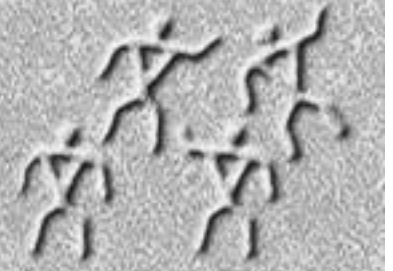


HAWAII COMMUNITY ASSOCIATIONS



A PUBLICATION OF COMMUNITY ASSOCIATIONS INSTITUTE - HAWAII CHAPTER

Volume 18 Issue 3

June 2004

From Your President

This is the last notice about the ABCs. The class is filling up. There are still a few more seats available. Brochures were provided to the property management companies. Alan Takumi has included an article on the ABCs for your information. The brochure and sign-up form is available on CAI Hawaii's web site <http://www.caihawaii.org> Select "Resource Center" and "Programs." The brochure is labeled "06/26/04 ABC Brochure."

What is a PCAM®? Alan has also included an article describing the PCAM certification and its requirements.

Recodification: The recodification of the Condominium Property Act (SB2210, SD2, CD1) has been sent to the governor and is awaiting signature. Once again, thanks go to the many groups of people who supported this bill. The section on development was omitted from the final bill and a couple of "special interest" items were added. We have a year to work through the development section and "tweak" the other sections. CAI will keep you informed of our progress.

2004 is an election year! Not again! This means that we can expect to see campaign signs, posters, banners, solicitors, and other roadside distractions. We have included an article by Randy Sing, Esq. regarding the First Amendment and

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The Importance of Adequately Funded Reserves

By Damian Esparza, Principal at Barrera & Company

Community association living is the nation's fastest growing lifestyle trend. Chances are you or someone you know lives in an association.

According to Community Associations Institute between 6,000 to 8,000 new associations are created every year representing 47 million Americans living in condominiums, planned unit developments, and co-operatives. The Hawaii Real Estate Commission registered 1458 condominium associations not including planned unit developments or co-operatives in 2003.

With this in mind, imagine how many personalities, agendas, and motives navigate the treacherous waters for creating sound communities. Each community has interests and constituencies, like that of a city council.

Different views and opinions are often expressed at board meetings, which are valid, but must be viewed in regards to the good of the association. A retired couple may ask, "Our reserve study indicates we have 17 years of remaining life, why do we have to save or increase our assessments for a roof replacement that far out, we won't be around to see it?" The young homeowner may inquire, "Why am I getting all these special assessments? I just bought this place."

The Association President may attempt to avoid increasing assessments, while maintaining the upkeep of the property with ever increasing operating costs like insurance. This is Politics, at its best or worst, depending upon your point of view.

This canvas paints the picture for the perfect storm in regards for proper planning with many different points of view reflected in the community. Sometimes, dissension and lack of proper action can have disastrous results. While the Board may not act due to lack of consensus, Mother Nature waits for no one.

Being in "reactive" mode rather than proactive mode will lead to major consequences. For example, one diligent board member at Happy Green Acres Association monthly board meeting may ask, "It's been a very wet winter and resealing the asphalt is needed along with repainting the wood siding to protect against termite and dry rot." This is countered with a reluctant and short-sighted counter question, "Where are we to get these funds? We don't have the reserves allotted for such maintenance programs?" The room goes silent, and the "Hot Potato Effect" has occurred. That is, the lack of proper action in planning and increasing assessments necessary to maintain the association has

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The Hawaii Community Associations newsletter is published for associations leaders and other related professionals of CAI. Authors are encouraged to submit articles for publishing consideration.

This publication is designed to provide accurate and authoritative information regarding the subject matter covered. It is issued with the understanding that the publisher is not engaged in rendering legal, accounting or other professional services.

CAI Hawaii Community Associations newsletter provides an opportunity for information and/or comment. Articles do not necessarily reflect the viewpoint of the Chapter. The reader should not act on information contained herein without seeking more specific professional advice.

ABC Workshop

Alan I. Takumi, CMCA®, AMS™, ARM®
 Director of Quality Assurance and Business Management
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For Association Board Members, property managers, homeowners, and interested vendors. How would you like to learn the basics of managing community associations? To learn to be more efficient in running your association? To be able to understand how to read your financial statement?

The Hawaii Chapter of the Community Association Institute (CAI) will host an all day workshop on Saturday, June 26, 2004 at the Honolulu Airport Hotel from 8:00 am to 4:30 pm. This annual workshop was developed by CAI to give association leaders the basic knowledge of operating an association. Topics to be covered are an overview, problem solving, maintenance, rule enforcement, finance, and board meetings.

There will be an overview of who CAI is and what they do, the different types of associations, the legal documents of the association, and what the developer, board, and owner roles are in an association.

We will present a five step problem solving process to help the community leaders deal with the many problems that may be brought to them by owners, residents, contractors, managers, etc. We will teach you how to develop a systematic approach that will make the problems more manageable. This will also show why proper documentation is important to reduce the association's liability.

In the maintenance section, we will show how the problem solving process could be used to resolve maintenance issues efficiently by identifying the important questions to ask when addressing problems. While a board may delegate maintenance to others, it is the

board members who are legally responsible for maintaining the common areas. A networking exercise will be used to demonstrate the process.

Rule enforcement is always a hot topic for any association and the board has to understand that rules are designed to protect property values and maintain quality of life. It is important for association leaders to conduct a professional rule enforcement hearing that is impartial. This will reduce questions on equitable enforcement of the rules.

Association finances can be very boring and tedious, but it can be the most important subject for any homeowner of an association. This section will cover the different terminology, including the different accounting systems used in associations. It will also cover how to read the basic financial statement.

The section on board meetings will have skits to show a bad board meeting and how to hold a good board meeting. Poor planning and poor conduct of a board meeting can impact the business of the association. The official actions of the board are conducted and recorded at the board meetings so conducting a professional meeting is important to the proper management of the association.

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The Importance of Adequately Funded Reserves

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resulted in a systematic 'passing of the buck' from one generation of board members to another. No board wants to face the hard questions and relinquish current action for future expenditures. As Sandy Bonato from the law offices Berding & Weil states, "When associations underfund their reserves, later generations of owners have to pay increasingly, at times frighteningly large assessments. The impact can be traumatic."

This scenario is unfortunately too common with boards that believe by keeping assessments low, causing deferred maintenance, they are acting in the best interest of the homeowners who now live there. Unfortunately, they are misguided in their precepts, and by their lack of proper maintenance and proper assessment of the homeowners the community association will pay more in the medium and long term than those board members ever imagined.

There is a direct correlation between proper maintenance and adequate reserves, much like that of changing your oil every two to three thousand miles in your car. Everyone knows that if you properly maintain your car, it prolongs the life of the vehicle. On the other hand, the longer you wait to change your oil, the more susceptible the vehicle is to damage. The same is true with

asphalt, wood, and a variety of other major common area components. Reserves and component maintenance works in the same fashion. Think of the engine as the common area components and the reserve fund as the oil that lubricates the wear and tear of everyday usage.

In the end, a little money with a proper maintenance program can extend the useful life of your components and defer long term costs with periodical repair and replacement. For example, by adjusting the wood painting cycle from 8 years to 4-5 years they would be less vulnerable to experiencing major problems from longer exposure. As Chris Sanders, President of reserve specialist firm Barrera & Company states, "We have come across associations that have extended cycles for component maintenance such as painting wood and wrought iron, and resealing asphalt. These extended cycles of painting and resealing of the asphalt have had a direct negative effect on the actual replacement life cycle of these components. Far too often we have had to adjust the normal life cycle downward for components such as wood siding, asphalt and fencing due to the lack of regular maintenance."

After a wet winter, Happy Green Acres may face a water leak or intrusion into common areas, which could

lead to even larger problems like mold infestation. As William Salesky, Co-CEO of Sherlock Healthy Homes states, "Mold has been a prime subject of for association meetings over the past few years. Our focus should be how to avoid mold through proper maintenance..."

For those associations with mold problems, generally the association has not immediately addressed a leak or intrusion, allowing a period of time without attention. Often this results in unnecessarily costly remediation and repairs...Mold can be largely prevented with immediate response combined with a periodic mold inspection program." This is an example of how the consequences of deferred maintenance have a ripple effect throughout the association considering the fact the repair needs will not magically disappear but rather grow with time along with the expenses.

So let us imagine the worst case scenario. What happens if the association goes bankrupt? So far that hasn't happened, and considering that assessments are cash flow for mutual nonprofit corporations, or homeowner associations, the chances of an association going bankrupt is slim to none. But association reorganizations have occurred and if your liabilities are greater than

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Steve Pherigo, PCAM, Senior Management Executive at Hawaiiana

Cullen Hayashida, PhD, with UH Nursing, Sociology and Center on Aging Programs.



Milton Motooka, Esq., specializing in Condominium Association.



A Full panel of speakers intrigued all of the attendees.



Some stories shocked the audience, but opened up their eyes and hearts to a growing concern taking place in our communities.



An overwhelming participation in attendance to a hot topic that is affecting all of us in Hawaii.

Aging in Place, Aging with Grace
Thursday, May 13, 2004

LtoR: Steve Glanstein, President of CAI and PRP, **Leonard Kacher**, Realty Management Corp., **Ruth Goldstein**, Hawai'i Towers and **Tony Floerke-Politsch**, Vice-President, Certified Management.

The Importance of Adequately Funded Reserves

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your assets you are in trouble. So let us hope boards get the picture and adequately fund their reserves because whether it be deferring maintenance or repairing water damage from an unforeseen natural disaster, the consequences of inadequate reserves can have far reaching implications on the association and its members. The ripple effect can lead to higher insurance costs, litigation, or a decrease in property value. As David Costello, President of NorthStar Risk Management states, "Many associations in the last few years have experienced a dramatic rise in the cost of their master policy property and liability insurance premiums. Due to loss frequency, an association that had been paying a premium of \$30,000 only a year ago, might receive a renewal offer of \$100,000 or more – for less coverage and a higher deductible. Worse yet, the association may face cancellation from the insurance company altogether, creating a panic for the property manager at the last minute. Implementing stringent loss prevention tools with proper maintenance is critical to keeping insurance costs in line."

After all, the decline of adequate reserve funding for property maintenance directly correlates to the appearance of the association and the owners' common area property.

Damian Esparza is a Principal at Barrera & Company. He has been involved with CID industry since 2001. He previously worked at SG Cowen Securities Technology Investment Banking Group, Corporate Finance, and Banc of America Securities Corporate & Investment Banking Group. He can be reached at 800-543-8670 or email: Damian@barreraco.com

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