



# Reserve Study Basics – How a Community Association Reserve Study can keep Insurance Costs Down

by Kevin Davis, CIRMS  
& Robert M. Nordlund, PE, RS

[www.KDISOnline.com](http://www.KDISOnline.com)  
[www.ReserveStudy.com](http://www.ReserveStudy.com)

Nov 10, 2021

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

In this webinar, national insurance expert Kevin Davis explains why insurance costs are rising across the country – the uninsured peril of deferred maintenance. At least in part, deferred maintenance was a significant contributing factor to the tragic collapse of Champlain Towers South. As a community association industry leader, Kevin wanted to do something about this, to change board behavior.

In this webinar Robert Nordlund, PE, RS explains what a Reserve Study is, and how it is the critical element for associations desiring to get successfully to the future. And that's the key... how to get boards to desire to make wise choices in their own best interests? Kevin's idea – create financial incentives.

Kevin outlines the financial incentives:

- Insurance discounts from Kevin Davis Insurance Services when the client can show they have a credible, current Reserve Study
- Reserve Study discounts of 5-10% from Association Reserves, rewarding clients choosing an insurance company that has their best interests in mind.

Find the Questions and Answers portion of the program on the next page, followed by the presentation's slide-show.

**For additional information, please visit:**

[www.ReserveStudy.com](http://www.ReserveStudy.com) and [www.KDISOnline.com](http://www.KDISOnline.com)

# WEBINAR QUESTIONS ASKED BY ATTENDEES

## **General**

**Q: When does this new plan start?**

A: Immediately.

**Q: How big are the discounts?**

A: Robert – between 5% and 10% depending on the price of the Reserve Study. Our discounts are at set dollar increments, so the actual % will vary for each client depending on their actual Reserve Study fee.

Kevin – up to 10%.

**Q: What is needed to secure a discount?**

A: Robert – from Association Reserves, we need a copy of a (current) KDIS policy declaration page. That will get a KDIS client a discount on their Reserve Study.

Kevin – a current, credible, site-inspection-based Reserve Study. That means a Full or With-Site-Visit Reserve Study prepared by someone who is a credentialed RS or PRA, within the last 24 months. Note that an individual carries these credentials, they are not a company credential.

## **Insurance**

**Q: How can we get a list of credentialed Reserve Study professionals in Florida?**

A: Those with the RS credential can be found [here](#).

Those with the PRA credential can be found [here](#)

Note: many credentialed Reserve Study professionals serve multiple states.

**Q: Do the discounts only apply to Reserve Studies done by Association Reserves?**

A: No. All Reserve Studies prepared by a RS or PRA within the last 24 months will qualify your association for a discount. If that is not your case, we recommend moving forward with Association Reserves (get a free proposal [here](#)).

**Q: Having a “credible” Reserve Study is a start. But funding Reserves is more important. Will the discount apply if they HAVE a Reserve Study, but the association is less than 20% funded?**

A: Funding Reserves is indeed important. But in answer to your question, the association's Percent Funded (Reserve Fund Strength) is not a criteria for the discount. Associations under 30% Funded (the “weak” range) are especially those that we want to encourage to update their Reserve Study.

**Q: How do I get a bid for insurance from KDIS?**

A: To get a quotation, you must contact your local insurance agent and have them contact Sherry Branson at [sbranson@kdins.com](mailto:sbranson@kdins.com).

**Q: Kevin: where do you (or do you not) write policies?**

A: We currently insure policies in all 50 states.

**Q: We have a condo in OC that can see some structural issues. Now the Umbrella carrier is getting off the policy mid-term...How can this be addressed?**

A: Have your local agent contact Sherry Branson at [sbranson@kdins.com](mailto:sbranson@kdins.com). She can assist you.

**Q: Looking at the KDIS website, it looks like you don't offer basic property insurance like fire and water damage?**

A: That is correct, we specialize in Directors & Officers, Cyber, Umbrella Liability and Crime Coverages exclusively.

**Q: Would you work with a Farmers agent?**

A: Yes, contact Sherry Branson at [sbranson@kdins.com](mailto:sbranson@kdins.com).

**Q: Our Community Management (CM) company did not do a proper review of our finances ever, even during budget prep time. We kept doing transfers out of our reserve fund to pay for unexplained expenses. I joined the board to get to the bottom and we discovered a \$32/unit/mo trash fee that was supposed to be billed as a Homeowner utility had been paid by the HOA for 3 years and the budget never considered this to be an HOA expense. We corrected by invoicing Homeowners moving forward. But now we need to recover \$30,000 from this oversight by our CM. Does insurance help us in this situation?**

A: I am sorry, but it does not.

**Q: If owners have gas grills or other things in violation of the fire code, and the HOA is aware of this, and doesn't enforce the CC&Rs requiring owners not to violate the fire code, does that void the HOA's insurance policy?**

A: No

**Q: You mentioned an Entitlement attitude by owners - questioning board decisions. But what if the owners feel the board is not funding reserve sufficiently? Is that not good participation and attention to financial responsibility?**

A: Correct, that's not good attention to financial responsibility. Encourage them to act responsibly.

## Reserves

**Q: Speaking of reserves and insurance, should the yearly insurance premium be paid from Reserves? Every year, our board borrows from the reserves to pay the insurance premiums, but insurance is not part of the reserve study.**

A: Insurance premiums do not qualify as a Reserve expense, as they do not pass the National Reserve Study Standard four-part test. If for cash-flow reasons the premium is paid from Reserves, those borrowed funds should be restored to Reserves before the end of the year.

**Q: What determines the method you use to calculate Reserve contributions... either the Component Calculation Method or the Cash Flow Calculation Method?**

A: In all areas except Florida, that choice is made by the Reserve Study professional, and in almost all cases they will select the Cash Flow Method since it is advantageous to the association. In FL, by State Law, the association must declare the calculation method used, and some remain “stuck” using the old/inefficient Component Method simply because they have not made the change. Note that both Methods provide Reserve income to offset exactly the same expenses.

**Q: How often should we update our reserve study, and should it be an Update or a “Full” Reserve Study? What is the approx. cost difference between the two?**

A: Best practice is to update your Reserve Study based on a diligent visual site inspection at least every third year. Associations can further reduce their special assessment risk by performing a less expensive No-Site-Visit update in the in-between years. It is rare that an association should ever need a “Full” Reserve Study more than once (once the assets are identified and measured, you don’t need to pay to have them remeasured again). A Full Reserve Study is often in the range of 1% of an association’s annual budget. A With-Site-Visit Update is typically 50-80% of the original Reserve Study, while a No-Site-Visit update is commonly in the range of \$1000 or less.

**Q: You stated that best practice is to update the Reserve Study based on a site inspection every three years. So why require a Reserve Study to be only 24 months old to qualify for a discount?**

A: A Reserve Study is a forward-looking document. Here in Fall 2021 an association’s Reserve Study should already be done, providing counsel for the association’s 2022 Fiscal Year. Stated another way, a Reserve Study done in 2018 (three years ago) would have been for the association’s 2019 Fiscal Year. They should have had a Reserve Study done in 2019 for their 2020 Fiscal Year. Then they should have had a Reserve Study done in 2020 for their 2021 Fiscal Year. Now, if all they have is that three-yr old 2018 Reserve Study, they are not prepared for 2022. We’re not going to reward that with a discount.

- Q: With a No Site Visit Update in between With-Site-Visit Updates every 3 years — are you saying Best Practice is input from study provider every year?**
- A: Yes. For a budget line item like Reserve funding that is typically one of the association's largest budget line items (if not the largest), an annual review/update is prudent. 68% of our clients get their Reserve Studies updated on an annual basis. It is cheap insurance to keep their budget on-track, so they have sufficient funds on-hand to perform major repair and replacement projects in a timely manner, avoiding deferred maintenance and special assessments while maximizing property values.
- Q: Please explain a "No Site Visit" Reserve Study Update?**
- A: That is an update where the Reserve Study professional updates all component costs and the starting Reserve balance. In addition, the client and major vendors are interviewed to get an update on recent projects performed at the association, or to receive condition reports on how the components are continuing to perform.
- Q: In our Reserve Study the estimated replacement costs are far below our actual experience. Why did they do that?**
- A: I'm sure it was not intentional, but that shows the value of using a credentialed Reserve Study professional and regularly updating your Reserve Study to get fresh pricing information. Usually, the reason pricing was underestimated is the Reserve Study is years out of date, or the provider did not include all related costs (permits, shipping, disposal, etc.) as required by National Reserve Study Standards.
- Q: Our community is about three years old. Our original Reserve Study was horrible, created from builder plans and never updated with an onsite inspection. Many line items were missing, some were underfunded. This put the HOA in a bad financial state. To correct, we need a Member vote approval to increase regular assessments 20% or more, plus a special assessment to rebuild our reserve fund. We are now seeking a new Reserve Study with an onsite inspection. Can we get our money back from the original company that provided the bad reserve study report?**
- A: Good luck getting your money back from the company that did a poor job of your prior Reserve Study. That's a great example of the value of using a credible, credentialed Reserve Study professional.
- Q: We had a Reserve Study done 2 years ago by a local engineering firm. Although they did not have RS or PRA credentials, they were PEs. Would this be considered "credentialed"?**
- A: No. A PE may be a wonderfully qualified individual to do what PE's do, but they do not have a demonstrated skill set in field of budgeting and cash flow management. To get a qualified Reserve Study, use a professional with a credential in that field.

**Q: Can you give us an idea as to what goes into the cost of a Reserve Study?**

A: A Reserve Study is a budget consultation service, so it is based on the size and complexity of the association. Additionally, age (more skeletons in the closet), distance from one of our regional offices, and Fiscal Year End (does the Reserve Study need to be done in the “busy time of year” or in the off-season?) are also factors.

# Reserve Study Basics Webinar:

## Learn How a Community Association Reserve Study Can Help Keep Insurance Costs Down!



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### Host: Sherry Branson, Marketing Manager, Kevin Davis Insurance

Sherry is a licensed broker and has a Media Background in TV and Radio, Sales Experience, and Digital Marketing expertise and has a BA from Rhode Island College



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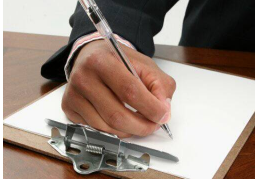
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## A word about note-taking...



### Relax!

- This session is being recorded, and will be available on our website
- An outline will be emailed to all who fill out an end-of-session survey



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**Kevin Davis, CIAMS**  
Kevin Davis Insurance Services  
Founder & President



[www.KDISOnline.com](http://www.KDISOnline.com)



**Robert Nordlund, PE, RS**  
Association Reserves  
Founder, CEO



[www.ReserveStudy.com](http://www.ReserveStudy.com)

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Our goal today is to explain the importance of a Reserve Study to help community associations deal with years of neglect resulting in massive maintenance issues which has led to higher rates, less coverage and underinsured associations.

You'll also get a sneak preview of a new joint marketing program between Association Reserves & Kevin Davis Insurance Services that will benefit all Associations.



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Multi-million dollar non-profit entities...

run by an untrained Volunteer Board of Directors.

*What can go wrong?*

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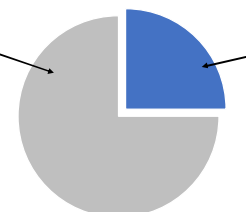
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### Financial Management



**75% Operating**

- Management
- Janitorial
- Utilities
- Insurance...
- etal

**25% Reserves**

- Roofing
- Painting
- Asphalt
- Boiler
- Elevator
- etal

*A Financially & Physically Healthy Association*

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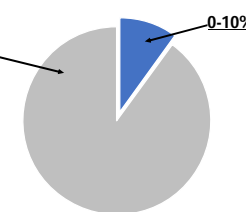
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### Financial Mis-Management



**Same Operating Expenses**

- Management
- Janitorial
- Utilities
- Insurance...
- etal

**0-10% Reserves**

*"Clever me – look how much we can trim our assessments!"*  
Board Member

*An Underfunded Association*

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## Problem

Years of neglect and poor decisions  
result in

**Deferred Maintenance**  
and  
**Special Assessments**

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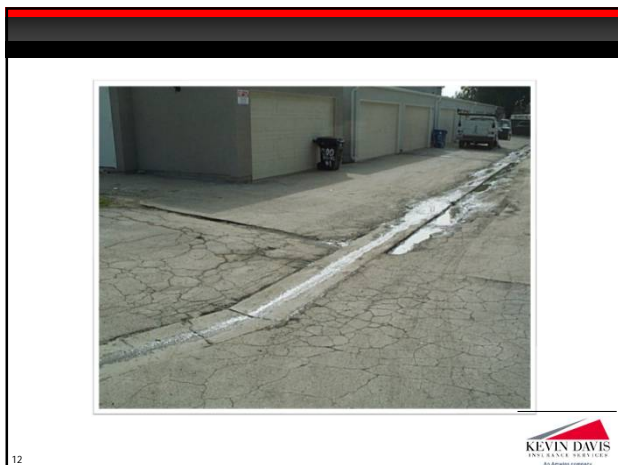
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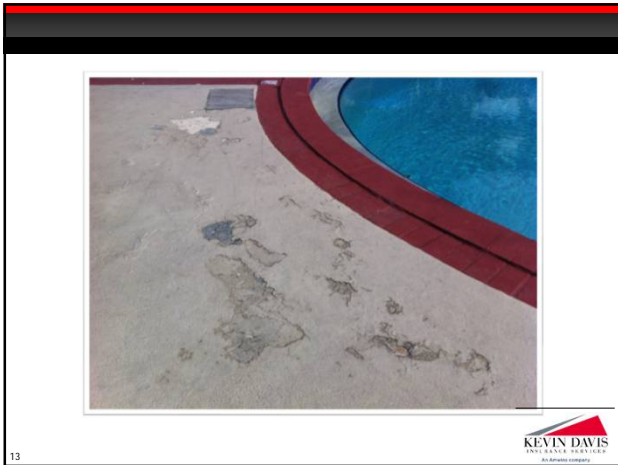
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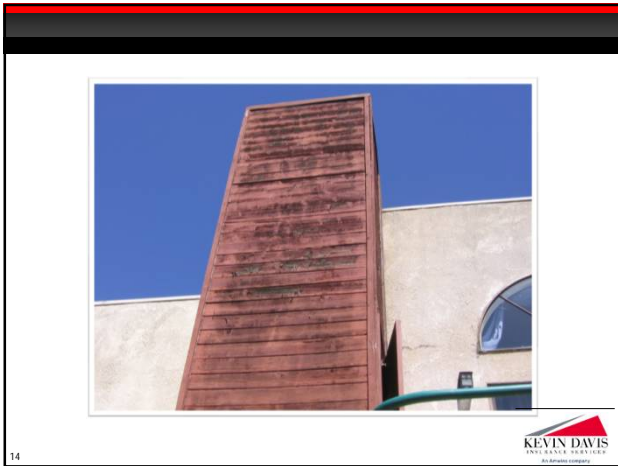
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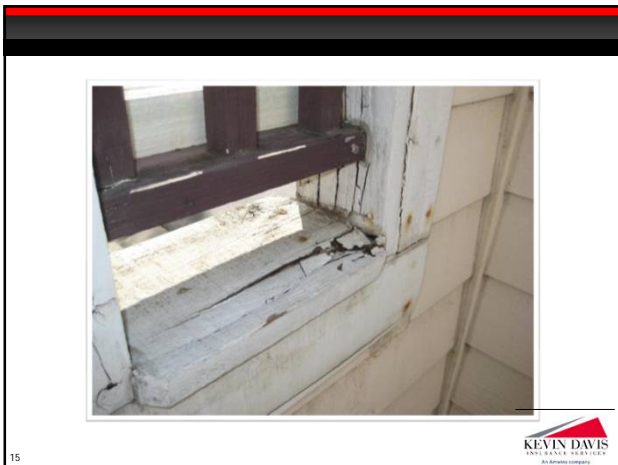
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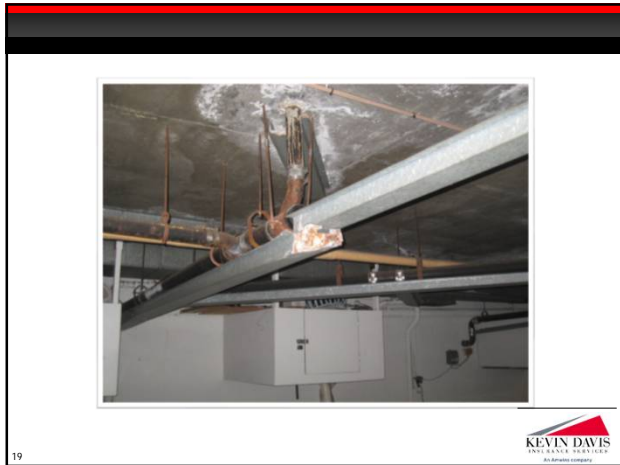
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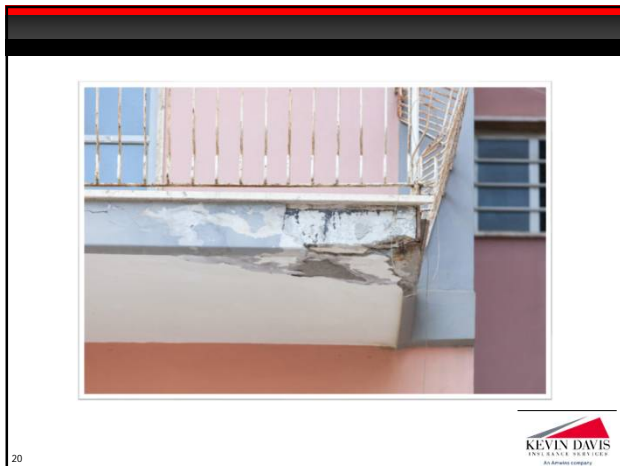
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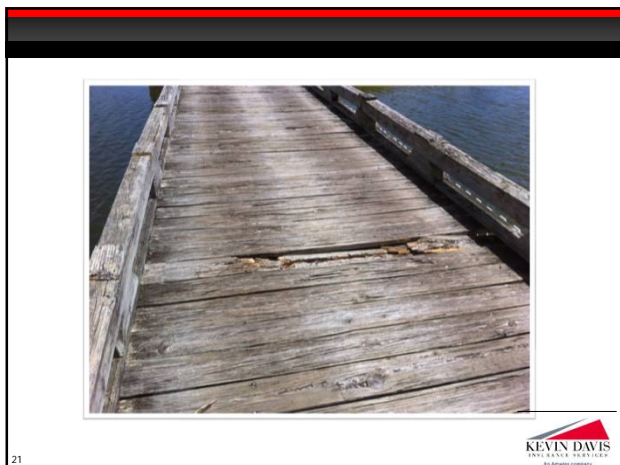
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Deterioration  
the enemy of the Board  
And  
the enemy of the Insurer

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The insurer has power...  
... to force the  
association to "maintain"

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## Community Associations and Deferred Maintenance Trends!

- 1 Significant rise in claims for failure to maintain
- 2 Entitlement attitude of unit owners
- 3 Social inflation which has led to nuclear verdicts

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## 1 Insurance Exposures Unique to Community Association Failure to Maintain

- Slip and Falls
- Water Damage
- Breach of Fiduciary Duty

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## 2 Entitlement attitude of unit owners

- Failure to Maintain has led to the board's decisions being challenged by owners based upon the rules are unfair, discriminatory, unreasonable and unenforceable because the people who live there believe they know their rights and are treated unfairly
- Owners believe rather than simply complying with the rules, the owners are now often unreasonable, insulting, condescending and exhausting to most boards and property management when it comes to enforcing the documents.
- If the board failed to take appropriate action like funding the reserves, it could result in a lawsuit against the association for failure to comply with the association documents and/or state law.
- The owners believe they can do whatever they want regardless of the association documents; and many of this group has never read the governing documents or attended a board meeting.

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**What is Social Inflation?**

- Legislative, judicial, social, and economic developments resulting in more litigation, broader definitions of liability, and larger jury awards.
- Several billion-dollar verdicts over the past 12 months demonstrates how social inflation has impacted the insurance industry including Monsanto and Johnson & Johnson.
- And for insurance companies, it is particularly difficult to predict, because it is primarily controlled by social concerns and trends.
- The owners believe that because the associations are corporations bringing a lawsuit against one would result in a big damages award, so owners are quick to want to sue their associations and take up with the courts.

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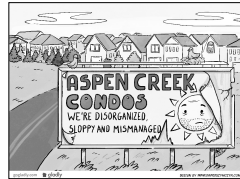
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**How does a Reserve Study Help?**

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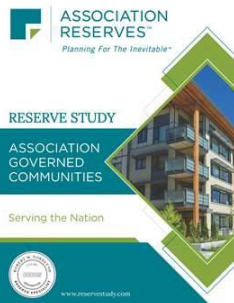
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**Reserve Study**

A recurring physical and financial Budget Study to guide the Association towards a successful future



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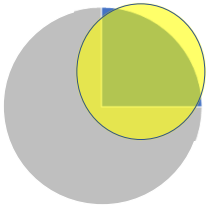
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## Reserve Study



1. What upcoming projects do we need to plan for?
2. Do we have enough Reserves on hand?
3. How much do we need to be setting aside on an ongoing basis? (typically 15-40% of budget)

*Guiding boards towards the future.*



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## What does Success Look Like?

1. Regularly Update the Reserve Study
2. Fund Reserves
3. Spend Reserves



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Supplement the Reserve Study with an Engineering or Architectural evaluation.

*Different but complementary*

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



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## Report Types

Engineering/Architectural  
Report



Reserve  
Study

*Conclusions of Engineering/Architectural Report incorporated into  
Reserve Study for budget & cash management decisions*

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Let's encourage  
boards to not make  
decisions blindly!



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## What are we willing to Do!

Association Reserves and Kevin Davis Insurance is committed to helping associations take this important step of protecting the assets of the association by providing financial incentives for those in need of a Reserve Study.

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## Part I

We have partnered with Association Reserves so that by selecting them for your Reserve Study, your association will be eligible for a Reserve Study discount (with proof of KDIS insurance policy).

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## Part II

In addition, you may receive an insurance policy discount as a Kevin Davis Insurance Services client, if the association has a credible Reserve Study less than two years old.

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**Incentives are *now in place...***

**for boards to get the expertise from a credible Reserve Study to minimize Deferred Maintenance and Insurance Costs**

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## Committed to an Improved Future!



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**ASSOCIATION  
RESERVES™**

[www.ReserveStudy.com](http://www.ReserveStudy.com)

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## For further questions...



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