation* to force action if necessary. That said, here's some helpful advice to deal with this particular problem:

The source of creaky floors is usually loose nails. In buildings over 20 years old, it's likely that the subfloor is plywood which is nailed to the floor joists. To avoid squeaky floors, construction adhesive should be applied along with nails. When there is squeaking, the adhesive was probably not used. Foot traffic causes the plywood to flex and loosen the nails holding the subfloor in place. In time, the subfloor will squeak with each step.

The noise factor is further compounded because the upstairs floor and the downstairs ceiling are attached to the same joist system which actually amplifies the sound. Fortunately, there is a relatively inexpensive way to solve the squeaking: Renail the floor with 8 penny finishing nails.

Finishing nails have very small heads allowing them to be countersunk and filled. If the offending floor is carpeted, the small head will allow the nail to be driven home through the carpeting, carpet pad and plywood flush with the face of the plywood subfloor. **IMPORTANT:** The nails must be driven into the floor joists. Insert a nail every six inches along the joist. This should eliminate the creaks in the floor.

If your HOA is experiencing this kind of noise transmission, run, don't walk to distribute this fix. The life you save may be your upstairs neighbor's. (Squeak, squeak, squeak, squeak...BE QUIET!!!)

By Rich Thompson - *Regenesi, Inc.*  
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## Other People's Money

Many homeowner associations find it challenging to accumulate the funds they need to provide a reasonable level of services and maintenance. Simply keeping up with inflation currently calls for a 2.5% annual increase in revenue. But fighting inflation can be easy if the board makes cost-cutting a priority. Start by identifying the high-ticket items.

**1. Utilities.** HOAs with high utility costs should commission a utility audit. Utility auditing companies verify the accuracy of utility bills, notes discrepancies and assists in refund claims. For example, if examining the water and sewer bills for the past several years may reveal a leak that is spiking costs.

**2. Insurance.** HOAs can save on insurance premiums by raising deductibles. To offset this added risk,

owners can get "loss assessment" coverage for very little money. This coverage kicks in when the HOA has to special assess to cover the deductible on an insurable event.

**3. Landscaping.** Save on water and maintenance costs by replacing turf with drought-tolerant native species. Install rain override sensors to eliminate unnecessary cycles.

**4. Pools & Spas.** Adjust heater temperature and pump cycle times for savings. A two degree drop in temperature can significantly decrease the heating bill. Use a pool solar blanket to conserve water temperature and reduce heating costs. Consider solar heating panels if feasible and repair them annually for proper operation.

**5. Lighting.** Use high-efficiency outdoor lighting options like LED (Light Emitting Diode) and compact fluorescent. Installations usually pay for themselves in one to two years in labor and energy savings while providing better security.

**6. Preventive Maintenance.** A preventive maintenance program is your biggest money saver since it catches problems when they are small enough to resolve cheaply. Identify the items that require inspection and repair and establish a schedule that maintenance can follow to get the job done.

**7. Owner Related Repairs** This is a big one. Many HOAs make the mistake of performing repairs on things that are owner responsibility. By designing an Areas of Responsibility Checklist to clarify who does what, the Board, Manager and Owners are all on the same page. Eliminate the cost of owner repairs.

**8. Review Contracts Annually.** Fixed costs like insurance, management, landscape and pool contracts should be reviewed annually. Physically communicate with these vendors to inquire of ways to trim costs. It may not always be possible but *ask the question.*

**9. Review Variable Costs.** Variable costs like gutter cleaning, plumbing and electrical repairs change depending on circumstances. Is there an identifiable

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trend that can be handled better? Look for “causes and effects” that are driving up costs. For example, by trimming trees away from the roof, can gutter cleaning be reduced?

The board is often responsible for a large budget and the care of millions of dollars of assets. When spending other people’s money, it’s easy to get complacent. As the late Senator Everett Dirksen said, “A billion here, a billion there...pretty soon you’re talkin’ real money!” Treat Other People’s Money like your own.

By Rich Thompson - Regenesys, Inc.  
**APRA**

## Chimney Primer

Chimneys are a common component of common wall communities. The chimney vents hot exhaust gasses from fireplaces or from central heating. While most chimneys are brick, many are now made of out of metal. Both present problems if not properly maintained including fires, collapses and even carbon monoxide poisoning.

When wood burns, it never completely combusts. What’s left forms a vaporized residue that mixes with condensation as it cools and sticks to the inside of the

chimney. This material, referred to as “creosote”, can be very difficult to clean and if allowed to build up, a chimney fire could happen. Chimney fires are one of the most dangerous and devastating types of household fires. Fully engaged, they can roar like a jet engine shooting fire into the sky like an oversized roman candle. Fueled by a dirty chimney, temperatures inside can reach 2000 degrees and destroy an entire home.

According to the Consumer Product Safety Commission, having chimneys inspected annually and cleaned as needed is the best defense against a fire. But while cleaning and inspecting are not do it yourself projects, there are a few things a homeowner association can do to keep an eye on safety between those annual evaluations.

**Safe Structure.** Inspect chimneys from the outside to see if any lean or is separating from the building. Chimneys that are separating from the structure can be especially dangerous. Sometimes, the steel straps used to hold the chimney to the structure rust away and leave the chimney vulnerable to a collapse.

Next, use binoculars to look for loose bricks or cracks, especially near the top. Freezing weather can cause bricks to deteriorate or loosen up. Any deteriorated

sections should be replaced. Check that the metal flashing between the roof and chimney is tight. Loose flashing can cause leaks.

Look at the chimney’s crown as well. The crown is the area between the outside edge of a masonry chimney and the liner. Crowns often develop cracks that can lead to leaks and need to be caulked.

Finally, look for vegetation at the top of the chimney. Ivy, for example, can grow across the top of the chimney and obstruct the flow of exhaust gases out the chimney.

Metal vent pipes can rust or become dislodged from high winds. Look for vents that may have separated at the seams. These may need to be rejoined, and then reinforced so it doesn’t happen again.

**A Clean Sweep.** Dirty flues, the metal or clay liner inside a chimney, are the leading cause of chimney fires. The surest way to check this is from the top of the chimney. That job, however, is best left to a professional. For chimneys that serve the heating system, inspection is equally important. These chimneys can become blocked by bird nests or other obstructions and cause combustion gas to back up into the home leading to carbon monoxide poisoning. Before turning on your furnace or boiler for the season, be sure to have the equipment serviced and the chimney or vent pipe checked for obstructions.

In general, all chimneys should be professionally inspected at least once a year and cleaned as determined by that inspection. As a rule of thumb though, a chimney should be swept by a pro once for every “cord” of wood burned. A cord is a unit of measurement for a pile of firewood that measures 4 feet high, 4 feet wide and 8 feet long.

**Hiring a Chimney Sweep.** Choose only a licensed and credentialed company to do your work. Ask:

1. How long has the chimney sweeping company been in business?
2. Does the company offer current references?
3. Does the company carry a valid business liability insurance policy to protect your home and furnishings against accidents?

The fall is the best time to do a chimney safety and cleaning. Make the arrangements early to avoid the pre-winter rush. **APRA**