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## Breaking Down... The Reserve Study Process!

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

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

It first starts with an idea, or a commitment to get a Reserve Study for your association. But now what? Do you (can you) do it yourself, who would you pick, how much will it cost, and what does the process look like? Many of you, challenged by age, budget, or safety concerns of your association, are planning a Reserve Study (for the first time or first time in a long time) in 2023. Good for you! A Reserve Study is the roadmap to your future. So... what are you up against?

### Hire a Professional?

Remembering that a board's job is to decide and guide, there is no reason for your first idea to be "do it ourselves". In addition, consider a professional to get the necessary experience & expertise, someone with the necessary "authority/gravitas" to implement budgetary change at your association, and because an independent expert eliminates any conflict of interest. Typically, the cost is under 1% of the annual budget, and there are plenty of firms around the country with the necessary expertise and experience. But like we stated in the webinar, don't think you are getting an "engineering report". You are looking for a budget and cash flow analysis for your association.



#### Hire a Professional

##### What to look for?

- A Reserve Study firm (or department)
- Volume of experience (10's or 100's/yr)
- Preparer's Credential (RS or PRA)
- Independence (updated 2023 NRSS)

##### Who to select?

*Consider cost, turnaround time, readability of sample, references or referrals, customer service, additional features...*

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Some “Pro Tips” are that after you select the appropriate [Level of Service](#), you can expect a fixed price (typically under 1% of your annual budget) for a fixed turnaround (often a number of weeks - and expect the price to be affected by turnaround speed), payment terms of 50% deposit and 50% upon completion, and expect to update it with another site inspection based Reserve Study at least every third year. But remember – it’s not an “engineering” study. And many/most engineers don’t prepare Reserve Studies!

REPORTS	Engineer/Architectural	Reserve Study
<b>Credentials</b>	Professional Engineer (PE) or Licensed Architect (AIA)	Reserve Specialist (RS) or Professional Reserve Analyst (PRA)
<b>Conclusions</b>	Structural Integrity	Budgetary & Cash Management
<b>Contents</b> <i>(Terms, Calculations &amp; Disclosures)</i>	Controlled by Engineering or Architectural Standards	Controlled by CAI's National Reserve Study Standards
<b>Cyclical Projects</b>	Excluded	Included
<b>Intrusive/Destructive testing</b>	Included	Excluded
<b>Frequency</b>	Every 5-10 years	Every 1-3 years
<b>Cost(\$)</b>	10x that of a Reserve Study	Varies by property type

## Getting Started:

Expect a conversation with the Project Manager to discuss the association’s preventive maintenance, recent Reserve projects, special concerns, and for a copy of the association’s structural inspection report. As appropriate, a site inspection date will be scheduled.

## Getting it Done:

If a site inspection is involved, expect further questions at the time of the site inspection and expect to provide access to all restricted areas (pool equipment, clubhouse, water heaters or equipment rooms, etc.). After that conversation, and after providing access to the restricted areas, your responsibility for the day is done. The Project Manager then moves throughout the property inspecting, measuring, evaluating, documenting, and photographing. Most site inspections are completed within one day, by one or more people (depending on size and complexity of the project).

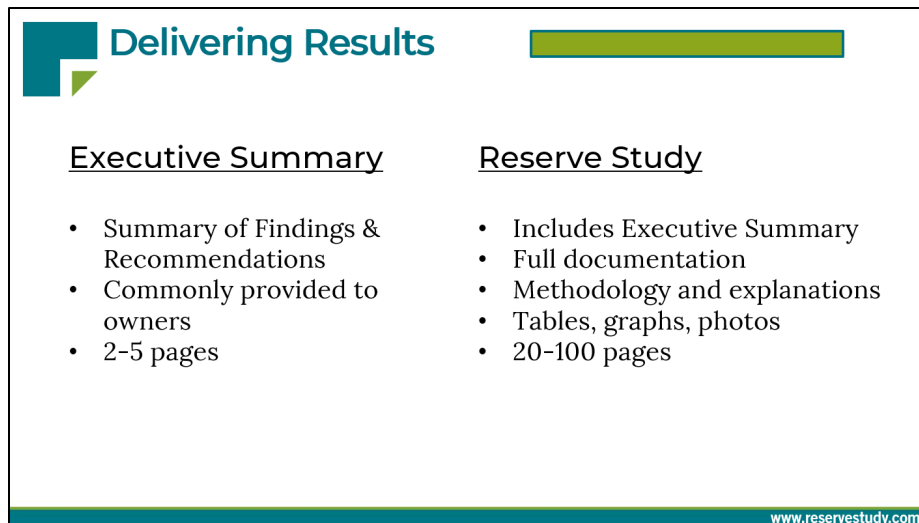
Expect to get some “homework” – answering follow-up questions about observations made on-site, such as “Why does this look new?” or “Why are the conditions different between buildings C and D?” This helps fill in the gaps in the story of major projects that have transpired at the association.

## Finishing Up:

During this phase the Project Manager works in the background, researching Useful Life and Cost factors, discussing conditions with association vendors, developing and updating your Component List, and beginning the process of report writeup. At this time you'll be asked for the latest Reserve balance, and expectations for any additional Reserve funding or expenses through the end of the Fiscal Year (to aid in an accurate Reserve "starting balance" projection).

## Delivering Results:

You'll be notified when your Reserve Study is done, and an invoice for the balance due on the project. What do you actually get? Typically the Reserve Study contains an "Executive Summary" that makes a nice stand-alone summary for homeowners.



<u>Executive Summary</u>	<u>Reserve Study</u>
<ul style="list-style-type: none"><li>• Summary of Findings &amp; Recommendations</li><li>• Commonly provided to owners</li><li>• 2-5 pages</li></ul>	<ul style="list-style-type: none"><li>• Includes Executive Summary</li><li>• Full documentation</li><li>• Methodology and explanations</li><li>• Tables, graphs, photos</li><li>• 20-100 pages</li></ul>

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If you have any questions, feel free to reach out to your Project Manager. Most providers welcome clarifying questions at no charge, and most providers will prepare one revision for free. Expect, however, that numerous revisions or a presentation not in the original scope of work will incur an additional charge.

Association Reserves provides a unique extra benefit for its professional Reserve Study clients, free access to a valuable online Reserve calculator (called "[uPlanIt](#)") for the remainder of your budget season (which extends three months into the start of the next Fiscal Year). With uPlanit, your Reserve Study comes alive, allowing you to test an unlimited # of your own variations to the Reserve Study – changes to costs or the timing of projects, changes to the starting balance, changes to interest or

inflation, and you can see what happens if you choose a different Funding Plan than recommended.

For your Reserve Study, get an expert on your side to provide you with the information you need to make the wise decisions that guide you and your association toward an improved future! We can help by preparing your Reserve Study update, ensuring your Reserve Fund Strength is calculated correctly and a Funding Plan is custom prepared for your association.



Enlist the support of a team which has prepared over 70,000 Reserve Studies for clients in all 50 states over the last 30+ years! Launch a free online proposal request by clicking [here](#). Or click [here](#) to see our network of offices across the country (serving clients in all 50 states!).



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# Webinar Questions Asked By Attendees

## RESERVE STUDY PROCESS QUESTIONS

**Q: Please explain in more detail what "Independence" means. (In relation to hiring a Reserve Specialist)**

A: No "conflict of interest", meaning no family or marriage relationship that involves ownership with the property, and no ongoing business relationship with the property (management, accounting, maintenance, etc.).

**Q: As the customer, are we welcome to walk the property with the inspector?**

A: You are welcome, but that expectation is discouraged. Please understand that the Project Manager is more efficient and effective working alone. If you anticipate spending the day with them, please make that known in advance. The expectation is they will be working alone, at their speed. They are not there to train or inform. They are on-site to gather and document property information.

**Q: If the association has completed some of the items that are on the reserve study, what should they do... request an updated study?**

A: If you've accomplished one or more projects after the site inspection (or discussion with the Project Manager in the process of preparing your No-Site-Visit Reserve Study) and the completion of your Reserve Study, simply reach out and ensure that project is acknowledged in the completed report. Reserve Studies are made to be updated – annually or as at least every third year. Keep a file of all projects accomplished in-between your Reserve Study engagements, so that information can be provided to the Project Manager during your next update a year or more later.

**Q: For a No-Site-Visit Update, what is the approximate turnaround time from being hired when the Reserve Study is done and available to the board meeting for budget planning purposes?**

A: Every provider typically has a "set" turnaround schedule. Expect this to be anywhere from one week to 8-12 weeks, and expect the price to be related to the chosen turnaround time.

**Q: Do you find it better to have a board member that has lived in the community for years and has been involved with the repair/replacement to meet instead of the manager? I have found that the manager may not be the manager to the association a long time and really doesn't know the history.**

A: When the manager is unfamiliar with the property, it is better to have a board member or informed homeowner meet with the Reserve Study Project Manager.

**Q: I tried obtaining a reserve study, however, the Reserve Study provider was expecting the association to list the components to be funded. Is that normal practice? I imagined the reserve study provider would assemble the component list!**

A: It is normal practice for the Reserve Study provider to prepare or update the Component List. They are guided by National Reserve Study Standards, and that is part of their expertise. If they are seeking help from the association, you've hired the wrong person.

**Q: Why would an association need a revision to their recently completed Reserve Study?**

A: The #1 reason clients request a revision is for an incorrect starting Reserve balance... they forgot to tell us about another \$25k CD or had a surplus in their Operating account that they could transfer over to the Reserve Fund. Otherwise, perhaps they accomplished an extra project or failed to accomplish an expected project, so they're just wanting to set the record straight for the condition of the assets at the association before the start of the next fiscal year.

**Q: What if we have to correct numerous parts after a revision?**

A: It is disappointing to hear that many things would need to be revised... perhaps that indicates that communication between the association and the Project Manager had not been clearly established. Ask the Reserve Study provider to make those changes, and consider a different Reserve Study provider for your next update.

**Q: The Management company can access past reserve studies for the HOA. If the HOA changes the management company, how do past studies get accessed?**

A: Ask the Reserve Study provider for access. That information primarily belongs to the association, not the management company.

**Q: Our Association is at the end of the third year with our current Reserve Study company. We have found the 5-year and 30-year projections/recommendations unusable. We are considering hiring a new company. To be considered, do you want to be contacted by management or the Board (a member or a Board agreement)?**

A: Sorry to hear your last Reserve Study was not usable. Because of that, it is good to consider hiring a different company. Please consider Association Reserves - we have strong growth because of our experience, expertise, readable Reserve Study, customer service, and uPlanIt. If professionally managed, have your manager request a proposal at [here](#). If the board handles business at your association, then have the board request a proposal at the same link.

**Q: If there is an element that could be repaired or replaced, do you consult with the client to decide which to put into the plan?**

A: It is our experience and expertise driving the Reserve Study. But when there are viable strategic options, we reach out to our Primary Contact at the association to discuss those alternatives.

**Q: Do you recommend the entire study be posted to the HOA community website for all the homeowners to view?**

A: If you are physically printing the information, the short Executive Summary is best. That still is our recommendation for online posting because you don't want to overwhelm the uninterested reader. Perhaps you post both, so the homeowner can choose.

**Q: Should we send you approved budgets for new Fiscal Year? For example, sending you our approved 2023 budget when you're working on your Reserve Study update for that year?**

A: No. While a 2022 budget would be helpful, the Reserve Study is designed to inform your 2023 budget. So don't finalize your 2023 budget until you've incorporated the results of your 2023 Reserve Study (prepared late 2022).

**Q: Does the process go draft, revision (free), final???**

A: After years of finding that only 9% of our clients requested a "revision", we shifted policy to consider the completed Reserve Study "final when delivered". At Association Reserves, like so many other companies, we offer one revision for free (for the minority of associations that need a revision). That simplifies the process tremendously.

## GENERAL RESERVE QUESTIONS

**Q: How do you educate the board that the reserve funds are not savings waiting for a rainy day? That the funds are for the ongoing yearly maintenance/upkeep of the property.**

A: Be careful and purposeful in the use of your words. Don't use phrasing like Reserve "contributions" (making them sound optional). Don't use phrasing like "savings for a rainy day" (making them sound like something virtuous for the future). Reserves offset ongoing deterioration. They pay the ongoing deterioration bill of the roof, asphalt, etc. Those costs are as real as any other bill the association faces.

**Q: What is this structural evaluation Robert spoke of? Can he provide more detail on it?**

A: Structural evaluations (infrastructure inspections, building integrity inspections, building condition inspections, etc.) are specific evaluations of your building(s) by qualified structural engineers or architects. Structural evaluations are best done approximately every 5-10 years, to see how your building is aging, to identify any “deterioration” problems before they get dangerous or prohibitively expensive. Expect that these inspections won’t be quick or inexpensive (expect in the range of 5% of your annual budget or more). More commonly these are large enough that they are now budgeted as a periodic expense in your Reserve Study. Remember – they may be expensive, but they save money and save lives.

**Q: You said that the Reserve study is not a structural evaluation yet the identification of work that has to be done seems to be based on the condition of things such as roofs, paint, etc. How is this done without structural evaluation?**

A: A Reserve Study is and always has been budget and cash flow tool, to help the association prepare financially for their normal, predictable projects. Structural evaluations help identify when things are deteriorating “abnormally”, and repairs in excess of “normal” projects are needed (deterioration occurring that can only be verified with special diagnostic tools or intrusive or destructive testing (drilling core samples, etc.) that result in minor or major repair projects.

**Q: You mentioned a Structural Evaluation. When is a Structural Evaluation needed? How is it different from a Reserve Study?**

A: Structural evaluations identify how the project is aging. A Reserve Study inspection is like going to a medical “general practitioner”. We look for and identify normal repair and replacement projects. We are not trained to do extensive testing – like going to any type of specialist (heart, brain, bone, skin, etc.). We may see signs of advanced deterioration that needs further evaluation (and make specific recommendations to our clients for follow-up evaluations), but structural inspections specifically identify how the building itself is aging. Structural inspections become a normal part of a building’s aging process, becoming essential when the building crosses the 20-yr point. The 40-yr structural inspection at Champlain Towers South revealed a significant amount of deterioration that had advanced unchecked. Those projects were then folded into their Reserve Study, which informed the board how to manage their cash to accomplish those projects. Unfortunately, the deterioration was so advanced that the building fell before those projects could be accomplished.

**Q: A Reserves Study is different from an engineering study to assess the structure of Bldg.? Do you offer that as well?**

A: Association Reserves does not offer structural inspections. It is very rare that a Reserve Study firm is staffed with the different talent that is required to perform



structural inspections. Those are time-intensive, intrusive inspections focusing on the structural elements of the building (not “normal” cyclical projects like building painting, recarpeting, pool resurfacing, lobby remodeling, roof replacement, boiler or elevator modernization, etc.).

**Q: You imply that technical review is not part of your study. If there is a site with many roads, storm sewers and sidewalks, is it not normal for the person doing the study to review the physical condition and make recommendations and estimates based on that?**

A: It is normal for the Reserve Study Project Manager to make many observations of many different components. The Reserve Study Project Manager is accurately described as a “generalist”. National Reserve Study Standards limit the scope of work of a Reserve Study inspection to visual observations. Thus it is common to interview major association vendors during the research phase of Reserve Study preparation, getting expert insights, as so much about major component condition or deterioration is not visible to the eye. If the association (elevator, asphalt, roofing, HVAC...) vendor is able to provide the necessary insights, that information is incorporated into the Reserve Study. If not, we recommend the association seek specific follow-up evaluation by an appropriate specialist.

**Q: In your recent presentations I am seeing more direct reference to the need for “infrastructure inspections” - every 5-10 years. BUT - there are very few of these “infrastructure inspections”. How is this going to be addressed by the industry? Getting these inspections is VERY hard!!**

A: True. We are seeing more and more capable infrastructure inspectors (and firms) beginning to make themselves known and available to the community association industry after the tragic collapse of Champlain Towers South in 2021.

**Q: Should an association do both reserve and structural?**

A: Absolutely. The findings from the structural evaluation then appear in the Reserve Study, providing a plan for the board/association to fund those projects (along with all their other Reserve projects).

**Q: The reserve study for 2024 is done in 2023. So is the balance used the projected reserve balance as of January 1st, 2024 of the balance of reserves at the time of the reserve study?**

A: The Reserve Study is for disclosure and budget planning purposes. Presuming a Dec 31 Fiscal Year End property, a Reserve Study done the summer or fall of 2023 would project a Reserve Balance to 12/31/23 (effectively “time stamping” an evaluation of their Reserve Fund strength on that date), with Reserve funding recommendations for the 2024 budget that starts on 1/1/2024.

**Q: How much would a first time RS cost?**

A: Typically, a first time Reserve Study costs around, or less than, 1% of the association's annual budget. Update With-Site-Visit and Update No-Site-Visit Reserve Studies are significantly less expensive.

**Q: We already have a reserve study, and it has been updated once. We are planning to have it updated again this year. Is it necessary to use the original company that did the reserve study for the update? Are companies willing to update the reserve study that was done by another company?**

A: It is not necessary to use the same company as before for a Reserve Study Update project. If your Reserve Study displays quantities (as it should, per National Reserve Study Standards) and if you are comfortable in the provider's experience, expertise, customer service, and credentialing, then there's no reason to switch. If you feel there have been shortcomings in one or more areas, then it may be time to switch to a more capable, credentialed, or experienced provider.

**Q: Once a RS is completed, is a HOA required act on the recommendations?**

A: In most states, no. I believe it is only MD where the board is required to implement the funding recommended in the Reserve Study (a Champlain Towers South response). See more [here](#).

**Q: The owners rejected our recent budget where the board tried to increase reserve funding based on our first reserve study. What advice do you have to convince owners to pay more into the reserve fund?**

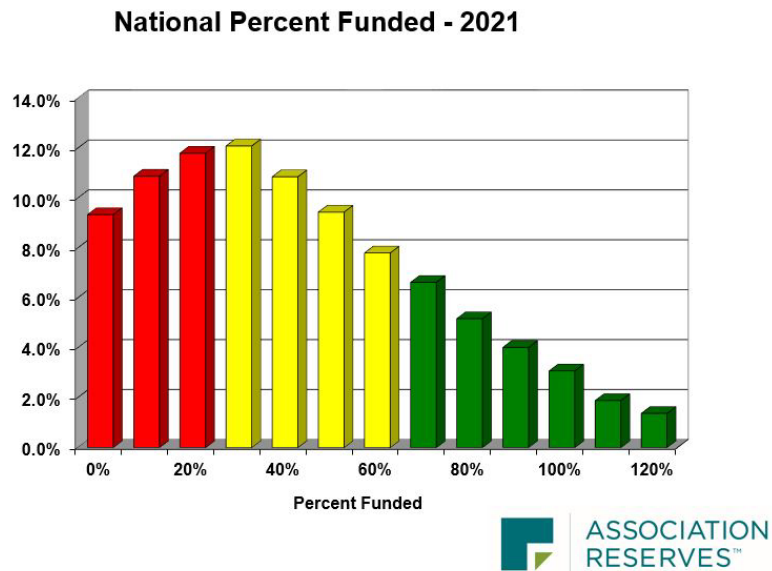
A: There is no choice about what they will pay. The only question is when. Reserve expenses are what they are. The only choice is if owners will pay in small quantities, on an ongoing basis (offsetting deterioration), or if they'll pay via an unsettling special assessment. Deterioration is a bill that needs to be paid, one way or another. You need to work harder on the "politics" and "selling" aspect of your budget plan, characterizing the cost of Reserve deterioration as an unavoidable part of the total cost of ownership.

**Q: I have an unusual question. If the executive board influenced the person executing the Reserve study to push out a repair(s) to a future date, would this affect the overall standing of the health of the reserve funds?**

A: If the board influenced the timing of a Reserve project, that would affect the calculation of Reserve Fund strength. Reserve Studies are to be the independent work-product of the expert/credentialed provider, not just a reflection of "what the client wants". In our field, we regularly deliver "bad news". It is time to get a new Reserve Study provider with the backbone to deliver the truth.

**Q: Can you talk a little about where the Associations typically end up in term of funding %, across all your clients? Or the 4 colors that you have in the exec summary.**

A: Please see the chart below, showing the national profile of association Reserve Fund strength (measured/reported by Percent Funded). Most associations fall in the yellow “mid-range” status, 30-70% Funded.



**Q: What are the requirements for a condo vs HOA reserve study?**

A: The actual requirements are the same. The skills required of the Reserve Study provider are different, as a condo Reserve Study is by nature more complex (it incorporates residential structures and their assets). Make sure your provider is not just a Reserve Study provider, but one who has demonstrated expertise in condo associations.

**Q: We are in the midst of some major replacements. Should we wait until they are completed before ordering a new reserve study?**

A: That would be a good idea, to get good information on dates completed and costs of the projects.

**Q: How frequently do you suggest to repeat a site-inspection-based Reserve Study?**

A: Industry best practice is to have a site-inspection-based Reserve Study update at least every third year. It is a good idea to also do inexpensive “No-Site-Visit” updates in the in-between years, to keep the budget from drifting off target.

- Q: Do you include labor cost in your reserve estimates?**
- A: Yes – Reserve projects are to be “total cost of the project” – including labor, shipping, permits, installation, disposal, etc.
- Q: How is the cost of the study determined? We have very few amenities compared to the rest of the area.**
- A: Degree of difficulty. So cost is influenced by type of association (HOA vs Condo vs Timeshare), size of association, age of association, specific common area elements at the association, and (for site-inspection products) distance from one of our regional offices.
- Q: We have our annual meeting tonight. Our reserve study is on the agenda. Any advice to an HOA president for discussing it?**
- A: You get three results: a disclosure of the common area elements (their Remaining Useful Lives and repair or replacement costs... focus on those in the 0-5 yr range, then expand to the 6-10 yr range, a statement of your existing Reserve Fund strength (strong/fair/weak – typically measured by Percent Funded), and a recommended multi-yr Funding Plan.
- Q: 300 homes. We have no buildings, clubhouses, pools, ball courts, gates, etc. Only a perimeter wall and some paved walking paths and small irrigated landscaping areas. Still recommend a study?**
- A: Hard to say. If the total of all repair projects for your association are less than half of your annual budget, probably no. So compare the cost of maintaining (repairing and resurfacing) your paved walking paths and the cost of replacing common area irrigation, and compare that to your annual budget.
- Q: Is a Reserve Study required for all HOA and COA per Washington state RCW laws? Can you elaborate on what that means if it is required?**
- A: Please see your attorney for an interpretation of local state laws.
- Q: Can a Reserve Study be commissioned for our HOA without a vote of the residents?**
- A: Absolutely. The board is charged with the responsibility of running the affairs of the association. A Reserve Study is one way they gather the information needed to do their job.
- Q: Can a reserve vendor start from scratch to create a reserve study for a community?**
- A: Absolutely. That is what a “Full” Reserve Study is. After that, the association performs one of the two Update Reserve Study products (with or without site inspection)

**Q: We're thinking of hiring a new firm to do a reserve study. Would the new firm generally accept the prior numbers from the previous company? Example: in the current study we have the square footage of roofs. Would the new company want to do new measurements or accept what we have in our current study? What is the industry standard?**

A: If the prior Reserve Study was prepared by a credentialed professional (someone with a RS or PRA), and if you have no reason to suspect the quality of the information (the Reserve Study listed 85,000 Sq Ft of asphalt, and last time it was sealed the asphalt company charged you for 86,000 Sq Ft), then those numbers should be valid for future planning. Typically, when we get a Reserve Study prepared by another firm, we do a little satellite imagery checking to make sure the quantities are "reasonable". As a professional, we don't generally build Reserve planning on someone else's work without at least minor confirmation of their work.

**Q: Are reserve studies specifically for HOAs only? We have an oversight board for our community that the HOA funds but doesn't seem to have any guidance for what they are responsible to maintain.**

A: Reserve Studies are used by all types of residential and resort associations, municipalities, worship facilities, camps and retreat centers, private boat and golf clubs, etc.

**Q: If a different vendor is chosen for the audit in lieu of the original vendor, will costs still be lower than a from scratch study?**

A: The primary difference between a Full Reserve Study and a With-Site-Visit update is the time spent measuring and quantifying. If those quantity figures exist, we save time. Typically, a With-Site-Visit update is 60-80% of a "Full" Reserve Study.

**Q: Can you talk about the Liability of the Reserve Study provider. I am concerned that there are built in incentives for Reserve Studies to over-estimate required reserves.**

A: I don't see it that way. We minimize our liability by being as accurate as possible. That means not being high and not being low.

**Q: What are the pros and cons of updating a study vs. a new study other than the reduced cost of an update? At what point, if any, is an original study "too old" to update well?**

A: If the asphalt and roof and carpet have not changed in quantity, there's no reason to pay someone to measure them (again). Reserve Studies get old due to changing conditions, changing costs, changing Reserve balance, and changing economic environment. Update it because of changed conditions, not to double or triple check if the asphalt has magically grown over the past three years.

**Q: If you had a previous Reserve study and then an updated one...shouldn't all the items on the original one be carried over to the new one if they still exist?**

A: Generally yes. There are a few strategic changes that may trigger a difference in the component list... like if the current landscaper now handles tree trimming, or if pool furniture replacement is now handled through the Operational budget.

**Q: Current Reserve Study shows that there is a need for Special Assessment to address needed maintenance. The Board says no Special Assessment. Lenders are asking about the SA indicated in the Reserve Study. Can you speak to this?**

A: Launch the Special Assessment. The board's job is to care for the property. Lenders have no interest in taking a financial stake in a property that is currently in a deteriorated state and is continuing to decline. They know that would be a bad business decision. Take the hint.

## RESERVE COMPONENT QUESTIONS

**Q: How does an association distinguish between an upgrade of a replacement reserve component vs. a new capital expenditure, i.e. a new asset to add as a component of a replacement reserve.**

A: The key question is if the asset currently exists or not. Modernizing something that currently exists is not a capital improvement. There is no responsibility for the Reserve Study to budget or plan to replace an asset "like for like". See more [here](#). Ask your Reserve Study provider for additional clarification.

**Q: Our community is over 35 years old and has 5,000 trees, many of which need to be replaced. Reserves were inadequate or non-existent for tree replacement. Since homeowners turned down a special assessment to replace the trees, should the HOA simply budget annually for tree replacement, or should a tree replacement component of the HOA reserves be established?**

A: It sounds like trees meet the four-part test for being a Reserve Component (common area responsibility, life limited, predictable remaining useful life, and materially significant repair or replacement cost). Discuss with your tree care professional and Reserve Study provider how best to model tree care in your association. Likely it will take the form of phased replacements over time.

**Q: Would you consider replacing a complete electrical circuit (including new underground conduit, new wiring, new lighting fixtures, junction boxes, etc.) as a reserve expense or a maintenance expense?**

A: It would be best to have your electrical contractor discuss the situation with your Reserve Study provider in order to chart an appropriate path forward for your association.

**Q: How do you obtain the current cost? Is this from a national database? What if the component cannot be found in a “national database”? How often do you update this information?**

A: Current costs are primarily established based on our experience with similar projects done by other associations in your geographic area and discussions with local service providers, influenced by your association’s particular nuances (built into a hillside, dense trees, narrow streets, etc.). This is an ongoing process. We rarely reference a “national cost database”, and only do so as a last resort.

**Q: In a ground level suburban condo development, what elements of the landscaping are best handled through reserve funds vs operating expenses?**

A: That depends on the size of your association, the size of your budget, and the extent of your landscaping. Those factors influence what projects are anticipated, and if they are large enough to merit planning through Reserves.

**Q: Seals are broken on some windows. Who pays- HOA or owner? CCR’s are not clear on this?**

A: Get clarity from your association attorney. In cases like this, we encourage that it be considered association responsibility, as there are clear economies of scale to be enjoyed.

**Q: For Associations with golf courses, do you typically include well shafts in the reserve study?**

A: Golf courses or not, the issue is an association with wells. We typically interview the well service vendor to determine the specific needs of wells over time, and how the association can best prepare for upcoming repair or replacement expenses.

**Q: What qualifies as a Reserve eligible expenditure versus an operating expenditure? How are major assets addressed such as a brick wall surrounding a neighborhood? Do you fund a periodic partial replacement versus a full replacement? How is the analysis affected by insurance coverage?**

A: Reserve expenses are those project that pass the National Reserve Study Standards four-part test (see [here](#)). Some projects with indeterminate timing may be most appropriately handled by periodic partial repairs or replacements (sidewalks,

perimeter walls or fences, etc.). A key point is that insurance doesn't pay for replacement due to age and deterioration. Insurance only pays for accidents.

**Q: How are projected repair and replacement costs estimated? For instance, HOA is responsible for maintaining 4 streets and has reserves for same. How do you assess what the costs to maintain and repair those streets will be over the next 10 years?**

A: That is the job of the Reserve Study provider. We evaluate the current condition of the asset, inquire about its repair history, confer with the association's service provider, compare to other client costs, and dial those into the Reserve Study.

**Q: How are limited common (maintenance responsibility of the association, but enjoyed by one owner only) elements handled in a Reserve Study?**

A: Because they are common area components, they are included in the Reserve Study.

**Q: Are there charts of scale of economic and structural life of general components of a community?**

A: There may be some reference resources, but generally each Reserve Study is a custom creation.

**Q: How does the Reserve Study provider know precisely what assets need to be evaluated as part of the study? That is, what assets need to be reserved for by the HOA and what assets are within the responsibility of the individual owners?**

A: One of the first things we do with a new engagement is to get comfortable with the definition of common areas. Hopefully this is well established before we are retained. Many (organized) associations actually have a "maintenance matrix", showing who is responsible for what. We may have to base our Reserve Study on assumptions until the association get a clear response from their attorney.

**Q: What are the main criteria used to determine if a cost should be considered capital (reserve component) or operational?**

A: If it passes the National Reserve Study Standards four part test (see [here](#)). Establishing an appropriate "Cost of material significance" to the association is key... and is often in the range of .5% to 1% of the association's annual budget.

**Q: Since streets are not replaced, only maintained, would you include street maintenance in operating or reserve funds?**

A: Typically Reserves since the asphalt street maintenance costs (sealing and resurfacing) are regularly significant. "Replacement" is not the issue. "Cost of the project" is the primary issue.



**Q: Our HOA has a roof that has been having problems with leak issues. The Board is using reserve funds to pay for the damage caused to owners' units and also for repairs to the roof. Is this a Reserve expense or an operating expense?**

A: Reserves are to offset ongoing deterioration. Damage caused to owners is not related to deterioration (that is an unnecessary extra cost usually due to the board's delayed response) and is an inappropriate use of Reserves. Please check with your Reserve Study provider to discuss in detail.

## RESERVE FUNDING QUESTIONS

**Q: Does a change in a component's Useful Life directly affect the component's Remaining Useful Life, and thus the Funding for that component?**

A: No. The Useful Life is the asset's projected interval between requiring replacement. The Remaining Useful Life identifies when the project next needs to be replaced. They are often related, but they are not intrinsically linked. So, if we extend the life of a fence that is currently failing (RUL=0) to 20 yrs from 15 (because we learn it is about 20 yrs old... more than the expected 15 yr UL of a fence of that material, because of the association's great Preventive Maintenance schedule), we won't change the RUL. It still needs to be replaced now. So, we still anticipate that expense in the "initial year".

**Q: Pros and cons of pooling vs straight line funding in the study?**

A: Pooling (the "cash flow" method) is always better for the association than the component ("straight line") method of calculating Reserve funding.

**Q: What is the definition of a reserve "plan"? Does it have anything to do with becoming Fully Funded (achieving 100% Funded)?**

A: A Reserve plan is a proposal for doing or achieving something, specifically to offset ongoing deterioration with the funds that will provide for the eventual repair or replacement of that asset, preserving function while maximizing owner enjoyment and property values. There are three Reserve Funding Goals that may be chosen as the objective of a multi-yr Reserve Funding Plan: Full Funding, Threshold Funding, and Baseline Funding. Please see more [here](#) (p12).

**Q: We have had reserve studies completed where the true costs of a capital project are not accurately reflected in the reserve study. Often the projects are more expensive than what was included in the study. How do you hedge against increased costs to have the study reflect the true costs when work is completed?**

A: That is unfortunate. Reserve planning is designed to help your association prepare for the costs of maintaining the property. Reserve Studies are based on current costs for the complete project (“soup to nuts, as my mom would say), and are much higher than they were just a few years ago! The Reserve Study also factors in inflation in the future, both short term and long term. See more [here](#).

**Q: Can you explain the calculation of the Full Funding requirement for a given year? And the threshold funding requirement? The calculations in our Reserve report are a mystery.**

A: Full Funding is just offsetting ongoing deterioration, so the association has the same \$ of cash in Reserves as the deteriorated portion of the Reserve components.

**Q: Why does the straight line method take into account the cyclical nature of reserve expenses?**

A: The straight line method actually doesn’t handle cyclical expenses. It just addresses the current cost and years left until the next expense of that component, presuming upon future updates to incorporate changing costs and new information as projects are accomplished (and “cycle through” from needing work, to being freshly repaired or replaced).

**Q: Are there limitations for which reserve funds can be used?**

A: Yes. Reserve projects!

**Q: Is there a "comfortable" level of reserves? (percentage of total budget)**

A: Boards should be comfortable that their Reserves are sufficient to handle upcoming scheduled Reserve projects if their Reserves are 70% Funded or more. Boards should be uncomfortable about their Reserve Funding their Reserves are at or under 30% Funded, because in that range special assessments are common. See more [here](#). Note that to provide for the Reserve needs of the association typically requires Reserve funding in the range of 15-40% of an association’s total budget. See more [here](#).

**Q: What factors are included in Association Reserves recommended funding? How much flexibility is there in determining appropriate funding levels?**

A: Starting Reserve balance, upcoming Reserve projects, the association’s recent Reserve funding rate, etc. There is some flexibility, but sometimes there is not much wiggle room (such as when the roof Remaining Useful Life is zero, it will cost \$500k, and the association only has \$100k. That’s “bad news” time!).

**Q: Does the reserve study create a financial plan on how an association can afford these projects that can be reflected in the budgets that are presented to owners at the annual meeting?**

A: Yes

**Q: What is the balance that you are taking as starting point. Do you take only the liquid assets like cash and CDs? Do you take the balance in stocks toward the balance?**

A: We use the Reserve Fund balance that the association provides. Some states (CA) specifically state that Real Estate holdings are not to be considered as Reserve assets. Note that Reserves should never be invested in ways that can lose value (stocks). Any stock holdings should be transferred ASAP to different investments that cannot lose value. There are plenty of community association Reserve investments counselors that can help you in this area. You can take a risk on losing your own money but is fiscally irresponsible to risk the money of others.

**Q: Can you talk about the balance between special assessment vs. large increases to annual HOA due?**

A: Sometimes these are two sides of the same coin. A multi-yr special assessment is essentially equivalent to temporary high monthly assessments. A special assessment is typically defined as a higher level of assessments that are unsustainable for the longer term. In general, higher ongoing assessments that offset ongoing deterioration are more financially sound and clearly more fair to the owners than periodic special assessments.

## UPLANIT QUESTIONS

**Q: Do you include an electronic spread sheet to allow updates over the next 3 years as work is completed?**

A: uPlanIt is designed as a tool for the board to handle their own “what-if” questions. It is not designed for future year updates, although the association could theoretically pay for annual subscriptions to accomplish just that. uPlanIt access is only provided at no cost through the budget season of that Reserve Study engagement, to allow the board an unlimited number of “what if” tests.

**Q: Once the reserve study starts, how long can the customer access the UplanIt feature?**

A: Through that “budget season”, which means through the end of that Fiscal Year, and three months into the next. So if we prepare the Reserve Study in Fall 2022 for a Fiscal Year starting 1/1/2023, they have access through 3/31/23.

**Q: Banks want to know if you are following your reserve study. If you change the parameters using uPlanIt, can you still tell the bank you are following the reserve study? Or what do you say?**

A: Banks want to know if you are following a Reserve Study prepared by a credentialed and independent expert. Banks don't care about the variation of the Reserve Study you've created on uPlanIt.

**Q: Does the Tables & Charts tab update data as you make adjustments within the Components tab?**

A: Yes. uPlanIt gives you "real time" feedback, immediately showing the results of every one of your changes.

**Q: We are a detached homes HOA. We manage greenbelts, planter islands and a park and trails. We budget for typical maintenance including simple removal and replacement of plantings. We need to account for the times we will need to totally redo an area or do significant upgrades beyond normal maintenance. We already have estimates for full replacements and have timing estimates for these upgrades. We need to have a way to have these estimates run through the modeling sheets that have been shown. We need to test the cash flow needs and test that against our current reserves. The modeling of inflation, and % coverage and annual cash input needs to the res fund is what we need. How can we get access to the modeling data shown on the online sheets on the portal?**

A: Create a subscription to uPlanIt (scroll down to the bottom of [this](#) page), and either type in your Component Information or upload it.

## FLORIDA SPECIFIC QUESTIONS

**Q: Have you had or plan to have a webinar on FL reserve requirements taking effect January 1, 2025?**

A: We are following legislation in FL very closely, and are active in advising well intended legislators how best to reword current legislation. Make sure you're signed up for our email list (scroll to the bottom of any page on our [website](#)) and have identified yourself as a FL resident/contact, and you'll be notified of our monthly FL-specific webinars where we provide the latest news on this issue.

**Q: Has there been any update to the new law requiring a Structural Integrity Reserve Study (SIRS) to be completed by the end of 2024?**

A: The SIRS, an almost overnight invention of the FL legislature that has no prior precedent, has created enough problems that legislators are feeling a great deal of pressure brought on by owners, managers, and Reserve Study providers to get current legislation cleaned up – to make it more workable. There have been no changes yet, but we are optimistic that there will be changes during 2023.

**Q: We are an HOA. According to Florida Statutes, once we have a reserve study in effect is the 3 year update required or just recommended? Also, if our HOA is not 100% funded, is there any requirement under Florida Statutes that requires us to be at the highest % or is something between 70-75% funding sufficient?**

A: Please check with your attorney for FL-specific legal interpretations. Please note that a With-Site-Visit Reserve Study Update is national “best practice”. There is no current requirement, nor do we see it being added, to require a specific level of Reserve funding. The significant issue is that owner power to waive Reserve funding (in whole or part) is going away 1/1/2025. In other words, it’s time to start paying the bill for ongoing deterioration (like they do in 49 other states).

**Q: Isn’t there a statute that reconciles with the structural evaluation/engineering report?**

A: We are encouraging FL legislators to see the combination of Milestone Inspections and (normal) Reserve Studies as an effective and complete solution, eliminating the redundant engineering inspection currently required in the SIRS.

**Q: Are Reserve Studies mandatory in Florida?**

A: That is not a straightforward answer. Please see your attorney for FL-specific interpretation.

**Q: I manage a property in Florida and the state has mandated SIRS studies. How are they different than the reserve study described in this seminar?**

A: The current definition requires the site inspection to be performed by an engineer or architect, not a Reserve Study provider. We (and the engineers and architects) are trying to change that!

## MISCELLANEOUS QUESTIONS

**Q: I would appreciate it if Robert updated the audience on his expectation last year re: insurance carriers reviewing reserve studies and funding levels during the HOA insurance policy renewal process.**

A: I can report that more and more insurance carriers (and lenders) are asking for Reserve Studies, looking to see which projects are upcoming, how many of the association’s Reserve projects are in the first five years, and the strength of the association’s Reserve Fund (revealing if they are prepared to care for the property).

**Q: If an Association has an outstanding loan for building remediation and special assessment receivable against that loan:**

- a. If the special assessment accounts receivable and the loan balance are equal, then is it correct that there is no effect on the starting balance of the reserve study?**
- b. If the loan has been paid off, yet there are still accounts receivable from the special assessments payments, is it proper to count the special assessment receivable as part of the starting balance of the reserves?**

A: Cash (or cash-equivalents) comprise the Reserve starting balance. Possible future money (from special assessment receivables) may be considered if clearly identified possible income source, but those funds should not be rolled into the starting balance.

**Q: The association industry has seen FL institute a required “milestone” structural inspection requirement at 30+ years. Do you have any knowledge of this requirement being discussed or required other states? Would Reserve Study providers be able to perform such an inspection, or are other companies performing these studies?**

A: There are other requirements existing and pending in other states. The typical Reserve Study provider is not an engineer (they are budget and cash flow specialists). For a structural inspection, it is best to begin your research with engineering and architectural firms in the “building condition” inspection business.

## INFLATION AND INTEREST QUESTIONS

**Q: I am on two boards one in Missouri and one in Florida. My Missouri reserve study includes an inflation rate. My Florida community's reserve study has a 0% inflation rate. When we asked about that, it was because Florida law requires it. Are they saying Florida law requires 0% inflation rate? or are they saying that Florida law requires that no year's beginning balance is less than zero and no balloon payments are allowed so if they put in an inflation rate, the contribution amount shown in the study would not be sufficient?**

A: First, good for you for volunteering so much time to three different associations! And yes, FL law is crazy (not actually law, but the Florida Department of Business and Professional Regulations), interpreting a good requirement to not rely on future “balloon payments” to also mean an association cannot incorporate adjustments for the very real effects of interest and inflation. Go figure. But there is hope... as of this writing the FL DBPR is considering “just” banning future “balloon payments”.

**Q: How do reserve studies deal with sharp increases in inflations?**

A: A Reserve Study by definition considers three decades of upcoming expenses, and the economic environment in that upcoming three decades. So we need to use an “average” inflation rate. Short term inflation spikes (like we’ve had the last two years) are best offset with a Reserve Study update, that adjusts all “current costs” to current levels.

**Q: Example of summary showing a 3% inflation rate. What's the current realistic inflation rate? 3% seems much too low in today's environment.**

A: 3% is a good value to use for a 30-yr projection. See more [here](#).

**Q: How do studies deal with sharp increases or decreases in interest rates on the basis assumptions?**

A: See above. That’s yet another reason to regularly update your Reserve Study.

**Q: Do the current reserve study updates take into consideration the current high cost of materials and labor that is above and beyond inflation?**

A: Yes. Current Reserve Studies utilize current cost expectations, which incorporate (the high cost of) labor, insurance, shipping, materials, etc.

**Q: Quick question about Inflation. Our Reserve Study has 3%. Could be a lot more or less. How do you decide/handle that?**

A: We establish that based on a backwards view of what has been “average” or “typical” for the last 20 or 30 years. Past behavior is the best predictor of future results.

**Q: What annual inflation rate are you currently using?**

A: See above.

**Q: Talk about inflation's impact on reserves.**

A: Inflation has a tremendous impact. It is important to have accurate “current costs”, and reasonable estimate for future costs. See more [here](#).

**Q: How does a reserve study factor in any anticipated inflation? If not, how do we reserve for it?**

A: Inflation factors are built into the Reserve funding plan. This is because we have every expectation that projects will be more expensive in the future. The Funding Plan is designed to provide for those higher costs in future years. Any credible Reserve Study provider should accommodate the very real effects of interest and inflation in their development of the Funding Plan.

**Q: I am reading your book. On page 114 it says, "This method (referring to the straight line method) cannot, by definition, incorporate an inflation factor.." Why is that?**

A: Thank you for having and reading [our book](#), which we've heard is being found very useful to associations all across the country. In answer to your question, there are actually some workarounds to the straight line method that incorporate inflation, but it involves a level of math not utilized by the typical "straight line" user. So it is safe to say that the way "straight line" users handle inflation is by updating regularly. Even so, trying to model and offset inflation by regularly updating a Reserve Study based on straight line calculation methodology continues to be a [losing game of catch up](#).

**Q: Our modeling uses 3% for inflation for replacement costs. After many years of inflation at 2%, it has escalated in recent years. Do you recommend maintaining the 3%? How many years of lookback inflation data do you recommend using for your go-forward inflation factor?**

A: Clearly, we are in a period of high inflation at this time. Our government is implementing economic policies to bring it back down to more normal/stable (less disruptive) levels. We commonly look backwards 20 to 30 years to ensure we are using a similar value as we make long term projections into the future.

**Q: If we don't like the inflation rate you use, can it be changed?**

A: Yes. You can change it in uPlanIt and see its effects.

**Q: What should the interest rate factor be based on? Present rates, expected rates, past history,.....**

A: All of the above. See more [here](#).

**Q: How do you manage inflation?**

A: We separate between current "high" inflation, and long term "normal" inflation. The key is regularly updating your Reserve Study, at which time all costs are adjusted and brought to current levels. See more [here](#).