

What About Your Utility Systems?

When purchasing a manufactured home community, experienced investors focus considerable pre-purchase due diligence on the community's utility systems. This infrastructure is a large part of the value of most properties. Major problems associated with utility systems can quickly destroy a community's value. In fact, attendees at "Mobile Home Park Store Boot Camps," who learn all aspects of buying, selling and operating communities, spend considerable time learning about various community utility systems and how system failures can cripple communities.

One of the most common mistakes community owners make is failing to consider the utility systems when insuring their community. Here are steps you should take as a community owner when assessing your insurance needs. First, determine what portions of the utility system the community owns, and what portions are owned by a utility provider. Second, create a plan for what you'll do if the community-owned portion of the system suffers a mechanical failure or is destroyed or damaged. Third, determine the cost to replace community-owned utility systems. Community utility systems include power pedestals and utility stubs at home sites, street lights, power poles, water pumps/wells, sewage tanks, sewage pumps, and other sewage plant equipment. Finally, determine the susceptibility to damage and malfunction inherent in each.

Here's some examples of recent major utility system failures suffered by community-owning clients of Mobile Insurance. In Alabama, tornadoes stripped away over seventy home site power pedestals. These pedestals had to be replaced at a cost of \$800 per pedestal before community operations could resume and home sites could be leased again. As there was no insurance on the pedestals, the \$56,000 cost was shouldered entirely by the owners. In Colorado, lightning struck and destroyed a major community-owned electrical canister located on top of a utility pole. The community owner hadn't realized he owned this \$300,000 piece of equipment until it was destroyed. In Texas, wildfire melted a 48" wide composite material flood relief pipe that went through a community retention pond dam. Once melted, the dam collapsed above the pipe. The repair costs were roughly \$35,000. In this instance, the community owner knew of the improvement and its cost, but he never suspected it could be destroyed and thus, didn't insure it. In Louisiana, a mechanical breakdown crippled a sewage lift station and necessitated its replacement before the community sewage system could operate. Roughly \$200,000 later, they were able to offer working sewage service to their tenants again. Mechanical breakdown coverage would have covered 99% of the cost.

Most community utility systems are less susceptible to damage than community-owned buildings, signs, fences, and other real estate improvements. Therefore, the cost to insure them in proportion to their replacement value is usually less. For example, most community owners can insure every power pedestal in their community for less than the cost to replace just one. When insurance isn't a good risk management choice such as with underground septic systems, consider funding long-term capital improvement accounts via tax savings related to system

depreciation so you have cash when cash is needed. In the case of purchasing communities with utility systems that may have to be soon replaced or updated, make sure the purchase cost is discounted to reflect this future required capital outlay.

Some uninsured and unexpected utility system losses and failures can be overcome by resourceful managers. However, utility infrastructure issues are often so large that they can't unless a plan to address potential failures was already in place. Your insurance agent and community management/development professionals can help you assess your risk. By planning ahead, you can avoid utility system failures that rob you of all the equity you've accumulated. If you haven't already, consider implementing a utility infrastructure risk management plan.

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