

FOUR WAYS TO PAY FOR RESERVE EXPENSES

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There are four ways to pay for your Reserve expenses. The first way even provides you with a bit of magic – getting a “rich uncle” to help you with your Reserve expenses! The way to pay the least amount of money for your Reserve expenses is accomplished by making regular deposits into an interest bearing account. You pay some, and the bank (your magic “rich uncle”) pays some. Depending on the size of your association it is like having one or more extra unit owners making Reserve contributions. And think – over time you can then earn interest on interest!

The second way is to special assess when the funds are required. This is usually almost a “straight shot” – right from the homeowner’s pocket to the vendor. If you need a \$100,000 new roof, a \$100,000 special assessment takes care of it. No help from your “rich uncle” on this one, unfortunately.

Another way is to get a loan. In this case, assuming you measure up to your rich uncle’s standards, you end up paying your “rich uncle” money for the privilege of borrowing his money. A \$100,000 roof will end up costing the association a great deal more than \$100,000, even though the payments are broken down pretty small and spread out over a number of years.

The final way to pay for Reserve expenses is actually the simplest method, requiring the association to do absolutely nothing. Unfortunately, doing nothing is by far the most costly. Undone Reserve projects don’t go away, they just get bigger. For example: waiting too long to repaint forces you to replace siding, and waiting too long to replace a roof usually adds interior water damage bills to the cost of the new roof. In addition to expenses getting larger, the negative effect on Real Estate values is serious business. “Saving” money by not painting the association typically brings property values down by three to five times that amount. You didn’t save money, you lost money! Inaction is a very expensive course of action.

Reserve expenses are inevitable, because deterioration is inevitable. The only question is how well prepared the association will be, and how the association chooses to deal with those expenses.