

COMPUTING "FULLY FUNDED" RESERVES USING CURRENT OR FUTURE COSTS?

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

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www.reservestudy.com

The Hawaii Act defines a Full Replacement Reserve as the reserve funds for an asset equal to: The projected capital expenditure or major maintenance required for the asset at the end of its estimated useful life; multiplied by a fraction which has as its numerator and denominator the asset's estimated age and estimated useful life, respectively. The total of the full replacement reserves for each asset shall be a full replacement reserve for the association.

So... do you use the current cost or the estimated future cost in this computation? The Full Replacement Reserve definition was modeled after National Reserve Study Standards, effectively locking an established trade definition into state law. National Reserve Study Standards are very specific in requiring current cost in the Fully Funded Balance computation. This is natural, since the Fully Funded Balance computation indicates the current value of common are deterioration. When compared to the current Reserve Fund balance, one obtains the Percent Funded of the association, a reliable measure of current Reserve Fund strength.

National Reserve Study Standards defined "Replacement Cost" as the cost to replace a component to its original functional condition at the end of its service life. This was to differentiate the cost from an interim partial repair or refurbish project. Some of that wording appears to have made its way into the Hawaii statute regarding Full Replacement Reserve, suggesting a replacement at the end of a component's life, not an interim cost.

This interpretation is supported by the significant absence in the Hawaii Reserve Requirements of any clear statement about using "future" cost estimates in this computation. We do not interpret this computation to require a future cost estimate, nor have we ever noted that intent in our years of involvement in this field. A current cost interpretation is further supported by the

numerous examples scattered through the Hawaii Requirements that use current costs for computations spanning multiple years and for components at the end of their service life.