DON'T RESERVE THE TRUTH

(EXCESSIVE OPTIMISM DAMAGES ASSOCIATIONS)

by Robert M. Nordlund, PE, RS
CEO/Founder
Association Reserves, Inc.
www.reservestudy.com

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Our country is in the middle of an economic downturn fueled by excessive optimism. Too many Americans borrowed money for a home, driving up prices, with little or no margin to handle mortgage payments. They were sure that their income would remain stable, and they were sure that the home would increase in value enough that they could refinance if things got tough. Well, things got tough, but not the way anyone expected.

Now we are in a situation where too many well-intentioned board members and managers are feeling pressure to have a strong reserve fund (more than 70 percent funded) or low reserve contributions at their associations. They want the association to look good to buyers and lenders. But at what cost?

Reserve planning is based on estimating future costs and repairs. It's natural to feel optimistic about the future, but board members and managers shouldn't hide the facts. If you think "a new roof surely won't cost that much" or "the paint will easily last another five years," too much optimism can come back to bite you when there isn't enough money in the reserve fund to cover expenses.

A strong reserve fund is fueled when an association makes the recommended contributions, but too many fail to meet the budgeted annual amount. That leads to some necessary adjustments, including removing components from the reserve study that are "small" and already being handled through the operating budget. For example, you may not need to completely replace a fence through reserves if you perform ongoing fence repairs and replacements from the operating budget.

However, associations need to be careful not to toss aside all components. One high-rise condominium recently was too optimistic and hadn't been following National Reserve Study Standards. The association assumed its hallway carpeting, paint and lighting were part of the ongoing janitorial budget. It effectively ignored these significant common area assets, which have limited, predictable life expectancies and should have been funded through reserves.

The association also assumed its hot water boiler and entire HVAC system would last more than 10 years, and therefore had too long a life to be included in the reserve study. Such projects are significant and too large to be casually absorbed by the operating budget. This association was spending beyond its operating budget, leaving no margin for additional repair and replacement projects.

So, as much as you may want to maximize your percent-funded status and minimize your reserve contributions, you can't and shouldn't stretch the truth. A community association's reserve balance doesn't care about the board's good intentions, and the building's components don't care about the board's optimism. The reserve balance is what it is, and components will fail whether you have the money saved or not. Facilities are surprisingly expensive to maintain. It is best to collect the reserves that are necessary, and be truthful with the owners (and prospective owners) by disclosing the association's current percent-funded status.

Don't stretch the truth past the breaking point. If your reserves are weak and your association is headed toward a special assessment, owners deserve to be told the truth. After all, you would want the truth if you were in their shoes.