

SOUTH COAST HOMEOWNERS ASSOCIATION

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Volume 15, Number 4

May 2002

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UPCOMING SOUTH COAST MEETING

THE RAPID CHANGES IN THE ASSOCIATION INSURANCE MARKET

Wednesday, June 5, 7PM

Holiday Inn, Goleta – 5650 Calle Real

Even before September 11, there were changes in the insurance market. Associations were reporting higher premiums and higher deductibles. Some carriers had cancelled association policies with limited notice or are not writing new policies. Established companies are re-evaluating your claims history and their risk. Water damage and mold claims are increasing. In some parts of the country, directors and officers coverage is being cancelled. We have invited several insurance professionals to update us on these changes and what associations can do to prepare for changes in the insurance marketplace. We will conduct this forum similar to our legal forums where each panelist will make a presentation followed by a moderated question and answer session. We have invited the following to be on the panel:

Ed Attlesey, State Farm Insurance – Ed is a co-founder of South Coast HOA and has over 25 years of experience in the association insurance field.

Andy Brownwood, Brownwood Agency – Andy is a long-time South Coast member and has been an Allstate agent/broker for over 30 years.

Glenn Estabrook – Manchester Insurance – Manchester Insurance is one of the leading independent insurance agencies in Santa Barbara with experience in association coverages.

HOW TO EXTEND THE LIFE OF YOUR ROOF

By Frank Derrick, principal at Derrick's Roofing Company

Editor's Note: Frank Derrick of Derrick's Roofing is a member of South Coast HOA and has been a licensed roofing contractor for many years. Questions can be directed to Frank at 681-9954 or by mail to 650 Ward Dr. #B, Santa Barbara, CA 93111

Do you know that roof replacement is usually the *single largest expense* incurred by most homeowners associations?

Wouldn't it therefore make sense to preserve your substantial investment in your roof? If you can extend the life of your roof for a few years, your association doesn't need to save as much money each year for re-roofing. Consequently, your member fees can be lower. Extending your roof life expectancy buys your association more time to save reserve funds to pay for re-roofing. Sometimes the extra money saved helps your association avoid unpleasant special assessments.

Factors That Cause Roof Deterioration

Before describing how to extend roof life, it is helpful if you know what factors typically cause roof deterioration. Most roof-saving techniques focus on reducing the influence of these factors. The primary factors are: sun, rain, wind, attic ventilation, and walking on the roof.

- Of the foregoing deterioration factors, the sun is your roof's worst enemy. Strong ultraviolet rays deteriorate caulking around pipe vents and deteriorate asphalt-based materials such as asphalt composition shingles and tar & gravel roofs. Intense sunlight also heats up roof surfaces, causing expansion and contraction with associated cracking of roofing materials. Cracks allow water to seep through the roof. *The majority of efforts to extend roof life are geared towards protecting roofing materials from sun exposure.*
- Rain is not as much of a factor in roof deterioration as most people think, but it does have both erosive & corrosive effects. For example, rainwater coursing down wood shingles actually "wears away" wood from the shingles as each row of shingles acts as a tiny waterfall which causes pitting in the shingles. Once the shingles wear through, the underlayment paper is exposed to the sun's ultraviolet radiation and can crack. Rain is allowed to run under the shingles and on top of the waterproof underlayment paper. The nails in the underlayment paper then can rust, resulting in leaks around the nails.
- Wind can tear off both wood shingles and asphalt composition shingles. Roof ridge shingles are especially prone to wind damage. Wind-driven rain can also cause leaks that wouldn't ordinarily present themselves because the rain comes in at an angle, giving it access to areas that otherwise would be dry during a normal rainfall.
- Poor attic ventilation can result in high attic temperatures which accelerate the deterioration of asphaltic underlayment material that constitutes the waterproof

“membrane” for your roof. Adding some attic vents to your roof allows hot attic air to escape, keeping your underlayment cooler so it lasts longer.

- Walking on the roof can damage your roof’s waterproofing system. Every time someone walks on a tile or shingle roof, not only does it increase the chance of breaking them, but the tiles and shingles rock back and forth and loosen the nails that affix them to the roof. If water is able to run under the tiles/shingles and on top of the underlayment paper, leaks can occur where these nails have been loosened. Likewise when someone walks on a flat gravel roof, if the roofing material has become brittle from sun exposure, cracks can form, permitting water to flow into the space below.

So what can you do to extend the life of your roof? As there are many different roof types, roof-preservation tips are described here for each general roof category. In addition, proper repairs are also a factor influencing the life span of your roof.

Tile Roofs

Tile roofs are the longest lasting of any roof type. As with any roof, the longevity of a roof depends primarily on the quality of the underlayment and how well it is protected from the sun and other weathering elements.

With good quality underlayment, a tile roof can last 30-50 years, assuming maintenance work is done every 10 years, or as necessary. You should have your roof checked once every 5 to 10 years for broken tiles and have them replaced by a professional roofing contractor.

Broken tiles enable the sun’s ultraviolet rays to weaken the underlayment (the black waterproofing tar paper) under the tile. If portions of underlayment paper are exposed to the sun, they only last about a year or two before they become brittle and crack, causing leaks.

You should also have your roofing contractor check all pipe vent flashings every 5-10 years to make sure the sealant around the pipes is watertight. Over time with sun exposure, the sealant can crack and water can run into your attic along the pipes.

Furthermore, do not allow anyone to walk on your tile roof unless they absolutely have to. If you’re thinking of climbing on your roof to fix a broken tile, you should consider hiring a professional to do so because you may break more tiles than the ones you are trying to fix! Walking on tiles without breaking them is truly an art. If you are having your buildings fumigated for termites, the tenting process can also cause a lot of tile breakage as the workers need to walk on your roof while carrying heavy tenting materials. Try to find a pest control contractor who will walk on your roof using either foam-padded boards or burlap bags filled with sawdust.

Most tile roofs are fastened with a nail, however, the best system for fastening tile is a tie wire system in which the tiles are wired in instead of nailed down to the roof.

When replacing broken tiles that have been nailed on, your contractor should apply a small amount of Henry’s 204 Sealant over the nail hole in the roof. The roof underlayment under the tile is the most important part of the roof. It is what keeps the water from penetrating into

the living space below. The tile is intended to provide permanent shade for the underlayment and, of course, it is installed for aesthetic reasons also.. The better quality the underlayment under the tile, the longer the roof will last. When repairing or replacing your roof, never economize on the quality of underlayment.

Flat Gravel Roofs

If a gravel roof is installed properly it can last up to 20 years. Some last up to 25 years or more. Unfortunately, most last only 12-15 years, or even less if improperly installed. As with any roof, the sun is the worst enemy. The key to increasing longevity is in the gravel, which serves two purposes:

1. It protects the waterproof asphaltic membrane from the sun, and
2. It helps evaporate the water off the roof. The gravel acts like a wick as it absorbs the water, and then the sun evaporates the water from the gravel. Thus, your roof doesn't have standing pools of water for very long periods of time.

If the installation is done properly in the first place, you will save a lot of money in the long run. A gravel roof should be visually inspected every 5 years. If you see bald spots starting to appear (where there is no gravel coverage to shade the black asphaltic waterproof surface from the sun's rays), they should be covered by sweeping loose gravel over the bald spot. Then apply a coat of Henry's Cold Application or Emulsion. At the time of inspection, you should check all vent pipe flashings, making sure that the seals around the pipes are watertight. If needed, apply a generous amount of Henry's 204 Sealant around them. It is best to have a Licensed Roofing Contractor inspect and repair your flat gravel roof—they know what to look for.

Asphalt Composition Shingle Roofs

Asphalt composition shingles should last 20 to 40 years. There are four things that can give composition shingles a longer life span:

1. Light-colored composition shingles last longer than dark-colored ones, because they reflect heat, rather than absorbing heat. If you choose light-colored composition shingles, they often last several years longer than dark composition shingles, even for the same manufacturer's lifespan rating (e.g. a light-colored 30-year composition shingle will actually last longer than a dark-colored 30-year shingle).
2. Using a good underlayment material under composition shingles can ensure a long life.
3. Make sure underlayment during re-roofing and repair work is installed per the manufacturer's recommendations. If your roof slope is 2:12 (2" rise for every 12 inches horizontally) or less, your contractor should not install composition shingles. Low roof slopes of 2:12 pitch up to 3:12 pitch should have 2 layers of 30-lb paper laid parallel to the roof eaves and overlapping in "shingle-fashion." Roof slopes of 4:12 or steeper should

have at least one layer of 30-lb paper laid parallel to the eave. If installation & repairs are not done per manufacturer specifications, your roof may begin leaking after only a few years.

4. Pipe vent flashing caulking: As for other roof types, inspection should be done every 5-10 years and re-caulking where necessary.

Proper Repair Work

A bad repair job can actually decrease the useful life of your roof. Moreover, when leaks repeatedly occur because of incompetent repair work, some homeowners begin to think their entire roof is nearing the end of its useful life. Yet, it is really their roofing contractor's license that is hopefully nearing the end of its useful life! There are many instances where a perfectly good roof has been replaced, simply because of continued repair failures which should have been done properly. So it is imperative that you make sure your roof repairs are done correctly.

As an example of incompetent repair work causing premature roof replacement, suppose you enlist "*We-Learn-at-Your-Expense Roofing Service*" to fix a leak in your tile roofs. Even though they don't specialize in tile, they send out their 220-pound roofing guy who does excellent work on flat gravel roofs, but doesn't know how to walk on tiles. He successfully finds and fixes the leak in your roof, but he cracks numerous tiles in your roof in the process. Over the next few years, rainwater gets through the cracks and runs under the tiles (on top of the underlayment paper). Not only does the rainwater slowly etch the underlayment paper, but it also causes galvanized nails to rust over the years. Eventually several leaks start happening in that area and you decide you need a new roof long before the roof should have been replaced had it been repaired correctly in the first place.

Most roof leaks can be repaired. If your roof has one leak, depending on the roof type, it can usually be repaired. If it has several persistent leaks in different areas of the roof, repairing the leaks may not be cost-effective compared to full roof replacement. Call a reputable contractor and get a bid. If he does not warrant the leak repairs, then you're the one taking the gamble that his work will correct the leak, not him. Try to find a contractor who will warrant the leak repair. As a contractor, I typically only warrant a leak repair if I know I can fix it. There are a just a few situations where a leak is so complex that it is unwarrantable. Most are easily repaired. I usually give a warranty for leak repairs for 3 to 5 years, depending on the type of leak.

Some leaks are simply due to sun-damaged caulking at the pipe vent flashing. These are the easiest leaks to repair. And, remember, just because you have this type of leak, doesn't mean the rest of your roofing system is about to fail.

To correctly repair a leak in a tile roof, your roofing contractor must first pinpoint the source of leak, which may not always be directly above where the water damage manifests itself in your house. Then he removes the tile from 2 feet below the leak all the way up to the ridge in a swath about 10 feet wide. That leaves 5 feet on either side of the center of the leak. Then he installs new underlayment paper, typically consisting of 1-layer of 30# and 1-layer of 90# paper, fastens it with galvanized roofing nails. Finally, he re-installs the original tiles to match

the existing roof. Make absolutely sure the roofing contractor knows how to walk on tile roofs without breaking them!

To properly repair a leak on a low slope or flat gravel roof, your roofing contractor must first locate the center of the leak. From the center of the leak, he sweeps, scrapes, and cleans the gravel roof, making it as clean as possible. On top of this layer, he installs a heat weld system, also known as a “torch-on system.” This consists of installing one layer of smooth modified roofing paper, heat welded to the old roof. Then he installs one layer of heat weld or torch-weld Bria Flex Modified Mineral Surface Paper. He heat welds over first layer, going 6” beyond the perimeter of patch. The patch is usually about 10ft x 10ft. After installing the patch, he should apply black primer around perimeter of the patch. Then apply 1-layer of 4” Fiberglass Fabric over Henry’s 204 Sealant.

Finally, he should install an additional layer of Henry’s 204 Sealant. This is the most important part of the repair. Make sure the old roof membrane is clean, primed and sealed properly around the perimeter edges. This stops water from getting under the new patch. If your contractor doesn’t follow these (or similar) repair procedures, your roof is likely to continue to have leaks in that area.

When you choose a roofing contractor to do repairs or re-roofing, check his credentials thoroughly. Get a contract in writing. Be sure to ask for references for jobs he has done, and proof of insurance. You may save money up front with a cheaper bid, but if the roof doesn’t last, then you will be paying far more in the long run. Your roof is only as good as the workers who install it, so performing the correct evaluation of your contractor’s credibility can go a long way in extending the life of your roof.

In summary, if you want to maintain your investment in what is typically the most costly long-term expenditure for your home, you would be wise to follow the foregoing periodic roof maintenance and repair suggestions. If you can extend the life of your roof a few years, your association will have those extra years to save more reserve funds in its reserve account to install a quality roof.

LEGISLATIVE UPDATE - 2002

The California Legislature is busy holding hearings on a number of bills that have been introduced last year as well as this year in order to meet deadlines for passing a bill. Of interest to us is **AB 2289** which has passed from committee. In its current form, associations would have to provide another annual disclosure (that few will read) that makes it clearer that one can lose their home if they don’t pay their assessments. It would also lengthen the notice required for placing and enforcing a lien. This bill is sponsored by the Congress of California Seniors that “seeks to help individual condo owners... in avoiding non-judicial foreclosure for the inability to pay **minor** amounts of dues and fees...that often leads to the tragic sale of an elderly or other homeowner’s home”. More next newsletter

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SHARE THIS NEWSLETTER WITH YOUR ENTIRE BOARD OF DIRECTORS**

Reserve Studies (Part I):

Myths and Realities of the Percent-Funded Estimate

By: Chris Andrews, Stone Mountain Computing Corporation

Editor's Note: Chris Andrews is a frequent contributor to South Coast from presenting programs to providing newsletter articles. Chris has been performing reserve studies for over 10 years. He can be reached at 805-681-1575 or by mail to P. O. Box 1369, Goleta, CA 93116

If you've just received your reserve study indicating your association is 110% funded, does that mean your Board of Directors can decrease your annual reserve budget?

Conversely, if your reserve study indicates your association is 62.7% funded, does that mean you should increase your annual reserve budget?

The answer to each of the foregoing questions is "not necessarily." The percent-funded estimate is one of the most commonly misunderstood results of reserve studies (see definition below if you're not yet familiar with the term).

Unfortunately, many association board members make reserve budget decisions based on how well their association fared in the percent-funded category: If the association scored low on the percent-funded estimate, they assume they must increase the annual reserve budget to ramp the association up to the 100% funded level. If the association scored over 100% on the percent-funded estimate, they assume they are "overfunded," when, in fact, they may be not funding enough.

The missing link in the foregoing analysis is that the Board needs to verify whether or not the association's annual contribution to reserves is healthy enough. That can be proven by a reserve cash flow analysis, preferably a 30-year projection. "Cash flow analysis" refers to the practice of tracking the inflows and outflows of cash from year to year over an extended period. Without studying cash flow to determine whether reserve account deficits might occur in the future, the percent-funded estimate can actually be misleading if used as a budgeting tool.

Many associations overemphasize the percent-funded estimate as the sole measure of financial health, partly because it is a required annual disclosure per California Civil Code 1365(a)(2)(C). Rather than focusing on percent funded results, associations should be evaluating whether projected income to their reserve account can fund future reserve expenses such as roofing, paving, pool replastering, etc.

"Percent-Funded Estimate" Defined

Let's take a simplified example to define the percent-funded estimate for those not familiar with the term:

Suppose your association is a simple planned unit development that has only one reserve component such as paving of road surfaces. And suppose for this example that your roads need to be re-paved every 10 years at a cost of \$100,000. If your roads were last repaved 5 years ago, you should theoretically have one half of \$100,000 (ignoring inflation for now), or \$50,000 in reserve at this point in time.

If your association currently has \$50,000 in reserve, it would indeed be 100% funded for the depreciation that has occurred to date. So, we see that the Percent Funded Estimate is defined as:

Percent-Funded = (Cash in reserve account) / (Depreciation of reserve items to-date).

And “depreciation” is simply a measure, in dollars, of how much of an asset (roof, pool, paving, etc.) has been “used up” since it was new.

Examples of Percent-Funded Estimate “Contradictions”

Now, let us suppose your association only has \$30,000 in reserve. The reserve study would indicate the association’s reserve account is only 60% funded ($\$30,000/\$50,000 = 60\%$).

Is the association “underfunded?” Yes, by the standard definition.

However, just because your association clocks in at 60% funded, that doesn’t justify setting off alarm bells! Before doing so, we first need to look at reserve cash flow.

Suppose, upon evaluating the association’s current and projected reserve budget, we find the association plans to budget \$15,000 per year to reserves. When that \$15,000 annual funding is modeled in a cash flow analysis, it would show that the association will actually have \$105,000 in five years (\$30,000 reserve balance saved during the first 5 years) plus (5 years X \$15,000). This will be more than enough reserve cash to pay for the \$100,000 re-paving costs.

A reserve cash flow analysis would actually recommend that a \$14,000 per year reserve budget will be sufficient to fund the future repaving. (Note that after-tax interest earnings on reserve cash is not included in this basic example). So even though the association’s reserve account is 60% funded, the cash flow analysis would indicate that your current level of reserve funding was actually slightly excessive. In other words: No cause for alarm in spite of a weak percent-funded estimate!

If we take the prior example to the other extreme, let’s assume during the prior 5 years, the board members had been generously funding to reserves each year. Thankfully, the association has \$60,000 in reserve and the paving is 5 years old. The association would therefore be 120% funded ($\$60,000 \text{ reserves}/\$50,000 \text{ required}$). Yet if the current Board is funding to reserves at \$7,000 per year, they’re only going to add \$35,000 to their reserve account during the last 5 years of life of the paving, leaving them with just \$95,000 to try to buy a \$100,000 paving job.

In the foregoing case, a 120% percent-funded estimate from the reserve study could conceivably coax board members into being unnecessarily complacent with their reserve budget such that future boards would be saddled with a reserve shortfall.

The ultimate example demonstrating how the percent-funded estimate can be misleading is if our sample association had just repaved their streets yesterday and had spent all their money to do so. A reserve study would indicate that they're 0% percent funded at that point in time. In this case, a 0% funded figure is meaningless as a measure of financial health because all their cash is now invested in the paving that has only depreciated for one day. In fact, after completing the paving work, the association is actually in very good financial health because they won't have another reserve expense for 10 more years and the current reserve expense item is completely paid for.

How soon the funds will be needed is a factor...

A key factor in determining whether a low percent-funded estimate should set off alarm bells is how near is the "day of reckoning" when those funds will be needed. Using our paving example, suppose the reserve study is done in the ninth year of the 10-year paving cycle, showing the association is 77% funded (\$70,000 in reserve for a \$90,000 depreciation-to-date on a \$100,000 paving job). Since there is only one year remaining to fund the remaining \$30,000, it is very likely that the percent-funded estimate is indeed cause for alarm.

However, suppose the reserve study is done after the first year of the 10-year paving cycle and the association has absolutely nothing in their reserve account. The association would be 0% funded (\$0.00 in reserves to fund one-tenth depreciation of a \$100,000 future paving job). Indeed, the 0% funding estimate shows the board has been overly complacent, or even negligent. Yet it isn't necessarily cause for alarm, provided the board takes corrective action and uses the 9 remaining years to "catch up" for the prior year's improper funding.

Keep in mind, however, the foregoing example isn't meant to encourage skipping a year of reserve funding! Uneven reserve funding doesn't fairly distribute the costs of depreciation over all owners for those 10 years. Some owners who move out may avoid paying for the depreciation that occurred during their stay and the new owners who move in have to foot the bill! Unfortunately, this happens in many associations.

Having a reserve study that accurately determines the correct annual reserve funding results in the most equitable distribution of the burden of depreciation over all owners.

In summary, once you think of the percent-funded estimate as a snapshot of the strength of your reserves relative to depreciation of your reserve assets (roof, pool, paving, etc.), then you'll see that it is not a forward-looking measure. Rather, it is as if you are looking in a rear-view mirror to evaluate how diligent prior board members have been in setting aside sufficient reserve funds.

However, in order to determine your next year's reserve budget, you'll need to be looking forward. Evaluating anticipated future reserve income against future reserve expenses, otherwise known as cash flow analysis, is a good start.

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