6 WAYS TO MINIMIZE YOUR RESERVE CONTRIBUTIONS

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Why put more money into your Reserve Fund than necessary? I can't think of a good reason! You don't want to make Reserve contributions that err on the side of being too little, that may lead your Association toward a Special Assessment, borrowing, or the even higher costs that come with deferred maintenance. But you shouldn't put away too much either. Let me give you six ideas how to responsibly minimize your Reserve contributions.

#1. The best way to minimize Reserve Contributions is to make sure your Reserve Study provider uses the "cash flow" method of calculating your recommended Reserve contribution.

The alternative "straight line" calculation method points your Association towards Full (100%) Funding in a relatively short number of years. But there's no reason to be that aggressive. You can still achieve a Fully Funded objective (a good idea, by the way) using the "cash flow" calculation method. Your Association will get to Full (100%) Funding, but more smoothly, and over a few more years. This can make a big difference in lowering your calculated Reserve contributions along the way.

#2. Allow an outside organization to pay part of your contributions

How is this done? It's called Reserve interest, and you get it from the institution that holds your Reserve funds. Even with today's low interest rates, outside money helps, and it adds up to a surprisingly significant amount over the years as it gradually compounds. Too many Associations aren't getting any interest, or aren't making timely deposits (or insufficient deposits) because they don't think that .5% or 1% interest is worth earning. That kind of thinking is just plain wrong. Maximize your Reserve interest earnings. Then stand back and watch it compound, slowly and steadily, over the years. Every dollar earned in interest is one less dollar contributed by the homeowners.

#3. Perform timely ongoing maintenance

A touchup paint project, paid for through the operating budget on the high-exposure surfaces that get the most weathering, may allow you to extend the Useful Life of a repainting project from 5 years to 6 year. Look at it this way: Suppose a repainting project has a Useful Life of five years and costs $20,000. The value of its deterioration is $4000/yr. If the Association can pay for a $500 or $1000 paint touchup to extend the Useful Life to six years, the deterioration is reduced to about $3500/yr. You just saved $500/yr on an ongoing basis! This same principle can be applied to other components, including roof maintenance, gutter cleaning, carpet cleaning, asphalt cleaning & sealing.

#4. Review your actual replacement needs

Don't execute a Reserve project just because your Reserve Study indicates it has a Remaining Useful Life of 0 years. If a fence is still standing and strong, don't replace it prematurely. If that pool heater is still serving well, don't replace it prematurely. This is another way to "extend" the Useful Life of your Reserve components, stretching the replacement cost over a larger number of years. It's a also a good reason to update your Reserve Study every year because extending the useful life of your reserve components generally translates to a lower reserve contribution.

#5. Review your Operating Budget to verify that you are not "double-budgeting"

Double-budgeting happens when a reserve project is funded both in Operating and Reserves. If you are successfully repainting 1/5 of the buildings every year in the Operating Budget, you don't need to include a repainting component in your Reserve Study! Look closely to find if this is true with tree trimming, pool furniture, smaller mechanical components, etc. You only need one replacement budget for a component, not two.

#6. Avoid these three common mistakes that will make Reserve expenses higher

A. Deferring projects. Avoiding a repair or replacement project "just because" is a bad idea. Deferring the expense doesn't just postpone the expense. Deferred projects tend get more expensive due to deterioration of underlying materials. This is especially true of asphalt, painting, and roofing. By deferring, you're doing the Association a financial disservice.

B. Thinking 50% Funded means making 50% of your Full Funding contributions. Funding Reserve projects is expensive. Even a Baseline Funding objective (where your contributions are designed to just keep the Reserve Fund barely positive) requires a lot of money. For this reason, Baseline Funding contributions average only 13% less than Full Funding contributions. Thinking you can cut your Full Funding contributions in half typically leads to running out of Reserve Funds in just a few years.

C. Head in the Sand. Thinking that asphalt will "essentially never" need resurfacing, or that a roof or elevator is a "lifetime component" are both critical mistakes. Calculating Reserve contributions without those influential components is irresponsible. Asphalt, roofing, and major mechanical components are destined to deteriorate or fail. Ignoring that reality will only commit your Association and future homeowners to an unstable financial future that includes Special Assessments or borrowing.

The Bottom line: The primary responsibility of the Board of Directors is to maintain the physical assets of the corporation, many of which will deteriorate on a fairly regular cycle. These assets can be translated into a list of Reserve Components, each with its own Useful Life, Remaining Useful life, and Replacement Cost. There are many wise steps to minimize your Reserve contributions necessary to ensure timely repairs and replacements, but it is unrealistic to expect a substantial reduction. Like so many things in life, if an idea looks too good to be true, it's usually too good to be true.