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HOA Industry Articles & Links

THE 10-YEAR RESERVE STUDY

Preparing a reserve study with only a 10-year financial projection window can produce a significantly misleading forecast for an association. An association that bases its reserve budget based on looking at expenditures over only the next ten years is going to miss seeing expenditures for any longer life items, such as a roof, until they fall within the ten year "window." That means you only have ten years, rather than 25 to 35, to fund that for that roof replacement.

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JUST ONE PERSON CAN MAKE A DIFFERENCE

Sometimes, just one person can cause massive problems within an association. But, these ten simple steps can help you neutralize the negative impact of this person and get things back on track.

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LOAN STRUCTURES & LONG TERM BUDGET SHORTFALLS

Associations need to face the realities of financing major repairs. Commercial loans are becoming a more mainstream approach to help resolve underfunding issues. The reality is that underfunding exists only because of a failure to properly plan. The fact is, when it comes to major repairs, you will either pay now, or you will pay later. Properly structuring loans can help resolve the issue.

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Association of the Week

Camden at Harbour Pointe



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ASSOCIATION OF THE WEEK - CAMDEN AT HARBOUR POINTE



Camden at Harbour Pointe is a beautiful association nestled next to a nature preserve in Mukilteo, Washington. Mukilteo is a waterfront community located about 25 miles north of Seattle. These lovely townhomes were built in 2005 and consist of 103 attached single family 3-story townhomes.

This prestigious neighborhood is well located. It is minutes from the freeway and, for recreation, the Harbour Pointe Golf Course, which boasts amazing views of the Puget Sound and Olympic Mountains. Shopping and restaurants are easily accessible as the association is located within the Village Center community. Boeing and other major employers are nearby, allowing access to a technology corridor.



BUSINESS SPOTLIGHT - PREMIER HOA STAFFING

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THE 10-YEAR RESERVE STUDY

By Gary A. Porter

Our reserve study company, Facilities Advisors, Inc., was recently hired to perform reserve study for a 27 year old association that has never retained an outside reserve professional to perform a reserve study. All reserve studies for this association, and there were several of them, were performed by either the property manager or a volunteer committee of members. These prior reserve studies all shared one common factor; the financial projection period was for 10 years only. The Association's position was that "no one can predict anything beyond five to ten years with any degree of accuracy, so why bother to try and predict it at all?"

A group of concerned members finally prevailed upon the board to hire an outside professional (which ended up being our firm) because they were (1) concerned that not all common area components appeared to be considered in the study, and (2) uncomfortable with the ten-year funding plan, as they knew other associations used a 30-year funding plan.

To address these concerns, our first step was to add in the couple of obvious component omissions. The second step was to use our proprietary software which utilizes a 30-year projection period. Based upon a continuation of the funding plan presently in place, we determined the association would run out of reserve monies by year 17, unless it either borrowed money or approved a large special assessment.

This is the danger of looking at too short of a funding projection period. While a plan may work for the short-term, it doesn't necessarily work for long-term. When you look at a longer term period you will often find that because expenditures vary so significantly from one year to the next that you can get a skewed picture of the health of your reserve fund by looking at just the shorter time period. Another way to have looked at this would be to analyze the percent funded on a year by year basis. What this association would have seen was that, while there was sufficient funds were available for the first 10 years of the plan (meaning the balance in reserves did not drop below zero), the percent funded decreased steadily and significantly, which was an advance indicator of problems to come.

While we agree that no one can predict exactly what's going to happen 30 years from now, it is equally correct to state that no one can predict exactly what is going to happen 10 years from now. The fact is that a reserve study is a projection based upon a series of assumptions and virtually none of those assumptions will be exactly correct. However, the purpose of a reserve study is to create a plan to have approximately the right amount of money available at approximately the right time. You cannot do this with any reasonable degree of accuracy when you're looking at only a 10 year period, given the long life of so many of the components that the association is required to maintain, repair, and replace.

Gary Porter, CPA

Porter & Company, CPAs

www.garyportercpa.com

gary@garyportercpa.com

www.reservestudyusa.com

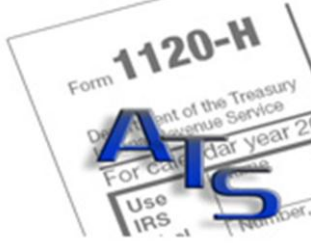
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JUST ONE PERSON CAN MAKE A DIFFERENCE

By Karen Bennett, PCAM, CCAM

COMMUNITY ASSOCIATION CONSULTING
NEWPORT BEACH, CALIFORNIA

This must be the "Year of the Grouch." I have been involved in Homeowner Association Lawsuits, Mediations, and Consulting about "Out of Control" homeowners reeking havoc in lovely communities from LA to South Orange County.

It may just be the weather, the water or the happenstance of my consulting business but it seems I have been asked to work with very angry people in these first few months of this year. Boards are changing management, homeowners are recalling and changing Boards, members are fighting amongst themselves and lawyers are working day and night trying to calm down homeowner associations in turmoil.

Usually, my business is a mixture of different types of projects. I get a wide variety of requests for different types of assistance. It would have been a good idea for me to have gotten an "Anger Management Degree" in order to work with the clients I have been asked to help in these last few months.

There are over 40,000 community associations in California. Most of those associations are doing just fine. Studies have shown that the majority of people living in a common interest development are pleased with the concept and enjoy sharing their amenities and having rules and regulations enforced. It is just those few associations that seem to crop up again and again in the newspaper or on the court house steps.

Sometimes it is because of **just one person**. That one angry or unreasonable person that runs amok through a community can be responsible for a lot of distressed and tired Board members. If the person cannot be satisfied by either joining the Board and trying to change the way things are done or convincing the Board to change, legal counsel is usually engaged. Management companies are oftentimes caught up in the conflict and it results in the Management Company canceling the account or losing the account.

As an experienced Manager and someone who likes things to run smoothly, I offer this advice to Boards facing an upset or active resident who seems to enjoy stirring things up:

1. Listen to the person and really try to understand what the person wants. Sometimes it is difficult, confusing and misleading.
2. Try and get the person to join you in solving the problem. Ask the person what they would like you to do?
3. Set parameters for contact. Telephone calls only during the day. Only one call per day, only in writing, etc.
4. Ask a Mediator to help you interact with the person. Sometimes a neutral party is helpful in gaining trust and suggesting alternatives.
5. Stay calm. Don't debate. Adjourn the meeting if it gets too heated.
6. Realize that sometimes the individual is not interested in solving the problem.
7. Communicate simply, often and with a positive approach. Let the other residents know what the Board's positive goals and achievements are.
8. Keep your meetings shorter rather than longer. Prioritize your goals. Don't try and discuss and make decisions on every issue known to man.
9. Praise your fellow Board members. Thank them for their service. Don't wear them out.
10. Be realistic and fair with Management. They are in a business to serve the Board and every owner and resident. It's a tough job.

I hope your association is running smoothly. I hope your community looks well-maintained, is well-managed and most residents are pleased. Most communities are -- it is just that one person..... this too shall pass.

Karen Bennett, PCAM®, CCAM®
Community Association Consulting
www.CIDexpert.com
karen@cidexpert.com



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Loan Structures & Long Term Budget Shortfalls

By: Craig Huntington

ALLIANCE ASSOCIATION FINANCIAL SERVICES

In my profession, I have the joy of traveling the entire country and experiencing community associations of all types, sizes and shapes. Community associations are amazingly diverse. Depending on regions and specific locations, communities range from 50 to 125 units or 1,000 to 50,000 units; a high-rise or a sprawling resort. Each of these communities has a particular nature. I find this to be the most fascinating. I like to refer to it as a corporate culture. In effect, at some point along the way, people within the community began gravitating to a particular way of managing their affairs; rules of behavior, communication and tolerance. Some communities are just down right fun places. Some of the disposition is caused by demographics such as the community being made up of retirees, yuppies, families, etc.

Financing for community association capital maintenance needs has gone from being rarely available to easily accessible. Financial institutions that are truly skilled in serving this unique industry are particularly flexible to the differing needs of each community. Not only does each have a unique culture but the projects all need to be approached in a tailor made fashion to suit what they desire to have accomplished. The financing available is low cost because the transactions are acknowledged to be of low risk and the associations often provide the institutions with deposits that allow for buying down the interest rate or loan fees.

The one aspect that permeates the vast majority of all communities is the handling of financial affairs. A very important responsibility is broken in most communities. I know this to be true by virtue of years of experience as a banker and manager and my involvement with the Community Association's Institute. As well, interacting with professional reserve study professionals that reflect most associations are typically not more than 20% funded. That is, reserve studies indicate that a certain level of reserves are needed to support expired common elements but only 20% of that specified funding level has actually been accumulated.

The reason is also very consistent. No one wants to spend any money. A culture of "keep monthly association fees minimal" exists almost universally. Now, I am not a spendthrift. But, I have witnessed nothing but adverse effects to the ostrich head in the sand mentality. The reality is simply this. A community association regardless of size is a very complicated miniature town. The buildings and infrastructure are a sophisticated system of structural materials that is constantly in a state of deterioration and its components are becoming obsolete.

Because of the desire to keep the annual budget low for the sheer sake of it, there is typically a huge cost impact put upon the unit owners when a project needs to be addressed. Because of the under funding issue, the cost has typically been accomplished via large special assessments. The availability of obtaining an association loan has smoothed the impact.

However, there is a growing desire by Boards to further lower the impact of the monthly loan payment on unit owners. Boards are requesting loan structures with long amortization schedules to keep the payment low but the loan has a balloon payment at some point. A thoroughly dangerous concept. Consider that if a loan is provided on a 30 year amortization with a balloon payment in 10 years, the original principal balance of the loan will largely still exist but the unit owners calling the property home 10 years from now will bear the burden of dealing with the amount due. In addition, further common elements have worn out and require more financing or special assessment. This creates a never ending cycle of new debt being piled onto old debt or on top of a special assessment.

It is all based on an unfortunate societal trend in America of enjoying a better life-style today at the expense of future prosperity. A concept reflected in growing credit card debt, the growing national debt and home equity being accessed to acquire consumer goods.

The concept of Bonds has also come into the picture for associations. A Bond is just another word for Loan. Their use has been very limited in the community association industry because of the high transaction costs. For the annual percentage yield (APY) to become comparable to a traditional loan, the Bond amount typically has to be several million dollars. The unique aspect of the Bond is that it is a private debt placement with an investor. Consequently, there are State, Federal, Securities and Tax laws governing the instrument which invokes the need for a sophisticated Investment Banker and qualified legal counsel. The enticement of a Bond can be that there is a longer payback period such as 20 to 30 years. But, this is the equivalent problem of there being a balloon payment. Unit owners in the distant future are paying for the common element that was replaced decades ago while at the same time additional common elements need to be replaced. Or even worse, the common element that was financed for replacement has worn out and needs to be replaced again while the Bond is still outstanding. Having a debt pay back over 20 plus years also results in a lot more over all interest cost to the association regardless of the seduction of having lower payments. A monthly debt payment over 20 years could be 33% less than a 10 year loan but the summed interest cost would be over 200% more. A critical



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challenge with a Bond structure is the very basic nature of associations to prepay the loans. Since the instrument has been placed with an investor that is expecting a particular yield, prepayments are unlikely to be accepted.

The repayment structure of a Bond is no different than what can be obtained from a bank knowledgeable of community associations. Graduated annual debt payments blended with annual budget increases. Even a long term amortization with the caveat that there be a supporting sinking fund. A sinking fund is a regularly funded accumulation of cash set aside to retire the debt at maturity.

There are a lot of options available to fund the renovation projects of community associations. However, there are three unequivocal truths:

1. There is only one place that the cash comes from: the unit owner.
2. The project will never get cheaper.
3. The project will not go away.

So, you can pay now, you can pay later but you are, without a doubt, going to pay.

Craig Huntington
Alliance Association Financial Services
www.aafin.com
chuntington@aafin.com

Web Articles (Click on Title to View)

<u>Title</u>	<u>Summary</u>	<u>State</u>
<u>96 homes in violation in Towne Park, city says</u>	96 residents are unaware that their homes have code violations including additions without permits	New Mexico
<u>Property dispute puts residents against association leader</u>	Association president deeds property owned by association to herself.	Maryland
<u>Anthem writes off \$1.1 million in delinquent HOA fees</u>	HOA writes off more than \$1.1 million in HOA fees	Arizona
<u>Computer glitch let Hollywood condos rack up \$1M in unpaid water bills, city says</u>	Due to a computer glitch, many condo buildings have not been billed for water by the city in almost a year. Now condo associations are faced with paying large bills opting for repayment plans.	Arizona
<u>Judge halts state order on HOA collections from foreclosures</u>	A judge issued a temporary restraining order to keep a state agency from enforcing an order limiting how much HOAs can collect on foreclosures.	Nevada
<u>Law makes renters settle unpaid HOA fees</u>	Boards are taking advantage of new law asking renters, in their community, to pay them instead of the homeowner, to collect on unpaid or delinquent dues	Florida
<u>Residents don't get promised amenities</u>	Families who were promised various amenities when they moved in are seeing higher fees for the year, even though amenities have not been built.	Florida
<u>HOA spat prompted vandals, homeowner says</u>	Board Member believes crimes against his property are the result of his actions on the board.	Florida

<u>Renewal deadline for condo associations coming up</u>	If a condominium association gets their approvals from FHA, they must go through the renewal process. The deadline to renew is December 7, 2010.	California
<u>Sunland HOA orders members to pay for legal questions</u>	Two women who questioned their HOA boards' actions, are being told they must pay the legal fees for the inquiries.	Arizona
<u>UPS opens "mini delivery hubs" in residential neighborhoods</u>	Woman opens up her vacant home to UPS, and as a seasonal employee, delivers packages around her neighborhood after UPS drops them off at her home.	Florida
<u>Beacon Woods, homeowner clash over landscaping change</u>	Homeowner installs drought resistant landscaping and Board of his community association asks him to either work with the Board to redesign it or re-sod.	Florida
<u>Traditions at Ridley Creek residents raise issues</u>	Residents attend a meeting to discuss the status of their community. It is not what the developer promised.	Delaware
<u>Community suggests gun possession is illegal for residents</u>	HOA sent a letter to its residents informing them that guns are no longer allowed on the property	Tennessee
<u>Overdue power bill may mean no water for Columbia Crest Estates</u>	Developer neglects to make delinquent payments to Cowlitz PUD causing the threat of turning off their water system.	Washington
<u>Woman fights HOA over eco-friendly plants</u>	Woman installs environmentally friendly plants but her HOA doesn't like it.	Florida
<u>Subdivision still in the dark after a month without streetlights</u>	HOA is concerned because they have not had streetlights since November. Investigation into who is to blame, and how to get them turned back on, is underway	Texas
<u>No entry: Press barred from Gerritsen Beach meeting</u>	Local blogger who lives in neighborhood, blogs negatively about the HOA causing trouble within the community. Board meeting is closed to him due to his actions.	New York
<u>New bill aims to stop foreclosures for non-payment of fines</u>	A Bill is written to keep HOAs from foreclosing on a property for non-payment of assessment fines.	Arizona
<u>Milford residents say EPA storm water mandate isn't fair</u>	In an effort to clean the Charles River, EPA is proposing a mandate that would cause residents to have to pay double in funding alternatives	Washington
<u>Now's the time for condo, HOA elections</u>	Advice for owners who want to run for board positions	Florida
<u>The tinseling of the Lobby</u>	New Yorkers are sensitive to the holiday decorations adorning the lobby of their buildings.	New York
<u>Tanglewood Homeowners Association hit with large jury verdict</u>	Jury awards damages and attorney's fees against Tanglewood HOA for violations of deed restrictions	Texas
<u>Insurance: Was the "bomb factory" homeowner covered?</u>	Home owner who rented out his home to an alleged bomb maker, faces the inability to collect from his insurance company to replace the home that officials burnt down, due to the danger the home presented.	California

<u>When can members speak out?</u>	Statute 720, board meetings, bylaws and D&O insurance are discussed	Florida
<u>Homeowners associations: Board can set rules for safe use of facilities</u>	Association Boards can determine rules for the use of common areas to eliminate the risk of liability	California
<u>Land developers lose court battle</u>	Developers of Clearwater Lake Club have been charged and fined for engaging in a variety of environmental violations while building luxury lake lots.	Wisconsin
<u>Judge's ruling favors homeowners in suits against Chinese drywall installers</u>	Judge finds installers of Chinese drywall held liable under certain circumstances	Florida
<u>Sudden closure of Tarpon Springs golf course leaves employees stranded, club residents concerned</u>	Country Club community sitting on a golf course is concerned about property values and maintenance due to the closure of the private golf course.	Florida
<u>Carolina Forest group backs fire safety</u>	South Carolina Forestry Commission is encouraging neighborhoods to develop community wildlife protection plans under the Firewise program.	South Carolina
<u>HOA to vote on increasing funds for lawsuit investigation</u>	The United Mutual Board sets aside \$200,000 to investigate claims made in a lawsuit against property manager, Professional Community Management	California
<u>Keep air circulating in your home year-round</u>	To avoid moisture build up, it is important to have air circulating in your home year round	Illinois
<u>Condo company reverses American flag ban</u>	Woman's fight to keep her flag displayed proves worth it when her Condo Association, not only allows her to continue flying her flag, but agrees to install large flagpole at entrance to Association.	Maine
<u>Staten Island Seniors & Condo Board Reach Settlement on Chatting in Lobby</u>	Retirees meeting in the lobby of Condo to chat in the afternoon, go to court where a judge allows them to continue, subject to agreed-upon limits that address the concerns of the condo board.	New York