



Association of Professional Reserve Analysts

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## The ADVISOR

May 2019

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### The 2019 Symposium



APRA's Annual Symposium was held in Tucson on April 6, 2019. 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 2019 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.

APRA is also truly appreciative for the sponsors who supported our Symposium activities: RoofMaxx and Complex Solutions, LTD.

Stay tuned in the coming months for our 2020 Symposium Save-the-Date!

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## Featured PRA Member



**Al Ruth**  
Lone Star Reserve Studies

Alan C. Ruth, (Al), is originally from the Chicago and northern Illinois area. After being schooled at the Aerospace Institute in aeronautical engineering he joined the US Air Force and served as an aircrew member of C-130 aircraft. Al was involved in transporting troops, cargo and conducting tactical air drops for cargo and troops. After an Honorable discharge he continued a career in construction.

Al began in the construction business at the age of 26 building his first single family 2,400 square foot home on his own. Eventually Al took a job with major builders in the area as a construction superintendent for multi-family homes, light commercial and heavy industrial construction in Northern Illinois and Wisconsin.

With a down turn in the economy in the Midwest Al relocated to Houston, Texas taking employment with some of the largest corporate home builders in the country. At one-point Al was responsible for purchasing materials and contracting labor for an operations completing 100 homes per month. Al was promoted quickly holding positions like V.P. Purchasing, V.P. Construction, V.P. Quality Control, Division Executive V.P. and V.P. Operations. This was all done during a time while being relocated several times; to Georgia, California Central Valley, Las Vegas Nevada.

Al held the General Contractor's license in California and Nevada for the builders he worked for in those areas. He also held a Real Estate License, Inspector of Structures License, Community Manager License and Reserve Study Permit #1 in Nevada. Al earned his Certification by ICBO as a Building Inspector and worked part time as a construction expert witness for construction defect litigation cases.

Al first got involved with reserve studies in 1987 while working for a national builder's condominium division in Atlanta Georgia.. As he was also appointed to the Boards of all HOA

communities under construction as the declarant representative, a need for transition reserve studies became clear to him. As the V.P. of Purchasing and contracts Al was the most knowledgeable about costs and construction materials hence began completing crude straight-line reserve studies for the builder's communities.

With an extensive background with construction materials, methods, costs and expected life spans in construction for over 25 years, at that point, Al left the construction business and started a reserve study business in 1998. He then also started a community management company in 2003. Al completed over 2,000 reserve studies and built a management company to 43 community mix of single family and condo by 2015.

In 2015 Al and his wife sold the management company and relocated to Dallas, Texas to be closer to family and grand kids. He started Lone Start Reserve Studies operating in Dallas, Houston, Austin and San Antonio. *Performing Texas reserve studies for Texans!*

Al has been a member of APRA since 2006.

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### Questions? Comments?

Contact APRA  
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## Monetizing an HOA

*By Richard Thompson, PRA of Regensis Reserves*

Money is the grease that makes a homeowner association's (HOA) wheels turn. Having enough of it in all the right places ensures the common elements are maintained and member property values sustained. While HOAs have their own governmental system, they have the ability to draw the members into the budget process in a way big government can't. With a bit of planning, the budget can be a harmonizing exercise instead of a battleground of discontent.

Philosophically, it's important for the board to adopt a "we're one of you" attitude because, frankly, it's true. All HOA members, including board members, pay their share of the HOA freight. Even if

the board has the power to unilaterally adopt the budget, approaching it as a consensus building exercise will work wonders in how the message is received.

**Form a Budget Committee.** It is often difficult to get members to volunteer for board positions but getting some to serve on a Budget Committee is not so tough. There are always a certain number of bean counters out there that would make time for a 4-6 week stint crunching numbers. Targeting CPA or bookkeeper members is logical but there are others that can provide valuable service, particularly if they are longtime residents who know the HOA's history or have served on a past board.

**Update the Reserve Study Annually.** This 30 year plan to perform periodic repairs and replacements on common elements has a *profound* impact on the annual budget. A typical common wall HOA needs to put around 1/3 of the monthly assessments into reserves each year. The reserve study needs to be updated annually so that the projections and assumptions remain as accurate as possible. Aspects of the study that will need to be adjusted annually include:

**1. Starting Balance.** The amount of money held in reserves at the beginning of the fiscal year. It changes every year and is the platform upon which the Funding Plan is built.

**2. Inflation Rate.** Inflation has a profound effect on future dollar needs roughly tripling the dollars needed over the 30 year projection period. The average inflation rate changes every year so the reserve study needs to reflect that too. Historical inflation rates are available at [www.inflationdata.com](http://www.inflationdata.com). Since inflation rates can be volatile from year to year, it makes sense to use a 15-30 previous year average.

**3. Investment Return.** Many HOAs let reserve funds languish in money market or savings accounts which produce the lowest yields available. However, investing reserves strategically can yield impressive interest revenue over 30 years, revenue that offsets member contributions. Using the reserve study renovation event schedule as a guide, decisions can be made on how much reserve money can be invested in, say, Certificate of Deposits (CD) and for how long. In many cases, most reserves could be invested for 3-5 years at higher yielding CD rates. Using a technique known as "laddering", CDs are purchased in varying terms like 1, 2, 3, 5 and 10 years. Those terms should be lined up with amounts and years where liquid cash is needed for renovation. Laddering can produce an average yield in the 2-3% range in 2019. While this doesn't sound like much, over the 30 year projection period, it can yield tens, even hundreds of thousands of interest revenue. Since interest earnings offset member contributions, this is good news indeed.

**4. Component Cost Changes.** The reserve study predicts future costs based on current actual expenses or area average costs adjusted by inflation. Average costs can vary from year to year. Roofing, for example, took a dramatic increase in 2015. If the reserve study is not adjusted to reflect this increase, the fund will fall short to pay for one of the most expensive components.

**5. Component Life Changes.** The useful life of a component assumes quality material, proper installation plus regular and adequate maintenance. For example, if a roof is not kept clean and repaired regularly, the predicted useful life of, say, 25 years, might need to be reduced to 20 or even 15 years. Periodic site inspection updates recommended at least every three years will reveal if components are aging as predicted. If they are not, useful lives are shortened which means reserves will need to be accumulated faster to meet the new schedule. In some cases, a component life can be extended although not advisable when it comes to high priority components like roofs, paint, siding and decks.

**6. Adding or Removing Components.** Sometimes, it makes sense to add or subtract components. For example, since insurance deductibles are now \$10,000 and up, it makes sense to build an Insurance Deductible reserve. Since a hot tub/spa is maintenance and utility intensive

(expensive), it might make sense to shut it down permanently and remove all related components from the reserve study.

Reserve studies are living documents with many moving parts. Preparing and updating one takes specialized skills. A **Professional Reserve Analyst (PRA)** is a credentialed member of **Association of Professional Reserve Analysts (APRA)**, the reserve study industry's trade association. PRAs have a minimum of 5 years of full time experience preparing reserve studies. Such third party expertise provides the board with the expert and objective analysis it needs to make informed decisions. For a list of PRAs, go to [www.apra-usa.com](http://www.apra-usa.com) Membership>Member Directory section.

**Poll the HOA Members.** Asking the members for budget suggestions is largely symbolic, like raising the flag and see if anyone salutes. There may be a couple who do but most don't even notice. But the mere fact that all are asked goes a long way toward building support. Those that respond may be thoughtful or total flakes but the board doesn't need to commit to including the suggestions, only to consider them. Gather this information the month prior to Budget Committee meetings so it can be included for consideration.

**Budget Review Meeting.** Once the Draft Budget has been compiled, a Budget Review Meeting should be scheduled. This could be part of a regular board meeting if the budget is simple or a part of a special meeting if the budget is complex or contentious. All members should be invited and encouraged to attend. A formal presentation should be made and presenters prepared to answer questions or justify line items.

**Budget Approval.** After the review is held, formal approval of the budget should take place. If this requires a quorum of members to vote, sending out formal announcements, ballots, etc. are in order. If the board has the authority to approve the budget, it's still a good idea to inform the members when and where that approval will take place. It should happen at least 30 days prior to the start of the new fiscal year. Assuming the budget has increased (and it usually should due to inflation alone), the board should give members at least 30 days notice of any fee change.

**Circulate Approved Budget.** Once the budget has been formally adopted, a copy of it along with detailed notes explaining each line item and a side by side comparison of the past and future budgets should be sent to each member. A cover letter should explain what the new fee will be if equal or include a matrix showing the different fee levels if prorated by percentage or square footage. This would be the perfect time to distribute payment envelopes and coupons if you use them.

The whole budget process generally takes 4 to 12 weeks from start to finish depending on complexity and the requirements for approval. There are few exercises that have a more profound effect on the HOA's destiny so don't downplay it. The budget is a chance for a new beginning, improvement and team building. Don't miss the opportunity to engage the members.

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