



WHAT MAKES MY PERCENT FUNDED CHANGE?



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If we make a reserve expenditure “on schedule” (i.e., according to our Reserve Study), why does our Reserve Fund Strength (Percent Funded) drop? That’s a great question because it illustrates the difference between the calculation of Reserve Fund strength and paying for reserve expenses.

To be clear, when an Association is 100% Funded, the Reserve Fund strength does not change when you spend the budgeted amount for a scheduled (Remaining Useful Life = 0 years) Reserve project. This is because the amount set aside in reserves exactly matches the planned expenditure at that point in time.

But let’s suppose an Association is 60% Funded. This is not unusual, since most associations are in the 30% – 70% range. This means the Association doesn’t have as much Reserve funds as they have Reserve deterioration. In fact, they only have 60% as many reserves as they have Reserve deterioration. So let’s say the Association replaces the roof, on schedule. They must pay 100% of the roof cost (not 60%). Where does the missing 40% (the difference between 100% of the cost and 60% funded calculation) come from? The answer is that the extra funds come from the already under-funded Reserve Fund.

Of course, if the Association repaired only 60% of the roof (i.e., spending only 60% of what the entire roof was expected to cost) the strength of the Association’s Reserve Fund would remain unchanged at 60% Funded. But because the Association spent the full budgeted amount to replace the entire roof “on schedule”, there is an effective drop in the overall strength of the Reserve Fund.

Fortunately, for the majority of Associations with a % Funded less than the 100% (ideal) level, these fluctuations are all considered in the Reserve Funding Plan laid out in the Reserve Study. So while the Association’s Percent Funded may take a 5% or 10% drop the year a large expenditure occurs, it can quickly rebound the year or two after the expenditure is made. This is

because that expenditure is now in the past and the budgeted contributions serve to rebuild the strength of the Reserve Fund.

There are a few additional factors that specifically cause the percent funded to change:

Adding Components: When components are added to the reserve component list, there are more items to pay for, and therefore, this causes the Percent Funded to fall.

A Change in the Starting Balance: The Percent Funded measures the strength of the Reserve Fund, typically at the beginning of each fiscal year, which means the Percent Funded changes as the Reserve Balance and Fully Funded Balance fluctuate.

Your Specific Reserve Funding Plan: The Percent Funded can rise and fall over the years based on the Association's Reserve Funding Plan. The Funding Plan will directly influence if the Percent Funded increases, drops, or remains the same in future years.

A drop in the Association's Current Reserve Fund Strength (as measured by % Funded) due to a budgeted expenditure can be an indication of trouble or only a temporary setback. For a financially stable Association with a well-conceived Funding Plan, there is nothing to worry about!