

# WHY RESERVE FOR EXPENSES 30 YEARS AWAY?

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Today a well-intentioned Boardmember called, asking why he should tell his homeowners that the expensive roof they installed two years ago, not needing to be replaced for another 28 years (or so), is something they should be paying for now? They paid the entire cost of the current roof (through a special assessment), the average age of homeowners is over 60, and they don't expect to be around when the next roof needs to be installed. "Let others worry about the next roof in 30 years!" he says. This is their roof. We paid for it. So... are roof Reserve contributions his problem?

It is unfortunate that the majority of current homeowners had to pay a large special assessment two years ago to replace an asset they hadn't "used up". Prior owners had enjoyed the use of, and "used up" that prior roof, and they didn't pay for it. That was irresponsible. That forced the cost of a replacement roof onto the current set of owners. The recent special assessment was to pay the cost of replacing the old roof, something for which the prior boards and owners had not made responsible preparation. But doing the same thing again for future owners is irresponsible.

How can a Board responsibly choose to not care for an association asset? All physical assets are gradually deteriorating every day. As the physical value of that asset moves from "new" to "old", there needs to be an offsetting growth in the Reserve Fund in order for the Board to claim they are responsibly caring for the assets of the corporation. In addition, if the Board ignores a Reserve Study that indicates the funding needs of the association and the Board chooses to not reserve for one or more components, there could be some real liability exposure.

Note that when home values begin to be influenced by Reserve Fund strength, this will be less of an issue. A Reserve Study shows the strength of the Reserve Fund, and any prospective homeowner can use that information in sales price negotiations. Current homeowners will pay

for common area deterioration one way or another... either in loss of value of their home to a new buyer, or with Reserve contributions.

The Board's primary responsibility is to protect, maintain, and enhance the assets of the corporation. That is done when the deterioration of physical assets are offset by the growth of financial assets. Physical deterioration cannot be ignored. Two wrongs don't make a right.