



Association of Professional Reserve Analysts

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## The ADVISOR

August 2018

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### Legislative News



APRA has asked the CAI-Wisconsin Legislative Action Committee (LAC) to support APRA's reserve study legislation for Wisconsin. PRA Ted Salgado of Reserve Advisors is the liaison between the two groups. APRA President Mike McDermott submitted a Letter of Intent to partner with CAI-Wisconsin LAC and offer financial support for the LAC's lobbying efforts. We are using this opportunity to promote and fulfill APRA's mission to "provide a common base of knowledge, standards of care, and professionalism within the reserve study provider industry".

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### Membership Updates

**Did you know** that APRA has members in 21 states and territories in North America? Our goal is to continue increasing that number as much as we can. Help us reach our goal by encouraging your network of reserve providers and industry affiliates to join us! Visit [www.apra-usa.com](http://www.apra-usa.com) for detailed membership information or contact APRA Headquarters today.

We also encourage you to stay connected with APRA by [following our page on LinkedIn](#).

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**Questions? Comments?**

Contact APRA  
Headquarters!

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[apra@teamwi.com](mailto:apra@teamwi.com)



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Membership?**

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**Featured PRA Member**



**Roy Helsing**  
The Helsing Group  
APRA Director

**Roy Helsing** is the founder and CEO of The Helsing Group, Inc., a consulting firm specializing in all aspects of California Common Interest Developments. The Helsing Group's services to homeowners' associations include reserve studies, operating budgets, management consulting, maintenance manuals, and reconstruction management. Mr. Helsing holds a M.A. degree from Washington State University, and speaks and writes for various organizations concerning reserve funding, maintenance programs, and related topics. He is a founding member and past President of the Association of Professional Reserve Analysts. In addition, he regularly provides expert testimony concerning reserve funding and adequacy of reserves.

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Want to be a Featured PRA Member? Contact APRA Headquarters at [apra@teamwi.com](mailto:apra@teamwi.com)

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## Refined Over Time

*By Richard Thompson of Regenesi Reserves*

A Reserve Plan (aka Reserve Study) is an essential part of running a homeowner association. It provides the board with a systematic way to track the major repairs and replacements the HOA board should plan for over a thirty year period and a fair way to distribute the costs of those events to all the members who benefit from them over the timeline. A properly funded Reserve Plan eliminates the need of special assessments which are unfair to those that have to pay them. And with adequate funding, maintenance gets done when it's needed instead of piecemeal or deferred.

There are just too many advantages to reserve planning to ignore. The board that follows a reserve plan is succeeding in a fundamental charge: to protect and maintain the HOA's assets which have a direct correlation to the members' home values. Conversely, the board that does not have or follow such a plan is guilty of negligence and failing in its fiduciary duty. The implications are clear and significant and the wise board chooses the high road.

While thirty year plans are dandy, thirty years is a long time and things can happen that are impossible to predict. Inflation moves up and down as does return on invested reserves. Construction costs can be higher or lower based on competition, the state of the real estate market and the price of oil (talk about unpredictable!).

One of the biggest wild cards in this thirty year projection is how well preventive maintenance is done. Preventive maintenance are those little things that, if left undone, have huge impact on a component's useful life. For example, if a roof is not kept clean of moss, or small seam separations repaired, the normal useful life could easily be cut in half. Siding that is not inspected, repaired and caulked on a regular basis can fail years sooner than it should. Failure to perform regular and adequate preventive maintenance can undermine the financial prognostications.

How well the board invests reserve funds also have enormous impact on the funding model. Improving the rate of return an average of only 1 to 2 % over the thirty year period can reduce owner contributions by thousands of dollars (in HOAs with extensive assets, *hundreds* of thousands of dollars).

The message is clear: A Reserve Plan is an essential planning tool for all HOAs but to be truly useful, must be tweaked and refined over time. It's like tending a vineyard. Left untended, the fruit (value) will gradually disappear.

The annual budget review is the logical time to assess the condition of the Reserve Plan. An annual update should be made on the life and cost assumptions of each component included in the Plan, the predicted future Rate of Inflation that has huge impact on future dollar needs and the Return on Invested Reserves which help offset owner contributions to some degree (the higher return, the higher the reward). These judgments should be made by an objective and knowledgeable source like a **Professional Reserve Analyst**<sup>™</sup> (see [www.apra-usa.com](http://www.apra-usa.com) for a list of credentialed PRAs). When the reserves Percent Funded is below Full Funding, the board needs to understand that there is an increasing chance of a shortfall or eventual need for a special assessment the lower the funding level gets. Are there new components that

need to be added, like a major landscape or sprinkler system renovation? Now is the time to make such changes, long before scheduled.

As the saying goes, "change is inevitable" and this is particularly true about Reserve Plans. If your HOA has no Reserve Plan, arrange to have one performed by an credentialed PRA as soon as possible. If you have one, hurray! Now, get out your clippers and start pruning. An annual update will produce great fruit.

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