RESERVE PLANNING: PRACTICAL APPLICATION (PART 6 OF 6) THE DETERIORATION BILL

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In the prior Practical Application article, we showed the annually required reserves disclosures to be a powerful and easy to use planning and communication tool on their own. In the final installment of this series, we wrap up by pointing you to another very simple, easy to communicate figure to guide your association: the deterioration bill.

Walk outside of your home, and there is ongoing deterioration everywhere you look, every day: roofs, paint, siding, asphalt, fencing, decks, mailboxes… At an intuitive level, we know these things won't last forever. But that knowledge is colored by our perception of how they appear to us on a given day, right? When new or recently renovated, we tend not to give it much thought other than "that looks nice". But when they're faded, cracked and leaking, it's a daily awareness, and a nagging feeling the bill is coming soon.

Many association owners have said to me over the years "we'll deal with those things as they come up, and write a check". What's wrong with that, you might ask? After all, when you own a home that isn't within an association and you list it for sale, you don't have a reserve fund. Why should you have one for your condominium or homeowners association? Can't you just sell whenever you want to sell, in whatever condition the property is at the time, and let the market take care of the rest?

Housings sales data shows that it's costly to most sellers who market properties with deferred maintenance and repair needs. In a single family home that isn't governed by a community association, the decision is solely up to you. In a community association however, you have a contractual partnership and a duty with your fellow owners to maintain the assets of the association in top sellable condition any given day. In the model of writing checks as you go, you are also placing your fellow owners at risk. It would only take one owner who can't afford to write a large check to assert financial mismanagement of the association, potentially resulting in costly legal fees and damages, not to mention disruption of the harmony in the community.

Regardless of whether the components of the association are shiny and new, or in need of replacement tomorrow, their function benefits every owner over the entire life of the property. Now the age old question, "how much should we set aside?" In every study we produce, whether a new or old community, you will find this meaningful starting point: the deterioration bill (see table below). Of all the decision points you consider when establishing your budgeted reserve contribution rate, at the top of the list should be this very real and measurable cost.

Table 4: Component Significance **28805-0**

#	Component	Useful Life	Current Cost Estimate	Deterioration Cost/yr	Deterioration Significance
	Site / Grounds				
100	Concrete - Repair/Replace	8	$4,000	$500	2.5%
120	Asphalt - Resurface (Overlay)	30	$18,675	$623	3.1%
121	Asphalt - Seal/Repair	5	$2,075	$415	2.1%
140	Fence: Wood - Replace	20	$31,500	$1,575	8.0%
141	Fence: Wood - Clean/Stain	5	$7,350	$1,470	7.4%
147	Trash Enclosures - Repair/Replace	15	$1,250	$83	0.4%
200	Entry Sign/Monument - Replace	20	$2,000	$100	0.5%
205	Mailboxes - Replace	20	$1,450	$73	0.4%
	Building Exterior				
500	Steep Slope Roof - Replace	30	$52,000	$1,733	8.8%
510	Gutters/Downspouts - Repair/Replace	30	$8,100	$270	1.4%
523	Siding: Wood – Replace (a)	50	$113,400	$2,268	11.5%
523	Siding: Wood – Replace (b)	50	$54,900	$1,098	5.5%
525	Exterior Surfaces- Paint/Caulk	7	$26,175	$3,739	18.9%
535	Windows, Sliders-Repair/Replace (a)	25	$56,000	$2,240	11.3%
535	Windows, Sliders-Repair/Replace (b)	25	$19,200	$768	3.9%
545	Decks: Wood - Repair/Replace	15	$37,800	$2,520	12.7%
560	Exterior Lights - Replace	15	$4,700	$313	1.6%
17	Total Funded Components			$19,788	100.0%

When budget season rolls around, all too often the decision for what the reserve contribution should be during the upcoming year is based upon what's left over, if anything, after the projected bills of the association are compared to the targeted assessment income. Just as you wouldn't take the approach with any other bill of the association of picking some random amount to pay, don't do this with your reserve contribution. View the reserve contribution as one of your overall expenses, included with all of the other very real bills. After comparing the deterioration cost to your current reserve contribution, turn to the Executive Summary for the specific recommended rate – the number may vary from the deterioration cost depending upon the current funded status of the association, how well the community has kept pace with the deterioration over the years.