

PLANNING FOR THE PREDICTABLE

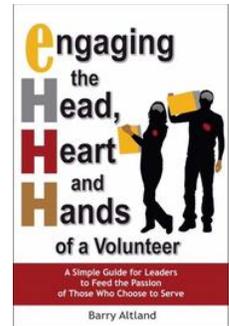
Hosted by Robert M. Nordlund, PE, RS www.reservestudy.com

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Featuring two special guests:

Barry Altman: headhearhandsengagement@gmail.com

- National expert on Volunteers
- Author of “Engaging the Head, Heart and Hands of a Volunteer- a simple guide for feeding the passion”. Click [here](#) to visit Barry’s website and purchase the book for a special webinar price.
- Click [here](#) for a brief introduction to the book.
- President of his association in Winter Garden, FL
- Featured in CAI Webinar Feb 2016. Click [here](#) for more information.



William (Bill) Chmura:

- Retired, Treasurer for his association in Southington, CT
- Wrote a 5-part article series on Reserve Planning Published in CAI/CT “Common Interest” magazine. Click [here](#) to read/print his article series.
- Nominated for CAI/National 2017 “Boardmember of the Year” program

Miss the webinar? Watch it [here](#).

Financially sustainable communities are built on the hard work of volunteer board members, working well with each other and serving the needs of the community. Today we celebrate and honor those volunteers. But what drives volunteers to serve, and how can their service be nurtured?

Barry shared that it’s all about engagement.

Approx 25% of homeowners have a heart for service, so capture that spirit and allow those homeowners to serve *with purpose*.

Allow volunteers to align with their interests, giving meaning (and sustainability) to their service.

Acknowledge the volunteers for their service with a smile, word of encouragement, or a question seeking their insights or feedback. Fill the souls of the community’s volunteers with



satisfaction, joy and fulfillment. These emotions are essential to the volunteer, and the community doesn't run successfully without volunteers. So keep volunteers and their needs first, even before the community's needs.

Don't kill their "spirit to serve" with burdensome tasks or bureaucracy. Develop a partnership with the management company, supporting each other.

How to cultivate a pipeline of positive and constructive volunteers? Frame service in a positive way – "become involved", not a daunting list of tasks where help is needed. Ask what they'd like to do... give them a constructive and meaningful outlet for their skills, energy, and time *volunteering for the association*.



For more information, see [Barry's book](#) on the subject.

Bill then shared about his experience on the board, finding it a good outlet for his interest to serve. He then explained his role with Reserve planning (part of the job of Treasurer), and the lessons he has learned.

What was his greatest surprise? That people so consistently misunderstand Reserves, thinking they are funds "for a rainy day" or "just in case". Bill went on to explain that Reserves are for real bills... offsetting the cost of the ongoing and predictable deterioration of the common areas.



Bill then spoke about the resistance he's found with Reserves and suggested some ways to break through:

Success on the Board: with *Reserves*



- **Frame it right**
- **Board Resistance**
- **Owner Resistance**
- **Other benefits**

Frame it Right (choose your words carefully!)

- Expect that Reserve Planning will usually be misunderstood
- Associations have one funding source – it's always the owners, and they either pay now or pay later
- There are no “future costs” – there are only ongoing operating costs and ongoing costs of deterioration
- Deterioration COSTS accumulate now, with balloon PAYMENTS in the future
- The challenge is to “right size” these payments and “be fair” to all current and future owners
- Smaller amounts collected over a long time is the least expensive approach and the easiest to handle for the owners

Board Resistance (begin to communicate the message)

- Governing Documents – caring for the association by providing the funds necessary to sustain the association is the Board's responsibility which should not be ignored.
- Reserve Planning is Confusing (not really), Difficult (not really) and Costs Too Much (not really). The important thing is to get started. Perhaps do it in-house at little or no cost.
- Afraid owners will have to pay more. Yes, but “more now” is necessary to pay the very real costs of deterioration. Even an in-house analysis will reveal the reality of the ongoing deterioration, and potential costs. It is important to deal with the truth of the matter.

Owner Resistance

- Q: Why should I pay for someone else's costs in the future?
A: It is your cost. You are the one using the asset while it deteriorates
- Q: But I can't afford it!
A: You should consider moving to a home you can afford.
- Q: I already bought the “roof”. Why should I buy it again?
A: Everyone here is on the “pay as you go” plan.
- Q: Do I get my money back when I leave?
A: No. The roof and its Reserves for replacement stay when you leave/sell.

Other benefits to Reserve Planning

- Maximize appearance – pride of ownership!
- Maximize home values

- Demonstrates Solid Management & Fiscal Responsibility
- Great communications tool – that the Board is caring for the association and its owners, and has a plan to deal with inevitable deterioration
- Continuity & Consistency – A Reserve Study bridges between different board administrations, and is a “living document” to use for annual budgeting
- Improves Money Management – allows maximum return on invested Reserves when you know when the cash is needed. This reduces owner contributions!
- Stabilizes your annual fee – minimizes or eliminates special assessments with responsibly sized ongoing Reserve contributions.
- A tool to reduce risks – planning ahead minimizes unsettling “surprises” and special assessments



Volunteer with the support of your professionals, doing what they do best! [Association Reserves](#) is here to help volunteer board members make wise decisions about achieving a successful and financially sustainable future!

Webinar Questions Asked by Attendees

Q: Should an owner get their Reserves portion back after selling, and should a new owner pay more?

A: No. Reserve contributions offset the cost of ongoing deterioration. Those funds are paid by the owner to offset the cost of deterioration that occurred while they owned a home in the association. The owner enjoyed use of the common areas, and Reserve contributions over the years were “bills” that have been paid. The new owner should carry on by paying their ongoing fair share, just like all the other owners.

Q: What are some ways to get people interested in becoming a Board member?

A: Board leaders are encouraged to leverage a strategy of macro- and micro-communication, combined. Use newsletters, social media and bulletin boards to broadly share not just the open opportunities to volunteer, but all possible ways that fellow community members may get more actively involved. That way, members may envision the full array of ways they may potentially serve. Then, also take opportunities to engage in purposeful one-on-one conversations whenever possible, asking open-ended questions to discover the needs, wants, desires, interests, skills, experience, growth areas and passions that may align well and be “fed” by meaningful service. This is the essence of volunteer engagement.

Q: With interest rates being so low, are CDs still the only instruments in which you’d consider holding Reserve funds?

A: CDs are simple, effective, FDIC insured, and they have the critical advantage of protecting the association from “loss of principal”. Their returns may be low, but your Reserve fund will never lose value. Knowing the timing of your expenses will allow you to maximize your return with longer-term investments for years when the funds are not needed.

Q: Regarding components with long term lives (e.g., 50 years) some plans only require contributing to the reserves after 20 years which mean the last 30 years of owners contribute more than if they were collected over 50 years (when everyone was using the item in question). Can the Board decide to collect for the 50 years rather than the 30 years?

A: Yes, and hopefully that is the recommendation of your Reserve professional also. Reserve contributions offset ongoing deterioration. It is best to plan (Reserve) for all

reasonably anticipated expenses, even the ones past an arbitrary # of years away. In this way each owner pays their fair share of the deterioration which occurred during their term as an owner.

Q: Are volunteer board members obligated to cooperate with their Reserve Study provider in providing information?

A: No, but it would be foolish to not cooperate. The Reserve Study is prepared for the benefit of the association. Your interests are best served if you are candid and forthright, giving your Reserve Study provider all the facts (of recent costs, component replacement history, vendor names, starting balance, etc.). This maximizes the accuracy and value of your Reserve Study.

Q: What was that Reserve Study tool Bill mentioned, and are there other “low cost” Reserve Study options?

A: The free online Reserve Study tool Bill mentioned is called QuickReserves, and you can create a free account at www.QuickReserves.com. A low-cost option is our \$349 Do-It-Yourself Reserve Study Kit, where the client prepares the Component List and we (Association Reserves) prepare the Financial Analysis and the report. Please see www.DIYReserveStudy.com.

Q: Does a manager have any liability if the volunteer board keeps delaying Reserve projects?

A: In those cases it is best for a manager to make clear recommendations to prepare a Reserve Study and perform timely repair and replacement projects, *and get those recommendations recorded in meeting minutes*. While there is always some liability, a clear record of your recommendations can minimize your liability!

Q: Why should we care about Reserve planning if it’s not required in our state?

A: A board’s obligation is to provide for the care of the common area assets, protecting home values. You need a plan to offset deterioration, and you need a plan to collect funds from the owners in a fair and responsible manner so the association will have enough cash for those predictable Reserve expenses. You prepare a Reserve Study (and update it regularly) to meet your obligations as a board member and prepare the association responsibly for the future, not because it’s required by State Law.

Q: Is the Reserve Study the professional's opinion of the state of things at the association, or should it reflect the Board's opinion?

A: If you paid for a professional's opinion, their Reserve Study should reflect their opinion and findings. The board is encouraged to provide insights and suggest changes throughout the process, but the result remains the recommendation of the professional. The board should consider that professional opinion, and choose wisely to follow its recommendations in whole or in part.

Q: If we find out something new, should we update our Reserve Study mid-year?

A: No. A Reserve Study is an annual document. We recommend keeping a file of Reserve expenditures and suggested changes (additions or deletions) to be used in the process of updating the Reserve Study for the next year.

Q: If a Board member doesn't want to raise the dues because most residents are on a fixed income, how can that be handled?

A: Per their Governing Documents, board members have a responsibility to maintain the assets of the association. So if boards don't budget to maintain the association, they face legal exposure. Any ignored expenses don't go away, they are real costs that accumulate to be paid another day. For stability and sustainability, assessments need to be set to offset costs. If some owners claim assessment increases to sustain the association will make it unaffordable to live there, those owners need to realize living in that particular association is outside their budget capabilities and move to a home with a lower cost structure.

Q: Are Reserve contributions a different payment from the owners?

A: Generally no. Reserve contributions are just a portion (typically 15%-40%) of a homeowner's regularly budgeted assessment. When the funds are collected, the board typically transfers the Reserve portion of the assessment to the Reserve Fund.

Q: Why would we want to have money in Reserves now for projects that will not need to happen for another 15-20 years?

A: It's all about fairness and responsibility. When everyone who is enjoying the use of those assets pays their fair share over time, the future takes care of itself. An ongoing Reserve funding plan is the least costly and the fairest way to provide for the needs of the association.

Q: How often should you update your Reserve Study?

A: Because it is based on observations or information that is time-dependent (the condition of components, the cost of components, the Reserve Balance...), like a tax filing it is an annual document. As Reserve contributions typically represent 15-40% of an association's total budget, that is a budget line item worth reconsidering (updating!) every year. Read more [here](#).

Q: What are the risks of a Reserve Study being prepared by volunteers?

A: Will the in-house Reserve Study carry enough authority to influence a change in the budget? How accurate is the Component List? How accurate are the estimates for Useful Life, Remaining Useful Life, and Replacement Cost? How accurate is the Funding Plan in handling interest and inflation? Associations with a simple list of common area components, and associations attempting to update their Reserve Study in years between a professional update are good candidates for preparing a Reserve Study update in-house. But if your volunteers don't have the time or skills, or if you need the "authority" of it being prepared by a professional, then hire a professional.

Q: How do you convince owners that your UL/RUL estimates are correct?

A: Plans regarding the future are fundamentally estimates. It is best to get credible numbers for UL and RUL (from a professional, association history, a vendor, your management company, neighboring associations, etc.), but it is more important to have a Reserve plan and be continually updating it over time. No Reserve Study will ever be "perfect" or "correct". But they should be close enough for responsible and effective planning purposes.