RESERVES - ADVANCED CONCEPTS FOR MANAGERS AND BOARDS

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Miss the webinar? Watch it here.

"Adequate Reserves" defined here.

In this webinar, Reserve Specialist Co-Lee Grev shares from her wealth of management and Reserve Study experience to address some of the more "advanced" questions asked by clients and attendees of other webinars. Go beyond the basics (Reserve contributions offset ongoing deterioration), and learn about…

- Strategies and keywords for communicating the value of Reserve funds, and a Reserve Study, to boards and homeowners
- Does delaying a project save Reserves? Is delaying wise?
- Dealing with Rejection (why spend $ on a Reserve Study if we're just going to ignore it?
- Avoiding problems of your own creation (misstatements, forgetting, overspending…)
- Winning the "game" – knowing the objective, and the rules!
- How are "Adequate Reserves" defined?
- How to (safely) minimize Reserve contributions
- Reserve Funding "Best Practices"
- Include Interest & Inflation (and which is most significant)?
- Include projects 30 or more years away?
- How often to update, and what are the (measurable) benefits?
- Do strong Reserves influence property values?

Looking for more related resources? See additional recorded webinars on our “webinars” page here.

Remember - you’re never on your own. Association Reserves is here to guide your association toward an improved future with carefully prepared Reserve Studies and wise counsel throughout the year!

Please find the Questions and Answers portion of the program beginning on the next page.

Webinar Questions Asked By Attendees

Q: How do we factor in high inflation spikes into a 30 year reserve plan?

A: "High Inflation" is only temporary, so handling this in a Reserve Study involves three parts: bringing all your cost information to inflated current costs, setting a stable long-term inflation factor into the analysis (approximately 3%), and plan to update your Reserve Study regularly in the future to reset all your cost information. See more here.

Q: CA law doesn't mandate a percent-funding level, but I was told lenders like to see HOA reserves be 30-60% funded. What should an HOA treasurer set as a MINIMUM to be healthy, and set as a MAX to ensure fees aren't too high?

A: Special assessments, the events lenders dislike, are rare when the Percent Funded is at or above 70% Funded. Aim for 100%, so if your association misses that target due to delinquencies, cost overruns, or surprises, your Reserves will still be above the 70% level.

Q: Can associations use their reserve fund for the replacement of a major asset that is inadvertently omitted in the current reserve study?

A: Yes. Reserve Study professionals are human, and sometimes upcoming projects don't present themselves very effectively. Always check with your Reserve Study provider in a case like this, remembering that the principle rule is the National Reserve Study Standards (NRSS) four-part test, not the projects appearing in the Component List. So, if it passes the NRSS four-part test but doesn't appear in your Reserve Study, it should be a legitimate Reserve expense. But of course, update your Reserve Study to see how everything is different with this new component added.

Q: Should legal fees/litigation costs be included in a Reserve Study? We don't know if we will be sued, but if we do it will be expensive. I have heard recommendations both ways.

A: No. Legal fees do not pass the NRSS four-part test. Don't spend precious and scarce Reserves on legal fees. If you borrow Reserves for such projects, make sure you have a short repayment plan. Your Reserve projects need those funds.

Q: I was under the impression that reserve studies and funding are now required. Is that right?

A: Your roof, asphalt, etc. all are the association's responsibility to maintain, and their repair & replacement expenses are predictable. So yes, Reserve transfers to offset their deterioration and provide for their upcoming repair or replacement are bills just like any other bill the association is responsible to pay (management, utility, insurance, etc.). And Reserve Studies to learn how much to transfer each billing period are required. About 25 states now have different laws requiring either the performing of a Reserve Study or disclosures to owners or buyers (based on a Reserve Study) about the state of the Reserve fund, but the bottom line is that to successfully get to the future, you need regular Reserve Study updates.

Q: We have a lack of affordable condo homes because the laws are bad and most people serving on condo boards are not competent and often have bad motives. Is there any movement to have professionals with the appropriate incentives running the board, with owners serving only in an advisor basis?

A: Nope. You've just described the precarious status of the community association industry. It is defined as being dependent on its volunteers. Crazy, but that's the way it is. Your Governing Documents dictate how the association is run, and that takes board members drawn from the ownership pool.

Q: Where do we find a reserve investment specialist?

A: You can inquire of your local trade organization websites (such as CAI), or contact Dave Lynn at Dave@LynnWM.com or Nico March at Nico@TheMarchGroup.com (both multi-state Reserve investment specialists), who should be able to help you or provide a referral.

Q: What are you anticipating for % increases in components this year?

A: They vary by component, but we are generally seeing increases in the 5-20% range over last year's cost estimates.

Q: What is your source for the graphic you showed about special assessment frequency depending on if the association updated on a 5-yr cycle, 3-yr cycle, or annually?

A: An analysis of Association Reserves clients. We track how often they retain our services, and we track if we are forced to recommend a Reserve Study due to their financial condition.

Q: In reviewing past financial statements and minutes, my HOA didn't start a reserve until circa 2010 (buildings built 1966). What strategies can you suggest to help us grow our reserves without un-do stress for current homeowners?

A: Contact your Reserve Study professional, who will design a funding plan with as much fairness as possible, in light of our current financial position and upcoming projects.

Q: Can you speak to the "pros" of updating an existing study vs. starting over with a different firm?

A: There are benefits both ways. There are merits to having "fresh eyes" to see and potentially recharacterize the components at your association, with a fresh perspective on a prudent funding plan. Yet there is merit to having a multi-yr veteran at your side, guiding you with the depth of experience that comes from serving your association over many years (and many projects). Make a change if you can upgrade to a credentialed provider. Otherwise, at the right time, and for the right reasons (better customer or technical service, better side benefits, more readable report format, etc.) feel free to make a change.

Q: Would it be a good idea to change our reserve specialist every three years to get a fresh set of eyes for the on-site reserve study?

A: No. Not every three years. Consistency is good.

Q: Will the "new tool" (uPlanIt) be available for use to those Associations with a recent Reserve Study, (i.e. 2021)? Or is a separate payment of the $149 fee required?

A: A separate payment is required. That's because uPlanIt is only functional during the budget preparation process for the year the Reserve Study was prepared. It is not accessible for Association Reserves clients of prior years. Once the next Fiscal Year has begun, one would need to either have Association Reserves update the Reserve Study (when uPlanIt access then comes free for that budget preparation period) or purchase a $149 subscription to use it for that budget year.

Q: Technical Question. We have metal door guards at our condo Association. The cost for them is above min threshold, but only 4 out of the 7 units have them remaining. Do these components get included in the reserve study as they are the Association's responsibility? They are the Association's responsibility according to the governing Docs. How is this situation handled according to National Standards?

A: While I'm not sure what "metal door guards" are (screen doors?), I'm curious about the circumstances of why the association would have failed to replace 3 of the 7 if indeed they are the association's responsibility. So, if 3 were not replaced, what circumstances are different now that would suggest the remaining four should appear in the Reserve Study? Please discuss this with your Reserve Study provider.

Q: If the next year, there are not any Reserve Components scheduled for accomplishment, what is the risk if skipping that one year, if it is not the third year where an on-site visit is required?

A: Updates are not driven by expenses. Updates are driven by the passage of time. Everything changes every year (costs, the condition of the components, the economic environment, the Reserve balance…), so update your Reserve Study regularly, without fail. Keep this large budget line item on track!

Q: Won't associations be required to reserve the amount of dollars you recommend in the reserve study under the new Florida state regulations?

A: As of this time, the application of the new Florida Senate Bill 4D is a confusing mess, suggesting components that may not need to be replaced must appear on the Reserve Study, with wording suggesting that some (but not necessarily all) of the Reserve funding must be computed using a Straight Line analysis, etc. But the most significant step of progress, enhancing condo safety, is the elimination of the power of owners to waive Reserve funding. As we've said so many times, Reserve deterioration is real and expensive. When owners in FL exercise their power to waive Reserve funding, it undermines the board's power to provide for the needs of the association, and fundamentally puts the association at risk. But note that eliminating owner waiver power doesn't require the board to "fully fund" Reserves or require the board to follow the Reserve Study's recommended funding. We're watching this closely, participating in the legislative process to clean up this important legislation.

Q: Should infrastructure components be included in Reserve Studies (main water and sewer lines under community streets, interior fire sprinkler system, mail building electrical with individual unit subpanels)?

A: Yes. Associations set themselves up for long-term success when they do four things: update their Reserve Study regularly, fund Reserves as recommended, spend Reserves as recommended, and periodically have a qualified infrastructure evaluation that will provide input to the next Reserve Study update.

Q: What happens when a new board refuses to pay back a loan from reserves?

A: From a Reserves point of view, your Reserve fund will be weaker than was planned, forcing higher Reserve funding requirements in the future and potentially causing a special assessment or delays in performing Reserve projects (those funds were there for a reason!!!). As to the legal repercussions - ask your attorney.

Q: What is the name of the organization that reserve study standards are defined by and measured against?

A: National Reserve Study Standards are administered and promoted by the national industry trade organization Community Associations Institute (CAI). A diverse industry panel meets to periodically review and update those standards (an update is currently in process). You can see the most recently published version here, with elaborations and explanations here.

Q: Do you have a website reference to the recent updates to reserve studies? You mentioned a 2018 update that clarified a cash-positive position.

A: Sorry, don't understand the question. Please email me directly to further explain the question.

Q: Should reserve funds be invested in CDs?

A: CDs are one of several effective investment vehicles. Please see our recent webinar recording on inflation and investments here for more information.

Q: **Could "earthquake repairs" be considered a component that could be added to a reserve study and funded for potential future repairs when the "big one" hits?**

A: No – they do not pass the NRSS four-part test because they are not predictable events (driven by deterioration or age). Earthquake repairs are insurable events, and any losses (uninsured or deductibles) are special assessment events.

Q: **Regarding Reserve Funding vs Operational - not being a difference of source of funds. Could it be argued there is a difference because some governing documents require a steady flow into the "reserves" account and the flow stream is coming from an average of all who have owned the property over its lifetime? This includes those who used the property but no longer live there as they were required to pay into deterioration. You cannot typically find these excess funds just sitting in the operational account.**

A: Funding Reserves through ongoing Reserve transfers, offsetting the ongoing deterioration that you suggest, is ideal. It sets the association up for success and is most fair because every owner pays their share in direct proportion to the amount of time they owned at the association.

Q: **At my board, nobody attends these classes and nobody pays attention to the reserve study, even after I distilled it down for them. We've had two years in a row of below 30%. At our board's budget planning meeting a couple of weeks ago, it wasn't until the very end when the property manager, looking for more cuts, zeroed in on the "baseline funding" and was ready to adopt that, as it was less than what we're contributing (due to the big reduction in year 1). Why not include a projection of what current funding would result in and/or a baseline funding that starts with the current level of funding so that people aren't misinterpreting this? Why isn't a table with the 70% target being achieved included? Shouldn't boards separate operating funding and budgets from reserves/capital funding and budgets?**

A: To keep our Reports simple, our default format is to show our recommendation. All Association Reserves reports can be reprinted to show either Threshold Funding (the size of Reserve set-asides to maintain 70% Funded, for instance) or Baseline Funding. In addition, the free access you have to uPlanIt is like a "flight simulator" software, allowing you to plug in a different Reserve Funding level, and see if you "crash and burn" or not.

Q: **What is the annual cost of a reserve study for a land-owned RV resort of 154 sites?**

A: Please provide a bit more information on our online request for proposal form here, and we'll have a no-obligation proposal to you in just a few days.

Q: **How are you handling the new FL requirement (SB 4-D) that at least a portion of the Reserve Study site inspection be accomplished by an engineer or architect?**

A: We are working to find an architect or engineer (an individual, a firm, or a number of firms) capable of handling the "structural inspection" portion of the Reserve Studies we perform statewide.

Q: **In Florida, how will uPlanIt help us if we are mandated to adhere to the dollar amounts and years of useful life in your study because of the new state law SB 4-D? Does the new law eliminate our flexibility?**

A: The new law eliminates <u>your</u> flexibility (the ability to waive Reserve funding), it does not eliminate the board's flexibility or our flexibility. Thus, both our firm and the board still retain flexibility to design an appropriate Funding Plan, so uPlanIt is still great tool to tweak the Funding Plan even further.

Q: **Should the new Florida required reserve study, milestone inspection and possible phase 2 inspection be a line item in reserves?**

A: Absolutely, as those significant expenses pass the National Reserve Study Standards four-part test.

Q: **How are the new Florida laws complicating your conducting a reserve study?**

A: Yes! They look nice on paper but are difficult to apply in reality (they conflict with National Reserve Study standards in some ways, they are unclear in some ways, and they make the Reserve Study unfortunately significantly expensive in other ways). We are working with legislators to implement appropriate change.

Q: **The availability of vendors to maintain/replace reserve components is very limited these days due to post covid and pandemic backlog. What are some best practices to have Reserve Study be resistant to this lack of vendors to do the work?**

A: Use your Reserve Study to plan long in advance. Also – take advantage of your network, such as a local trade organization or your management company. Finally, make it easier on the service provider by having a good set of specifications. Most paint companies (Dunn Edwards, Sherwin Williams, Behr…) will draft up specifications ready for you to use.

Q: **How do you identify Landscape Improvements as being Operating expenses vs Reserve expenses? What do you do to fund a landscape project that is needed because of a major weather disaster?**

A: If the landscape refurbish project passes the National Reserve Study Standards four-part test, it is a Reserve project (not operating). If it is necessary because of a weather disaster, that sounds like it is an insurable loss, not a Reserve project.

Q: Regarding - Answering "yes" to using Reserve funds for any/all Reserve projects. Could it be argued this is not correct because membership approves the reserve allocation based on the reserve study? So if we are using Operating funds on a Reserve project, the membership has not approved those funds for use for that new project, so isn't that a problem at our association?

A: Please see your attorney on this matter to learn if you have specific restrictions on this matter. Generally, the board's primary responsibility is to provide for the care of the association's physical and financial assets. So, whether the board does this from Operating or Reserves is a secondary issue.

Q: We paint our homes every 8 years. We have had these set up in reserves since the beginning. Now we learn homes are not common property. So is this no longer a legitimate reserve item?

A: Interesting. It sounds like there has not been good communication between those familiar with the Governing Documents and those preparing the budget. While it could be argued that it is more cost-effective to paint all homes at once, saving everyone in the association some money, if it is not a common area asset it is not the association's business being involved. Perhaps you should consider revising your Governing Documents, or offer an opportunity for homeowners to join with each other to create a group capable of getting a volume discount on painting every 8th year?

Q: Do you generally find better HOA and Reserves management when there is an on-site manager or a management company assisting the board?

A: Yes. Managers earn their keep by saving board members time and providing wise counsel.

Q: I was under the understanding that the reserve study should be updated yearly, but I was told no, and that last year's study would just be sent with the required annual documents. Yet we replaced water heaters with tankless?? Shouldn't it be updated?

A: Since Reserve funding is often 15-40% of an association's total budget, and since all elements of a Reserve Study change each year (component conditions, component prices, Reserve Study size, economic environment), it is wise to update your Reserve Study annually. Sending out old information masquerading as current is just smoke and mirrors, designed to trick owners not paying close attention. Update your Reserve Study to reflect the new tankless water heaters. Doing so will serve your association well.

Q: Can we use the uPlanIt software to calculate the deterioration of our community in a given year? That could be helpful with our owners.

A: Yes. The "Component Significance" table has a "Deterioration Cost/Yr" column, and the sum at the bottom is your current annual rate of deterioration… the $ rate/yr that your components are deteriorating at this time. Note that because of inflation, your Reserve Funding generally needs to stay higher than this amount.

Q: Our reserve fund has invested in ultra low risk bond funds. But the value of the funds has dropped 3-5% during the year because interest rates have gone up which reduces the value of fixed income investments. Should our financial reports show the original cost of the funds or show the reduced value? If the latter, what loss or expense account should be debited for the decline in value?

A: You should never have Reserve funds invested in anything that could result in loss of principal. Change your funding strategy, disclose the current cash value of your Reserve Fund, and update your Reserve Study to learn how much higher your Reserve transfers will need to be to make up for this unexpectedly lower Reserve balance. Have your CPA deal with the disclosures on how you got to this unfortunate place.

Q: Our community has 3 sections built about 3 years apart. We have only a roof reserve fund. We are about 40% funded per a recent formal reserve study. It looks like the first phase of roof replacement will exhaust our reserve funds. It looks like we'll need a combination of income Reserves and special assessments to accomplish phase two and three. Comments?

A: Your Reserve Study should model the reality at your association. Thus, you likely should have three components representing each different phase of upcoming roofing (or painting, or asphalt…). Then fund Reserves so you can accomplish your Reserve projects in a timely manner. Sorry to hear you are underfunded. Upgrade your Reserve Study and prepare better for future Reserve projects at your association.

Q: How do you deal with an unbudgeted expense (either 1- not budgeted for current year or 2 has never been budgeted) for example erosion damage due to heavy rain?

A: If it is not a Reserve expense (a surprise that doesn't pass the National Reserve Study Standards four-part test), check with your insurance agent, and after that consider either a special assessment or short-term borrowing from your Reserve fund (if allowed in your state, with a strict and speedy repayment plan).

Q: I am the President of the HOA for a vacation condo community on a large lake in OK. How can I motivate my board to conduct a reserve study? Despite my encouragement to do so, the board is reluctant to spend the money and thinks the historic practice of annual special assessments is sufficient.

A: See your Governing Documents. The job of a board member is to budget for the needs of the association, not ignore the cost of ongoing deterioration and periodically beg the members to pass a special assessment to make up for their shortsightedness and fraudulent representation of the cost of living at the association. Getting a special assessment passed is never a "sure thing". Reserve Studies are not as expensive as you fear… they are a road map to the future.

Q: Are there standards for landscape items? For example, need for revegetation.

A: Please ask your landscape expert.

Q: Can roof REPAIRS be in the reserves, given that it's usually a large $ amount?

A: If a repair extends the Remaining Useful Life of the roof, which would trigger an update of your Reserve Study (as opposed to minor ongoing maintenance that due to association size is "expensive"), then it is a legitimate Reserve expense

Q: Please explain how percent funded is calculated. I've heard different things.

A: See National Reserve Study Standards here (pg 4), further clarified here on pg 9.

Q: How is the reserve strength calculation made? numerator / denominator?

A: See above. Reserve Fund balance is the numerator, amount of Reserve deterioration is the denominator.

Q: How does Association Reserves compute % funded to include allocations for projects that occur annually? Should the allocations to Reserves add up to the total cost of projects over 30 years?

A: You are mixing up two different things. Percent Funded is a measure of the size of your Reserve Fund (it is not a measure of the size of your ongoing Reserve transfers). The two are related, because the size of your ongoing Reserve transfers will eventually cause your Percent Funded to move up or down. Components that are annual expenses are computed just like any other Reserve project expected to occur less frequently. Regarding total cost of allocations (Reserve transfers) compared to Reserve expenses, the only purpose of Reserve transfers is to prepare the association for Reserve expenses. In some cases, the expense occurs more than 30 years out so the income will build during the next 30 years without an offsetting expense within that time period. In addition, the majority of associations with a weak Reserve Fund will be providing more income to Reserves than projected expenses in order to strengthen their Reserve Fund (and minimize their exposure to unsettling special assessments… when things don't go entirely according to plan!).

Q: For a Board Member, how is reasonable inquiry defined? Does that change if the board member is a licensed engineer?

A: Sorry, that's a better question for your association attorney. If you don't want to make a "reasonable inquiry" to your attorney on this matter, see how it settles in your stomach. What would you say to the judge to defend the basis of how you made a decision? Did you really have enough knowledge to fulfill your duty of care?

Q: If a current asset has to be upgraded or increased in size when it is replaced, is the replaced assets all reserve?

A: Please discuss with your Reserve Study provider to make sure you are preparing for this likely more expensive project. But in answer to your question, generally yes.

There is no restriction in Reserve funding to replace an asset with an identical but newer version.

Q: If there is a disagreement with the reserve study provider does the Board make the final call?

A: In all states but MD, yes. A new law went into effect in MD mandating those boards follow the Reserve Study funding recommendation. In all other states, the board still gets to apply their "local knowledge" to determine how much to fund their Reserves. That's why our uPlanIt online Reserve calculator is so popular… because boards like to use it to see and test "what if…" scenarios.

Q: You said we need to have enough Reserve funding planned to cover all expected repairs for the next 20 years. Our last Reserve Study says that our currently planned Reserve Funding ranges from 40 % now and rising to 60% in 6 years, then drops to 49%, and then increases to 75% in 20 years. Are we meeting your goal?

A: You are mixing up your Reserves Percent Funded (a measure of Reserve strength) with Reserves cash. You should plan to have enough Reserve cash to perform your Reserve projects for the foreseeable future (20+ years). We recommend doing that with more than just the bare minimum of cash in your Reserve Fund (Percent Funded in the 0-30% range), because things rarely go exactly according to plan and some margin is wise. So, we recommend associations strive to have a strong Reserve Fund (above 70% Funded), not just focus on cash.

Q: Will you do a reserve study for a roof replacement so the Board can share the info with the owners?

A: Absolutely. A Reserve Study is both a budget planning document and a great disclosure document, so the owners are informed of upcoming projects, they learn the financial standing of the Reserve Fund, and they begin to appreciate the funding requirements.

Q: Where can we find training videos for uPlanIt?

A: On our website either here (the main uPlanIt page), or in the webinar (click here) where we introduce it and "kick the tires" for the audience. Please note there are simple training videos on every page of the site.

Q: Our association did not plan for complex wide patio fence replacements. We are now replacing as needed. We have no inventory of replaced fences. Can we still use reserves for the as needed replacements since we are putting money into reserves for fence replacement?

A: Yes. This might be a great application of an "allowance" modeling method. Instead of doing all at once (not happening at your association), perhaps budget to replace $1/15^{th}$ each year (presuming it is wood fence with a 15 yr Useful Life). That should get you pretty close.

Q: **Our association consists of 23, 2-3 unit buildings, which were constructed over a 3 year period. Can our study spread expected costs over 3 years as well?**

A: Yes, but an important question is how old is the property? Are all buildings pretty much in the same condition now? if so, then forget the multiple phases. If phasing is still significant, then of course have multiple phases for roofing, painting, etc. Please discuss with your Reserve Study professional.

Q: **We have a beautiful grass landscaped grounds but need to conserve water. How can we use the reserve study/fund to move that forward as landscaping is excluded from our plan? We will get it back thru water savings!**

A: I can't answer to "what you'll get back through water savings" (or water utility rebates), but it is legitimate to have a periodic, major landscape refurbish project (which passes the National Reserve Study Standards four-part test) through which you can refurbish your landscaping away from current water-intensive plantings.

Q: **You mentioned putting reserve funds into a higher interest account than a savings account. Do you have recommendations on how much to keep more liquid v "less" liquid? Or does this depend on what projects the association plans to accomplish in a given year?**

A: As you suggest, it all depends on what projects, and how expensive they are, and when they are projected to occur.

Webinar Questions (from prior "Advanced Concepts" webinars)

Q: **How are initial component quantities established in Reserve Studies?**

A: For "measurable" components (asphalt, roofing, fence lines, etc.) we commonly do some "preparation" work for the initial "Full" Reserve Study (where component quantities are established) using out satellite imagery tools, confirming and adjusting with on-site measuring. For things like carpet or wallcovering quantity we simply measure, and for furniture or light fixtures we count.

Q: **Our reserve study is missing one unit. Does this impact our study overall? We have 60 units and the Reserve Study says only 59.**

A: While our goal is that every Reserve Study accurately represents the situation, the consequence of this error is probably negligible. We quantify common area assets and recommend a total contribution. So while # of units/homes is reported in the Reserve Study, it does not drive or affect results. It only makes a difference over how many owners our recommended contribution is divided, which is a board function.

Q: **I don't understand the California Balcony thing? Can you send me some info on that, I thought FL was the leader in code updates?**

A: California passed a law that went into effect 1/1/2020 requiring all exterior (human-supporting) elevated surfaces (meaning decks, stairwells, balconies, etc.) that are fundamentally wood-based structures to be inspected every nine years. The law applies to condo associations three-units or larger, and the first inspection needs to be completed before 12/31/2025. Read the text of the law here (California Civil Code 5551), and see the Reserve Study industry's response/application of this law here.

Q: **Do you have any experience with what the reserves should be to deal with California Civil Code 5551, the structural certification of elevated surfaces?**

A: Please see the above Reserve Study industry response to the law here. The inspection qualifies as a Reserve expense, and required remedial projects may or may not qualify as Reserve expenses. Associations should contact their management company or inquire through local trade organizations (CAI) to find qualified providers of this specialized inspection service.

Q: **How do we deal with the consequences of the new California balcony bill if we don't know if our balconies are affected? What kind of a consultant can tell us that we need to project this expense or not?**

A: If your condominium is three or more units, your balconies are fundamentally wood-based structures, project out from the building envelope and are six feet or higher from the ground, your association is affected. Confirm with your attorney and get an inspection as required. The results of that inspection are to be incorporated into your next With-Site-Visit Reserve Study. See more here.

Q: What do you use for inflation rate … is there a value to using a moving average over many years?

A: A "moving average" over many years is wise, as your Reserve Study is a 20+ yr projection into the future. We typically use a stable value (currently 3%) which is slightly higher than the local Consumer Price Index (CPI), because construction costs seem to rise a bit higher than the CPI.

Q: Isn't it better to use construction cost inflation than the CPI?

A: CPI is a more common figure, but remember that Reserve projects are not "construction". They are more repair, replace, and remodeling costs. So we look at CPI, tending to round up to make it closer to the Construction Cost value.

Q: If you have a 20 year plan but road rebuild is 30 years out, how do you factor this in?

A: Think of it like a camera lens. Just because you can't see it through a lens doesn't mean it isn't there. When your Funding Plan is based on Percent Funded, the fractional deterioration of all your components is incorporated. So in year 1 of a 40-yr component, it deteriorates 1/40th. In year 19 it has deteriorated 19/40ths. In year 29 it has deteriorated 29/40ths. The # of years displayed in your charts and graphs is immaterial. The Funding Plan is offsetting the ongoing fractional deterioration of the asset.

Q: Please clarify paying from operating vs reserves. You said there is little or no difference to the owners. Doesn't it impact owners if we pay reserve expenses from operating?

A: A $100,000 expense divided by 100 owners is $1000/owner, whether it came from the Operating Fund or Reserve Fund. It is the same $1000 either way. We are presuming that the contributions are not double-budgeted (paying for it from Operating while collecting for it in Reserves… that would be a problem). If the contributions are double-budgeted, that would result in a surplus in Reserves because of no Reserve expense to offset the Reserve income. It is always best to pay expenses from the side of the budget where the funds were collected.

Q: Do you consider Governing Document revisions (updates) a reserve expense?

A: That's a definite gray area. There are arguments both for and against. Check with your Reserve Study provider. We are guided by National Reserve Study Standards (NRSS) and the four-part test that defines acceptable uses of Reserves.

Q: Are trees and landscaping included in the reserve funds?

A: Quite commonly yes, when they present significant expenses on a set schedule (like tree trimming, as a classic example). If handled through the ongoing Operational Landscape Maintenance budget, no.

Q: **Any magic words to members to explain why the life for the project - mill and replace of private streets - should not be extended just because they feel the street looks okay to me and has no real problems?**

A: There are five ways Reserve components fail. For a good discussion, please see our "Reserves to the Rescue?" webinar here. The failure modes range from "inconsequential" (acceptable to delay with little to no consequence) to "protection" or "catastrophic" projects that should be done either on schedule or proactively. How the asphalt looks to your (untrained) eye is likely not a good reason to delay a project. As explained in the webinar, it is always best to seek an expert opinion.

Q: **FASB ASC 606 causes new accounting for reserve liabilities. Any impact on your practice? How to best explain why "accounting liabilities" do not equal reserve study liabilities?**

A: No impact on our practice. We prepare Reserve Studies, and as such are guided by National Reserve Study Standards. FASB (the Financial Accounting Standards Board) affects how financial statements are prepared. People who prepare Financial Statements should adhere to FASB standards.

Q: **Could you expand on your discussion about the decision points of funding a given expense from reserves vs operations?**

A: If a project passes the National Reserve Study Standards four-part test, it should be funded through Reserves. Read more here, and see our entire webinar on this topic (Reserve Studies 101) here.

Q: **Can we use reserve funds to add lights on the tennis court?**

A: Most likely no. Reserves are to be used for existing assets (test #1 of the NRSS four-part test). Adding new assets to the association is generally classified as a Capital Improvement, and as such is an inappropriate use of Reserve funds.

Q: **Is a twenty year history of past practice related to storm shutters the same as having a written policy?**

A: It sounds like a great foundation for a written policy because it is an existing precedent, but it really should be written.

Q: **Hawaii Fire Protection (sprinklers) legislation went into effect in 2018 requiring completion by condominiums by 2023. At this time we have estimates ranging from $1.5M to $2.5M. Is this a Reserve expense? (note: we're taking the attendees description of this problem at face value)**

A: No. As stated above, this is a new asset that previously did not exist, so it should not be funded through Reserves. Alternate funding methods include special assessments or loans.

Q: Having had a (Full) Reserve Study completed, how much is the annual update, and when should it be done?

A: Quite often our clients hire us for a No-Site-Visit update in the years in-between their (approx. every three year) With-Site-Visit updates. A "No-Site-Visit" update is commonly 25-50% of the cost of the original "Full" Reserve Study. Contact your Reserve Study provider (or click here for a quote). It is best to get a quote approximately six months prior to your Fiscal Year end, so the Reserve Study can be completed two or three months prior to your Fiscal Year End in time to be incorporated into your budget planning process for the subsequent year. Our target is to make a Reserve Study update almost a trivial expense, under 1% of the association's annual budget.

Q: Reserve Studies are produced, delivered and forgotten. Most board members cannot decipher the data in the study even if there is a wealth of information in a reserve study. Should the preparation of a reserve study be complemented with a verbal presentation to the board?

A: If the Reserve Study is not understood by the board, by all means ask for an explanation or verbal presentation. Sometimes we are asked to do this over the phone, sometimes we shoot a short video explaining the key points of Reserve Study (which can be replayed multiple times), and in some cases we make a live/online presentation (this option commonly involves an extra charge). See here for our webinar on "Reading a Reserve Study in 5 minute or less".

Q: When you do a Reserve Study, do you meet with Board with the results or do Boards have to figure it out by self?

A: A meeting with the board is generally not requested by our clients. If the findings and results are not patently obvious, see the above question and answer. We are here to help, and we want the board to understand and be able to apply the results from the Reserve Study.

Q: Our HVAC is due for replacement. We would like to upgrade to more efficient equipment, but it is more than we had planned for in our reserve study. Can we spend the extra from the fund?

A: Yes. There is no requirement that Reserve assets be replaced "like for like". It is commonly wise to take advantage of an opportunity to perform a "natural upgrade" at time of a Reserve replacement. In your example, going over-budget on the installation will likely result in a savings in electricity, making it a net-positive result for the association.

Q: How do we motivate condo members that the investment in adequate Reserve contributions is beneficial? It will result in a significant increase in assessments, and a significant percentage of owners think they'll either sell or be dead before these big projects (balconies, elevators, roofing, etc.) need to be accomplished.

A: Getting past it being the board's job to budget to care for the assets of the association, there is the personal responsibility argument for the owners. The common area assets are deteriorating every day, and it is only fair and responsible that owners pay their fair share of the deterioration that occurred while they owned a home in the association. Otherwise, of course, the next person will have to pay. Research has shown that (condo) home values in associations with strong Reserves enjoy an average boost in home value of 12%, a very strong return for current owners from their Reserve contributions. In addition, Boards (and homeowners) who treat their common area assets as "disposable", instead of the "replaceable" assets that they are, will always find their costs to (eventually) repair higher due to deferred maintenance. So it's a bad decision from a liability point of view, return on investment point of view, and expenditure point of view to ignore making adequate Reserve contributions.

Q: Inflation vs interest, how do you pay for an $800,000 project with $80,000 in Reserves? So if you have to borrow, then interest is very important.

A: At any given time the total assets on your Reserve Component List may sum to $800,000 (in this example). This is made up of a $200k roof project, a $150k paint project, a $100k asphalt project, and a number of other related projects (elevator, carpet, pool, etc.). Since all your components will not need replacement at the same time, you never need the entire value of Reserve projects in the bank. You only (barely) need enough to provide for upcoming projects, but you should have the fractional value of deterioration (the Fully Funded Balance) in the bank (less special assessments, etc.). Either way, your cash on hand will always be significantly less than the total value of your Reserve projects.

Q: Where is best place to document decision process and decisions?

A: Board meetings/minutes, and a Board Policy handbook.

Q: I'm amazed at your inference of special assessments. Even with updates yearly, did you say that special assessments are required 65% of time? Or am I reading that wrong?

A: On average special assessments occur among associations at the rate shown in this chart, depending on their Percent Funded (Reserve Fund strength). Associations can "beat the curve" and reduce their exposure to special assessments by updating their Reserve Study more frequently than every third or fifth year as explained here.

Q: What responsibility does the HOA have for: (1) birds walking on the roof; (2) Birds nesting on the roof; or (3) Birds pooping on the roof?

A: Boards are responsible to care for the common areas. Dealing with wildlife is part of the experience of caring for an association. There is an entire industry providing attachments for buildings to discourage birds from landing, nesting, or "pooping" on your roof. Take advantage of their products.

Q: If you had a full reserve study, but it was more than 3 years ago, is the full required again?

A: If that "Full" Reserve Study was prepared according to National Reserve Study Standards, and if the association has not gone through major reconstruction, no. Most associations with a "Full" Reserve Study do not need another one.

Q: When budgeting annual funding of a Reserve item, for example repainting the buildings, how do you forecast the Estimated Replacement Cost 10 years from now?

A: We estimate the current cost and let our funding analysis software inflate the expense every year into the future.

Q: I believe you said there was a new standard in California regarding a cash positive reserve position for 20 years, instituted in 2018. Can you provide a reference for that new standard?

A: The mention was about the definition of "Adequate Reserves". It is not a requirement in any state, but since so many people (attorneys) talk about it and so many Governing Documents require it, we (Reserve Study industry leadership) felt it was appropriate to finally get that term defined. You can read more about it and see the definition here.

Q: What is the recommended criteria for deciding whether to pay for a "small" repair expense from Reserves or against the operations budget?

A: Generally speaking, if the repair is part of normal ongoing operations (fixing a gate, a little touchup paint here or there), it is an Operational maintenance expense. If the expense is above the association's set Reserve threshold amount (if one is set), or if the repair affects the Remaining Useful Life (extending it to 3 yrs remaining from 1 yr remaining), then it qualifies as a Reserve expense.

Q: Is anticipating an expense 40 years in the future getting too "Optimistic" about your projection ability? Is that reaching too far?

A: The closer an expense is to the present, the more certain we can project its replacement timing. Projections 20 or 30 years in the future are rough expectations. For more distant projections, if there is a manufacturer's standard (such as a roof material designed for 40 years, or elevator equipment designed for 35 yr service life), that gives us enough confidence that it passes the "reasonable expectation" test for inclusion in Reserve planning. Homeowners benefit when the cost of an expensive replacement project can be spread over as many years as possible.

Q: What are the top three ways to ensure your Board sees the value in a Reserve Study and updates it every year?

A: Communicate that it is their job as the Board to provide for the needs of the association and that a plan is essential, help them understand that because the information is always changing (life expectancies, costs, wear and tear, Reserve balance, etc.) the plan based on that information regularly needs to change, and share that more frequent updates minimize year-to-year changes in the plan and significantly lower their risk of a special assessment.

Q: Should major landscaping items be included in a Reserve Study due to the difficulty in determining a useful life?

A: Many landscape projects can and should occur on a regular schedule. Planning ahead on a regular schedule by creating Reserve components for tree trimming, landscaping refurbishment, etc. can be very beneficial to the association. See more here.

Q: Can you better explain landscaping as part of Reserves? I fear many of my boards use their "Landscaping Reserve" allocations inappropriately on miscellaneous landscaping "pet" projects.

A: Any Reserve component should be well defined. In most cases, it is risky to have too general of a component description. So it is best to define the project specifically… such as Trees - Trim, Entryway Landscape - Replace, Greenbelt - Re-landscape (which might intentionally be somewhat "broad brush" to allow for upgrading of design and type of plants every 10 or 20 yrs), etc. As explained in the webinar, limiting your Reserve spending to the projects for which those funds were allocated is essential to good Reserve fund management.

Q: You indicated that in 2018 "Adequate Reserves" were defined as positive cash flow for a minimum of 20 years. In California, Reserve planning is required for all components projected to require repair or replacement within 30 years. What should we use here in CA… 20 yrs or 30 yrs as we describe Reserve Adequacy?

A: While the national definition of Adequate Reserves refers to 20 years, I think it would be hard to describe a Reserve funding plan that is unable to provide for a projected expense in 22 yrs as "adequate" as you lay out your CA association's 30-yr plan. So it is our opinion that for as many years as you display, minimum 20 yrs, your Reserve plan needs to provide for the projected Reserve expenses of the association without reliance on future loans or special assessments.

Q: **Can you discuss a strategy for road maintenance for an association's private roads?**

A: Presuming you have asphalt roads, generally a combination of regular seal coating on a shorter cycle (3-6 yrs) and a resurfacing (or top surface mill-and-replace) on a longer cycle of 20-30 years is a “best practice” strategy.

Q: **For our Condo association in CA - What are the minimum Reserve requirements to disclose annually to association members?**

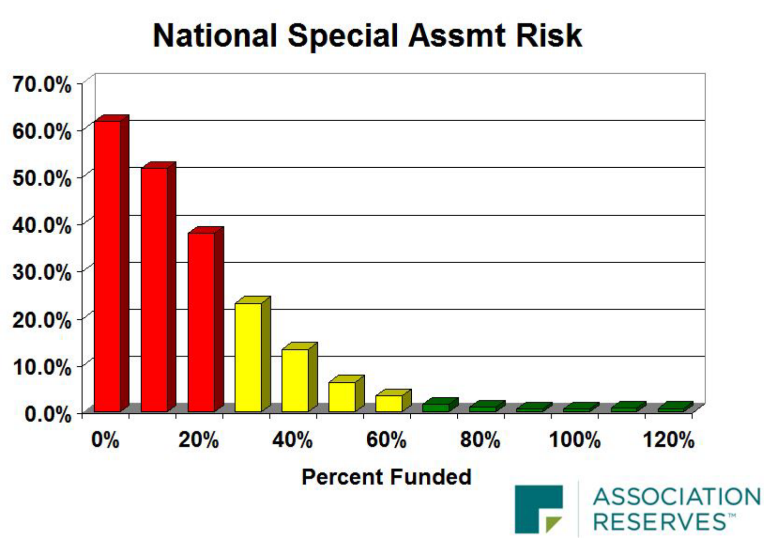
A: See here for a summary of CA Reserve-related disclosures, but please check with your association’s attorney to ensure compliance. The major Reserve-related disclosure in CA is the §5570 “Assessment and Reserve Funding Disclosure”, a document typically created by the Reserve Study provider after the Reserve Study has been completed and after the association has established their total assessment and Reserve contribution amount for the upcoming year.

Q: **What is the cost of a yearly Update as opposed to the Full study?**

A: Update With-Site-Visit reports are often in the range of 60-75% of the original “Full” Reserve Study, and Update No-Site-Visit reports are often in the range of 25-50% of the original “Full” Reserve Study.

Q: **How does Percent Funded relate to chances of a Special Assessment, even if our plan has a positive cash flow?**

A: The “unexpected” occurs on a regular basis. That’s why you “leave early” to make sure you get to an important event on time. Similarly, associations that maintain a low Reserve Balance (or low Percent Funded) as they plan to stay barely cash-positive expose themselves to higher risk of special assessments due to the lack of margin that exists with a higher Percent Funded. The facts don’t lie. See below for the correlation.



Q: **If Special Assessments are not fair to current owners, isn't underfunding Reserves unfair to future owners?**

A: Well said! Special assessments unfairly burden current owners with the cost of deterioration that occurred in many cases long before they became owners in the association. And ongoing underfunding just perpetuates the problem… allowing current owners to not set aside their fair share of ongoing cost of deterioration, which will inevitably fall on the shoulders of future owners. In other words, underfunding Reserves is the problem that results in special assessments. A Reserve Study will provide a plan to appropriately fund Reserves. This minimizes the risk of future cash flow problems such as special assessments and deferred maintenance.

Q: **How do you go from low percent funded to a higher "healthy" funded plan without doubling the monthly homeowner fees (causing pushback from the owners)?**

A: Typical "healthy" Reserve contributions are often in the range of 25% of the annual budget. That means associations that are underfunding Reserves are doing so with about 10% of their annual budget. <u>Doubling</u> that level of Reserve funding, getting them into the right ballpark, results in only about a 10% increase in total homeowner assessments. Reserve expenses are inevitable. The only choice is if you face them and pay them on a fair, ongoing basis, or if you wait and pay them via a "catch-up" special assessment or the lost property values that go along with deteriorated common areas.

Q: **Hawaii has a law about being 50% funded which many Boards rely on, but this is resulting in low funded plans. How do you deal with this to get it back on track and properly funded?**

A: Hawaii's requirement to be at least 50% Funded (a measure of <u>Reserve Fund size</u>) is commonly misinterpreted as a requirement to make at least 50% of the required <u>contributions</u>. Associations contributing in the range of 50% of what is required to offset ongoing deterioration are <u>of course</u> going to run right into special assessments when they find they have inadequate Reserves for upcoming projects. The way to get back on track is making responsibly sized Reserve contributions.

Q: **Our prior Reserve Study firm allowed us to modify the Reserve Study as the fiscal year went along, and gave us the software capability to do this. I have never heard of this before, and that is one of the reasons why they are now our *former* Reserve Study firm. Have you ever heard of this concept with other reputable firms?**

A: Reserve Studies typically are prepared for the upcoming Fiscal Year, as a disclosure of the association's current status and as a budget-planning tool. Association Reserves clients enjoy the use of an online Reserve calculator that allows them to perform an unlimited number of "what-if" component or funding scenarios. But testing "what-if" scenarios doesn't change the contents of our published Reserve

Study, which has been created by an experienced Project Manager holding the Reserve Specialist® credential.

Q: I've heard it said "Percent Funded" means nothing without fully understanding the context and perspective of the current situation. It is possible to have a $0 balance and be "100% funded"?

A: Very insightful observation. Percent Funded reports the relative size of the Reserve Fund at a “snapshot in time”. A true assessment of the well-being of Reserves at an association involves both the Percent Funded and the contribution rate. For example, a strong Percent Funded (i.e. 83%) coupled with inadequate Reserve contributions is an unhealthy situation. On the other hand, a weak Percent Funded (i.e. 17%) coupled with a strong contribution rate may well describe a fiscally responsible association. Both matter… Percent Funded (where you are) and contributions (where the association is going from here).

Q: Our Board insists on delaying projects even though we have funds and monthly reserve contributions because they don't want to Reserve funds to fall below $600K. Can you comment on this?

A: That’s like hearing someone say they’d rather go hungry because they like the “look” of a full fridge! Reserve funds exist to be spent on Reserve projects. So convert those Reserve funds into paint, carpet, lobby furniture, a new roof or boiler, or whatever the association needs. Then watch property values stay strong! Spend the money on appropriate Reserve projects, and make sufficient contributions such that the Reserve balance never falls too low.

Q: Is it better to do a special assessment to bring Reserve funding up to level to do projects scheduled to be done over the next 3-4 years or increase monthly contributions to bring Reserves up to a level to handle the next 5 years of projects? [we are a 30 year old condo community]

A: One of the four National Reserve Study Standard Funding Principles is “Budget Stability”, meaning wherever possible assessments should be spread across as many years as possible, eliminating spikes or steep increases. So given a choice between a one-time special assessment or three or four years of temporary high contributions (essentially a special assessment with payments spread over three or four years), the years of temporary high contributions are preferred. That said, there are some owners who may wish to prepay, eliminating their obligation with one check. In that situation, it might be a good idea to give the owners a choice… providing a slight discount to those who wish to prepay.

Q: What is the National Reserve Study 4-part test?

A: The four-part test for a component to be funded through Reserves is as follows: it needs to be a common area maintenance responsibility, life limited, with a predictable remaining useful life, and above a minimum threshold cost of significance. Read more here.

Q: Does FHA (or VA) review Reserves prior to certifying or recertifying a condo association?

A: That's a better question for a FHA approval consultant. Regarding Reserves, our understanding is that the FHA just looks to see that the budget is cash-positive, and that at least 10% of the association's budget is going towards Reserves.

Q: Is managing the Reserves (and not mismanaging HOA funds) part of the board's fiduciary duty to the association?

A: That's a legal question, but our understanding is an absolute "yes"!

Q: To obtain a loan, should there be a minimum level of Reserves in the bank? (Can a bank decline a loan if there are insufficient Reserves on hand, indicating to the bank that the HOA may not have been appropriately managing its funds, maintenance and other financial obligations?)

A: It is still generally true that the best way to increase your chances of being approved for a loan is to demonstrate that you are fiscally strong enough to not need a loan! Banks can and do decline associations as being a poor loan risk if the association cannot demonstrate enough cash on hand or enough positive cash flow to pay back the loan and with Reserves contributions high enough to demonstrate no further risk of further Reserve cash flow problems. In other words, to get a loan many (most) associations need to significantly increase their homeowner assessments. Each bank will have their specific underwriting requirements and terms that the association will have to meet in exchange for being entrusted with a loan.

Q: Is there a movement in the Reserve Study industry to back off from the common 30-year scope of a Reserve Study in order to encourage more underfunded associations to improve their Reserve Fund strength on a shorter timeframe (10 or 20 yrs)?

A: As stated above, National Reserve Study Standards describe four Funding Principles to pursue. One is Fiscal Responsibility (having a strong Reserve Fund), another is Budget Stability (keeping things smooth from year to year), and another is "Equitable Distribution". As we've explained Reserve Adequacy is a good thing… sufficient Reserves to do projects on time without needing outside/additional funds. So no, a particularly shorter timeframe is not a target. If an association can gradually increase their Reserve Fund strength over a longer period of time, that trend is beneficial to the owners because the "catch-up" contributions are spread fairly (equitably) over the owners. So smooth trends are good.

Q: Where do the funds come from to bridge the gap between the amount budgeted in Reserves 7 or 10 years ago, and this year's current replacement cost that is 20-25% higher?

A: Unexpectedly high expenses reduce the size and strength of the Reserve Fund in general. If you track Reserves on a per-component basis (not recommended), you'll need to re-distribute to provide enough funds for that particular project. Expect your Reserve contributions to increase due to the need to spend more than anticipated. These "surprises" can be minimized by updating your Reserve Study more frequently! See more here and here.

Q: What do I do if, as an owner, the board continues to underfund our Reserves? We had a special assessment a few years ago, and the board continues to keep the Reserve contributions at the same low level.

A: Create your own "personal" Reserve fund, ready to use to pay your upcoming special assessment.

Q: Our association is 92% funded. Our Reserve Study uses a 2.5% inflation factor and 1.5% investment return. The funding plan suggested would increase the Reserve allocated contribution by 5.7%/year. Is this surprising to you, and is this fair to future owners?

A: It is surprising that a well-funded association requires such steep (significantly higher than inflation) annual contribution increases. It is fairest when annual contribution increases are similar to the presumed rate of inflation. A conclusive answer would take time and information that we don't have in this webinar.

Q: Our association's governing docs specify the formula for maximum annual assessment increase. Our Treasurer has announced a higher increase (+18% over allowed); says it *may not be allowed* but that we'll need the money, and it's hard to get via special assessment. I think that this is a governing doc issue that must have board compliance. Do you agree?

A: This is a legal issue, outside of my area of expertise!

Q: Knowing that almost ALL communities can't pass a special assessment, what other strategies can you suggest that can put those communities on track?

A: I disagree with your premise. While special assessments are always unfortunate, many or most boards effectively "sell" the need for the assessment well in advance of the vote, and pass it on the first try. That said, a backup plan is raising the ongoing (monthly) assessments. The board needs to demonstrate its belief and commitment that the association is in dire financial straits and needs to raise funds by whatever means possible.

Q: Why isn't frequency of repair a criteria for being in the Reserves budget vs. the Operations budget?

A: Generally speaking, expenses that occur multiple times/yr fit better into the Operating budget. Some associations find once/yr expenses fit better into their Reserve budget, some find those annual expenses fit their sensibilities if considered an Operational expense. Classically expenses that occur less frequently than annually are almost always Reserve expenses. But the true test is the National

Reserve Study Standard four-part test. For those once/yr expenses, it is a stylistic consideration to be in the Reserve budget or Operating budget.

Q: Is there such thing as too much money in the Reserve fund, such as if an association is over 100% Funded? What is generally considered "too much money"?

A: The "strong" range is typically considered 70-130% Funded. So while 100% is ideal, we don't usually label an association's Reserves as being in a surplus condition until it is over 130% Funded. That said, we would counsel a 115% Funded association to scale back on their Reserve contributions so their Reserve Fund could gradually drop closer down to the 100% level.

Q: We have multiple items where the Remaining Useful Life (RUL) is zero, but we know that they have still at least 1-5 years left in them and delaying won't create additional major damage (Eg. Patio furniture). What's the best way to revise these component list items?

A: It is always best to show the truth in your Reserve plan. If it is accurate to anticipate replacement next year, keep the RUL at zero. If a re-evaluation of the component shows it is expected to last longer, give the RUL a value of 1, 2, or 3 years. This reveals the value of regular updates… you get a more accurate plan that reflects current expectations.

Q: Do you recommend "pooled" Reserves?

A: Yes. Using the exact same expense expectations, one has more flexibility designing the Funding Plan and choosing Funding Objectives with the Cash Flow (pooled) method of calculating Reserve contributions than with Component Method calculations. See more here.

Q: Are your study fees based upon number of units - annual Budget…?

A: Our fee is based on the # of units, type of association (meaning the scope of common areas they are responsible to maintain, so we ask if it is a Home Owners Association, condo, or timeshare), the amount and type of amenities at the association, their Fiscal Year End (will we be doing the work during our "busy season" supporting 12/31 FYE properties?), and proximity to one of our 12 regional offices.

Q: What are guidelines for investing Reserve Funds? Any policy helps or tips to offer?

A: Investment counselors can be more eloquent, but I've always heard it recommend that it is best to use the philosophy of "Protection of Principal" (POP). Please email Robert if you wish a Reserve policy template.

Q: What happens if an association has not worked on their Reserve items since 2017? We owners have difficulty communicating with the board. They do not respond very well.

A: Deterioration, decline of property values, distrust of the board, etc. It may be wise to set some of your own $ aside in your own personal "Reserve fund".

Q: We are researching a seismic improvement for our building. The studies this entails are being charged to Reserves, but one homeowner is adamant that this should come from operations. Our accountant says this is a gray area. What say you?

A: Indeed, a gray area. This is outside the scope of what I can accurately address within the framework of a webinar. It depends on if it is just a study or if it is an actual project. In addition, it depends on the magnitude ($) of the expense, if the project is being done as part of other Reserve projects, etc. Generally a Reserve expense needs to meet the National Reserve Study Standards four-part test.

Q: I have had boards request the qualifications of someone preparing a Reserve Study, specifically asking for specialists with an engineering qualification when reviewing things like large water pumps, lift stations, etc. Does Association Reserves have a list of engineer professionals they can refer to?

A: When an estimate or evaluation is outside the scope of our Project Manager's expertise, we have a number of industry experts we go to for assistance.

Q: What exactly do you mean by "We know when to dig in our heels"?

A: We regularly state that we value customer input (historical information, an understanding of usage patterns, board priorities, etc.). But sometimes a client will suggest something that we cannot support (like when they got a "good deal" on their $100,000 roof project by paying an unlicensed and uninsured "friend" of the association $50,000). To uphold company and National Reserve Study Standards, we may "dig our heels in". With respect to the above hypothetical, we would not reflect an expected $50,000 replacement cost for the roof in the Reserve Study, even though that is a historical benchmark. We would guide the association towards expecting a $100,000 replacement cost. Digging in our heels means we know when to say "no" to a suggestion that is inappropriate.

Q: Is there a formula to balance to budget?

A: Income = expenses (but be sure to allocate some funds in the expense budget for a few "surprises", typically described as "miscellaneous").

Q: **I have a component that was overlooked on our Reserve Study. It's a concrete wall that is coming apart. If someone hits it or if there is ground movement or an earthquake it would come down. Being that the cost of the repair or replacement is not included in our Reserve Study, and the cost is almost 50% of what is in the Reserve account, what should we do?**

A: Include the component in your next Reserve Study update. If it meets the National Reserve Study Standard four-part test, it should be listed, especially if it a significantly expensive component!

Q: **What happens if there are components missing in a Reserve Study that need to be addressed?**

A: Add them at the next Reserve Study update.

Q: **I know the standard % Funded target to convey a "safe or prudent" Reserve fund is "over 50% Funded". Our association is currently under 30% Funded, yet our Funding Plan is designed to provide sufficient cash for all anticipated expenses for the next 30yrs. Why do you call what we are doing irresponsible or unwise?**

A: Because we know from the experience gained from preparing over 45,000 Reserve Studies over the last 31 years that "life doesn't always work out according to our plans". Some margin for the unanticipated must be considered. So rather than simply design for the Reserve account being cash-positive, there is merit in adding some margin. We know from experience that associations above 70% Funded rarely experience special assessments. We know from experience that associations under 30% Funded (even when their Funding Plan theoretically keeps them "cash positive") don't have much or any margin for the unexpected, so they regularly experience special assessments when those unanticipated expenses occur.

Q: **Please define "protection" projects again.**

A: Projects that are designed to "protect" the underlying more significant asset... like wood trim painting, metalwork painting, deck sealing, asphalt sealing, etc.

Q: **You mentioned "benign" component items vs. "Protective" items. Are those official terms?**

A: No. These are descriptive terms. Please see this article, or watch this webinar recording (webinar outline here).

Q: **Does a new project such as more lighting in dark areas come under Reserves or Operating?**

A: Operating. A new asset fails test #1 of the National Reserve Standard Four-part test, because it is (not yet) common area. Once it exists, its replacement can and should be funded through Reserves.

Q: When are the recommendations of the Reserve Study going to be mandatory in every State?

A: I don't anticipate that day. Many voting citizens like me believe in individual and corporate freedoms… even when those freedoms allow individuals to do foolish things. I trust that accurate disclosures, or fear of the unknown will bridge the gap, allowing association-home-buying-consumers to effectively vote with their pocketbook about where they choose to live. Fiscally responsibly associations demonstrating a strong Reserve fund will be rewarded with higher home values. That's a great choice boards can make!

Q: Our Reserves are 96.3% Funded but our CFO is reluctant to spend any Reserve funds even though we have components that need to be replaced.

A: That is unfortunate. Reserves are there to be spent on Reserve projects, not hoarded. It does an association no good to have cash in Reserves and peeling paint or faded carpet.

Q: We are currently 96% funded. Our board wants to spend $50,000 to replace wood fences at various spots, without having budgeted/planned for replacing them this year. Do you agree this is a mistake??

A: It is good that your Reserves are strong, but Reserves always need to be spent wisely. If $50,000 of local replacements will prevent a complete (premature?) $500,000 fence replacement, or extend that fence's life by a few years, it could be a wise Reserve expense. You haven't provided enough information for me to decide mistake or not.

Q: We are finding that we are consistently low on replacement cost estimates in our Reserve Study. How do we get this corrected? Asphalt projects are a good example.

A: Talk to your Reserve Study provider. There may be a local environmental or economic situation causing projects at your association to be higher than expected. Then make sure your Reserve component replacement expenses are adjusted higher in your next Reserve Study update.

Q: If By Laws from 1992 say we need to obtain approval from the owners for any project over $10,000, can we allow for inflation?

A: That's a legal question, best posed to your association's legal counsel.

Q: When doing BUDGETING for Reserves, do we have to be positively funded for 10 years, 20 years or just the one year?

A: Actually, due to the irregular nature of Reserve expenses, there will be some years the association contributes more than Reserve expenses, and some years the expenses are greater than the contributions. So net growth of the Reserve fund varies from year to year. With respect to the Reserve balance, National Reserve

Study Standards require the Reserve Study to cover a minimum of 20 years. So the Reserve fund balance needs to provide for the needs of the association for at least the next 20 years.

Q: You recommended making at least 1% interest on funds. What are common ways that HOAs can make that kind of interest without putting the association at risk?

A: Google "FDIC savings account interest rates", and you'll find a number of institutions listed.

uPlanIt Questions

Q: What is the definition of a "budget season" as it applies to uPlanIt's access term?

A: Just like Reserve Studies, uPlanIt is a "perishable" product, as it is applicable for only a limited time. So whether included with one of our professional Reserve Studies, or as a subscription service, it is available for that budget season. That means it is accessible for use through the end of the association's fiscal year, and three months into the next year (well past when the association should have any reason to be fiddling with their budget for that year).

Q: We updated our Reserve Study last fall, effective Jan 2020. Is the uPlanIt accessible to our association at no charge at this time?

A: No. See above… uPlanIt would have been available last fall and even three months into the beginning of your 2020 budget year. Now it is time to update your Reserve Study for 2021, not continue to be playing with the numbers from your 2020 budget.

Q: Can we use uPlanIt if we had our Full reserve study prepared last year (2019)?

A: You'd need a $149 subscription, as uPlanIt access is only provided in the budget season for that completed Reserve Study.

Q: Is uPlanIt "free" for associations like ours who had a Full Reserve Study done in the last 1-2 years?

A: No. see above. uPlanIt access is only provided in the budget season for that completed Reserve Study. For subsequent years, access is free if you have your Reserve Study professionally updated (a "No-Site-Visit" or "With-Site-Visit" update), or with a nominal $149 subscription.

Q: **Do Association Reserves clients that obtain reserve study updates and site visits every three years, have access to UPlanIt in the interim years?**

A: Yes, but only on a subscription basis ($149/yr). uPlanIt prepares tables and charts. As such it is primarily a "what-if" budget evaluation tool. Note that it is not a tool designed to readily prepare Reserve Study updates.

Q: **If purchased separately and we also use your DIY Kit, can that "Kit" component list data be migrated to UPlanIt?**

A: uPlanIt is not included with our Do-It-Yourself Study Kit engagement. But you can upload your DIY Component information to uPlanIt, should you create a subscription.

Q: **If a board member uses uPlanIt, are the changes they make saved or can they only see those changes until they log out? Can only one person use uPlanIt?**

A: You can save your changes in uPlanIt, allowing you to view your work from one session to the next. You can also hit a reset key to "reset" the data to what appeared in the Reserve Study if you want to start all over again. Please note that if other users have access to uPlanIt, they could overwrite your changes and save their "what-if" results. So we always recommend printing a few key pages to document your work where there are multiple users. Client Users who are the association's Primary Contact, the Secondary Contact, or were given "Privileged User" status (board members and above) can enjoy access to uPlanIt. "View-Only" users (a "homeowner" credential level) do not have access to uPlanit.

Q: **How many licenses are included? How many users?**

A: See above. The Primary Contact can designate as many Privileged Users as they desire.

Q: **You did a Full study for us a couple of years ago. Can that data be uploaded to uPlanIt even if we don't have you do an update at this time?**

A: Absolutely. Uploading a component list into uPlanIt is a simple process and is easily accomplished with a $149 subscription.