

Preserving the Value of Your Community

CAI-NE Expo
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ADVANCED RESERVE SOLUTIONS



Speakers

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Assessing Capital Project Needs

If you live in a community association, you have an interest in preserving/improving the community value.

This seminar will review association financial planning and project execution to make this happen.

Assessing Capital Project Needs

Establish financial requirements for funding capital projects with a savings plan

- Organized funding approach
- Experienced property condition evaluation
- Easily understandable report

Typically referred to as Reserve Study

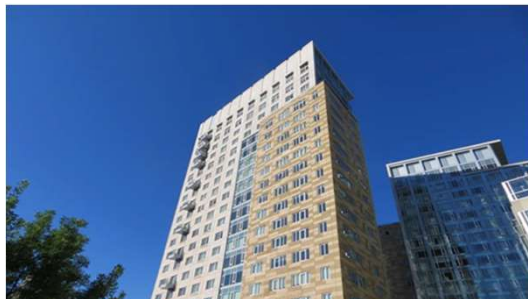
Assessing Capital Project Needs

Organized procedure to implement capital projects

- Planning phase
 - Specifications
 - Projects that make sense to combine
- Obtaining proposals
- Monitoring project progress

General Reserve Study Scope

Community Associations are responsible for a list of common components/elements defined in their governing documents



General Reserve Study Scope

- Typically these components are exterior to units
- These common elements must be repaired or replaced by association funds at the end of their useful lives



General Reserve Study Purpose

- Reserve accounts are intended to provide capital to fund these repairs and replacements
- Association boards have a duty to maintain community
- Reserve study provides a financial road map to a sustainable community and ...

General Reserve Study Purpose

Stable/predictable association finances
and unit owner contributions



Capital Project Funding

- **Capital Reserve** is an account that is planned for through the annual budget to save necessary funds for the **Replacement** of common elements:
 - Roadways, parking garages, driveways, sidewalks, roofs, siding, decks, stairways, pools, tennis courts, drainage, lighting

Capital Project Funding

- Alternative to reserve account funding for large capital projects:
 - Special assessments (one-time charges)
 - Loans
- Special assessments can cause problems for unit owners
- Loans increase costs for the association

Capital Project Funding

- Loans costs example:
 - Typical terms: 7-10 years @ 4-1/2 % interest
 - Project borrowing: \$100,000
 - Interest first year about \$4300
 - Over the life of the loan interest will total \$17,000 - \$24,000
- Better uses for funds than paying interest
- Loans shift burden for current expenses onto future owners

Capital Project Funding

- Proper reserve funding promotes stability
- Allows owners to plan their financial lives logically with the comfort of knowing that special assessments are unlikely



Who Performs a Reserve Study?

- Professional Engineer, P.E.
 - State license
- Reserve Specialist, R.S.
 - CAI designation
- Practical considerations
 - Construction experience
 - Ability to explain results to association in person and in writing

Reserve Study Promotes Fairness

Fairness Example

- Example roof replacement
- Useful life of an asphalt shingle roof is about 20 years



Reserve Study Promotes Fairness

Fairness example

- Bob buys condo 1997
- Bob lives in condo for 10 years
- Bob should pay for $\frac{1}{2}$ cost of new roof expected to be installed in 2017



Reserve Study Promotes Fairness

Fairness example

- Bob sells to Jane in 2007
- Jane lives in condo for 9 years
- Jane should pay for slightly less than $\frac{1}{2}$ (9/20) cost of new roof expected to be needed in 2017



Reserve Study Promotes Fairness

Fairness example

- Jane sells to Pat in 2016
- Pat should pay for 1/20 cost of new roof likely needed in 2017



Reserve Study Promotes Fairness

Fairness example

- Six months after Pat moves in, board seeks proposals for roof replacement
- Board accepts a proposal and roofs are replaced in summer 2017



Reserve Study Promotes Fairness

Fairness example

- Roof replacement cost is \$10,000 per unit
- If there are sufficient funds in reserve, no special actions needed



Reserve Study Promotes Fairness

Fairness example

- If reserve account is inadequate to fund roof replacement, funds need to be obtained
- Options
 - Association loans
 - Special assessment to unit owners

Reserve Study Promotes Fairness

Fairness example

- Board votes to have a special assessment cover costs of half of re-roofing project



Reserve Study Promotes Fairness

Fairness example

- \$5000 per unit equals $\frac{1}{2}$ of total cost
- Only current owners pay special assessment
- Pat is paying for $\frac{1}{2}$ of roof but she should have only paid $\frac{1}{20}$
- Unless this was known before Pat's purchase, she overpaid by \$5000

Importance of Reserve Fund

- Artificially keeping the common charges low or the same year after year does not fund reserves for capital expenditures and will not create a fair, sustainable community

Importance of Reserve Fund

- RESALES – Market values
- Mortgage Lenders – investment and risk
- Quality of the community – Curb appeal
- Fiduciary responsibility of the Board of Trustees/Directors
- Cost of MONEY!

Importance of a Reserve Study

- Provides a financial roadmap for funding reserve account for a sustainable community association
- Creates a general schedule of capital projects expected over time

Setting Priorities for Maintenance

- Remaining Life – Reserve Analysis
- Operational vs. Long term
- Deferred Maintenance – too complex
- Workmanship – Original and “band aid”
- Building Materials of today vs. years ago
- Expectations vs. Specifications
- Specifications – Devil is in the detail

Board Responsibilities

- **Regular walk-throughs**
 - With the Board
 - Manager and Contractor
 - Setting expectations
- **Contract Standards**
 - Landscaping
 - Exterior/Interior Maintenance,
 - Replacement, cleaning, painting
- **Approving architectural alterations that impact the Association**
 - Window boxes, bench seats, built-ins, doors

Common Elements/Maintenance

- **Architectural Details**
 - Roofs, valleys, siding
 - Windows, Doors, Sliders, Skylights
 - Decks/Balconies/privacy screens
 - Gutters and leaders
- **Electrical**
 - Common area lighting –roadways/driveways/parking
 - Building area lighting –emergency exits/common area
 - Elevators

Critical Details



Critical Details



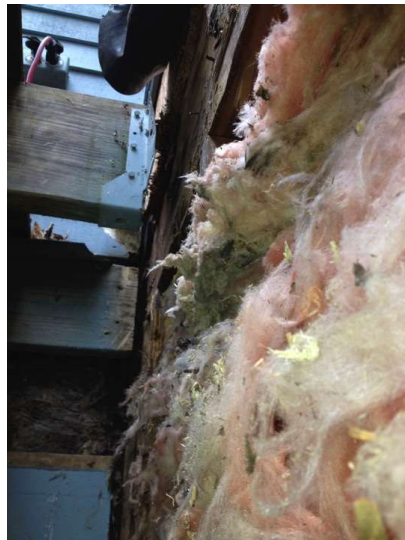
Critical Details



Critical Details



Critical Details



Critical Details



Common Elements/Maintenance

- Mechanical
 - HVAC and mechanical equipment
 - Fire Suppression system
 - Pool pumps and Equipment
 - Clubhouse Mechanicals
- Site
 - Roadways, driveways, parking, drainage, sidewalks
 - Wells, Septic Systems
 - Recreational Facilities – playground, tennis, pool
 - Refuse areas

Critical Details



Critical Details



Board Responsibilities

- **Standard Specifications for Units Owners**
 - Doors, windows, sliders, Installation,
 - Replacement or new construction
 - Trim finishing details
- **Difficulties in what's mine and what's the Association's responsibility**
 - Extended decks, screened in porches, extended gardens, built-in benches, window boxes
- **Budgeting responsibly**
 - Waiting year after year because we don't have the money

Critical Details



Critical Details



Plan and Prioritize Needs

- Look at the buildings, roads and landscaping in phases
- Understand the condition of these items in each phase
- Plan the order in which each item needs to be done within each phase
- Track the maintenance items for each phase.
- Deferred Maintenance results in premature aging and further rot and disrepair

Critical Details



Critical Details



Critical Details

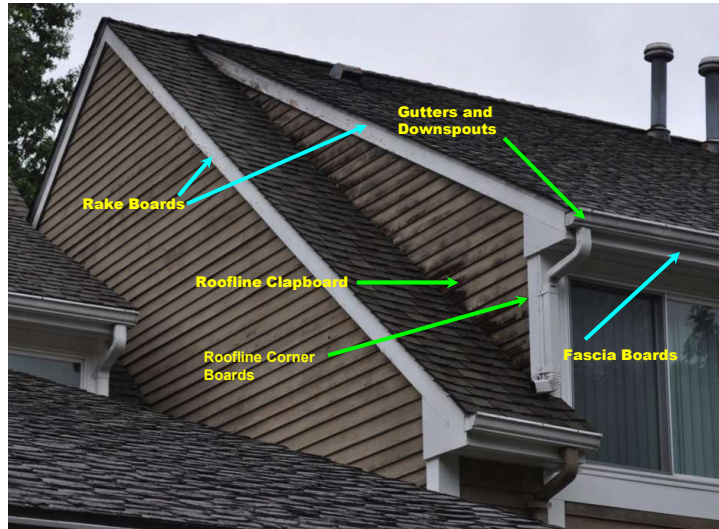


Capital Project Overview

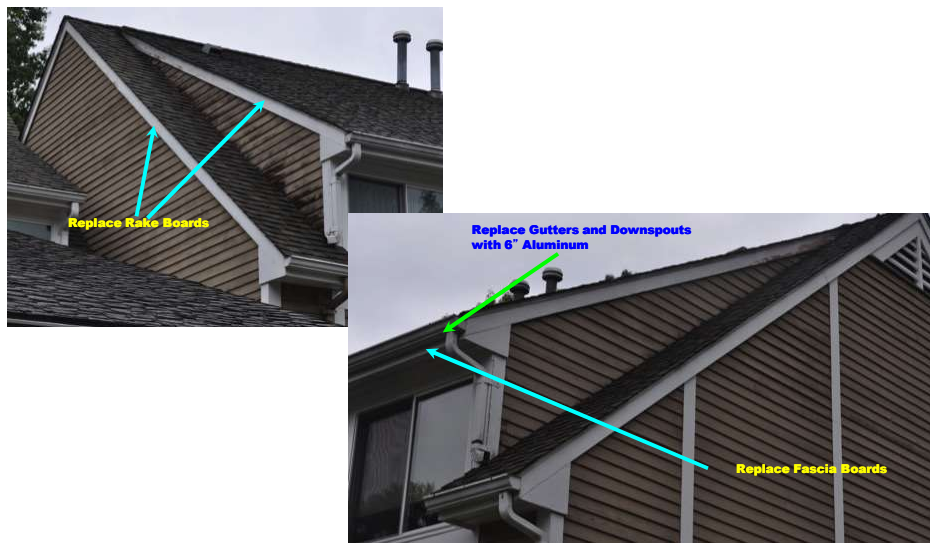
Capital Project – Start to Finish

- Setting Priorities - \$\$
- What is costing us money
 - Example: Roof Replacement
- Setting Expectations
 - New shingles, skylights, gutters...
- Specifications are details
 - Materials to be used, how many units, duration, job meetings, payment terms, final sign off

Building Exterior Terminology



Building Exterior Options



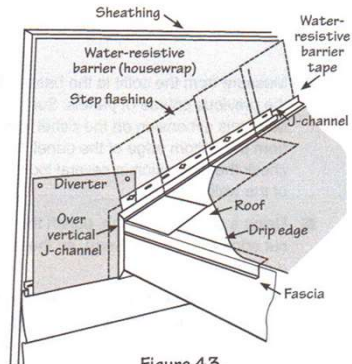
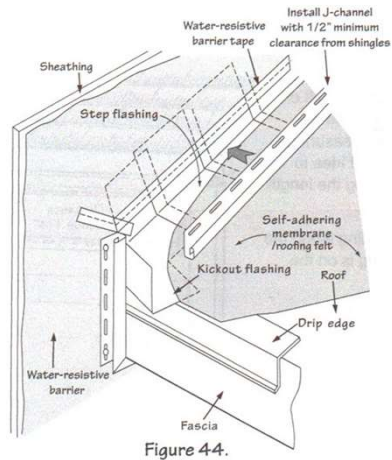
Building Exterior Options



Project Specification vs Expectations

- Asking for Engineered Specifications on big jobs and long range projects
 - Examples: Roofs, wood replacement, vinyl siding, roadways, sidewalks, multilevel interior project
- Unit pricing, Hourly - per Man-hour Rate
- Lump Sum Pricing – What does it include
- More clear in the specs, less ambiguity later

Critical Details



Details from Vinyl Siding Institute Installation Manual

Bidders Meetings

- Required to Bid, ensures bidder has visited the site, who is serious and who is not
- Everyone hears the same questions,
- Addendums to the Bid - Favorable Collaboration
 - Qualified changes and concerns of the bidders, concerns of the Association, Result in Bid Addendums,
- Phased project: Request pricing over numerous years
Section by section,
- Clear Specification turns in to Clear Contract
- COMMUNICATION

Contractor Selection

- Contractor interviews with the Board/Committee
 - Employees or Subcontractors
 - Insurance for subs, Who manages them
 - Onsite Project Manager, How many people on site at a time,
 - Store Materials
 - Daily clean up
 - What is their Experience working in Inhabited Communities
 - Do they provide port-o-lets?
 - What is the best way to communicate? Phone, Email, Text
 - Payment Expectations
- Select the Bidder

Pre-Project Meeting

- Contract Signing
- Project Start date and work plan
- Storage and work areas
- Homeowner notification
- Clear lines of communication – WHO – WHEN
 - Clerk of the works, Board member, Manager
- Set-up regular status meetings - weekly,
 - Discuss expectations for meetings, Progress reports
- Clarify CO procedures, Pictures, request format,
- Payment submission process

Project Meeting

- Progress
 - The Good, the Unexpected, the Resolution
- Weather – Impact now or in the future
- What's next
 - Plan for the next week, Material issues? Labor issues?
- Homeowner notification – Working or Not
- Communication – Working or Not,
- Sign-off work completed to date
- Anything else needs adjusting

Final Meeting

- Walk -through
- Punch list
- Final sign-off date
- Warrantee transfer date, Conditions
- Final Payment

Critical Details



Critical Details



Critical Details



Capital Project - List

Determine Project

- Specifications/Expectations
- Pre-bid meeting - Addendums
- Contractor interviews
- Contractor Selection
- Pre-Bid Meeting – Contract Signing
- Weekly Meetings
- Final Meeting and walk through
- Final Payment
- Transfer Warranty

Planning and Value

- **Regular maintenance**
 - Allows long term planning for maintenance needs
 - Allows financial plan for long term planning
- **Provides consistency with fee increases**
 - Keeps the maintenance rotation fresh
 - Provides continuity from Board to Board
- **Money spent now is value later**
 - Cutting corners costs money later
 - When the place looks good so does the value

Reserve Study and Capital Projects

- **Reserve Study provides:**
 - General project planning estimate of anticipated capital project schedule
 - Financial roadmap for funding capital projects
- **Capital Project Execution provides:**
 - Specific logical project planning/grouping
 - Careful protocol from specifications through successful project completion

Reserve Study and Capital Projects

Reserve Study and Capital Project
Execution together provide:

Value to the Community!
Thank you!

Thank You!

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