ASSOCIATION RESERVES™
Planning For The Inevitable™

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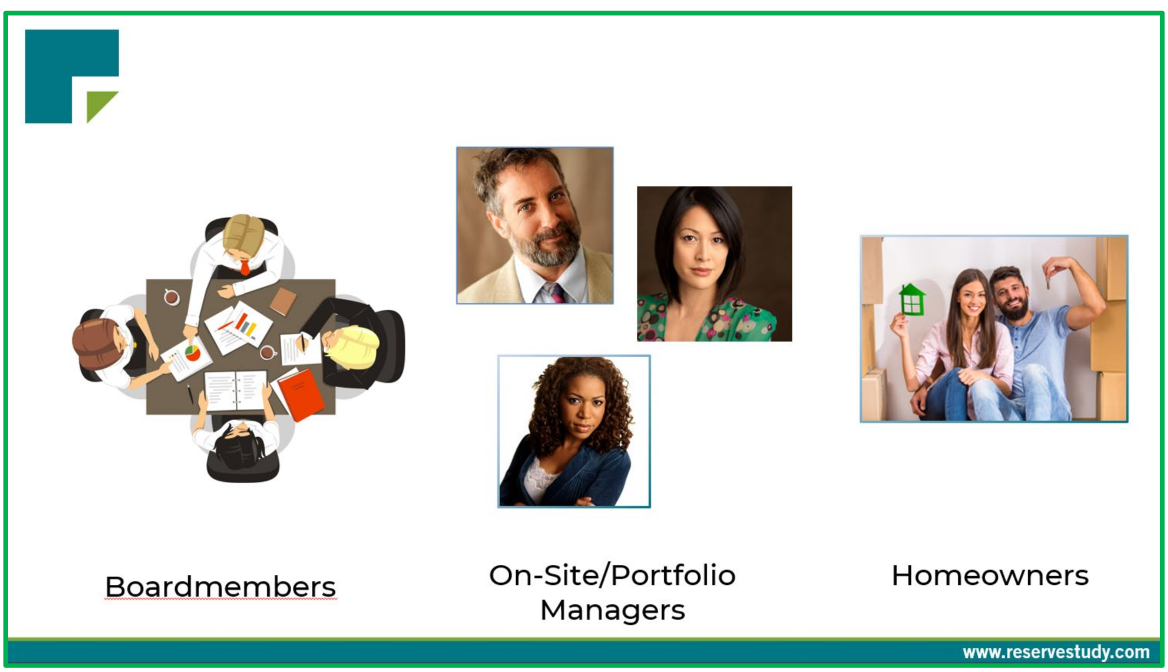
Reserve Study Basics For 2022

Robert M. Nordlund, PE, RS www.reservestudy.com

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

See all of our other available recorded webinars (on related or more advanced topics) [here](#).

We want your association to age safely and successfully. That's done with a Reserve plan that provides sufficient funds so an association's major predictable repair and replacement projects can get done in a timely manner. Getting right to the meat of the matter, Champlain Towers South did not collapse tragically in June of 2021 due to a poorly prepared Reserve Study. There were 40 years of board decisions, manager counsel, and homeowner votes that contributed significantly to that tragedy. So for Reserve Study Basics – it starts with you.



Boards have the responsibility to set the budget, and managers have the responsibility to coach and counsel the board and be their conscience, helping them fulfill their responsibility to care for the physical and financial assets of the associations. Homeowners have the responsibility to support the board and the association by funding the expenses of the association.

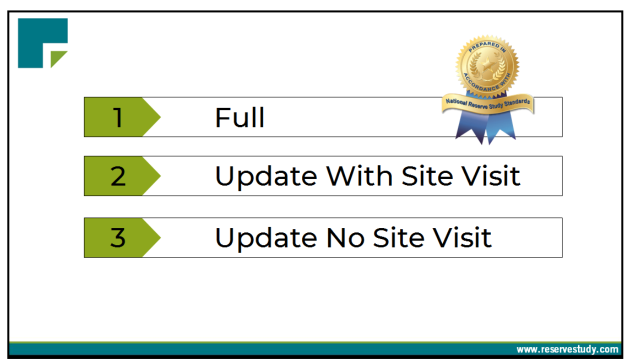
The best Reserve Study will be of no use to an association where the board is short-sighted (with a goal to minimize assessments), where the manager doesn't support industry Best Practices, and where the homeowners regularly vote to veto the budget or render the board powerless. This three-part team needs to work together to protect, maintain, and enhance the common areas of the association, minimizing special assessments and other cash flow problems, and maximizing property values. Then, and only then, does a "good Reserve Study" begin to make a difference. What does this successful backbone look like? Pretty simple, really:

Your association is the product of your choices. A multi-yr research study (see here) on older condominiums concluded that to age safely and successfully, an association needs to do four things:

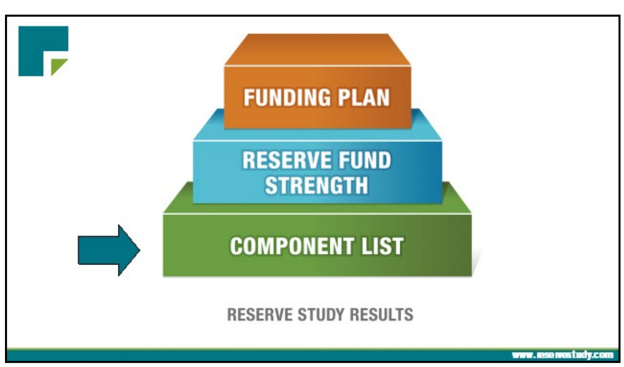
So

What are some other Reserve Study basics?

There are three types of Reserve Studies, designed to provide you just the kind of cost-effective assistance/guidance that is needed. A "Full" when one hasn't ever been done, a "With-Site-Visit" update every few years, and a "No-Site-Visit" update in the in-between years.



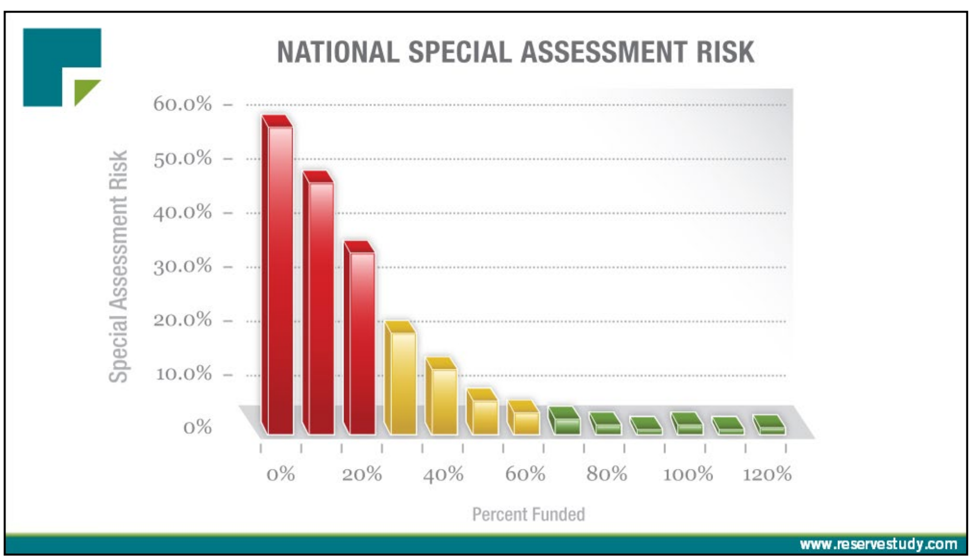
Each of those Reserve Study types contain the same three kinds of information.



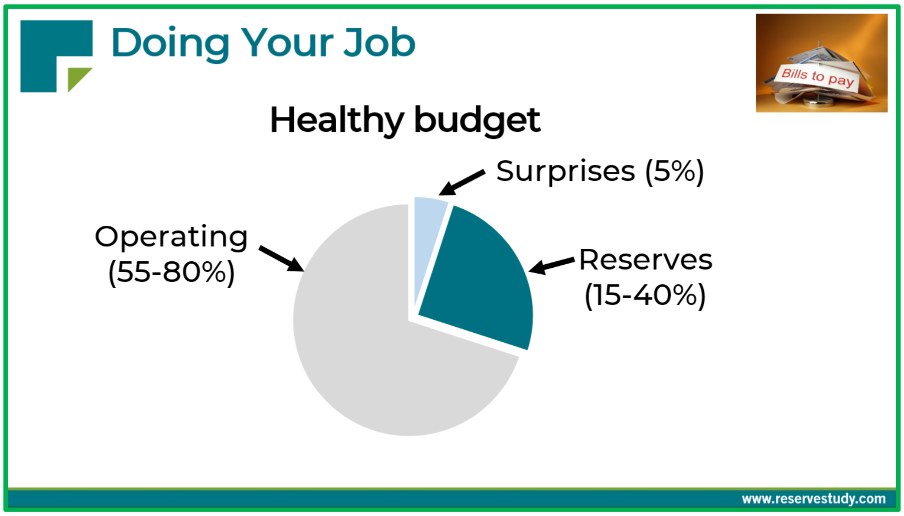
- Funding Plan tells you how much is needed to offset ongoing deterioration and provide for upcoming expenses, so projects can get done *on time*. For more information, see our Reserve Studies 103 webinar on Funding Plans.
- Reserve Fund Strength tells you how well current funds have kept up with component deterioration, measured by Percent Funded. For more information, see our Reserve Studies 102 webinar on financial matters.
- Component List identifies the specific projects to be funded through Reserves, revealing their scope and schedule. Those appropriate for Reserve Funding are defined by the National Reserve Study Standard four-part test shown to the right. For more information, see our Reserve Studies 101 webinar on Reserve Component selection.

RESERVE COMPONENT "FOUR-PART TEST"

Your Percent Funded reveals the consequence of (not!) having enough Reserves on hand. Special assessments are common when Percent Funded is low, in the 0-30% range. An effective Reserve Funding Plan can help your association strengthen its Reserves, getting it above the 70% level where special assessments are rare.



Pursue a healthy budget at your association, where the funds exist to handle true surprises, and everyone is paying their "fair share" through the years to pay Operating expenses and offset ongoing deterioration (Reserves).



But there's never a reason to worry… Association Reserves is here to guide your association through these inevitable expenses, towards a financially sustainable and improved future!

Need our professional assistance? Get a proposal for an updated Reserve Study by clicking here.

ASSOCIATION RESERVES™
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****Note: This course is approved for continuing education credit by:**

- **The Community Association Managers International Certification Board (CAMICB) to fulfill one CE credit for the CMCA® certification, and the State of Florida Department of Business and Professional Regulation for licensed Community Association Managers for one CE credit related to the CAM certification.**

Webinar Questions asked by Attendees

General Reserve Study Questions

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

A: A "Full" Reserve Study is typically around or under 1% of the association's annual budget. A With-Site-Visit Update is about half to ¾ of that "Full" Reserve Study cost, and a No-Site-Visit Update is typically under $1000.

Q: Do you recommend a reserve study to learn how much to budget for reserves funding?

A: Yes, that is one of a Reserve Study's three purposes.

Q: I have seen conflicting reserve reports from different companies. How can we calibrate our reserve allocation on a yearly basis to make sure we are not over-allocating money to reserve accounts?

A: Two thoughts on "differences". Differences may come from a different Component List, so make sure your Component List was prepared according to the National Reserve Study Standards four-part test. Join us for our upcoming Reserve Studies 101 webinar where we address Component List composition. And second, different funding recommendations may come from different methodologies or different amounts of "margin" built into the Funding Plan. The Cash Flow (pooled) Method handles funding more efficiently than the "Straight Line" Method, so that is preferred. And because nothing ever happens exactly according to plan, we recommend building some margin into your Reserve Funding Plan. Join us for our Reserve Studies 103 webinar where we'll address Reserve Funding Plan issues.

Q: What do we do about a reserve study that shows prior boards did not put aside enough reserves?

A: Commit to not making the same mistakes. Do your job and lead the association well, handing it off to the board members who replace you with the association in better shape than you received it.

Q: If you have a prior reserve study with component list, etc. can a new company start with that and do an update with site visit or does a new company typically start from scratch?

A: Different companies have different policies on that matter. At Association Reserves, we're strong advocates for the merits of National Reserve Study Standards (NRSS), so if the prior Reserve Study was prepared by a firm following NRSS, we'll update that report without having to prepare another "Full" Reserve Study (from scratch).

Q: **What if the majority of members don't care? For example, we won't be here in x years and the road repaving is not our problem.**

A: Your job as a board member is to care for the physical and financial assets of the corporation. Do your job. That will minimize your personal liability and maximize home values for all owners (you included). If you fail to do your job, homeowners may be tempted sue you for letting the association fall into physical and financial ruin.

Q: **When I get a reserve study, can I get the "actual cost experience data" that is compiled to generate the study?**

A: Probably not. That is a level of detail hard to get into the Reserve Study. Trust your Reserve Study professional, just like you would trust your doctor. I don't think you regularly expect to get a comparative analysis of the various drugs and treatment protocols they considered for your ailment.

Q: **Is the cost shown in a reserve study the current replacement cost or the projected cost when the life expires?**

A: In the Component List, the Current Cost is just that… the current cost (including permits, delivery, installation, disposal, etc.) to perform the project. In the Funding Plan, the future cost is regularly inflated for accurate Funding Plan development.

Q: **What are the differences between types of reserve studies?**

A: Please see here, they are called "Levels of Service".

Q: **Our reserve study was done in 2017. When should we have another one done?**

A: Industry best practice is to update your Reserve Study based a diligent visual site inspection (an Update With-Site-Visit) at least every third year, with annual updates in-between as appropriate. The Update No-Site-Visit Reserve Study is a good Level of Service for those in-between years.

Q: **How does Association Reserves determine the Reserve Study contribution for the next fiscal year?**

A: In almost all cases, we use the "Cash Flow Method" to craft a custom Funding Plan that provides sufficient cash so anticipated Reserve projects can be accomplished in a timely manner, with some margin for uncertainties (called a "Full Funding" goal).

Q: **Our dues are $295 per month. There is a line on the Reserve Study Executive Summary under recommended funding plan that states "contribution per unit/month" should be $130.70. Does that mean that $130.70 of the $295 should go**

to reserve and the remaining goes towards monthly expenses (leftover to the reserve)?

A: You don't state what your Reserve funding was. The recommendation is $130.70/unit/mo go towards Reserves. Your operating budget goes on top of that.

Q: I am from CA. Our association is a townhouse HOA. How do we know the minimum requirements for a reserve study? Is there an info website you can refer?

A: Search for a Reserve Study professional in your area – someone with the "RS" (Reserve Specialist) or "PRA" (Professional Reserve Analyst) credential behind their name. They'll take good care of you, exceeding minimum standards. That's their job. Please consider an update from Association Reserves – you can get a no-cost proposal here.

Q: I live in a condo with many, many items being reserved for... are you saying that every item should be reserved for using the item, life, remaining life, cost method... for example, a $200,000 item with a 20-year life, 10 years complete, should have $100,000 reserved. Same for all other items too?

A: What you're describing is the Fully Funded Balance. And yes, that calculation should be done for each component, to yield an association total. That amount of total deterioration is what your actual Reserve balance is compared to when evaluating your Reserve fund size (strength). Note that we are not advocating your Reserves be funded based on individual line-by-line funding calculations (aka "Straight Line Method").

Q: To what extent does an association board have a responsibility to double-check the reserve study's projected costs of major repairs and replacements?

A: No more responsibility than you have to double check your attorney's work on a delinquent owner (where you check to make sure the name is spelled correctly and the unit # is correct), or your tax preparer's work. You are not expected to have any specific "trade knowledge".

Q: Can you provide some good questions to ask for when we are getting a reserve study?

A: How about this: Does the preparer carry the RS or PRA credential? Can you show me a sample of your work product? Are you a member of CAI (or another appropriate community association industry trade organization)? Can you provide references, or a list of other Reserve Study client properties in my city? How long has your firm been preparing Reserve Studies, and how many have you prepared? What percentage of your company's revenues come from Reserve Study preparation?

Reserve Component Questions

Q: **How does Association Reserves account for differences in cost for various replacement items (ie: HVAC) by markets in the Reserve Studies? NY vs Oklahoma City as example.**

A: We serve clients in both NYC and Oklahoma City, and our Project Managers in those areas know the local pricing.

Q: **How should we budget for snow removal? So far this year we are at $40,000... Two years ago, the bill was less than $1,000... Other years around $30,000.**

A: Sorry, snow removal is an operational budget item, weather dependent (not a cyclical, predictable Reserve component).

Q: **Where can we find data on need for replacements of key elements (lifespan of a tennis court or a pool for example?) so we can properly allocate funds for future times?**

A: Sounds like you're trying to do it yourself. Consult Google, or construction industry or remodeling industry cost-estimating guidebooks.

Q: **How do you plan for the pipes (water and drain) within the walls that you can't see?**

A: We ask the association for their experience with leaks, we interview the association's plumber to learn their experience with similar buildings in the area and compare to our experience with similar buildings in the area.

Q: **I would like to understand if the percentages for deterioration would be the same when the common assets are only 3 lampposts, a small fence, a small common green area, and cul de sac paving.**

A: Yes. Associations with few common area assets have small budgets, so the percentages for the fraction of budget required to offset ongoing deterioration remains remarkably constant at 15-40%.

Q: **Our HOA has a reserve study that doesn't have any estimated expense for a major component (natural cedar shingles) in our study, beyond 8 years. This doesn't seem like a good reserve study. Am I right?**

A: That is unfortunate. It may be a Reserve Study quality issue (was the provider credentialed?), or perhaps the "siding" was labeled by a different term (exterior building envelope). Hard for me to comment in more detail. It would seem like a major and predictable common area project like siding replacement should appear in your Reserve Component List.

Q: We have 20-year grade asphalt shingles on our roof. A board member wants to have a replacement plan that goes out to 25 years. Is this a good idea?

A: Absolutely. National Reserve Study Standards dictate that your Reserve Study track income and expenses for at least 20 years. A bit longer than that (25 or 30 years) captures all the predictable projects in that time window, helping the association prepare (limiting its exposure to surprises). So a 25 yr plan will nicely help your association prepare for transition through a major roof replacement project in 20 years.

Q: Our AC System is at least 20 years old and uses a refrigerant that is no longer available. Yet our Reserve Study says it has 13 more years of useful life with a replacement cost of $7k. We've spent half of that trying to repair it with no luck. What should we do?

A: Speak to your Reserve Study provider, ask them. It is hard to imagine an AC system operating 20 + 13 = 33 years. Based on what you say, replace it and update your Reserve Study appropriately with a more reasonable Useful Life estimate for your AC system (and using your recent replacement cost as a good benchmark for planning for the next replacement).

Q: Our previous board used reserve funds to have additional parking spaces put in. However, to put in one set of parking spaces, a retaining wall had to be built. The property manager claimed that their legal department reviewed it and said that since it was new, the cost of the retaining wall would come out of operating not reserves. To me, it seems that, because the wall was only needed due to the new parking, the costs to construct it should be part of the cost of the parking spaces (reserves). Thoughts?

A: I tend to support that legal opinion, taking it one step farther. Unless it is a trivial extension of an existing feature (like adding a garbage disposal during a clubhouse kitchen remodel), National Reserve Study Standards dictate that assets that are <u>new</u> to the association should not be funded from Reserves (which are collected and committed to repairing or replacing <u>existing</u> assets). That means my first answer would have been to recommend the new parking spaces be paid from operating too.

Q: Do road repairs go into the reserve plan? If yes, how do you calculate the cost?

A: Remember – it's not your job to prepare the Reserve Study. It's the board's job to get one done, so the board can make informed budget decisions. Most Reserve Study providers will include asphalt road repairs with two projects: resurfacing (on a long cycle, like 20 years), and sealing (on a short cycle, like 5 years). The cost is known by your Reserve Study professional from their cost estimating experience and the regular occurrence of these projects among their clients. If you have roads, they are expensive, so it's probably best you hire a professional who knows what they're doing and can point your association in the right direction for ongoing maintenance and repair of this critical association component.

Q: **Our Reserve Study showed the vehicles would last 30 years. Is there a reason why we would expect a vehicle to last that long?**

A: No. Typical vehicle Useful Lives are in the range of 5-12 years, depending on the type of vehicle and how they're used.

Q: **If your community has 8 buildings and you are stating the roof only in sq footage in the reserve study… Is this per building or entire roof square footage? How do you decide which roof to do first? It is my understanding all our roofs are 1 year apart for reroofing**

A: Talk to you Reserve Study professional, ask or clarification how they modeled, and what they recommend. That should bring clarity to your situation.

Reserve Funding Questions

Q: **Our last on-site reserve study update was in May 2019, followed by 2 years of "No-Site-Visit Updates" via phone & email. The BOD I'm working with REFUSES to increase monthly assessments, so we are now considering a $200,000 loan. We need rain gutters, wood fascia and major floor (common area) re-painting. Is getting a loan the best way or do special assessment?**

A: A loan is an expensive alternative to a special assessment. There are significant pros and cons to each. Encourage the board to begin adequately funding Reserves now to avoid a similar problem in the future.

Q: **Would it be a good practice to increase assessments every year?**

A: Absolutely. We live in an inflationary economic environment, and when cost go up, income (to the association) needs to go up.

Q: **If an association is "Fully Funded", is a special assessment is still possible (since not everything may appear in the Component List, and it's challenging to reallocate money from the reserve fund to operating budget for non-forecasted items to be repaired/replaced)? Or what's the best way to cushion the reserve funds and reallocate the money for surprise repairs that aren't on the reserve budget?**

A: Yes, special assessments are always possible. Surprises will always occur (a major insurable loss that leaves a large deductible to cover, etc.). But the best way to insulate your association from the risk of a special assessment is have a thorough Component List (based on National Reserve Study Standards) and a Funding Plan with a goal to be

"Fully Funded". Couple that with managing your Reserves with the Cash Flow (pooling) method, which means your Reserve funds are not tied to a specific project. That's a strong combination, where you've done your level best to budget for all predictable upcoming expenses, leaving your association's exposure to special assessment exposure to truly rare emergencies.

Q: Our association once was 127% Funded, but investments and funding has decreased so that our reserve fund strength has been dropping. We are still above 100% Funded. Will we need to add net more money to the reserve fund?

A: No. A 100% (Fully Funded) target is good. Most associations approach 100% Funded from below, you are approaching it from above. Keep your approach gradual and smooth, so you don't overshoot and fall below 100% Funded.

Q: What is a better methodology for calculating Reserve Funding: Straight Line (Component) Method or Pooled (Cash Flow) Method?

A: Easy. The Cash Flow Method uses your precious Reserve cash more effectively and efficiently, smoothing out you Reserve Funding Plan. See more in our upcoming Reserve Studies 103 (Funding Plan) webinar on May 11, or watch last year's presentation here on YouTube.

Q: What is the recommended percent of reserves to be funded?

A: That is a risk management decision every board needs to make. Our recommendation is to set a goal to be 100% Funded (Fully Funded), because statistics show special assessments become very rare once the association is above 70% Funded. On the other hand, special assessments are very common among associations in the 0-30% Funded range. In our opinion, the few extra $ required to pursue Full Funding is well worth it.

Q: We typically would like to be in the 75% funded realm. Is that considered a healthy HOA?

A: See above. Associations at or above the 70% Funded level are considered to have a "strong" Reserve Fund. But keep pursuing the Bulls Eye (100%) … you don't want your association to be just marginally "strong" in a field that is based on estimating.

Q: Is it ever a good idea to make a special assessment to fund the reserve?

A: When you need cash now to avoid deferred maintenance and provide the funds to help your association age safely and successfully, yes, it's a good idea to have a special assessment. Maintaining your building is expensive! But don't special assess just to increase your Reserve Fund strength.

Q: **At our HOA, we have an Operating and Reserve Budget. We have a line item for Contingency within the Reserve budget. Is this where the Contingency budget would sit?**

A: National Reserve Study Standards do not mention "contingency" expenses or "contingency" funding. I'd recommend budgeting for minor contingencies in the Operating budget and creating margin in your Reserve Fund with a conservative Full Funding goal.

Q: **After the Surfside collapse, our Board is accelerating projects ahead of reserve schedule, requiring significant special assessments. Any protection for the community, considering ability of owners to afford all at once? (ADDED: These are not deferred maintenance - they are "like to do" projects by a wealthier member of Board)**

A: I'm all for maintaining the facility, but in my opinion there's no need to replace things "early", forcing special assessments on the owners. Special assessments are disruptive and should only be used when absolutely necessary (not just when "nice to have", or "like to do").

Q: **For an association that is severely under-reserved, might it be wise to introduce a plan to become adequately reserved over the course of a few years, perhaps? Might be too much to swallow all at once.**

A: Absolutely. We call it an "exercise plan". Just a few years (2-5) years of steep increases ($10/unit/mo, or 20% overall, or something like that) to your Reserve contributions is a great idea. See more here.

Investing/Taxes/Interest/Banking/Insurance/Legal Questions

Q: **What are the drawbacks of dividing reserve money into long term investment (higher yield/risk) for expenses that are far down the road (ex. Playground or pool replacement), and short-term investment for near future expenses/repairs? Are there any guidelines for such division? (Types of investments?)**

A: No drawbacks. That is best practice.

Q: **Should operating and reserve accounts be separate bank accounts?**

A: Yes. Operating is typically the checking account, and Reserves is usually an interest bearing (savings or money-market) account.

Q: **As we plan our budget and assessments, do we need to consider impact to taxes or are there no impact to taxes? For example, if we have had no monthly increases and now need to assess and increase dues to build up reserve but don't spend it all in one year, does excess become taxable? Or is there no impact?**

A: Speaking as a Reserve Study provider and not a tax professional, Reserves set aside for future repairs and replacements are not "profit" that are taxed. So growth from a $150k Reserve balance to a $250k Reserve balance does not mean the $100k growth is taxable profit. That said, my understanding is that interest earned is taxable. So with a larger Reserve balance, the tax bill will be slightly higher (due to more interest earned on the higher balance). But that is trivial.

Q: **Most reserve studies tend to plan out 20+ years. Why would you need to continuously update it? Can't inflation be considered?**

A: National Reserve Study Standards require that a Reserve Study show at least 20 years of projected income and expenses. Most Reserve Studies incorporate the very real effects of interest and inflation. But Reserve Studies are perishable commodities, regularly in need of updating, due to income that doesn't happen according to plan, costs that vary from original projections (even when adjusted for inflation), and expenses that don't happen according to play. That's why Best Practice is to perform an Update With-Site-Visit Reserve Study at least every third year.

Q: **How are the Fannie May guidelines for condos, that were just published for resales, going to affect Reserve Studies in the very near future (due to the collapse of Champlain Towers South in Florida)?**

A: Those newly revised guidelines accept the reality that many associations are poorly managed, suffering from varying levels of advanced deterioration that put the integrity of the building at risk. Those guidelines require a minimum of 10% of budget go towards the Reserve fund (not a big deal, since condos typically require 15-40% to offset ongoing deterioration), and those guidelines require a With-Site-Visit Reserve Study Update at least every third year (current industry best practice). So more associations that were funding Reserves at less than 10% of budget will need to increase their funding, and associations unaware of their Reserve obligations will be getting professional counsel at least every third year.

Q: **In coastal FL, with flood and wind exposure, should we reserve at higher percentage given volatility that exists for uninsurable property exposures - which are significant?**

A: Uninsured losses are "surprises", and not Reserve projects. Coastal FL properties <u>will be funding their Reserves at a higher level</u> because many of their common area projects (exterior building envelope painting/sealing, cooling tower rebuild, roof replacement, etc.) need to be done on a more frequent basis than buildings in less severe environments.

Q: **I hear the new inflation numbers are about 7% vs. 3%. We raise our HOA dues a minimum 3% a year, but should we increase the minimum moving forward?**

A: Check your projected expenses closely as we approach budget time for the next year. It is likely you will need to raise your association's assessments over 3% this year to keep up with costs.

Q: **What is the near-term inflation boost rate (% increase over historical 2-3%)?**

A: Somewhere between 3 and 7% is a reasonable estimate at this time.

Q: **What inflation percentage are RS Companies using in 2022?**

A: We are still using 3% for the "duration" (out 30 years), but we are giving projects in the next 3-5 years an extra price boost because their cost will likely exceed a 3%/yr increase. This allows us to model near-term faster price increases, while presuming a historical inflation rate as we look farther into the future.

Q: **A former board invested money in annuities. Because the owner is the association, there needs to be a person named as an annuitant. In both cases, neither annuitant is a current board member, though both are still owners. Is this good practice?**

A: I'm a Reserve Specialist, so I'll leave this question to be answered by a qualified investment counselor.

Q: **You mentioned that the FHA, Fannie Mae, or Freddie Mac require at least 10% of budget go towards Reserves. Isn't that actually a 10% minimum reserve fund (against the total funds in the reserve fund) instead of "contribution"?**

A: No. The 10% minimum requirement is a funding rate amount. It has nothing to do with amount of Reserves on-deposit.

Q: **What your thoughts on "investing" some of the Association Reserves to increase the value of the Reserve Account?**

A: That's a slippery slope we recommend the association not touch. The risk of loss is scary and devastating. Compared to a few more $/yr earned by the association each year (and even fewer when viewed on a per-owner basis each year), in my mind it's not worth the risk. The job of the board is to see the needs of the association are met, not jeopardize association funds in an attempt to maximize earnings. Boards can play that game with their own personal money.

Q: **What is a good argument for people who say they want special assessments because they can make more money investing than the HOA can?**

A: One issue is that this is not a homeowner question. The board has the responsibility to ensure the funds exist. So the financial preferences of homeowners is irrelevant. They can invest their own funds, and with those earnings pay their homeowner assessments. And besides, this argument is typically the voice of those with disposable cash. Many owners don't have disposable cash. This is not a "he who has the most money gets to make the rules". And finally, we've done the math. The difference between earnings, on a per-unit basis, is less than $200/year. A trivial amount like this should not influence board decisions.

Q: Are inflation rates set nationally, or regionally? In Seattle, construction costs have exceeded the national rate of inflation for the past decade.

A: Each of our Project Managers use a regionally specific inflation rate.

Q: Do you have any recommendations or can advise where to look to find a "special Reserve investment advisor" when the balance goes above $250K?

A: Start with your CAI Directory. Or you can contact someone like Dave Lynn at Lynn Wealth Management at dave@lynnwm.com. He is one of many community association investment experts. Get one on your team if your Reserve balance is over $250k.

Q: Are there legal implications such as fiduciary duty or failure to uphold the covenants in a reserve fund for road repaving, if not covered by a reserve fund?

A: I'll leave legal questions to an attorney. I can confidently say that road repaving is both expensive and predictable. It is in the association's best interest to Reserve for its replacement, so the cost of deterioration is spread over all owners over the years who have enjoyed the use of the asset.

Miscellaneous Questions

Q: How do you go about getting a good management company?

A: Like any other professional service. Check in your local CAI Directory, interview them, follow up on references, see what credentials they have, etc.

Q: How do you deal with a former Treasurer who resigned during the year and can't let go?

A: Check with your association's attorney.

Q: We have an HOA management company that takes care of our paperwork, but they only do what the board tells them to do. Our board chooses to ignore reserve study recommendations and by extension its duties of protecting and enhancing the assets (incl., curb appeal). They won't even look at your educational webinars. Moreover, the HOA members don't care about keeping the board honest or getting

involved. Do individual homeowners have any legal recourse to act against this board or individual board members?

A: Their recourse as a homeowner is to rally other like-minded owners to run for the board and populate a board majority committed to the best interests of the association. That's what I did as a young homeowner in a flailing association. Look where it got me!

Q: Our property manager has been using our reserve study as a maintenance plan. Isn't the reserve study an estimate when the component life cycle will end, but it may not be in the year stated in the reserve study? I feel like we should follow what the reserve study states, to then hire experts to assess the components to know what we are facing.

A: The Reserve Study is a budget guide, an estimate of how to prepare financially for future events. Use experts to assess the needs of the association as projects draw near.

Webinar Questions Asked by prior year Attendees

Q: For a small HOA with 5 condos and no previous reserve study or funding set aside for refurbishments, how do you recommend integrating reserve requirements into a budget following the first reserve study this year?

A: Communicate to the owners, give them time to prepare for the change in philosophy from a strategy of underfunding and reliance on special assessments, to one of "paying the bill" of ongoing deterioration in small monthly increments. Present it as a tradeoff – a small increase in assessments now instead of scattered special assessments in the future.

Q: How does a group deal with major expense like re-roofing a complex?

A: Hopefully your association has sufficient Reserves set aside, so you can perform the project in a timely manner (the goal). Otherwise, you'll need to pass a special assessment or cross your fingers that the association will qualify for a loan (a very expensive way of paying for the roof).

Q: In a developing community, at what stage is a reserve study suggested?

A: As early as possible, in order to get the association pointed (financially) in the right direction. That could be as early as during developer control. But since the developer may resist or defer this project, the homeowner-controlled board should commission an independent, credentialed Reserve Study in the first year of homeowner control.

Q: Our condo association has three 2-story buildings with 12 units in each building. We have roof and painting reserves now. What would be an approximate cost for a Full reserve study?

Q: What is the average cost of a "Full" Reserve Study?

A: (answer to both the above) It depends on the number and complexity of your assets, the distance from one of our satellite offices, and the time of year. All are factors. Not knowing the above, a Full Reserve Study is often in the range of 1% of the association's annual budget. Of course, updating Reserve Studies in future years will be less expensive. To find out the actual cost of a Reserve Study for your association, click here and provide us with some information on your association, and we'll shortly have a no-obligation proposal in your hands so you can see for yourself. No reason to wonder or guess!

Q: Can you perform an "Update With-Site-Visit" if we've used another company in prior years?

Q: If another company did a reserve study and then change to your company, do we have to change to a Full site visit?

A: Answer to both the above - Yes, we can update Reserve Studies prepared by other companies if that prior Reserve Study was prepared according to National Reserve Study Standards.

Q: Why do some reserve studies not account for inflation escalators?

A: Per National Reserve Study Standards, the Component List is developed showing Current Costs (that provides a baseline of information for all future projections). It is highly recommended that Funding Plan computations (future year projections) be performed considering the very real effects of interest and inflation. I can't understand how anyone could claim they are responsibly making future financial projections ignoring reasonable estimates for interest and inflation.

Q: Is the $1K "threshold of significance" per item, or aggregate?

A: The threshold discussed had to do with choosing to fund for a project through Reserves or leave it as a minor operational expense. So, there is some wisdom and discretion involved. It depends on your expectation for spending. Say you have 16 chairs around four tables in your clubhouse. Budget for the eventual replacement of the entire set of 20 items (chairs + tables), not individually. The issue is planning your Reserve expenditures. Don't memorialize or plan for the normal exceptions that happen in life (one broken chair, etc.) to such an individual level of detail.

Q: What's the best way to educate my association owners about these basic principles?

A: Remind them of the Four Reserve Rules, and focus your word choices around "paying the bill of ongoing deterioration", not making Reserve contributions for vague "future events" (that they don't care about!).

Q: The reserve study we received is very informative but amount of increases to reserve contributions are so great I am bracing for a total revolt. The biggest expense is the tile roof. Any recommendations on how to soften the blow?

A: Running a marathon today would make my body revolt! Think of a change to Reserve contributions similarly. Create a multi-yr plan to raise your Reserve contributions to a responsible level, reminding everyone that those increased assessments are paying to offset the cost of deterioration of their existing roof (not "buying the next roof, that will be over a new owner's head).

Q: Do you have any recommendations on how to change the mindset that the reserve is a "backup" savings account to tap when operating expenses exceed budget?

A: Remind them of how rental car companies (Avis, Hertz…) work. They build the cost of deterioration (oil changes, tire replacement, etc.) into the cost of the rental. That's all you're doing… including the ongoing cost of deterioration into the monthly assessments. Simple!

Q: We are a "single family homes" association of seven homes. Owners unanimously decide to handle big jobs when they occur thru special Assessments. What is wrong with this approach if that's the way the owners want to handle projects? We live in FL.

A: Members can want whatever they want, but they are not the leaders of the association, with legal responsibilities to care for the common areas. Members can't be sued, while the leaders can. So leaders need to lead, in the best interests of the organization (see Business Judgment Rule responsibilities). Second, you can't expect all seven owners to continue to think alike. Plan for that day by running the association responsibly, where everyone pays their fair share over time, not carelessly ignoring a growing financial obligation until the project needs to be accomplished.

Q: How might you reserve for a 105,000 water tank, with expected life beyond a 30 year reserve study horizon?

A: There is no such thing as a 20 or 30-yr limitation to Reserve funding. If the project passes the National Reserve Study Standard four-part test, it should be funded through Reserves. Many of our Reserve Studies include very long life projects (water tank, seawall, fiber-cement siding, etc.) with a Remaining Useful Life in excess of 30 years. That way every owners pays their (small) share of the cost of deterioration over the years they enjoy use of the component.

Q: Our Reserve Funds are pooled. We want to refurbish the lobby at $25K cost. The reserve line for lobby is $10K and is currently funded at $5K. Can we borrow $20K from the pooled reserves and if so, when must the loan be paid back to the pooled reserve account? (FL Association)

A: When Reserves are "pooled", there is no borrowing. You're simply going to go over-budget on a project. Do the project, and update your Reserve Study with this information, presuming that your Reserve contributions will need to be higher to compensate for this overspending, and to prepare for a similarly expensive project in the future.

Q: What Reserve savings investment are appropriate?

A: Think "protection of principal". Savings accounts, CDs, etc. are such vehicles. It's other people's money. You want no part in taking a chance that their money will be lost under your watch!

Q: If an association has no common areas, would it be pointless to have a reserve study?

Q: We are a small 31 HOA with no physical assets other than our street trees. Do we need a RS?

A: Answer to both: a Reserve Study has little merit for an association with little in the way of common area assets. One state (CA) has an exclusion to its Reserve Study requirement, excluding any association that has Reserve projects that total less than 50% of its annual budget. If there are no upcoming projects of significance, there is little value in formally preparing for such trivial expenses.

Q: What is the accuracy of the component prices you provide? We just replaced a hot tub at about three times the reserved amount, this after competitive bidding and careful engineering incorporated in the request for bids.

Q: There are issues with reserve study numbers being off. Either way too low or way too high. Example roof replacement. Projected at only 1.5M and we are finding it will be closer to 6M. How can we check and balance that?

A: Answer to both: How long ago was that projection made and who made it? Give your Reserve Study provider an earful, finding out why their projections were so far off. Usually in these cases we hear that the association is using a number from 10-yr old (or more) reserve study, one that was not done by a credentialed provider according to National Reserve Study Standards, or the project scope or definition changed (installing new siding instead of painting the building exterior, or upgrading the component).

Q: By law how often must the COA have a study completed? Is it every 3 years? (FL Association)

A: Check your Governing Documents and with a local attorney for your requirements. Beyond that, update your Reserve Study based on a frequency that is in the best interests of your association (keeping such a large budget line item on-target, minimizing exposure to future special assessments).

Q: What is a good update interval/schedule?

A: The evidence shows that a cost-effective update interval/schedule is to update annually, performing With-Site-Visit updates every third year, with No-Site-Visit updates in-between.

Q: In CA, what update interval is required?

A: Please check with your attorney for specifics and how this might apply to your association, but Civil Code §5550 in CA requires annually updating of Reserve information, basing that update on a "diligent visual site inspection" every third year. See more here.

Q: If I understand it correctly, Association Reserves will only do an on-site every 3 years if updates were not completed in prior recent years?

A: Incorrect. We're eager to help associations in any year. The illustration in the webinar showed three common "categories" of clients… the ones that hire us every fifth year, every third year, and annually. We have some clients that hire us every year alternating a With-Site-Visit update with a No-Site-Visit update every-other year. The mixture and frequency of update products is up to you and your association.

Q: How do you explain to boards the importance of performing reserve study every 3 years?

A: Banks don't lend to you based on a tax return from three years ago. Colleges don't ask for only your freshman year high-school transcript. You make wise decisions based on current information. And physical condition of assets, bank balances, and economic factors (cost changes, interest, and inflation) are in a constant state of change. Information from three years ago is "old".

Q: Do your specialists make budget or funding recommendations?

A: Both. A Reserve Study provides the board with budget information, for disclosure purposes (the condition of the components and the state of the Reserve Fund) and funding recommendation purposes.

Q: Does your study include an inflation factor to the year needed?

A: Yes, we include interest and inflation in development of the Funding Plan, matching inflated expenses to a Reserve Fund that is earning compounded interest.

Q: Please detail the calculation of % reserve contribution. Is it: budgeted reserve contribution amount divided into total operating budget? Or divided into total budget? Or divided into total revenue?

A: Budgeted Reserve contribution divided into total budget. If your budgeted income is $10,000/mo and your Reserve contributions are $2500/mo, you are contributing 25% of your budget towards Reserves.

Q: Is the cost of the reserve study factored into those percentages?

A: The Reserve Study itself is regularly considered a professional expense (like legal, tax, or accounting services) which makes it an Operational expense, not Reserves. So besides it being a very small expense, the answer is no.

Q: Are the reserves of my condo association used for emergency funds? Is that possible?

A: In an emergency they can be, but they then need to be replaced – via larger Reserve contributions or special assessment. This type of "borrowing" (using Reserves for a non-Reserve expense) is regulated in some states.

Q: Can reserves be used for the routine maintenance issues you describe?

A: No. Reserves are to be used for projects that meet the National Reserve Study Standards four-part test.

Q: Does the HOA have to follow all their recommendations?

A: No. The board remains in control. All we do is give advice.

Q: Is there a minimum dollar amount for an HOA to create a reserve item?

A: Yes, but that varies with the association. The "threshold of significance" for a large association will be a much higher number than for a small association. We find that 1% of total budget or the board (or manager's) signature authority is a good starting point.

Q: Line item or pool reserves, which is better?

A: The official names are Component Method (sometimes called Straight Line or Line Item) and Cash Flow Method (sometimes called pooled). Both are methods of calculating contributions for the same expenses. The simple and easy answer is Cash Flow (pooled). Hands down the better of the two. See more here.

Q: Is there a difference between HOA (Home Owners Association) and COA (Condominium Owners Association)?

A: Legal differences, of course. With respect to Reserves, it all boils down to what elements are common area components and therefore the responsibility of the association to maintain. This means a Reserve Study may be a significantly more significant (costly) effort for a 50-unit condo than a 500-home association made up of single family homes.

Q: What if the reserves were spent on non-scheduled items? How do we recover, in a 22 member association? Is the Board able to increase an assessment or do members vote on it?

A: It sounds like you overspent from Reserves. You now need to replenish your Reserves. Governing Documents and State Law will guide you how to set your budget for your next year.

Q: We have Reserves at 10 percent of our budget. Is a reserve study necessary? One has never been done.

A: I would highly recommend a Reserve Study. Otherwise, the board doesn't know if Reserve contributions should be 10% of total budget, 15%, 20%, 25%, 30%, etc. Board members should not be guessing or assuming about such issues critical to the future of their association.

Q: What about older properties (60 years +) -- pipes are often not included. What do you suggest?

A: As soon as plumbing issues can be identified per the four-part test, they should be included as a Reserve component.

Q: How would an HOA do their own interim updates? Is there a software we would use?

A: We have an inexpensive online calculator called uPlanIt ($149/budget season). See more here. It's actually rather remarkable!

Q: I missed it. Can you post the "4 Reserve Rules"?

A: No problem. Here you go, or see more information here.

Four Reserve Rules:

1. Expenses are inevitable
2. The Board is responsible
3. Delays usually get expensive
4. Homeowners *always* get stuck paying the bills

ASSOCIATION RESERVES™

Q: How do you help boards who don't want to raise dues, despite knowing they need to perform repairs?

A: We teach wisdom, financial responsibility, and we break it down into easy and manageable steps. But it also takes courage and a will to act. A person has to have that for themselves.

Q: Recommendations for seeking estimates for component costs?

A: Look in your Reserve Study. If you are attempting to do this yourself, ask your vendors familiar with your property (your roofer, painter, HVAC company, pool service provider, etc), or look to standardized Internet construction or remodel estimating tools (zipcode adjusted is best).

Q: Do you recommend increasing dues annually if the HOA does not yet meet its threshold of Reserve fund strength? How is it best to set this annual increase?

A: We generally recommend increasing homeowner assessments annually. Inflation is real and adjusting the annual budget to keep up with inflation is wise. Our general multi-yr Funding Plan recommendation is for nominal annual increases. The actual amount (rate of change) varies with each Reserve Study, depending on that client's particular situation. So, a starting point for your annual Reserve contribution increase is to look in your Reserve Study, and a backup is to increase it by a standard inflation rate.

Q: Is there a cap that an association can spend from their reserves on one project that needs to be completed from a pooled reserve fund which is already underfunded because a study was never done until this past year?

A: The cap is the size of the Reserve Fund. You can't pay for a $100,000 roof when the entire Reserve Fund (underfunded, but pooled for all components) is only $80,000.

Q: Is there a better path - Special Assessment or a Loan?

A: You're talking about the "lesser of two evils", and that decision will be different for different associations. Special assessments are less expensive, but more painful (maybe allow owners to pay over 24 or 36 moths if possible to lower the pain?). Loans are more expensive (due to all the interest that needs to be paid to the financial institution), and it burdens owners with all those loan paybacks during the years they should be making higher Reserve contributions to prevent a future cash shortfall! And remember that not all associations will be approved for a loan, especially those in a precarious financial position where they need a loan!

Q: Does our Percent Funded value vary from year to year based on the expected expenses each year?

A: Yes, Percent Funded should be expected to vary from year to year. The "value" of deterioration grows at a pretty steady rate as your components age and the value of deterioration at the association increases. But that value of deterioration at the association drops after a large project is completed and the asset is restored to "new" condition. So expect the balance between Reserve Fund and deterioration to vary from year to year. But you can control the multi-yr trend with size of your Reserve contributions (larger Reserve contributions makes your Percent Funded go up, smaller Reserve contributions cause it to trend down).

Q: Instead of increasing monthly contributions to the reserves, is the board allowed to simply decide on a one time assessment to replenish the reserves?

A: You can, but that's pretty strong medicine for a problem that is easier and more fairly resolved with slightly higher Reserve contributions. Special assessments should be your last resort, not your first.

Q: When your Reserve Fund is weak (0 to 30 percent) is it possible to strengthen your Reserves up into the 20 to 50% range? It seems the only option is to pass an SA and raise dues, which is tough with COVID and a community with many seniors with fixed incomes.

A: We view special assessments as a tool of last resort. So the best and fairest way to strengthen your Reserves is to carefully increase your Reserve contributions. It is much kinder to ask someone to live on $10 less a month (due higher Reserve contributions) than ask them for a "surprise" special assessment of $1000 to $5000.

Q: We had a substantial settlement from a vendor because of damage to our roads. The amount of damage was less than the settlement. Can we move the surplus to general pooled reserves or need to move to road reserves?

A: Good for your legal team to result in a strong award for your association. The answer to your question depends on the language of your settlement. Please check with your attorney on this matter.

Q: We own 30 miles of Storm Water pipes and boxes. This component doesn't typically pass the 4 part test. Should it?

A: You've stated that it is a common area maintenance responsibility (test 1). I don't have enough information here to tell conclusively, but checking with your credentialed Reserve Study provider and the company that services your Storm Water pipes and boxes, if a Useful Life, Remaining Useful Life, and project cost can be identified with a reasonable certainty, the project should be included in your Reserve Component List.

Q: Is lowering the reserve contribution to balance the budget constitute borrowing from reserves? Does the full allocation have to be made up?

A: You're going to hear different opinions on this from different accountants or attorneys. If the budget was published and it said $60k was going to Reserves that year, and you only ended up making $30k of contributions due to cost overruns in other areas, I'd call that borrowing, because you published a plan and didn't follow-through with that plan. And some states (and Governing Documents) have strict requirements regarding borrowing from Reserves. Others will say that "because it wasn't withdrawn from the Reserve Fund", it is not a loan that needs to be repaid. The bottom line is that the expenses don't care. You need to get the cash ready, either by balancing your Op budget so you can make all your Reserve contributions, increasing your Reserve contributions, or passing last-minute special assessments.

Q: If the Full Site Visit Reserve Study was effective, wouldn't that eliminate a special assessment?

A: No. The truth of the needs of the association are revealed in the Reserve Study, and sometimes that truth reveals the association has significant projects upcoming and insufficient cash to perform those projects (which means a special assessment recommendation). But regular updates in subsequent years, updating and tweaking the Reserve Funding Plan as necessary, should reduce the chance of future special assessments to almost zero.

Q: Why are there still some special assessments when an association is Fully Funded (or almost Fully Funded)?

A: Because surprises still happen. Having a strong Reserve Fund reduces the chance of a special assessment to about 1%, which is a fantastic improvement from the "normal" rate that associations find themselves without sufficient cash to perform their necessary projects which is over 20% of all associations. Having a strong Reserve fund means only true emergencies will cause a special assessment (not a roof or a road that fails in plain sight!).

Q: Can you replace asphalt drives with concrete drives using reserves even though it is not like for like material?

A: "Like for like" is not a Reserve requirement, so in some cases the answer is "yes" (like replacing the failing asphalt in front of the dumpster or at a heavily trafficked corner of your road with concrete). Appropriate upgrades are still Reserve projects. But check with your Reserve provider to help you distinguish between Reserve projects and Capital Improvements. See more here.

Q: Is there a resource that shares individual HOA Dues by County? I know HUD has a web page you can use to search for FHA status of an HOA.

A: Good for you! I don't know of such a resource listing homeowner assessment rates. And I caution your comparison of associations by their assessment rates. Some can have low assessments but looming deferred maintenance and special assessments, others may have higher assessments but sufficient Reserves to keep the property looking nice. And while not many condominium associations are "FHA Approved", my understanding is that there is a list.

Q: How do boards determine the UL and RUL of a particular item like wood rot or paint stucco. Do we use certified contractors or can the Board members guess?

A: Guessing is rarely a wise way to run a multi-million dollar, non-profit Real Estate corporation. It is best to rely on wise counsel from a qualified expert, such as a credentialed (RS or PRA) Reserve Study professional. We base our UL and RUL estimates on our experience with similar materials, in similar installations/environments, or sometimes based on interviews with competent local (association) service providers. Without access to our experience base, knowledgeable association vendors are a good next best.

Q: Does the company doing the Reserve Study obtain the experts for assessing UL or RUL or does the Board seek out the experts. Shouldn't the study have all the needed information researched by the Reserve Study company rather than the Board seeking information to determine if the study is accurate?

A: It is the responsibility of the Reserve Study professional to establish estimates. That said, association history is an important benchmark, and you should expect your Reserve Study professional to ask for actual association history (benchmark data) on your component.

Q: Our Association does not want to increase the dues and have cancelled the earthquake insurance, fired the gardeners, the pools are in disrepair, the 1972 Governing Documents are not being updated, etc., etc. There is no quorum every time we have an election. What can we do is? Is a lawsuit the only solution?

A: Sorry to hear of your situation! Hopefully a lawsuit is the last resort. Gather or rally other like-minded owners, and run for board positions.

Q: Can we anticipate a Reserve line item expense that still has between 1 - 5 year remaining life, due to the deterioration of the asset?

A: Typically, the closer a component comes to the end of its Remaining Useful Life (RUL), the more accurate the RUL and replacement cost estimate becomes. So yes, when a component approaches the 0-5 yrs RUL range, the estimates will be much more accurate than when the RUL is still projected to be 15 or 20 yrs away. If you mean “Can we replace it now if it needs it?”, by all means “yes”. A Reserve Study is only a plan. Do what you need to do to care for the needs of the association.

Q: How should we handle eventual replacement of water, sewage and gas lines, or storm water management facilities (underground pipes and outlet structures/culverts)?

A: If those projects meet the National Reserve Study Standards (NRSS) four-part test for component selection, meaning they are a common area maintenance responsibility, life limited, where the Remaining Useful Life can be reasonably established and one can both estimate the size of the repair/replacement cost and determine that the expense is significant to the association, yes. The key is if the asset is common area or individual owner-responsibility, and if their life expectancies or replacement costs can be reasonably identified or anticipated.

Q: Would you please repeat the 4 Rules about Reserves?

A: See here. 1) Expenses are inevitable, 2) the board is responsible, 3) delays usually get expensive, 4) homeowners always get stuck paying the bills.

Q: Should insurance deductible costs be in the Reserves?

A: No. Insurance deductibles are by nature “emergency” expenditures, failing NRSS four-part test #3 in that they are by definition not predictable. Reserves are not for insurance deductibles. Reserves are designed to offset the deterioration of your common areas due to age.

Q: Assuming Reserve funds are used for budgeted replacement and repair costs, is it legal to spend Reserve funds for unbudgeted and unplanned “nice to have” improvements?

A: Reserves are specifically set aside to offset ongoing deterioration, projects that meet the NRSS four-part test. “New” improvements fail test #1 in that they are not (yet) common area maintenance obligations of the association. In addition, most associations have less Reserves cash than the value of deterioration at the association. So their Reserves are already “behind”, or “underfunded”. Thus it is inappropriate for Reserves to be further depleted (raided?) for optional, “nice to have” improvements, that only create new assets for the limited Reserve funds to repair and replace. Check with your legal counsel to find if doing so is actually illegal.

Q: Does something like mulch replacement, which we do every 2 years, belong in a reserve?

A: If it passes the NRSS four-part test, yes. Quite often major landscape projects are appropriate for Reserve designation.

Q: How should one plan for the cost of annual street inspection and maintenance? Out of Reserve funds or out an operating budget?

A: Annual maintenance projects are more appropriately handled from the ongoing operational maintenance budget, not Reserves. Remember… such projects tend to fail tests #2 or 4 of the NRSS four part test.

Q: Are Reserves Studies required in CA? How often are they needed?

A: Please check with your attorney on interpretations of the Law in your state, but you can read here that CA Civil Code §5550(a) states Reserve Studies in CA are to be updated based on a “diligent visual inspection” at least every third year, and that information is to be reviewed and adjusted (updated) annually.

Q: We are an HOA in WA. Many members believe we are not required by law to do a Reserve Study or fund our Reserves. Our operating budget is 3 million. I believe we are required to do it and fund Reserves. What are your thoughts?

A: Please check with your attorney on this matter, but one can read WA law and see that Reserve Studies are required of associations with “significant assets”. A Homeowners Association is considered to have “significant assets” if the cost to replace all assets at once exceeds 75% of the annual operating budget: for a condominium the asset replacement cost needs to exceed 50% of the operating budget. There are a few instances where Reserve Studies can be waived, even for associations with significant assets. So again, please check with legal counsel to determine your requirements. That said, planning ahead for significant, inevitable, predictable expenses is a good idea, whether required by law or not.

Q: Our FL HOA’s Reserve Study (from Association Reserves) states that one of the tests for including a component is that the cost be at or above a threshold level in the

range of .5% to 1% of our annual budget. Our newly appointed Accounting Firm said the minimum is $10,000. They indicated that this is based on Section 718 of the Florida Statutes. But, I believe that Section 718 is for Condo and we are an HOA where we need to comply with Section 720 of the Florida statutes. How do we decide what minimum dollar amount to use? I could not find anything in Section 720 that gives a specific dollar amount to be considered a Reserve Item (along with the other three components).

A: Please check with your attorney for specific statute questions. Preparing your Reserve Study according to [National Reserve Study Standards] (NRSS) generally should exceed requirements of local statutes. Generally, NRSS are more detailed, meaning more components are identified. This means there is less chance the board and owners are "surprised" by an expense that should not have been surprising. While it may be legal to eliminate components under $10,000 from your Reserve Study, it may not be wise.

Q: How best should we list a long-life or partial turn-over components like underground water supply and sewer lines that are getting old; tree trimming, removal, and replanting; overall big-ticket items that can't be replaced all at once?

A: Commonly we recommend partial replacement. Sometimes that is based on a dollar amount or fraction of total expected to keep up with deterioration. That may mean 10% of the fence every 3 yrs (yielding the entire fence being replaced over a 30-yr period), or $5000 every other yr (if that is what has been needed to fix sidewalks locally to keep up with deterioration), or something like that.

Q: As a follow up to partial replacement, how does that affect the remaining useful life of the component? For example, if we replace the hinge on a wrought iron pool gate, but not the entire gate itself can we (or should we?) extend the life of that component. If so, how much?

A: Minor repairs should be done with Operational Maintenance funds, not Reserves. Any significant expenditure of Reserves for a local repair or replacement extends the Remaining Useful Life *until it then becomes wise to expect to replace the entire component*. Stated differently, don't replace a major component when a minor repair was all that was needed, but also don't "nickel and dime" yourself to death (spending more on repair after repair after repair) than if you would have replaced the whole thing.

Q: On the Component List, how does the Reserve Study Specialist determine the cost to replace each item?

A: Quantity, quality, installation, etc. We generally are able to establish costs based on the association's cost history, our experience with the cost history of local similar properties, research with local service providers, national guidebooks, or a combination of the above.

Q: We are a large Tennessee Property Owners Association (POA) of over 8,000 members with a $20M+ budget and a highly diversified set of common properties and facilities. We have found over time that our depreciation charges each year roughly fund our equipment replacements. We do 11 year financial plans and appear to have adequate cash flows to meet all of our capital and maintenance needs while still building our Reserves with a 15% contribution each year. What we are struggling with is how large should our Reserves be in light of what appears to be adequate cash flows to meet all of our capital and major maintenance needs?

A: First, we recommend looking forward 20 years (the minimum presentation required by NRSS). The metrics about Reserve Fund size that guide "normally sized" associations begin to break down for associations with annual budgets over $5M. For "normal" associations, the statistics show that special assessments are rare when their Percent Funded is over 70%. For large associations, special assessments begin to become rare when their Percent Funded approaches 40 or 50%. So a rough answer is to make appropriate contributions that offset ongoing deterioration (your 15% seems to be is in a reasonable range), but you should begin to feel comfortable that your chances of special assessment are low at roughly half the Percent Funded of average associations.

Q: Some of our HOA members think that Reserves are like "saving" for the replacement of Reserve Assets. Our Reserve Study indicates that "Reserves are not for the future" but is for covering the annual deterioration of an asset. How can I explain the difference?

A: Reserves are "saved" for future expenses, that is true. But we encourage you to characterize it as a race. Deterioration presses forward with an unrelenting pace. If you get behind, your association will have a hard time catching up, or members at the time of the expense will feel the pain of deferred maintenance or special assessments. So focus on keeping pace and keeping up (offsetting ongoing deterioration with regular contributions). "Saving for the future" sounds like you have an abundance of time and flexibility. Those who think that way regularly come up short and miss the mark.

Q: Is there any percentage of the value of the property that should be in Reserves? Such as 5% or 10% of the retail value of the insurance value, for a starting point?

A: No. The amount in Reserves is dictated by the ever-changing needs of the association (the magnitude of the assets and how soon they need replacement), not property value. There is no correlation between property value and "adequate" Reserve Fund balance.

Q: What's the difference between Reserve contributions & a Special Assessment?

A: Reserve contributions and funds intended for use by the Operating Budget are collected through ongoing homeowner assessments (the Reserve portion is then transferred over to the separate Reserve Fund). Special Assessments are those temporary "oh not so special!" supplemental "taxes" levied on the owners *above and beyond* normal budgeted assessments, when the association needs to collect cash, quickly.

Q: Other board members feel the follow-up of an original Reserve Study made by you can be done by our association property manager. Please give solid reasons for using your services.

A: We've made an update engagement very inexpensive, so our expertise of establishing current prices, making current life estimates, and developing funding plans, etc. is available at a low price. There is another side of expertise… managers usually are very busy and their time spent inefficiently and in-expertly updating a Reserve Study is often better spent on management issues. If challenged, managers will have a hard time demonstrating they have the necessary independence or expertise. Remember, boards do not have a mandate to "save money". They have a mandate to provide for the needs of the association. That said, if the update process is simple and felt is within the technical and risk capabilities of the manager or volunteer, we make it easy with a year's access to our online Reserve calculator ("uPlanIt", which is loaded with your most recent Reserve Study data) for only $149. While it does not replace an actual Reserve Study, it is primarily designed for boards to be able to test "what-if" scenarios and play with their numbers throughout the year to see where they land.

Q: Is there a generic percentage by which I can assume the 'Fully Funded Balance" (FFB) increases annually (reflecting inflation) so that I can calculate my Associations' current Reserve balance standing (percentage funded) in between Reserve Studies?

A: The FFB grows by nature in a sawtooth pattern due to the way it rises as projects draw near, and drops as projects are accomplished. But due to the increase in components costs with inflation, the net trend is upward at the pace of inflation.

Q: What is the inflation rate for typical reserve components? Say from CY 2018 to 2019?

A: We use a multi-yr average inflation rate, to avoid basing our 30-yr projections on either a short-term low inflation rate or short-term high inflation rate. At this time we are using values in the range of 2.5 or 3%, feeling they represent a reasonable expectation for the next two or three decades.

Q: To determine, for example, the cost of a roof replacement in 18 years. Should we inflate at 5% per year? Less? More?

A: See above. We suggest a reasonable expectation is to use an inflation rate of 3%, and continue to update your Reserve Study regularly so that it continues to stay "on track" with respect to the expected timing and cost of this upcoming project.

Q: If a component has a 50 year life, is it included in Reserve funding?

A: It can be. Reserve Studies tend to display 20 or 30 yrs of expenses, but when the Reserve Study professional is designing a Funding Plan to offset deterioration (as we do at Association Reserves), not just the eventual expense (as done by so many other firms), the funds grow *in proportion to the deterioration*. For instance, our Funding Plan would set aside funds so 30/50ths of the anticipated expense would be in Reserves by the end of the 30th yr (20 yrs in advance of the expense actually happening in the 50th year). In that way, all 50 years of owners are paying their fair share of deterioration, and the association is on-track to having sufficient funds to do the project on time.

Q: Is it common to share your old study with a new Reserve Study company if you are switching companies?

A: Yes. That is helpful information to the new Reserve Study company… just as you would expect to share your medical history with a new Doctor.

Q: We are a small HOA with 15 units and we are going to have a very first Reserve Study. Is there anything we should know about the first Reserve Study in terms of scope of work and preparation and getting consent from the homeowners, etc.?

A: Congratulations on deciding to start planning for the future of the association! For the first ("Full" Level of Service) engagement, expect the Reserve Study professional to spend some time assembling information on project histories (when things were done, by whom, and for what cost), clarify what the Governing Documents say about common area maintenance responsibilities, etc. It is also best to inform the homeowners that someone will be on-site that day (inspecting and quantifying and taking photos), so they are not surprised or concerned. Everything being done is for their own benefit!

Q: How often should an association do a Reserve Study?

A: Since Reserve contributions are typically 15-40% of an association's total budget, the Reserve plan warrants regular (annual) updating. In our experience, in our annual updates the changes tend to be minimal as we report the Funding Plan adjustments necessary so the board will have the funds to accomplish Reserve projects on time. For associations returning after three years, we regularly need to make significantly different recommendations, what we call a "revision" to their plan, to get them back "on track". For associations that wait five years or more to hire us to update their Reserve Study we find that so much has changed that the association has drifted off-course and those updates are a "rescue operation". So we highly recommend annual updates, to help the board in its responsibility to provide for the care and sustainability of the common areas.

Q: How long is a Reserve Study good for?

A: See above. A Reserve Study is a one-year plan based on 30 or more years of looking ahead. The findings, disclosures, and the recommendation are for the "start date" of the report. While a Reserve Study shows 20-30 years of projected income and expenses, *so much information changes* on an annual basis that we consider the Reserve Study good for only one year. After that, it needs to be updated.

Q: What is the average life of a tile roof?

A: Depending on the local environment, 25 – 30 years. The tiles may physically last much longer, but the underlayment deteriorates (the actual waterproof layer) and needs to be replaced. The tile roof on my house (Robert) in Southern California needed to be replaced after 27 years (right on schedule!) when we had it inspected and found the waterproof tar-paper had completely deteriorated. We wanted to get it replaced before it started leaking and caused expensive damage. The tiles were removed, new underlayment was installed, and tiles were replaced (with very little breakage).

Q: What is typically included in the definition of a "roof system"?

A: According to NRSS, a "component" is all related elements of a project (inspections, permits, delivery, installation, disposal, etc.). Different *roof systems* will have different components (depending if they are flat/low-slope roof, asphalt shingle, metal seam, tile roof, etc.). In some instances, we may include gutter, downspout, heat-tape, etc. elements into a "roof system". The choice often depends on expectations for when the individual elements of the roof system are best replaced (with the roof, or as a separate project). Please check with your Project Manager for an explanation for your association.

Q: Must you invest Reserves in CDs/TBills, or can you make conservative stocks and bond investments?

A: Check your Governing Documents, local statutes, and check with your legal counsel. In some jurisdictions investments in anything other than conservative "no chance of loss of principal" investments are not allowed. "Protection of Principal" investments are good practice everywhere, and I've never heard an industry professional suggest that any kind of investment in stocks is appropriate.

Q: You mentioned the typical fraction of budget going to Reserve contributions. What is typical for insurance (our highest cost)?

A: Sorry, not our area of expertise. I understand Reserves, insurance, management, and in some cases utilities are an association's largest budget line items, but I cannot quote figures on those items. But I believe that if insurance is your largest budget line item, it is likely you are underfunding Reserves.

Q: We started making up for underfunded Reserves this year and the contributions are substantial. We expect to be reducing our deficit for the next eight years. How can we communicate to potential buyers that this is a good plan, and our high assessments are not perceived as a negative?

A: Expenses are inevitable. Your association is preparing for them. Create a short summary for all your homeowners that can be shared with prospective buyers, making it clear that your current assessment structure is designed to provide for the needs of the association, maximizing home values, and minimizing the chance of special assessments (that other associations with lower assessments are inviting).

Q: Are there any laws to force associations to implement Reserve Studies in California?

A: Yes. There is a significant body of CA Civil Code addressing financial responsibilities of the board. Please consult with your legal professional or see a summary from a prominent CA law firm here. Bottom line: CA law requires a With-Site-Visit update at least every third year, annual Reserve Study updates in-between, and annual disclosures (in a standardized format) of the Board's plan to address Reserve needs with a multi-yr Funding Plan.

Q: What do you do if the current board has no interest in funding Reserves?

A: Two things: run for the board on a platform of fiscal responsibility (the expenses will happen, they cannot be avoided and homeowners property values are at risk if projects are not accomplished in a timely manner!), and set aside your own "Reserve fund", so when the inevitable special assessment happens, you are ready to pay that bill.

Q: How many years are covered in a Reserve Study?

A: National Reserve Study Standards require at least 20 years of income and expense be projected in a Reserve Study. Our firm, along with many others, show a 30-yr projection.

Q: Can you provide some insights regarding North Carolina Reserve Study requirements?

A: Please check with a local Community Association industry law firm. You can find one through the local NC chapter of the Community Associations Institute by clicking here. Or… you can contact the North Carolina office of Association Reserves here.

Q: We have no Reserve fund at all. One owner is absolutely against it, others think there is a value to having one. How do we get one created?

A: Open a Reserve account by board action, and start funding it. Your association doesn't need to be run by unanimous agreement of all members. The board's job is to run the association responsibly (whether all members like it or not!).

Q: Could you briefly explain how the business judgment (BJR) rule fits into Reserve Study decisions?

A: Certainly. We have a webinar that goes into more detail here, but basically the Business Judgment rule provides some degree of legal protection for board members who make decisions with these three characteristics:

- They are made in the board's area of authority and power (duty of care)
- They are made in the best interests of the association (duty of loyalty)
- They are made after reasonable inquiry (duty of inquiry)

Q: Can tree care and removal be funded through Reserves?

A: Yes, as tree care commonly meets the National Reserve Study Standard four-part test because it is a common area maintenance responsibility, life limited, with a predictable remaining useful life, and usually above a threshold cost of significance.

Q: Can professional fees such as engineering fees and consulting fees be paid from Reserves (in FL)?

A: Yes. Reserve projects meeting the four-part test are to be all-inclusive. This means permits and shipping and disposal should be part of a standard "repair or replacement" Reserve project. In addition, there are some professional fees that pass the four-part test as stand-alone Reserve projects (elevator load tests every few years is a prime example).

Q: If we have an updated Reserve Study, do you recommend that we have a site visit for the next study?

A: Remember the three levels of service, two of which are updates (With-Site-Visit and No-Site-Visit). With-Site-Visit updates are recommended "every few years" (three years is generally a good interval), with No-Site-Visit updates in the in-between years. This combines economy while providing the board with updated information through which they can run the association.

Q: Can you borrow from Reserves to pay for an unplanned expense that was not budgeted?

A: Yes, but let me be careful. If the project passes the four-part test, it is a Reserve project and it is not "borrowing" (even if it did not appear on the prior Reserve Study). It is simply an unplanned Reserve expense. Spending Reserves to pay an Operational expense or a capital improvement is inappropriate, as your Reserve Funds are already designated towards Reserve projects. Borrowing for such projects generally can be done, but in many jurisdictions there is a multi-step process, with strict repayment requirements. Bottom line… if you spend Reserves for non-Reserve projects, commit to paying it back!

Q: Can we borrow from Reserves to avoid finance charges?

A: Yes. This is an example of an effective way to use Reserves while they are "just sitting there". We've seen boards borrow from Reserves to install energy efficient lighting, or a well, both projects with short paybacks that save significant funds. Those boards instituted strict repayment plans. Doing so eliminated the high cost of interest, and kick-started the association's ability to save money on their electricity or water bills.

Q: Are we permitted by law to include inflation in our Reserve calculations?

A: You don't say which state, but I am not aware of a law in any of our 50 states preventing inflation from being used as a factor in developing a Funding Plan.

Q: A hurricane damaged a component scheduled for replacement in two years, and it was "made new" with insurance proceeds. How do we handle that in Reserves?

A: Update your Reserve Study, with a new Remaining Useful Life for that component reflecting its "made new" condition. Reserve funds that were set aside for that upcoming project, no longer needing to be accomplished in the next few years, will be redistributed to other components.

Q: Our budget projects special assessments in future years, and even with those special assessments our Percent Funded will still barely be positive. Does underfunding like this create a liability problem for the board?

A: Hard to tell. It may be that the board is temporarily underfunding Reserves for a greater good. I trust that they begin funding Reserves appropriately before the special assessments begin to occur. Board members willfully directing the association towards financial risk will likely not be defended by the association's D&O insurance.

Q: When you evaluate Reserves, do you use current replacement cost or future replacement cost?

A: Both, actually. The current cost is used in calculating the current Percent Funded. The future cost is used when calculating the multi-yr Funding Plan.

Q: Our assoc owns a large building that is being remodeled, last remodeled 30+ yrs ago. Furniture for the remodeled building is not in the current Reserve Study. Even so, can that be paid from Reserves?

A: Yes, as long as the project meets the four-part test. It is an unfortunate omission, as replacement furniture should clearly pass the four-part test and is a reasonable expectation that a new building be outfitted with a new HVAC, plumbing fixtures, and furniture. Of course, spending unbudgeted Reserve funds will cause the Reserve balance to drop and upcoming Reserve contributions to be slightly higher.

Q: I disagree with the % Funded model, believing it is more effective to look at cash flow and just make sure we have sufficient funds to pay for the expenses.

A: I hear you. Cash is king. But the statistics clearly show (and I showed a slide in the webinar) that associations that fund their Reserves with an eye on *only being cash-positive*, with insufficient "margin" for the inevitable projects that occur earlier or more expensive than anticipated, cause special assessments. Margin is necessary in our field of projecting the future. So looking at the association's Percent Funded, and caring about that figure being strong, has very positive effects (lack of special assessments and maximized property values).

Q: You mentioned National Reserve Study Standards. Are there local standards – like Useful Life for Exterior Doors in an oceanfront location? Our doors are deteriorating faster than projected in our Reserve Study.

A: That is unfortunate about your doors. Reserves are a field based on estimates. Revise/update your Reserve Study with a lower Useful Life for your doors. I cannot tell if it is a material defect, or was previously an optimistic life estimate. Reserve Studies are sometimes called the "art and science" of estimating, and preparing for, an association's major repair and replacement projects. You've described how this is an art – with many nuances. Oceanfront locations are hard on component life expectancies! That's why you need a credentialed Reserve Study provider and regular updates.

Q: Can components be a group of smaller items that individually wouldn't meet the four-part test? We have a clubhouse to refurnish, and we have 70+ backflow preventers, 12 sprinkler control boxes, etc.

A: Yes. It is common to "group" projects together when they occur with the same Useful Life and Remaining Useful Life. Clubhouse furniture is a prime example… no reason to list a chair separate from its table, or barstools separate from the coffee table. If you'll replace them all at the same time… list them all together as one group.

Q: Should plumbing lines and drains be included in a Reserve Study?

A: As long as they meet the four-part test. Unfortunately, sometimes remaining useful life and cost for plumbing projects are not known with enough reasonable certainty to be defined as a Reserve project. Check with your plumbing vendor – see if they are able to provide some insights in order to make a "reasonable estimate". As long as the project is just a wild guess, it should not be listed as a Reserve component.

Q: Can you recommend language for homeowners when it is time to increase Reserve contributions?

A: Certainly. Start with the four-part test. Explain that expenses are inevitable (and largely predictable), the board is responsible to provide for those expenses, and it is better for the homeowners that the bill to offset ongoing deterioration be paid on an ongoing basis rather than a “surprise” (even though it really wasn’t a surprise because you could see it coming years in advance!) special assessment.

Q: Should Reserve philosophy be put into Homeowner documents for prospective buyers?

A: Absolutely. Make sure your owners are regularly reminded that their assessments are designed to provide for the needs of the association and prevent special assessments. It would be great for that same document be provided to prospective home buyers, so they can appreciate that while the assessments may be a few dollars higher than a neighboring association, Reserves are set aside on an ongoing basis to eliminate reliance on special assessments.

Q: What is the cost of “Reserve deterioration”? How is that different from something getting old and deteriorated?

A: The ongoing cost of Reserve deterioration is the Repair/Replacement cost divided by Useful Life. For instance, a $200,000 roof project with a Useful Life of 20 years is deteriorating at the rate of $10,000/yr. In general terms, setting about that amount aside year after year will prepare the association for that eventual expense. That is different from saying “the roof is old and deteriorated, I hope we have enough Reserves to replace it next year!” That is a Reserve cash flow question that will be addressed in your Funding Plan.

Q: How do you keep Reserve funds earmarked for future projects?

A: In general, we don’t recommend “earmarking” funds for separate and distinct Reserve projects. The association is best served with Reserve funds available for use for whatever Reserve expenses occur. It would be silly to have to special assess for a $100,000 new roof because there is only $50,000 in the “roof reserve”, when there is $250,000 spread among all the other components. Re-allocating Reserve funds in such instances is regularly done. So stop trying to hold the individual funds “separate” and just consider Reserve funds “Reserves” (not roof $ or paint $ or carpet $…). See more here.

Q: Should an owner get their Reserves portion back after selling, and should a new owner pay more?

A: Reserve contributions offset the cost of ongoing deterioration, they pay for the needs of the association and are not “owner savings”. Owner contributions over the years pay for the deterioration that occurred *while they owned a home in the association.*

Q: If we haven’t collected Reserves before, how do we start? Do we special assess everyone their Fully Funded Balance share, or do we add Reserve contributions to existing assessments?

A: Generally special assessments are a last choice method of funding Reserves, because they are so unfair. So special assess only if you need funds for an immediate project. Otherwise, begin collecting on an ongoing basis.

Q: How is that 15%-40% calculated… total assessment, or the non-Reserves portion?

A: The total portion. If you have $30k in total income each month, and budgeted Reserve contributions are $5k of that, your Reserve contributions are 16.7% of total budget (not $5K out of $25k non-reserves portion).

Q: Is the Reserve Fund literally a separate bank account?

A: A separate bank account for Reserves is best practice, for accounting and practical reasons (when the Reserves are not sitting in the checking account, they are less likely to be spent!). The Reserve fund may be as simple as an interest-earning savings account, or it may be a number of higher-interest-earning longer term laddered investment vehicles, or a combination of both.

Q: How many components are in a typical Component List?

A: Typically 25-45. There are a few very simple associations with very short Component Lists, and a few complicated/large associations (with golf courses, equestrian centers, etc.) with over 100 Components.

Q: During a site inspection, is it helpful to have a board member or manager come along to explain things?

A: Yes! If you have a building engineer, someone like that is also helpful. The insights provided (wear and tear, repair and replacement history, and their ring of keys) are very valuable! We appreciate the assistance and insights before we move on to the task of observing an documenting normal deterioration around the association.

Q: What if our association can't adopt a Full Funding model?

A: I don't believe "can't" is the right word. I think it is more accurate to say "won't". Deterioration is real, and it is expensive. A Full Funding model simply and sustainably offsets ongoing deterioration with Reserve contributions. It is fair and realistic. The alternative to making Full Funding contributions is making "Baseline Funding" contributions (where the Reserve fund drops in size & strength, just barely staying cash-positive). Because the Reserve expenses are unchanged, Baseline contributions offer slightly lower (approximately 13% less on average) Reserve contributions but at the tradeoff of a significantly higher risk of special assessments).

Q: Aren't Fully Funded contributions too expensive for most associations?

A: No. In a side-by-side comparison, Fully Funded contributions average only 13% higher than Baseline Funding contributions. But note that Fully Funded contributions calculated by the *Straight Line method* tend to be much higher than any contribution calculated by the *Cash Flow* method because Straight Line contributions force a rapid approach to the 100% Funded level. We go into more detail in our Reserve Studies 103 webinar.

Q: If we vote to become Fully Funded, would that require a special assessment?

A: No. Fully Funded is a responsible multi-year objective, where the Reserve Fund size is equivalent to current Reserve deterioration at the association. You may wisely choose to get there smoothly, over the course of a number of years. Special assessments should be a "last resort" funding tool, not a way to strengthen your Reserves.

Q: What is the proper way to add components or adjust values for your components?

A: Make those changes in your next (annual) Reserve Study update. Give that information to your Reserve Study professional (a change in quantity, information about a project that cost more or less than expected, or something that is lasting longer or failed earlier than expected, something that was replaced with Operating funds, etc.). Keep your Reserve Study updated and accurate! It's the best way to keep your association headed towards having sufficient Reserves to do your projects when needed.

Q: Are board members obligated to cooperate with their Reserve Study provider in providing information?

A: No, but it would be foolish to not cooperate. The Reserve Study is prepared for the benefit of the association. It is not a game… to see if your Reserve Study provider is a mind-reader, or how close Reserve Study provider's estimates came to your actual costs. Be candid and forthright, giving your Reserve Study provider the facts (of recent costs, component replacement history, vendor names, etc.) in order to maximize the accuracy and value of your Reserve Study.

Q: What do you recommend for associations that are underfunded?

A: Try what we call the $10 solution. Increase each homeowner's monthly assessments $10 this year, with all of it going towards increased Reserve contributions. Then do it again and again for as many years are necessary. Most associations will find themselves making appropriately sized Reserve contributions in just 3 – 5 years following this program.

Q: If we have a shortfall in Reserves, is it best to raise Reserve contributions all at once or a little bit at a time over a longer period of time?

A: Whenever possible, it is best to spread out Reserve contributions as smoothly as possible over as much time as possible. But if the funds are needed immediately, that means a special assessment will be necessary.

Q: We have a large deficit and only 18 units. What is the best way to fund our Reserves – assessment increase, Special Assessment, or Loan?

A: It takes time to collect funds through assessment increase. Typically associations in this situation need a combination of a Special Assessment (for immediate cash) and higher contributions (to prevent a future special Assessment). A loan is an expensive, uncertain alternative (many financially weak associations don't qualify for a loan).

Q: Instead of budgeted contributions, why not just special assess or take out a loan?

A: In addition to budgeted contributions being the most fair way to collect Reserve contributions (because each owner pays their share of deterioration, month by month, over the time they live at the association), budgeted contributions are the least expensive way to pay for Reserve projects. For a $250,000 roof, over 15 years homeowners would only need to contribute about $232k towards the project, with the rest paid by interest earned by Reserve funds on-deposit. Special assessments are typically a last-minute option, when an association needs the money rapidly, but they take time to implement, there's no certainty the special assessment will pass, and the funds take a while to be collected. Loans are generally an expensive way to pay for a Reserve project. With current loan rates (7% and up-front fees), it will cost the homeowners about $320k over 7 years to pay for a $250k roof project. That's about $90k more than if they would have collected those same funds from the homeowners, over time via monthly contributions collected from the people who enjoyed use of the roof.

Q: Do you use current or future costs?

A: Per National Reserve Study Standards, Current Costs are identified and displayed in the Reserve Component List. Current Cost is used computing the current year Percent Funded of the association, but inflated future costs are used when calculating the association's multi-year Reserve Funding Plan spread over future years.

Q: Shouldn't the physical analysis (site inspection) be conducted by an engineer?

A: The site inspection should be diligent and thorough. Experience in this field is more important than educational background. I'm a licensed Professional Engineer (PE), but the value from your Reserve Study Project Manager has more to do with training and experience in the field of Reserve Studies than a particular college degree.

Q: How are replacement costs determined?

A: The typical methods are association history, relevant experience with other similar associations performing similar projects, interviews with knowledgeable association vendors, and usage of national estimating cost guidebooks.

Q: Can you update a Reserve Study by a different company?

A: Yes, if the Reserve Study was prepared according to National Reserve Study Standards (meaning required disclosures have been made for each component: Title, description, quantity, Useful Life, Remaining Useful Life, and Current Replacement Cost). If for some reason you have no confidence in the estimates or measurements/quantities in your Reserve Study, then perhaps you should start over with another credibly prepared "Full" Reserve Study by a credentialed Reserve Study professional.

Q: Once you have a reliable Reserve Study, can a different Reserve Study provider "update" that report?

A: If the initial report was based on National Reserve Study Standards and contained all the elements and disclosures required by those Standards, yes.

Q: Assume a Reserve Fund line item had been scheduled for replacement at a projected cost of $10k. After replacement the final cost was $12k. For the next update, do you use the $12k estimate, or an even newer estimate of the cost?

A: Every time the Reserve Study is prepared/updated, "current" costs should be used. Always use the most recent value. If that $12k expense was this year or last, it is probably close enough to use. If it is more than a year old, get an updated value.

Q: Can you provide a "definition" of the results expected in a good budget, which includes Operating and Reserve? For example, one which covers expected costs for current owners going out X years, but one not to overfund for future owners.

A: A good budget provides for the short term and long term costs of the association. The daily/weekly/monthly expenses should be handled through the ongoing Operational budget. The ongoing cost of deterioration of our Reserve components should be paid through ongoing Reserve contributions. That way everyone pays their fair share of the cost of running/operating the association while they are a member. See here for a national standard definition of "Adequate Reserves".

Q: What does it cost to hire a company to perform a Reserve Study from scratch? Scratch meaning the firm would start by doing the component list.

A: A "Full" Reserve Study often costs in the range of 1% of the association's annual budget (although this percentage may not scale well for associations under 50 units or above 250 units). A With-Site-Visit Update is less expensive than a "Full" (since less measuring and development work is required), and a No-Site-Visit update is another step down in cost (due to no field work). Click here to get a custom proposal for your association.

Q: Do you have a list of the life of all the items possible in an association?

A: We do not maintain a pre-defined list. We maintain a list of Useful Life ranges for most standard components, but each Reserve Study is like a painting… a creative use of our knowledge of the property and the industry, and our skill in applying our experience and our existing "tool-set" of resources to the association's unique situation.

Q: Do you have and use a master component "punch list" with typical Useful Life expectancies and Replacement Costs?

A: We have company guidelines based on our experience, but each Reserve Study we prepare is a custom document, with the Component List based on the National Reserve Study Standard four-part test. Life cycle and Current Replacement Costs are based on the client's history with that component, the experience of other relevant properties, our background of experience with the asset, interviews with association vendors, the local environment (weather), maintenance, usage patterns, economies of scale, quality of materials, etc. We have some competitors who quickly move through an association with a "punch list" and as quickly pop out a cookie-cutter Reserve Study, but it doesn't approach our accuracy.

Q: We have brought up the subject of getting a Reserve Study thru the years, but we always get shot down by the same argument: "Don't want to put away that amount of my money. I'm too old." What should I do?

A: Choose your words carefully. Reserve contributions offset ongoing deterioration. They are not "for the future" for other people's benefit. Reserve contributions simply reflect the true cost of home ownership in an association. Skimping on Reserve contributions only increases the chance of deferred maintenance and special assessments. Besides, it is the board's job to provide for the needs of the association. Skimping on Reserve contributions or "keeping assessments low" is not in their job description.

Q: Can the Reserve Study include recommended insurance coverage amount?

A: Insurable value and insurance coverage should not be expected to be within the expertise of the typical Reserve Study professional. That is a different skill set. Possible uninsured losses (fire, flood, hail, etc.) and the deductibles associated with those losses typically do not qualify as legitimate Reserve components, as they are not predictable.

Q: Can or should we Reserve for insurance premiums or insurance deductibles?

A: No. Insurance premiums are professional expenses throughout the year more appropriately handled through the Operating Budget. Insurance deductibles are inappropriate as Reserve components because their timing is not predictable (they fail test #3 of the NRSS four-part test).

Q: We received a large check from our insurance company for roof storm damage. Do I deposit to Reserves or show it in the Reserve Study?

A: Repairs become legitimate Reserve projects when they extend the Remaining Useful Life of the asset. Most commonly, the answer is to deposit the check to Operating, spend the money on the repairs, and adjust the Reserve Study as needed with the new condition of the component and the addition of any remaining (excess) funds to Reserves in the next Reserve Study update.

Q: We received a large check for a construction defect award. How do I treat this in Reserves?

A: See above. In general, deposit the funds in a settlement account and perform the necessary projects. If any funds are left over at the end, check with your attorney to find if there are restrictions on the use of those funds. If excess funds can be used for general Reserves, consider those additional funds and the reconstructed condition of the components in the next Reserve Study update.

Q: Have you conducted Reserve Studies in Ohio, or especially central Ohio (condominium) associations?

A: We have prepared Reserve Studies in all 50 states.

Q: Looking at your website, if you don't have an office close to our association, how do you perform the site inspection (who do you use), and what are the additional costs?

A: We select a trained/credentialed Project Manager from the most appropriate Association Reserves office, and travel to the site. No subcontractors or outside contractors are utilized. Any travel costs are built into our proposal.

Q: Are there laws that dictate what types of items on which you can spend Reserve funds?

A: Generally speaking, no. For instance, Florida requires Reserves be set aside for *at least* a short list of required Reserve projects, but those projects would already be included if they followed the NRSS four-part test. See our summary of state-by-state Reserve legislation here.

Q: Can we pay for a Reserve Study with Reserve Funds?

A: Typically the cost of a Reserve Study fails the NRSS four part test due to not being a common area maintenance responsibility – it is a professional service, more akin to accounting, tax, or legal services best handled from the ongoing Operational Maintenance budget.

Q: Can/should we reserve for retention ponds or an earthen dam and the lake?

A: If either meet the NRSS four-part test, yes. Consider the need for soil movement and stabilization. Consider the need for landscape control around the perimeter of the dam. Consider the need for spillway (or bridge) maintenance. Consider the need for dredging the lake bottom. There are many ways earthen dams and lake components can and should appear on your Reserve Study.

Q: Should our community budget for some funds to conduct the Reserve Study each year … either a With-Site-Visit Update or a No-Site-Visit Update?

A: Yes, that would be fiscally responsible. Reserve contributions are regularly one of the largest individual budget line items at a community association, so budgeting for an annual Reserve Study expenditure to guide Reserve contribution decisions is responsible.

Q: Should we Reserve for entire building replacement in addition to component (roof, siding) replacement projects?

A: No. Only specific components/projects that meet the NRSS 4-part test.

Q: Does a manager have any liability if the board keeps delaying Reserve projects?

A: In those cases it is best for a manager to make clear recommendations to perform timely repair and replacement projects, and get that recommendation recorded in meeting minutes. Commission a Reserve Study update so the board can see recommendations in black and white. Note that there is always some liability, but good recordkeeping can strengthen a manager's defense if challenged!

Q: What are the consequences if our 20-yr old association has never had a Reserve Study?

A: Significant exposure to unsettling surprises and special assessments. Owners have likely not paid their fair share of the cost of deterioration at the association, home values are likely lagging, and the board has moderate to significant liability exposure.

Q: Is it best to do a large project a piece (phase) at a time?

A: It depends on cost and the association's Reserve Fund. In many cases, doing a large project yields discounts due to economies of scale, but it requires the association have significant funds to get it all done at once. If cash is tight, a large project can be phased, but phased projects often result in higher overall costs and longer periods of physical disruption at the association.

Q: Is it possible to use an ongoing allowance for a project instead of total replacement cost?

A: Yes. Some situations exist where total replacement is not expected, but partial replacements or repairs are expected (sidewalk repairs, plumbing repairs, fence repairs, etc.). These partial projects still meet the NRSS 4-part test.

Q: What do you think about a Do-It-Yourself Reserve Study?

A: Having a Reserve Study Professional on your team is valuable, but for simple associations or in the years in-between a With-Site-Visit update (instead of a No-Site-Visit update), an inexpensive Do-It-Yourself Kit or online software solution (our new uPlanIt) may be good alternatives.

Q: For us Do-It-Yourselfers, do you have a sample Component List to use as a starting point?

A: No. We recommend hiring an independent Reserve Study professional to prepare your first (Full) Reserve Study, finding all components that meet the National Reserve Study Standard four-part test. That then becomes a strong foundation for the board "doing it themselves". A sample list that we provide is likely not going to give you the guidance you need as board members to meet your responsibility to care and provide for the assets of the association.

Q: We are a 550 home Condo with replacement costs in excess of $25M. Are we a good candidate for an online tool?

A: No. No volunteer board member should have that large of a responsibility. The consequences are too significant. In your case, it is clearly cost-effective to hire a Reserve Study professional.

Q: We have a water company and a HOA. Do we need two Reserve Studies?

A: If you have two independent Reserve funds and two different budgets, you should have two different Reserve Studies. But of course they can (cost-effectively) performed at the same time, just published into two separate reports.

Q: Why should we do a Reserve Study if it's not required in our state?

A: All your common areas are deteriorating and you need a plan to collect funds from the owners in a fair and responsible manner so the association will have enough cash for those predictable Reserve expenses. You prepare a Reserve Study update because boards need to know how to provide for the care and sustainability of the association, not because a Reserve Study is required by State Law.

Q: What if the association is severely underfunded and the Board refuses to increase dues or Reserve contributions?

A: Expect deferred maintenance, Special Assessments, lower property values, or all of the above. Begin your own savings account to set aside some funds for the inevitable special assessment that will come. Consider selling and move to a home where you'll experience greater Real Estate escalation over time.

Q: What's wrong with being Underfunded?

A: Click here to view a nice, short video we prepared on that topic. Here is a short blog post you can read.

Q: How does an association become underfunded?

A: Generally it's a combination of years of contributions less than the ongoing cost of deterioration, years of expenditures in excess of what was budgeted, or a combination of both.

Q: What is deferred maintenance?

A: A project that is delayed, typically due to inadequate funds or indecision. The typical result is a higher cost due to more-than-expected deterioration.

Q: Why are buyers not given the Reserve Study up-front in a purchase transaction?

A: A Reserve Study is a required seller disclosure in many states. It is always a good document to provide in all the other states where it is not required.

Q: You indicated in the fourth test for a Reserve Component, that it is often above the range of .5% - 1% of the association's annual budget. Is that the same for an association with a tight budget?

A: All association budgets are tight. Assessments need to be set so the association can responsibly and sustainably offset the deterioration. Provide your association the funds it needs to be financially sustainable, with maximized home values.

Q: Do you have more content… more detailed information on preparing the Reserve Component list, calculating Reserve Fund Strength, or calculating an appropriate Reserve Funding Plan?

A: Yes. Please visit our Resource Center for articles, videos, webinar outlines, and eBooks on a number of Reserve and financial topics.

Q: How do you establish Useful Life and Remaining Useful Life?

A: Our experience, observed condition, level of maintenance, environment, quality of material and workmanship, and age, to name a few considerations.

Q: How do you calculate the value of deterioration?

A: For each component, calculate the fractional age of the asset and multiply that by the current replacement cost. So for a $10,000 project that occurs every 10 years that is two years old (it is now 2/10ths "used up"), the value of deterioration is $2000.

Q: How is Percent Funded calculated?

A: It is a two-step process. Calculate the value of deterioration for each component (see above) and sum them all together to get a total value of current deterioration at the association. Then compare your Reserve Fund to the value of deterioration, and that is Percent Funded. If you have $60,000 in reserves and the total value of your deterioration is $100,000, your association is 60% Funded. See here for more.

Q: Is Percent Funded calculated with current or future costs?

A: Per National Reserve Study Standards, Current Cost, as it is a measure of the current financial status of the association.

Q: Please clarify – why calculate with current costs when the expenses are in the future?

A: The association's current Percent Funded, which calculates the current strength of the Reserve Fund, is calculated with current costs. The Funding Plan looks ahead into the future, considering interest earned in the process of developing a multi-year Funding Plan, so is developed using future costs. Percent Funded and Funding Plan are different calculations, for different purposes, using different values.

Q: Is the Reserve Study the current state of things at the association, or should it reflect the Board's plans/intentions?

A: The Reserve Study should reflect the current physical and financial state of affairs at the association, and the preparer's recommended multi-year Funding Plan. The board makes its plans based on the Reserve Study, and that plan can be different.

Q: If we find out something new, should we update our Reserve Study mid-year?

A: No. A Reserve Study is an annual document. We recommend keeping a file of Reserve expenditures and suggested changes (adjustments, additions, or deletions) to use in the process of updating the Reserve Study for the next year.

Q: How often do you calculate Percent Funded?

A: Each year, as part of the Reserve Study update.

Q: What are the most common Reserve Funding mistakes?

A: The three most common Reserve Funding mistakes are:

1) Presuming that the recommendations from last year's Reserve Study, or one a few years prior, is still accurate.

2) Assuming that if you want to be 50% Funded, you make 50% of your Reserve contributions.

3) Thinking that Percent Funded reports Reserve contribution fraction of Fully Funded contributions, not a calculation of Reserve Fund size/strength.

Q: Can you discuss Straight Line vs Cash Flow funding methods?

A: Just two different mathematical strategies to pay for the same expenses. We address that in our Reserve Studies 103 webinar.

Q: Can you discuss best practice for investing Reserve Funds?

A: Best practice is to invest Reserves where there can be no loss of principal, and where they will be available when needed.

Q: If we are surplus funded (we are 183% Funded), can we refund Reserves to the owners?

A: You possibly could, but it is best to spread out that benefit by subsidizing Reserve contributions for many years, rather than giving current owners a windfall.

Q: Is it ok to be overfunded?

A: Some associations are overfunded. It is not desirable, as the association is designed to be not for profit (not to accumulate a net excess of funds). Overfunded associations should trim their Reserve contributions to gradually drop their Reserve Fund strength down to the 100% level.

Q: If the association is over funded (140% Funded), can we reduce dues $2 a month?

A: It's a bit more complicated than that, but if the association became overfunded because of Reserve contributions that were higher than their ongoing rate of deterioration, then dropping the Reserve contribution rate a little bit is a good first step. The right plan should be revealed in the association's next Reserve Study update.

Q: Why would an association ever be overfunded?

A: Sometimes they got there by an insurance award, by being very restrained on spending a construction defect award, or if the board or manager was "asleep at the wheel" while Reserves accumulated in excess of what was needed. Generally, there's no good reason to be overfunded.

Q: Where can we find the math or software for annual expense tables, incorporating interest and inflation, so we can manage our own Reserve Study?

A: Rather than explain the math (it's just compounded interest and inflation, as a Google search will reveal), it is much simpler for you to just use professional tools currently available. We take care of those calculations in your Reserve Study, and they are built into free online tools like the uPlanIt tool our clients enjoy.

Q: If a Board member doesn't want to raise the dues because most residents are on a fixed income, how can that be handled?

A: Board members have a legal responsibility to care for the assets of the association, not to make their decisions on behalf of presumed limitations of individual owners. If boards don't set the budget per their legal responsibility, they face legal exposure. If some people can't afford to live in your association, they will make their own decision to move to a more affordable home. You make your decisions as a board member, let them make their own decisions as a homeowner. We go into depth on this topic in our webinar "Tight Budgets, Tough Choices".

Q: If you're at 100% funded, you're ready to pay for the next, say 20 years, which is not realistic. Please comment.

A: That reveals a popular misconception about Percent Funded. Being 100% Funded means the Reserve funds on hand are presently equal to the current deteriorated value of the Reserve components, not the total replacement value of all the Reserve components. So being 100% Funded just means your Reserve Fund is currently "on pace", not that you're sitting on a big pile of money.

**Q:	The Fully Funded Balance measures an association's ability to replace all items at a specific point in time, but it doesn't take into consideration that expenses happen spread over time. Why would one want Reserves equivalent to the Fully Funded Balance?**

A: See above. The Fully Funded Balance is the value of current deterioration, not the cost to replace all items at once.

**Q:	Do you calculate Percent Funded for each component or the association as a whole?**

A: Percent Funded is a meaningful calculation only for the association as a whole. All the components are elements of that total calculation.

**Q:	I think I heard you use the terms differently. Can you explain if "Fully Funded" is different from "Fully Funding"?**

A: You have a good ear! Fully Funded is a state of being… when the association is at or very near the Fully Funded point (100% Funded). Fully *Funding* is pursuing the goal of being Fully Funded… they can be 23% Funded now but they are "Fully Funding" their Reserves, which means they intend to be 100% Funded in (likely) 10-15 years.

**Q:	Are exclusive use common area included in the Reserve Component List?**

A: Yes – if those assets meet the National Reserve Study Standards four-part test. Exclusive Use Common Area are still common area, just reserved for the private enjoyment of less than all unit owners.

**Q:	For street replacement, should reserves be set aside during the first years or only when the expense comes within 30 years?**

A: Reserves should be collected throughout the entire life of the component, so all users of the component contribute to offset its ongoing deterioration. Don't be limited by a 20-year or 30-year threshold.

**Q:	Why would we want to have money in Reserves now for projects that will not need to happen for another 15-20 years, and why should we care about our Percent Funded (and your calculated Special Assessment risk) now when those big projects are far away?**

A: It's all about fairness and responsibility. When everyone who is enjoying the use of those assets pays their fair share of the deterioration that occurred while they owned a home in the association, the future takes care of itself. If your large projects are many years away, now is the time to be making small ongoing contributions, so the unfortunate owners at the time of the expenditure don't have to pay more than their fair share.

**Q:	Why should we Reserve for a new roof? Living here in CO, our roofing company tells us that replacement will be covered by insurance when it gets destroyed by a hailstorm.**

A: It is responsible to plan for ongoing deterioration. Hailstorms are never for certain, and roofing materials continue to get sturdier and sturdier. You don't want to get stuck with an old roof needing replacement, hoping for a devastating hailstorm because you haven't set aside Reserves for a roof replacement.

Q: Is there a rule of thumb to determine if something should be funded from the Reserves or the Operating budget?

A: Reserve expenses should pass the NRSSfour-part test. See more information on this subject in our "Road Map for Managers" webinar.

Q: Would you please explain 'borrowing' from your Reserve Fund for non-reserve expenses.

A: Sometimes a Reserve Fund looks large, and it is tempting to want to draw some cash from Reserves to pay for other (operating) expenses. Some associations temporarily "borrow" from the Reserve Fund to pay a large insurance premium, restoring the funds to Reserves over the next few months. Theoretically, no big deal. Just keep a good written record of the loan and the repayment plan, to prevent coming up short when it is time to pay for a Reserve project! But beware: some states have specific requirements to be met before Reserves can be used for non-Reserve expenses (loans), and some states require loans from Reserves be repaid within a specific number of months.

Q: If a new project is being implemented, where would the money come from to install the new project? I realize that the ongoing maintenance would be paid for from Reserves funds – assuming that the project is added to the Reserves component list. For example, our HOA is looking into installing a submeter system for the water. Currently, the water bills are paid out of the HOA operating budget. The HOA is looking into the submeters so that each member would be responsible for paying for their individual water use. So, where would the money come from for the installation of the submetering system?

A: Let's assume it is a new Reserve project (it currently exists and meets the four-part test defined in National Reserve Study Standards). Spend the $ from Reserves, and update the Reserve Study at the earliest opportunity (for the upcoming year). This update will incorporate the new component, and will likely report that higher contributions are needed to compensate for $ spent from Reserves, and as set-asides for the next occurrence of this project.

But in your example, new submetering equipment fails test #1, as it is not currently a common area maintenance project. So I would counsel that it is not a legitimate expenditure of Reserve funds. Fund installation with a special assessment or an official "loan" from the Reserve Fund repaid with anticipated water bill savings. When it "exists", add it to the Reserve Component List so funds are being set aside for the next occurrence of this project.

Q: Please explain. You said most associations only need to perform a Full Reserve Study once? Not every three years?

A: Correct. You're likely confusing a Full Reserve Study with an Update With-Site-Visit. Once the Component List has been identified, and all components have been quantified, (80,000 Sq Ft of asphalt, 24,500 Sq Ft of roofing, etc.), you don't need to pay for another Full Reserve Study to re-establish the list and re-measure those components. After their first "Full" Reserve Study, what most associations need are Update Reserve Studies (either an Update With-Site-Visit which is good to do approximately every third year, or Update No-Site-Visit which is good in the in-between years).

Q: How often should you update your Reserve Study?

A: Because Reserve Studies are based on observations or information that is time-dependent (the condition of components, the cost of components, the Reserve Balance…), a Reserve Study is an annual document. It becomes outdated and inaccurate after one year. In addition, because Reserve contributions typically represent 15-40% of an association's total budget, that is a budget line item worth reconsidering (updating!) every year. Finally, special assessments are measurably lower among associations updating their Reserve Study annually (see here).

Q: We are a small (14-unit), simple association. How often should we do a With-Site-Visit Reserve Study Update?

A: I would think every third year would keep your association generally pointed in the right direction. But please see above, how associations significantly reduced their Special Assessment risk by updating their Reserve Study annually instead of only every third or fifth year.

Q: Why do you recommend an annual Reserve Study update if your major projects are many years away?

A: Because major Reserve projects take years of financial preparation. Conditions change, costs change, the association's financial resources change, and economic environmental factors change. You want to make progress towards your goal each year, not spending years drifting off-target.

Q: How can a Board update their Reserve Study themselves (to save some money)?

A: Most Reserve Study providers make Update With-Site-Visit and Update No-Site-Visit engagements available to their clients at very attractive prices. Remember, a board's job is to run the affairs of the association; their job is not primarily to avoid necessary expense. For simple update situations, boards can avail themselves to lower cost products like a Do-It-Yourself Reserve Study Kit (www.DIYReserveStudy.com) or get a subscription to our online uPlanIt tool.

**Q:	We are a small community of 13 homes and have a significant reserve balance that resulted from proceeds from a lawsuit. Can the association use some of these one-time proceeds for common area improvements?**

A: Check with your attorney: Sometimes litigation proceeds are limited to very specific uses (road replacement, roof replacement, etc.) for which those funds were awarded (because any other use invalidates the award and will trigger the return of the funds). Check your Reserve Study (look at your Percent Funded): perhaps those funds only look like a lot of money, and they are needed for upcoming Reserve projects.

Q:	**When an expenditure is made from reserve funds (in accordance with the plan) the Reserve Study's percent funded should remain virtually unchanged…correct?**

A: No. If the association is 50% Funded, it means the association only has 50% of the funds it should have at that particular point in time. So if the association performs a $100,000 roof project on time and on-budget, that will weaken the Reserve Fund further because the Reserve Fund (at 50% Funded) only had $50,000 of the $100,000 it needed.

**Q:	How do we add missing items to the list? And after they are added, how long before we can use money for them?**

A: Reserve Studies are typically updated annually. In that process if you find a project meets the National Reserve Study Standards four-part test and isn't on your Reserve Component List, add it to your Reserve Study in the next update. Since the project meets the National Reserve Study Standard four-part test, it qualifies as a legitimate Reserve expense now. Obviously, it was an unanticipated expense, so expect your Reserve Fund to be weakened and expect your Reserve contributions to increase. Spend Reserve funds on Reserve projects. You don't have to wait until they can be utilized.

**Q:	How and when do we add major components (siding replacement, spalling repairs, decaying sewer lines, etc.) that are revealed as needs due to advanced building age?**

A: As soon as reasonable estimates can be made, per the National Reserve Study Standards four-part test. See more on common "detours" like this in this presentation addressing how to navigate through a year of Reserve decisions at your association.

**Q:	Once you receive the results of a Reserve Study, what is the best approach to dissect it, use it, and explain it to the Board?**

A: Review it, giving it the "sensibility and sensitivity" test, to see that it reflects the current status of the association physically and financially. Discuss it with your Project Manager. The bottom line is that the component list should accurately reflect the physical condition of the property, and beyond that the Percent Funded reveals the current size (strength) of the Reserve Fund, and the Funding Plan reveals what the Project Manager feels is a successful multi-yr Funding Plan.

Q: When you calculate Percent Funded and report strength or weakness, is that at the end of the 30 year period, or does it mean if you dip below 30% for say 2 years but you are over 70% for the other 28 years and you are at 90% after 30 years = you are still poor - or are you good/strong?

A: Percent Funded is calculated each year (hopefully now and for each of the next 20 or 30 years). Percent Funded is the comparison between your Reserve cash balance and the value of deterioration at the association. It is important to know your Percent Funded for your current year, because it tells you your risk of special assessment right now. It is also important to know how your Percent Funded is trending over the years (up or down, towards 100% Funded or not, based on your Reserve Funding Plan).

For instance - if your Percent Funded now is under 30%, you have about a 50% chance of a special assessment. So if your Funding Plan has you spending the next three years in the 0-30% Funded range, there is a high chance you'll need one special assessment in those three years. But if your Funding Plan directs your association towards stronger Reserves over the years, your special assessment risk will gradually reduce as you approach the strong (70-130% Funded) range. See more in this article.

Q: What are the pitfalls of only getting estimates for a few components (asphalt, perimeter wall, etc.) instead of commissioning a Reserve Study?

A: Who's to say that those are the only major components? How are you gathering the funds for all the other components that will need to be replaced? It sounds to me like a very weak effort at planning responsibly, which doesn't prepare the association for upcoming expenses. Not planning well exposes the Board to liability.

Q: Where would one get estimates for a few components (asphalt, perimeter wall, etc.)?

A: National construction estimating guidebooks, Internet research, and current association vendors.

Q: In our 25-home association, our major common area asset is our roadway system. Do we need a Reserve Study?

A: I would recommend a Full Reserve Study, which will reveal the association's major components, its Reserve Fund strength, and recommended contributions. If indeed your Reserve component list ends up being a short list, it forms a solid platform for in-house updating in future years.

Q: How do you convince a Board of an association with little in Reserves that they need a Reserve Study?

A: You can lead a horse to water but you can't make it drink. Remember the Four Reserve Rules:. 1) Everything deteriorates. 2) The Board is responsible to manage the affairs of the association. 3) Delays usually get expensive. 4) Homeowners always get stuck with the bill.

The board is exposed to liability by not handling their job (to care for the needs of the association) responsibility, exposing the association and its owners to unsettling surprises, special assessments, and diminished property values.

Q: How do you convince homeowners of Useful Life and Replacement Costs?

A: It depends on who generated those estimates. A credentialed Reserve Study professional (look for an "RS" or "PRA" behind their name) is a professional in this specialized field with years of experience under their belt. They see deterioration and replacement projects all the time. Their estimates by definition should be trustworthy. But if those estimates come from a homeowner volunteer, they've got an uphill battle to prove the credibility of their own research.

Q: Why not do a Reserve Study yourself (in-house)?

A: See above. Will that Reserve Study carry enough authority to influence a change in the budget? How accurate is the Component List? How accurate are the estimates for Useful Life, Remaining Useful Life, and Replacement Cost? Of course you can do it yourself. But it may not be an effective exercise. And remember – the board's job is to provide for the needs of the association. It is not the board's job to save money by guessing when they need solid advice.

Q: What is a transitional Reserve Study?

A: A transitional Reserve Study is often a combination of a Transition Study and a Reserve Study. New associations need Reserve Studies – to ensure they are off "on the right foot" budget-wise, so they don't get 10 or 15 years down the road and find that the developer underestimated replacement costs or overestimated life expectancies in the initial budget (Public Offering Statement). A transition study is an effective tool, independently checking the physical elements of the association for completeness and that it was built and finished correctly. A transition study is a valuable tool for associations exiting developer control… allowing an independent expert in to inspect and document if there are any projects yet to be completed or needing to be redone.

Q: Should an association have a Reserve Study at the time of transition and when should the association begin funding Reserves?

A: It is good practice for the board to commission an independent Reserve Study by a credentialed provider shortly after taking control of the association. Like a transition study (see above), it will reveal the physical condition and funding status of the association, news the association should receive sooner than later. If there are physical problems with the association (construction defects), claims for Reserve underfunding may be added to the challenge against the developer. Ideally the developer should begin funding Reserves as soon as the homes are built, because that's when the common areas begin deteriorating. As soon as the homeowners take over, an independent Reserve Study will reveal if the association is "on track" with respect to Reserves, and if not, what contribution adjustments need to be made.

Q: How many years ahead should a Reserve Study look in order to plan responsibly?

A: See the NRSS four-part test again. There is no minimum or maximum Useful Life limit. So if you have a major project with a 40-year life (a seawall, or a major elevator or fire alarm system renovation), include it. It might be a bit of a fuzzy estimate now, but you can refine it as the years draw closer. That way everyone using and enjoying the asset is paying their small, fair share of deterioration, not placing the entire burden of replacement cost on the last 10 or 20-years of owners! By the way - National Reserve Study Standards require that a minimum of 20 years of income and expenses be presented in the Reserve Study.

Q: How do you determine the Component List? The one we got this year differed significantly in # of Components from the one we got last year from another company.

A: If the last Reserve Study was done by someone unfamiliar with National Reserve Study Standards, it may not be a credible list. It may be missing components and it may include projects more appropriately handled through the Operating budget. If the last Reserve Study was prepared by someone according to NRSS, they may have had a different philosophy with respect to detail, and while it may look very different in style, its substance may be very similar. For instance, one company may list one component "Rec Room – Refurbish", while another company may list the exact same assets individually… flooring, painting, chairs, tables, kitchen remodel, bathroom remodel, HVAC, etc., looking like there is a lot more there, but not really being any more accurate.

Q: Our state requires "adequate Reserves", but doesn't define that. Can you think of a case example where that was tested and defined?

A: I can't think of a case example, but clearly "adequate" means "enough to perform its intended function". See this definition, developed in early 2018 by major Reserve Study providers from across the country.

Q: We have Reserve Study requirements in our State (CA), but nobody seems to be enforcing those requirements. Why not? Lack of enforcement makes it difficult for associations like ours with a rogue board.

A: Law enforcement is not my area of specialty. I trust law enforcement officials are working on more pressing problems. You can always run for the board, move, or sue the association: three things that are within your control.

Q: Are you familiar with an association being forced to pay for sewer drainage problems associated with shared utilities?

A: Periodically we come across an association with shared responsibilities (sharing their tennis court with an adjacent apartment or association, and I expect shared responsibility may likewise occur with utilities such as water or sewer systems. In those cases, the association should list the component in their Reserve Study, but with only their portion of the total expense (such as 50% of the tennis court resurface cost).

Q: In our association, we have a golf course managed by a third party company which charges for members and non-members to play the course. Do we need to Reserve for golf course assets?

A: It depends on how maintenance responsibilities are structured. If the golf course operator is required to maintain the course out of fees they collect, it is not association responsibility (it fails test #1 of the National Reserve Study Standard four-part test). If the golf course remains the maintenance responsibility of the association, golf course assets should appear as components in the Reserve Study.

Q: We have repair line items in our Operating budget. When do those become big enough to be considered a Reserve project?

A: If repairs are being successfully accomplished from the Operating Budget, it is ok to leave them there. If they pass the NRSS four-part test, they should be budgeted through the Reserve Study and paid with Reserve funds.

Q: If our Percent Funded is 70% or more (strong), can we put in an automatic inflation-offsetting escalation factor to our contributions, kind of like cruise control, and have a more hands-off attitude towards our Reserves?

A: Good for your association to be one of the 30% with a strong Reserve Fund. But Reserves require diligence, not putting the subject on autopilot. Review your situation regularly, and make adjustments as appropriate. I'm sure you'll find your "cruise-control" settings need to be adjusted regularly due to unanticipated changes to interest, inflation, Reserve Balance, or life expectancies.

Q: Why do you talk about painting as a Reserve component. Isn't that inappropriate due to IRS regulations?

A: No. Painting commonly meets the National Reserve Study Standards (NRSS) four-part test. Prepare your Reserve Study according to NRSS, prepare your taxes according to IRS standards. They are different documents, with different purposes, guided by different standards. See more here.

Q: Our auditor is giving us real push-back to take out IRS-defined non-capital projects (painting, asphalt sealing, tree trimming…) from our Reserve Study, threatening that our entire Reserve Fund could be considered "profit" and therefore taxable. What do we do?

A: A CPA can make the appropriate adjustments to your financial statements, separating Reserve contributions between capital and non-capital components. See article here. That, and perhaps a formal resolution suggested by your CPA, should be sufficient to protect your entire Reserve Fund from threat of taxation.

Q: Can tree care, plant material, or landscape projects be funded through Reserves?

A: Yes. Often landscaping projects meet the NRSS four-part test in that they are a common area maintenance responsibility, life limited (perhaps you need to replace old/mature vegetation every 10-20 years or so), you want to establish a regular schedule so the grounds stay attractive (meaning the Remaining Useful Life is well-established), and at many associations this type of project can be a significant expenditure.

Q: Should an irrigation system's life (30 to 50 years?) be included in reserves and reserves set aside for complete replacement?

A: Yes, see above. Major repairs or replacements to an irrigation system commonly meet the four-part test, and therefore are funded through Reserves.

Q: Are water and sewer lines typically Reserve components, or not?

A: Water and sewer lines, presuming they are common area maintenance responsibilities, should appear as soon as reasonable estimates can be made per the National Reserve Study Standards four-part test.

Q: When you talk about partial or phased repairs being effective, can you provide some math examples (fencing, siding, etc.)?

A: If you have miles of fencing that is in "random" condition, but is the type of fence that should be replaced every 25 years, you can successfully do 1/25th every year, 1/5th ever five years, etc. Just be careful… you don't want to be doing 1/10th every five years, or you won't get around the entire association for 50 years, an unsuccessfully long interval!

Q: How do we make our homeowners understand that deterioration is real, and that it needs to be funded?

A: We had one association with serious balcony problems where the homeowners voted down the special assessment for balcony repairs. But the board had a clever idea. The debris from the two balconies that had failed had been carted off to the landfill, but they piled the ugly dry-rotted structural beams from the third failed balcony right at the entrance to the association, where everyone saw it every day, with the sign "Are these holding up your balcony?" The board called for another special assessment vote, and it passed almost unanimously. Lesson: make it real to your members. Deterioration is real. Costs don't go away. See this article as an additional resource.

Q: Are commercial entities within the association required to contribute to the association?

A: It all boils down to what the Governing Documents require. Ground floor units in mixed-use associations (restaurants, dry cleaners, etc.) regularly are full-fledged members of the association, paying assessments just like residential owners. In large developments, some corner lots are not members of the association (gas stations, schools, or houses of worship), and therefore do not participate organizationally or financially in the association's operation.