



CHICAGO PROPERTY SERVICES, INC.

BEST PRACTICES
CAPITAL PLANNING
COMMUNITY ASSOCIATIONS

COMPLEMENTS OF CHICAGO PROPERTY SERVICES
Salvatore J. Sciacca, President and Founder
chicagopropertyservices.com

MORE LIVING. LESS WORRYING.



CHICAGO PROPERTY SERVICES, INC.

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OUR MISSION

To create stress free living environments for community associations which include condominiums, townhomes, HOA's, and co-operatives. We accomplish our mission by delivering the following:

- Education and awareness campaigns
- Lower operating costs through expense reduction initiatives and 5 year capital planning
- Maximized board efficiencies through continuous training
- Improved communications through white papers, social media and other channels

OUR SERVICES

- TRAINING
- TRANSITION SERVICES
- MANAGEMENT
- ACCOUNTING
- CONSULTING
- PERFORMANCE REVIEWS
- ONLINE SUPPORT SERVICES
- MANAGEMYCOMMUNITY.COM

DISCLAIMER

Chicago Property Services would like to commend you for volunteering your time and energy. As a board of director, your duties and responsibilities are quite significant and your association's success depends on the decisions you make.

Unless otherwise specifically stated, the information contained herein is made available to the public by Chicago Property Services, Inc. and may not reflect the realities of your actual association. The intent of this guide is to assist board members in long term capital planning of IL based community associations.

Neither Chicago Property Services, nor any other entity thereof, assumes any legal liability or responsibility of the accuracy, completeness or usefulness of the information disclosed in these pages. Every community association is different. Please consult an attorney for any legal advice you may need in order to run your association properly.

BEST PRACTICES FOR COMMUNITY ASSOCIATIONS

CAPITAL PLANNING GUIDE

COMPLIMENTS OF CHICAGO PROPERTY SERVICES

Chicago Property Services is pleased to present this document in order to assist community associations in their long term planning process. Now more than ever, associations must spend money wisely and plan ahead to ensure that their reserves are properly funded. Proper reserve funding will allow board of directors to properly maintain the associations and maximize the real estate values of the homeowners.

Duties and obligations of board members

One of the fundamental obligations of board members is to maintain the common elements. In fact it is your fiduciary duty to maintain the common elements as stated in the IL Condo Act.

The common elements consist of physical characteristics that involve regular maintenance as well as capital replacement. The focus of this white paper is on capital items. Which capital items should be replaced and when should they be replaced are the most important questions to ask. It is not a question of whether the items should be replaced. All capital items have a finite life expectancy.

Reserve studies are recommended

One of the questions that board members should ask is who determines what are the capital items, how long will they last and how much will it cost to replace the times. To answer those questions, association should ideally hire a company that specializes in reserve studies. The reserve study is a document generated by experts that incorporates the life expectancy of all capital items over the span of 30 years into a detailed report. The report will indicate what items need to be replaced, when they need to be replaced, and how much it will cost to replace them. It will also detail how much the association will need to save to fund the capital item replacements on an annual basis.

In principle, this sounds like a very sound idea. If your association has the funds for a reserve study which is typically at least \$3,000 for a typical 30 unit community association to over \$10,000 for a larger community, then it makes the most sense to do so.

Practically speaking, many associations cannot afford to pay for a reserve study. In Illinois, there are over 40,000 communities and about 30,000 are under 25 units. Most of the associations under 25 units probably don't have the funding to afford a reserve study. In addition, there are associations that have paid for reserve studies and have not followed the recommended plans. Certainly, this is not recommended but it is the reality for many associations based on their financial constraints.

5 Year Capital Plans are Essential

Regardless of whether an association has a current reserve study or not, it makes the most financial sense that ALL associations large or small, well funded or underfunded, have a 5 year capital plan. The capital plan needs to incorporate the reserve study data if available and create a roadmap of exactly what capital items will be addressed during which calendar year.

BEST PRACTICES FOR COMMUNITY ASSOCIATIONS

CAPITAL PLANNING GUIDE

COMPLIMENTS OF CHICAGO PROPERTY SERVICES

Capital Planning Saves Money

Planning ahead and proactively addressing capital projects actually saves money. This is especially applicable to exterior façade, masonry and tuckpointing issues. Simple masonry issues can easily escalate into major expenditures. Costs associated with exterior masonry issues typically raise exponentially and not linearly. This means that the longer associations hold off with repairs, the more costly the repairs become. It is cheaper to make the capital improvements sooner than later.

Given this fact, the best approach for board of directors of community associations is to have a capital plan and to plan ahead. It is always best to plan long term and to keep the homeowners informed of expenditures especially larger ones. As a result, it is quite important for the board of directors to create and maintain a 5 year capital plan.

Capital planning cycle

The capital plan is a guide and a roadmap detailing exactly what capital items will be addressed over the next 5 years. The capital planning process should start in the spring and finish up with the plan that the board will present to the homeowners at the budget approval meeting which is typically held in October or November of each year. Ideally there is a capital committee that reviews the capital plan every year and submits the recommendation to the board each year in September. This allows the board to incorporate the capital planning process into the operational budget planning process that typically starts in September. Once the operating budget and capital plan is approved, the cycle starts all over again in the spring. It is an ongoing process that continues on through the life of the community association.

Proactive Planning or Deferred Planning

It is the best case scenario when associations plan ahead and pre-fund the reserves for capital projects. But what happens when associations don't plan ahead? The answer is simple. It costs MORE money. The project costs are higher and the board is often time forced to pass special assessments and raise more through bank loans. In addition, there is typically more frustration among the homeowners as the amount the homeowners are asked to pay is often times larger than the regular monthly assessment amount. It is much cheaper to raise regular assessments and save over time and have the funds necessary for capital projects versus raising funds for capital projects as necessary. The following sections discuss the most common capital funding scenarios.

Funding Options – Reserves Only

In this best case scenario, the association has planned ahead and has built up the reserves sufficiently over the years and has enough to pay for the capital projects as necessary per the capital plan. This is the ideal situation. This means that the assessment levels are sufficient to build long term reserves. The association can move forward with the capital project at any time in this scenario and does not have to wait to collect additional funds. This scenario is the least stressful to the association and to the homeowners.

Funding Options – Reserves and Special Assessments

In this scenario, the association can only partially fund the capital project from reserves and it is necessary to raise additional funds through a special assessment to fully fund the capital project. In this scenario, the association will need to wait until the special assessment funds are collected before proceeding with the project. This scenario would only apply in cases where there is low urgency in the project completion timeline.

BEST PRACTICES FOR COMMUNITY ASSOCIATIONS

CAPITAL PLANNING GUIDE

COMPLIMENTS OF CHICAGO PROPERTY SERVICES

Funding Options - Special Assessments Only

In this scenario, the association is severely underfunded and must raise funds completely through a special assessment. This is a viable option only if the project is not urgent in nature and can wait until the special assessment funds are collected. This scenario is the least common and would only apply in cases where there is low urgency in the project completion timeline.

Funding Options – Special Assessments and Bank Loans

In this scenario, which is the least desirable scenario, the association is seriously underfunded and urgently needs funds to complete a capital project. This can be attributed to an unexpected event that has created the need to complete a capital project. Other scenarios include poor planning, deferment of capital projects, and/or underfunding of the reserves.

There are banks that do lend to community associations which allow associations to access the capital necessary to complete the capital projects in this scenario. In this case, the association applies for a bank loan and at the same time will need to pass a special assessment to cover the cost of the project. The bank loan will allow the association to take on the project fairly quickly as a loan approval usually takes about 6 weeks to complete.

Once the loan is approved, the association has the funding available to take on the project. The payback period of the loan is usually over 3 to 5 years. The special assessment is also usually drawn out over the same period of time. This is the most expensive scenario due to the borrow costs of money and creates the most stress on the association and homeowners.

Communication is key

In the end, the best approach is to communicate information to the homeowners on a regular basis. By communicating the information to the homeowners, they will know the issues that are at hand and they will not be surprised to hear about upcoming capital improvement projects. In addition, if additional funds are needed, the homeowners will not be surprised by the need to pass a special assessment or obtain a bank loan. The way to do this is by holding regular quarterly board meetings that are officially noticed and distributing meeting minutes to all the homeowners so that information is shared to those who were not able to attend the board meetings.

Summary

In summary, associations are encouraged to plan ahead especially regarding capital expenditures. These are the greatest expenditures that associations will undertake. As a result, it is advised that association obtain a reserve study if financial affordable and to incorporate this information into a 5 year capital plan. Each year, the association should revise the 5 year plan and every 3-5 years the association should get an update to their reserve study. This proactive approach will result in the lowest amount of operating costs for the association

Conversely, associations that wait until the last minute to make capital repairs will often times need to pass special assessments, obtain bank loans, spend greater amounts of money to complete the projects and create the greatest stress and strain on the association and homeowners.

BEST PRACTICES FOR COMMUNITY ASSOCIATIONS
CAPITAL PLANNING GUIDE
 COMPLIMENTS OF CHICAGO PROPERTY SERVICES

Sample 5 Year Capital Plan Worksheet

The following worksheet is designed to provide the board of directors a worksheet to facilitate the creation of a 5 year plan.

Capital Item	Year 1	Year 2	Year 3	Year 4	Year 5
Totals:					
Reserve contribution (operating budget surplus)					
Reserve contribution(special assessment or other):					
Projected Reserve balance:					

BEST PRACTICES FOR COMMUNITY ASSOCIATIONS

CAPITAL PLANNING GUIDE

COMPLIMENTS OF CHICAGO PROPERTY SERVICES

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About Chicago Property Services, Inc.

PREMEIR COMMUNITY MANAGEMENT:

Chicago Property Services, Inc. is Chicago's premier provider of professional offsite management services for condo and townhome community associations. Through innovative management techniques, CPS is creating stress free living environments for thousands of homeowners throughout the Chicago area. With 50 exclusive properties under management, Chicago Property Services is setting the gold standard in offsite management.

COST SAVINGS:

Through their cost cutting and price negotiation abilities, CPS is saving community associations thousands of dollars annually. In addition, CPS has saved associations tens of thousands of dollars on their capital project expenditures through the project management services offered by CPS.

TIME SAVINGS:

Through the guidance of CPS, client board members are much more effective in decision making and planning. This allows board members to spend more time attending to their professional and personal lives. The average CPS board meeting last no more than 1 hour and our typical client holds quarterly board meetings.

Through proactive 5 year capital planning, CPS saves clients both time and money. Projects are completed sooner and cost less money. In addition, CPS clients have access to a state of the art exclusive online support tool called managemycommunity.com (MMC). MMC gives board member and homeowners real time access to critical information such as contact information, maintenance issues, and financial information. Let Chicago Property Services create a more pleasant living environment for your association. Experience **MORE LIVING** and **LESS WORRYING**. For more information, visit www.chicagopropertyservices.com

BEST PRACTICES FOR COMMUNITY ASSOCIATIONS
CAPITAL PLANNING GUIDE
COMPLIMENTS OF CHICAGO PROPERTY SERVICES

About the Author, Salvatore J. Sciacca

Salvatore J. Sciacca is a leader in community association management, with more than 20 years experience. Founder of Chicago Property Services, Inc., (CPS), the premiere community management company in metropolitan Chicago for townhouses, condominiums, co-operatives, and homeowner associations, Mr. Sciacca also serves as its chairman and president. Mr. Sciacca is also the founder of managemyccommunity.com which is soon becoming the leading online support portal for community associations. Mr. Sciacca is recognized for his extensive knowledge of capital planning, preventative maintenance, and cost-saving measures. At present, Mr. Sciacca's firm manages a portfolio of 50 exclusive properties including the former Marshal Field mansion. The portfolio has a combined value of \$300 million.

Following rigorous exams, Mr. Sciacca became a Certified Manager of Community Associations (CMCA®) in 2002 by the Community Associations Institute (CAI), the top national trade association in the field. He was designated an Association Management Specialist (AMS®) in 2004 through CAI. Mr. Sciacca is a member of CAI, and the Association of Condominium Townhouse & Homeowners Association (ACTHA). Mr. Sciacca regularly attends national conferences such as the CAI CEO Retreat and the CAI National Trade Show. Locally, Mr. Sciacca regularly attends ACTHA and CAI trade show events and is a regular guest speaker at ACTHA seminars and events.

Through his continuous interactions with national and local trade associations and industry experts, Mr. Sciacca remains at the forefront of best practices in the industry. Mr. Sciacca has often teamed up with the legal experts at Kovitz Shifrin Nesbit to give seminars and presentations throughout the community about current issues. He has been featured in several Chicago Tribune articles, CondoLifestyles articles and on CAI's radio talk show. Mr. Sciacca holds a Bachelor of Science degree in electrical engineering from the University of Illinois at Urbana Champaign and a Masters of Business Administration in international business from DePaul University.

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You can also find more information on Mr. Sciacca on his:

Condoboss FB page at: **[Condoboss on Facebook](#)** or Linked In profile at: **[Condoboss on Linked In](#)**

His Condoboss page and group is full of free information and valuable tips on how to best run community associations.