



RESERVE STUDY ROAD MAP FOR MANAGERS

by Robert M. Nordlund, PE, RS and Jim Talga, RS

www.reservestudy.com

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

The tragic collapse of Champlain Towers South on June 24 got our attention because it was so deadly and so unexpected. Now our concerns for deferred maintenance have expanded beyond projects that cause big catch-up special assessments, or unsightly things that drop property values. Now we need to consider that deferred maintenance can also be dangerous. That's why following a roadmap to the future is even more important, guiding us forward so our present is less stressful and our future is more secure. So – update your Reserve Study regularly, collect Reserves as recommended, spend Reserves as recommended (on projects that pass the National Reserve Study Standards [four-part test](#)), and get a periodic infrastructure inspection by a qualified engineer or architect.

Below are a few of the key concepts excerpted from the webinar:

Keep it simple: Remember the “Four Reserve Rules”




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

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Remember that as a Manager or Board Member, you are not expected to be an expert in every field. Where you are not sure (what to do now, how to run this

multi-million dollar Real Estate corporation!), reach out to an expert. That may be an accountant, attorney, construction consultant, Reserve Study professional, or other subject matter expert.

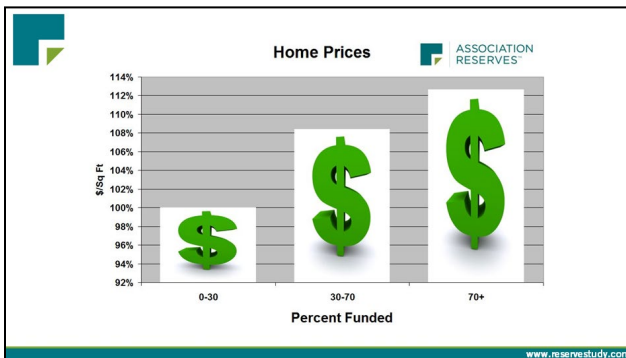


Reserve Study Benefits


- Avoid Surprises
- Save \$ (minimize deferred maint)
- Reduce Liability (promote Fairness & Fiscal responsibility)
- Maximize property values
- Compliance/Disclosures

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Why are we doing this... why should Boards care about Reserves?




Remember that curb appeal (which occurs when Reserves are strong) is real, and measurably affects home values! Read more [here](#).



Is it a Reserve Expense?


Yes if...

1. The project is listed in the Reserve Study
2. The project is not listed, but is related, significant, and extends the component's Remaining Useful Life
3. It passes the four-part test (and your Reserve Study provider agrees)








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Is it a Reserve expense? Yes if the project is in the Reserve Study, or if you've consulted with your Reserve Study provider (complying with Business Judgment Rule).



Five Failure Modes

-  Inconsequential
-  Re-Evaluate
-  Obsolescence
-  Protection
-  Catastrophic

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Save the owners the high cost of expensive deferred maintenance – know when it's ok to delay a project (red), and when it is best to do it on schedule (green)!



What if it costs more/less?

- Perform the project
- Expect extra/unused funds will be re-allocated among components*
- Update your Reserve Study with different \$ or UL/RUL

Remember the 4 Reserve Rules!

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Expect some projects to be more (or less) expensive than anticipated. Spend the money (from Reserves), and update your Reserve Study with those more accurate expectations.



Capital Improvements?

Reserves are for repairs and replacements –

Not new additions to the association

So natural upgrades are ok!

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Don't spend precious Reserves on non-Reserve projects!



NATIONAL SPECIAL ASSESSMENT RISK



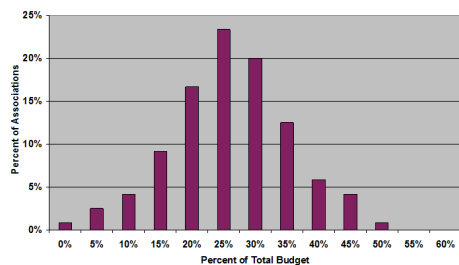
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Measure your Reserve Fund size meaningfully (with Percent Funded), making sure the Board and Owners know the implications.



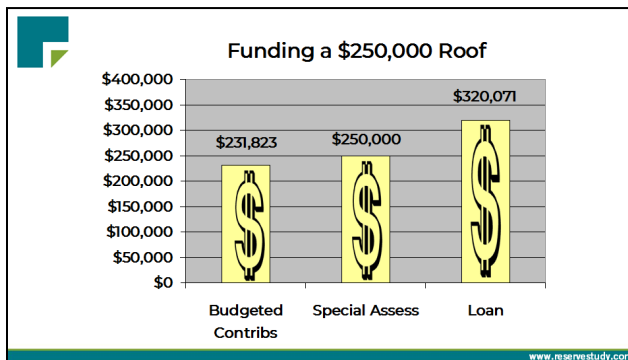
Adequate Reserve Contributions (Out of Total Budget)

ASSOCIATION RESERVES

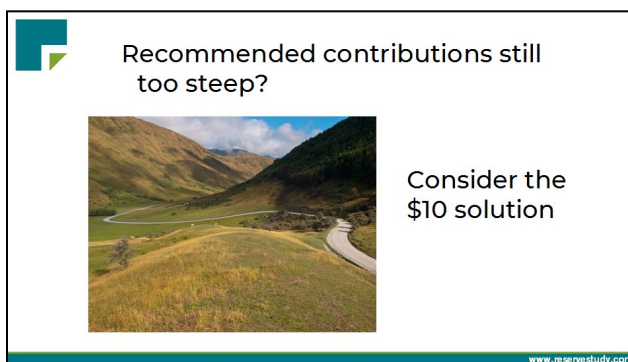


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Appreciate that common areas are expensive to repair and replace. Set aside enough funds to avoid expensive deferred maintenance and troublesome special assessments!



Remember that budgeted contributions are the least expensive way to pay for those inevitable Reserve contributions.



What if you can't make the change to adequately fund Reserves this year? Consider a multi-yr plan... \$10 Reserve contribution increases for 2-5 years!

Doing your Job...

Update Expectations?

- Every 3 yrs? Every 5 yrs?
- Everything changes every year!
- Special assessment risk drops approx 30% when updated annually

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Keep the association on-target, update their Reserve Study regularly. There are fewer special assessments among associations who update their Reserve Study annually!

Doing your Job...

New tool... **uPlanIt**
Measure the Past, Model the Future

- To enhance the Reserve Study process
- Test all your adjustments
- Document your plan (no guessing!)
- Free with every completed Reserve Study! (\$149 for all others)

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And enjoy our new online Reserve calculator uPlanIt, that lets you see what happens when you adjust the numbers in your Reserve Study. See what works, and what doesn't!

Additional Resources mentioned in the webinar:

CAI's Common Ground (Mar/Apr 2018) magazine article "On the Road with Reserves" inspired by this webinar [here](#).

National Reserve Study Standards – [here](#)

An explanation of National Reserve Study Standards – [here](#).

Looking for more related resources? See additional recorded webinars on our "webinars" page [here](#).



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Planning For The Inevitable™

Over 60,000 Reserve Studies Nationwide

Remember – you're never on your own. [Association Reserves](#) is here to guide your association towards an improved future with carefully prepared Reserve Studies and wise counsel throughout the year!

Webinar Questions Asked by Attendees

Q: Can a HOA just take "unallocated reserves" to buy playground equipment to establish a new amenity? Doesn't that constitute a "borrowing" that has to be paid back w/in a year?

A: Reserves should only be spent on existing Reserve assets. "Unallocated Reserves" are for overages and "surprise" expenses related to (existing) association assets.

Q: How is the cost of a Reserve Study determined?

A: # of hours it will take to accomplish the project. This is primarily determined by the Level of Service (Full, Update With-Site-Visit, or Update No-Site-Visit), and then for each association the cost varies based on five factors: # of units, type of association, age of association, time of year, and physical distance from one of our offices.

Q: Owners voted for funding only 1/2 reserve money or no money at all to reserves. There was no choice for funding 100% reserves. Is this legal?

A: What is legal is defined by your Governing Documents and your local state law. Planning to pay only half of any bill is foolish! Everyone is enjoying the assets of the association, everyone should pay their fair share of deterioration along the way.

Q: We are a new HOA and we are about 60% Funded. When we have an upcoming expense, we plan to pay for it from Reserves, but one member says we can only pay 60% from Reserves and must pass a special assessment for the remaining 40%. Which approach is correct?

A: Reserve expenses are to be paid from Reserves. The amount of cash you spend from reserves is limited by available cash, not your Percent Funded. Pay for the project, update your Reserve Study regularly, adjust your contributions regularly, and you'll be just fine.

Q: Our association's reserve study is conducted by the management company. What are the risks of a management conducting reserve studies vs. having an independent reserve study firm conducting the study? And our last reserve study was not done based on a "With-Site-Visit" Reserve Study as required by our state law. Was this a problem?

A: Management companies employees typically don't have the experience or skill set to prepare a Reserve Study. They certainly don't have any independence, as the "goose that lays the golden egg" is their management contract, and the stiff/unsettling news that is typically contained in a Reserve Study is often watered down so as to not upset the client (and their ongoing management relationship). And if state law says an update is to be based on a site visit, that needs to be followed. That's likely a good example of a management company's Reserve Study skills being not quite "up to par".

Q: How can residents compel board members to actually fund their reserves per the expert reserve consultant recommendations?

A: They can't. That's the board's job. Residents can complain, put pressure on the board ("protect my property values – raise assessments to fund Reserves so projects get done on time!"), residents can run to replace short-sighted board members, and residents can create their own Reserve fund (to pay the inevitable upcoming special assessment).

Q: What is the difference between calculating Reserve contributions by the Straight Line (Component) method vs the Cash Flow (Pooled) method?

A: See [this](#) article, and our webinar on the topic (Reserve Studies 103) [here](#).

Q: Please explain cash flow method for those of us not CPAs.

A: The cash flow method simply balances annual Reserve income against annual Reserve expenses over a minimum 20-yr time frame. The Cash Flow method looks at the Reserve Fund as a whole, not individual component expenditures. See more [here](#) (our Reserve Studies 103 webinar).

Q: Are calculating Reserve contributions with the Cash Flow method better in the long run?

A: Yes. See [this](#) article.

Q: How can a manager "convince" a board NOT to defer maintenance when the board doesn't seem to want to do it to "save" money, even when deferred maintenance consequences have been thoroughly explained?

A: The board has the power to run the association. Managers have a particular ability to "coach" or "guide" the association towards wise decisions, but managers aren't always successful. It is board members who will lose money when their properties fail to appreciate over time, and it is board members who will profit when their unit values are maximized. It's their money, their call.

Q: We had a past board that spent money (20%) from reserves that was not a reserve item. Now the current board will not do projects and does not want to raise assessments. How do you address this?

A: Have them contact their Reserve Study provider. They will be reminded that Reserve funds have one purpose – to pay for Reserve projects (being hoarded is not their purpose!). Boards also have the responsibility to raise assessments so sufficient Reserve funds exist to so those funds exist, so they can be spent in a timely manner to accomplish necessary Reserve projects.

Q: Can you please talk about where the funds for capital improvements should come from?

A: Generally, special assessments or temporary higher monthly assessments.

Q: What if an improvement is needed for security purposes, such as gating a community, or adding a manned security kiosk?

A: Reserves should only be spent on existing Reserve assets. If something is desired ("needed"), then that is great motivation for the owners to agree to a special assessment.

Q: Please direct me to resources that preclude the board from spending reserves for new amenities.

A: Please see National Reserve Study Standards [here](#)... definition of Capital Improvement (top of pg 3), and an explanation of National Reserve Study Standards [here](#) (a few paragraphs on the topic of Capital Improvements, found at the bottom of pg 6).

Q: Is there a minimum expense that we can withdraw from reserves? For example, installing a new gate and it is \$3,000. Can we use the reserve account to pay for that?

A: You can spend Reserves for projects that meet the National Reserve Study Standards four-part test [here](#). There is no “minimum cost”, although it should be “significant” to your association.

Q: Should items with more than a 30-year life, be included in your reserve study?

A: Absolutely. As soon as a project can be reasonably anticipated, it should be considered for inclusion in the Reserve Study.

Q: Is it a good practice to update your Reserve Study right after a major expenditure? Wouldn't this minimize changes in the reserve contributions?

A: Reserve Studies are typically performed a few months prior to the end of the year, so the results can be used in the budget preparation process for the upcoming year. This way any Reserve contribution adjustments can be accomplished along with any other changes in monthly assessments. You minimize Reserve contribution changes by updating your Reserve Study annually.

Q: You seem to characterize special assessments only as undesirable, unfair. Yet, in many aspects of life's capital improvements, that is not the case (highways paid by bonds supported by taxes over time; a new roof for a house, paid by taking out a home equity loan). Is it possible that a combination of increased dues, along with a special assessment might strike a good balance in who pays and who benefits over time?

A: No. Special assessments are unfair. For boards to know of an association expense (Reserve contributions) and not pay them, is tempting claims of financial mismanagement or misrepresentation. Those who use an asset while it is deteriorating should pay the cost of that deterioration. Often our government does not set a good example for us (besides, they can just print money when they want to). And a stand-alone homeowner can do whatever they want... they are not trying to deal with an ever-changing set of shareholders. In community association situations, the board has legal fiduciary responsibilities to run the association in a fiscally responsible manner.

Q: What is the wisdom of using a Reserve Study firm regularly over the years vs going with a new firm?

A: The pre-existing firm has the advantage of familiarity with the property, seeing changes from year to year. But if that firm gets complacent, if your Reserve Study is not done by a credentialed RS or PRA, or if they aren't following National Reserve Study Standards, get a new firm.

Q: What is the best way to increase a poorly funded reserve fund for a long established condominium in which the previous owners chose not to fund the reserves, rather chose to use special assessments?

A: Get a Reserve Study, learn your cash flow challenges, and try to raise as much money as necessary through increased regular monthly assessments.

Q: What is typical range of percent funded for most associations?

A: See [here](https://www.reservestudy.com).

Q: Our owners voted to funding 1/2 of the recommended Reserve contributions last year. Do they vote again the next year for 100%?

A: Please check with your attorney. It is always recommended to “pay the (entire) deterioration bill”, not just a portion of it.

Q: I manage an upscale high-rise. Most of my owners want to continue with "special assess me when a project/repair, etc... comes up". They'd rather hold on to their money now. Any tips on how to convince them otherwise?

A: Special assessments drag down property values. Low Percent Funded drags down property values. And it is patently unfair to ask people to pay for deterioration that was predictable, that occurred prior to when they purchased a home in the association. Tell them their profit motive, tell them how unfair what they are doing is, and let them make the decision.

Q: By relying solely on HOA dues, the owners' money sits in an account making virtually no money until the project is needed/funded. By using at least part as a special assessment, owners' money is invested by them as they see fit, offering a chance for it to increase until the special assessment is levied. Your thoughts on how that might affect dues vs. special assessment, or a mix over time?

A: Owners can choose to put their money at risk. Boards cannot – they are trustees of association funds and cannot risk financial losses for the association. So boards need to keep association funds in “safe” (protection of principal) investments. That is not a problem. The Funding Plan can be designed to handle low interest earnings... just by adding a few dollars of contributions a month. The benefit of having funds when needed, without relying on a special assessment to pass (or the delays in launching a special assessment) greatly outweigh the absolutely trivial additional contributions required of owners. Do the math and you'll see.

Q: How do you add another item to the reserve?

A: The new component is added when the Reserve Study is updated.

Q: We are a 50+ yr old mobile home park and we own all the infrastructure. The sewer system, (original), has not been budgeted in the reserves per decision of the board which ignored the Reserve Study. Suggestions?

A: Start setting some money aside – you're going to get hit with a special assessment. Encourage your board to face the facts. The sewer system will never get better by itself.

Q: We've been budgeting for a certain number of units to be painted each year instead of taking from Reserves. As a result, we can't do as many as really need it. Is this the best plan?

A: The best plan does what is needed. If your association is gradually “falling behind” with its current plan, then you need to increase your monthly assessments so you can afford to do as many units per year as are needed. Fantasy budgeting never works.

Q: My HOA removed some original building features (trellis', awnings, etc.) They found them too painful to maintain. Can we now re-install or put new ones in from reserves?

A: That is a delicate question. The asset “used to” exist, but was removed. So in theory you should be able to replace as a Reserve component, but currently it does not now exist. Reach out to your Reserve Study professional for assistance on this one.

Q: Should the Reserve Study be paid out of the Operating or the Reserve Funds?

A: Operating.

Q: What happens if our reserve fund goes to 30%? Repercussions?

A: Your risk of unsettling and unfair special assessments increases as your Percent Funded decreases. There is no particular “fall of the cliff” repercussions of being 29% Funded compared to 31% funded, other than it is a little worse. See more [here](https://www.reservestudy.com).

Q: My HOA wants to put 25K in the reserve just for an emergency cushion - I didn't think this was OK. Is it?

A: “Cushions” are just that – contingencies. They should not be in Reserves. Either you decide to have \$25k on the side as discretionary funds (for an insurance deductible, water leak, etc.) or you put the \$ into Reserves and strengthen your Reserve Fund (“cushioning” your association against an upcoming special assessment). Choose.

Q: Where is the best place to set up a Contingency Reserve for Hurricane Recovery Damage - Operating Fund or Reserve Fund?

A: Operating Fund. Hurricanes are not predictable, so they are not valid uses of Reserves.

Q: You suggested setting aside 25% of my HOA monthly payment for reserve funding. Are you saying from our Operating Budget, or in addition to it?

A: In general, it is common for your Reserve contributions to need to be in the range of 25% of your total assessments. So if your total assessments are \$400/mo, it is likely that your Reserve contributions should be \$100 of that \$400, and your operating budget \$300 of that \$400/mo.

Q: Might we be ok by just contributing 25% of total budget?

A: Reserve funds are so significant that you should have a Reserve Study to find out what is “right” for your association. This is not a place to guess or assume. This is an application both of your “Duty of Care” and your “Duty of Inquiry”.

Q: Can you use the reserve to pay for any asset that is not listed as a reserve component?

A: You can use Reserves for a project not listed in your Reserve Study if it passes the higher authority – the National Reserve Study Standards four-part test. See [here](#). But it is best that you check with your Reserve Study professional on this type of issue.

Q: We are a high-rise HOA and were recently required by law to install a new safety system on our roofs for our window washers. The cost was 100k. The new system was not yet in the reserve study. Can monies from the reserves be used to purchase and install the new safety system required by law?

A: No. Reserve funds are not to be used for anything other than the repair or replacement of existing assets. You need a special assessment to purchase the new rooftop safety system, and you need to add the asset to your Reserve component list so you have the funds set aside to refurbish those existing assets in 20+ yrs.

Q: Our HOA has a category called "unallocated reserves" that originated from a one time sale of an amenity. The concept was to keep this reserve separated from specific reserves so that it could be used for an unanticipated expense. Would you agree that even an unallocated reserve is not a piggy bank or slush fund for new amenities?

A: I would remove the word "reserves" from the title of that asset on your balance sheet. Probably best to call it "unallocated contingency". Please check with your attorney to learn if there are any restrictions on the use of these funds. If not, then this might be a nice pool of funds to draw from for a new tot lot, tennis court, dog park, or other "capital improvement".

Q: What is the specific numerator and denominator of "percent funded"?

A: This calculation is typically performed as-of the first day of the association's fiscal year. The numerator is the projected Reserve Fund Balance as-of that day, and the denominator is the "Fully Funded Balance" on that day (the calculated value of deterioration among your Reserve components). See the definition of Percent Funded in National Reserve Study Standards [here](#) (pg. 4).

Q: If our Reserve Study was done back in 2017 and hasn't been updated, would you need to start over with a Full Reserve Study or is a WSV Update adequate?

A: Good for you to appreciate the need for fresh Reserve Study information. If the Component List was well established (based on the National Reserve Study Standards 4-part test), and if no quantities have changed (the association has not grown due to additional phases), a With-Site-Visit (WSV) update should be just fine.

Q: If an Association is underfunded in reserves, how much would you suggest be added monthly to try and "catch up"?

A: Update your Reserve Study and see.

Q: Reserve Studies can be overwhelming for owners. How much should the Board share and in what manner? Is it just financial, paragraph form etc.? Do you have examples?

A: Most boards share the (approximately) two-page Executive Summary, listing the date of the Reserve Study, the Component List, the Percent Funded, and the recommended contribution rate (the classic "three results). That should be accompanied by clear messaging that Reserve funds offset ongoing deterioration, preventing special assessments, ensuring every owner fairly pays their fair share of the "total cost of ownership" while living in the association, and so Real Estate values are maximized. Let them know their hard-earned dollars are being put to good use!

Q: Do you advise formally acknowledging Deferred Maintenance as a line item on an HOA's Operational Budget?

A: No. Do things on time. Eliminate costly deferred maintenance.

Q: What would you consider HVAC systems, which are still working but at the end of their life?

A: The failure category would depend on its role. If it is a wall unit in the clubhouse (that is used for monthly board meetings), let it run to failure (“inconsequential”). If it is the prime HVAC system serving the association, and its failure would inconvenience a significant number of homeowners, that could be a “catastrophic” component. Replace it before failure, and perhaps enjoy lower power bills due to the installation of a new energy-efficient unit.

Q: For a speed up of a reserve project, when should a repair be denied, and a replacement moved up in the schedule (e.g. roof replacement)? We are nearing our 20 year useful life but are finding some repairs are requiring us to consider one or two years before scheduled.

A: See [this](#) short article.

Q: I understand it's possible to be "100% funded" yet have almost no money at all in your reserves account(s). Is there a relative "sanity/danger zone" level below which your Reserves Fund should not fall?

A: Being effectively 100% Funded with “near no money” only happens for a short period of time (the first year?) of a new association. Along with the Percent Funded measurement, associations should watch to never spend more than 90% of their cash in any given year.

Q: We have a pond that has had almost no change in capacity over 20 years. I don't know how to predict its useful life given that fact. If we had to dredge it to improve the capacity the current cost would be \$250,000. Is there a reserve needed for this?

A: It depends on so many factors. This is a good example of your “Duty of Inquiry” – so please consult a pond/lake expert to get a good evaluation. That information can be passed on to your Reserve Study professional.

Q: We currently earn .05% on our reserve assets. Our reserve study assumes a 1% earnings assumption on our reserve assets. We will have annual reserve study updates every year. Can the Reserve Specialist use the current actual earnings rate in the Reserve Study rather than a 1% earnings rate assumption which is based on estimated earnings over the 30-year cash flow analysis period?

A: You could. Remember that the two much stronger factors (than the difference between projected interest earnings and actual interest earnings) are the inflation factor, and the frequency of your Reserve Study updates. But remember this is a 30+ yr analysis, so current interest earning rates should not be expected for the long term. But by the way – switch bank accounts (or banks) and earn more interest than .05%!

Q: I have a commercial property which refuses to conduct a reserve study. The Treasurer stated that the budget is all they need. I explained why a reserve study is important and he continues to say it's the budget. Thoughts?

A: They are wrong. All their major assets are deteriorating in a predictable manner, and that is an ongoing cost of operating the property. They should offset that cost with Reserve contributions, or their total Real Estate value is diminishing. But remember, your job is to coach and counsel them, their job is to make the decisions.

Q: What is the liability of the Management company should a Board not wish to conduct a reserve study?

A: I am not an attorney nor am I giving legal advice, but I've heard that in such cases a manager should clearly document in the records their recommendation, so the board's foolhardy decision doesn't come back to bite the manager or the management company.

Q: Is it even possible to have "unallocated reserves"?

A: In the Cash Flow Method of calculating Reserve contributions, all Reserve funds are in essence "unallocated" (they are in pool, available to be spent on any legitimate Reserve project). Some Reserve Study providers suggest a "contingency" value to pad Reserve contributions or a contingency "extra" component, but those are inconsistent with National Reserve Study Standards.

Q: What is the price range to have a No-Site-Visit Reserve Study Update done for our association?

A: Typically, With-Site-Visit Updates are 50-80% of the cost of the original "Full" Reserve Study, and No-Site-Visit Updates are typically 25-50% of the cost of the original "Full" Reserve Study.

Q: How would you suggest handling a building defect found long after the builder is gone and for a cost of a significant amount of money?

A: Contact a good construction defect attorney. This may be something you will have to deal with on your own (special assessment, higher Reserve contributions, or both) if you have no legal recourse.

Q: If we are 30% funded, is it wise to still do a special assessment to get us closer to the 70-100% funded range?

A: Special assessments are inappropriate for the purpose of "strengthening Reserves". The National Reserve Study Standards dictate four Funding Principles:

- Adequate Funds exist when required
- Budget Stability be ensured
- Equitable Distribution of contributions be established
- Fiscal Responsibility of the plan

So special assessments should be avoided if Reserves can be strengthened more smoothly with slightly higher Reserve contributions over a period of years.

Q: What are some good ways to keep subsequent boards on track with information in the reserve study?

A: Establish a multi-yr Reserve Policy, and Reserve Funding Policy that will guide the decisions of future boards. See starting point templates [here](#) and [here](#).

Webinar Questions Asked By Prior Year Attendees

Q: What happens if the HOA wants to add a dog park area in a once open space, fencing, benches, new ground cover, etc... per the demand of the community? Would a new reserve study need to be done to include this project?

A: If the board chooses to spend funds to create the dog park (hopefully not Reserves, as Reserves are already allocated to existing projects), dog park assets should be included in the next Reserve Study update so they can be replaced when needed.

Q: If a new item is not planned for and included in the Reserves, how would it be funded? Do you keep a separate bank account for that project?

A: See above. If it is a capital improvement, funds to perform the project should not come from Reserves. If it is a project that “should have” appeared in the Reserve Study (it passes the National Reserve Study Standards four-part test), consult with your Reserve Study provider. You may be advised to spend the \$ from Reserves, and add the component in the next Reserve Study update.

Q: Is conversion of sprinklers and turf into drought tolerant plantings and drip irrigation considered a reserve component? If so, would it be added as a component during the next on-site visit? It would be considered an upgrade of the existing common area, correct?

A: Landscape renovations can meet the National Reserve Study Standards [four-part test](#). Such a conversion project would be appropriate way to care for the property (not a “capital improvement”). Speak to your Reserve Study professional about spending the money at this time and incorporating future projects into your Reserve Study.

Q: Can you add a link to notes on where to find my states requirements?

A: We have a general guide on our website here. But please contact a community association attorney in your state.

Q: If a component doesn't need replacement at the time it is scheduled, what is the best way to keep track of this item that wasn't yet done in the next year or two when budgeting?

A: Speak to your Reserve Study professional. You can keep the component at a Remaining Useful Life of 0 so it is “ready to go”, or based on latest information you can reset the Remaining Useful Life to your updated estimate of its replacement timing.

Q: Do you have enough data on cost and life time to provide error bars/confidence intervals?

A: Please see above. We don't provide error ranges or confidence intervals. We provide the board with a plan, and we expect that plan will need regular annual updating to tweak the assumptions.

Q: I have a board that is considering using uPlanIt in place of annual updates. What are your thoughts?

A: uPlanIt was not designed to update an expired Reserve Study. The deliverables of this tool are an assortment of charts & tables, not a "Reserve Study". For clients with the time and courage to create or update all the component information, a \$149/yr subscription will provide users with access to this powerful tool so they can calculate the Funding Plan necessary to provide for the timely repair and replacement of all the projects on their Component List.

Q: Staining of a fence is in our Reserve Study, but not replacement of the fence itself. How do we handle fence replacement?

A: Fence replacement passes the National Reserve Study Standard four-part test. Contact your Reserve Study provider, and you'll likely receive counsel to spend the \$ from Reserves and add fence replacement in your next Reserve Study update.

Q: How does your team determine project costs to appear in the reserve study?

A: Because of our Reserve Study volume our primary source of information is the large number of “actual” projects performed by client associations. Historical costs at the association are also data points, in addition to counsel with association service providers or industry experts. As a last resort we access (re)construction cost guidebooks.

Q: Compare the economics of budgeted reserve contributions at bank account interest rates versus special assessments that are held by members (owners) at the average stock market return rate.

A: The board is responsible for the financial well-being of the association. As fiduciaries, they can’t expose the association’s assets to risk. This same planning ahead for Reserve projects means they plan conservatively to have the cash ready, not put it at risk of stock market fluctuations. Remember that Reserve funds on-deposit are minimal on a per-owner basis. The difference between interest earnings on Reserve funds at 1% to what an owner might get from the stock market (4-7%?) on an investment of this magnitude is trivial and doesn’t warrant further discussion.

Q: Can major periodic maintenance or partial replacements of the assets be paid from reserves?

A: Yes. Major periodic maintenance (to chillers, cooling towers, boilers, etc.) can be scheduled Reserve projects. Many large components (miles of fencing, or roofing on buildings of different ages) may wisely be broken into different phases or “partial replacement” projects.

Q: Are there any state statutes that do NOT require a Reserve Study?

A: Yes. Approximately 25 states are silent with respect to Reserves. But remember that Reserve Studies are performed because the association needs guidance how to responsibly plan ahead for major projects that greatly exceed the capacity of the Operating Fund to handle. Bottom line, you

prepare a Reserve Study because you need the information, not because it is mandated by state law.

Q: Aren't reserve studies required by law?

A: In some states, yes. In addition, in some states Reserve disclosures are required by law (either for Real Estate disclosure purposes, or for budget preparation purposes). In “disclosure” states a Reserve Study is required in order to meet the disclosure requirement. Remember that in all 50 states boards need the guidance provided by a Reserve Study.

Q: Do you recommend reserve budgeting for deck inspections even if the responsibility per the CC&R's is left to the individual owner? This way the HOA can perform the inspection to ensure compliance in California.

A: Reserves should not be spent for projects in which the association has no maintenance interest. If you are asking about the new (1/1/2020) “deck inspection” law in California, Civil Code 5551, that “every nine year” safety and integrity inspection qualifies as an association maintenance responsibility and thus a Reserve expense.

Q: What do mean by 70% funded? 70% of what?

A: Percent Funded is a National Reserve Study Standard measure of Reserve Fund size/adequacy, with 100% being cash in Reserves equivalent to the amount of deterioration of Reserve components. If your Reserve fund is \$70,000 and the amount of deterioration at the association is \$100,000 (it doesn't really matter what the sum total of Reserve projects is), the association is 70% Funded. See more [here](#) and [here](#).

Q: If an item is a reserve component, must the repair/replacement cost be paid for out of reserve? Even if the Association has plenty of operating money to pay out of operating?

A: No. The Reserve Fund is there to protect the Operating Fund from being depleted by large and irregular projects. If the Operating Fund is cash-strong

(never falling below two months assessments) and the Reserve Fund is weak (under 30% Funded), then paying for a Reserve project out of Operating might be a good idea.

Q: Can RS funds be set aside/spent on fees associated with legal or insurance issues?

A: The National Reserve Study Standards four-part test is strict, meaning that most legal (fees associated with delinquencies or enforcement) and insurance issues (paying for deductibles) do not qualify as Reserve expenses.

Q: What do you do if the property manager proclaims that a reserve study is "not a good use of funds" and people believe him?

A: It unfortunately sounds like the manager has had a bad experience with a Reserve Study (or two). Reserve Studies capably prepared according to National Reserve Study standards reliably guide the association towards having sufficient funds to care for the common areas, with each owner paying their fair share along the way. Sounds like a good objective to me!

Q: At what point should an Association seriously consider a construction loan for a major component repair?

A: When Reserves have been depleted, and after two votes to pass a special assessment have been turned down by the ownership! Loans should be the third choice: behind board action to increase contributions and special assessments.

Q: Can you comment on preventive repair and replacement of roads? This is by far the highest dollar value item in my community's Reserve fund and by far the most uncertain as to cost and timing.

A: There is no reason for you (as a manager or board member) to be a roadway expert. Get wise counsel to manage this significant asset effectively with a local asphalt roadway consultant. In general, you'll hear that preventive

maintenance (seal coating) significantly preserves the life expectancy of the roadway's structural surface, and is money well spent.

Q: Capital improvements - Is a new Fitness center considered a "natural upgrade?"

A: If it is a new facility that did not previously exist, it is a Capital Improvement. If it was an old and tired fitness center that needed a renovation, it could be a natural upgrade (and thus a Reserve project).

Q: How do you plan for items outside the scope of the Reserve Study (i.e. electrical systems that are now 50 years old) and not planned for in the Reserve Study?

A: National Reserve Study Standards do not list a maximum Useful Life for inclusion in the Reserve Study. If the project's Useful Life can be reasonably anticipated (and it passes the other three parts of the four-part test), it should be listed as a Reserve component.

Q: Do landscaping renovations ever pass the 4-part test?

A: We commonly fund for landscaping renovations, as they pass the NRSS four-part test. For example: If it is a common area maintenance responsibility (common areas, not someone's back yard), if it has a defined life limit (the plants need an overhaul after 20 yrs), if they have a predictable Remaining Useful Life (the bushes are getting "woody" or overgrown, tree roots are threatening the sidewalk, or the water bill from watering all that turf is making it clear that changes are due), and the cost is significant (likely, depending on the scope of the project), it is a Reserve component. See more [here](https://www.reservestudy.com).

Q: Is a Reserve Study recommended for any type of property type? E.g. it's not a freehold property but leased and managed by the owner and used as leased.

A: Absolutely. We've prepared hundreds of Reserve Studies for worship facilities, camp/retreat facilities, private schools, municipalities, and private clubs (golf, tennis, yacht, etc.). We've prepared Reserve Studies for leasehold facilities, where we've been asked to ignore anything farther than X yrs away (when the property will be returned to the lease owner), etc.

Q: Is there a reason (and/or strategy) to staggering the replacement of larger Reserve-funded components? For example, if the parking lot is in OK shape, yet is scheduled for major service, is there a reason to extend major service because this year the roof is being replaced? Is there a reason to "smooth out" the larger expenses when possible and intelligent?

A: That's actually a great example. It is wise to "coordinate" projects. That means replacing the hall carpet after the hallways have been painted (not before!), replacing stairwell carpet every-other time the hallway carpet is replaced (due to lower usage), or in your case resurfacing your asphalt after it has been beat up by roof-replacement construction vehicles. If the Reserves are well funded, the cash flow doesn't have to be "smoothed out". But it may be wise to space projects out to not overwhelm one year's board of directors (not the roof, the hallways, the boilers, and the elevators all in one year!), and it is always wise to consider one project in light of how it may affect or be affected by other projects at the property.

Q: Many times I find that the developer coming off bond for a condo association hasn't started a Reserves contribution or Reserve Study. Will this ever become mandatory by state?

A: A quote often attributed to Thomas Jefferson is "the Government that gives us all we need will also take from us all we have". So we can't depend on laws. Buyers in a new association should look at the Percent Funded of the association, and offer less if the Reserves are underfunded. They should demand the budget be set to maintain the assets of the association of which they've just become members. There's no reason for a buyer to offer to pay

“full price” for a home where the common areas are partly deteriorated and there are no funds in Reserves to offset that deterioration.

Q: What do we do when a Board decides to undertake a capital improvement, but chooses to spend Reserves?

A: Brace yourself for higher Reserve contributions, because Reserves that had been set aside to maintain or replace existing assets were spent on other projects. The Reserve fund will need to be strengthened in order to prepare for those pre-existing Reserve projects, in addition to additional Reserve contributions required by the new components associated with the capital improvement.

Q: With respect to updates, you stated "Everything changes". What do you mean?

A: Every year the components age or wear, every year the repair or replacement cost changes, every year the Reserve Fund fluctuates in size (and likely strays from its predicted amount), and every year the economic environment (interest and inflation) changes. See more [here](#) and [here](#).

Q: What are the pros and cons of a construction loan instead of proposing a special assessment to the membership?

A: A construction loan helps individual owners manage their cash flow (it may be more palatable than a lump sum special assessment), but it is fundamentally an expensive way to pay for predictable Reserve projects. Boards need to be reminded that it takes time (and money) to apply for a loan, and getting approved is never a certainty. See more [here](#) or [here](#).

Q: Does 100% mean that if you performed all repairs today, it would cost \$xxx?

A: No. 100% Funded means you have the value of deterioration set aside. If you have a pool that costs \$10,000 to resurface that needs to be resurfaced every 10 years, after the fifth year (when it is halfway deteriorated) being 100%

Funded would mean you have \$5000 set aside in Reserves. Not the full \$10,000, just the fraction that is deteriorated. See more [here](#).

Q: What is a realistic long term target? Is it 70% funded or 100% funded?

A: A realistic and responsible target is the 100% point. That is the bulls eye. Even if you miss the bulls eye, your association should still be nicely above the 70% level where special assessments are rare. See articles [here](#) and [here](#).

Q: But why wait for 30 years. Why don't you recommend 100% funded after 20 years?

A: One of the four National Reserve Study Standards [Funding Principles](#) is Budget Stability. So we create a plan that balances an association's progress towards a responsible funding goal with changes to homeowner assessments. We don't "wait"! We just go smoothly. Most of our Funding Plans (for underfunded clients) get them to the Fully Funded (100% Funded) level in 5-20 years, depending on their starting Percent Funded and historical Reserve contribution rate.

Q: How much do you deplete your Reserves to fund a project?

A: It is all part of the Reserve plan. Best practice is to always leave at least 10% margin in Reserves after a large project. For instance, if you are anticipating a \$100,000 roof project, plan your Reserves so that you have at least \$10,000 left afterwards.

Q: Our Reserve Fund is projected to hit 55% funded by 2030, but if we add in our Emergency Fund cash it will be 80% Funded. Is that good enough?


A: As we said multiple times in the webinar, getting over the 70% level is a good place to be. But I would recommend you design your Reserve Fund to get there by itself (meaning, a nominal increase to your Reserve contributions are required). Reserves are for predictable projects. You should have a predictable income stream to provide for those projects. That will leave your emergency fund to be used for emergencies!

Q: How does your Reserve Component four-part test apply to limited common area elements (common area elements used by less than the entire community, like balcony surfaces or parking spots)?

A: The key is not what the common area component is (or how many people use it), the first of the [National Reserve Study Standards](http://www.reservestudy.com) four-part test is “Is the asset a common area maintenance responsibility?” (who is responsible to maintain it). So whether it is a balcony surface used only by one unit owner, or the walkway around the pool used by all owners, if it is a common area maintenance responsibility it is a candidate for Reserve funding.

Q: Can you please remind me of that last slide that showed how to measure success with respect to Reserves?


A: Sure – our pleasure!



Doing your Job...

How to measure success?

- Lack of special assessments
- Projects done on time
- Pct Funded above 70%
- Reserves spent appropriately!
- Op fund not borrowing from Reserves!



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Q: Our board tells us regularly that while a Reserve Study may be required, there is no requirement for implementation (we do not need to follow its recommendations). Could you please tell me how to answer the President's statement?

A: You don't plan ahead because doing so is required by law; you plan ahead because it is the key to a better life. It could be simple, like allowing sufficient

time to prepare for and travel to a meeting, or it could be big like saving ahead for college or wedding expenses for your children. Remember the [four Reserve rules](#)... deterioration is inevitable, the board is responsible, things tend to get more expensive if ignored/delayed, and homeowners always get stuck with the bill. Roofs and other major components don't fail mysteriously. They fail in plain sight, on schedule. Ask the board what their plan is to prepare for such inevitable expenses, which are their responsibility to successfully manage. Oh wait – that's a Reserve Study!

Q: How often should we calculate % funded when there are contributions and expenses every month?

A: Percent Funded is an annual calculation. It allows the association to track progress from year to year. Calculating it more frequently is more distracting than helpful.

Q: I have an association where the elevators need to be modernized. The estimate in the Reserve Study is \$68k, but it looks like modernizing the elevator will cost more like \$160k. Total Reserve balance as of today is \$600k. Should the association “overspend” and do the project, or special assess for the overage?

A: Do the project from Reserves, and make sure to update your Reserve Study with updated estimates for higher replacement costs for the elevator modernization. Expect your Reserve contributions to increase to rebuild the strength of your Reserve Fund, and prepare for the next modernization project.

Q: If not funded with Reserves, how do you recommend funding for a Capital Improvement?

A: Increased assessments, a special assessment, or a loan.

Q: Should ongoing (minor?) repairs for Reserve components come from the Operating or Reserve account?

A: If the project done affects (extends) the Useful Life or Remaining Useful Life (or both), it is a legitimate Reserve expense. If the expense is minor ongoing maintenance (gutter cleaning, vacuuming hallway carpet, etc.) it is an Operating expense.

Q: I have a board that believes that any repairs or maintenance of a Reserve Component needs to be funded/paid out of reserves. They go as far as saying a sprinkler nozzle should be paid out of reserves. Your thoughts?

A: They are entitled to their opinion, but it is inconsistent with [National Reserve Study Standards](#). Incidental costs should be paid from Operating.

Q: You mean we can save time by not breaking down our monthly Reserve contributions into all those separate Reserve line items?

A: Correct (with the exception being associations, such as those in FL, strictly funding their Reserves via the “Component Method”). See more [here](#). The Reserve fund is for Reserve expenses. Many will be slightly over- or under-budget. Reserve funds are used most effectively when they are shared among components, compensating for each other. Typically those individual funds will be re-distributed every time the Reserve Study is updated, so there’s generally nothing “sacred” about the breakdown.

Q: Are you saying we can transfer funds from one Reserve account (roads, roof, etc.) to another and it is not a loan?

A: In most case, yes. That is just a “redistribution”, or “re-allocation”, of existing Reserves between components. Generally it becomes a loan when the funds move outside of Reserves.

Q: Why would we want to update our Reserve Study at this time if not required by law?

A: Because Reserve contributions are so large (typically [15-40%](#) of the association's budget), and such a large budget line item [deserves regular updates](#) to make sure the Reserve Funding plan is not drifting off-target. Associations that update their Reserve Study every year enjoy a [30% lower](#) special assessment rate than associations updating their Reserve Study every third or fifth year.

Q: What is the typical minimum cost to be a Reserve Component?

A: It varies with each association, as the minimum cost threshold needs to be "significant" to that association, meaning above the signature authority of the board or manager. That may be \$500 for a small association, or \$5000 (or more) for a larger association. It is often in the range of .5% to 1% of the annual budget.

Q: Is there a federally required (FHA?) minimum Reserve contribution?

A: There is no federal requirement. The board can do whatever they wish. There are consequences, however. One requirement for an association to be "FHA certified" is that at least [10% of total budget](#) (i.e.: \$35,000 out of a total \$350,000 annual budget) be set aside towards Reserves. In addition, many lenders have adopted this basic requirement, meaning that prospective buyers will get more favorable loan terms if the association is setting aside at least 10% of their total budget towards Reserves.

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

A: Generally speaking, there are economies of scale when a project is done all at once. In addition, the association enjoys less disruption and uniformity of colors, conditions, and materials when a project is done all at once. But if the association was built in phases, so some areas need repair or repaint now and other areas don't, those associations may benefit from performing projects in a phased manner.

Q: How do you add missing components to your component list?

A: Reserve components are defined by the National Reserve Study Standards [four-part test](#), so due to human error or an unexpected event, a legitimate Reserve project may not appear in your Reserve component list. Add the component during the next Reserve Study update (so the association can begin funding for its next repair or replacement).

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

A: Deterioration is inevitable, whether the component is or is not listed in the Reserve Study. It is the board's responsibility to care for the assets of the association. So ignoring potential expenses will not save expenses. Those expenses will occur. And when they occur, the association will be unprepared, and that is a preventable problem.

Q: What do you need for me to get a Reserve Study proposal?

A: Simply click the "Request a proposal" link on the right side of our website's home page, www.ReserveStudy.com.

Q: Do you need a copy of the budget to prepare a proposal?

A: No. All we need is answers to a few questions (name of the association, address, # of units, type of association, etc.). We'll take it from there.

Q: How do you convince a Board of an association with little Reserves that they need a Reserve Study, perhaps figuring that if they get a Reserve Study they'll probably not follow it and therefore incur liability exposure?

A: It is the board's non-negotiable job to protect, maintain, and enhance the assets of the association. One of their primary responsibilities is to budget sufficient income to offset the known expenses of the association. Reserves are an inevitable and predictable, thus "known", expense. The board increases their liability exposure and guides the association unprepared into the future without a Reserve Study. So they incur liability by not getting a

Reserve Study, and they incur liability by getting a Reserve Study and ignoring it. Success is found when they “do their job” by finding out the needs of the association (through a Reserve Study), and budgeting appropriately to meet those needs. In addition, the board risks loss of defense coverage from their D&O insurance when they willfully ignore their responsibility to the association. Ignoring Reserve planning is just plain a bad overall idea.

Q: Do you pay for a Reserve Study from Operating or Reserves?

A: Operating, as it is a “normal” professional expense just like legal or accounting. It is a bit of a stretch to get the (usually nominal) fee for a Reserve Study update to pass the National Reserve Study Standard four-part test to qualify as a Reserve expense.

Q: What about Governing Document reviews and revisions? Operating or Reserves? Perhaps every 5-10 years or so

A: While such regular updating could be construed as a Reserve project done because they need updating regularly, that is generally uncommon. There is no prohibition against doing so, and in some cases it may be a good idea.

Q: How much does a typical “Full” Reserve Study cost?

A: The cost of a “Full” Reserve Study depends on # of units, the type of association (condo or planned community), age of the association, location, and their Fiscal Year End (if the Reserve Study needs to be done during a typical “busy season” of May – Nov for 12/31 associations). Generally the cost is somewhere in the range of 1% - 1.5% of annual budget.

Q: If an association is only contributing 10% of budget towards Reserves, how do I convince them to contribute more?

A: Do you have to convince them to pay all of their electrical bill, all of their water bill, or all of their management bill? The ongoing cost of deterioration is stable and predictable, and as real as any other bill. If they don’t pay it, it

will just accumulate and rear its ugly head as deferred maintenance, special assessments, and declining property values.

Q: What is the liability if the Board or management prepares a Reserve Study that is not accurate?

A: The same liability they would incur if they rely on Google instead of an attorney, or have a volunteer prepare the taxes or year-end financials instead of a qualified CPA or tax preparer. Boards are generally protected from liability when they follow the three-part [Business Judgment Rule](#). Two parts are “Duty of Loyalty”, and “Duty of Inquiry” when lacking specific expertise (like the skill of preparing Reserve Studies). So reaching out for professional assistance should be normal behavior for boards.

Q: Can associations have a “contingency” fund in Reserves for unseen repairs? We have an association that recently discovered damages that cost \$5000 which was not budgeted.

A: You can, but I counsel you to define it as well as possible; such as “Building Envelope”, “Plumbing Repairs”, “Major Mechanical Repairs”, or “Sidewalk Repairs”, so it is used appropriately and effectively. Remember, it needs to pass the [National Reserve Study Standard](#) four-part test.

Q: Please remind me of that National Reserve Study Standard [four-part test](#) for a Reserve Component?

A: That it is a common area maintenance responsibility, that it has a limited Useful Life, a predictable Remaining Useful Life, and is above a minimum threshold cost of significance (often .5% - 1% an association’s annual budget, or signature authority of the board or management).

Q: If every three years our condo association must have the septic system inspected (and pumped if required), can this be a reserve component? It is a \$6000-\$12,000 cost.

A: Yes. A Reserve project doesn't need to literally be a repair or replacement. It just needs to meet the National Reserve Study Standards [four-part test](#).

Q: Can the Board borrow from Reserves for a non-Reserve project and schedule to pay it back?

A: Generally speaking, yes. Make sure the "borrowing" is officially documented, that any State or Governing Document requirements having to do with borrowing have been satisfied, and that the Reserves aren't needed for the Reserve project before the funds are repaid.

Q: How are contingencies handled in a Reserve Study (to give us some "margin" for surprises)?

A: To appear in a Reserve Study, components should be well defined and meet the National Reserve Study Standard [four-part test](#). Thus "guessing" is frowned upon. But basing a contingency on a real expense is good practice. This may mean Reserve components to cover known "unscheduled" expenses (sidewalk repairs of \$2000 about every 3 years, major mechanical breakdowns of \$10,000 about every 5 years, or plumbing repairs based on the association's average of \$10,000 about every 4 years) can be very appropriate Reserve components. Speak to your Reserve Study professional about adding such components if they are unaware of these periodic "budget busting" expenses that you typically experience at your association.

Q: We've always had Landscape Reserves as one line item. Can/should we break it down into multiple line items?

A: If the breakdowns are individually reasonably predictable, and they have different life cycles, yes. Break it down if re-plantings at the entryway are on a different cycle than the perimeter hedge replacement or tree trimming. On the other hand, breaking it down into multiple components that are on the same timing cycle is generally inappropriate.

Q: What is the official position on reserving for painting?

A: Prepare your taxes according to IRS standards, and prepare your Reserves according to Reserve Study Standards. See more [here](#) and [here](#). If the (repainting) project passes the National Reserve Study Standard four-part test, it is a Reserve project. Note that some states have specific requirements on this matter.

Q: How do you convince a majority investor board that Reserves are for the present and not a “future expense”?

A: Some people have made their minds up, no matter the facts. Continue to speak about Reserves in present tense terms, that deterioration is steady and predictable. If all owners pay their way along the way, nobody will have to pay more than their fair share. If you are a homeowner, if the board refuses to fund Reserves adequately, you may wish to set aside your own private “Reserves” to prepare for the inevitable special assessment.

Q: Our board ignored the reserve study, levied special assessment, then recently took out loan without owner approval? What can a homeowner do?

A: Sounds like a board operating in a somewhat fickle manner. If you like living there, plan on it being a more expensive place to live. If not, consider moving to a more professionally run association.

Q: I understand “protect and maintain”, but could you elaborate on the board’s responsibility to “enhance” the assets of the association?

A: Enhancing in this context generally means allowing the association to evolve to effectively serve its members and comply with building codes & laws as time marches on. “Enhancing” may be as simple as incorporating new materials or colors. Some of those enhancements may be natural upgrades like reconfiguring a bathroom to accommodate a handicap stall, something that often can be done with Reserves at the time the restroom is scheduled for refurbishment. Enhancement may mean creating something new as a

capital improvement (an EV charging station) due to changing needs of the community and to maintain strong property values.

Q: Can some “enhancements” (new or expanded assets) be done with Reserves?

A: Yes. It is always best to check with your Reserve Study professional to discuss specifics. Some possible Reserve expense “enhancements” may be upgrading a swimming pool from one surface to another longer lasting (or desirable) surface, extending areas covered by an irrigation system or changing from sprinkling to a drip system, redesigning the landscape to use less water, etc. But adding a new component that previously did not exist is an inappropriate use of Reserves. See more [here](#).

Q: If it is determined the new asset is a capital improvement, what funds are used to purchase/install the new asset?

A: Not with Reserves, as Reserves are to be used to offset ongoing deterioration of existing assets. Depending on the size of the projected expense, a capital improvement is paid with available Operating funds, a special assessment, or a loan.

Q: Where do funds come from when removing, re-purposing or “mothballing” a reserve component (ie remove a bathroom, pool...)?

A: Generally from Reserves, because doing such a project should result in a net savings of Reserve funds, providing a payback in X years. But I caution you, this is not a simple question. Please check with your association’s legal counsel before making plans.

Q: If you overspend from Reserves (for a “missing component” or a higher-than expected expense), do other components suffer?

A: The Reserve fund suffers, not generally just one or a few other components. Generally there usually are no true “roof” or “fence” funds that cannot be re-allocated on an annual basis. All Reserve funds belong to the association for

Reserve purposes. When expenses are higher, the strength (preparedness) of the Reserve fund drops. If there was a higher-than-expected expense, the association should expect higher Reserve contributions in the future in order to rebuild the strength of the Reserve fund in time to prepare for all upcoming projects.

Q: Can we do a Reserve project early if needed??

A: Yes. Reserve Studies are based on estimates. Some of these estimates will be imperfect. If the project is necessary, do it now. You don't have to wait until the Remaining Useful Life hits zero. See more [here](#).

Q: In our association, the budget must be approved by the members. A common objection we face from our voting owners is that they are on fixed incomes and can't afford an increase. What to do?

A: The board's job is to provide for the association, not appease complaining or resisting owners. So the board's job is to set the budget to meet the needs of the association. We all know the reality that costs go up each year, so a normal "new budget" process involves articulating higher expenses that must be met with higher revenues. Time to put on your "salesman" and "politician" hat! Communicate in advance, prepare owners through newsletters, open forum events, and with a budget committee consensus (so the message is not coming just "from the board"). Stress that the needs of the association must be met, and that taking care of the association results in [maximized property values](#).

Q: Please elaborate on your comment that well-funded Reserves result in increased home value.

A: Please see our article on the subject [here](#), and our webinar outline on the subject (containing a link to the webinar recording) [here](#).

Q: Why do you say a special assessment is more expensive than budgeted Reserve contributions? Our owners would rather hang onto their money than give it to the association to invest over time, as our owners can make investments with their money greater than the restricted options available to the association.

A: The board has a job to do... providing for the needs of the association. That includes setting an [adequate budget](#). Special assessments may or may not pass, and any delays in passing a special assessment may complicate and increase the cost of the project. So while the reality is that individual owners may take greater risks and enjoy greater rewards (interest) than available to the association, the board's job is to provide for the association. The least expensive way they do that for the owners is by asking for appropriately sized contributions over time, allowing the bank to become the “silent partner” of the association, contributing nominal interest payments into the Reserve fund.

Q: We plan to seal coat and eventually resurface or replace our streets. Should that be two line items (Reserve projects), and will seal coating prevent eventual resurfacing or replacement?

A: Seal coating occurs on a much shorter interval than resurfacing, and is a significantly lower cost project. So associations regularly have two Reserve line items for their asphalt roadways... seal coating and resurfacing. Seal coating doesn't prevent resurfacing, but it very cost-effectively maximizes the years between resurface projects, minimizing overall Reserve contributions.

Q: Are road repairs/resurface separate line items than the pipes for the actual drainage?

A: Generally yes, because work on the pipes involves a different “trade”, and may be on a different Useful Life than asphalt work (although ideally the Remaining Useful Lives should be coordinated, so roadway disruption is all done at once).

Q: If the roads are publicly owned by the county should the association fund for clubhouse parking asphalt and other areas with asphalt?

A: Yes. It is quite common for an association to plan for sealing and resurfacing of their parking lots in a Reserve Study, even though they may not be responsible for the roadway system.

Q: What is “Straight Line” vs “Cash Flow”?

A: These are the two common methods of calculating Reserve contributions to offset ongoing deterioration. Read more [here](#). Click [here](#) to view our Reserve Studies 103 webinar that addresses and illustrates this issue.

Q: How do I know our “Percent Funded”, and what does it mean?

A: Percent Funded is a term defined in National Reserve Study Standards, and it measures the size of your Reserve fund compared to the needs of the association. Associations are “Fully Funded” (100% Funded) when their Reserve fund is equivalent to the value of Reserve component deterioration. This needs to be recalculated each year as the \$ in Reserves changes and the value of component deterioration changes. This disclosure commonly appears in your Reserve Study. Read more [here](#).

Q: Should our Reserve contributions keep up with inflation? And what do you recommend for an increase amount?

A: Yes. Presuming your Reserve contributions are currently adequate, an expectation for nominal annual inflation-offsetting increases is responsible, as component repair and replacement costs will continue to increase with inflation! An increase amount that is somewhat stable over the long-term (2.5% to 3% or so) is currently a good number.

Q: What are “voluntary” Reserves as compared to “statutory” Reserves?

A: Statutory reserves are standards set by local municipalities or states. These are often minimal. Voluntary Reserves are what we addressed in the webinar... contributions sufficient to offset ongoing deterioration, and a Reserve fund adequate to meet the anticipated needs of the association.

Statutory Reserves are typically inadequate to meet the needs of the association.

Q: How do you prevent overfunding your Reserves (going from 100% Funded to 130% Funded or more)?

A: The Reserve balance necessary to be 100% funded changes each year based on the value of deterioration that exists at the association. Your Reserve Study professional will design a Funding Plan to offset ongoing deterioration in light of the current size of your Reserve Fund and the timing of upcoming expenses, keeping from “overfunding” your Reserves. Follow that plan!

Q: When should a new asset (a new rooftop deck) be included as a Reserve Component?

A: At the next Reserve Study update. This gives the association the maximum amount of time to prepare financially for the next expense related to this new asset.

Q: Can the purchase of a maintenance or security vehicle be placed in a reserve study? What if it is on a lease basis?

A: Yes, if it is purchased, no if leased.

Q: Will a With-Site-Visit update incorporate “new” items that were not in the prior Reserve Study?

A: Yes. Reserve Study updates are a regular opportunity for the Reserve Study to gradually “improve” and become more accurate over time.

Q: Should we prepare for a major “possible” expense (road resurfacing, elevator modernization, or plumbing repairs) if it is far into the future and uncertain? We don’t want to inappropriately raise Reserve contributions and burden our homeowners.

A: As soon as a project becomes “reasonably certain”, it should be added to your Reserve Study. Roadway resurfacing and elevator modernization are very predictable projects. Plumbing repair/replace projects are not as predictable. This is where a Reserve Study professional’s experience can be very valuable, applying the experience learned from other associations for the benefit of your association. Projects far into the future are naturally a bit “gray” in scope and timing. Both scope (cost) and timing become clearer over the years as the project draws closer. Early identification of the project allows the association many years (or decades) to become financially prepared, gradually refining those estimates through the years.

Q: How do you figure the size of adequate Reserve contributions?

A: The size of adequate Reserve contributions are calculated fundamentally on the Reserve components that will need to be repaired or replaced compared to the size of the existing Reserve Fund, and the selected Reserve “Funding Goal”.

Q: Why is it important to be 100% fully funded? Or what is a good percentage for Reserve Funding?

A: It is the board’s job to provide for the needs of the association. Allowing the Reserve Fund to be depleted is putting the future of the association at risk. There are strong statistics correlating Percent Funded and special assessments. To no surprise, special assessments are rare among associations above 70% Funded. That is a good target, with 100% as the “bulls eye”. See more [here](#).

Q: As a vendor, I work with many associations that need to borrow funds do to deferred maintenance or unforeseen costs on Reserve components. Do you offer interactive cash flow Reserve Study which shows different scenarios (spec. asses, increase assess) to meet loan payment and scope of large projects.

A: Yes. Our completed Reserve Studies now come with an online tool (we call it [“uPlanIt”](#)) they can use to test an unlimited number of “what-if” scenarios. Support required of an Association Reserves Project Manager could also be done for an hourly charge.

Q: What would you do with a Committee advising the Board which does not subscribe to best practice, but ALWAYS pushes for deferred maintenance - always "one more year" out of a component? Or, they are trying to work against a professional report with a DIY report, deleting components altogether.

A: Remind them that deferred maintenance almost always results in significantly higher costs. Remind them also that there are some types of projects best done on-schedule (see article [here](#)). And remind the board that independent professionals have more experience than a committee, independent professionals adhere to national standards, and that an in-house committee has an inherent conflict of interest (they are association-paying members of the community).

Q: For a FL HOA, what is the REQUIRED LEGAL DISCLOSURE re: Reserves during an official 14 day in advance Budget Meeting? And what needs disclosure when Reserves done on a POOLING vs. Line Item Basis?

A: I’m going to recommend you seek legal counsel regarding required disclosures to keep the association in compliance with local state law.

Q: If the association gets the Reserve Study done, do they have to follow it in their proposed budget?

A: No. A Reserve Study is advice. It is not binding. The board always has the power to make their own decision. If there is another pressing need for

association funds (emergency repairs, temporary litigation costs, etc.), the board needs to weigh that competing priority against Reserve funding. For instance, perhaps they make only a partial step forward in increasing Reserve contributions (the [\\$10 solution](#)), to make adequately funding Reserves more palatable for their owners. If the board acts contrary to Reserve Study recommendations, it is wise that they document their reasons why, in case their decision is later challenged.