

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**.

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Four Funding Options

When a major repair or replacement is required, a homeowner association (HOA) has essentially four options available to address the expenditure:

The first, and only logical means that the board has to ensure its ability to maintain the assets for which it is obligated, is by **assessing an adequate level of reserves** as part of the regular assessment, thereby distributing the cost uniformly over the entire membership. The HOA is not only comprised of present members but also future members. Any decision by the board to adopt a reserves funding plan which would disproportionately burden future members in order to make up for past reserve deficits would be a breach of its fiduciary responsibility to those future members. Unlike individuals determining a personal course of action, the board is responsible to the members as a whole.

If the homeowner association was setting aside reserves using the vehicle of the regular assessments, it would have the full term of the roof life, for example, to accumulate the necessary money. Additionally, the contributions would be evenly distributed over the entire membership and would earn interest as part of that contribution.

The second option is for the HOA to **acquire a loan** from a lending institution to pay for the repairs. In many cases, a bank will lend to a homeowner association using future assessments as collateral for the loan. By borrowing, the HOA is incurring interest expense along with the original principal amount. It also puts the HOA in the position of collecting hundreds or thousands of loan payments from the members and enforcing collection on those that don't pay.

The third option, too often used, is to **defer the required repair or replacement**. This option creates an environment of declining property

values due to the homeowner association's inability to keep pace with the normal aging process of the common components. This, in turn, can have a negative impact on sellers by making it difficult for potential buyers to obtain financing. Increasingly, lenders are requesting copies of the most recent reserve study before approving loans, either for the homeowner association itself, a prospective purchaser or a member seeking to refinance an existing loan. If reserves are inadequate to maintain a lender's collateral, the loan might be denied.

The fourth option is to pass a **special assessment** to the membership to cover the expenditure. When a special assessment is passed, the HOA has the authority and responsibility to collect it, even by means of foreclosure if necessary. However, just considering a special assessment cannot guarantee that it will be passed if a vote of the members is required. Consequently, if the special assessment is not passed, needed repairs cannot be performed. Additionally, while new homeowner associations require relatively little in the way of reserves, those reaching 15 to 20 years of age find many components reaching the end of their effective useful lives. Having many components coming due at the same time with no money to pay for repairs has a devastating effect on the budget and marketability of member property.

So clearly, assessing an adequate level of reserves is the logical way to go. To know what that "adequate level" is, use the services of trained reserve study professionals like those carrying the Professional Reserve Analyst (PRA) credential awarded by the **Association of Professional Reserve Analysts**. For a list of PRAs, go to www.apra-usa.com and see Members.

*Adapted from an article by David Schwindt PRA **APRA***



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One Percent Rule

Most building professionals would agree that water intrusion problems at exterior walls typically are found at changes in plane and/or changes in material, such as door and window perimeters and wall intersections with decks. The "One Percent Rule" states that 99 percent of the sources of water intrusion damage is found in 1 percent of the building envelope.

Water infiltration usually occurs at the transitions between the work carried out by different contractors. In most cases, successful long-term weatherproofing of these transitions requires careful design and installation of flashing crafted from corrosion-resistant metal or flexible waterproof membranes.

The International Building Code (IBC) includes the following guidance for flashing exterior walls:

- Flashing shall be installed at the perimeters of exterior door and window assemblies, exterior wall intersections with roofs, chimneys, porches, decks, balconies and similar projects and at built-in gutters and similar locations where moisture could enter the wall.
- Flashing with projecting flanges shall be installed on both sides and the ends of copings, under sills and continuously above projecting trim.

- Flashing shall be installed in such a manner so as to prevent moisture from entering the wall or to redirect it to the exterior.

These instructions are an example of performance language. The IBC authors do not prescribe any specific flashing design or material or any standard installation practice; instead, the IBC simply mandates that a project's designer and builders have a shared responsibility to design, craft and install all flashing necessary to keep the exterior walls dry.

Example of a Flashing No-No. A majority of construction defect litigation cases arise from simple lack of attention to the One Percent Rule. Consider the case of hardboard lap siding and wood trim boards that form a "bellyband" at the floor line between the first and second stories. Typically, metal Z-flashing should be installed between the siding and trim board to direct water away from the building. If installed improperly, water will collect against the hardboard siding and infiltrate into the wall assembly.

To complicate matters, in an attempt to correct the leakage problem, a bead of caulking is often applied to the gap where the metal flashing is located. The caulk, however, blocks the intended exit route for any incidental moisture from a source located higher up the wall. Further, the caulking quickly fails, allowing continued leakage.

The Blame Game. In practice, virtually every party involved in the design and construction of a failed building gets blamed during the construction defects litigation process. This often implicates contractors that had nothing whatsoever to do with the issue being litigated. This often is done to extort money from the innocent parties' insurance carriers to get them released from the litigation. Sometimes, it is an unprincipled effort by a guilty party to hide their culpability behind a smokescreen of half-truths and misrepresentations. For example, in the case of inadequate flashing, a sheet metal installer may argue any or all of the following positions:

"I installed the metal flashing with proper outward slope but the flashing later was pushed flat by the siding

installer. (It's the sider's fault!)"

"The hardboard siding soaked up water like a sponge, damaging the building paper and causing mold growth on the gypsum sheathing. (It's the manufacturer's fault!)"

"The framer should have provided outward slope in the horizontal wood trim board under the flashing. (It's the framer's fault!)"

"The architect did not supply a satisfactory detail for how to flash this transition. (It's the architect's fault!)"

"It was the painter who applied caulking that trapped water within the wall. (It's the painter's fault!)"

"I did exactly what the general contractor asked me to do. (It's his fault!)"

Without debating the merits or legitimacy of any of these claims, they do help explain the most serious problem plaguing designers and builders throughout North America: skyrocketing insurance premiums due to the high costs of prosecuting and defending a growing number of mold and moisture damage claims that in most cases still can be traced back to an insufficient focus on the One Percent Rule.

The ultimate solution to this insurance crisis is education. To that end, many industry organizations and manufacturers have established websites that detail proper flashing practices. An excellent resource is the Build a Better Home® program established by www.apawood.org which provides an extensive series of flashing details and basic construction guidelines for foundations, walls and roofs.

Until all participants in a building's construction, from the owner to the designer to the builder to the foreman to the skilled laborer truly recognize the importance of proper flashing of the building envelope, increasingly costly mold and moisture damage claims will continue to threaten the viability of the construction industry.

From an article by Colin Murphy and Lonnie Haughton of Trinity ERD [APRA](http://www.apawood.org)

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No Fault Asphalt

Asphalt paving is a common road and parking lot surface in homeowner associations. While cheaper to install than concrete, it must be regularly maintained to achieve its longest useful life. Asphalt has two major weaknesses that limit its useful life:

1. Poor resistance to UV radiation (sunlight). Asphalt pavement is a combination of rock, sand and liquid asphalt that binds everything together. UV radiation breaks down the asphalt glue so that it no longer hold the rocks and sand together, gradually eroding the top surface. The most obvious sign is the gradual change in color from black to gray. Next, the asphalt begins to look rough and piles of sand appear in the low areas of the parking lot. In the later stages, the bigger rocks fall out. Because the asphalt is oxidizing under the UV radiation, it loses its flexibility. Flexibility is extremely important because asphalt can take great loads and bounce back to its original condition. As asphalt loses flexibility it becomes brittle, cracks and breaks.

2. Poor resistance to petroleum products. Petroleum products like oil and gas cause damage since asphalt is a petroleum based product. Gasoline and oils will dissolve the asphalt, soften the structure and cause major damage to asphalt.

Based on the poor resistance to UV radiation and chemicals, it is logical to conclude that some sort of coating should be used to protect the asphalt from the harmful elements. Asphalt can be effectively protected by using a seal coating which acts as a barrier between the harmful elements and the asphalt. A coal tar emulsion sealer is highly resistant to water, gas and oil, salt, chemicals and UV radiation.

Before seal coating, the asphalt must be cleaned to be free of all dirt, vegetation, and other foreign debris using blowers, sweepers, brooms, and sometimes high pressure washers. Once the pavement is cleaned, existing oil spots should be primed so that the sealer will adhere. Normally two coats of sealer are applied by squeegee or spray. Once the seal coating is completed, it is very important to keep traffic from the sealed surface for 24 hours. Traffic

before 24 hours will cause premature wear and increased tire marking. During this 24 cure period the striping can be accomplished so that after the 24 hours, your parking lot is completely ready for traffic.

Another great asphalt preventive maintenance is crack sealing which should be done in conjunction with seal coating. If cracks are left unattended, water is able to penetrate to the base to destroy its strength and load bearing capabilities. It is evidenced by "alligator" cracking, sunken areas and potholes. Cracks at least 1/8" or wider should be treated with a hot poured crack sealant which remains effective for 3-7 years.

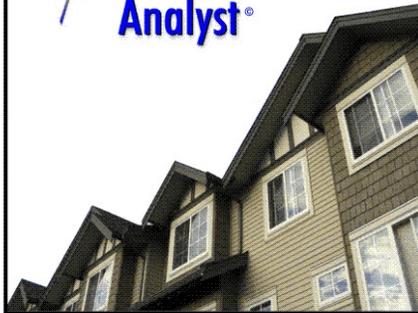
Seal coating and crack sealing can double or triple the useful life of the asphalt at a fraction of cost of an overlay. Seal coating also gives great curb appeal and the impression of good overall maintenance. There is much to gain by caring for paving. Engage in no fault asphalt maintenance practices.

By *Richard L. Thompson*
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No Pipe Dream

As buildings age, the systems that deliver utilities can fail. Electrical circuits short out and pipes spring leaks. While spot repairs often keep this deterioration under control, there may come a time when a total restoration is called for. This is particularly true of old or defective plumbing. In years past, failed plumbing required extensive destruction of the building to access the pipes for removal and replacement. The cost and disruption to residents was enormous. Fortunately, a new, less intrusive method is now available that actually leaves original plumbing in place.

In-place pipe restoration is now a viable alternative. The procedure involves cleaning out the pipe interiors and then applying a protective epoxy coating. The coating eliminates further corrosion by permanently separating metals from contact with the water. First used in this country by the United States Navy, epoxy pipe lining technology has since been used successfully in many apartments, homeowner associations and commercial facilities throughout the United States.

The process begins with draining and drying the pipes. Building occupants can be provided with a temporary water source during the short repair period. The pipes are cleaned with compressed air and a sanding garnet to remove interior rust and scale. Next, the epoxy coating is applied to the pipe interior and cured. Lastly, the pipes are reconnected to original system fixtures, pressure tested and flushed before they are returned to service.

The safety of pipe lining products has been carefully scrutinized by public health testing agencies. Epoxies used for relining pipes carry a National Sanitation Foundation (NSF) Standard 61 Certification, an accreditation that is only available after stringent public-health agency testing.

In-place pipe restoration is a cost effective approach to the repair of existing water piping systems. On average, the cost savings range from 30-50% over traditional removal and replacement methods. Added to this is the bonus of not having to rebuild walls and ceilings. Extended warranties are usually available.

As with other building trades, pipe restoration applicators must follow stringent protocols which requires special training and equipment. As with any extensive and expensive repair, checking out the contractors references is extremely important. Ask for a list of similar jobs done in your area.

So, in-place pipe restoration is one pipe dream you can put in your pipe and smoke. It's the real deal and can save you a pipe full.

Information from American Pipe Lining NW
www.ampipelining.com **APRA**

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APRA members provide high quality reserve study service throughout the United States and Canada.

APRA Institute offers professional reserve study provider education with its Annual Symposium, Webinar Series and PRA-Only website resources.

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The Maintenance Plan

The purpose of a Maintenance Plan is to instruct a homeowner association board and property manager how to properly maintain common element components. Following a well prepared Maintenance Plan will help extend the useful life of the components and reduce costs to the members.

An effective preventive maintenance plan should satisfy the following five key goals:

1. Preserve owners' investment. Preventive maintenance can

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extend the life of building components, sustaining and enhancing the property's value.

2. Help buildings function as they were intended and operate at peak efficiency. Because preventive maintenance keeps equipment functioning as designed, it reduces inefficiencies in operations and energy usage.

3. Prevent failures of building systems. Buildings that operate trouble-free allow the occupants to enjoy the property as intended. Preventive maintenance includes regular inspections and replacement of equipment crucial to building operations.

4. Sustain a safe and healthy environment. Protecting the physical integrity of building components preserves a safe environment for residents.

5. Provide cost effective maintenance. Preventive maintenance can prevent minor problems from escalating into major failures and costly repairs. Preventive maintenance can be handled relatively cheaply, efficiently and systematically through advance scheduling while major failures always happen after hours, at peak billing times and to equipment that must be special ordered (Murphy's Law).

The objective of the Maintenance Plan is to provide clear direction to the board and management how and when to provide repairs to building and grounds components. If consistently followed in conjunction with a properly prepared reserve study schedule, the components will enjoy their maximum useful lives and related repair costs kept to a

minimum. This is how a successful homeowners association was meant to operate.

By *Richard L. Thompson*
www.Regensis.net **APRA**

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Change is Inevitable

There is an old saying that goes "change is inevitable except from a vending machine". But when it comes to renovation projects, homeowner associations should be extremely wary of "change orders". Change orders are a way for unscrupulous contractors to jack up the price of a project they've won with a low bid. Change orders are sometimes necessary since it's impossible to identify all of the underlying conditions in a building or predict every potential problem before a project begins. Therefore, the questions are: What are legitimate change orders and how much should be allotted for them?

Many projects run over budget because the firm hired to prepare the scope of work, the budget projection and the construction documents for bidding don't spend enough time doing investigative site work. This leads to problems and to money spent addressing overlooked conditions that should have been spotted.

Don't Duplicate Work. On a typical

project, the engineer or architect should conduct a hands-on examination of the proposed work to determine underlying conditions. This is necessary to verify the condition of the building and the extent of repairs needed. Of course, even the best design work is dependent on properly administering the quality of construction.

Set Aside a Contingency. Every project should include an additional contingency of 20% of the total bid for unforeseen circumstances that will need change orders. The contingency should take into account items that cannot be detected during the initial site inspection. Older, neglected buildings or buildings inadequately repaired previously are more likely to have hidden problems that go undetected.

Unexpected problems aside, a contingency also gives the board the option to add items or features during the course of construction. Working with a cost cushion enables the board to choose, for example, a better quality but more expensive waterproofing material than originally specified. The contingency allowance is not intended to cover major changes to the scope of work that should have been accounted for during the design phase.

Two Requirements. To control excessive change orders, your agreement should state that:

1. The price of a base-bid item will be renegotiated when its quantity increases by more than 10 percent above what was specified in the original bid document.

2. All change orders are to be put in writing and signed by the board or manager before the additional work is undertaken. Orally approving change orders will only lead to arguments later about who agreed to what.

To avoid unnecessary cost overruns, make sure to prepare a well investigated and comprehensive scope of work and never pay for any changes not approved in writing. That way, more of the "change" remains in the HOA's pocket.

By *Stephen Varone and Peter Varsalona - Rand Engineering & Architecture* **APRA**

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APRA Institute Webinar Series

APRA proudly offers its 2012 Webinar Series to those holding the PRA credential for continuing education credit, other reserve professionals, HOA boards and managers. Each webinar is 90 minutes and features cutting edge information presented by nationally recognized experts. This year's webinars include:

The Word of HVAC. Russell Keeler PE reviews typical high rise heating and cooling systems, their life expectancies, costs and maintenance protocols. **September 27, 2012.**

APRA Standards Review. Association of Professional Reserve Analysts adopted national standards for reserve studies in 1995. Rob Forney PRA presents APRA's recently adopted Standards of Practice which expand on APRA's original concept. This is a must for reserve study professionals. **October 25, 2012.**

Deck Design, Materials & Red Flags. The Deck Expert Bill Leys discusses the good, the bad and the ugly about decks. **November 16, 2012.**

Seeing Beyond the Glare of Eco-bling. Green building architect Peter Pfeiffer discusses ways to improve energy efficiency and reduce energy consumption. **December 18, 2012.**

For times and registration details, go to www.apra-usa.com and click on APRA Webinars. Special discounts apply for APRA Members. **APRA**

A Matter of Attitude

There's a wise expression that goes, "The customer is always right". This doesn't mean that the customer is always right because the customer is frequently wrong. It refers to the attitude one should have in dealing with others. If one party dismisses, minimizes, ignores or is unwilling to hear the other out, it creates a wall in the relationship that impedes a successful outcome. That wall must be removed before productive communication can take place.

In HOAs, this scenario plays itself out as boards and owners position themselves for confrontation. Interestingly, this "us and them" mentality overlooks the fact that board members are homeowners themselves. Although the Board represents the association and owners represent their own personal interests, the end result equally impacts one and all.

There once was a fellow named Ben
Who confounded his friends now and then
By climbing the stairs
And screaming, "Who cares?"
Again and again and again.

by Michael Palin

Knowing that someone cares is one of the most important components of human relationships. We all struggle with the answers to perplexing questions, many of which have no answer that we can understand in this life. The comfort of a caring and sympathetic ear can go a long way to filling that void.

This concept goes for building harmonious relationships within your community. Even though the question may be business related like pets running amuck or someone parking in your space, the fact that the board's demeanor is one of caring can make the difference whether an issue comes to resolution or remains a thorn in the corporate rear end.

When it comes to contention and confrontation, it is essential to first build a perception of caring. Caring doesn't mean you agree with the other party. It means you give them respect as a human being and will hear them out. It means proposing a compromise whenever possible rather than invoking "The Law". If this is the platform on which you build your association business and personal relationships,

much fruit will follow.

Who cares? YOU should. It's only a matter of attitude



Money for Nothing

Dear Mr. Secretary of Agriculture,

My friends Darryl and Janice received a check the other day for \$40,000 from the federal government for not raising hogs. So, I want to go into the "not raising hogs" business myself next year.

What I want to know is, in your opinion, what is the best type of farm not to raise hogs on, and what is the best breed of hogs not to raise? I want to be sure that I approach this endeavor in keeping with all government policies. I would prefer not to raise Razor hogs, but if that is not a good breed not to raise, then I can just as easily not raise Yorkshires or Durocs.

As I see it, the hardest part of this program will be keeping an accurate inventory of how many hogs I haven't raised. If I can get \$1,000 for not raising 50 hogs, will I get \$2,000 for not raising 100 hogs? I plan to operate on a small scale at first, holding myself down to about 4,000 "not raised" hogs, which will give me \$80,000 income the first year.

These hogs I will not raise will not eat 100,000 bushels of corn. I understand that you also pay farmers for not raising corn and wheat. Will I qualify for payments for not raising wheat and corn not to feed the 4,000 hogs I am not going to raise? I want to get started not feeding as soon as possible, as this seems to be a good time of the year to not raise hogs and grain.

I am also considering the "not milking cows" business, so please send me any information on that also. In view of these circumstances, I understand that the government will consider me totally unemployed, so I plan to file for unemployment and food stamps as well.

Regards,

Duster Benton

PS: Would you please notify me when you plan to distribute more free cheese?