

# 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**.

## Reserve Ability

Maintaining the common elements is a core purpose of every homeowner association (HOA). Those common elements can be as simple as an entry monument or as involved as siding, painting, roofing, landscaping, pools, paving and much more. All of these components wear out at some point and must have substantial repair or replacement. The costs are high and funds must be accumulated to address those costs. All of this needs thoughtful advance planning which is summarized in a Reserve Study.

A reserve study identifies the common elements that the HOA is responsible to maintain, the life expectancy of each component and a current repair or replacement cost. This information, when combined with the current rate of inflation and return on invested funds over a projection period of, normally, 30 years will produce an annual contribution amount adequate to meet those future costs. By collecting reserve contributions monthly (normal for a condominium), costs are fairly distributed among the owners that benefit. Whether an owner is long term or short term, the amount of individual reserve contribution is directly related to the individual benefit received.

While a reserve study may or may not

be required by state law or the HOA's governing documents, no HOA should be without one. Properly maintaining the common elements directly affects the livability and market value of the owners' homes or units.

Each year, the reserve study needs to be reviewed and revised for accuracy. The reserve fund balance, inflation rate and investment rate always change. Any reserve events that actually take place should be amended for price and particulars. Any known cost changes need to be revised. Going through this exercise and reforecasting the 30 year projection ensures that the board always has the best information available and that reserve contributions are keeping pace with costs.

One way of funding reserves is by special assessment. Basically, when money is needed, current members pony up the money. Several complications exist with special assessment funding:

### 1. Owner Vote Might Be Required.

The board may not have the authority to approve a special assessment and must obtain a vote of the members. It is not uncommon for the level of vote needed to be quite high, like 2/3 or 3/4 of all members. This could make getting approval for a special assessment extremely difficult.

### 2. They're Unfair.

A special assessment impacts only current owners, regardless of time in ownership. So owners that have not enjoyed the facilities are forced to pay for those that have benefitted but have sold their property.

### 3. Hard to Collect.

At any given point in time, a certain number of members are unable to pay a special assessment due to divorce, job loss, disability, illness or other valid reasons. The result is the same: cashflow problems for members mean cashflow problems for the HOA. The HOA can

file a lien but that doesn't mean the money comes when needed.

Another challenge to getting a reserve study done or funded is **Short Term Thinking Syndrome (STTS)**. HOAs with large numbers of seniors often have little interest in investing in long range planning. Many members see reserves as paying for a benefit they will not enjoy. The truth is reserves pay for assets as they are being used up. When collected monthly, reserve contributions merely pay for what the current residents got the benefit from. Paying into reserves is like refilling the gas tank of a rental car. You only put back what you used. If your HOA suffers from STTS, point out the reality of what is happening. Most of these folks want to be responsible and will cooperate when the reality is explained.

Reserves in a homeowner association are an absolute must. Having the right amount of funds and a reliable schedule for getting the work done is a fundamental that no HOA board should be without. The **Association of Professional Reserve Analysts** is the nation's most prestigious organization for reserve study professionals. Most of our members have the coveted PRA (Professional Reserve Analyst) designation that denotes years of experience and expertise. For membership details and member contact information, go to [www.apra-usa.com](http://www.apra-usa.com) **APRA**

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## Ask the Professional Reserve Analyst™

**Q** Our board has attempted to raise HOA fees to adequately build reserves but year after year we are met with resistance from a small vocal group. They keep saying “get in touch with us when the painting, roofing, etc. come due and we’ll write you a check.”

**A** This is a common response from those that want to pass on their financial responsibility to someone else in the future. To keep reserve funding fair, all members should pay a fair share of reserve funding needs. Paying less than a fair share puts the burden on others in the future to make up the difference.

To determine what a fair share is, each reserve component's current cost should be divided by its useful life and the results of all components added together to determine how much should be collected each year. Then apply whatever fee schedule (monthly, quarterly, etc.) and fee allocation formula (equal, percentage) to determine what fair funding is.

Another argument might be, “Why

should I pay for someone else’s future roof. The answer is, fairly allocated reserve funds do not pay for someone's future benefit. They only pay for the portion of the reserve components that current members used up, no more, no less. With the fair funding approach, each owner pays into reserves only an amount needed to replace what they personally benefitted from whether it is one year or ten years’ worth.

Don't be fooled by the “we’ll pay later” arguments. Paying later shifts financial responsibility to others that don’t owe the money. And the board will surely be faced with raising an unpopular and possibly uncollectible special assessment.

**Q** Our HOA is considering doing a reserve study. We have an owner who is a CPA that says he will do one for nothing. While free is a good price, what are the downsides of this arrangement?

**A** HOA members (regardless of profession) are rarely qualified to do reserve studies unless they have extensive construction background and knowledge of HOA operations. A reserve study is meaningless if the numbers are not correct. Homeowners typically do not have access to reliable construction cost information or contractors so end up guessing at or using off the cuff estimates given by contractors over the phone. Accurate reserve studies require site work by trained experts that know what they are looking at.

The issue of conflict of interest with a homeowner generated reserve study is also a real one, especially if you have members pressing for lower homeowner fees which is almost always the case. There will be a steady pressure to suppress reality to justify reducing fees.. This is always detrimental to the asset values and livability of the community.

Have your reserve study done by a

trained professional with both credentials and local references to prove capability. Having and following a good reserve study can dramatically increase asset values and marketability. Having a bad one is like an appendix: absolutely useless and one day may do you in.

**Q** Our planned community is new. Currently we are revising the governing documents and having heated debates regarding fences, sheds and swing sets. Our ownership is mixed, some young families, middle aged professions without children and retired professionals. Some outspoken Board members want total restrictions from these items. How do we create a compromise that will suit everyone?

**A** Unless there are architectural design restrictions against fences, play equipment and sheds on owner property already in the governing documents, the Board has no authority to dictate other than what is placed in the common area. Owners are free to do as they please on their own property as long as it's legal and complies with city/county building code. *continued...*

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The related issues of noise, quality of installation and aesthetics (harmonious with the prevailing colors and architecture) are something the Board can be involved with but not to the same degree as common area control. For example, if an owner decided to construct a fence out of used pallets, it would definitely degrade the area property values. The same could not be said of play equipment unless the kids were allowed to run amuck and create havoc. So banning play equipment or fences on someone's private property is going too far even if the majority agree it's a good thing. Private property rights apply to HOAs just like anywhere else. Common area control, however, is a different matter and the HOA can control what goes on there. [APRA](#)



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## Refining Design

One of the most influential committees often found within a homeowner association is the ARC (Architectural Review Committee). This committee's mandate is to oversee modifications to member units/homes that are consistent with approved policy and to preserve or enhance property values.

The ARC is more an administrative function than a deliberative one. For it to function properly, the Board should enact clearly written guidelines for the committee to follow rather than let it make it up as it goes. If the design guidelines are not present or complete, the first order of business is to enact a policy with as many specifics as possible so that the committee merely has to compare an ARC request to the policy. If the policy is complete, it will save both the ARC and members an enormous amount of time in sorting out what's what. A well written Architectural Design Policy leaves little to chance and committee discretion.

## 2009 SYMPOSIUM

APRA's 2009 Symposium takes place on **April 25th** at the Sheraton New Orleans Hotel, a short stroll to the world famous French Quarter.

The Symposium educates and networks reserve study professionals from the USA, Canada and Australia. Formal presentations and round table discussions will serve to build a common body of knowledge.

As in years past, the Symposium is synchronized with the Community Associations Institute National Conference so that those interested in attending both events will only need to travel once.

To register, email [info@apra-usa.com](mailto:info@apra-usa.com)

The Architectural Design Policy should be easily accessible to all members, ideally, on the HOA's website. Regular reminders of the policy should be noted in newsletters with something like "The HOA has appearance and design standards which **must** be approved by the Architectural Review Committee. Direct all approval requests to (fill in the blank)".

It is common for governing documents to reference architectural design or restrictions but the criteria is usually far from complete or can get outdated. The Board has the authority to expand the criteria as long as it's in line with the governing documents. If not in line, the governing documents must be amended. It's always a good policy to circulate any new design policy with the members for review.

There may be design changes that are needed in order due to the passage of time. For example, cedar shake roofs may have been dictated as the original standard. However, cedar shake roofs are very expensive, difficult and costly to maintain, have a short useful life and a higher fire risk. Alternatives like 40 year architectural composition roofing that mimic the shake look make sense, reduce cost and maintenance plus increase fire safety. There are other design changes that may make sense like this one.

Another reason for design change is to achieve contemporary styling. Paint color, in particular, can make a tremendous difference in curb appeal. While that chocolate brown looked groovy in the 70s, it really drags buyer appeal down now. It is very important not to lock the community into a color palette that is detrimental to resale value. Color palettes should be reviewed at least every five years to make sure the community is keeping pace.

Fences have also undergone vast improvement in both material and design. That privacy wall sided to match the building should be replaced with a contemporary design that achieves privacy with cheaper and easier to maintain materials.

One of the most significant design values is landscaping. Developers often install landscaping that looks great during the sale phase but over years overgrows or otherwise becomes unsuitable to a mature landscape look. There are new plant and bush species available that improve appearance while reducing maintenance and water requirements. The design requirements should give specific guidance for practical, aesthetic and integrated results, rather than each homeowner installing a hodge podge of plantings. In common wall communities like condominiums, resident plantings should be restricted to patios, decks and balconies. Allowing common area planting makes it very difficult for the landscape contractor to maintain a consistent look and entices some residents to commandeer an ever expanding amount of common ground.

While the ARC has a fair amount of power to review and approve requests, the Board of Directors has the ultimate responsibility for decisions. There should always be an appeal process that provides for Board review.

Appeal can be simplified if the Board also acts as the ARC since the issues are pretty much already understood by all parties. The appellant is simply being given one more chance to convince the Board of why that lime green paint really will dress up the neighborhood.

One important ARC philosophy is to promote good design rather than block creativity. Pay close attention to this one. The attitude of the ARC should never be: "NO...now what was your question?". Responses should be considerate, compassionate and helpful. Remember, members often are members emotionally invested and passionate about their ARC requests. It's extremely important to guide the process carefully and not alienate a neighbor. Compromise if possible. If the request is just too far off base, an expression of empathy softens the blow. Or, if the request has some merit in the overall design policy, suggest

trying to get it approved at the next Annual Meeting as a new option. That leaves the door open to a "maybe" if a majority of the members agree.

Refining HOA design takes time like a fine wine. Be flexible and recognize that tastes do change. The wise ARC keeps a finger on the pulse of design and anticipates the coming tide. [APRA](#)

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