

# ASSOCIATION SUFFERS FROM SPLIT PERSONALITY!



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We just finished a Reserve Study for an Association with a split personality that really should have been created as two separate associations. One side of the community has a multi-story building with elevators and enclosed hallways. The other side of the community is made up of townhome buildings. After many years of contentious budgeting, lawsuits began flying earlier this year over both Operating Budget and Reserve Budget issues.

The townhome owners felt they were subsidizing janitorial services, hot water expenses, and elevator repairs in the multi-story building. The multi-story owners felt they were subsidizing expenses associated with the more extensive grounds throughout the townhome areas. Both sides of the association enjoy the central driveway and the pool, but I don't think there was a lot of friendly conversation taking place there!

The Board of Directors called and asked if we could tackle the Reserve Budget issue.



Our job was to identify appropriate Reserve contributions for each side of the association, to ensure that each category of owner was paying their “fair share” of common area deterioration. To be clear, the Reserve Fund itself was not going to be divided. There would still be one fund used to cover the cost of all repair & replacement projects. The only change would be how Reserves were to be funded.

We were able to do this unique project as a No-Site-Visit Reserve Study Update, which saved the Association some money. This was because their existing Reserve Component List, which had been prepared by a competitor and detailed the scope and schedule of all repair & replacement projects, was complete, stable, and well-documented.

Our first step was splitting the ongoing “cost of deterioration” into three groups:

- General Common Areas (enjoyed by all homeowners)
- Multi-Story assets (enjoyed exclusively by Multi-Story homeowners)
- Townhome assets (enjoyed exclusively by Townhouse homeowners)

We then calculated the Funding Plan necessary to make all required Reserve repairs & replacements on schedule, while building the strength of their Reserve Fund towards the 100% funded level. This was similar to what had been done in years past.

With these two pieces of information, we were able to fairly proportion the total Reserve contribution for each of the two types of owners:

<b>Owner Type</b>	<b>Offsetting Reserve Contributions</b>
Multi-Story	Fair % of Common Area deterioration + 100% of Multi-Story deterioration
Townhome	Fair % of Common Area deterioration + 100% of Townhome deterioration

By the way... it turned out that the deterioration of the Multi-Story interior hallways, boilers, and elevators was much more expensive to offset than the cost of the Townhouse roofing, painting, and landscaping, so that Townhome owners had been the one doing the subsidizing for many years!

Certainly, a lot of acrimonious behavior can be avoided when the Board and owners know the facts in regard to the actual deterioration and maintenance cost associated with each type of construction. As I understand it, the Association is still arguing about how the Association’s split personality affects the Operating Budget, but starting in Fiscal Year 2013 each side will be funding Reserves fairly!