

WHAT IS AN ASSOCIATION RESERVE FUNDING MODEL OF SUCCESS?



by Jim Talaga, RS
President
Association Reserves – WA LLC

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www.reservestudy.com

“Fund your reserves above the 70% level”. That’s what you thought I would say, because our industry has been telling you that for years, right? ***The answer is deeper than that.*** Reserve funding success is not fleeting; it is a constant state of readiness. Unfortunately I’ve witnessed a great number of associations over the years whose reserves were funded at a low-risk level *for a period of time*, only to fall to a high-risk range within a few years due to a shift in board philosophy and policies, surprise expenses, or complacency. The kind of complacency that comes from reaching a low risk reserve funding range either through good financial stewardship or a large settlement, then ignoring reserve planning or reducing contributions as self-reward.

The key to success is the community culture you create, and consistent follow through. A culture that has communication and community “buy in” at its core, operating within defined standards and policies. Doesn’t have to be a certain type of culture, but it must have these attributes. Around the time I started in this business twenty years ago, it was commonplace for boards not to disclose the results of their reserve study because of the perceived danger in sharing bad news with the ownership.

I sometimes encouraged this behavior. I was wrong. An association will always be better off openly asking “what can go wrong?”, even looking for it, and then proactively working the problem together.

Define your culture, because it will define you.

Let me tell you about two specific models of success: a Seattle high-rise and a Co-Housing association in the Central District.

The high-rise association has engaged us to update their reserve study every year since I've been here; by no means a rubber stamp. They partner with a team of experts who regularly review: mechanical systems, roofing and waterproofing systems, windows and sealants / coatings, and infrastructure, and those results are incorporated in the Reserve Study update. They regularly survey their residents and the competing marketplace asking what improvements would be desirable or important to remain competitive. They wisely look for problems and needs before they occur. ***Here's what may surprise you*** - their reserves hover between 30% and 40% Funded, and I laud them as a model of success. While we encourage a higher level of Reserve Funding and their Reserves Percent Funded meets one of the criterion for financial high-risk, they counter that with a very proactive low-risk culture of planning and communication.

The Co-Housing association has an interesting approach. They have a community hall with commercial kitchen, regularly sharing meals and conversation. My mom was wise to insist upon those family dinners after all... Each owner must participate on the board or a committee, and report to the group. This model of communication and planning has also produced excellent results. By openly discussing the Reserve Study results with the entire membership, they were able to more quickly understand their funding needs and arrive at a reasonable budget decision sooner and more smoothly than the typical community with a closed process. There are personalities and spirited discussions to be sure, but whether they agree or not, they all know where they stand as a community. And as co-owners, they're in it together.

A successful culture must be buoyed by good policy.

Policy sampling:

- Ensure the board has full and separate control over the reserve accounts with two-boardmember signature policy on checks, redemptions, fund transfer requests
- Employ a good CPA for regular audits and tax planning, quarterly comparison of actual expenditures to the budget, showing activity for both Operating and Reserves
- Maintain written reserves handling and investment policies (safety of principal)
- Use the Reserve Study to map cash flow, laddering investments for maximum return
- Safeguard against fraud and cyber theft
- Regularly review insurance coverages, including those related to financial matters
- Employ due diligence and engage experts for professional specifications and oversight for the high-risk (high expense) components in your association
- Employ testing methodologies for building envelope and infrastructure components such as: infrared, nuclear, capacitance, ultrasonic, electrical conductance, camera scoping, pull tests of sealants, and periodic forensic review

In summary, simply budgeting Reserve contributions at a strong level does not by itself ensure success. Boards that are not proactive, do not adequately communicate the needs for current

and future funding, or install good policies and a repeatable model for success, run the risk that the ensuing boards will undo progress that has been made.

I promise you, the time you spend designing and communicating a strong community culture will pay lasting dividends and move your association toward being a model of success as well.