

"WE HAVE A RESERVE STUDY... NOW WHAT DO WE DO WITH IT?"

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Your reserve study is fundamentally a budget/cash flow model and road map for significant future expenses. It is a planning tool. A Reserve Study can also be a powerful communication and disclosure document.

Establish a formal reserve policy: First, a decision must be made regarding what components to include in the reserve study. National Reserve Study Standards indicates any item that is: common area responsibility, life limited, predictable remaining life and significant in cost should be considered. The definition of significant is defined within Washington law in 2012 as maintenance, repair and replacement costs equaling 1% or more of the association's annual budget (i.e. gross annual expenses), not including reserve contributions. Have your accountant classify the components and decide which expenses to designate as capital vs. non-capital. For example, painting is classified by the IRS as a maintenance expense, but is obviously significant enough to be included in the reserve study and meets the other criteria within National Reserve Study Standards. Here are some items often overlooked: landscape replenishment such as bark mulch every few years, tree trimming / removal, etc, provision for site drainage work (we have one of the highest water tables in the country), periodic professional inspection of siding/caulking, roofing and decks, cleaning of buildings...you get the idea. Many older associations have experienced large expenses with common area plumbing and electrical that was difficult to predict due to their concealed nature and long expected lives. Proactive forensic investigation by trained specialists may foresee large-scale repair/replacement needs in these areas.

Careful consideration of National Reserve Study Standards are given when forming the core component list in a thorough reserve study, and in my opinion should be viewed as the minimum level for which funds are established. A reserve policy should also include an investment strategy to maximize interest return on the reserve account; seek guidance from a

knowledgeable financial consultant. Several sample reserve and investment policy documents can be found on our web site at: <http://reservestudy.com/services.html>

Track and manage your component list: It is very beneficial to implement an accounting system to keep formal historical record of the associations' reserve activities. Board members change from time to time and I have often dealt with members and managers who have little knowledge of what has occurred in the past with respect to these projects. Whether by committee or assignment to a board member, the component list should be reviewed on a regular basis, not just at budgeting time. Since most associations' fiscal year coincides with the calendar year, the reserve study is often completed months before the traditional Spring/Summer project season. In addition to using the reserve study projections as the basis for soliciting bids, the person who monitors the component list should track and make note of the actual costs and conditions that created any variation from the projections. In this way, the impact to the funded status of their reserves can be better measured when updating the study and future boards can understand the historical needs of the community.

A reserve study is by nature a one year document as the following conditions are in a constant state of change: economic, weather, physical, governmental, etc...When preparing for an upcoming update to the reserve study, make every effort to obtain actual estimates from the appropriate professionals so that the projections in the report can be as accurate as possible. For example, if you see signs of internal damage at decks or siding (water stains, waviness / cupping, etc...) enlist the services of a qualified contractor or building envelope inspector to investigate further to see what is going on under the surface and provide estimate for scope of repair. These projects can vary widely in cost depending upon the amount of underlying repair/replacement needs. Consider having your reserve study inspection during the Spring/Summer months so that during the good weather, the reserve professional can view these items more closely and give the association time to plan and make any necessary adjustments in advance of the Fall/Winter budgeting season.

Use the study as a communication/disclosure document: Does your association have a packet put together for new board members and residents? If so, the historical reserve studies (or at least key pages) should be included to bring understanding of the associations' history, responsibilities and an element of how the board goes about fulfilling its' legal duties. If not, I highly recommend that you do.

As this industry matures, our ongoing efforts to educate community association residents and professionals must extend to the Real Estate segment. The financial health of the association has an impact on the most important asset you are charged to maintain, enhance and protect; property values. Hypothetically, let's say that there are two associations approximately four years old, located on the same street and appear to be identical. Both will require painting in two years at a cost of roughly \$100,000. However, one association has a strong 70-100% funded reserve level and relatively high monthly assessments; the other has virtually no reserves, but relatively low monthly assessments. While you seasoned professionals know that many

prospective buyers will be enticed by the lower assessments, which one would you choose to purchase? This climate will continue to change in the years ahead as awareness grows, and you and I need to be a part of that change.

Your reserve study can help you manage more effectively and make better decisions if you carefully consider what to do with it!