



ASSOCIATION  
RESERVES™

*Planning For The Inevitable™*



Kaye Bender  
Rembaum  
Attorneys At Law

# CREATING A GREAT FUTURE!

by Robert M. Nordlund, PE, RS  
& Will Simons, RS  
& Lisa Magill, CCAL

[www.ReserveStudy.com](http://www.ReserveStudy.com)  
[www.ReserveStudy.com](http://www.ReserveStudy.com)  
[www.KBRLegal.com](http://www.KBRLegal.com)

Sep 9, 2020

Miss the webinar? Watch it here: <https://youtu.be/f1UFLFXmr0k>

**In this webinar, Reserve Specialist Will Simons and attorney Lisa Magill discuss how a great Reserve Study followed by great decisions together can lead to a great future.**



**Our speakers discuss key indicators of a great Reserve Study (what one looks like, and the results one obtains), and what great follow-up decisions look like (hint: they comply with the Business Judgment Rule). Because, as we are reminded by Ben Franklin's famous quote, "By failing to prepare, you are preparing to fail". So enjoy the webinar, and prepare to lead your association, or the associations you manage towards a thriving, "Great Future".**

**Please find the Questions and Answers portion of the program on the next page, followed by the presentation's slide-show.**

**For additional information, please visit:**

[www.ReserveStudy.com](http://www.ReserveStudy.com) and [www.KBRLegal.com](http://www.KBRLegal.com)

## Webinar Questions Asked By Attendees

**Q: Our reserve study is based on Cash Flow method and specifically omits inflation or interest. Consequently the actual costs have been wildly off the mark. How is this corrected? (I'm in Florida which may explain a lot).**

A: I'd say the simple answer is to update your Reserve Study, including the effects of interest and inflation. If your financial analysis didn't include estimates for the powerful influences of interest or inflation, there's no surprise that your Reserve Study is not preparing your association very effectively. Even the passage of just a couple of years without a Reserve Study update can cause your Reserve plan to be "off mark", particularly in Florida where certain underlying cost estimates (i.e. roofing prices) can change dramatically in the wake of hurricanes.

**Q: How do I respond to owners who say "Why pay Reserve contributions since I will not be alive to see them used?"**

A: As stated in the webinar, Reserve contributions offset ongoing deterioration, allowing owners to pay for the deterioration that occurred while they owned a home in the association. Boards are responsible to provide for the needs of the association, which includes building up the Reserve Fund to prepare for future expenses. When the actual expense occurs is actually not the point, because it is the board's job and it is only responsible to offset ongoing deterioration with adequate Reserve contributions. When everyone pays their fair share, future owners are not obligated to pay the "catch up" cost for owners who failed to pay their portion.

**Q: What are "adequate" Reserves? Adequate Reserves are now required in our state (Minnesota), in addition to a clause in our Governing Documents. But nobody knows what that means!**

A: "Adequate Replacement Reserves" is defined as a Replacement Reserve Fund and stable and equitable multi-yr Funding Plan that together provide for the timely execution of the association's major repair and replacement expenses as defined by National Reserve Study Standards, without reliance on additional supplemental funding. See more [here](#).

**Q: What is the cost of a reserve study?**

A: You actually have three choices (Full, Update With-Site-Visit, or Update No-Site-Visit). The most expensive of the three, the “Full” Reserve Study (which for most associations only needs to be done once) is typically at or below 1% of the association’s annual budget.

**Q: What would the approximate cost of a reserve study be if the original RS was done by a different company?**

A: If that Reserve Study was prepared according to National Reserve Study Standards, an update could be performed (rather than starting over again with another “Full” Reserve Study). Updates are typically significantly less than 1% of an association’s annual budget.

**Q: How much should a high rise 200 unit building reserve study cost?**

A: Please click [this](#) link to our online request for proposal, and we’ll gather the necessary information and provide you with a proposal within days.

**Q: What can be done when the Board spends the Reserve funds on things not in the Reserve Component List?**

A: If they are legitimate Reserve projects (just unfortunately not appearing in the Reserve Study), projects that pass the National Reserve Study Standards four-part test (see [here](#)), they are Reserve expenses. Just make sure to have those new components added in the next Reserve Study update! Any expenditure of Reserves on non-Reserve projects is inappropriate.

**Q: We have community well and septic. They don’t appear in the Reserve Study. Should this system (plumbing and all) be part of the reserve since it should have a life span of over 50 years?**

A: If the expected timing can be reasonably anticipated (it sounds like you have someone’s estimate), and you have a projected scope and cost, include the project. It is best that you have as many years as possible (in excess of 30 yrs is good) for such large expenses.

**Q: Our sewer system was not included in the previous reserve study. The guesstimated cost, based on the water system replacement a few years ago, is between \$300,000 to \$350,000 (significant!). What are the steps the association should take to include it in the next reserve study?**

A: Add such repair or replacement components in your next Reserve Study update.

**Q: If previous reserve studies miss the replacement item can the schedule be amended (updated)?**

A: By all means! Reserve Studies are estimates, and some anticipated projects become revealed over time. That is another example of the need to regularly update your Reserve Study, and not let it sit for years at a time untouched.

**Q: In general, what expected expenses should be paid from Reserves rather than out of the operating budget?**

A: Check your Reserve Study first to see if the project is listed, then compare the potential expense against the National Reserve Study Standards four-part test (see [here](#)). Only Reserve expenses should be paid with Reserve funds. Everything else should be paid from Operational funds.

**Q: Reserve Studies are great for identifying what should be funded for existing assets over the next 20-30 years. How can this detailed and accurate information be used to identify a "NEW" project - say not just a repair for an emergency, but say a clubhouse renovation?**

A: Clubhouse renovation shouldn't be considered a "new" thing. Associations should prepare for inevitable periodic renovation (not necessarily due to a physical failure of any particular interior elements) projects. If your prior studies haven't included these types of components, update your Reserve Study to include them going forward. The scope of work that you're considering and budgeting for should be defined as carefully as possible, however. If you're planning on routine replacements of furniture and artwork, replacing flooring, and painting, that's very predictable and should be incorporated. If what you're considering is a "once in a lifetime" project, such as knocking down walls, re-purposing a building entirely, etc., then that might be better suited for a special assessment or some sort of capital improvement fund.

**Q: What happens if current board members have to replace roofs, repave roads, upgrade landscaping and replace mailboxes when enough money wasn't set aside in this 20 year old community? Loan or assessments?**

A: In the short term, a loan and/or special assessment may be unavoidable if adequate Reserves were not set aside in prior years. There are consequences to underfunding! Another option might be to analyze your Operating account to see if some funds might be moved over to Reserves (while still leaving at least a few months' worth of expenses on hand in the Operating account.) However, whatever you decide to do in the short-term for these projects, you should commit to a higher level of funding going forward, so that this situation doesn't happen again!

**Q: Why would FHA & VA require 10% going to reserves when 10% is such an arbitrary number? We are Fully Funding our Reserves per a recent reserve study at 8.3% of total budget.**

A: As we [showed in the webinar](#), the range of contributions necessary to offset ongoing deterioration is wide. Most associations need to set aside between 15 and 40% of their total budget. Yet some require more, some (like yours) need less. It's just the nature of different associations. FHA picked that number because it is easy and quick to find and validate, and it is below what is needed by most associations.

**Q: In preparing a balanced budget, should a Board include depreciation expense, on top of the annual reserve contribution as dictated by the reserve study?**

A: No. Depreciation is an accounting or tax term. Reserve contributions are for projected major expenses at the association. As stated in the webinar, best practice is to offset ongoing deterioration with properly sized Reserve contributions, so the project can eventually be accomplished in a timely manner.

**Q: Where do you get a consultant for a Reserve Study (Palm Beach County, FL)?**

A: We're here to help! Palm Beach County is served by our FL regional office. See more [here](#), reading about our qualifications and request a no-obligation proposal. You can also find other providers by searching in local trade publications.

**Q: Are costs of state required periodic inspections (e.g. balcony support inspections, such as required now in CA) a reservable item since they have to be done every so many years?**

A: Yes, as such an expense passes the [four-part test](#) in that it is a common area maintenance responsibility, life limited, with a predictable Remaining Useful Life, and above a minimum threshold cost of significance.

**Q: What if a replacement is made either before or after the scheduled useful life?**

A: That's perfectly fine. The Useful Life and Remaining Useful Life estimates found in a Reserve Study are only estimates. In reality, you need to replace something whenever it's no longer serving its intended purpose, regardless of what was predicted in your Reserve Study. Going forward, though, you should take note of when actual replacements were made, so that future estimated life expectancies can be adjusted to match your actual project history. The best predictor for the future is usually the past!

**Q: What should a Board do when their experience with the asset does not match the reserve study; e.g. roof replacement listed in the Reserve Study with a 20 yr Useful Life even though our experience has been more in the 15-yr range? How can a special assessment be avoided?**

A: I'd check with your provider to discuss the difference between what has been experienced and what appears in the Reserve Study. Maybe there have been unusual circumstances causing the component to fail prematurely, or perhaps a newer material is in place with a longer life expectancy. If not, then the Reserve Study should be revised in light of this new information. If the association has been using a conservative funding goal (i.e. Full Funding, or at least a high "threshold" funding objective), then a special assessment is a smaller likelihood. If the association has been doing the bare minimum (AKA "Baseline Funding") then a special assessment might be unavoidable, as there's little to no margin for error or surprise given that low funding goal.

**Q: What are the rules for shifting specific item reserves due to over or underspend?**

A: This sounds like it could be a question pertaining to "straight-line" (AKA "Component Method") funding. The rules may vary depending on your location. For instance, in Florida, associations must get the approval of the

ownership to move funds from one straight-line account to another. That's another benefit of shifting to Cash Flow ("pooling") method calculations. Please discuss the specifics with your association's attorney, CPA and Reserve Specialist.

**Q: Here in FL, our manager is pushing for "pooling" our reserves not using a "line-item" reserve contribution philosophy. Is this a benefit?**

A: Absolutely! Exactly the same expenses are funded through both methods, and the Cash Flow method allows existing funds to be used/shared efficiently, and it allow for greater flexibility in designing a Funding Plan that is smooth and equitable.

**Q: If the total reserves are well in excess of anticipated needs/expenses, do future contributions to reserves still have to be a large 15-40% of the budget?**

A: If your Reserve Fund is at or above 100% Funded, your Reserve contributions can and should be adjusted to target it to be stable around the 100% level. This means your Reserve contributions can be less than those of a similar association that are still underfunded (and playing "catch-up")! The difference is generally not a large amount, however.

**Q: What happens when a board has a Reserve Study prepared, but then a majority of board members won't sign off and "approve" it?**

A: From the perspective of the Reserve Study provider, there's typically no expectation that the Board needs to "sign off" on the results. If there's a material error or omission, bring that to the provider's attention so that corrections can be made. It's the Reserve Study professional's job to provide independent, expert guidance, not get the board's approval (when often the board by nature may not "like" the results contained in the Reserve Study).

**Q: Our Association was formed when one large common asset (swimming pool) was near the end of its 45-yr useful life. The reserve contribution required at this time is significantly more than the contribution rate had it been funded beginning long ago. What's the best option at this point for funding its replacement? Significant reserve contributions for 2-3 years or a special assessment? A special assessment would allow HOA members to vote on pool replacement or not (not a good thing).**

A: If the developer left the association with an “old” asset and no Reserves, that is unfortunate. You don’t have much time to collect a lot of money. From a practical level, high budgeted contributions (for 2-3 years) may be essentially the same thing as a special assessment spread over 2-3 years. It’s unfortunate, but the funds need to be collected.

**Q: We have a reserve for painting and we are going to do this project and I was wondering if I can use all the funds for this painting reserve or do I have to leave 10% in that reserve?**

A: Reserve funds are for the purpose of accomplishing Reserve projects. There is no requirement to leave X% of your Reserve fund unspent.

**Q: I’m a relatively new owner and even newer board member. As a public company Chief Financial Officer I completely understand the message and believe in it. However for the past 30 years our board has put reserve funding up for an owner’s vote and every year the owners have rejected funding a single dollar. We have relied on assessments to cover the needs. How can we change people’s views so they are willing to “pay as we go”?**

A: Remember that boards have a responsibility to provide for the physical and financial care of the association, while members do not. So don’t blame them for voting down something that for years has been implied is optional. Part of the responsibility of a board member is to be a communicator and “sell” the plan for the future of the association (owners need to be inspired and led). Explain that deterioration is real and expensive. Explain that running an association in a financially responsible way (with sufficient Reserves) yields higher home values and absence of special assessments. In other words, adequate Reserve contributions fulfill board responsibilities, are a great investment for homeowners, and protect owners from inevitable special assessments (those roofs don’t get replaced by magic!).

**Q: Our Board feels items in the approved Reserve budget are items that the Reserve Analyst suggested “may” need to be replaced or repaired in that fiscal year, but the board may choose not to accomplish and to defer to the next year. Is this acceptable? How else can we argue against deferring projects approved and in the current year budget?**

A: You have to consider the consequences of that deferral. If it’s a leaky roof, any further delay can have very expensive consequences, which should be avoided. If it’s a pool heater that has technically reached the end of its life



from a planning standpoint, but is still functional, then it may be possible to defer it to the following year. Different Reserve components “fail” differently.

**Q: How does a Reserve Study handle or address long term neglect (years of deferred maintenance)?**

A: The Reserve Study identifies the physical and financial state of the association. If there has been long term neglect, that is clearly presented showing the poor financial state of the Reserve Fund and the (high) contributions necessary to provide for the needs of the association (essential near-term repair and replacement projects). There are consequences to years of underfunding, and those years of underfunding are offset by years of high Reserve contributions (or special assessments) to “catch up” and provide funds for one or many upcoming projects. It is unfair, but it is real. As you’ve heard so many times, there is no “free lunch”.

**Q: Since you present the 'here and now', what about decades of neglect that impacts the 'here and now'?**

A: Years of neglect usually create years of higher contributions and years of expensive Reserve projects. The Reserve Study should clearly present the truth of the situation to the board. When every owner pays their fair share along the way, the future takes care of itself. When owners “skate by” for years underfunding, and boards ignore their responsibility to take necessary action to repair and replace the common areas, it is an uphill challenge to restore the association’s physical and financial state.

**Q: We're dealing with long term neglect. Present owners are saddled with 'catching up' with neglect. How do you address?**

A: Safety issues are paramount (balcony stability, trip and fall hazards on sidewalks and asphalt). After that comes projects that are rapidly growing in scope due to deferred maintenance – the longer you delay the more expensive they get. Assembling this information takes a team (that includes the Reserve Study provider to lay out a workable multi-yr plan), and it takes a board that has a commitment to “sell the plan” and restore the physical and financial state of the association (and property values!).

**Q: Presently, Special Assessments are yearly if not semi-yearly events. How do we avoid this?**

A: The simplest way to reduce the risks of special assessments is to have an accurate, reliable Reserve Study done, and to follow its funding recommendations as closely as possible. Special assessments are rarely true “surprises”. There’s no way to dodge the reality that most special assessments are the inevitable result of willfully making Reserve contributions less than the recommended amount.

**Q: You stated “the deterioration bill needs to be paid today.” But isn't the board's fiduciary responsibility to provide deliverable dates?**

A: Good point. That’s why we break down Reserve contributions to monthly (or quarterly or annual) contributions, so the board knows specifically how much to set aside, even though the projected expenditure may be many years into the future.

**Q: Is the person doing the reserve study licensed engineers?**

A: An engineering background is not required, because it does not automatically qualify someone as a Reserve Study provider. Some companies have engineers on staff, others don’t, but the more important qualification is that the provider has professional expertise in preparing Reserve Studies, usually indicated by the “RS” credential. Preparing a Reserve Study combines many different skill sets – facility observation and analysis, numerical proficiency, and communication skills. That expertise only comes from years of training and experience in this particular field.

**Q: What other items can be reserved other than the Reserve Component List?**

A: All potential projects that meet the National Reserve Study Standards four-part test should be included in your Reserve Component List. As time goes by, some new projects are revealed, and they should be added in the next Update. Remember that all Reserve Components must pass the National Reserve Study Standards [four-part test](#).

**Q: Is it better to set up reserves by category i.e., parking lot, roof, etc. or lump in one reserve. Pros and cons?**

A: There is value in clearly identifying upcoming Reserve projects, so the funds are effectively collected and carefully spent. On the other hand, too much detail and the Reserve Study becomes cluttered and cumbersome. Strive for an effective point in-between. See more [here](#).

**Q: You showed a correlation between condo home value and Reserve Fund strength. Do you have a similar correlation between home values and Reserve Fund Strength for single-family home communities?**

A: Not at this time. We expect that the correlation is weaker, as the ratio of \$ value of common areas to home values is lower. This means home values are less strongly influenced by the condition of the common areas.

## **Legal:**

**Q: If a budget committee meets to discuss the reserve study and there is a quorum at the committee meeting is there a requirement for that meeting to be noticed the same way as a board meeting?**

A: The laws likely differ state-to-state. In Florida most board meetings must be noticed and open for member (owner) participation. The term “board meeting” is defined as any time a quorum of the board gathers to discuss association business. Committees charged with developing a budget are also required to post notice so owners can participate in any meetings to discuss a proposed budget, including budget workshops and the like. Please check the laws in your state.

**Q: What is the average length of board meetings?**

A: Every community is different, but most board meetings should not exceed 1.5 hours. Efficient board meetings have a business-like feel, and as such they have clearly defined agendas and each board member is prepared to discuss all business identified on that agenda. The board should control the extent of the agenda by scheduling meetings with sufficient frequency. Preparation includes reading all bids, financial statements, reports or other discussion items in advance. Owner participation should be limited to the agenda items and not allowed to diverge into tangents or general complaints. The board is

not required to immediately reply or react on-the-spot to all owner comments or criticisms. It is perfectly appropriate to take matters into consideration for later analysis.

**Q: Are reserves an obligation?**

A: Absolutely. While state laws addressing specific Reserve requirements vary (specifying contents, frequency, etc.), board members in every state are responsible to run the association on behalf of the owners. Sensible financial management requires planning for the large and predictable expenses that require years of financial preparation. The board has an obligation to create budgets and levy assessments in amounts necessary to sustain the association. A budget that fails to address deterioration, scheduled maintenance and repair of the property is not in the best interests of the association. Click [here](#) to see CAI's compiled list of Reserve requirements by state.

**Q: Our HOA was started in 1989, way before Florida Statutes 720. The developer established several reserve categories, along the lines of condos. As I understand it, these reserves are now considered "statutory reserves" and must be treated according to FL 718 and FAC 61. Our HOA now claims that these reserve accounts are now "non-statutory" and thus they can do whatever they want to them. BUT - they have not shown any owner vote to transfer these reserve funds. Please advise.**

A: Answering this question is beyond the scope of what we can do in a webinar – it requires an analysis of the particular facts and historical data as well as legal interpretation of the actual governing documents.

**Q: Is it OK for a condo board president to query a quorum of other board members ahead of a meeting to assure a majority vote on a pet project?**

A: Lobbying takes place in every organization. It is not unusual for board members to ask for support from other board members with respect to various initiatives. However, each board member has his or her own fiduciary obligation – that means he or she must act in good faith, with the care of a reasonable person, and in the best interests of the association. You cannot dodge your fiduciary responsibilities by voting in a particular way solely because you want someone to like you or as a result of undue pressure.

**Q: There's an assumption the board is competent. Yet decisions made by the board seem to contradict the outcome. How do unit owner address this?**

A: Reasonable minds may disagree, but varying opinions does not always translate to incompetence. As I mentioned during the webinar, board members are not expected to be experts about everything – they are not required to make the same decision that an engineer, accountant, attorney, insurance advisor would under like circumstances. However, they do have an obligation to exercise reasonable diligence and seek the opinions and advice from professionals to assist in decision-making. Election of new board members is the natural way owners address perceived board incompetence or boards who are not prioritizing the needs of the association.

## Webinar Questions Asked By Attendees (prior years)

**Q:** What is proper process for Boards to take if the members elect/vote to not fund the figures that are suggested to keep the Reserve Fund above zero (Baseline Funding)? Just document it and move on and await the Special Assessments?

**A:**

**(Lisa)** Please consult with an attorney in your state to determine whether the membership vote precludes the board from budgeting for additional Reserves. If the board does not have the ability to override the members, it is advisable for the year-end financial report to disclose the Reserve funding was limited despite objections of the board.

**(Robert)** If the members control the size of Reserve contributions, my understanding is that it is in the best interests of the board to demonstrate that they responsibly researched an appropriate Reserve contribution amount and made a reasonable attempt to explain to the owners the value of appropriate Reserve contributions. On a personal level, anyone with knowledge that the Reserves at their association are being underfunded should begin to set aside some funds for the inevitable special assessment(s) that will come.

**Q:** Our last Reserve Study was questionable: it did not disclose the Fully Funded Balance, who prepared the study (just the software was mentioned), it listed the wrong Fiscal Year that the study represented, and it stated our association was 60% funded (possibly inflated by as much as 20+%). This is unlike past studies that included necessary detail. It was amateurishly prepared. The bare summary of this weak document was unfortunately sent to homeowners "as is" last year. Does the board have an obligation to mention obvious errors to homeowners?

**A:**

**(Lisa)** In my opinion, yes. The board has an obligation to provide the owners with an accurate picture of the association's financial condition. After noting the shortcomings, I recommend inviting the Reserve professional to a meeting to resolve the discrepancies, possibly in connection with your budget meeting.

**Q:** Can you remind everyone to check with their accounting advisor to ensure that the amount of funds in their Operating Acct (due in our case to not transferring

to Reserves regularly) does not threaten their non-profit (tax exempt) status? Neglecting that detail has become a problem for our association.

**A:**

**(Robert)** – thank you, you just did!

**Q:** Our property manager told our board that they did not have to separate Reserves from general account. How do we refute that?

**A:**

**(Lisa)** Obtain confirmation from your attorney or CPA. In Florida, Reserves cannot be commingled except for investment purposes, but that is not even advisable since you need operating funds to be liquid and Reserve investments are more aptly timed to anticipated Reserve expenditures.

**Q:** Can you address California Civil Code 5560 and the process of adopting the reserve funding plan?

**A:**

**(Robert)** – for those outside of California, this section of state law ensures the board's chosen Reserve Funding Plan is officially identified and adopted. A brief excerpt is "The plan shall be adopted by the board at an open meeting before the membership of the association...". We suggest you contact a competent CA attorney to ensure your association is complying with this simple annual requirement.

**Q:** Our Full Study was prepared in 2011. An Update was prepared in 2013. Board members feel that the 2013 report is still relevant. Dangerous?

**A:**

**(Will)** At this point, both of those Reserve Studies have expired and should no longer be used for current or future budgeting purposes. By its nature, a Reserve Study is a "one-year" document, based on data for component life and cost estimates which can fluctuate dramatically over time. Not to mention, the Association surely has a different account balance at this point, which would need to be evaluated in light of drawing any new financial conclusions. As we say, the framework of the component list should remain constant over time, but not the useful life, remaining useful life and replacement cost values. Continuing to use outdated information will not guide you towards a good outcome.

**Q:** We in California have experienced monumental increases in our fire insurance. (Thousands in our county have been redlined and cannot get fire insurance for any price). We have also been informed by our local Fire Department that our surrounding forest needs to be thinned, deadwood removed and underbrush cleared - a bill estimated to be in the vicinity of half a million dollars. Neither of these two expenses are covered in our 2017 Reserve Study - yet they dwarf items like roof replacement. How do your experts suggest we deal with these unavoidable expenses?

**A:**

**(Lisa)** Wow, natural disasters can sure make life complicated. I am not in California but I would encourage you first to verify that the association either owns or bears responsibility for the wooded area and then research whether the municipality, county or other local government entity has any grants or relief funds available. I would also inquire whether you can break the work up into stages over a period of a few years to ease the burden on the homeowners. At the end of the day it is likely that governmental officials will prioritize safety, but should be sensitive to homeowner finances.

**(Will)** Unfortunately, in accordance with National Reserve Study Standards, a Reserve Study is limited in the sense that we can only include components with predictable remaining useful lives. This example is an unfortunate surprise, but not the fault of the Reserve Study for being unable to predict it. Generally speaking, if this is a one-time unpredictable event it is outside the scope of Reserve planning. As such, it would be a good example of a special assessment (or bank loan/line of credit) situation. But if from this point forward brush clearing is a regularly recurring expense, a brush clearing component could be added to your Reserve Study.

**(Robert)** One of my clients shared that the county fire department was no longer going to handle brush clearing of an undeveloped hillside adjacent to their association, clearly handing off the responsibility to them. The annual cleanup (handled by an increase to their operational landscape budget) and every three year major thinning (handled with an additional component in their Reserve Study) required a notable increase in their monthly assessments.



**Q:** When is the update required? Is it three years from the last update or the “year”?

**A:**

**(Lisa)** In Florida, the law requires condominiums to obtain updated insurance appraisals every 3 years. Reserve Studies do not have a specific update requirement interval.

**(Will)** Of course, this one depends on the location of the association as some states do have specific requirements, but even if not required by your state, a good best practice is to conduct an Update With-Site-Visit about every three years, or even more often, particularly if the association is considering (or has recently completed) some major projects.

**(Robert)** In general, if an association intends or is required to update their Reserve Study “every three years”, that means “for the Fiscal Year”. So if the last Reserve Study was done for the association’s 2017 Fiscal Year, they are due to perform another update for their 2020 Fiscal Year. Whether the 2017 report was prepared in the summer or fall of 2016 (in advance of their 2017 Fiscal Year) shouldn’t affect the specific date when in 2019 (three years later) the association has to prepare their update for the upcoming 2020 Fiscal Year.

**Q:** For a year in which line items have a RUL of 0, the recommended annual funding does not include those line items until the next study. We start paying in the next cycle (eg. when it's 10/10), but not during the year in which it is 0/10. Correct?

**A:**

**(Will)** If a component has zero remaining useful life as of a specific fiscal year (let’s say 2020 for example), then the association would presumably (hopefully) have enough cash in Reserves at the start of that year in order to replace it. However, that doesn’t mean that they would stop funding for that component in 2020, because as soon as it’s replaced, it will start the cycle of deterioration again, and therefore, ongoing contributions to Reserves should be included in the 2020 budget to offset the deterioration that begins the day after it is replaced. There’s really never a time when you stop funding your Reserves for any given component, because the recurring nature of replacement cycles means that any time taken off is time that will have to be made up for later on down the line.

**Q:** In our Reserve Study, we have graphs for future years of predicted health of the Reserve. Do those graphs include potential future recommended special assessments, or are your future graphs only based on your current study's recommendation? I ask because we have a recent study that looks like it cannot stay healthy unless we have a special assessment next year. Even with that special assessment, it looks like it will be a number of years before our Reserve Fund becomes "healthy" unless we have another special assessment.

**A:**

**(Will)** Keep in mind that a Reserve Study is a one-year document. With respect to graphs/modeling of future years, there is a given assumption that the association will follow the plan as recommended in the study. These future depictions also assume that the projected replacement costs and useful lives will be accurate. If the association does not follow the plan, it's very difficult to make predictions about the future health of the reserve fund. However, if you can provide the Reserve Study provider with the Board's intentions about how the Reserves will be funded, the provider should be able to run a hypothetical model based on that plan to show the likely outcomes over time. If the board plans to underfund Reserves and it looks like special assessments will be needed to provide necessary cash, it should be possible to predict when those might occur.

**Q:** Our condo was originally built in a county that did not inspect or require bonding for construction of ponds. Consequently we discovered that the ponds were not constructed to specifications and have now begun leaking. Do we have any recourse with the developer? Condo is 18 years old. Expense to remedy will be \$50k per pond which puts a dent in our Reserve planning.

**A:**

**(Lisa)** Most claims, including construction defect claims, carry a statute of limitations. In Florida, Section 95.11(3)(c), Florida Statutes imposes a 10-year statute of repose as the final deadline for filing construction defect suits. It provides that actions for latent construction defects must commence within 10 years of the last of the following four events: the date of actual possession by the owner; the date of the issuance of a certificate of occupancy; the date of abandonment of construction if not completed; or the date of completion or termination of the contract between the professional engineer, registered architect or licensed contractor and their employer.

**Q:** We have a Reserve Study. How do we figure out what percentage is funded?

**A:**

**(Will)** If prepared in accordance with National Reserve Study Standards, the percent-funded level should be stated clearly within the study. If the provider doesn't use percent-funded as a metric for evaluating the Reserve fund strength of the association, then there should be at least some commentary about it being "strong," "weak," etc. However, these are subjective terms, and not nearly as accurate as a clearly-defined, mathematic evaluation.

**Q:** How many years should a Reserve Study cover? Some items have a shorter cycle of repeated required replacement.

**A:**

**(Will)** 20 years is the minimum required by National Reserve Study Standards, but some states such as CA require projections at least 30 years into the future.

**Q:** Does the board have to give the option of waiving the Reserves? We plan to give the owners partial funding choice, but do we have to include total waiving?

**A:**

**(Lisa)** Each state has somewhat different regulations concerning Reserves and Reserve funding. As I mentioned during the webinar, Florida law requires full funding unless the members vote to waive or partially waive the funding, but nothing other than member ire mandates either vote in Florida. If you plan to ask the members to partially waive (partially fund), be sure to include a chart reflecting full funding compared to the consequences of partial funding.

**(Will)** We think it would be a very bad idea for the Board to allow a "total waiving" option, as the owners can't also "totally waive" the expenses! If the Board lists "total waiving" as an option, it will surely look like a more attractive option to the members, since it's apparently "cheaper." However, owners won't necessarily understand it is essentially a vote for future special assessments or loans when projects start to come due. In Florida, and possibly in other states, doing anything less than full funding actually requires specific warnings to be included in the budget documentation.

# Creating a Great Future

*With Will Simons, RS and Lisa Magill, CCAL*

.... A webinar brought to you by



**ASSOCIATION  
RESERVES™**

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

www.reservestudy.com

1

---

---

---

---

---

---

---

---



Today's theme...

## Think Globally Act Locally



© Peter Kinnison Project (1992-2015) www.peterkinnison.com (PFA)

www.reservestudy.com

2

---

---

---


---

---

---

---

---



Today's theme...

Great Reserve Study

+

Great Decisions

=

Great Future

---

www.reservestudy.com

3

---

---

---

---

---

---

---

---



## What's in it for me?

- Avoid Special Assessments
- Minimize Expenses
- Minimize Board Liability Exposure
- Maximize property values



www.reservestudy.com

4

---

---

---


---

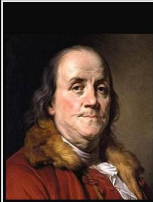
---

---

---

---





By failing to prepare, you are preparing to fail.  
(Benjamin Franklin)

izquotes.com

www.reservestudy.com

5

---

---

---

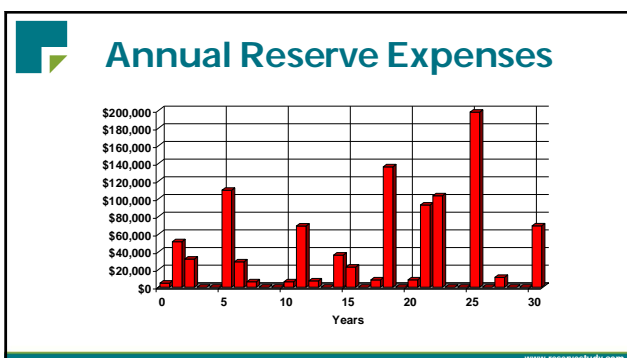
---

---

---

---

---



6

---

---

---

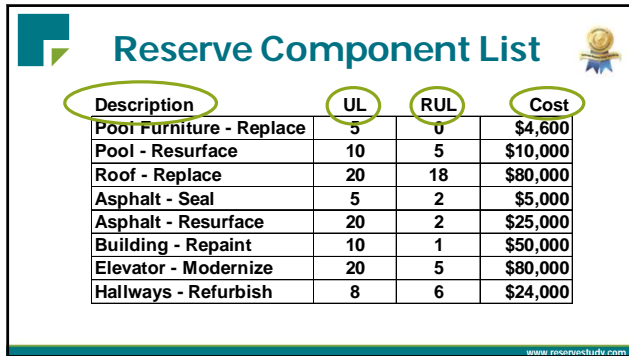
---

---

---

---

---



### Reserve Component List

Description	UL	RUL	Cost
Pool Furniture - Replace	5	0	\$4,600
Pool - Resurface	10	5	\$10,000
Roof - Replace	20	18	\$80,000
Asphalt - Seal	5	2	\$5,000
Asphalt - Resurface	20	2	\$25,000
Building - Repaint	10	1	\$50,000
Elevator - Modernize	20	5	\$80,000
Hallways - Refurbish	8	6	\$24,000

www.reservestudy.com

7

---

---

---

---

---

---

---

---



8

---

---

---

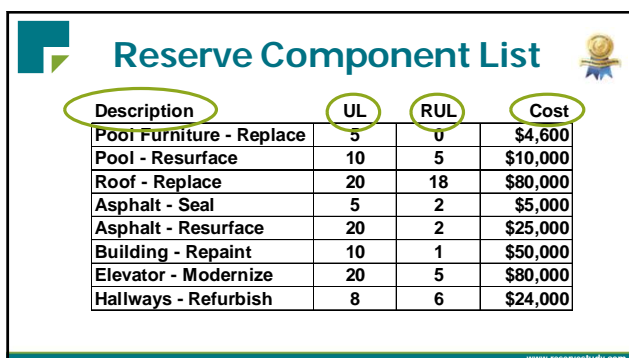
---

---

---

---

---



### Reserve Component List

Description	UL	RUL	Cost
Pool Furniture - Replace	5	0	\$4,600
Pool - Resurface	10	5	\$10,000
Roof - Replace	20	18	\$80,000
Asphalt - Seal	5	2	\$5,000
Asphalt - Resurface	20	2	\$25,000
Building - Repaint	10	1	\$50,000
Elevator - Modernize	20	5	\$80,000
Hallways - Refurbish	8	6	\$24,000

www.reservestudy.com

9

---

---

---

---

---

---

---

---



10

---

---


---

---


---

---

---



## Purpose of Contributions



Not Optional

Reserve contributions pay for predictable expenses – they are just like any other bill

11

---

---


---

---

---


---


---



## Problems


**Luxuries**





---

**Bills are not luxuries!**



12

---

---


---

---


---

---

---



## Problems



Reserve contris perceived as:

- Optional ("affordability")
- 
- 
-

www.reservestudy.com

13

---

---

---

---

---


---

---

---



THIS AFFORDABLE HOME HAS... UMMM... RUSTIC ARCHITECTURE... AND AS YOU CAN SEE THEY AREN'T WASTING THE HOA DUES ON FUNDING RESERVES



gogladly.com/comics  www.reservestudy.com

14

---

---

---


---

---

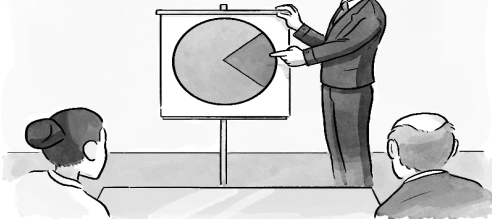
---


---

---



THIS PART OF THE BUDGET WE LIKE TO CALL "MONEY WE WISH WE HAD"



gogladly.com  DESIGN BY WWW.DANIELSZYMCZYK.COM

www.reservestudy.com

15

---

---

---

---


---

---

---

---





## Problems

Reserve contris perceived as:

- Optional ("affordability")
- Savings "for the future"
- 
- 

www.reservesstudy.com

16

---

---

---


---

---

---

---

---



**RESERVE FUNDING**

FOR REPLACEMENT OF:

- ROOFS.....20YRS
- ASPHALT.....25YRS
- STUCCO.....15YRS
- HVAC SYSTEM.....8YRS

WHY SHOULD I CONTRIBUTE TO RESERVES... AT MY AGE I DON'T EVEN BUY GREEN BANANAS!

gogladly.com/comics glodly

www.reservesstudy.com

17

---

---

---


---

---

---

---

---



## Problems

Reserve contris perceived as:

- Optional ("affordability")
- Savings "for the future"
- We will not be living here then...
- 

www.reservesstudy.com

18

---

---

---

---



---

---

---

---

**Reserve *contributions* are for...**


VS


www.reservestudy.com

19

---

---

---

---


---

---

---

---

**Problems**



Reserve contriibs perceived as:

- Optional ("affordability")
- Savings "for the future"
- We will not be living here then...
- The roof doesn't send a monthly "deterioration" bill

www.reservestudy.com

20

---

---

---

---

---

---

---

---

**Board Responsibilities**

... to provide for the needs of the association

- *Governing Documents*
- *State-specific Legislation*
- *Principles of Fiduciary Responsibility*

www.reservestudy.com

21

---

---

---

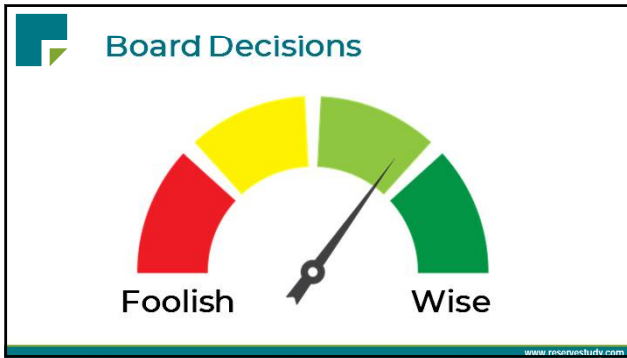
---

---

---

---

---



22

---

---

---

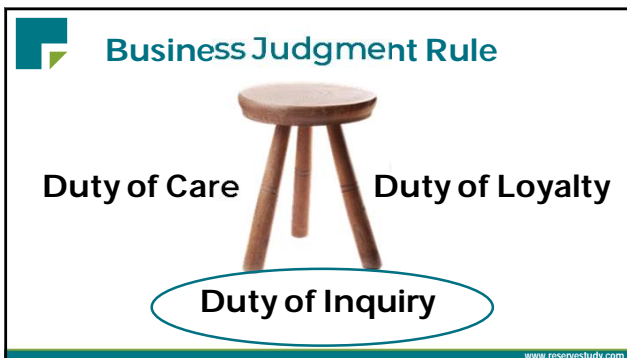
---

---

---

---

---



23

---

---

---

---

---

---

---

---

**Business Judgment Rule**

***"Let's work the problem people, let's not make things worse by guessing!"***

Gene Kranz, Apollo 13 Flight Director

www.reservestudy.com

24

---

---

---


---

---


---

---

---



## Reserve Study



1 Full

2 Update With Site Visit

3 Update No Site Visit

www.reservestudy.com

25

---

---

---


---

---


---

---

---



## Reserve Study



Full Only once

WSV Every Few Years

NSV In-between years

www.reservestudy.com

26

---

---

---


---

---


---

---

---



## Reserve Study



**Three Results**

www.reservestudy.com

27

---

---

---

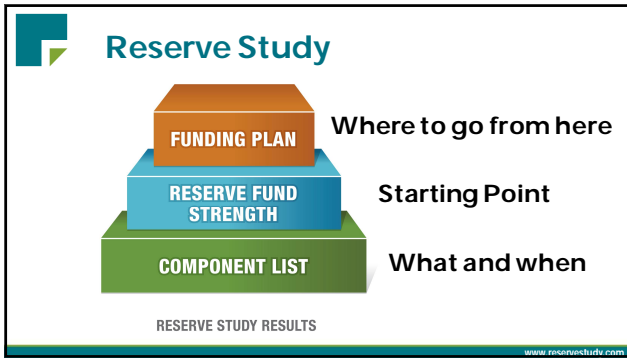
---

---

---

---

---



28

---

---

---

---

---

---

---

---

**Reserve Study**

Description	UL	RUL	Cost
Pool Furniture - Replace	5	0	\$4,600
Pool - Resurface	10	5	\$10,000
Roof - Replace	20	18	\$80,000
Asphalt - Seal	5	2	\$5,000
Asphalt - Resurface	20	2	\$25,000
Building - Repaint	10	1	\$50,000
Elevator - Modernize	20	5	\$80,000
Hallways - Refurbish	8	6	\$24,000

www.reservestudy.com

29

---

---

---

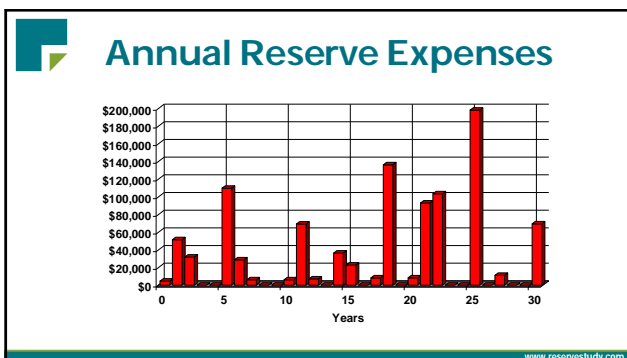
---

---

---

---

---



30

---

---

---

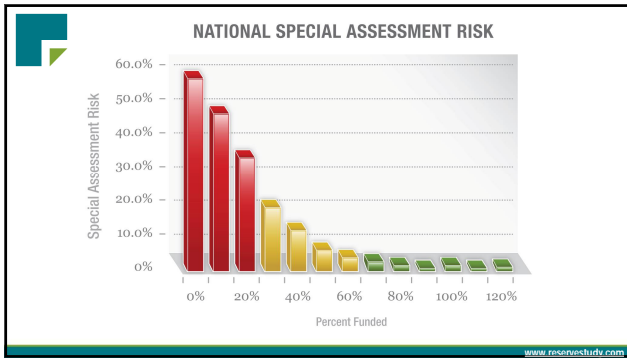
---

---

---

---

---



31

---

---

---

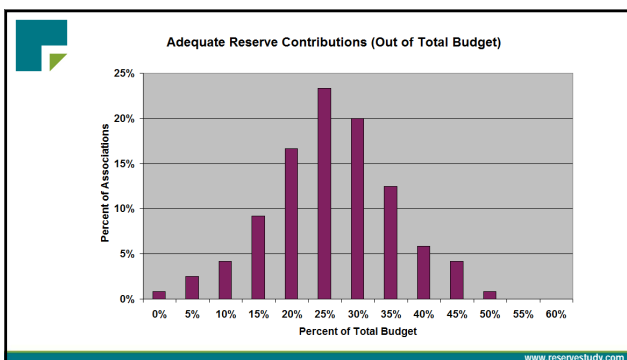
---

---

---

---

---



32

---

---

---


---

---

---

---


---



## Reserve Study

**Contributions: they're *not* too expensive!**

**...besides, adequate contributions are the board's job!**



www.reservestudy.com

33

---

---

---


---

---

---

---


---



## Reserve Study

How do we get a great one?

- Qualified Provider
- Provide History
- Site Inspection
- Starting Balance
- Funding Plan
- Review



www.reservestudy.com

34

---

---

---


---

---

---

---

---



## Reserve Study

Updating

- 1 Full
- 2 Update With Site Visit
- 3 Update No Site Visit

*At 15-40% of total budget, review & update annually\**

www.reservestudy.com

35

---

---

---


---

---

---

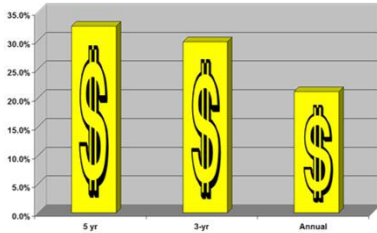
---

---



## Reserve Study

Updating more frequently drops special assessment risk



Update Frequency	Special Assessment Risk (%)
5-yr	~32%
3-yr	~28%
Annual	~18%

www.reservestudy.com

36

---

---

---

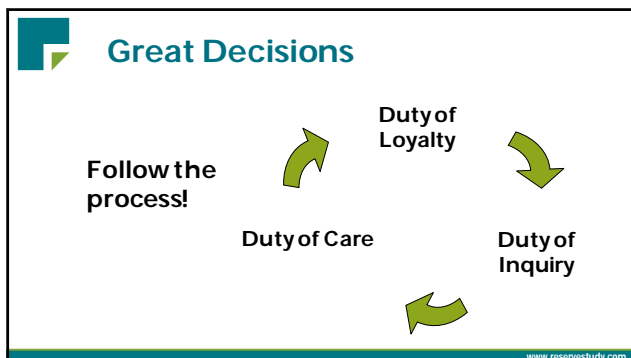
---

---

---

---

---



37

---

---

---

---

---

---

---

---



38

---

---

---

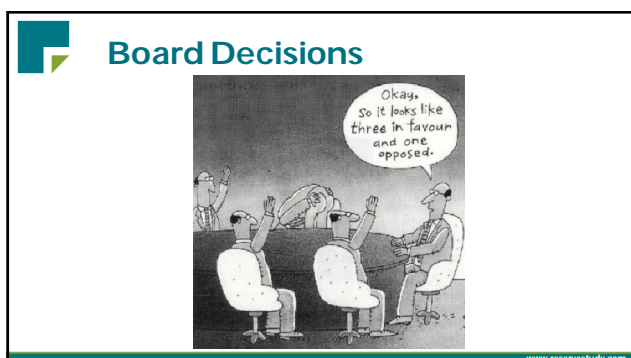
---

---

---

---

---



39

---

---

---

---

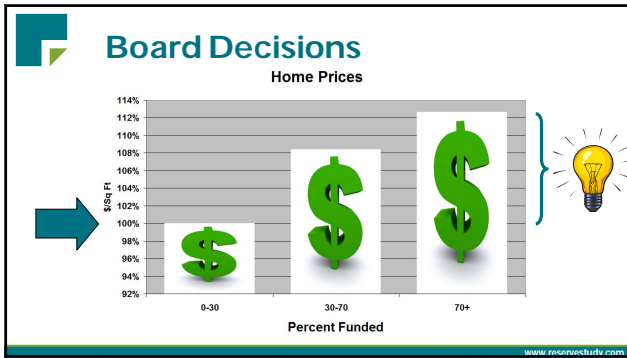
---

---

---

---





40

---

---

---

---

---

---

---

---



41

---

---

---

---

---

---

---

---



42

---

---

---

---

---

---

---

---



## Where are we going?

Great Reserve Study

+

Great Decisions

=

Great Future

www.reservestudy.com

43

---

---


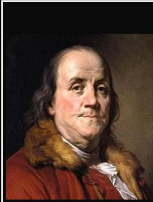
---

---

---

---

---

By failing to prepare, you are preparing to fail.  
(Benjamin Franklin)

izquotes.com

www.reservestudy.com

44

---

---

---

---

---

---

---



## A Great Future

- Avoid Special Assessments
- Minimize Expenses
- Minimize Board Liability Exposure
- Maximize Property Values



www.reservestudy.com

45

---

---

---

---

---

---

---



46

---

---

---

---

---

---

---

---



47

---

---

---

---

---

---

---

---



48

---

---

---

---

---

---

---

---



For further questions...

**Paige Schauermann**  
Marketing Manager

[PSchauermann@ReserveStudy.com](mailto:PSchauermann@ReserveStudy.com)

 ASSOCIATION  
RESERVES™

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

---

---

---

---

---

---

---

49



**Will Simons, RS**  
[WSimons@ReserveStudy.com](mailto:WSimons@ReserveStudy.com)

 ASSOCIATION  
RESERVES™



**Lisa Magill, CCAL**  
[LMagill@KBRLegal.com](mailto:LMagill@KBRLegal.com)

 **Kaye Bender  
Rembaum**  
Attorneys At Law



**Robert Nordlund, PE, RS**  
[RNordlund@ReserveStudy.com](mailto:RNordlund@ReserveStudy.com)

 ASSOCIATION  
RESERVES™

---

---

---

---

---

---

---

50