

COMPLYING WITH THE NEW 2009 RESERVE STUDY FUNDING PLAN REQUIREMENT

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Various individuals in California have asked if our company, or other California-based Reserve Study providers, are in the business of creating “Funding Plans” to help associations comply with the January 1, 2009 requirement (found in California Civil Code 1365.b). This requirement states that Operating Budgets distributed to members after 1/1/2009 must include the Board’s publicly adopted multi-year Reserve Funding Plan, including a notice that the details supporting the Funding Plan (i.e., the underlying Reserve Study) are available upon request.

Our answer to this question is both “yes” and “no”. “Yes”, we prepare Funding Plans in the normal course of preparing a Reserve Study and “no”, we do not prepare a Funding Plan separate from a Reserve Study.

The Funding Plan is one of the three fundamental parts of a Reserve Study. A Funding Plan is therefore found in all three types of Reserve Studies (Full, Update-With Site Visit, and Update-No Site Visit). Minimum standards for a Funding Plan are found in National Reserve Study Standards, where it states that a funding plan “... must clearly summarize Reserve income, expense, and ending balance for a minimum of 20 years...”.

Most California Reserve Study providers already include a one-page 30-yr Funding Plan summary of Reserve income and expenses in their reports. Back in 2007, the California Association of Community Managers (CACM) Reserve Study Preparer’s Committee recommended this one-page 30-yr summary (adjusted as necessary to show the Board’s plan, if different from the Reserve preparer’s recommended plan) be attached with the annual CA 1365.2.5 Assessment and Reserve Disclosure document. All Reserve Study preparers in California conforming to the CACM position paper on the subject have therefore provided their

Association clients with this new disclosure requirement. This new requirement and the 1365.2.5 disclosure requirement support each other. In this light, this “new” requirement is not new.

If the Board adopts the funding plan proposed in the Reserve Study (again, any type of Reserve Study) for the current year, it should be easy for the Association to be in compliance with this new legislation. The Board simply excerpts the 30-yr funding plan page from the Reserve Study for inclusion with the annual budget. If the Board creates a funding plan different from that recommended in the Reserve Study, the Board may find themselves needing their 30-yr plan re-calculated and re-printed.

Associations that are correctly preparing a CA 1365.2.5 disclosure, with current information based on a current Reserve Study, should have a 30-yr funding plan they can excerpt and include with the operating budget. As mentioned previously, it is quite likely this requirement is already met if their Reserve Study provider has attached their 30-yr funding plan to their 1365.2.5 disclosure.

Clarifying the current status of an Association’s Assessments and Reserves on an annual basis and minimizing the chances of misrepresentation or surprise is good for Associations and their members. While it is one more document to assemble into the already thick annual “budget package”, this “Funding Plan” page hopefully already exists, and this document will hopefully make the present and future Reserve health of the Association clearer to its members.