



Reserve Study Insights - for Industry Professionals!™

by Robert M. Nordlund, PE, RS

www.ReserveStudy.com

Nov 11, 2020

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

Do you know that Reserve Studies are as helpful to accounting, banking, insurance, legal, and financial professionals as they are to Boardmembers and Managers? In this webinar Robert explains how to leverage the information in a Reserve Study to serve your client associations more effectively, and how those efforts lead Associations towards an improved future. In this webinar we address insights on the following topics:

1. Engineering Studies and Reserve Studies. What's the difference?
2. Architects & Engineers vs. Construction Specialist vs. Consultants
3. What does a Reserve Study include (or exclude) and why?
4. When should Reserve Studies be done?
5. How do Reserve Studies serve different purposes for different professionals?

The “meat of the program” is the last section, where we explain the important uses of a Reserve Study by different professionals. This program was developed to help all the professionals serving an association to be “on the same page”, encouraging boards to operate in a fiscally responsible manner. And that’s exactly the activity that lowers the risk of special assessments, lowers net expenditures, lowers board liability exposure, and increases home values!

Remember - you’re never on your own. [Association Reserves](http://www.AssociationReserves.com) is here to guide board members and the industry professionals supporting those boards towards an improved future with carefully prepared Reserve Studies and wise counsel throughout the year!



Attendee Questions

- Q: **If a community can't afford a full reserve study, is there a different alternative?**
- A: I would suggest, and I believe other industry professionals would agree, that regular Reserve Study updates are part of the cost of responsibly running and administering a community association. Your budget should support such a cost. A Full Reserve Study (the most expensive Reserve Study level of service) is only done once at most associations. After that, associations are faced with regular Reserve Study update costs, which are significantly less expensive. Cost-effective (under \$500) [online software](#) and "[Do-It-Yourself](#)" options are available on the market.
- Q: **Why is the "fully funded" level of reserves different between pooling and the component method? What percentage of AR's clients use pooling vs components? What percentage of your condo clients are "fully funded" using pooling vs using the component method?**
- A: It's not. [Fully Funded](#) is a condition of the Reserve Fund [balance](#) and is not affected by which calculation method is used to calculate reserve [contributions](#). Our Reserve Studies are prepared using the Cash Flow (pooling) method by default, since that is most advantageous to our clients, as explained [here](#). Approximately 30% of all our clients are well funded (above 70% Funded). See more [here](#).
- Q: **We have a 100 home roof replacement job. The roofs have tricky pitches that are causing drainage problems. Should this be addressed by an Architect/Engineer before construction?**
- A: Yes, and this should have been considered by the Reserve Study professional in establishing an appropriate cost expectation for the project. It sounds like the association would be well served to have a roofing consultant involved in your re-roofing project.
- Q: **We recently hired a company to prepare a Reserve Study for our association. What is the different between reserve study and hiring a consultant for the roof? Will the reserve study be able to tell us where we can take money from to cover the cost of a new roof?**
- A: This questions sounds related to the one above. The Reserve Study sets the expectation for upcoming projects, evaluates the available cash balance, and develops a Funding Plan assuring projects can be accomplished in a timely manner. This is an annual budgeting process. A roofing consultant is needed in advance of the roofing project, not annually. And yes, the Reserve Study should show that the funds

are available (a combination of available cash and ongoing contributions) to perform the roofing project – and all other Reserve projects!

Q: What is the procedure for eliminating traditional reserved funded assets, e.g., front door handles and locks, from a reserve asset list? Our HOA previously bought/installed door knobs/locks but owners are now having customized WiFi supported locking and security systems installed using personal funds. I want our asset list to reflect actual home trends.

A: This should be handled by your Reserve Study professional. National Reserve Study Standards (NRSS) dictate which projects can and should be funded through Reserves. Updating your Reserve Study according to NRSS should ensure that all the right projects are “in” and all the wrong projects are “out”. Updating your Reserve Study on a regular basis assures the association that trends are address and incorporated into the long term plan to maintain all the major assets of the association.

Q: If we set aside funds for replacements from the yearly budget- is the amounts deposited per category and being left in an account or by the end of the year if not used it goes back as a surplus by the end of the year?

A: In the recommended Cash Flow method, there are no “categories” (another tremendous advantage of the Cash Flow method). So the monthly Reserve contribution simply goes to the Reserve Fund without being subdivided into many categories. If the association is unfortunately still using the Component method (also called “straight line”), it is common for funds in all the various categories to be “re-allocated” at the end of each year. That is effectively what the Cash Flow method does automatically.

Q: Is there a certain association income that we must use to determine a budget etc?

A: Yes – income sufficient to offset expenses. You are a not-for profit association, so budget to offset your anticipated expenses, with an allowance for “normal” surprises and owner delinquencies.

Q: What is state law (if at all) regarding to Reserve Study requirements?

A: State Law with respect to Reserves varies across the country. Approximately 25 states have no Reserve Study laws. The others control Reserve Study timing (done for budget purposes or prospective buyer purchase disclosure requirements), interval between Reserve Study updates, type of Reserve Study required, a short list of projects that must appear on the Reserve Study, guidance for size/cost of projects

appearing in the Reserve Study, etc. Speak with your local community association attorney for guidance for your association.

Q: Assume an Association had a Reserve Study performed in 2019. There have been no annual updates to that Reserve Study. The projected full funding amount from the 2019 Reserve Study is being used as the full funding amount for 2021. The estimated 1/1/21 reserve balance is \$650,000 less than the 1/1/21 projected amount shown in our 2019 Reserve Study. The Board has not adjusted the replacement cost or interest rate on reserve earnings. What should we do? Is this considered “Fully Funding”?

A: To answer your questions you need an updated Reserve Study. You can't responsibly be making significant financial decisions or getting answers to budget questions using dated information, where the projected Reserve balance is far from the actual Reserve balance.

Q: We hear most Reserve Study professionals use “industry standard” cost estimates, adjusted for inflation. But what assurance do we have that those cost estimates accurately reflect “in town” actual contractor pricing?

A: Reserve Studies are to be built on the foundation of accurate pricing. Some Reserve Study professionals use “industry standard” cost estimating tools, adjusted by zipcode. Association Reserves has enough client density that we are able to use the *actual cost experience* of local associations, of the same type, in our Reserve Studies. If you were to wonder, “industry standard” pricing is usually pretty good. It is far better than associations that do no Reserve planning or dismiss Reserve planning as irrelevant.

Q: How often should reserve studies be updated?

A: Annually. Reserve contributions are typically 15-40% of an association's total budget. Any line item that large should be reviewed and updated annually. In addition, the assumptions in the Reserve Study (component condition, cost estimates, interest and inflation, and actual balance) are in a constant state of change. So update your Reserve Study annually. Among our clients, special assessments are measurably lower among associations who update their Reserve Study annually, because they are dealing with fresh information, not outdated information.

- Q: You recommend yearly for a reserve study update, but our pattern is to update ours every two or three years. Is that a problem?**
- A: Updating annually is best. The information on which a Reserve plan is based changes throughout the course of the year. Updating every two or three years is better than waiting five years, but for an expense that large (Reserve contributions) and with so much in a state of change, annually is best. Special assessment frequency confirms that recommendation.
- Q: We need a new electrical panel, but will not do it for several years. Should we expect to pay vendors for estimates since we don't want to waste their time for a "future" project?**
- A: That a drawback of “doing it yourself”. Yes, getting cost estimates for your association may require some costs to pay a service provider for the time it takes to prepare an estimate for your association. It is typical that your Reserve Study professional would have a network of service providers at their disposal and the ability to reference a body of experience such that vendor payments are not necessary.
- Q: What is the minimum for percent funded to be acceptable?**
- A: As shown in this article, special assessments begin to become “common” when the Percent Funded drops below 30%. Special assessments are the hallmark of poor financial planning, exposing the owners to infrequent “surprises” and forcing owners at the time of an expense to pay for assets that were often mostly “used up” by their predecessors.
- Q: Are underground piping for sewer and water gaining new importance? Are they being considered?**
- A: All major common area assets are importance. When they pass the National Reserve Study Standard four-part test, they are included in a Reserve Study. See more [here](#).
- Q: How do you determine inflation rate and does it vary by location and trade (ex: roofing)?**
- A: Since a wide variety of projects are included in a Reserve Study, a trade-neutral inflation rate is most appropriate. Most Reserve Study professionals use a back-ward looking (multi-decade) average. So you'll typically see Reserve Study professionals using an inflation rate in the 2.5 – 3% range.

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

A: The cost is influenced by size of the association, type of association, the complexity of their assets, their location, their Fiscal Year End, etc. But the bottom line is that a “Full” Reserve Study is commonly available for something in the range of 1% of the association’s annual budget. Update Reserve Studies are significantly less expensive. Please click [here](#) to get a no-cost proposal for your association.

Q: Can you estimate the cost of a study for our HOA that supports five units?

A: See above. A five-unit association doesn’t fit the definition of “normal”, as economies of scale begin to fail once the association drops below 20 or 30 units. Please click [here](#) to get a no-cost proposal for your association.

Q: If our HOA switched to your firm, do you require a Full reserve study to be done by your firm vs. an updated reserve study, even though we update yearly through our current reserve study firm and we just completed in 2020 the onsite 3rd year visit?

A: If your current firm prepares their Reserve Studies according to National Reserve Study Standards (meaning all the quantities and disclosures are in the Reserve Study, and there is a basic assurance of credibility), then no, we don’t require a new “Full” Reserve Study. We can perform an update to their work. It would be our pleasure to add your association to the long list of satisfied members of the Association Reserves family of clients. Besides... you can’t get [uPlanIt](#) from any other firm!

Q: I just saw a 30-year plan in your presentation, but I also heard you were not guessing 30 years out. Could you reconcile those two?

A: Good question. We make observations and projections based on the present situation. We have every expectation that those observations and projections will be refined and updated *many, many times* before 2050.

Q: What are the pros and cons of your [DIY Reserve Study Kit](#)?

A: Pro – it is inexpensive (\$349), allows you to control the Component List (see it your way), and the turnaround is quick (one week). Like everything in life, the pros often look just like the cons. Because it is inexpensive, we don’t offer any professional insights into the Component List (which forms the foundation for the Reserve Study). You may get an inexpensive and quick Reserve Study, but it may be off-base. It can be a great product for associations who have had a recent, professional

prepared Reserve Study as a way to cost-effectively update their Reserve Study for the coming year.

Q: As part of our annual budget approval process, the amount of income to be transferred to the Reserve Funds is disclosed. However, no place in the process are our planned expenditures from the Reserve Fund spelled out. Shouldn't it be disclosed as part of this same process?

A: No. Expenditures from Reserves are not part of the monthly budget, they are part of the annual planning done within the Reserve Study, managing the Reserve Fund. Reserve income comes from regular (monthly) transfers of funds to Reserves, and thus is shown in the monthly budget. Projected expenditures from the Reserve Study are found in the Reserve Study, which is a separate document.

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... a webinar brought to you by

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Help Boards use their Reserve Study well
 • They achieve an *improved future*

Help Industry Professionals have Success
 • Serve best interests of clients
 • Successful Clients
 • Successful Clients are great referrals!

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Insights for Industry Professionals

Engineering Studies vs Reserve Studies?

Architects, Engineers, Construction...

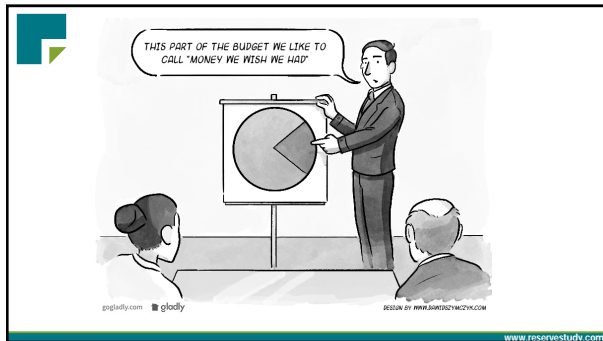
What does a Reserve Study include?

When are Reserve Studies done?

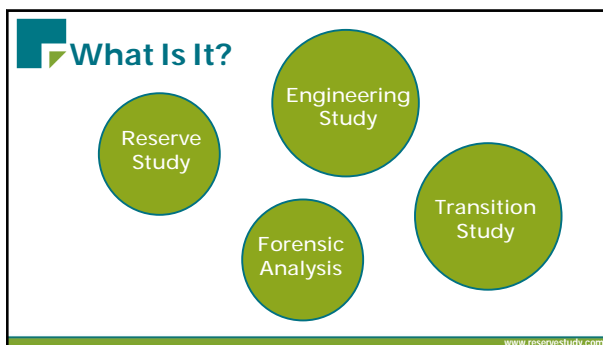
Different purposes for each Professional

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What Is It?

Reserve Study:

- Budget and Disclosure Document - annually

Architectural/Engineering Evaluation

- Structural or Envelope Evaluation (older buildings?) - periodically

Forensic Evaluation


- Destructive Investigation – Inspecting for Potential Problems – as needed

Transition Study

- Construction Completeness and Codes - once

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What Is It (Not)?

- A bunch of guesses about things far in the future**
 - It is: Observations and compiled info about predictable property deterioration and finances, updated on a regular basis (annually)
- Just someone's opinion**
 - It is: A profession – guided by National Reserve Study Standards (since 1998)
- Waste of time/money**
 - It is: The key to the association's future, with the ability to predict or avoid special assessments.

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Insights for Industry Professionals

- Engineering Studies vs Reserve Studies?
- Architects, Engineers, Construction...
- What does a Reserve Study include?
- When are Reserve Studies done?
- Different purposes for each Professional


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Who Does It?

- Engineer?
- Architect?
- Accountant?
- Contractor?
- Management?
- Consultant?




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Who Does It?

Remember what it is...

a Budget and Disclosure Document




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Who Does It?

Remember what it is...

a Budget and Disclosure Document
(requires property evaluation and cost estimating skills)



Accountant or Bookkeeper


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Who Does It?

Remember what it is...

a Budget and Disclosure Document
(requires time, skills, and independence)



Manager


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Who Does It?

Remember what it is...

a Budget and Disclosure Document
(requires analytical and report-writing skills, and independence)



Contractor


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Who Does It?

Remember what it is...

a Budget and Disclosure Document
(requires investigations and financial analysis)



Home Inspector


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Who Does It?

Remember what it is...

a Budget and Disclosure Document
(no deep depth of expertise)



Engineer or Architect

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Who Does It?

Remember what it is...

a Budget and Disclosure Document

Unique combination of observation, analytical, and report-writing skills



Reserve Analyst

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Insights for Industry Professionals

Engineering Studies vs Reserve Studies?

Architects, Engineers, Construction...

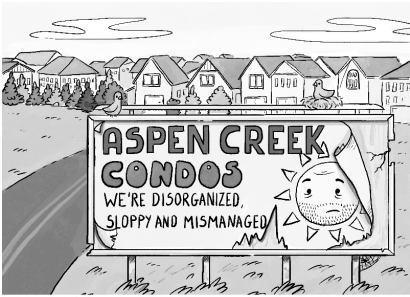
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Different purposes for each Professional

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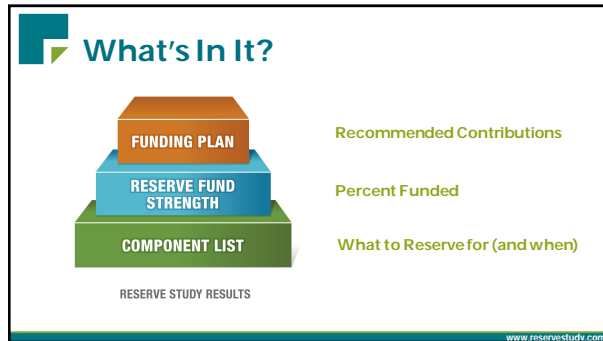


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Reserve Component List

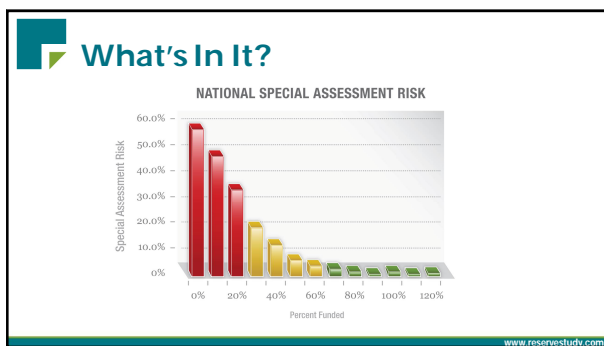
Description	UL	RUL	Cost
Pool Furniture - Replace	5	0	\$4,600
Pool - Resurface	10	5	\$10,000
Roof - Replace	20	18	\$80,000
Asphalt - Seal	5	2	\$5,000
Asphalt - Resurface	20	2	\$25,000
Building - Repaint	10	1	\$50,000
Elevator - Modernize	20	5	\$80,000
Hallways - Refurbish	8	6	\$24,000

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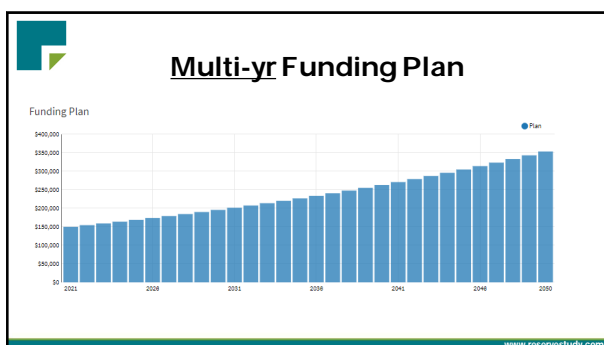
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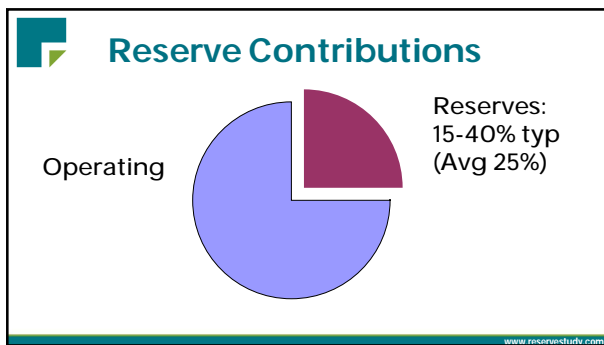
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What's In It?

Executive Summary

All three results:

1. Component List
2. Percent Funded
3. Recommended Contributions

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30-yr Summary

Reserve Fund Strength Calculations (All values of Fiscal Year Start Date)

Year	Starting Balance	Fully Funded	Percent Funded	Special Assessments	Reserve Corridor	Low/Low	Internal Income	Reserve Expenses
2021	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2022	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2023	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2024	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2025	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2026	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2027	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2028	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2029	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2030	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2031	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2032	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2033	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2034	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2035	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2036	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2037	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2038	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2039	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2040	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2041	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2042	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2043	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2044	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2045	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2046	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2047	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2048	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2049	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100
2050	\$1,116,100	\$2,880,000	38.8%	High	\$21,480	\$0	\$1,116,100	\$1,116,100

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Photo Inventory

General Overview Area

Photo 1: Paved Area with Yellow Curb

Photo 2: Paved Area with Yellow Curb

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Insights for Industry Professionals

Engineering Studies vs Reserve Studies?

Architects, Engineers, Construction...

What does a Reserve Study include?

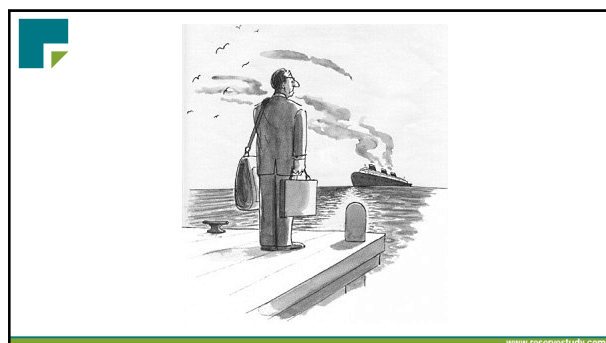
When are Reserve Studies done?

Different purposes for each Professional




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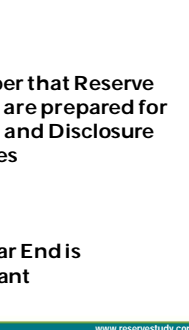
When are Reserve Studies Done?



Remember that Reserve Studies are prepared for Budget and Disclosure purposes

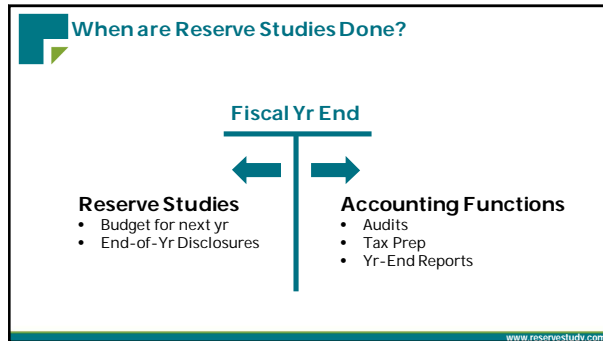
So...

Fiscal Year End is significant

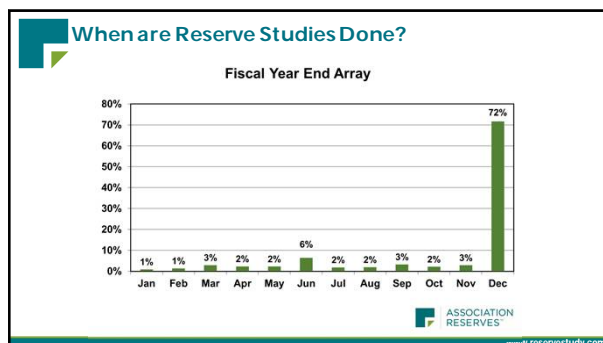


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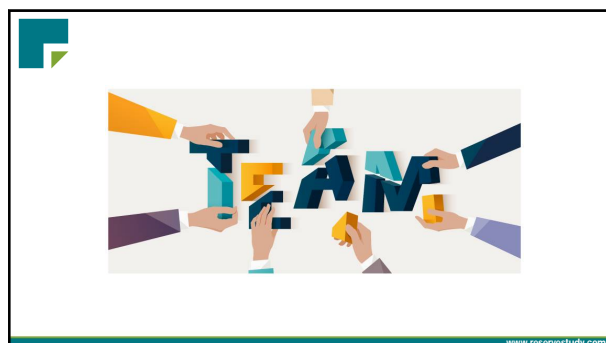
Different purposes for each Professional

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Different Purposes

Attorney -

- What is adequacy (required by Gov Docs)?
- Gov Doc revision
- Which components belong?
- Duty of Inquiry – how much contributions are needed?
- State Disclosure requirements

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"Now that we've updated our Reserve Study and fulfilled our legal obligation, we can get on to other business."

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Different Purposes

Insurance - Master Policy

- Confirm scope of common areas
- Interesting intersection between Reserve perils and Insured losses (deductibles, Reserve balance)
- Note repair & replacement not equal to rebuild

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Different Purposes

Insurance - D&O


- Has the board demonstrated "Duty of Inquiry"?
- What are the funding requirements in their state?
- What are the funding requirements found in their Governing Documents?
- Are boards operating willfully and recklessly – or making informed decisions based on independent expertise?

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Different Purposes




Tax Planning


- Reserve income
- Reserve Balance
- Component Balances & Contributions (for 1120 forms)

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Different Purposes




Investment Planning –


- What is the Reserve Balance (over \$250k or \$500k)?
- When are the expected projects (for laddering decisions)

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Different Purposes




Loans to Associations –

- What are upcoming expenses?
- Does the association have the cash flow to repay the loan and perform required projects?

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Different Purposes


Recommendations:

- Ask for a copy
- Review it.
- Encourage/counsel/scold the board!
- Keep them on-track!
- Don't make component recommendations
- Don't say Reserve contributions are "for the future"
- Don't allow them to go years without updating




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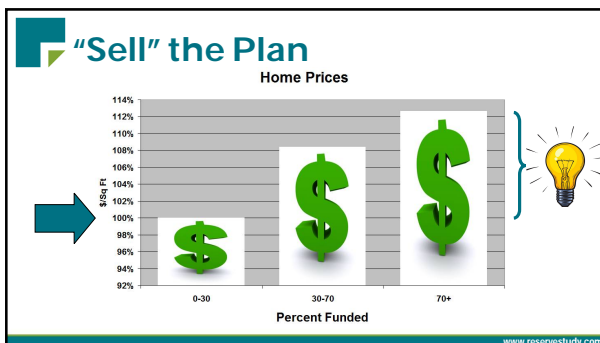
"Sell" the Plan



gagadilly.com/comics | gladly | designed by David Symczyk

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"Sell" the Plan

Using the Reserve Study leads to...

- No Special Assessments
- Minimized Expenses
- Maximized Property Values
- Minimized Board Liability



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"Let us decide on the route that we wish to take to pass our life, and attempt to sow that route with flowers." - Emilie du Châtelet

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Leveraging Influence – Serving our Clients Best



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Additional Resources at
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