

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**.

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Yield, Safety & Liquidity

In recent years, reserve planning has become a long overdue reality for many 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 means accumulation of reserves in the hundreds of thousands of dollars and for some, millions.

With the reserve fund growth comes the need for better reserve fund management. With good reserves stewardship, member contributions can be substantially reduced. With properly applied investment principles, even a modest size condominium can generate many thousands of 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 own 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 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 an HOA when it comes to

paying for major repairs and replacements like roofing, painting, siding and paving. Most reserve funding plans call for the accumulation of hundreds of thousands or millions of dollars to meet the funding needs. Even though the fund size may seem 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 usually comes with low rates 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. However, some banks don't willingly offer their customers the 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. 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.

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Fiduciary responsibility requires that the board 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 done reserve study, most expenses 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

three 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.

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HOA Project Roll-Out

Winter is the time of year that the board should be arranging and reviewing proposals for fair weather renovation projects. Painting, fencing, pool replastering and roofing are but a few of the major items that fit the profile. There are several practical reasons for starting the process early:

Contractors are more available. Winter is a slow time for many contractors. This means they have the time to thoughtfully consider your work and produce a good proposal.

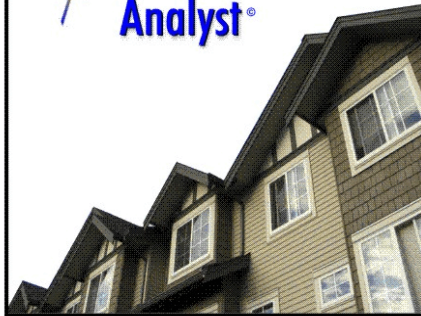
Better pricing. Sometimes the work you want done can be performed during the winter months, (even certain kinds of roofing). If you agree to start the project now, you just may save a significant amount of money. When work is slow, many contractors are willing to offer better pricing to "seal the deal".

Scheduling preference. If you accept a contractor's proposal now, you can generally dictate the scheduling. Set the date now. If you wait you may not

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make the schedule at all.

Arranging for money. If you haven't accumulated enough reserve funds, you will need several months to discuss, approve and collect a special assessment.

Coordination with residents. If the project is extensive and disruptive, you will want to warn residents well in advance. This will give them the opportunity to work around or even plan vacations strategically.

Always get references and check them out. It is important to use only contractors that have a good track record. Make sure the references are for work that is comparable in size and complexity to yours. It is not uncommon for small contractors to get in over their head when trying to nail down work. Feel comfortable that they can deliver what they promise.

Always, always, always use contractors that are properly licensed, bonded and insured to do the work they are contracting to perform. If you have any question about requirements, contact the state licensing board. Use it.

Get named on their insurance. Insist on getting a current copy of the contractor's liability insurance coverage directly from his insurance agent. If you accept the proposal, require that the HOA be included on this insurance as an "additional insured" and get an appropriate and current insurance certificate from the contractor's insurance agent to prove it.

Make progress payments. Do not make advance payments on the project work. This is often the sign of a contractor on a "shoe string" that may be using your money to pay other jobs' labor or supply bills. You could be left high and dry with uncompleted work. Instead, use progress payments that pay for work actually completed. Usually, make no more than one per month and be sure to inspect the work to verify completion.

Consider paying for a Performance Bond. For large and expensive projects, requiring a Performance Bond provides assurance that the contractor will perform, or, another contractor can be hired to finish the job. It costs extra but is often worth it.

Get Lien Waivers. When making payments, have the contractor sign a Lien Waiver for the amount tendered. (Your attorney can provide the appropriate form or ask the state contractor's board for a sample.) A Lien Waiver is the contractor's promise that he has paid (or will pay) all labor, material and supply bills related to the work to date. Keep in mind that if your contractor "forgets" to pay his suppliers or subcontractors, those folks have the right to place a lien on the HOA property to secure their debt. It's a good policy to require copies of all supply, material and labor bills be attached to and referenced in the signed Lien Waiver.

It's also appropriate to have all materials delivered directly to the job site and to pay for materials directly. You will need someone in charge of ordering the material and making sure it's delivered and secured.

For any substantial construction, it is very important to involve an attorney who can draft or review the contract. Don't bypass this important step. There's a lot riding on what the board is obligating the HOA to.

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There is much planning involved in rolling out a successful renovation project. Forget the leap of faith on this one. The safety net just may not be there when you land. Get a jump on your renovation projects and get a quality job done on schedule and at the best price. **APRA**



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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, homeowner associations with 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 terrific 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

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States Navy, epoxy pipe lining technology has since been used successfully in many homeowner associations 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 your HOA can put in its pipe and smoke. It's the real deal and can save you a pipe full. **APRA**

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Powder Problem

A condition that exists in some homeowner associations is called "efflorescence", a term sometimes confused with "fluorescence", as in the lightbulb. It is, in fact, a deposit that appears on the surface of stone or masonry which is formed by the crystallization of soluble salts carried to the surface by moisture. In layman's terms, it looks like white powder. The good news is that efflorescence is primarily a visual problem. Very rarely does it cause structural problems and often it diminishes with time.

Several conditions must occur for efflorescence to appear. The soluble salts must be present in the bricks, mortar, or transported by water into the masonry from another source. There must be sufficient water to carry the salts in solution to the surface of the masonry. Then, evaporation causes the

salts to come out of solution and be left behind as the salt deposits.

Soluble salts come from many elements or minerals found in the materials from which bricks and mortar are made. The sand used in mortar can have significant quantities of soluble salts. To reduce the efflorescence effect in mortar, experienced masons use only washed sand which reduces the soluble salt content. But even with careful selection of materials, soluble salts can also be present in the soil behind a wall or the water used to mix the mortar.

Efflorescence will often stop on its own when the supply of soluble salt in the bricks or mortar becomes exhausted. It can also stop if the source of water which dissolves the soluble salts is cut off. The process can also stop if the water in which the salts are dissolved is prevented from getting to the surface of the masonry. However, if a wall is used for retaining purposes, the process is impossible to stop unless the back side of the wall is waterproofed to prevent water intrusion

There are several options to remove the deposits which include using a stiff brush followed by flushing with water. However, this process can sometimes dissolve the salts and cause them to soak back into the wall. Using a weak solution of muriatic acid on some types of salts sometimes works however, acid solutions can cause severe burns to skin and eyes. This should only be attempted by experienced contractors. **APRA**

Color Your World

Did you hear about the homeowner association member who painted his townhouse flamingo pink with a dark purple trim? The HOA board was not amused, filed suit to have it changed and won the case. But the whole issue may have been avoided with some proaction on the board's part to establish an approved color palette.

An approved color palette takes into consideration architectural design, geographic location and demographic make-up of the residents. The goal is to provide acceptable alternatives that

APRA Symposium May 5-6, 2012 Hampton Inn-Tropicana Las Vegas Nevada

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most can live with. Most major paint suppliers offer a free decor consulting service. These consultants will meet with the board and recommend different color palettes (body and trim combinations) based on what colors are "hot" or popular in the buyer market. Some even offer software which allows the HOA to virtually explore many color combinations on its own buildings with a mere click of a button. Once given the green light, the consultant will produce color boards that can be displayed at the clubhouse or some other suitable common area location for the owners' scrutiny.

Every ten years or so, it makes sense for the homeowner association to update the color palette to keep the property from looking dated. Buyers do pay attention to home fashion trends so this isn't just an idle exercise. Having contemporary colors translates into real market value.

The color palette not only keeps the property in step with the times, it helps protect neighbors from wildly garrish applications by setting the ground rules ahead of time. Mr. Purple aside, most owners want to do the right thing and will honor the board's standard, especially if it has been generated by an "expert" INSIDER TIP: As general rule, the board should take advantage of

consultants whenever expensive or controversial renovation is done. Members are much more likely to accept the recommendations of a "professional" than the board's. This technique takes the board out of the HOA snipers' crosshairs.

So color your HOA world wisely for value, livability and community harmony. Communicate the standards ahead of time, use expert consultants, poll the members and enjoy the artful results. **APRA**

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