Association of Professional Reserve Analysts

The ADVISOR

April 2018

The 2018 Symposium

APRA Board of Directors pictured seated in front, L to R: Roy Helsing, Rich Thompson, Mike McDermott, Megan Konecny, and Rob Forney

APRA's Annual Symposium was held in Nashville on April 7, 2018. The event was infused with great energy and a sense of community as industry leaders came together for exclusive learning opportunities & networking. We are hopeful that the valuable information and analysis received contributes positively to the industry going forward. Thank you to all who attended and helped make the 2018 Symposium a rousing success!

A special thank you to APRA's Symposium Committee and Board of Directors; they worked tirelessly to provide industry-relevant content and a welcoming atmosphere.

Stay tuned in the coming months for our 2019 Symposium Save-the-Date!

News Updates

Welcome!

The organization would like to extend a warm welcome to the following new member companies:

- Reserve Professionals
- A Reserve Company

Questions? Comments?
Contact APRA Headquarters!

(p) 877-858-5047
(e) apra@teamwi.com

Interested in earning your PRA Credential?

Check out the APRA website for more information!

Featured PRA Member

Robert (Rob) Forney
Complex Solutions
APRA Vice President

Robert Forney is the President and founder of Complex Solutions. Rob has personally prepared thousands of reserve studies since 2001. Projects have included High-rises, Condo Hotels, Master Associations, Worship Facilities, Commercial properties as well as residential condominium and single-family home communities. Rob holds the Professional Reserve Analysts (PRA) designation from the Association of Professional Reserve Analysts and serves on the Board of Directors of that organization as the Vice President. In 2012 he served on the APRA Standards Committee that wrote the Professional Reserve Standards for the Reserve Study industry. He is also a frequent guest speaker and lecturer on financial, economic, legislative, and all other topics related to Reserve Studies.

* * * * *

Want to be a Featured PRA Member? Contact APRA Headquarters at **apra@teamwi.com**

Yield, Safety, & Liquidity

By Richard Thompson of Regenesis Reserves

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 been replaced with proper long range planning and funding. For all of them, that meant accumulation of hundreds of thousands of dollars and for some, millions.

With the reserve fund growth comes the need for better reserve fund management (also known as good 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 of 50 units 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 broad 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 good Reserve Plan 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 HOAs 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 seem large, it is rarely greater than what is necessary to cover anticipated 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 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 investments consultant can be hired to manage the reserve funds and maximize yields through safe and insured investments. If the 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. However, banks don't always offer HOAs better 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 because major repairs can happen unexpectedly. However, with a proper Reserve Study, most repair events can be accurately predicted years in advance. 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 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.

W175N11117 Stonewood Drive, Suite 104, Germantown, WI 53022
+1 (877) 858-5047, ext 12 | apra@teamwi.com