



HOW OFTEN SHOULD AN HOA DO A RESERVE STUDY?



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A Reserve Study is a tool to analyze and assess the physical health of any property. In the case of Association-governed communities like condos, co-ops, HOAs, OAs, POAs, and PUDS, the property's future is in the hands of the Board of Directors. With Reserve contributions typically 15-40% of an association's entire budget, a Reserve Study that is updated on an annual basis safeguards board members from any liability that may arise from any evidence that the reserves have been mismanaged or poorly maintained.

THE RESERVE STUDY HAS THREE MAIN PURPOSES:

PURPOSE 1

To establish a complete list of common area components, along with how long it will be until each will need to be repaired or replaced and the cost of those projects.

PURPOSE 2

The second result is an assessment of the strength of the current reserve fund, relative to all the deterioration identified in the component list.

Unfortunately, most properties are under-funded, meaning there will not be enough money available at the estimated time when those resources will be needed to do the required repairs or replacements.

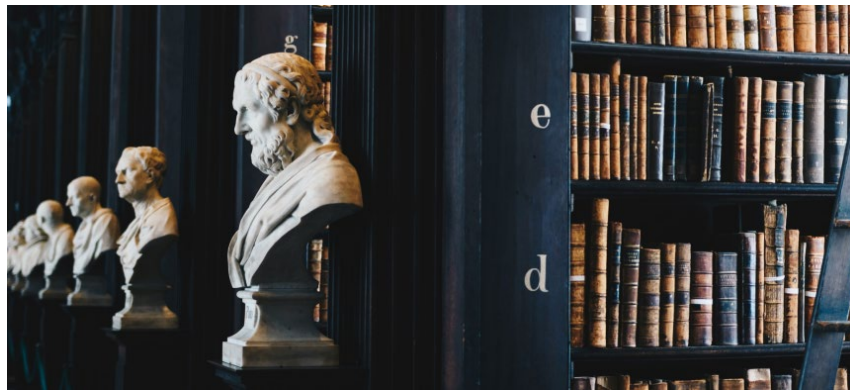
PURPOSE 3

The third and most important result is the Funding Plan. This is a plan of recommended reserve contributions required to make all necessary repairs and replacements in a timely manner, without reliance on outside sources of funding, like Special Assessments or loans.

Aside from measurements and condition assessments, a Reserve Study involves estimates of useful life, remaining useful life, and replacement costs that relies on a deep knowledge of various components. In addition, there are numerous calculations required and a 30-year projection.

RESERVE STUDY LAWS

The frequency with which an HOA should conduct a Reserve Study might be prescribed in a state's legislation governing homeowners associations. However, the laws mandating what is required and what is not required can differ from one state to the next. For example, twenty-one states do not currently have any statutes related to Reserve Studies. Other states prescribe certain requirements, restrictions, and mandatory criteria related to Reserve Studies, disclosure of reserve assets, and reserve balances in general, but these can also vary greatly in terms of when studies must be performed, how often they should be performed, and the information that must be contained within and disclosed to stakeholders and other pertinent parties.



But just because the law may or may not mandate when, how often, or even if a Reserve Study should be or must be conducted does not necessarily dictate how often an HOA should perform a Reserve Study. In some cases, the devil is in the details as the legal language may not expressly mandate a study be conducted yet strongly recommends one be performed as per other requirements that meet the standard of accounting or law in that particular state.

Some states do explicitly instruct that a Reserve Study be conducted on a routine basis. The state of California is one example where the language is quite clear. Their legislation requires that Reserve Studies be updated every year and that the Board of Directors create an annual budget that discloses the updated Reserve Study information for that year and funding allocation decisions made based upon the results of the study. Furthermore, an updated Reserve Study in California must have a visual inspection performed on the property every three years.

ANNUAL STUDY STANDARD

Due to all of the insights that come as part of a Reserve Study, a wise Board of Directors will elect to update the Reserve Study on an annual basis simply to protect the HOA from any potential future liability. The Board is expected to gather and maintain sufficient financial resources to ensure that property values are protected. If not, they are opening themselves to severe liability that could make it seem as if the board is totally incompetent and negligent. Something severe could take place as a result of their lack of action in repairing or replacing something that needed to be addressed or in passing an otherwise avoidable Special Assessment.



So even if state laws don't specifically state that a Reserve Study be done on a certain timeframe, the association can take the initiative to remain fully and properly prepared to manage all of the wear and tear that is both predictable and inevitable at their property over time.