

APRA Advisor

Association of Professional Reserve Analysts (APRA) 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**.

Safety, Yield & Liquidity

In recent years, reserve planning has become a long overdue reality for many older homeowner associations. The boom and bust mentality of deferred maintenance and special assessments has finally forced proper long range planning and reserve funding. For those that do these things, it means accumulation of hundreds of thousands of dollars and for some, millions.

With the reserve fund growth comes the need for better reserve fund management aka stewardship. With wise stewardship, member contributions are substantially reduced due to the miracle of compound interest. With properly applied investment principles, even a modest condominium can generate several *hundred* thousand dollars in interest earnings over a 30 year projection period. This means that the members will need to contribute that much less out of their pockets. Good news indeed.

The board of directors has a fiduciary responsibility to make sure reserve funds are invested properly and safely. The board should not invest in anything that a prudent person would consider risky *unless* there is a consensus among the members that doing so is okay

(better get that in writing). The investment strategy should also ensure that funds are available when needed.

To refine and define the HOA's reserve obligations, a written Reserves Funding & Investment Policy is extremely important. That policy holds both current and future boards to a standard of accountability and helps prevent the Board from using reserves like a private piggy bank.

A properly prepared reserve study puts the funding issue in proper perspective. While, say, \$50,000 or more may seem to be a lot of money to an individual, it's a pittance to the average HOA when it comes to paying for major repairs and replacements like roofing, painting, siding and paving. Most reserve plans call for the accumulation of hundreds of thousands or millions of dollars. Even though the fund size seems large, it is rarely greater than what is necessary to cover real costs. To stay accurate, the reserve study must be updated annually to ensure that the HOA is on track and being adequately funded.

When the reserve study is funded properly, more money will result (Oh Joy!) but with that money comes the responsibility to invest it wisely. A Reserve Funding & Investment Policy will provide the philosophy but it's up to the board to see that the philosophy is implemented. The larger the fund, the greater the need for investment expertise. While your banker will doubtless have some convenient options, that convenience may be very costly since it can come with a low rate of return.

A trained investment consultant can be hired to manage the reserve funds and maximize yields through safe and insured investments. If your reserve funds are substantial, this is a wise and profitable move. The added investment return will more than pay for the cost of the consultant.

Investment yield is directly related to the size of fund being invested. The more you have, the greater the yield potential. However, some banks don't willingly offer their customers the best rates. As a matter of fact, your bank may not be the best place to invest reserves. For the best rates, you need to go shopping. Next stop, the internet. **Bankrate.com** is one of several online sources for local investment alternatives. You can search by state and city to locate higher CD rates right in your locale.

Fiduciary responsibility requires that directors handle reserves responsibility. When it comes to investing there are three considerations: **safety, liquidity and yield**.

Safety can be broken down into two categories: safety of income and safety of principal. Safety of income measures the likelihood that anticipated income from an investment will continue to be paid in the amount expected and at the time expected. Safety of principal refers to whether the principal value of the investment available at the outset will be available at maturity. Both categories of safety can vary in degree with specific investments.

Liquidity refers to investments that can be converted quickly into cash. Homeowner associations need a certain amount of liquid funds to address major repairs. With a properly prepared reserve study, most repair events can be accurately predicted years in advance. So, if the repair schedule indicates 95% of reserves won't be needed for three years, those funds can be obligated for at least two years with little fear of being caught short.

Yield is simply the return received on the investment. Generally, the longer the maturity period, the higher the yield. So, a three year CD usually yields more than a one year CD. Also, the safer the investment, the lower the yield.

A well planned reserves investment policy factors safety, liquidity and yield into the mix. These are the basics of good stewardship. When the reserves are funded according to a 100% funding philosophy coupled with these basics, the HOA will find a firm financial foundation for the future. [APRA](#)

2010 Symposium

The 2010 APRA Symposium will be held in exciting Las Vegas on May 1st at Caesars Palace, the same week and venue as the Community Associations Institute National Conference. Learn cutting edge reserve study techniques and network with peers. All reserve study professionals are invited to attend. Special discounts apply for early registration.

To register, [CLICK HERE](#) or email apra@teamwi.com

Email WMDs

During the presidency of George W. Bush, much was made of WMDs (Weapons of Mass Destruction). As terminally lethal as these kind of WMDs can be, homeowner associations have their own form of WMD called "email". While boards, managers, homeowners, attorneys and contractors routinely use email properly and efficiently, email has some major pitfalls when misused. Here is a list of tips that will keep email an effective communication tool instead of a weapon of mass destruction:

Never assume that only your intended recipient will read your email. Emails can easily be forwarded to others, intentionally or unintentionally. Emails can be intercepted, deleted or easily modified and forwarded. Before sending an

email, ask yourself if you would die of embarrassment if the wrong eyes read it. If the answer is yes, don't send it.

Email is not conversation. An email, while a great form of communication, still amounts to a monologue and not a dialogue. Email lacks the dynamics of face to face which includes nuances like sight, sound, tone and body language. Writing effectively is an art form that few master while most communicate pretty well in person.

Forever is a long time. Emails can be archived for years and may later be retrieved, especially in the context of litigation. Your off hand email remarks may incriminate you or the board years later.

Avoid email for complex issues. Lengthy emails often get misinterpreted and when multiple recipients are weighing in, someone is not going to get the whole message. Save complex topics for face to face meetings where everyone is there to hear the same thing at the same time.

Flame off. Avoid the temptation to send critical emails, even when the recipient deserves it. Angry emails seldom change hearts and minds and often burn bridges.

Safeguard privileged information. In a genuine effort to keep the lines of

communication open with members, a well-meaning board member may share an email to a non-board member containing advice from legal counsel. This practice, even with good intentions, could effectively waive the attorney-client privilege. Never allow attorney communications outside the board circle unless the board has agreed to distribute it to all members.

Email can be used for good or evil. WMDs have a way of doing substantial and lasting damage. Be careful not to launch an email WMD which you can't recall. [APRA](#)

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Pernicious Contradiction

There is a vicious rumor going around. The board is talking about raising the dues again and everyone's up in arms. They raised the dues last year! And the year before! It's time to fire up the tar and pluck the chicken!

Ever hear this kind of thunder roll through your HOA? At the core of this storm is a pernicious contradiction. Members want the property taken care of but expect the board to do it on a slumlord's budget. With too little money chasing too many expenses, maintenance suffers, home values slide and livability diminishes. Yet, year after year, the Spend No Money Drum gets beaten.

But it wasn't always thus. In the beginning, when the homes were new

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and the future bright, members basked in the glow of their own ignorance. The developer kept the homeowner fees low and, heck, why shouldn't they be? It doesn't cost anything to maintain something that's new. Let's worry about that when the time comes. Well, the time is now, the pot is empty, the assets worn out and finger pointing abounds. A \$3000 special assessment! Who's responsible for this? Why wasn't money being socked away years ago? I can't pay it! I *won't* pay it! Where's my lawyer?

It's at times like these that outside professionals are called for. The board is authorized to hire the expertise it needs to run HOA business. HOA consultants like managers, lawyers, architects and engineers can assist the board in making its case to the members. In the case of deferred maintenance and inadequate reserves, the board should hire a PRA (Professional Reserve Analyst) to perform a reserve study. (See www.apra-usa.com for a list of credentialed members.) A reserve study will consider *all* the repair and replacement issues, not just the urgent ones. A reserve study looks thirty years down the road and charts a course to

proactively deal with these issues. The reserve study will identify priorities which the Board can further prioritize according to funding.

Hiring a knowledgeable consultant to supervise a project is a real bonus. For example, roofing projects should have a roofing consultant who can detail the scope of work, draft a contract, gather proposals from qualified contractors, ensure that the project is done to proper specifications and lien waivers executed. Consultant oversight ensures that the material warranty is not voided because of faulty installation. The cost of a consultant is typically only 1-2% of the total project cost. Clearly, this is an investment worth making. The same principle applies to other major projects like structural repairs and painting.

Playing catch up on major repairs costs a lot of money over a short time period. In an effort to soften the blow to the members, the tendency may be to piecemeal the repairs over a number of years and break large costs into more manageable chunks. But, piecemealing causes the costs to go *up*! The bigger the project, the cheaper the cost per unit. Piecemealing also creates an imbalance in member asset values. If

Building A gets new paint this year, Building A units are more attractive and valuable from a buyer's perspective than those in unpainted Buildings B, C and D. This inequity will lead to resentment among the members that didn't get the benefit of the repairs.

To avoid these costly traps, the board should strive for complete projects. If painting is needed, do *all* buildings at the same time. Same for roofing. Do it all at once, minimize disruption, get it over with and save a bundle.

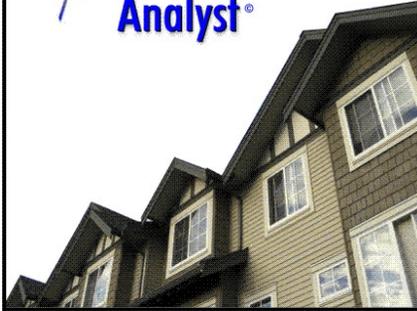
If your HOA is suffering from deferred maintenance, consider raising the money to do multiple projects the same year. If siding needs to be replaced, replace those old leaky windows as well. This is a great investment. And just consider the advantages to ending the bickering, debate and back biting. The sooner completed, the sooner the HOA chest will swell with pride and past resentment forgotten.

So, recognize your HOA's pernicious contradiction when it raises it's ugly head. This is one monster that's best dealt with directly and quickly. The harmony of your HOA hangs in the balance. **APRA**

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