

# APRA Advisor

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**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**.

## Siding System Primer

The purposes of a reserve study are to schedule and fund common element repairs. Following the study recommendations will help minimize or avoid special assessments in the future. A building's siding system, whether stucco, wood composite, cementitious, wood, vinyl or aluminum, is often left out of the reserve study's typical 30 year projection period because it is assumed to have at least a 40-50 year useful life. Unfortunately, many aging HOAs are now being faced with replacing siding without the funds to do so. In most cases, the result has been significant special assessments to owners since the expense was not planned for.

Siding manufacturers have come a long way in providing an improved product and superior warranties for the materials which affords some assurance of protection. However, there are many factors that affect the performance and useful life of the various siding systems and homeowner associations should be aware of the potential challenges of each.

**Stucco** comes in several varieties:

**1. Exterior Insulation & Finishing System (EIFS).** This stucco adaptation is installed over a thick foam panels. Over the past three decades, it has

experienced widespread water intrusion and dryrot problems (some leading to structural failure) because of improper installation/maintenance and the tendency for the foam barrier to incubate dryrot when the building structure/sheeting is exposed to moisture for relatively short periods of time, even months. If your buildings have it, removing and replacing it with Traditional Stucco or another siding alternative is the recommended course of action, the sooner the better.

**2. Traditional Stucco** is applied over cement block, stone or a cement board. When properly installed, it needs cleaning (power washing) plus crack and caulking repairs every 5-10 years to remain serviceable. It has been used successfully for hundreds of years. The key is keeping it watertight.

**Wood Composite Siding.** This kind of siding was very popular in the 1970s and 80s and is made of wood sawdust and glue compressed into panels or siding boards to mimic wood. It was marketed by a number of companies including Louisiana Pacific (LP), Georgia Pacific (GP) and Masonite. Unfortunately, it had a tendency to delaminate under wet conditions and absorb water like a sponge. This tendency fostered dryrot in the siding and structure. Due to wide spread failure, much of it was removed and replaced in the 1990s. If your buildings have it, make sure to aggressively maintain the caulking and paint to protect it from rain water damage. This is particularly important on the caulked and drip edges of the siding where, left unprotected, water will wick into the siding. When it comes to repair or replacement, to achieve a similar look, use a cementitious siding like Hardiplank or Hardipanel.

**Cementitious Siding.** This siding is made mostly of cement with sawdust and glue as binders. It has a number of advantages including being water resistant, pest proof and fire proof. It comes in

many styles including panels, board and shakes. It typically carries a long warranty (50 years). When installed properly, it requires caulking and painting every 8-12 years.

**Wood Siding** comes in a variety of wood types, designs and qualities. Common types include cedar, redwood and spruce. Cheaper quality wood siding may be thinner, have knotholes and a greater tendency to warp, cup and split. High quality wood siding can last many decades when properly installed and maintained. It is important that deteriorated sections be replaced prior to any staining, painting or waterproofing project. This is particularly important for siding that has greater exposure to wind, rain and salt air.

**Wood Shakes/Shingles** have a wonderful warm look but require intensive maintenance when used as siding. Only use the highest quality material available for installations and repairs. Because of cost, it is advisable

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to use them only as a decorative siding feature, like the gable end roof area of a building rather than as a full siding application.

**Vinyl & Aluminum Siding** requires periodic minor maintenance to avoid water infiltration. In addition, periodic cleaning (power washing) should be planned for. As the buildings age, the siding will fail due to missing flashing, fasteners or warping. Annual inspections should be made to repair defective areas. While this kind of siding can be attractive when the highest grade of product, design and installation is used, it has not gained wide acceptance among home owners.

If your HOA has an old or failing siding system, it's time to include a siding replacement component in your reserve study. There are contractors in your area that specialize in siding replacement. Be very careful to choose only those that have many references. Your reserve study provider can be helpful in identifying reliable contractors. This kind of work can easily run \$10,000/per unit and up. For most homeowner associations, easy maintenance and long life should figure prominently in the siding selection.

By Rich Thompson - Regenesis **APRA**

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any given time according to the plan being followed (Baseline, Threshold or Full Funding). Because Baseline Funding allows reserves to fall to zero at times, it has the highest risk of under funding reserves. The Threshold Funding method usually sets the minimum amount (threshold) in reserves much higher than zero so has a declining risk of under funding the higher that threshold is. Full Funding has the lowest risk of under funding reserves since each component is being funded according to its current repair or replacement cost divided by its useful life (100% funding). No homeowner association is immune to special assessments because the future is unpredictable. However, having more reserve funds on hand will reduce the likelihood, impact or amount of a special assessment.

Another concept to keep in mind is that most reserve studies are "cash flow" studies. This means that the reserve funding plan establishes a contribution plan to offset annual reserve expenditures which vary from year to year. The three different reserve funding plans are tested against the anticipated reserve expenses until the desired funding goal is achieved.

Regardless which plan is used, the board should assess an adequate level of reserves through regular assessments so that the cost is distributed uniformly over the entire membership, present and future. Any decision by the board to disproportionately burden future members would be a breach of fiduciary responsibility to future members.

## Reserve Fund Adequacy

Over the years, there have been various positions taken by homeowner association boards and reserve study providers as to what constitutes adequate reserve funds to repair or replace common element components. The recommendation of the reserve study provider may differ from what the board has in mind. This article will clarify the different approaches to reserve funding.

There are three reserve funding approaches:

1. **Baseline Funding** has goal of keeping the reserve fund balance above zero over the period of the reserve study.

2. **Threshold Funding** has a goal of keeping the reserve fund balance above a specified dollar amount (say, \$50,000) or percent funded amount (say, 50%) over the period of the reserve study.

3. **Full Funding** has a goal of attaining and maintaining reserve funds at or near 100% funded each year over the projection period of the reserve study which is usually 30 years..

The goal of all funding plans is to establish reserves of some amount. But that amount can vary significantly at

With more states setting minimum standards for reserve studies which include requirements for annual updates and periodic on-site inspection updates, reserve study providers are advised to be consistent with definitions, funding plans and nationally accepted reserve study standards like those provided by the Association of Professional Reserve Analysts (see [www.apra-usa.com](http://www.apra-usa.com)). This will eliminate confusion at the board level and a better basis for board reserve funding plan selection.

*Article by Dan Huntley - Reserve Studies by Reserve Funding **APRA***

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is simply to build reserves, the funds can be put in the general reserve fund. There is no requirement that an entire special assessment has to be collected before it's spent however, if all the money is needed to pay for a specific project, the board needs to be careful about starting a project without the money to pay for it.

**Q** For many years, the board has not enforced architectural and design restrictions. Consequently, many unit owners have installed storm doors and/or changed the exterior light fixtures on their units. There is now little or no conformity regarding those additions or changes. Our recent reserve study shows that we are woefully underfunded, so conformity is the least of our worries! Should the board ignore reserving for these items and move forward until we are financially solvent? Will the non-conformity affect property values? Is a little individuality such a bad thing in an HOA?

**A** Yes, your board should reserve for these items for a number of reasons:

1. The HOA is responsible for doing so since it affects the common elements.
2. Non-conformity does reduce property values in common wall housing since the additions vary in quality and, frankly, some additions look awful (no accounting for taste).
3. Individuality should be limited to the unit interior. That is what the governing documents allow and if adhered to, no

## Ask the Professional Reserve Analyst

**Q** Our governing documents state that the board may levy an assessment if the reserves are inadequate. The governing documents also state that making additions, alterations or improvements costing over \$10,000 shall be approved by a majority of the owners. Is a roof replacement considered an improvement?

**A** No, the "additions, alterations or improvements" language pertains only to things that weren't there before. While the board has the authority and duty to reserve for common element repair and replacements, discretionary spending exceeding the indicated dollar amount should be approved by the members.

**Q** Can the board spend reserve funds for day to day operating expenses? I realize this is not a smart thing to do but is it prohibited by federal or state law?

**A** There is no federal statute that deals with HOA reserves. Some state HOA statutes have provisions about how reserves are spent like California, Oregon and a few others. However, if the HOA's governing documents don't forbid it, the board can spend reserves for operating expenses. As you say, it is not a smart thing to do unless the reserve money is only being borrowed for an emergency or unanticipated shortfall. If the board is regularly under budgeting and using the reserves to make up for it, things must change. Reserves are intended for specific and future renovation, not the board's poor budget planning.

**Q** I've heard that special assessments have to be kept in an escrow account and cannot be used until all owners have paid. Is this true?

**A** It depends. Special assessments should be kept in a designated account if they are to be used for a specific purpose, like repairing roofs. If the special assessment

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one will object other than guests.

4. The board has no authority to allow owner changes to the common area. Doing so does not legitimize the action, it only complicates enforcement for future boards and exposes the directors who approved such to personal legal liability for exceeding their authority.

**Q** Our HOA consists of townhomes built 25 years ago. The majority of the residents are seniors. Bylaws require the HOA to pay for all exterior maintenance and repairs. The members resist monthly fees greater than the immediate expenses because "I don't want to leave any money on the table when I sell." So, we currently have a low reserve fund and are now facing large roof and painting expenses. The board plans to special assess to pay for the work. Can a unit owner "opt out" of the special assessment by declaring he will replace his own roof and paint when he decides it is needed?

**A** If the HOA is responsible for maintaining the roof and paint, no owner has the right to "opt out" nor does the board have the authority to give up the HOA's responsibility to do the work. The board should press on and do what the governing documents said it should.

However, your HOA desperately needs a reserve study so that the board can properly plan for repairs and collect money for reserves without special assessments. Special assessments are the result of poor planning and unfair to those that have to pay them. [APRA](#)

*Be nice to people on your way up because you'll need them on your way down. Wilson Mizner*

## Reserve Basics

If there is one certainty in homeowner associations (HOAs), it is the turnover of board members and managers. So periodically, it is appropriate to review key parts of the HOA's budget like reserves. This article provides an overview of the reserve process for new

as well as "not so new" board members and managers.

**What are reserves?** Reserves are funds set aside by an HOA to pay for the repair or replacement of assets for which the HOA is responsible. The fees that HOA members pay are usually distributed between two budgets, the operating budget and the reserve budget. The operating budget pays for the day-to-day expenses of managing and maintaining the HOA and the reserve budget is a "sinking fund" for future repairs or replacements.

**What is a reserve study?** A reserve study is a budgeting guide which provides a detailed inventory of all the common element components with (usually) 2-30 year useful lives that will need to be repaired or replaced. The reserve study determines the remaining life of each item, the cost to repair or replace it and calculates the annual contribution required to adequately fund each item. If an adequate funding plan is followed, special assessments will be unnecessary.

**What items are included in a reserve study?** The reserve analysis process begins with an accurate inventory of components for which the HOA is responsible and that have a life of thirty years or less like Roofs, Decks, Equipment, Paint, Pool Equipment, Fences, Asphalt Sealcoating & Overlays, Exterior Lights and Siding.

**Why does my HOA need a reserve study?** In many cases, the original budget prepared by the developer for an HOA is inadequate. Incomplete inventories and outdated costs can result in substantial deficiencies in the reserve account, leaving the HOA with inadequate funding to properly repair or replace all of the components for which it is obligated to maintain.

**Who performs reserve studies?** **Association of Professional Reserve Analysts** offers the **Professional Reserve Analyst™ (PRA)** designation which requires years of experience to achieve.

### Summary of Reserve Basics:

- Reserves are funds set aside for future replacements or repairs.
- A reserve study is a two part

document:

Part 1 is the inventory of the HOA's reserve components that includes quantity, condition, and location. Part 2 is a funding plan to replace or repair those reserve components.

- Components included in a reserve study typically would have useful lives of 2-30 years.
- Select a reserve preparer with a PRA designation.

*By Rich Thompson - Regenesis [APRA](#)*

## High Medical Costs

A woman brought a very limp parrot into a veterinary office. As she laid her pet on the examination table, the vet pulled out his stethoscope and listened to the bird's chest. After a moment or two, the vet shook his head sadly and said, "I'm so sorry, Polly has passed away."

The distressed owner wailed, "Are you sure? I mean, you haven't done any testing on him or anything. He might just be in a coma or something."

The vet rolled his eyes and left the room returning a few moments later with a beautiful black Labrador. As the bird's owner looked on amazement, the dog stood on his hind legs, put his front paws on the examination table and sniffed the dead parrot from top to bottom. He then looked at the vet with sad eyes and shook his head.

The vet took the dog out but returned a few moments later with a cat. The cat jumped up and also sniffed delicately at the bird. The cat sat back, shook its head, meowed, and ran out of the room.

The vet looked at the woman and said, "I'm sorry, but like I said, your parrot is most definitely 100% certifiably... dead." He then turned to his computer, hit a few keys and produced a bill which he handed to the woman. Still in shock, she took the bill and cried, "\$150? Just to tell me my bird is dead?"

The vet shrugged. "If you'd taken my word for it the bill would only have been \$20. But with the Lab Report and the Cat Scan..." [APRA](#)