



# RESERVE STUDY GUIDE FOR 2020



by Robert M. Nordlund, PE, RS  
CEO/Founder  
Association Reserves, Inc.

[www.reservestudy.com](http://www.reservestudy.com)

## EXPERT PLANNING AND RESPONSIBLE BUDGETING WITH A RESERVE STUDY

A Reserve Study helps you to anticipate and prepare for repair and replacement expenses at your property. All buildings begin to physically deteriorate the moment they are completed, making the need for repairs not a question of if but when? This is where a Reserve Study comes in, turning these projects into predictable expenses, rather than a financial surprise.

If you serve on the Board of an Association-governed community or oversee the long term viability of a church, school, private club or municipality, the least expensive approach is to set aside funds on an ongoing basis in advance of the inevitable repairs & replacements. A Reserve Fund provides the capital for these projects.

But how do you know how much money to set aside each year? A Reserve Study is the art and science of planning and preparing for the inevitable and predictable. It enables the persons responsible for the property to offset the ongoing deterioration of the property's components with the Reserve Funds to ensure a timely repair or replacement. By putting regular Reserve contributions into place, you avoid the need for emergency forms of funding like loans or special assessments. A Reserve Study establishes a plan to ensure that irregular Reserve expenses are offset by regular contributions to the Reserve Fund.

Association-governed communities (such as Condos, Co-ops, HOAs and PUDs) as well as vacation ownership resorts, commercial properties, worship facilities, schools, colleges and universities, private clubs and recreation centers all benefit from Reserve Studies. In fact, in several states, including California, Florida, Hawaii, Nevada, and Washington, there is legislation dictating the nature and frequency of Reserve Studies.



## HOW A RESERVE STUDY CAN HELP YOU

A Reserve Study enables you to make fact-based, data-driven decisions. It does this by establishing a reserve budget for repairing and replacing parts of your building and infrastructure systems. This helps owners of residential and commercial properties, mixed-use, or industrial properties to avoid surprise expenses. By having a detailed and itemized list of reserve components, along with the scope and schedule of the predictable repairs, Boards and owners can make informed decisions, save money, and protect property values. Reserve Studies help you to protect your property by making sure it stays maintained and well-kept. But in order for your repairs to be funded, this means the Reserve Fund needs to have enough capital to cover the expenses when they need to happen. So when roofs need to be replaced, or asphalt pavement resurfaced, or buildings repainted, you want your Reserve Fund to have sufficient funds on hand.

A Reserve Study tells you three key things:

- Specifically what you are reserving for (also known as the Component List)
- The strength of your current Reserve Fund (also known as Percent Funded)
- A Funding Plan crafted to allow for timely repairs & replacements without reliance on additional funding sources

If organizations and communities choose not to have a Reserve Study conducted, they are at high risk of needing to rely on internal or external sources of funding when a significant repair or replacement project comes due. In an Association-governed community, when Reserves are “underfunded” Boards must pass what is known as a Special Assessment. Special Assessments are financial obligations placed upon homeowners above and beyond the regular monthly assessments. Special assessments could mean amounts from the low 4 figures to the mid 5 figures, depending on the magnitude of the cash shortfall. A special assessment should be avoided at all costs, as it is inherently unfair and raises concerns that the Board has been fiscally irresponsible. It is also a major headache.



## **TYPES OF RESERVE STUDIES OFFERED**

There are three main types of Reserve Studies offered:

### **RESERVE STUDY-FULL**

The Full Reserve Study is typically a one-time service needed for the very first time you have a Reserve Study done. This includes an on-site inspection. Our Reserve Specialists will speak with both your management and maintenance staff, take measurements and quantify your assets, make observations, and assess the condition of your property and buildings. Photos will be taken for both your record and ours. We'll also reach out to your service providers and vendors in order to get a complete understanding of your reserve components.

In this stage of the Reserve Study, the Component List is created. This list is the foundation of every Reserve Study, identifying the upcoming predictable repairs or replacements. The combination of Useful Life and Remaining Useful life establishes the schedule of each repair, and the current replacement cost communicates the scope of each Reserve expense.

After the Component List is created, we'll compute your Reserve Fund Strength and provide you with a custom Funding Plan. Your Funding Plan will provide adequate, steady cash flow to support timely repairs and replacements. The entire point of your Funding Plan is to maintain a strong Reserve Fund so that you can avoid having to scramble to come up with additional sources of income to cover a reserves shortfall.



## RESERVE STUDY-UPDATE WITH SITE VISIT

This is done every few years in order to identify changes in your Component List. The steps are similar to the Full Reserve Study in that a diligent on-site inspection is conducted, reserve fund strength is re-computed and the Funding Plan is re-evaluated. Think of this as a periodic significant review to ensure your Funding Plan will provide sufficient funds considering all the changes that may have occurred to your property over the recent years.



## RESERVE STUDY-UPDATE NO SITE VISIT

Performed annually in the intervening years between site visit engagements, with this service your Component List is updated offsite, based on calls and emails to management and maintenance staff about repairs & replacements that have been completed since the prior study. Your Reserve Fund Strength is re-calculated, and the Funding Plan is re-evaluated.





**AT ASSOCIATION RESERVES, WE ALSO OFFER THE FOLLOWING PRODUCTS TO COMPLEMENT OUR SERVICES:**

## **Flat Annual Fee**

### **LOYALTY UPDATE PLAN**

Designed to save you time, stabilize your budget, and ensure continuity despite leadership transitions, this plan is a 3-year package of Reserve Study updates for a flat annual fee.

**349 USD**

### **DO-IT-YOURSELF RESERVE STUDY KIT**

This service requires a team effort. Clients who purchase a kit are able to create (or update) their own Component List, detailing the scope and schedule of each repair or replacement. We rely on the information you submit to calculate Reserve Fund Strength, craft a custom Funding Plan, and create your Reserve Study deliverable.

**149 USD**

### **UPLANIT**

An interactive online Reserve planning tool that allows you to measure the past and model the future. At only \$149, uPlanIt is an online tool created with the more sophisticated client in mind, accommodating a variety of "what-if" scenarios and delivering results in an assortment of insightful charts & tables. uPlanIt improves your future by revealing the current physical & financial health of your property and allowing you to craft your own unique Funding Plan.

## HOW OFTEN DO I NEED A RESERVE STUDY?

The frequency of a Reserve Study depends on the Level of Service you select. Once you have completed a “Full” Reserve Study, you should update it annually. A Reserve Study Update- With Site Visit is recommended every three to five years, depending on the size of the Component List. To ensure that the reserve plan does not ever veer too far off track, a Reserve Study Update- No Site Visit should be conducted in the intervening years.

LEVEL OF SERVICE	SITE VISIT	MEASUREMENTS	COMPONENT LIST	CONDITION ASSESSMENT	PHOTOGRAPHS	PRICE
Reserve Study- Full	Yes	Yes	Created from Scratch	Yes	Yes	\$\$\$
Reserve Study Update- With Site Visit	Yes	No	Updated from Prior Report	Yes	Yes	\$\$
Reserve Study Update- No Site Visit	No	No	Updated from Prior Report	Yes	No	\$
Do-it-Yourself Reserve Study Kit	No	No	Provided by Client	No	No	\$349

## HOW TO KNOW IF YOUR RESERVES ARE ADEQUATE

While it sounds simple, knowing whether your Reserve Fund is adequate depends on a variety of factors. Since there is no one-size-fits-all answer to the question, a metric called “Percent Funded” provides a benchmark for meaningful evaluation.

Percent Funded is a calculation that measures the present strength of a Reserve Fund. This calculation is part of National Reserve Study Standards and one of the three key results of any Reserve Study. It is typically calculated at the beginning of each fiscal year.

100% funded means there is enough cash on hand to match the deteriorated fraction of your Reserve components. However, anywhere from 70% to 130% funded is considered a strong Reserve Fund. Properties with a Reserve Fund that is less than 70% funded qualify as “underfunded.” Reserve Funds in the range of 0% to 30% would be considered weak. A low Percent Funded correlates to a high risk of needing to rely on additional sources of catch-up funding.

You’ll notice that no Reserve Fund amounts have been mentioned. That’s because the Percent Funded calculation is the ratio of Reserve deterioration to Reserve cash, a relative measure of reserve fund strength more insightful than a specifically targeted amount of cash in Reserves.

The resulting size of your Reserve Fund is affected by the number of components and the scope and schedule of repairs and replacements. A large association with numerous common area amenities will need a higher Reserve Fund balance. Smaller associations with a low number of amenities will require a smaller Reserve Fund balance. Regardless of the actual amount in reserves, both properties should be aiming toward maximizing their Reserve Fund strength.



## **SPECIFIC USE CASES OF RESERVE STUDIES FOR CONDOS, COOPS, HOA AND PUDS**

Reserve Studies are legally required for Association-governed communities in 24 states, including California, Hawaii, Nevada and Washington.

As a rule of thumb, these communities should be setting aside 15% to 40% of their assessments towards Reserves. This is a remarkably stable range that applies to planned unit developments, where homeowners are responsible for maintaining their own homes, as well as properties with extensive common areas and amenities like pools, spas, and tennis courts, or high maintenance infrastructure items like elevators, balconies, and wood siding.

It is considered financially-sound practice for HOAs, condominiums and larger buildings to regularly perform a Reserve Study Update- With Site Visit. Many states require such updates on 3 or 5 year intervals.



## **CASE STUDY: THE OAKS AT CALABASAS**

The Oaks at Calabasas is a beautifully maintained gated community in southern California. But it took planning and smart budgeting to get to this point. The community's reserves had dropped from \$400,000 in 2006 to only \$40,000 at the end of 2007. The HOA board had dipped into reserves for operating purposes without notifying homeowners and without a plan for replacing the reserves.

Association Reserves helped The Oaks to create a plan to rebuild and strengthen the Reserve Fund. The first step was to identify how much capital would be needed short-term to cover any repair costs and to find out if the \$40,000 would be enough to cover repairs, including the sidewalks that needed to be replaced.

Our Reserve Study gave the HOA board and homeowners hard data and specifics as to what needed to be repaired, when those repairs would need to be and if the current Reserve Funds amount could cover those expenses. Then we created a detailed funding plan to strengthen the reserves so that future items could be fixed when needed.

The study also helped explain fees set by the HOA board, offering a thorough explanation when a homeowner wants to know how the board arrived at the fees being charged. We served as the independent third-party and supported our financial claims with facts, analysis and explanations. Thanks to the Reserve Study, the Board was to make fact-based, data-driven decisions.





## **WHAT YOU GET**

Your Reserve Study report is straightforward and easy to understand. You'll get a specific outline of upcoming repairs and replacements and their corresponding costs. You'll learn the strength of your current Reserve Fund. You will also receive a recommended 30-year Funding Plan that will provide for timely repairs and replacements.

A Reserve Study gives you security and peace of mind with your Reserve budget planning. As a Manager, Board Member, or Facility Director, you can trust that your Funding Plan meets National Reserve Study Standards and prepares you for repair and replacement projects that are both inevitable and predictable. It's more than just knowing what to expect next, it's a matter of staying ahead of the curve in every aspect of budgeting and planning.

## **COST OF A RESERVE STUDY**

How much a study will cost depends on a number of factors. The most significant factor is the level of service provided as site-based studies entail substantially more time and effort on the part of a Reserve Specialist. Other variables include the size and complexity of the property (number of units, number of buildings, acreage, etc.), location of the property (for site-inspection Reserve Studies), time of year, and turnaround time. At Association Reserves, we offer a variety of services and turnaround times to meet every budget need.



## **EXPERTISE MATTERS**

When it comes to a Reserve Study, who you hire as your Reserve planning partner matters. A Reserve Specialist (RS) is a credential administered by the Community Associations Institute. An RS must meet rigorous qualification requirements in the areas of education, experience, work product, and references. They must also comply with National Reserve Study Standards to assure a complete, consistent, and unbiased assessment of a property's financial health.

With more than 30 years in the Reserve Study industry, the Association Reserves nationwide network of offices has more Reserve Specialists on staff than any other company in the industry. That level of expert advice, professionalism, competency, and integrity is how we became the nation's leading provider of the most accurate, easy to understand Reserve Studies available.

As a Reserve planning partner, our goal is to earn the trust of our clients, making your present less stressful and your future more financially secure.