

RESERVE STUDY GHOSTS – PAST, PRESENT, AND FUTURE!



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I've spent much time and energy trying to simplify the concept of Reserve planning for the benefit of those who care. You might think that after over 25 years in the industry I could distill a Reserve Study definition into one simple sentence. But like everything in life that appears easy (think hitting a small white ball into a round hole in the green grass) there are myriad details behind the definition that reveal the many underlying complications.

Fortunately, [National Reserve Study Standards](#) (NRSS) were published in 1998 that made defining a Reserve Study a lot easier. NRSS established standard terminology and identified the key three results of a Reserve Study. So with famed English author Charles Dickens as my inspiration, here's how a Reserve Study might attempt to haunt your Community Associations this holiday season:

%-Funded: The Ghost of Reserve Components Past



From the moment the last shingle on that lovely new Community Association was nailed into place, that shingle (and all the other Association assets) began a slow, steady, relentless process of deterioration which starts afresh after each cycle of common area repairs & replacements.

The important thing to understand about the past is that it demands a price! But how is it possible to equate common area deterioration that has already taken place with Reserve Fund contributions that have already been made?

The key is comparing your Reserve Fund balance to some kind of benchmark. NRSS define this benchmark as the "Fully Funded Balance" (FFB). FFB is a financial representation of how much your common area components have already aged.

Reserve Fund Strength then is determined by a simple calculation involving FFB:

$$\% \text{-Funded} = \frac{\text{Actual Reserve Balance}}{\text{Fully Funded Balance (FFB)}}$$

The significance of %-Funded cannot be overstated because it:

- Quantifies how well past reserve contributions have “kept pace” with deterioration
- Reveals whether past homeowners were reserving appropriately
- Predicts the likelihood of needing a Special Assessment to overcome any past history of under-reserving



Component List: The Ghost of Reserve Components Present



By contrast, the Component List is all about the here and now. Common area repair & replacement projects that qualify for reserve funding are, by nature, fairly predictable, with each listed item assigned a reasonable “present” estimate of Useful Life (measured in years), Remaining Useful Life (measured in years) and Replacement Cost (measured in \$). So you can see how this handy list, which develops more accuracy and stability with each annual review and update, defines both the schedule (when?) and scope (how much?) of all the reserve projects that will need to be accomplished. To be clear, an Association would only be considered “well-maintained” when reserve projects are accomplished in a timely manner where “timely” generally equates to the point in time when the Remaining Useful Life of an item approaches zero (i.e., replace this year).

Funding Plan: The Ghost of Reserve Components Future

As we build to the climatic ending of our own “Reserve Study Carol”, it should be easy to see now that a perfectly “fair” Funding Plan going forward would allow for timely common area repair & replacements, without Special Assessments. But because life isn’t fair, the future Funding Plan becomes the simple answer to a very convoluted question:

How much money does the Association need to set aside going forward (in a manner that distributes the financial obligation over the responsible homeowners) to accomplish all the current projects identified on the Component List in a timely fashion, based on the strength of our past reserve contributions?



Community Association living involves sharing in both the ongoing “enjoyment of” and ongoing “restoration of” the common area amenities as they inevitably deteriorate over the life of the property. When reserve funding is “on pace” with the deterioration, fairly-funded and timely repairs are possible. When reserve funding is substantially “off pace” with the ongoing deterioration, repairs are either unfairly-funded (i.e., through Special Assessments) or postponed (aka deferred maintenance).

Our inability to change the past is one lesson from Dicken’s nostalgic story that rings true with reserve funding. And like the supernatural visits of Jacob Marley’s three ghosts, the Reserve Study reveals the stark truths of the past, exposes the reality of present circumstances, and creates a path for a different and better future. I suppose it is fairly simple after all!