ASSOCIATION RESERVES™
Planning For The Inevitable™

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RESERVE STUDY ROAD MAP FOR MANAGERS

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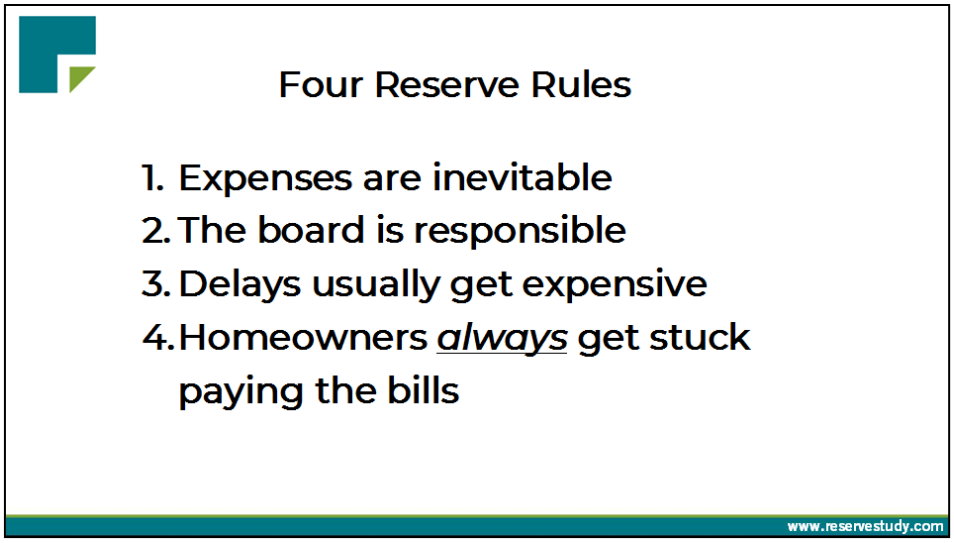
www.reservestudy.com

Miss the webinar? Watch it here.

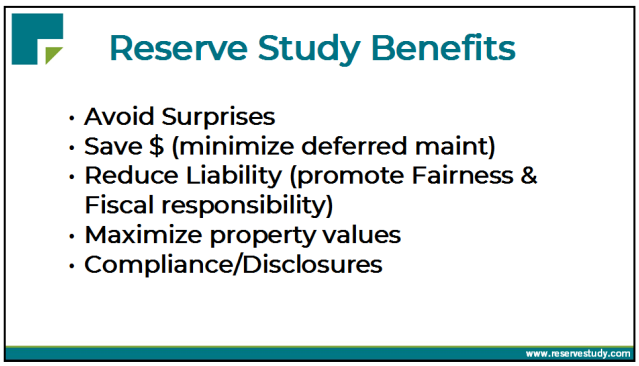
Successfully implementing your Reserve plan means following the basics: collecting the necessary contributions (to offset ongoing deterioration), spending Reserves wisely (according to the National Reserve Study Standards four-part test), and updating the plan regularly (because it drifts off-target as years go by!).

Below are a few of the key concepts excerpted from the webinar:

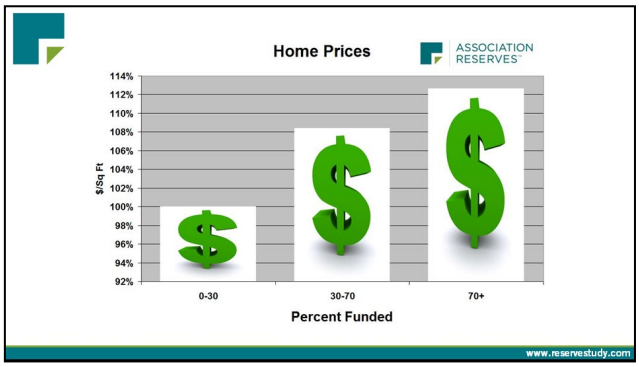
Keep it simple: Remember the "Four Reserve Rules"



Remember that as a Manager or Board Member, you are not expected to be an expert in every field. Where you are not sure (what to do, how to run this multi-million dollar Real Estate corporation), reach out to an expert. That may be an accountant, attorney, construction consultant, Reserve Study professional, or other subject matter expert.



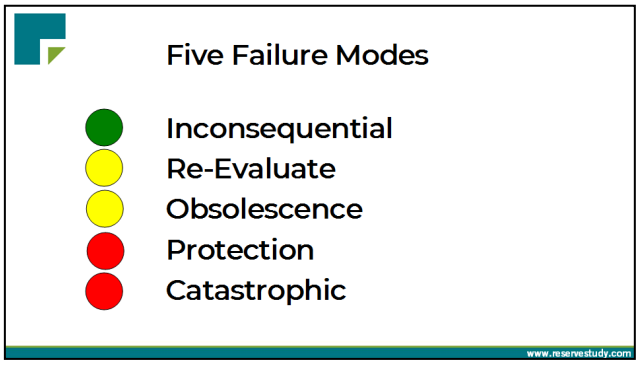
Why are we doing this… why should Boards care about Reserves?



Remember that curb appeal (which occurs when Reserves are strong) is real, and measurably affects home values!



Is it a Reserve expense? Measure the project against the National Reserve Study Standards four-part test (not just if it appears in your Reserve Study).



Save the owners the high cost of expensive deferred maintenance – know when to delay a project, and when it is best to do it on time/schedule!

What if it costs more/less?

- Perform the project
- Expect extra/unused funds will be re-allocated among components*
- Update your Reseve Study with different $ or UL/RUL

Remember the 4 Reserve Rules!

www.reservestudy.com

Expect some projects to be more (or less) expensive than anticipated. Spend the money (from Reserves), and update your Reserve Study with those more accurate expectations.

Capital Improvements?

Reserves are for repairs and replacements –

Not new additions to the association

So natural upgrades are ok!

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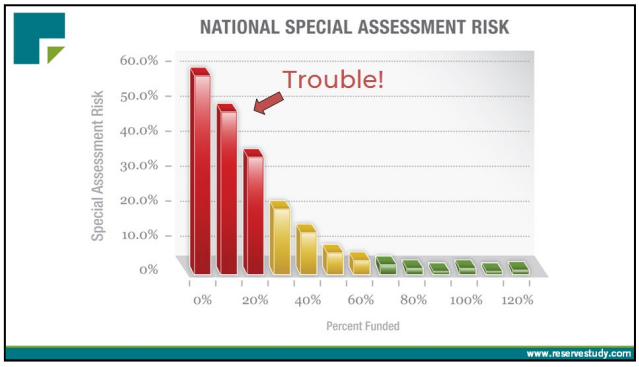
Don't spend precious Reserves on non-Reserve projects!



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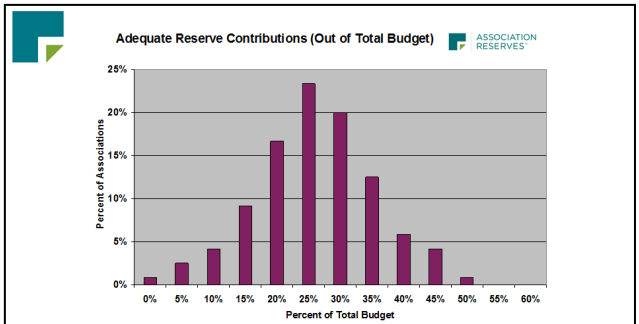
Measure your Reserve Fund size meaningfully (with Percent Funded), making sure the Board and Owners know the implications.



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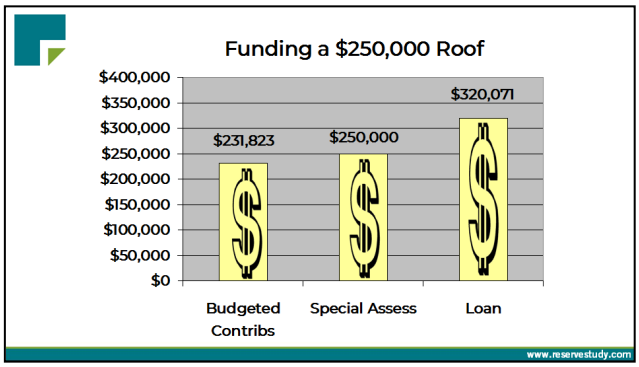
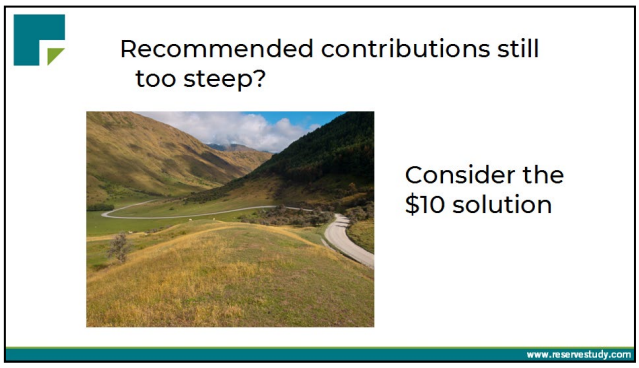
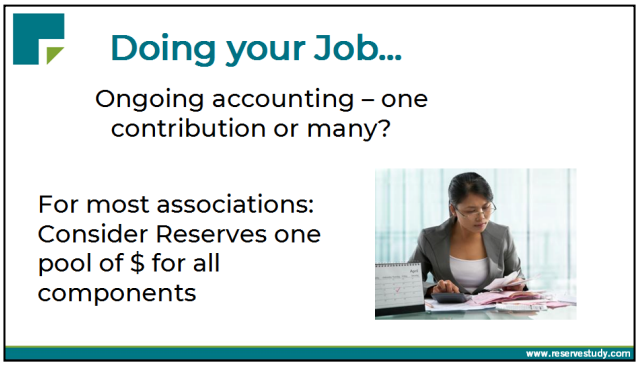
Appreciate that common areas are expensive to repair and replace. Set aside enough funds to avoid expensive deferred maintenance and troublesome special assessments!



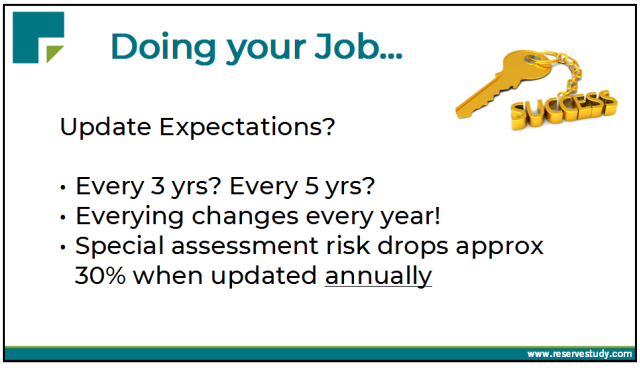
Remember that budgeted contributions are the least expensive way to pay for those inevitable Reserve contributions.



What if you can't make the change to adequately fund Reserves this year? Consider a multi-yr plan… $10 Reserve contribution increases for 2-5 years!



Save accounting time – in most cases Reserve funds will be redistributed each year, so don't fuss about all those categories.



Keep the association on-target, update their Reserve Study regularly. There are fewer special assessments among associations who update their Reserve Study annually!

Additional Resources mentioned in the webinar:

CAI's Common Ground (Mar/Apr 2018) magazine article "On the Road with Reserves" inspired by this webinar here.

Looking for more related resources? See additional recorded webinars on our "webinars" page here.

Remember - you're never on your own. Association Reserves is here to guide your association towards an improved future with carefully prepared Reserve Studies and wise counsel throughout the year!



Webinar Questions Asked by Attendees

Q: At what point should an Association seriously consider a construction loan for a major component repair?

A: When Reserves have been depleted, and after two votes to pass a special assessment have been turned down by the ownership! Loans should be the third choice: behind board action to increase contributions and special assessments.

Q: Can you comment on preventive repair and replacement of roads? This is by far the highest dollar value item in my community's Reserve fund and by far the most uncertain as to cost and timing.

A: There is no reason for you (as a manager or board member) to be a roadway expert. Get wise counsel to manage this significant asset effectively with a local asphalt roadway consultant. In general, preventive maintenance (seal coating) significantly preserves the life expectancy of the roadway's structural surface, and is money well spent.

Q: Capital improvements - Is a new Fitness center considered a "natural upgrade?"

A: If it is a new facility that did not previously exist, it is a Capital Improvement. If it was an old and tired fitness center that needed a renovation, it could be a natural upgrade (and thus a Reserve project).

Q: How do you plan for items outside the scope of the Reserve Study (i.e. electrical systems that are now 50 years old) and not planned for in the Reserve Study?

A: National Reserve Study Standards do not list a maximum Useful Life for inclusion in the Reserve Study. If the project's Useful Life can be reasonably anticipated (and it passes the other three parts of the four-part test), it should be listed as a Reserve component.

Q: Do landscaping renovations ever pass the 4-part test?

A: If it is a common area maintenance responsibility (common areas, not someone's back yard), if it has a defined life limit (the plants need an overhaul after 20 yrs), if they have a predictable Remaining Useful Life (the bushes are getting "woody" or overgrown, tree roots are threatening the sidewalk, or the water bill from watering all that turf is making it clear that changes are due), and the cost is significant (likely, depending on the scope of the project), it is a Reserve component. See more here.

Q: Is a Reserve Study recommended for any type of property type? E.g. it's not a freehold property but leased and managed by the owner and used as leased.

A: Absolutely. We've prepared hundreds of Reserve Studies for worship facilities, camp/retreat facilities, private schools, municipalities, and private clubs (golf, tennis, yacht, etc.). We've prepared Reserve Studies for leasehold facilities, where we've been asked to ignore anything farther than X yrs away (when the property will be returned to the lease owner), etc.

Q: Is there a reason (and/or strategy) to staggering the replacement of larger Reserve-funded components? For example, if the parking lot is in OK shape, yet is scheduled for major service, is there a reason to extend major service because this year the roof is being replaced out of its fund? Is there a reason to "smooth out" the larger expenses when possible and intelligent?

A: That's actually a great example. It is wise to "coordinate" projects. That means replacing the hall carpet after the hallways have been painted (not before!), replacing stairwell carpet every-other time the hallway carpet is replaced (due to lower usage), or in your case resurfacing your asphalt after it has been beat up by roof-replacement construction. If the Reserves are well funded, the cash flow doesn't have to be "smoothed out". But it may be wise to space projects out to not overwhelm one year's board of directors (not the roof, the hallways, the boilers, and the elevators all in one year!), and it is always wise to consider one project in light of how it may affect or be affected by other projects at the property.

Q: Many times I find that the developer coming off bond for a condo association hasn't started a Reserves contribution or Reserve Study. Will this ever become mandatory by state?

A: A quote often attributed to Thomas Jefferson is "the Government that gives us all we need will also take from us all we have". So we can't depend on laws. Buyers in a new association should look at the Percent Funded of the association, and offer less if the Reserves are underfunded. They should demand the budget be set to maintain the assets of the association of which they've just become members. There's no reason for a buyer to offer to pay "full price" for a home where the common areas are partly deteriorated and there are no funds in Reserves to offset that deterioration.

Q: What do we do when a Board decides to undertake a capital improvement, but chooses to spend Reserves?

A: Brace yourself for higher Reserve contributions, because Reserves that had been set aside to maintain or replace existing assets were spent on other projects. The Reserve fund will need to be strengthened in order to prepare for those pre-existing Reserve projects, in addition to additional Reserve contributions required by the new components associated with the capital improvement.

Q: With respect to updates, you stated "Everything changes". What do you mean?

A: Every year the components age or wear, every year the repair or replacement cost changes, every year the Reserve Fund fluctuates in size (and likely strays from its predicted amount), and every year the economic environment (interest and inflation) changes. See more here, and here, and here.

Q: What are the pros and cons of a construction loan instead of proposing a special assessment to the membership?

A: A construction loan helps individual owners manage their cash flow (it may be more palatable than a lump sum special assessment), but it is fundamentally an expensive way to pay for predictable Reserve projects. And boards need to be

reminded that it takes time (and money) to apply for a loan, and getting approved is never a certainty. See more here or here.

Q: Does 100% mean that if you performed all repairs today, it would cost $xxx?

A: No. 100% Funded means you have the value of deterioration set aside. As Sean mentioned, if you have a pool that costs $10,000 to resurface that needs to be resurfaced every 10 years, after the fifth year (when it is halfway deteriorated) being 100% Funded would mean you have $5000 set aside in Reserves. Not the full $10,000, just the fraction that is deteriorated. See more here.

Q: What is a realistic long term target? Is it 70% funded or 100% funded?

A: A realistic and responsible target is the 100% point. That is the bulls eye. Even if you miss the bulls eye, your association should still be nicely above the 70% level where special assessments are rare. See articles here and here.

Q: But why wait for 30 years. Why don't you recommend 100% funded after 20 years?

A: One of the four National Reserve Study Standards Funding Principles is Budget Stability. So we create a plan that balances an association's progress towards a responsible funding goal with changes to homeowner assessments. We don't "wait"! We just go smoothly. Most of our Funding Plans (for underfunded clients) get them to the Fully Funded (100% Funded) level in 5-20 years, depending on their starting Percent Funded and historical Reserve contribution rate.

Q: How much do you deplete your Reserves to fund a project?

A: It is all part of the Reserve plan. Best practice is to always leave at least 10% margin in Reserves after a large project. For instance, if you are anticipating a $100,000 roof project, plan your Reserves so that you have at least $10,000 left afterwards.

Q: Our Reserve Fund is projected to hit 55% funded by 2030, but if we add in our Emergency Fund cash it will be 80% Funded. Is that good enough?

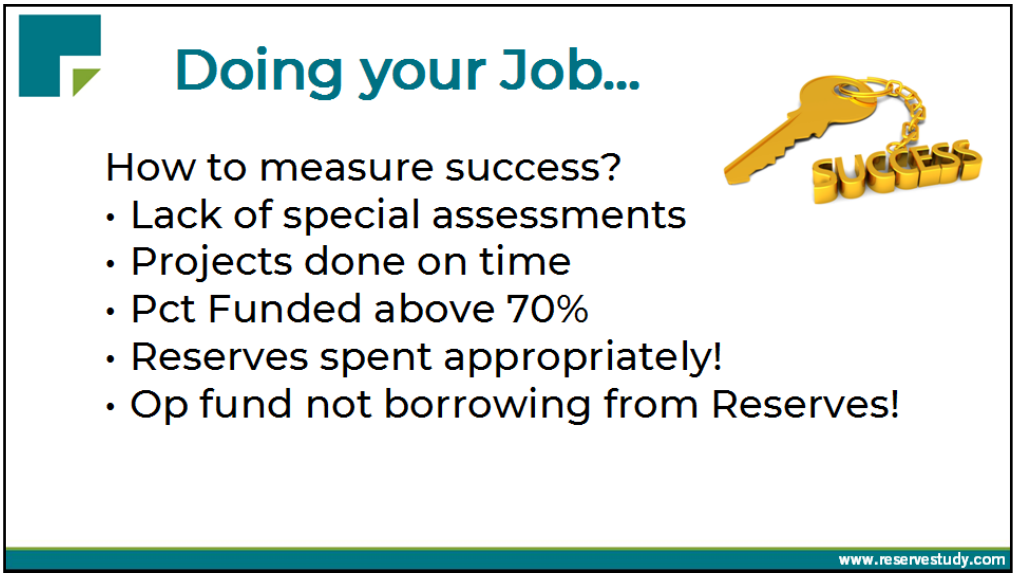
A: As we said multiple times in the webinar, getting over the 70% level is a good place to be. But I would recommend you design your Reserve Fund to get there by itself (meaning, a nominal increase to your Reserve contributions are required). Reserves are for predictable projects. You should have a predictable income stream to provide for those projects. That will leave your emergency fund to be used for emergencies!

Q: How does your Reserve Component four-part test apply to limited common area elements (common area elements used by less than the entire community, like balcony surfaces or parking spots)?

A: The key is not what the common area component is (or how many people use it), the first of the National Reserve Study Standards four-part test is "Is the asset a common area maintenance responsibility?" (who is responsible to maintain it). So whether it is a balcony surface used only by one unit owner, or the walkway around the pool used by all owners, if it is a common area maintenance responsibility it is a candidate for Reserve funding.

Q: Can you please remind me of that last slide that showed how to measure success with respect to Reserves?

A: Sure – our pleasure!



Q: Our board tells us regularly that while a Reserve Study may be required, there is no requirement for implementation (we do not need to follow its recommendations). Could you please tell me how to answer the President's statement?

A: You don't plan ahead because doing so is required by law; you plan ahead because it is the key to a better life. It could be simple, like allowing sufficient time to prepare for and travel to a meeting, or it could be big like saving ahead for college or wedding expenses for your children. Remember the four Reserve rules… deterioration is inevitable, the board is responsible, things tend to get more expensive if ignored/delayed, and homeowners always get stuck with the bill. Roofs and other major components don't fail mysteriously. They fail in plain sight, on schedule. Ask the board what their plan is to prepare for such inevitable expenses, which are their responsibility to successfully manage. Oh wait – that's a Reserve Study!

Q: How often should we calculate % funded when there are contributions and expenses every month?

A: Percent Funded is an annual calculation. It allows the association to track progress from year to year. Calculating it more frequently is more distracting than helpful.

Q: I have an association where the elevators need to be modernized. The estimate in the Reserve Study is $68k, but it looks like modernizing the elevator will cost more like $160k. Total Reserve balance as of today is $600k. Should the association "overspend" and do the project, or special assess for the overage?

A: Do the project from Reserves, and make sure to update your Reserve Study with updated estimates for higher replacement costs for the elevator modernization. Expect your Reserve contributions to increase to rebuild the strength of your Reserve Fund, and prepare for the next modernization project.

Q: If not funded with Reserves, how do you recommend funding for a Capital Improvement?

A: Increased assessments, a special assessment, or a loan.

Webinar Questions Asked By Prior Year Attendees

Q: Should ongoing (minor?) repairs for Reserve components come from the Operating or Reserve account?

A: If the project done affects (extends) the Useful Life or Remaining Useful Life (or both), it is a legitimate Reserve expense. If the expense is minor ongoing maintenance (gutter cleaning, vacuuming hallway carpet, etc.) it is an Operating expense.

Q: I have a board that believes that any repairs or maintenance of a Reserve component needs to be funded/paid out of reserves. They go as far as saying a sprinkler nozzle should be paid out of reserves. Your thoughts?

A: They are entitled to their opinion, but it is inconsistent with National Reserve Study Standards. Incidental costs should be paid from Operating.

Q: You mean we can save time by not breaking down our monthly Reserve contributions into all those separate Reserve line items?

A: Correct (with the exception being associations, such as those in FL, strictly funding their Reserves via the "Component Method"). See more here. The Reserve fund is for Reserve expenses. Many will be slightly over- or under-budget. Reserve funds are used most effectively when they are shared among components, compensating for each other. Typically those individual funds will be re-distributed every time the Reserve Study is updated, so there's generally nothing "sacred" about the breakdown.

Q: Are you saying we can transfer funds from one Reserve account (roads, roof, etc.) to another and it is not a loan?

A: In most case, yes. That is just a "redistribution", or "re-allocation", of existing Reserves between components. Generally it becomes a loan when the funds move outside of Reserves.

Q: Why would we want to update our Reserve Study at this time if not required by law?

A: Because Reserve contributions are so large (typically 15-40% of the association's budget), and such a large budget line item deserves regular updates to make sure the Reserve Funding plan is not drifting off-target. Associations that update their Reserve Study every year enjoy a 30% lower special assessment rate than associations updating their Reserve Study every third or fifth year.

Q: What is the typical minimum cost to be a Reserve Component?

A: It varies with each association, as the minimum cost threshold needs to be "significant" to that association, meaning above the signature authority of the board or manager. That may be $500 for a small association, or $5000 (or more) for a larger association. It is often in the range of .5% to 1% of the annual budget.

Q: Is there a federally required (FHA?) minimum Reserve contribution?

A: There is no federal requirement. The board can do whatever they wish. There are consequences, however. One requirement for an association to be "FHA certified" is that at least 10% of total budget (i.e.: $35,000 out of a total $350,000 annual budget) be set aside towards Reserves. In addition, many lenders have adopted this baseline requirement, meaning that prospective buyers will get more favorable loan terms if the association is setting aside at least 10% of their total budget towards Reserves.

Q: Is it best to do a large project a piece or phase at a time?

A: Generally speaking, there are economies of scale when a project is done all at once. In addition, the association enjoys less disruption and uniformity of colors, conditions, and materials when a project is done all at once. But if the association was built in phases, so some areas need repair or repaint now and other areas don't, those associations may benefit from performing projects in a phased manner.

Q: How do you add missing components to your component list?

A: Reserve components are defined by the National Reserve Study Standards four-part test, so due to human error or an unexpected event, a legitimate Reserve project may not appear in your Reserve component list. Add the component during

the next Reserve Study update (so the association can begin funding for its next repair or replacement).

Q: What are the pitfalls of only getting estimates for a few components (asphalt, roof, etc.) instead of commissioning an entire Reserve Study?

A: Deterioration is inevitable, whether the component is or is not listed in the Reserve Study. It is the board's responsibility to care for the assets of the association. So ignoring potential expenses will not save expenses. Those expenses will occur. And when they occur, the association will be unprepared, and that is a preventable problem.

Q: What do you need for me to get a Reserve Study proposal?

A: Simply click the "Request a proposal" link on the right side of our website's home page, www.ReserveStudy.com.

Q: Do you need a copy of the budget to prepare a proposal?

A: No. All we need is answers to a few questions (name of the association, address, # of units, type of association, etc.). We'll take it from there.

Q: How do you convince a Board of an association with little Reserves that they need a Reserve Study, perhaps figuring that if they get a Reserve Study they'll probably not follow it and therefore incur liability exposure?

A: It is the board's non-negotiable job to protect, maintain, and enhance the assets of the association. One of their primary responsibilities is to budget sufficient income to offset the known expenses of the association. Reserves are an inevitable and predictable, thus "known", expense. The board increases their liability exposure and guides the association unprepared into the future without a Reserve Study. So they incur liability by not getting a Reserve Study, and they incur liability by getting a Reserve Study and ignoring it. Success is found when they "do their job" – find out the needs of the association (through a Reserve Study), and budget appropriately to meet those needs. In addition, the board risks loss of defense coverage from their D&O insurance when they willfully ignore their responsibility to the association. Ignoring Reserve planning is just plain a bad overall idea.

Q: Do you pay for a Reserve Study from Operating or Reserves?

A: Operating, as it is a "normal" professional expense just like legal or accounting. It is a bit of a stretch to get the (usually nominal) fee for a Reserve Study update to pass the National Reserve Study Standard four-part test to qualify as a Reserve expense.

Q: What about Governing Document reviews and revisions? Operating or Reserves? Perhaps every 5-10 years or so

A: While such regular updating could be construed as a Reserve project done because they need updating regularly, I'd recommend against it. I've seen many associations with Governing Documents that effectively stand the test of time. In addition, revising Governing Documents too frequently may be a problem.

Q: How much does a typical "Full" Reserve Study cost?

A: The cost of a "Full" Reserve Study depends on # of units, the type of association (condo or planned community), age of the association, location, and their Fiscal Year End (if the Reserve Study needs to be done during a typical "busy season" of May – Nov for 12/31 associations). Generally the cost is somewhere in the range of 1% - 1.5% of annual budget.

Q: If an association is only contributing 10% of budget towards Reserves, how do I convince them to contribute more?

A: Do you have to convince them to pay all of their electrical bill, all of their water bill, or all of their management bill? The ongoing cost of deterioration is stable and predictable, and as real as any other bill. If they don't pay it, it will just accumulate and rear its ugly head as deferred maintenance, special assessments, and declining property values.

Q: What is the liability if the Board or management prepares a Reserve Study that is not accurate?

A: The same liability they would incur if they rely on Google instead of an attorney, or have a volunteer prepare the taxes or year-end financials instead of a qualified CPA or tax preparer. Boards are generally protected from liability when they follow the three-part Business Judgment Rule. Two parts are "Duty of Loyalty",

and "Duty of Inquiry" when lacking specific expertise (like the skill of preparing Reserve Studies). So reaching out for professional assistance should be normal behavior for boards.

Q: Can associations have a "contingency" fund in Reserves for unseen repairs? We have an association that recently discovered damages that cost $5000 which was not budgeted.

A: You can, but I counsel you to define it as well as possible; such as "Building Envelope", "Plumbing Repairs", "Major Mechanical Repairs", or "Sidewalk Repairs", so it is used appropriately and effectively. Remember, it needs to pass the National Reserve Study Standard four-part test.

Q: Please remind me of that National Reserve Study Standard four-part test for a Reserve Component?

A: That it is a common area maintenance responsibility, that it has a limited Useful Life, a predictable Remaining Useful Life, and is above a minimum threshold cost of significance (often .5% - 1% an association's annual budget, or signature authority of the board or management).

Q: If every three years our condo association must have the septic system inspected (and pumped if required), can this be a reserve component? It is a $6000-$12,000 cost.

A: Yes. A Reserve project doesn't need to literally be a repair or replacement. It just needs to meet the National Reserve Study Standards four-part test.

Q: Can the Board borrow from Reserves for a non-Reserve project and schedule to pay it back?

A: Generally speaking, yes. Make sure the "borrowing" is officially documented, that any State or Governing Document requirements having to do with borrowing have been satisfied, and that the Reserves aren't needed for the Reserve project before the funds are repaid.

Q: How are contingencies handled in a Reserve Study (to give us some "margin" for surprises)?

A: To appear in a Reserve Study, components should be well defined and meet the National Reserve Study Standard four-part test. Thus "guessing" is frowned upon. But basing a contingency on a real expense is good practice. This may mean Reserve components to cover known "unscheduled" expenses (sidewalk repairs of $2000 about every 3 years, major mechanical breakdowns of $10,000 about every 5 years, or plumbing repairs based on the association's average of $10,000 about every 4 years) can be very appropriate Reserve components. Speak to your Reserve Study professional about adding such components if they are unaware of these periodic "budget busting" expenses that you typically experience at your association.

Q: We've always had Landscape Reserves as one line item. Can/should we break it down into multiple line items?

A: If the breakdowns are individually reasonably predictable, and they have different life cycles, yes. Break it down if re-plantings at the entryway are on a different cycle than the perimeter hedge replacement or tree trimming. On the other hand, breaking it down into multiple components that are on the same timing cycle is generally inappropriate.

Q: What is the official position on reserving for painting?

A: Prepare your taxes according to IRS standards, and prepare your Reserves according to Reserve Study Standards. See more here and here. If the (repainting) project passes the National Reserve Study Standard four-part test, it is a Reserve project. Note that some states have specific requirements on this matter.

Q: How do you convince a majority investor board that Reserves are for the present and not a "future expense"?

A: Some people have made their minds up, no matter the facts. Continue to speak about Reserves in present tense terms, that deterioration is steady and predictable, and that the "bill" for deterioration will come due someday. If not paid now on an ongoing basis, future owners will unfairly pay more than their fair share. Repeat and reinforce. If you are a homeowner, if the board refuses to fund Reserves adequately, you may wish to set aside your own private "Reserves" to prepare for the inevitable special assessment.

Q: Our board ignored the reserve study, levied special assessment, then recently took out loan without owner approval? What can a homeowner do?

A: Sounds like a board operating in a somewhat fickle manner. If you like living there, plan on it being a more expensive place to live. If not, consider moving to a more professionally run association.

Q: I understand "protect and maintain", but could you elaborate on the board's responsibility to "enhance" the assets of the association?

A: Enhancing in this context generally means allowing the association to evolve to effectively serve its members and comply with building codes & laws as time marches on. "Enhancing" may be as simple as incorporating new materials or colors. Some of those enhancements may be natural upgrades like reconfiguring a bathroom to accommodate a handicap stall, something that often can be done with Reserves at the time the restroom is scheduled for refurbishment. Enhancement may mean creating something new as a capital improvement (an EV charging station) due to changing needs of the community and to maintain strong property values.

Q: Can some "enhancements" (new or expanded assets) be done with Reserves?

A: Yes. It is always best to check with your Reserve Study professional to discuss specifics. Some possible Reserve expense "enhancements" may be upgrading a swimming pool from one surface to another longer lasting (or desirable) surface, extending areas covered by an irrigation system or changing from sprinkling to a drip system, redesigning the landscape to use less water, etc. But adding a new component that previously did not exist is an inappropriate use of Reserves. See more here.

Q: If it is determined the new asset is a capital improvement, what funds are used to purchase/install the new asset?

A: Not with Reserves, as Reserves are to be used to offset ongoing deterioration of existing assets. Depending on the size of the projected expense, a capital improvement is paid with available Operating funds, a special assessment, or a loan.

Q: Where do funds come from when removing, re-purposing or "mothballing" a reserve component (ie remove a bathroom, pool…)?

A: Generally from Reserves, because doing such a project should result in a net savings of Reserve funds, providing a payback in X years. But I caution you, this is not a simple question. Please check with your association's legal counsel before making plans.

Q: If you overspend from Reserves (for a "missing component" or a higher-than expected expense), do other components suffer?

A: The Reserve fund suffers, not generally just one or a few other components. Generally there usually are no true "roof" or "fence" funds that cannot be re-allocated on an annual basis. All Reserve funds belong to the association for Reserve purposes. When expenses are higher, the strength (preparedness) of the Reserve fund drops. If there was a higher-than-expected expense, the association should expect higher Reserve contributions in the future in order to rebuild the strength of the Reserve fund in time to prepare for all upcoming projects.

Q: Can we do a Reserve project early if needed??

A: Yes. Reserve Studies are based on estimates. Some of these estimates will be imperfect. If the project is necessary, do it now. You don't have to wait until the Remaining Useful Life hits zero. See more here.

Q: In our association, the budget must be approved by the members. A common objection we face from our voting owners is that they are on fixed incomes and can't afford an increase. What to do?

A: The board's job is to provide for the association, not appease complaining or resisting owners. So the board's job is to set the budget to meet the needs of the association. We all know the reality that costs go up each year, so a normal "new budget" process involves articulating higher expenses that must be met with higher revenues. Time to put on your "salesman" and "politician" hat! Communicate in advance, prepare owners through newsletters, open forum events, and with a budget committee consensus (so the message is not coming just "from the board"). Stress that the needs of the association must be met. As the costs of running the association rise each year, some owners may find their financial resources no longer

support living in the association. If that is the case, they will move. Appeal to the majority who are interested in living in an association with maximized property values.

Q: Please elaborate on your comment that well-funded Reserves result in increased home value.

A: Please see our article on the subject here, and our webinar outline on the subject (containing a link to the webinar recording) here.

Q: Why do you say a special assessment is more expensive than budgeted Reserve contributions? Our owners would rather hang onto their money than give it to the association to invest over time, as our owners can make investments with their money greater than the restricted options available to the association.

A: The board has a job to do… providing for the needs of the association. That includes setting an adequate budget. Special assessments may or may not pass, and any delays in passing a special assessment may complicate and increase the cost of the project. So while the reality is that individual owners may take greater risks and enjoy greater rewards (interest) than available to the association, the board's job is to provide for the association. The least expensive way they do that for the owners is by asking for appropriately sized contributions over time, allowing the bank to become the "silent partner" of the association, contributing nominal interest payments into the Reserve fund.

Q: We plan to seal coat and eventually resurface or replace our streets. Should that be two line items (Reserve projects), and will seal coating prevent eventual resurfacing or replacement?

A: Seal coating occurs on a much shorter interval than resurfacing, and is a significantly lower cost project. So associations regularly have two Reserve line items for their asphalt roadways… seal coating and resurfacing. Seal coating doesn't prevent resurfacing, but it very cost-effectively maximizes the years between resurface projects, minimizing overall Reserve contributions.

Q: Are road repairs/resurface separate line items than the pipes for the actual drainage?

A: Generally yes, because work on the pipes involves a different "trade", and may be on a different Useful Life than asphalt work (although ideally the Remaining Useful Lives should be coordinated, so roadway disruption is all done at once).

Q: If the roads are publicly owned by the county should the association fund for clubhouse parking asphalt and other areas with asphalt?

A: Yes. It is quite common for an association to plan for sealing and resurfacing of their parking lots in a Reserve Study, even though they may not be responsible for the roadway system.

Q: What is "Straight Line" vs "Cash Flow"?

A: These are the two common methods of calculating Reserve contributions to offset ongoing deterioration. Read more here. Click here to view our webinar that addresses and illustrates the two.

Q: How do I know our "Percent Funded", and what does it mean?

A: Percent Funded is a term defined in National Reserve Study Standards, and it measures the size of your Reserve fund compared to the needs of the association. Associations are "Fully Funded" (100% Funded) when their Reserve fund is equivalent to the value of Reserve component deterioration. This needs to be recalculated each year as the $ in Reserves changes and the value of component deterioration changes. This disclosure commonly appears in your Reserve Study. Read more here.

Q: Should our Reserve contributions keep up with inflation? And what do you recommend for an increase amount?

A: Yes. Presuming your Reserve contributions are currently adequate, an expectation for nominal annual inflation-offsetting increases is responsible, as component repair and replacement costs will continue to increase with inflation! An increase amount that is somewhat stable over the long-term (2.5% to 3% or so) is currently a good number.

Q: What are "voluntary" Reserves as compared to "statutory" Reserves?

A: Statutory reserves are standards set by local municipalities or states. These are often minimal. Voluntary Reserves are what I talked about in the webinar… contributions sufficient to offset ongoing deterioration, and a Reserve fund adequate to meet the anticipated needs of the association. Statutory Reserves are typically inadequate to meet the needs of the association.

Q: How do you prevent overfunding your Reserves (going from 100% Funded to 130% Funded or more)?

A: The Reserve balance necessary to be 100% funded changes each year based on the value of deterioration that exists at the association. Your Reserve Study professional will design a Funding Plan to offset ongoing deterioration in light of the current size of your Reserve Fund and the timing of upcoming expenses, keeping from "overfunding" your Reserves. When contributions offset ongoing deterioration, the Percent Funded remains stable. See more in our webinar on Reserve Funding Plans here.

Q: When should a new asset (a new rooftop deck) be included as a Reserve Component?

A: At the next Reserve Study update. This gives the association the maximum amount of time to prepare financially for the next expense related to this new asset.

Q: Can the purchase of a maintenance or security vehicle be placed in a reserve study? What if it is on a lease basis?

A: Yes, if it is purchased, no if leased.

Q: Will a With-Site-Visit update incorporate "new" items that were not in the prior Reserve Study?

A: Yes. Reserve Study updates are a regular opportunity for the Reserve Study to gradually "improve" and become more accurate over time.

Q: Should we prepare for a major "possible" expense (road resurfacing, elevator modernization, or plumbing repairs) if it is far into the future and uncertain? We don't want to inappropriately raise Reserve contributions and burden our homeowners.

A: As soon as a project becomes "reasonably certain", it should be added to your Reserve Study. Roadway resurfacing and elevator modernization are very predictable projects. Plumbing repair/replace projects are not as predictable. This is where a Reserve Study professional's experience can be very valuable, applying the experience learned from other associations for the benefit of your association. Projects far into the future are naturally a bit "gray" in scope and timing. Both scope (cost) and timing become clearer over the years as the project draws closer. Early identification of the project allows the association many years (or decades) to become financially prepared, gradually refining those estimates through the years.

Q: How do you figure the size of adequate Reserve contributions?

A: The size of adequate Reserve contributions are calculated fundamentally on the Reserve components that will need to be repaired or replaced. Other influencing factors are the starting strength of the Reserve Fund, and the association's strategic Reserve "Funding Objective". See more in our webinar on that topic here.

Q: Why is it important to be 100% fully funded? Or what is a good percentage for Reserve Funding?

A: It is the board's job to provide for the needs of the association. Allowing the Reserve Fund to be depleted is putting the future of the association at risk. There are strong statistics correlating Percent Funded and special assessments. To no surprise, special assessments are rare among associations above 70% Funded. That is a good target, with 100% as the "bulls eye". See more here.

Q: As a vendor, I work with many associations that need to borrow funds do to deferred maintenance or unforeseen costs on Reserve components. Do you offer interactive cash flow Reserve Study which shows different scenarios (spec. asses, increase assess) to meet loan payment and scope of large projects.

A: Yes. Our completed Reserve Studies now come with an online tool (we call it "uPlanIt") they can use to test an unlimited number of "what-if" scenarios. Support

required of an Association Reserves Project Manager could also be done for an hourly charge.

Q: What would you do with a Committee advising the Board which does not subscribe to best practice, but ALWAYS pushes for deferred maintenance - always "one more year" out of a component? Or, they are trying to work against a professional report with a DIY report, deleting components altogether.

A: Remind them that deferred maintenance almost always results in significantly higher costs. Remind them also that there are some types of projects best done on-schedule (see article here). And remind the board that independent professionals have more experience than a committee, independent professionals adhere to national standards, and that an in-house committee has an inherent conflict of interest (they are association-paying members of the community).

Q: For a FL HOA, what is the REQUIRED LEGAL DISCLOSURE re: Reserves during an official 14 day in advance Budget Meeting? And what needs disclosure when Reserves done on a POOLING vs. Line Item Basis?

A: I'm going to recommend you seek legal counsel regarding required disclosures to keep the association in compliance with local state law.

Q: If the association gets the Reserve Study done, do they have to follow it in their proposed budget?

A: No. A Reserve Study is advice. It is not binding. The board always has the power to make their own decision. If there is another pressing need for association funds (emergency repairs, temporary litigation costs, etc.), the board needs to weigh that competing priority against Reserve funding. For instance, perhaps they make only a partial step forward in increasing Reserve contributions (the $10 solution), to make adequately funding Reserves more palatable for their owners. If the board acts contrary to Reserve Study recommendations, it is wise that they document their reasons why, in case their decision is later challenged.