

RESERVE STUDIES “UNDERCOVER”



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A long running joke in my extended family is that no one knows what I do for a living. It's even been suggested over the years that my company, Association Reserves, Inc., is simply a "cover" for my real profession as a hired assassin and that site inspections offer me and my team a convenient excuse for unhindered domestic and international travel. And so one of the challenges of writing an article about Reserve Studies is first making sure the readers have a clear understanding of exactly what a Reserve Study is!

In 1998, [National Reserve Study Standards](#) (NRSS) were published that made explaining my line of work a little easier. At the very least, NRSS established standard terminology and identified the key three results of a Reserve Study:

- **Component List** (*outlining the scope & schedule of Reserve projects*)
- **Calculation of Reserve Fund Strength** (*% Funded measure of whether current Reserve Fund has kept pace with past deterioration*)
- **Funding Plan** (*necessary to assure the timely completion of scheduled Reserve projects*)

But knowing what belongs in a Reserve Study really does very little to explain the usefulness of the Reserve Study itself. So, let me spend a few minutes outlining how four different interested parties can find tremendous value in a Reserve Study:

- I. **Volunteer Boardmembers**- should value the Reserve Study as a form of protection against decisions that might otherwise be motivated by emotions, popularity or perception. Because all Boardmembers serve in a fiduciary capacity, they need to be able to defend and justify the “soundness” of their actions to the homeowners. A Reserve Study should provide the Board with a sense of being well-armed to make wise business judgments. Reserve Studies also transcends Board turnover by offering decision-making stability from year to year.
- II. **Professional Managers**- should value the Reserve Study as a planning tool. It is only by knowing exactly “where they are” that an organization can make wise and

informed decisions about “where they want to go”. Given the moving target nature of reserve planning (i.e., a regular pattern of reserve funding contrasted with an irregular pattern of reserve spending) it is valuable to have a reliable and consistent snapshot for the purpose of comparison and assessing progress each year. By watching the Reserve Fund Strength (% Funded) trend up or down over the years, Managers can see whether the Association is gradually under-reserving or strengthening its financial position.

- III. **Homeowners-** should value the Reserve Study as an independent and accurate statement of fact regarding the current year reserve funding situation, as well as a schedule of repair & replacement projects that are slated for completion. The Reserve Study eliminates mysteries and surprises and is the place where these facts and expectations are assembled, documented, and communicated annually in one convenient location.

- IV. **Potential Purchasers-** should value the Reserve Study as a form of consumer protection. Because potential purchasers represent future homeowners, these buyers have a right to know the financial health of the Association, the history of repairs & replacements, and their risk of facing a Special Assessment.

You may find it interesting that I made no mention of [state legislation governing HOA reserves](#), even though, as of this writing, 30 states have specific reserve funding laws on the books. The first reason is that I believe strongly in the inherent value of a well-executed Reserve Study. The second reason is that reserve statutes (like most legislation) were codified by politicians, regularly ignoring the wise and practical input of industry professionals. The resulting legislation often contains confusing legal jargon and sets forth requirements that are, at best, awkward and cumbersome, and at worst, without merit.

The bottom line is that Association-governed community living involves shared expenses. The Reserve Study documents the cost of common area deterioration and recommends a Funding Plan not just so that that repairs & replacements can be completed in a timely manner, but so that every homeowner pays their fair share along the way.

If I divulge any more than that I'd have to kill you!