



ASSOCIATION
RESERVES™

Planning For The Inevitable™

Using your Reserve Study – Effectively!

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Miss the webinar? Watch it [here](#):

In this webinar, Jim and Robert share from their experience how boards and managers can achieve an improved future, not by just “getting” a Reserve Study, but by actually *using* it! Until you know what to look for, where to find it, and how to use it, a Reserve Study is “just another document”. But in this webinar Jim and Robert discuss:

- What you are getting (three types of Reserve Studies and their implications, and what to look for in your Reserve Studies)
- Using and distributing it (to board and management, or homeowners)
- Applying it to your association: making decisions, suggestions for word choices to enhance communication, communicating with your Reserve Study professional, optimizing accuracy, what happens if you choose to not follow it (exactly), “selling” the plan to homeowners.
- What “success” looks like! Imagine enough \$ to do Reserve projects on time, absence of special assessments, owners informed and aware, maximized property values, minimized board liability, minimized expense budget!

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!



Attendee Questions

Q: How can a board use the reserve study during the year to inform their decisions?

A: Two primary ways are: to provide guidance on spending (keeping projects close to their budgeted amount, as an aid in preparation of forming scope & specifications, executing the project), and providing guidance on project timing (or alternatively choosing to perform a minor touchup repair so the asset can meet its full design life expectancy, which might be a few short years into the future).

Q: Can you provide an example of a policy for funding reserves?

A: Please see the “Appendix” portion of this document for a sample Reserve Policy and a sample Reserve Investment policy.

Q: How do you describe a Reserve Funding policy?

A: It is a document that identifies the priorities and objectives of Reserve Funding, providing guidance and stability across the years as the board makes decisions on the matter.

Q: What is the 4-part test to which you just referred?

A: National Reserve Study Standards define a four-part test which a project must pass in order to be funded through Reserves. 1) It must be a common area maintenance responsibility, 2) have a limited Useful Life, 3) have a predictable Remaining Useful Life, and 4) be above a minimum threshold cost of significance. See more [here](#).

Q: How do you decide what projects go onto the Component list?

A: See above.

Q: Some of the components in the slides seem to be deferred maintenance and not necessarily reserve expenditures.

A: I’m not sure what your definition is, but all components that appear in our Reserve Studies meet the National Reserve Study Standard four-part test described above.

Q: Does a Reserve Fund include money for unanticipated catastrophes? i.e. earthquake, flood, monies needed for deductibles, or costs not covered by insurance?

A: No. Reserve Funds are set aside and designated for those major, predictable projects for which the association has significant maintenance, and/or repair & replacement responsibility. Emergencies and surprises are typically handled by special assessments. If you deplete Reserves for non-Reserve projects, you’ll then likely need a special assessment to restore Reserve Funds for those scheduled Reserve projects! Part of your overall risk mitigation policies should of course include an understanding of your coverages, limitations and exclusions.

Q: What if we have a paving project, and it may require under the road pipe work as you get into the project. Can you charge to reserves paving these unanticipated peripheral, yet essential to the paving project work?

A: If the pipe work qualifies as a Reserve expense (it meets the four-part test), it can be funded from Reserves. Your question implies that funds were not collected for the piping project. Again, if the piping meets the four-part test, that expense should be included in the next Reserve Study update. There may be state specific guidance that would allow reserves to be utilized, even if it wasn't included in your prior reserve study. If it meets the criteria, it is best practice to separate the piping from the asphalt into different Reserve components, and logically cycling within the reserve plan (i.e. attempt to schedule the piping project every second or third paving project, to avoid tearing up a good roadway!) Work with your Reserve Study professional on this problem.

Q: Can you use Reserve funds to pay for items like plumbing re-piping, which is not on the component list? How does that impact the reserve study?

A: See above. If the unanticipated project qualifies as a Reserve expense (it meets the four-part test), Reserve Funds can be used. But as an unanticipated expense, you'll need to update your Reserve Study for the next budget year, and expect that your contributions will significantly increase to rebuild the Reserve Fund and begin preparing for the next occurrence of this new component.

Q: How does one budget for Reserve items that are either very far away (Remaining Useful Life 30 or more years away) or are comprised of several projects/things of which only maybe one or two may ever need repair/replacement at any time?

A: There is no recommended maximum Useful Life or Remaining Useful Life in National Reserve Study Standards. If the project passes the four-part test, include it in your Reserve Component List even if it is far away. That way all the homeowners who enjoy the use or presence of that asset (seawall, long-life roof material, etc.) will pay their fair share of the cost of deterioration. Regarding "complex" assets, it is best to separate them into their individual parts and create multiple Reserve components. For instance, separate a "clubhouse remodel" into carpeting, furniture, interior painting, bathroom remodel, kitchen remodel, etc.).

Q: Do you have to continue with reserve funding once you are 100% funded for everything?

A: Yes. Reserve deterioration is constant. Reserve contributions are made to offset and keep pace with that ongoing deterioration. Being 100% Funded means that your Reserve Fund is equivalent to the current \$ value of deterioration (it means that the association is "on pace", not ahead or behind in accumulating Reserves). Being 100% Funded does not mean that the association has built up an annuity that will fund Reserve expenses in perpetuity without further contributions. See an article on Percent Funded [here](#), or our "QuickTips" video on Percent Funded [here](#).

Q: How do you define 100% funded?

A: Percent Funded is defined by National Reserve Study Standards, which you can see [here](#). See the above for an article and a short video explaining Percent Funded, and what it means to be 100% Funded.

Q: Does Florida require 100% Funding (Full Funding)?

A: I wish that was an easy question, but it's not. As this is a legal question please of course see your FL legal counsel. But courtesy of Will Simons, RS, President of our [Association Reserves Florida/Southeast USA office](#), see below for our understanding on how the law is applied:

Component Method: If the association is calculating contributions using the Component (straight-line) Method, then the statutory requirement is that the Board of Directors must present a budget and corresponding Reserve schedule that shows what it would take to "fully fund" each of its Reserve accounts, using the conventional calculations (component cost minus existing Reserve balance, and the difference divided by the Remaining Useful Life). The Board then shows the amounts required to fund each account, which represents "Full Funding". The membership of the Association can petition the Board to do less than Full Funding, or to waive Reserve contributions entirely, and either scenario can be approved by a majority vote. If the vote isn't taken or doesn't pass, then the "Full Funding" budget goes into effect by default. Many Boards will skip the part where they wait for the members to petition them, and instead propose two alternate budgets (think Plan A and Plan B), where Plan A is Full Funding and Plan B is something else...typically a lower target that they believe the owners will support.

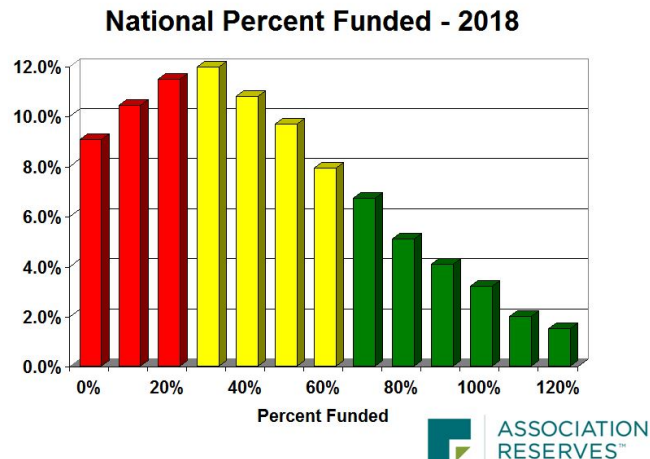
Cash Flow Method: For FL associations using the Cash Flow (pooled) Method to calculate Reserve contributions, the term "Full Funding" is generally interpreted to actually mean Baseline Funding (where Reserve cash can drop to zero). When FL allowed pooled reserves starting in 2002, they never bothered to update/expand their terminology. The term "sufficient" is used in Florida law with respect to pooled Reserve funds, which technically just means keeping your Reserve cash balance above \$0 over your projected future timeline (thus the presumption of "Baseline Funding). However, this word "sufficient" is buried in the legislation and since prior to that the only terminology people were familiar with was "Full Funding" and the term was never re-defined when "pooled" funding became an option, many people *understand* them to mean the same thing. In our studies, we make a distinction between the National Reserve Study Standards definition of Full Funding (100% Funded as the goal), and the FL definition, which in our parlance means Baseline funding (above \$0 as the target.)

In either case, it's common that people think "Fully Funded" means an Association has the full replacement cost for all components on hand, and they are so wrong. Fully Funded means the association has cash on hand equal to only the much lower *deteriorated fraction* of their Reserve components. To be clear, FL law requires that associations be "Fully Funding" their Reserves, but that term is often misunderstood and homeowners can vote a

lower contribution rate. Please see Will's course on the subject [here](#) which goes into more detail explaining this issue for a FL audience.

Q: What is the Reserve Fund strength/size of most Florida associations?

A: Florida associations are very similar to our national profile, which finds that about 30% are in the weak 0-30% Funded range, about 40% are in the middle 30-70% Funded range, and about 30% are at or above 70% Funded (which means their Reserve Fund is “strong” and they have close to zero chance of special assessments due to Reserve cash flow concerns). See below:



Q: What Funding Calculation method do most Florida associations use? Straight Line or Pooled?

A: We don't track the breakdown, but there is a strong movement away from the Straight Line method of calculating Reserve contributions (officially called Component Method) to the Pooled method (officially called the Cash Flow Method). We recommend the Cash Flow method, because it uses Reserve funds more efficiently, and the Funding Plan can be more easily customized to the needs or Funding Goals of the association. See more [here](#). Remember that both are designed to fund exactly the same expenses. See more on this issue in our Reserve Studies 103 webinar [here](#).

Q: Does your online calculator tool allow for changing the reserve contributions on a year by year basis? e.g. we want to keep assessments flat for two years, then increase them.

A: Yes. While the Funding Plan created by your Association Reserves Project Manager will be “smooth and equitable through the years” to comply with National Reserve Study Standards Funding Principles, one can use our online uPlanIt Reserve calculator to tinker with the Funding Plan and customize it to your heart's content.

Q: Can we access your uPlanIt tool from your website? You recently completed our Reserve Study, so should it be there?

A: Yes. Access to uPlanIt is found on the tab right next to your completed Reserve Study documents. If your Reserve Study was completed in the last year, it should be there, loaded with all the components (and Funding Plan) from your completed Reserve Study. Note that like your Reserve Study, uPlanIt has a “shelf life” and is only active during the budget planning season for which your Reserve Study was prepared. See more [here](#).

Q: Is uPlanIt available to anyone who has done a RS with you?

A: If your Reserve Study was prepared for a prior year, then your components are likely not loaded into uPlanIt, as it is a new tool. And as mentioned above, uPlanIt is designed to enhance the Reserve budgeting process, so it is only active during the budget planning season for which your Reserve Study was prepared.

Q: How can I access uPlanIt as a volunteer board member?

A: Ask your Manager, or the boardmember through whom we prepared your Reserve Study, to add you to the list of users.

Q: As a Manager, can associations who used Association Reserves years ago or my other associations (who use another provider) use uPlanIt?

A: Yes, we offer subscription access for \$149/budget season.

Q: What (roughly) would be the cost for a Full Reserve Study for an association with < 100 Units. And is uPlanIt extra or part of price?

A: While the actual cost varies with type of association, complexity, time of year, size, and location, we’ve noted that a “Full” Reserve Study is typically in the range of 1% of the association’s annual budget. And yes, uPlanIt access is included at no extra charge. Get a no-obligation proposal for your association [here](#).

Q: Could you please provide a rough idea of how much a first time (Full) reserve study would cost for a 25 unit building and a 100 unit building?

A: See above. Get a no-obligation proposal for your association [here](#).

Q: Are there any Special Reserve-related Laws or Rules in Pennsylvania?

A: Please check with a community association attorney in PA.

Q: We have a few Board members that think it is easy to get a loan. Opinion?

A: The classic stereotype is that it’s only easy to get a loan when you have enough money to not need a loan, and that stereotype also applies to associations. There are some banks specializing in lending to community associations, but expect that the application process

will involve a significant amount of paperwork, uncertainty, and fees. It is a very expensive way to fund your Reserve projects, because rather than getting interest from the bank, you are now paying interest to the bank. See more [here](#).

Q: If it's determined that a Roof replacement, for example, can be delayed for a year or two, how do you adjust the Reserve Contributions?

A: That's all done as part of the process of updating the Reserve Study – rebalancing the income against the timing and magnitude of the expenses. Most likely if that is the only change, delaying a large project will result in only a minor reduction in Reserve contributions because the expense is still there, it is just delayed by a year or two.

Q: How do we know if our Reserves are in good shape?

A: Primarily look at your Reserves Percent Funded. Percent Funded reveals if your Reserve Fund is appropriately sized for the current needs of the association. Generally, being at or above 70% Funded means you're in good shape. See more [here](#). Having Adequate Reserves means something slightly different. It means your Reserve Fund and your Reserve Funding Plan are both properly sized. See the definition [here](#). It is also important to know when the next significant reserve expense(s) are likely to occur, and how much time your association has to prepare.

Q: For Clubhouse renovations, are there guidelines about how much can be taken from pooled reserves?

A: Yes. See your Reserve Component List. There should be a budgeted amount there. Use that as your guide. Your Reserve contributions were sized based on that projected expense, so it is best to aim for that amount.

Q: During the Association Reserves “60-day revision period”, how many times can revisions be made?

A: You can ask for a revision as many times as you feel are necessary. The first revision is free. After that first revision, you're charged our standard hourly rate for subsequent revisions.

Q: We have a reserve study done by a different reserve study company. However, from my brief experience on the Board (2 years), it seems like the estimated cost of replacement is usually underestimated. How do we fix this?

A: Use a different reserve study company! Either that or have a “heart to heart” discussion with your Reserve Study provider, advising them that your association's cost experience is different/higher than their estimates, and that they may need to make some adjustments in their cost expectations to more closely match your actual experience. Before you have that talk, see if you can determine if your project incurred any additional expense that wasn't anticipated (e.g. hidden damage, upgraded specifications, local code enhancement, emergency markup, etc.), which might explain the overage.

Q: Do you recommend having two parts to the annual fees- one for Operating Costs and one for Reserve Contribution? We currently do it as one budget showing a line item for Contribution to Reserves. Then the overall Fee increase is calculated based on the combined total.

A: Keep it simple. Best practice is to have one homeowner assessment, as you describe. For a condo, let's say that's \$350/month. Of that, some goes to the Operating Fund (\$300) and some goes to the Reserve Fund (\$50). Any increase would be the amount above the total (\$350).

Q: Is it typical to request changes to the Reserve Study to change useful life or revise scheduled projects based on review of Study?

A: Our most common revision request has to do with the starting Reserve balance, but it is not uncommon for the client to request changes to the timing or cost of their Reserve Components. If there is new information since the study was issued, or the requested change can be substantiated through an authoritative source, we will certainly consider it. Remember however, it is our logo on the cover and our professional reputation on the line, so while we will *consider* all revision requests, not all will be honored.

Q: Does a Reserve Study ever call for a Professional Engineering Study?

A: The two are complementary. A Reserve Study is a budget and disclosure preparation tool. An engineering study is often a good idea to inspect for things like significant age-related infrastructure deterioration, understand hidden aspects (e.g. think inside of pipes or balcony structures, sub-surface soil conditions, etc..), or for the formulation of project specific condition assessment and scope documents. A Reserve Study doesn't do intrusive or destructive testing, which is called for to help a building age gracefully. See CAI's recent "Aging Infrastructure" research report encouraging the combined use of both Reserve Studies and Architectural/Engineering studies [here](#).

Appendix 1: Sample Reserve Policy

Reserve Policy For XYZ Homeowners Association

Provided as a courtesy by Association Reserves.

Please customize as appropriate and review with appropriate legal and accounting professional counsel

Per the Governing Documents, it shall be the responsibility of the Board of Trustees of the XYZ Homeowners Association to determine the repair and replacement risk of the assets owned and maintained by the association. As required by our Governing Documents, it shall be the Board's responsibility to create and maintain adequate reserves to provide for the orderly repair and replacement of the common areas so as to minimize the risk to the membership of special assessments, deferred maintenance, or unfunded losses.

In recognition of this responsibility, to make informed decisions for the upcoming Fiscal Year the Board commissioned a With-Site-Visit Update Reserve Study which was completed on XX/YY/ZZ. The Reserve Study determined the Percent Funded of the existing reserve account (a measure of Reserve Fund strength, where 100% means our Reserve cash equals the amount of deterioration of the common area assets), established a schedule of anticipated repair and replacement projects, and recommended a Reserve contribution rate.

It shall therefore be the policy of the XYZ Homeowners Association to:

1. Maintain the Reserve Fund at or above ___% of the Fully-Funded Balance. Should unforeseen circumstances result in a Reserve Fund balance falling below __%, the Board of Trustees will bring the fund balance back to ___% within five years. The Board of Trustees feel that this level of Reserve funding reasonably protects the association members from the risk of special assessment and deferred maintenance.
2. Contribute \$_____ to the Reserve Fund for Fiscal _____. We expect that in future years, due to inflationary factors, the Reserve contributions will likely need to be adjusted higher. Future annual contributions to the fund will normally be the amount necessary to maintain our Reserve Fund at or above the above stated target Percent Funded.
3. Authorize expenditures from Reserve Fund for:
 - a. Projects or purchases pre-approved in the annual budget;
 - b. Projects or purchases anticipated in the Reserve Study;

- c. Repairs or replacements not exceeding \$_____ determined to be of an emergency nature by the Manager, with the concurrence of at least one Board of Trustee. The Board of Trustees shall be notified in writing in a timely manner when such expenditure is required.
- d. Other expenditures approved by a majority of the Board of Trustees. Funds may be authorized for the repair or replacement of the items listed in the reserve study, but not for major enhancements or capital improvements.
4. Maintain Reserve Funds in a general fund managed as indicated in Appendix 2, "Reserve Fund Investment Policy".
5. Require on-site Reserve Study updates by independent, credentialed Reserve Study professionals every three years, or more frequently when determined necessary by the Board of Trustees. Interim year updates will be accomplished in-house using available resources or commercial software, or through a No-Site-Visit Update prepared by an independent, credentialed Reserve Study professional.

Capital Improvements

The Finance Committee does not intend to create a separate capital improvement fund at this time. It is felt that until the Board has presented the membership with, and received, an approved building improvement plan acceptable to members, it is unnecessary at this time to create a separate capital fund for indeterminate future projects.

Loans From Reserves

1. Reserve funds can be used to meet short-term cash flow needs. (For example, the Association has frequently paid its annual property insurance in a single lump sum in the first quarter of each year with reserve funds, and then paid back to the reserve fund as soon as funds were available.)
2. Since borrowing from reserves means the monies may not be available for the purposes they were originally collected, the Association must follow certain formalities to this end. The expectation will be that the funds be repaid within 12 months of transfer from reserves, and the Board must provide notice of a meeting to the members advising them of the intent to consider a transfer out of reserves. The notice must state (1) why the transfer is needed, (2) possible options for repayment, and (3) whether a special assessment may be considered to repay the amount transferred out of reserves.
3. Lastly, any proposed transfer must be discussed and approved during the open session of any properly noticed meeting. These requirements are designed not only to give members notice of the potential transfer out of reserves, but to offer them the opportunity to hear the discussion explaining why such a transfer may be necessary, as well as an opportunity to address the Board and state any concerns they may have over such a transfer.

This policy will be reviewed annually by the Board of Trustees following the Annual Meeting and Election of Officers.

Policy Approved by Board at meeting on _____

President's Signature _____

Date: _____

Secretary's Signature _____

Date: _____

Appendix 2: Sample Reserve Investment Policy

Reserve Investment Policy For XYZ Homeowners Association

For Fiscal Year 20XX

Provided as a courtesy by Association Reserves.

Please customize as appropriate and review with appropriate legal and accounting professional counsel

Investment of Reserves

The Board of Directors of the Association shall invest funds held in the Reserve accounts to generate revenue that will accrue to the Reserve Fund accounts balance pursuant to the following goals, criteria, and policies, listed in order of importance:

- a) Safety of Principal. Promote and ensure the preservation of the Reserve Fund's principal.
- b) Liquidity and Accessibility. Structure maturities to ensure availability of assets for projected or unexpected expenditures.
- c) Minimal Costs. Investment costs (redemption fees, commissions, and other transactional costs) should be minimized.
- d) Diversity. Mitigate the effects of interest rate volatility upon Reserve assets
- e) Return. Funds should be invested to seek the highest level of return.

Limitation on Investments

Unless otherwise approved by the Board, all investments will be: FDIC (Federal Deposit Insurance Corporation) insured, and/or Guaranteed by the United States Government.

Investment Strategy

The investment strategy of the Association should emphasize a long-term outlook by diversifying the maturity dates of fixed-income instruments within the portfolio utilizing a laddered investment approach. This will be done after referencing the Reserve Study to ensure anticipated liquidity needs of the association are met.

Independent Professional Investment Assistance

The Board of Directors of the Association may hire a qualified investment counselor to assist in formulating a specific investment strategy. We believe the threshold for hiring a

qualified investment counselor becomes significant when our Reserve Fund balance exceeds \$500,000.

Review and Control

The Board shall review Reserve Fund investments periodically to ensure that the funds are receiving competitive yields and shall make prudent adjustments as needed.

Policy Approved by Board at meeting on _____

President's Signature _____ Date: _____

Secretary's Signature _____ Date: _____

Treasurer's Signature _____ Date: _____