



CONDUCTING RESERVE STUDIES IN 2020: WHAT YOU NEED TO KNOW



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As we look towards the final months of this year, it's time to begin planning for 2020 and consider the important role of HOA Reserve Studies. Should your association-governed community be conducting them? If you're not currently doing so, why not? What has brought our Board of Directors to this decision? The rationale behind a decision not to have an HOA Reserve Study prepared, or to ignore annual Reserve Study updates, may no longer be valid. Setbacks in the past that may have included insufficient funds, special assessments, or deferred maintenance, reveal consequences of underfunding that need to change and greater control over reserve planning may now be imperative. An updated Reserve Study guides your association to have sufficient funds before a major physical asset fails. Otherwise, you'll be forced to scramble for additional funding to cover essential common area repairs and replacements that are both inevitable and predictable.



UNDERSTANDING THE RESERVE STUDY

An HOA Reserve Study is the first step in maintaining the major physical assets of the association. The study analyzes the condition of the property's components and identifies at what point in time they will need a major repair or replacement. Once those determinations are made, the study provides estimates of how much these projects will cost and calculates whether

or not the association will have adequate funds for these expenses without relying on special assessments or outside sources of “catch-up” funding.

Calculating whether your Reserve funds are adequate requires an accurate assessment of the “Useful Life” and “Remaining Useful Life” of the various components. Typically, these are common area infrastructure items like roofs and decks, or amenities like recreation rooms and pools where wear and tear will depend on the number of homeowners and their use of those amenities.



TO CONDUCT OR NOT

While it's true that many states do not have laws on the books that specifically require Boards to have an HOA Reserve Study or update them annually, you may not want to rely on a government mandate to decide whether a Reserve Study is right for your property or how frequently to conduct a Reserve Study update. Every state has slightly different requirements, even if some may share similarities. You should always check with your local laws to ascertain the requirements. If your state does not have any specific regulations, Reserve Studies and annual updates are still a wise move. Here are some reasons why:





PERSONAL LIABILITY OF VOLUNTEERS

Just about every state has a Corporations Code containing a provision to protect Board members from personal liability so long as their decisions adhere to the “Business Judgment Rule”. The Business Judgment Rule is a case law-derived doctrine with a three-part standard of conduct: The volunteer must have acted in good faith, in the best interests of the association, and after making reasonable inquiry. An HOA Reserve Study, by definition, insulates the Board from liability on all three points. That’s because it delivers the information necessary for a Board to make informed decisions.



CONSUMER PROTECTION

There are currently twenty four states that have laws regulating Reserve Studies or their disclosures. But there are many more states that have strict disclosures requirements related to real estate transactions. Although the details of this form of consumer protection may vary from state to state, HOA Buyers are generally entitled to learn about the physical and financial condition of the association-governed community from the Seller before they finalize their purchase. A big benefit of Reserve Study disclosures is protecting new HOA home-buyers from being surprised by a foreseeable special assessment.



BOARDMEMBER OBLIGATIONS

Conducting a Reserve Study and updating it annually is necessary to preserve the appearance and condition of the property and retain its value. That’s one of the most important duties of any Board of Directors. A Reserve Study is an essential tool for helping a Board meet their obligation to the entire membership, because it identifies upcoming major repair and replacement projects so the association can prepare financially to perform those projects in a timely manner.



PROTECTION OF PROPERTY VALUES

Curb appeal is vitally important for the homeowners who reside in the community. Curb appeal is not just as a matter of personal pride for where they live, but crucial to any owner when it is time to sell their home. One industry study showed that condos in associations with strong reserve funds sold for 12% more than their underfunded counterparts in the same neighborhoods. If the common areas such as walkways, hallways, roofing, and pool or gym are

poorly maintained, it's not attractive to a new buyer and those conditions will reduce the values of the homes in that community.



SAFETY CONCERNS

Common areas that are in disrepair expose homeowners, tenants, and visitors to potential hazards. Loose carpeting, missing floor tiles or bricks, damaged handrails, potholes in driveways, and sidewalk cracks can easily be the source of slips, trips, and falls. In addition to the injuries that result, this can put the association and individual board members at risk of unnecessary and expensive liability claims.



HIRING A RESERVE STUDY EXPERT

Since there are so many critical aspects riding on whether or not your association has adequate funds to deal with its major repair and replacement expenses, it certainly pays to conduct a detailed Reserve Study or update an old Reserve Study. Hiring the right expert to do the work is crucial. As you may have guessed, this is not the time to skimp on selecting a provider... so select a credentialed Reserve Specialist[®]. You want a study that is detailed, thorough, and prepared according to National Reserve Study Standards. With every 'i' dotted and 't' crossed, owners, board, and management can trust that the findings and recommendations will guide the association with confidence towards a more secure financial future.