

Deferred Maintenance A Board Member's Experience

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DEFERRED MAINTENANCE – RECOVERY AND MOVING FORWARD “A Board Member’s Experience”

By Eric Olsson

BACKGROUND

I’ve been an active committee and board member, and am currently President of my Association’s Board. The association’s name is not important for this discussion, but it’s a typical one: about 200 units, private roads, open common area, and built in 1979. Like a lot of other associations, we’ve entered the stage where large reserve maintenance projects are coming due.

Today I’m going to share some of the ‘Lessons Learned’ by our Board through the experience of two particular large reserve maintenance projects: 1) a completed re-roofing project; and, 2) a re-siding project that is still in the planning stage and one year away from starting execution. These two projects illustrate pitfalls to watch out for and ‘Lessons Learned’ from opposite ends of reserve funding and maintenance project execution. The re-roofing project is a good example of excellent execution on reserves planning and funding but a few potholes during execution of work. The re-siding project is a good example of potholes in execution on the Reserve planning end.

As an intro to the specific projects, I’d like to give you what I think is perhaps the biggest ‘Lesson Learned’ of all. That being that it is easy to look at each of these ‘Lessons’ in hindsight and think “That’s obvious! I’d never make those mistakes.” Before my experience with these two projects I would have had that very same thought. However, I guarantee that you’re dreaming! The ‘fog of war’ phenomena is very, very real while a project is in progress and “things one should do” only becomes ‘obvious’ in hindsight.

LESSONS LEARNED FROM THE EXECUTION END – THE ROOFING PROJECT

Our cedar shake roofs were 24 years old, ready for replacement, and the reserves were fully funded. The Board hired a project management firm who developed the project specifications and managed the bidding process. The specification was very thorough. A prerequisite to submitting a bid was that the roofing company had to attend a site tour conducted by the Project Manager. Six bids were received that ranged from \$1.2 M to \$1.8 M and nicely bounded the actual \$1.6 M reserve budget. References were checked and a roofing company was awarded the contract. Everything was executed very well up to this point.

LESSON 1

No matter what the circumstances, make sure that all of the ‘Ts’ are crossed and ‘Is’ dotted on all contracts involved before allowing work to begin.

There can be strong pressure from the community to get the work started so that the work can be completed before some particular deadline, such the winter rains beginning in the case of a re-roofing project. In this situation it can be very tempting to sign contracts that have not yet fully incorporated additions/changes that all the parties have agreed to, or make assumptions about terms before their full meaning has been thoroughly explained and understood. But, no matter how urgent you may feel it is to get the work started, it is not worth the risk.

LESSON 2

Do not make the assumption that a professional is qualified to perform your unique services based solely on the fact that the professional is used by your association management company and/or is well known in the association management industry. Perform adequate due diligence based on personal references.

This is an obvious one, and we did do due diligence in checking references provided by those who might be involved in the project, however, in spite of that due diligence we still experienced a few problems we did not expect. We might have been able to avoid these problems if we had reached beyond the list of references that were provided. Remember, only a fool will provide references that have had a bad experience with them!

LESSON 3

Demand a performance bond.

No matter what, demand a performance bond for any project of significant scale. We had been advised that requiring a bond was optional for roofing projects since they are low tech and usually go without incident. Since a performance bond is an expense that will raise the cost of a project, we accepted that advice and did not include a bond requirement. However, had we required a bond, we would have been protected from some of the extra expenses we ended up incurring.

Although bonds are not totally foolproof protection because they can be litigated, including a bond requirement has the effect of screening out bidders who would not be able to meet the bond requirements. If you wish, you can always drop the bond requirement, and therefore the extra expense, once the final contractor selection is made.

LESSON 4

Select a contractor that has local office and staff.

Why does having a local office matter? Because not having a local office means not having local personnel. That creates the risk that the project supervisor and workmen will 1) be totally unknown to the contracting company; 2) could have less incentive to provide the highest quality level of work because there is no relationship or established dependence for future work; and 3) in a tight building trade labor market turn out to be unskilled day laborers hired on a day-to-day rotating basis to do the work. A contractor that has investments in the local area, such as an office, has much more to lose if their reputation is damaged due to poor work or project management.

LESSON 5

Constantly check that progress payments are made only when 1) the work of the relevant progress milestone has been fully completed and fully accepted via a final inspection, and 2) all materials suppliers involved have provided lien release documents for labor and material. This is most easily enforced if the contract provides the requirement that a packet documenting the inspection list, date of inspection, date of acceptance, who accepted, and release of all material liens be included with each check generated for every progress payment.

Once work has been paid, there is almost no leverage to have problems fixed or unfinished work completed.

LESSON 6

Do not let Board Members become directly involved in matters for which they are not specifically delineated to have responsibility in the contract.

Board Members becoming directly or indirectly for that matter, involved in directives and/or decision for which they are not specifically delineated to have responsibility causes problems because doing so blurs the single

point of authorization that should always be set up for large Reserves projects. If this happens, you are guaranteed to experience problems.

LESSON 7

Do not mix association funded work with homeowner funded work.

In our community there are 150 townhouses and 45 detached homes. Maintenance and replacement of roofs on the detached homes are the responsibility of each home's individual home owner and is not the responsibility of the association. Since those roofs also had reached the end of their useful life, it would seem like a good idea to leverage the on-site work force and material flow involved with the townhouse re-roofing to negotiate preferred pricing for replacement roofs for the detached homes.

However, no clear separation in association versus homeowner work priority was delineated in the contract. For example, detached home work may not start until after the townhouse association work was complete.

This turns out to be a bad idea. It can create a situation where workmen from the association-paid work are simultaneously used for the extra homeowner-paid work, particularly if the individual homeowner-paid work has a higher profit margin than the association-paid work. This, of course, can play havoc with the schedule of the association-paid work.

LESSON LEARNED FROM THE RESERVES PLANNING END – THE RE-SIDING PROJECT

Like the roofing project, the townhouse siding was approaching end of life and was a funded reserve item. We interviewed and hired an architectural firm to do the professional studies; to establish the scope of work, specifications, costs and schedule, etc., in preparation to go to bid. It was a real shock to discover the actual cost of re-siding was over 1,000% more than the amount stated in several prior reserve studies. How a Reserve Study can it be off by that much, and what is the most effective way to share that shocker with the homeowners are the 'Lessons Learned' so far from this project.

LESSON 1

Do not accept Reserve Studies on face value – question assumptions; triple check dollar estimates and material life stage analyses

Reserve Analysts rely on standard charts and formulas similar to insurance company actuary tables. The accuracy of the Reserve Study that you receive will only be as accurate as the figures in those charts/tables.

We had three or four Reserve Studies, over a 6 to 8 year period of time, that were consistent with one another regarding the cost of replacement of the shingle siding. With the latest study we had an outstanding Reserve Analyst that helped us dig deeply into the details so that we would thoroughly understand the factors on which the studies were based. The assumptions looked very logical and reasonable. However, we are at the stage where the architectural firm has received estimates from three major construction firms in our area. It turned out there is a big disconnect. The Reserve Study estimated about \$750,000 for the siding project. However, all three bids that we have received are all very close to one another at \$8,600,000 (yes, that is 'million').

One of the causes for the discrepancies here is that some materials have an expected life time that differs significantly from one area of the country to another area due to sensitivities to weather conditions. In our case the buildings have shingled sides, which is not overly common in the Northern California area so there is not as large a pool of lifetime data as for more common materials.

The other cause for the discrepancy here is explained in Lesson 2 below.

LESSON 2

Keep check on the annual budget planning, even if you are not on the Board, because there are great temptations for a Board to stretch a 'best case' scenario in order to reduce Reserves requirements to meet a policy goal of 'No Dues Increases.'

There is often great pressure from some community members (often the most vocal!) to keep dues at a minimum. So, dues have become kind of like crazy Uncle Al – to be ignored and spoken of as little and as briefly as possible. However, the opposite is the case and it should be communicated as often and as strongly as possible that the duty of the Board is to protect homeowners' investment – protect the value of their property – and not to keep dues low at all costs.

Of course, it is also a Board's duty to make sure that funds are spent properly and return the highest benefit to cost ratio possible. But, just like in personal budgets, association budgets must increase to account for inflation and funds must be expended on maintenance.

I can attest to the effectiveness of this Lesson. Since being a member of the Board we have made it our mantra to drive the concept of protecting property values home. It applies to everything, rules enforcement, good management of association funds, managing contractors as well as dues. And not only has our association come to almost total acceptance of this concept, property values have been increased beyond normal expectations because of the reputation of the community for being well maintained.

LESSON 3

As laborious and painful as it can be to bring everyone along, do not exclude homeowners from participation. Keep communication with the association open, transparent, and frequent. Strongly encourage homeowners to take part in the discussions during the open part of board meeting. And lead everyone to collectively work to anticipate the items that will cause homeowners the highest level of pain and develop a knowledge base of methods of dealing with those items to provide to the homeowners.

Set up committees and communications to facilitate homeowner participation. This takes the heat out of presenting results to the community. If a complainer did not participate in the discussion/communication process, then it was the complainer's choice to not take the opportunity offered to have their two cents included in the decision and they can't blame anybody but themselves. And, if the complainer did participate in the research and decision process, well, they might as well look in the mirror when they complain as they were part of the decision!

The effort involved with this method has paid off. There has been very little opposition to executing the re-siding project because everyone is aware of the impact of not doing it on property values, they trust that they know everything the Board knows, and they trust that the right decisions are being made.

LESSON 4

Lead those participating in project planning and logistics to collectively work to anticipate the items that will cause homeowners the highest level of pain and develop a knowledge base of methods of dealing with those items to provide to the homeowners.

We are at a point in the re-siding project where financial reality is setting in with homeowners - the project cost will be greater than available funds and, therefore, a large special assessment will be required. The Siding

Committee took a proactive step of interviewing experts in homeowner assessment funding and selected an expert (Rolf Crocker) to work with the community to present the available personal financial options for their assessment and help them with implementation of the option they choose. The community has been extremely appreciative.

CONCLUSION

In conclusion, hopefully sharing with you these experiences makes you more aware of some pitfalls that associations may encounter in major reserve projects. There's no magic bullet to avoiding pitfalls except to, at least, question all assumptions until they are no longer assumptions, have good processes, cross your 'Ts' and dot your 'Is' before moving forward, and communicate frequently and openly with the community.

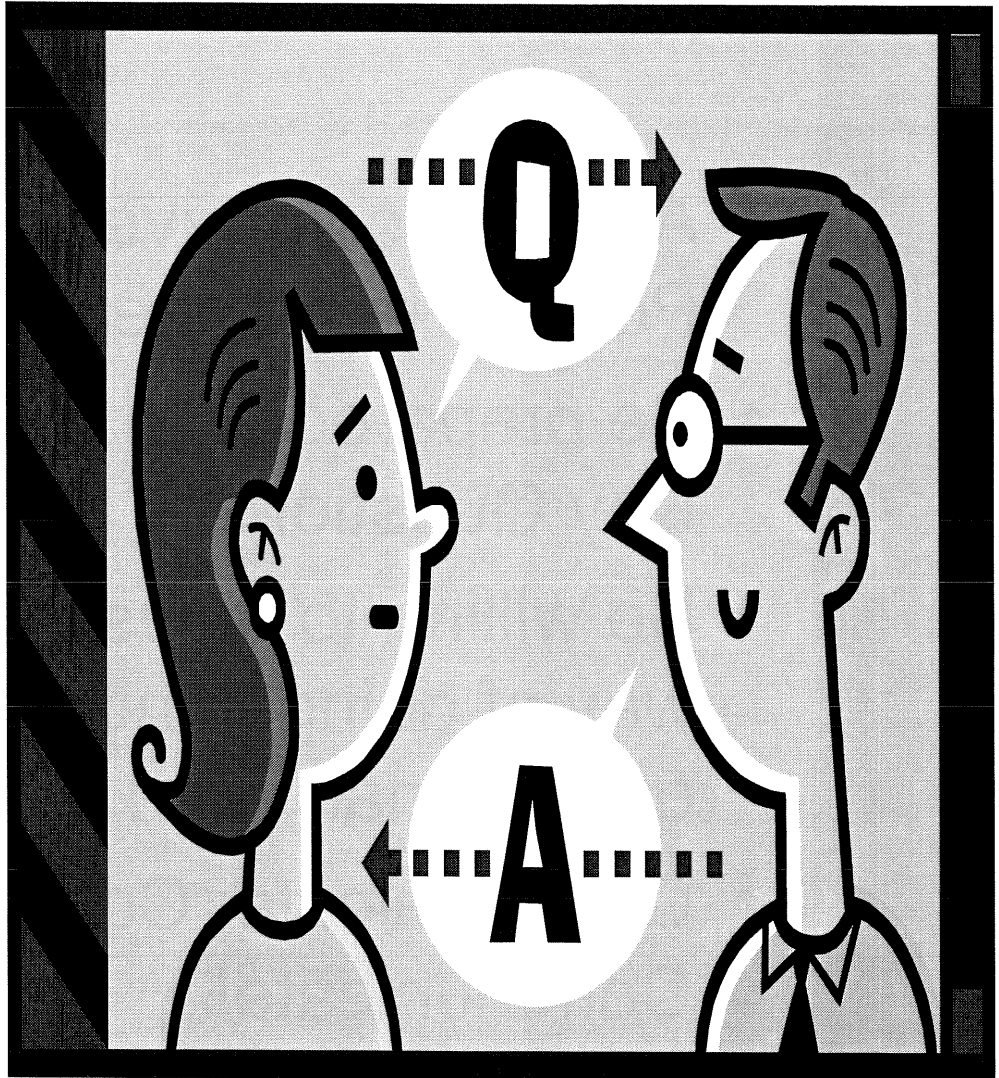


Wrap Up

- ◆ All decisions have Economic & Political components
- ◆ Be prepared to answer the 3 Key Questions
- ◆ Be willing to adjust your current way of doing things, both operationally and financially
- ◆ Communicate, Communicate, Communicate!
- ◆ Do your level-best to keep a smile on your face and a song in your heart! 😊

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QUESTIONS?



***Thank You So Much For
Your Time!***

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