



REPLACEMENT RESERVE COSTS – VS “TOTAL INSURABLE VALUE”

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A Reserve Study helps the Board assemble a responsible budget to care for the Association’s major common area repair and replacement responsibilities, and disclose the Association’s Reserve Fund status to its members. The individual projects listed in the Reserve Study (roofing, painting, asphalt, elevator, etc.) are very different from an Association’s “total insurable value”. Adding the Reserve components together does not yield the Association’s total insurable value, because all the assets comprising a “rebuild” project do not necessarily appear in the Reserve Study.

There are several ways for the Board to obtain an estimate for the "total insurable value" of the project. The most conservative approach is to hire a competent real estate appraiser and ask for a "replacement cost appraisal" for insurance purposes.

The Association could also hire an insurance consultant, but most insurance consultants will be willing to make recommendations with regard to:

- (1) complying with the Davis-Stirling Act (California Associations)
- (2) meeting the requirements set-forth in the Association's governing documents, and
- (3) recommendations on the types of coverage maintained.

Note that insurance consultants generally will steer clear of making any recommendations regarding the adequacy of coverage.

At a very minimum, the Association should require the insurance agent/broker to provide the Association with an updated Marshall & Swift/Boeck report. Such a report would provide a building-by-building analysis of the approximate replacement cost based on the project's size, construction type and geographic location. Such a report should also include all common area amenities that are potentially exposed to loss (pools, spas, private streets, curbs, v-ditches, etal).