



RESERVE STUDY Q&A

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Nov 3, 2021

Miss the webinar? Watch Part 1 [here](#) & Part 2 [here](#)

In this webinar, Reserve Specialists Robert Nordlund and Derek Eckert respond to a wide range of common (and uncommon!) Reserve Study, Reserve Funding, and Reserve policy questions. Enjoy the webinar recordings, part 1 and part 2 where answers were captured live, and our video capturing answers to all questions submitted by the webinar audience- even those we didn't have time to answer during the webinar presentation.

Association Reserves is a company that makes the present less stressful, and the future more secure. That happens when we can give you peace of mind that your Reserve issues, specifically the future of your association, are in good hands.

So enjoy the attached, and know that we welcome the opportunity to help guide your association towards an improved future.



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Webinar 2021 Q&A

We've assembled the Q&A into different categories. Click below to hear Robert answer all questions submitted by webinar attendees, even those (especially those) Robert & Derek didn't have time to answer online.

Reserve Study issues (18 questions) – click [here](#).

Reserve Funding issues (27 questions) – click [here](#)

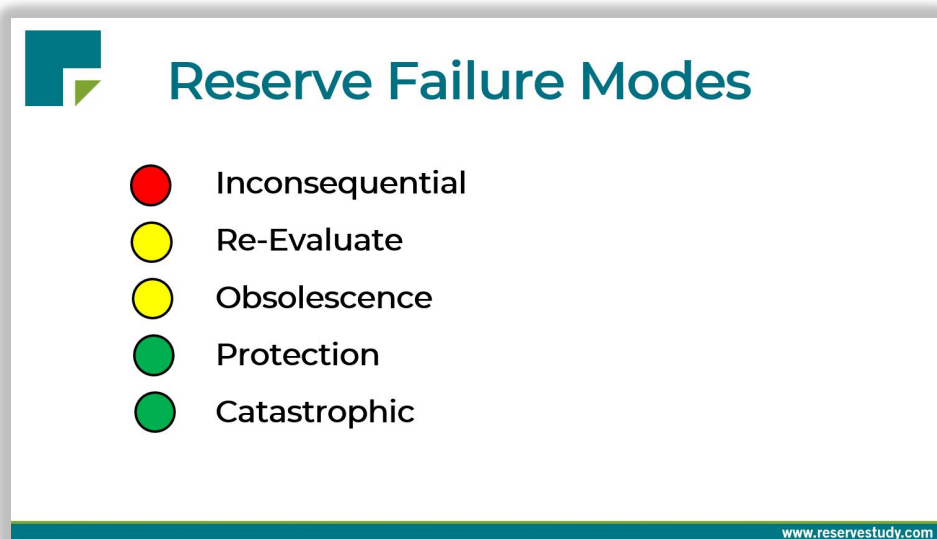
Reserve Application issues (29 questions) – click [here](#)

As discussed in the Q&A above, here are some supporting graphics.

First – the difference between an Engineering/Architectural Study and a Reserve Study

REPORTS	Engineer/Architectural	Reserve Study
Credentials	Professional Engineer (PE) or Licensed Architect (AIA)	Reserve Specialist (RS) or Professional Reserve Analyst (PRA)
Conclusions	Structural	Budgetary & Cash Management
Contents (Terms, Calculations, and Disclosures)	Controlled by Engineering or Architectural standards	Controlled by CAI's National Reserve Study Standards
Cyclical projects	Excluded	Included
Intrusive/Destructive testing	Included	Excluded
Frequency	Every 5-10 years	Every 1-5 years
Cost (\$)	10x that of a Reserve Study	Varies by property type

Next – the different Failure Modes of Reserve Components



The graphic features a teal square logo with a white geometric shape on the left. To its right, the title "Reserve Failure Modes" is written in a teal, sans-serif font. Below the title, five colored circles are arranged vertically, each followed by a text label: a red circle for "Inconsequential", a yellow circle for "Re-Evaluate", a light green circle for "Obsolescence", a medium green circle for "Protection", and a dark green circle for "Catastrophic". At the bottom right of the graphic, the website address "www.reservestudy.com" is printed in a small, dark font.

Webinar Questions Asked By 2020 Attendees

Q: Is it appropriate to use Reserve funds when adding a new element to existing buildings or grounds? For instance, adding a shade structure to an existing, unshaded patio?

A: No. Reserves are for repairs and replacements to existing assets. See National Reserve Study Standards [here](#) (middle of p6), and our QuickTips video [here](#).

Q: Gutters are in the reserve study. Because of inadequate gutters, we are replacing early. The inadequate gutters have caused damage to decks (deck repairs are in the reserves study). In addition, the run off has caused sink holes and sewer damage. Sink hole repairs around 6K and sewer damage same. Can we charge these related expenses to reserves?

A: Yes, but consider this a Reserve project overage. This is a good example of the high cost of deferring project (not doing them when they need to be done) – it often results in higher expenses. Repair or replace when needed, not strictly according to Reserve Study estimates. Make sure to update your Reserve Study before your next budget year to incorporate what you've learned (new components, new prices) into your updated Reserve Study so expenses and income can be re-balanced.

Q: Reserves include paved surface replacement/repairs (sidewalks and driveways). In order to repair/replace many of these 30 year old walkways, equipment will destroy some of the existing, albeit old, landscape against the house, next to walkway and next to driveway. These are townhouses with zero lot lines, so everything is quite close. Can we expense the landscape replacements/refresh to reserves (28 townhomes—approx 3K a home for landscape work)?

A: Yes, similar to the above. Consider it an overage this year (document it as part of the asphalt Reserve expense), but best to update your Reserve Study and create a landscape component, timed so that occurs in conjunction with the asphalt work next time around. Make sure to update your Reserve Study before your next budget year to rebalance your Reserve expenses and income.

Q: Our Reserve Study lists roof replacement. During a roof inspection it was noted that several roofs were missing chase coverings (which other roofs have) and were leaking. The repair, which is an upgrade to several existing roofs will cost between 5-10K. Can we charge this upgrade to reserves?

A: Yes. Any project that extends an existing Reserve project's (the roof in this case) Remaining Useful Life is a legitimate Reserve expense. Document it as a Reserve expense. Commit to updating your Reserve Study at your earliest opportunity to

reflect this new information and improved expectation for roof remaining useful life. Another good example of need to update the Reserve Study regularly.

Q: Our reserve study includes the replacement of a fence. At the time we replace the fence, we have determined that the 30year old vegetation has gone beyond its useful life and we need to replace it. Can we charge the landscape on the perimeter of the fence (8K) to reserves?

A: Yes, similar to the above. It is an overage this year, so document it as part of the fence project but commit to updating your Reserve Study with a component for vegetation renewal timed to coincide with the next fence replacement. If you already have a landscaping refurbishment Reserve Component, update the timing and cost of that project to fit what is happening at the association. Do this before your next budget year so you can rebalance your Reserve income against the projected expenses.

Q: What is the role of our accountant in determining if it is appropriate to charge an item to the Reserve Budget? Our Association is managed by a volunteer Board. A number of times in the recent past when we attempted to charge a capital budget item to the Reserve Budget (passing the [4-part test](#), but not specifically identified in our 2017 formal Reserve Study), we were told by our accountant that since the item was not specifically identified in the RS it could not be charged as such. Thereafter, it was charged to the Operation Budget having limited cash, versus the Reserve Budget having adequate cash.

A: First problem - taking Reserve advice from someone who is not a Reserve Study professional. Get Reserve Study/funding advice from a Reserve Study professional, and advice for accounting issues from an accounting professional. Update your Reserve Study as soon as you identify that it is not serving the association well - your 2017 Reserve Study is clearly no longer providing you appropriate financial guidance (it is out of date). Projects that pass the National Reserve Study Standards [four-part test](#) should be identified clearly listed in your Reserve Study so you can receive accurate spending and contribution guidance. The needs of the community change, the knowledge of what's happening at the community changes, and the Reserve Study should be updated regularly (annually recommended) to insure it continues to be a good fit for your property.

Q: A waste line in a common area has cracked due to root movement; does it meet the [4-part test](#)? I think it passes 3 out of the 4 tests, but I'm not sure if it has a predictable remaining useful life. Though these types of breakers are not uncommon, I cannot say they are "reasonably predictable" as the literature requires the test to affirm. Or is it ok to say they happen from time to time every few years or so; therefore it passes?

A: Some expenses like this one (or plumbing riser repairs or sidewalk repairs) can qualify as a Reserve expense when you characterize it as a "periodic allowance", such as \$X per year or every few years. Add the component in your next Reserve Study update.

Q: Aloha. Robert has mentioned in the past that Hawaii's section 514B-148 conflicts with the National Reserve Study Standards. Since reserves may well be a future topic of statutory review, an explanation of the problem and its resolution would be appreciated. Mahalo.

A: Hawaii Reserve Study guidelines/rules are not in conflict, they just utilize terminology in a way inconsistent with National Reserve Study Standards. Thus the Hawaii code is not very clear... it can be interpreted a number of ways. For our Hawaii clients, we recommend claiming to meet the "funding 100% via cash flow method" requirement, then exceed that minimum standards by pursuing a Fully Funded goal. In any state, focus on the needs of the association, not your local statutory minimums (we're talking to you, WA and FL clients!).

Q: As I understand it condos are excluded from the "balcony bill". Do you recommend that Association's budget and have performed balcony/deck inspections anyway? Also if a condo association has mixed height buildings in the project, should all decks/balconies be inspected?

A: Actually, you're incorrect in that the new Elevated Exterior Structure inspection requirement in California (Civil Code 5551) applies only to condos (3 units and more). Note that engineering or architectural "structural" inspections are a good idea – they complement what is seen/noted in a Reserve Study "budget" inspection. Single family home communities (often referred to as PUDs) are except from this new CA inspection requirement. See more information [here](#).

Q: How do we start planning for the new condo “Deck law” that went into effect in 2020? In the past, our CC&R's have been interpreted such that individual homeowners are responsible for the decks. Approx 50% of our units have decks, so there are some with and some without decks. Can both the engineering inspections as well as the repairs be reserve items?

A: That’s a complicated question, and it may be situation-specific. Please work with your attorney on this question. If the association must comply with the law (as I expect will be the case), the inspection every 9 yrs qualifies as a Reserve expense. Get that expense added to your Reserve Component List in your next update (ASAP!). Some of the repairs may be Reserve Components, some may not. To qualify as a Reserve expense it would have to pass all four part of the National Reserve Study Standards [four-part test](#).

Q: I am in two HOAs - one very old and one new; neither has a reserve that is fully funded or plans to be fully funded. What would be a minimum annual % that an HOA should be putting into a reserve fund? I know it varies by case, but on average, is there some minimum rule of thumb that could be a reasonable starting point? I have read that 10% of dues is no longer adequate.

A: Without knowing your details, we can say with confidence that the typical association needs to be setting aside 15-40% of its budget to Reserves in order to offset ongoing deterioration. Very few find that 10% is adequate. That was a number picked out of thin air as an easy number to validate – it never had any basis in “reality” or “adequacy”. See more [here](#).

Q: Where do the costs for Reserve projects in the Reserve Study obtained from? The costs don't always jive with real estimates received. For instance - our elevator refurbishment cost \$150K – which was much more than what was in our Reserve Study (not prepared by your company).

A: Different companies have different accuracy levels (demonstrating the value of an experienced and credentialed Reserve Study provider – they are not all alike!), and different companies have different procedures for estimating repair and replacement costs. We are fortunate to serve such a high number of associations that we generally can use the recent cost experience of recent projects at similar, local associations in our projections. Actual historical cost experience is also a useful benchmark. Because prices are always changing, this is another good example of the need to regularly update your Reserve Study... many component costs change much more rapidly than inflation.

Q: We are 1 of 2 Condo Associations that share infrastructure, roads and sewer system, with a for-profit company and their rental apartments. Is this common and is there a precedent for splitting costs and capital expenses?

A: It is not common, but there is a way to do it right. Check your Gov Docs for shared financial responsibility. For your assoc, show the shared components along with all your other components, but with only your x% of the cost responsibility (if you are 25% responsible for a \$100,000 asphalt resurfacing project, list it on your Reserve Study as a \$25,000 expense). An alternate strategy would be to create a joint “common area” pool of funds with the other entities, with everyone contributing their fair share based on ownership split.

Q: Given the low interest rate environment, it is no longer financially prudent to tie up Reserve Funds in Savings Account balances equal to 100% of Reserve Asset deterioration because of low savings interest rates. Is Association Reserves considering switching metrics for High, Medium, Low risk measurements to a liquidity measure such as number of years Expenses in Reserve Funds (coverage for 5 years of upcoming years expenses for instance) rather than the solvency measurement currently used which is percentage of total Reserves deterioration? If not switching to a liquidity metric, is Association Reserves considering using both metrics in their reports?

A: We respectfully disagree with your premise. In actuality, the amount of cash on-deposit in Reserves typically relatively small, so the interest earnings (whether 1% for the association or 4% for the individual unit owner) is trivial. And not all owners get 4% or more. In addition, the significant downside is when the board doesn't have the cash on hand to perform the project in a timely manner, which is a breach of their responsibility to the association and an act that often makes the expense significantly larger due to deferred maintenance (costing the owners far more than the few more \$ of interest they may have squeaked out). And note that we will not be changing to a different metric for measuring Reserve Fund size. Pct Funded is not only an intuitive metric, it is part of National Reserve Study Standards and has an undeniable correlation with special assessment frequency, making it a key benchmark for Reserve Fund adequacy.

Q: How many years into the future is a reasonably accurate forecast of needs and associated costs?

A: 20 yrs is the minimum required by NRSS. 30 yrs are required in CA. It is presumed that these distant estimates are regularly updated, refining all distant estimates as they gradually draw closer. Note that there is no maximum Useful Life or Remaining Useful Life. Very large, predictable projects should be included in Reserve planning so every owner pays their fair share to offset deterioration during the time they enjoyed the use of that 35-yr elevator, 40-yr generator, or 50-yr seawall, etc.

Q: Are investments for capital reserves generally restricted to CD's or other principal guaranteed investments? Do many associations make risky investments to gain higher returns?

A: Yes. All industry professionals recommend Reserves be invested in vehicles that protect the principal. Very few associations make risky investments, which both imperils their Reserve fund and increases the board's liability exposure (not to be defended by D&O insurance because such willful actions go against industry best practices).

Q: After three years contributing to a "Fully Funded" Reserve Funding Plan, the HOA decides a "70% Funding Plan" is more affordable. What is the best way to covert the existing plan from 100% to 70%?

A: The board gets to decide their own risk tolerance. No need to "convert". Work with your Reserve Study provider to get the contribution size to pursue such a funding goal. Or simply use our free [uPlanIt](#) online Reserve calculator. Note: we'll always aiming for the bulls-eye (100% Funded), not an "outer ring" or the edge of the target.

Q: Is there an established requirement for a Reserve expense vs Operating expense? Greater than 5 year life? Over \$5,000 in cost? Some other combination of life and cost?

A: Yes. One of the National Reserve Study Standards 4-part tests is that it be above a threshold cost of significance. That is typically the board or manager's signature authority to spend on maintenance projects, which is often in the range of .5% to 1% of the annual budget. See our short "QuickTips" video on this subject [here](#).

Q: What is the definition of a fully funded association? No negative cash flow? Never using more than 50% of reserves? Always some minimum amount of reserve?

A: Fully Funded is a National Reserve Study Standard term. See [here](#)... where Reserve cash equals the value of Reserve Component deterioration at the association. Or see our short QuickTips video [here](#). Note that Fully Funding is different – that is a goal to become Fully Funded.

Q: How is expected loan financing or a special assessment factored into developing the Reserve Funding Plan?

A: There are four ways to "pay" for ongoing deterioration. The least expensive is through ongoing budgeted contributions, where interest grows on a compounded basis. Next is a special assessment, followed by a loan, followed by deferred

maintenance and a drop in home values. Each is gradually more expensive than the other. Acting in the best interests of the association, our standard recommendation is for budgeted contributions, with special assessments (or loan alternatives) only when there is not enough time to collect adequate fund through ongoing budgeted contributions.

Q: What is the average % of reserve funds that Condominiums need in order to support their reserve needs?

A: See [this](#) chart that shows the special assessment risk plotted against Percent Funded. You can see that the special assessment risk drops to almost zero by the time the association is at or above the 70% Funded level.

Q: We use a pooled (Cash Flow) approach to calculating our reserve funding levels. Do you recommend a non-zero minimum for the projected reserve fund balances that you feel minimizes the chances of having to resort to a special assessment to meet unanticipated reserve needs?

A: Yes, we recommend a minimum Reserve balance well above zero. While calculating contributions using the Cash Flow method, we recommend calculating Reserve Fund strength via Percent Funded, and setting the goal not just to stay “barely cash positive”, but aiming for a safe goal to be 100% Funded (or at least “over 70%”.

Q: Our mobile home park loses its land lease soon and will be closing. We have \$380,000 in reserves. What happens to this money?

A: We refer you to your attorney on this question. Our presumption is that the cash associated with maintenance of that asset may be returned to the owners. We recommend investigating purchasing that asset, folding it into association ownership.

Q: Our prior reserve analysis in 2018 underestimated the cost of replacing driveways and at current funding levels we anticipate a negative fund balance of ~\$22,000 (inflation adjusted). Our current operating budget is \$219,000/year. How would you suggest addressing this? If we have an operating fund excess at the end of year what steps do we need to take to transfer the excess to reserves?

A: Another good example of the need to update your Reserve Study regularly so you never get caught heading towards insufficient cash. Our quick recommendation at this time... increase assessments 10% to 15% in 2021 to collect another \$22k to \$33k

so you have enough cash to perform the project. Income needs to offset anticipated expenses.

Q: If our association missed a year of reserve studies, do we go back and do it or pick up with the next year?

A: Yes. We applaud your practice of regular annual Reserve Study updates. If you miss a year, pick up the pattern and update it next year.

Q: Can security camera upkeep (adding cameras) be added to Reserves?

A: Yes. Cameras can be added during an existing system renovation or replacement project (expanding your 8-camera system to a 12-camera system) as part of the “natural evolution” of the asset. Fortunately, camera assets are not increasing significantly in cost, so it is not a budget-breaker.

Q: Our mobile home park has a large number of trees that are owned and maintained by the HOA. Both tree removal and trimming are in our operating budget. Can we put tree removal in the reserve study and tree maintenance in the operating budget?

A: Yes. Tree removal can be separated from tree care, one in the Reserve budget and one in Operating. That decision is often made based on the capabilities of your landscape maintenance contractor. There is no requirement that both be handled from the same budget.

Q: Our HOA owns a mobile home in our mobile home park. Several years ago it was removed as a reserve study item. Can it be returned to the reserve study? The association rents the home and, at this time, the rent money goes into our operating budget. Can the rental be considered an exclusive use common area?

A: Removal of a legitimate Reserve asset (no matter what it was) from the Reserve Study is unfortunate. Update your Reserve Study and add it back in, so major predictable Reserve projects can be accomplished with funds in Reserves for exactly that purpose. Collect rent, and then budget to pay for ongoing maintenance from the Operating budget and major predictable maintenance from Reserves. We'll leave it up to your attorney for how the rental asset is legally defined.

Q: In the next two years, we will considering a clubhouse renovation. What factors are considered in determining how much can be taken from our pooled (Cash Flow method) Reserves?

A: Discuss with your Reserve Study professional. Your guide, of course, should be your Reserve Components. If renovation Reserve Components (Clubhouse carpeting, painting, furniture, kitchen remodel, bathroom remodel, etc.) total \$50k, then that is your budget target. Note that just because in the Cash Flow method there are no funds designated towards particular projects (there is only one Reserve Fund in the Cash Flow method), that does not give the board free license to spend Reserves “as they see fit”. Reserves should always only be spent on Reserve expenses, hopefully all of which are clearly identified in your Reserve Component List. Spending Reserves on undesignated projects will cause your Reserve Fund to be depleted for other projects, meaning future Reserve contributions will need to increase. Always expect to update your Reserve Study regularly to rebalance Reserve contributions against anticipated Reserve expenses!

Q: Do the reserve items need to be for specific items? i.e. roof, elevator, building paint or may they be for ambiguous G/L like deferred maintenance?

A: The more specific the better. Accuracy in budgeting leads to accuracy in results – sufficient funds to accomplish your Reserve projects on time. General Component descriptions and rough cost estimates leads to not knowing how much to collect in contributions or how much to appropriately spend and on what.

Q: May the reserve items be for items less than \$10k?

A: Yes. Any project that passes the National Reserve Study Standards four-part test should be funded through Reserves, not just assets meeting your minimum statutory standards. There are many associations where predictable Reserve projects under \$10,000 would unsettle the Operating budget. Anticipate, control, and prepare for every expense you can.

Q: When pooled (calculating contributions using the Cash Flow methodology), if monies are transferred from one G/L line to another, does the G/L line where the monies are transferred from require funding at an accelerated rate to get back on schedule?

A: No. By definition, in the Cash Flow method there are no separate funds for each component, just one “Reserve Fund”. So tracking component fund balances, and making contributions to each individual fund, disappear. Just one more benefit of using the Cash Flow computation method!

- Q: When pooled (calculating contributions using the Cash Flow methodology), is it required for each item to be tracked on a specific line? Or is this user preference?**
- A: No. See above. By definition, in the Cash Flow method there are no separate funds for each component.
- Q: When pooled (calculating contributions using the Cash Flow methodology), what criteria determines which G/L an expense comes from? Should this be defined in a separate board approved document?**
- A: When using the Cash Flow method, there are no individual fund balances, only one Reserve fund. So there is no individual fund tracking. One simply spends “Reserve Funds” on “Reserve projects” whatever they may be. Hopefully all are identified in your Reserve Component List. If not, update it!
- Q: In addition to high dollar repair and replacement projects, may reserve lines be set for capital improvements?**
- A: No. One of the National Reserve Study Standards four part test defining Reserve Components is that they are a common area maintenance responsibility. Things that don't yet exist fail that important test. See more [here](#), p6. Once the asset is installed and becomes a common area maintenance responsibility (presuming it passes the other three tests), its replacement can be funded through Reserves.
- Q: What defines Reserves adequacy?**
- A: “Adequate Replacement Reserves” is defined as a Replacement Reserve Fund and stable and equitable multi-yr Funding Plan that together provide for the timely execution of the association's major repair and replacement expenses as defined by National Reserve Study Standards, without reliance on additional supplemental funding. See more [here](#).
- Q: How do you determine whether or not you are adequately reserved? Are you ever comfortable with the reserves you are holding?**
- A: Enough in Reserves to [minimize your chance of a special assessment](#) happens when you are at or above 70% Funded. You should be comfortable there. But a good goal is to aim for the “bulls eye”, which is to be 100% Funded. That allows for some “margin“ for unexpected events to happen before your risk of special assessments begin to climb. Note that there is a high risk of special assessments once the Percent Funded drops below 30%.

Q: Are building interior remodels typically considered Reserve projects or Ongoing maintenance?

A: Due to their significant cost and regularly scheduled timing, they are typically Reserve projects, as they nicely pass the National Reserve Study Standard [four-part test](#).

Q: Once the reserves are set at the budget meeting may they be changed during the budget year without majority of member voting? i.e. may G/L line names be altered or changed for any reason?

A: Typically the Reserve budget is for “the budget year” and updated on an annual basis. As a budget, it is a guide, not a legally restrictive document. Best to make any changes in the next annual update.

Q: What definitive proof is required as evidence to convert our (FL) association from using the straight line (Component) calculation method to the pooling (Cash Flow) calculation method? i.e. are meeting minutes with member vote counts adequate or are the actual vote ballots required?

A: Please check with your association’s legal counsel.

Q: In FL, what are the steps required to transfer monies from one reserve G/L to the other if upgrades have changed the G/L funding requirements? i.e. our Parking lot Resurface project was upgraded from asphalt paving to concrete pavers.

A: Make the change as part of your redistribution of funds in your annual Reserve Study update. This is another example of the benefit of the Cash Flow method... the arbitrary annual redistributions of funds from one “account” to another become unnecessary. The Cash Flow method shares funds between components without requiring manually redistribution.

Q: In FL, if a reserve G/L line is over funded (we use the straight line calculation method) may the overages be transferred to another reserve G/L line at any time during the budget year? What approval process is required?

A: Check with your attorney on the approval process. Reserve planning is best done with annual updates, not continually adjusted and tinkered with through the year. Using the Cash Flow method avoids all this tinkering and manual re-distribution.

Q: At the annual budget meeting, what liberties does a FL board using the straight line calculation method have to manipulate the reserve G/L lines? i.e. may reserve G/L lines be closed and monies transferred as required?

A: Check with your FL attorney on this matter. Also - we highly recommend adjustments to your Component List be done by a credentialed Reserve Study professional, not committee members.

Q: Do you routinely require a client association to provide evidence of their actual cost for recent work on a major Component (such as replacing streets or fencing or painting buildings) in order to update the Component cost in their Reserve Study? It seems actual Component costs might be a good way to validate industry averages as well as provide a more accurate Reserve Study for that specific HOA.

A: National Reserve Study Standards allow us to take the word of an authorized association representative. We do not need receipts or other forms of “evidence”. And yes, an association’s “actual cost” experience is generally our most important cost benchmark for making future cost projections.

Q: We are looking at a major hardscape replacement/upgrade to a number of building in our 35+ year old community. The work will cost in the order of \$500K and take 3+ years to complete as a function of cash available and limited non-season access. Can Reserves be used to develop the design? Including items such as topo surveys, related quantity takeoffs, land & hardscape architect consultation, related renderings in choosing the final design, and final design drawings.

A: There are two issues here... what funds are being used for the hardscape and landscape renovation, and what funds are being used for design. In both, the decision is guided by the National Reserve Study Standard [four-part test](#). Generally major building renovations pass the four-part test and are Reserve projects, and the 2019 “[Explanation of National Reserve Study Standards](#)” (see “Current Costs”, middle of p6) clarified that all directly related costs (such as the ones you mention) are to be considered Reserve expenses. They don’t need to be separate Components, they can be included in the major project cost estimate.

Q: Should landscape expenses be included in the reserves?

A: Quite often major landscape renovation projects (greenscape upgrade, sprinkler line replacement, tree care, etc.) pass the National Reserve Study Standard [four-part test](#) and are appropriate Reserve components.

Q: What does "PRA" stand for?

A: PRA stands for Professional Reserve Analyst, and is one of the two national credentials that a Reserve professional can obtain. The PRA is promoted and administered by the private trade organization "[Association of Professional Reserve Analysts](#)". That credential is very similar to the "RS" credential ([Reserve Specialist](#)) promoted and administered by the national trade organization [Community Associations Institute](#).

Q: Preparing "soft-story" structural upgrades per new city earthquake standards -- can we use reserves?

A: Presuming this to be a question related to the City of Los Angeles' structural retrofit requirement on multi-story wood framed buildings ([LA City Ordinance 183893](#) and 104081), the answer is "no". This is a new code requirement, has nothing to do with deterioration (the purview of Reserves, and has nothing to do with limited life expectancies In addition and most importantly, the structural additions required would be an addition to the building so it fails the NRSS four-part test in that it is not a current common area asset. While some Reserves may be "loaned" to the project to get it started, funding for this project should not come from Reserves.

Q: How much does a reserve study typically cost? And it is cheaper to update/refresh each year using the same provider?

A: There are three types of Reserve Studies: Full (create from scratch), and the two update products which are Update-With-Site-Visit and Update-No-Site-Visit. The most expensive is a "Full" Reserve Study, which fortunately for most associations only needs to be done once. For most associations, a "Full" Reserve Study is at or under 1% of their annual budget. Subsequent update Reserve Study products are significantly less expensive.

Q: What percent of associations are 100% Funded?

A: Avoiding the question of how many are "exactly" 100% Funded (which is of course a very small number), statistics show that approximately 30% of associations are at or above 70% Funded. Approximately 13% are at or above 100% Funded. For underfunded associations, all it takes to join the 30% "well funded" grouping is a few more dollars a month of Reserve contributions... cash well spent as it results in [higher home values](#) (and a significant decrease in special assessments).

Q: You said the item must exist before spending Reserves on a project. What should be done with the funds now if we have been putting funds aside for a Capital Improvement?

A: If you've been putting funds into Reserves for an upcoming Capital Improvement, create a separate Capital Improvement fund and transfer that cash over to the Capital Improvement fund. Then add more cash to that fund to prepare for your upcoming Capital Improvement!

Q: The sink holes and other related damage should have been at least partially covered by insurance, right?

A: Reserves are to be used for those major, predictable repair and replacement projects for assets the association is responsible to maintain (meeting the NRSS [four-part test](#)). True common area "surprise" expenses (damage) should, as you suggest, be largely covered by insurance, leaving only the deductible to unsettle the association's Operating budget.

Q: The bulk of our emergency lights (200) are incandescent and approaching 14 years old. Can we use reserves to replace them all with solid state emergency lights?

A: Yes. There is no requirement to replace "like-for-like". It is normal to replace a dated asset with something technologically current.

Q: Going back to your light fixture example - is it appropriate to include a technology upgrade through Reserves?

A: Yes. There is no requirement that a replacement be a "like-for-like" replacement. It is expected, and appropriate, that associations make "natural evolutions" to their Reserve assets as part of their repair and replacement projects. This is clarified in the [Explanation of National Reserve Study Standards](#) document, in the Capital Improvements section at the bottom of p6.

Q: Who hires the construction experts to determine the items that need to be addressed?

A: Often the professional Reserve Study provider makes inquiries of actual professionals serving the association (the HVAC provider,, plumber, or roof-care company) in addition to their own network of professional experts when compiling the Reserve Study. In the year the project is actually done, the association board hires the construction consultant.

Q: How many years into the future is a reasonably accurate forecast of needs and costs?

A: National Reserve Study Standards require a minimum of 20 yrs. California requires a minimum of 30 years. All projections will become more accurate as the years go by and they draw closer. This is another important reason to regularly update your Reserve Study... helping you identify and (accurately) prepare for upcoming projects.

Q: Our community completed a reserve study late 2016 which was detailed and set our reserve assessments. Recently a new study was done by a different company, and was not as detailed. Our new one says we need to increase our annual assessments in order to handle increased Reserve contributions. Which one do we rely on?

A: Your new Reserve Study. It supersedes the prior Reserve Study. When you update your Reserve Study, make sure you get a quality report prepared by a credentialed individual. The future well-being of your association depends on it!

Q: How do you recommend handling inflation in a 40 year reserve study?

A: Expect that your credentialed Reserve Study professional will use a multi-decade “stable” value for inflation (somewhere in the 3% range), and regularly update your Reserve Study. We recommend every year.

Q: How do you determine Useful Life?

A: We consider a property’s actual Useful Life experience to be a valuable benchmark. In addition, we are in a position of strength by having a great deal of experience with various properties and components, in a wide variety of environments (over 55,000 completed Reserve Studies and counting!). So we see how long components last among our clients, and we use that information to project likely Useful Life expectancies.

Q: How many years should community take to go from current situation to Fully Funded? What factors should be considered?

A: One of the Four National Reserve Study Standard [Funding Principles](#), along with being “Fiscally Responsible”, is that there be Budget Stability. That means that while becoming Fully Funded is great (and fiscally responsible), it is not worth creating a budget plan that gets there rapidly, in a manner that destabilizes the budget. So you will often see a multi-yr Funding Plan that gets an association gradually to the Fully Funded point in 5, 10, 15, or 20 years.

Q: I am an owner in a nearly 30 year old association that did not obtain a reserve study until 3 years ago. Naturally the study found our association to be poorly funded. In preparing a presentation to owners, several board members feel the new contribution will be a “hard sell”. How do you recommend communicating this need to get “buy-in” from homeowner members?

A: Expenses are inevitable. If funds are not set aside to offset deterioration, the association will find itself with significant deterioration and insufficient funds to perform the necessary repair and replacement projects. This is another warning to associations – get a Reserve Study and update it regularly! For your current situation, explain that these are unfortunate times. Prior boards did not take deterioration seriously and set budgets so that owners paid their fair share. The result is higher costs at this time. The alternative is even higher costs due to even more deferred maintenance, and dropping property values. There is no easy way forward.

Q: How do you explain “40% Funded” to new board members? They get confused over whether that means they are 40% of where they should be, 40% of what they need, or 40% of what they should be contributing, or...

A: Watch [this](#) short QuickTips video, or read [this](#) short article. Percent Funded is the measure of Reserve cash compared to Reserve deterioration. So it is a measure of “where you are” with respect to Reserves... a lot, a little, or somewhere in-between. 40% Funded means you have (much) more deterioration than you have cash-on hand to deal with that deterioration.

Q: Our association is 35 yrs. old. We now have several trees that have caused and/or will cause building structural damage and have to be removed. Can we include these costs as a reserve item (landscape company has advised against this)?

A: Let’s make a deal. We won’t give landscape counsel, and don’t take Reserve counsel from your landscape company. Tree care (or removal) is often a Reserve Component, as it often passes the National Reserve Study Standard [four-part test](#). If tree care doesn’t appear in your Reserve Component List, suggest to your Reserve Study professional that they consider adding it for your next update.

Q: Is there any liability to the Board for not following recommend reserve contributions amounts?

A: There is no requirement that the board follow the recommended multi-yr Reserve Funding Plan, but in any case where the board has sought out expert counsel and chooses to ignore it, their liability increases. Any reason the plan is not adopted should be clearly documented, in a defensible manner.

- Q: Florida Statutes require a Condo to be Fully Funded, unless a majority of unit owners vote otherwise. If based on your study our Condo association makes the recommended contributions (and plans to follow the multi-yr plan), is it Fully Funded?**
- A: Please check with your association's legal counsel, regarding statutory interpretations. Please be careful with your wording when you do. "Fully Funded" means the state of having cash in Reserves equal to the deterioration of your Reserve components, while "Full Funding" means having the funding goal to become Fully Funded.
- Q: Any tips on how to better track actual monthly Reserve Contribution amount? For example, if monthly Net Operating Income is \$10,000, but Total Cash only increased by \$5,000.**
- A: Most associations track it similarly to their other expenses... in two columns: Budgeted Reserve Contributions and Actual Reserve Contributions. Or perhaps they display it with four columns, adding YTD Budgeted and YTD Actual. Net cash or net income will vary. Track the hard cash being transferred to Reserves, unaffected by the association's Operating or Reserve expenditures.