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Breaking Down... The Reserve Study!

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www.ReserveStudy.com

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

You've received the Reserve Study – great. But now what? How do you figure out what it is telling you, so you can confidently lead your association forward? That's the purpose of this webinar, helping you learn what the key results from your Reserve Study are, how to find them, and how they affect your decisions.

Beginning to End

Your Reserve Study may be 25-250 pages, but there are three pieces of information that matter. All the rest is supporting information. Look for:

- The Component List – a table containing the expected cost and timing of all the major predictable projects coming up at your association
- An evaluation of your starting Reserve Fund strength (commonly measured in terms of Percent Funded)
- A recommended multi-yr Funding Plan, so you can accomplish all those anticipated projects in a timely manner.

Usually, this information is found early in the report, perhaps summarized in the Executive Summary.

Communicating Results

Now that you know the major results of your Reserve Study, how do you articulate them to others? The key is purposeful word choices. Remember – the recommended Reserve Funding doesn't make life at your association more expensive. The costs at your association are going to happen. Recommended funding only allows you to pay the cost of ongoing deterioration on an ongoing basis, instead of in unsettling "catch-up" special assessments.

Make sure you describe the recommended Reserve Funding as needed to offset “ongoing deterioration”, not something in the future (for a rainy day or for emergencies), or something that makes them seem “voluntary” – like calling them “contributions”. Again, all those costs are real. They will happen. The association will need to afford them, whether they like it or not. Otherwise, the property slides into deterioration and property values suffer. That is a terribly expensive mistake.

Interpreting Results

Reserve funding is expensive because property deterioration is expensive. Get used to that. Proper Reserve Funding is commonly 15-40% of an association’s total budget. If your recommended funding works out to 25% of your total budget, that may sound like a “crazy lot”, but it’s actually right in the ballpark. Understand if your association is starting out from a position of strength (Reserves over 70% Funded), or weakness (Reserves 0-30% Funded).

Using it Throughout the Year

Look at your schedule of Reserve projects, focusing on projects in the first year. Then expand your view to other projects within the first five years. See those projects as your “marching orders”. Depending on the timing of things deteriorating at your association, this may be a short list of projects or a long list. Fight to make sure those Reserve transfers get made. Some day, the roof will fail, and you’ll need those funds. Questions about if a project is a Reserve or Operating expense? Reach out and ask your Reserve Study professional for wise counsel.

Summary

Since physical conditions, costs, interest and inflation, and the Reserve Balance are in a continual state of change, expect the Reserve Study will need to be updated regularly (Best Practice is on the basis of a diligent visual site inspection at least every third year). Your property is worth your attention, and it takes cash and effort to keep it well maintained. The result is maximized owner enjoyment and property values.

But remember – you’re not alone.

Put an expert on your side to arm you with a Reserve Study that provides 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, adjusting all costs and conditions to current values, ensuring your Reserve Fund Strength is calculated correctly, and creating a Funding Plan that provides the cash necessary to perform your Reserve projects in a timely manner.

Enlist the support of a team that 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

Q: Our condo development has single story and two-story units. There are 6 units to a building. The only items that the association is responsible for is the community pool, club house, tennis courts and basketball courts and a dock. As far as the buildings are concerned the association is responsible for the roofs, painting of the buildings and the sidings of each building and roads. For example, windows are the owner's responsibility. Do we need to spend thousands of dollars for a reserve study or can we have companies check out each of the items and give us estimates as to remaining life and costs in the future. Most companies will do this without charging us for the estimates.

A: Getting accurate cost estimates is great, but it may be more difficult than you expect to get cost estimates for projects that are still years away (that's a waste of time for a contractor). A Reserve Study does two more things - assembling that information together so you have a clear Reserve income/expense plan to manage all those projects, and an evaluation of Reserve Fund strength that can be shared with all owners and prospective owners... to know where the association stands. It's not just a list of projects and their estimated costs.

Q: Is it accurate that using an annual inflationary rate is not considered a balloon payment?

A: Sounds like a FL question. Funding Plans are designed so current and future homeowners fairly share the burden of ongoing Reserve funding. That happens when Reserve funding gradually increases each year with inflation. By definition, that is not a "balloon payment". Yet in FL, the Department of Business and Professional Regulations (DBPR) has interpreted a good rule preventing future Reserve funding "balloon payments" to also prevent nominal annual increases (interpreting any future increase as a "balloon payment"). That is silly. Fortunately, they've acknowledged that, and we hope they can soon (or... at least as soon as a govt entity can) publicly change their stance and begin allowing nominal annual inflationary increases to Reserve Funding in FL.

Q: If you don't already plan to cover this, can you talk about pooled reserves and the different methods to calculate?

A: Already handled in prior webinars. See our Reserve Studies 103 "The Funding Plan" [here](#). Spoiler alert: Cash Flow (pooling) is always best.

Q: How will the new legislation being worked on currently in Tallahassee impact how you perform FL Reserve Studies?

A: As current legislation (SB-4D, enacted in 2022) is close to unworkable, our first reading of both the Senate and House “fix it” bills are very encouraging. We still need to wait to see the result.

Q: How has FL's SB-4D requiring full funding for many items changed the way you conduct RSs in FL?

A: As currently written, FL’s SB-4D is very difficult to implement. Because of this, most credentialed FL Reserve Study providers have yet to prepare their first “SIRS”.

Q: Does the FL 2022 requirement for a “structural integrity reserve study” (SIRS) change the requirements for reserve studies?

A: That is exactly what is driving Reserve Study changes in FL. The legislators invented a completely new service (the SIRS) in 2022, and their standards for that product are essentially unworkable. We are working with legislators to adjust that legislation in 2023, restoring our ability to create Reserve Studies compliant with National Reserve Study Standards and which also incorporate the information from significant structural evaluations.

Q: Association Reserves regional office partner Matthew Swain participated in last night's CAI San Diego HOA Academy on Reserves and Budget. He mentioned that there will be a forthcoming revision to National Reserve Study Standards. Are you able to provide a preview of the recommended changes?

A: Sorry, no. Those of us on the committee are still working on the wording. The changes will improve the consistency by which Reserve Studies are performed nationwide and reduce differences between funding plans provided by different providers, all towards the goal of increasing reliability of results.

Q: Other board members always suggest we use the Reserves for repairs or new things that aren't in the reserves. I always say no. When would using the money be OK for an item not currently included in the reserves?

A: Default to following National Reserve Study Standards. Reserve cash was collected for the projects listed in the Reserve Study. If spent on anything else, they deplete the Reserve fund. To inquire about a legitimate exception at your association, contact your Reserve Study provider.

Q: What does a full reserve study entail?

A: From National Reserve Study Standards... Component Inventory, Condition Physical Assessment, Component Life and Valuation (cost) estimates, Evaluation of Reserve Fund Status, and development of a 30-yr Funding Plan.

Q: Our reserve funding requirement increased about 30% last year. I was wondering if that was the case for other communities in our area (Kitsap county, WA).

A: The jump in funding was significant for almost all communities last year. It was more significant for associations that hadn't updated their Reserve Studies for three or more years. A 30% jump would not be surprising for an association updating every third year. That shows the importance of updating annually – it allows you to stay on-track and not get years behind.

Q: With rising sea on coastal communities, will the standard component list be updated to add in such things as sea walls and/or do you recommend that they be added in by the reserve professional?

A: I always advocate for the Reserve Study to be prepared by a Reserve professional. I expect in things like sea walls and garage sump pumps, future replacements may include height extensions or power/capacity increases.

Q: How are the risk levels on “special assessment risk” chart assessed and plotted?

A: Simply noting if the association was in sufficient enough of a cash flow crisis that we were forced to recommend a special assessment (typically our last resort as an element of a Funding Plan). Then we plotted the # of associations with a special assessment recommendation against their Percent Funded.

Q: Do Reserve Studies use a negative number in the Remaining Useful Life instead of zero if the project is “past due”?

A: When a project “needs to be done” it “needs to be done”. National Reserve Study Standards were built defining “needs to be done” as RUL=0. There is no merit in tracking how long the project has been delayed. Every year, every board has the opportunity to do what needs to be done.

Q: Why wouldn't it go past zero years remaining life? Isn't it wise to show just how overdue it is? Might that help with prioritization?

A: When a project needs to be done, it needs to be done. That should be the priority. You should not be living in an “overdue” world.

Q: If the reserve study report indicates an HOA is funded at 100%, but the reserves are used to replace a component such as roofs that have a 0 useful life remaining, is the percentage supposed to drop significantly?

A: No. If the association is 100% Funded and the project is done on-budget, the % Funded does not drop after the project is done. For example: presume the roof project is budgeted at \$50k, the Reserve Balance is \$100k, and the Fully Funded balance is \$100k. Before the project, the association is 100% Funded ($\$100k/\$100k = 1.0 = 100\%$). After a \$50k roof project, the Reserve cash drops by \$50k but the Fully Funded Balance (the

needs of the association) drop by \$50k down to \$50k. So the resulting % Funded afterwards is $\$50k/\$50k = 1 = 100\%$.

Q: I know about Damage Loss Assessment insurance, protecting the owners from a special assessment should there be an unexpected loss assessment (such as losing a lawsuit). Is there insurance for all types of special assessments available for owners?

A: To the best of my knowledge, no. Remember – insurance is for accidents, not normal occurrences (like deterioration over time, and the costs associated with normal deterioration). But a forward-thinking insurance company has been in contact with our firm to develop a product (with the premium tied to the association's current Percent Funded). The bottom line is that such premiums look a whole lot like recommended Reserve funding.

Q: How do you know what the fully funded balance should be?

A: We do the calculations (all based on the component list). See more [here](#).

Q: Can the Board at any time change the amount re-allotted to each reserve account without a vote of the owners?

A: That question is only significant to the small minority of associations still using the archaic and cash-inefficient Component (straight line) method of calculating Reserve Funding requirements. Please check with your attorney to see if your Governing Documents or State Laws establish any requirements on the matter.

Q: How can you account for inflation (in today's crazy market) related to a Townhouse complex where all the outside elements are common areas?

A: Inflation affects all associations. So use accurate current cost estimates, and include a reasonable multi-yr estimate for inflation for your future planning. See more [here](#).

Q: Do associations calculate the recommended Fund Total in increments?

A: Yes – the Fully Funded Balance is the sum of individual calculations performed on each component. See more [here](#).

Q: Our reserve study has a line for the minimum reserve contribution that's needed to keep reserves above \$0. This has been where our Property Manager and others have gravitated to as an easy solution, which is misleading, for it's akin to asking someone to drive on a street full of potholes and trying to avoid hitting any of the potholes. Has this line been removed from the 2023 edition of your reports?

A: That is an option selected by your Project Manager. We continue to try to do a better job of recommending a good funding solution, not one that allows for somewhat reckless funding.

Q: How can we be Fully Funded but have an average reserve deficit per unit?

A: You can't. Being Fully Funded means a Reserve deficit of \$0 per ownership interest.

Q: The recommended funding strategy typically has a large increase in year one (62% for us) and 10% for several years after that before dropping to a more-amenable 3%. The latter is easy to get passed, the former is impossible, for the counter-argument is that people will default on their mortgages. Is there a solution with a consistent increase over time to reach the same desired end, which is 70% funded or better?

A: Update your Reserve Study regularly, so that you don't get so far behind. Contact your Reserve Study professional to develop an effective multi-yr funding strategy. Prepare to tell your owners that the fact of the matter is that the cost of running the association is more than they've been traditionally collecting.

Q: Our financial statements have the funding for reserves, I think as "contributions." They're grouped with the income and not with expenses. Shouldn't they be listed with expenses, and if so, where would you suggest?

A: Funding for Reserves should be listed as an expense or transfer. The income comes in to enable the transfers, and those funds are transferred out so they don't get spent with other Operational budget line items.

Q: The cost in some recent surveys still seem low to comparable current costs.

A: I can't comment on a survey I haven't seen. Remember that the time it takes to create a survey and report its results often allows "current costs" a few months to shift higher.

Q: I get that this information is supposed to be communicated to the owners; however, shouldn't the company that created the reserve study present to the Board before presenting the information to the owners? My concern is that a Reserve Study is a complex topic to communicate to most of our owners.

A: Most Reserve Study firms make their Project Managers available to communicate to the board (prior to the board communicating to owners). Policies vary... sometimes this is done for an extra charge. We present these webinars to educate and equip board members and managers to be more and more capable of understanding the situation. The easiest way to explain it... when the costs go up, the income to offset those costs needs to go up.

Q: If there is a surplus in operations at end of fiscal year, is it allowed to take that surplus and make up the deficit in the reserves? Or is the deficit made up by increasing the monthly contribution in the next fiscal year?

A: Transferring an Operating Surplus to Reserves at the end of the year is common. Work with your association's CPA to handle the details. Increasing monthly Reserve transfers also helps to minimize any Reserve deficit.

Q: Why isn't it required to send out ALL reserve studies to all homeowners? Presently, CA law only requires a summary sheet. In my opinion, this should be sent to everyone. We didn't even get a copy when we bought it despite we were supposed to. I didn't have a copy until I joined the board and had to ask.

A: Laws are usually minimum standards. If you wish to make the entire Reserve Study available to your owners, do it! Now that the Reserve Study is usually a pdf, there is no additional expense to make a 100-page document available instead of a 2 or 3-page Executive Summary.

Q: What would an array of good strategies be to counter reserves that are woefully underfunded? Higher funding, if one can get it passed, getting favorable contracts, boosting interest income, shedding assets or replacing current assets with something that costs less to maintain...???

A: We call it the "exercise plan" – like a beginning fitness routine. Start with small steps of progress, gradually building over the years. Usually, the most progress is made by maximizing this "income" side of the equation (funding + higher interest earnings). Speak to your Reserve Study provider about finding any cost-cutting strategies.

Q: Should owners be able to see the breakdown and amount of each reserve component?

A: That is a relatively insignificant detail, only an issue in associations still using the archaic Component (straight line) method of Reserve funding. The more important thing to learn is what funding has been recommended, and is the association actually following that recommendation.

Q: The Executive Summary page you showed has a "Unit surplus/deficit" value. This seems to be a running tab of just how far your HOA is behind the curve in terms of funding. If it is clear that a special assessment is needed - it seems to me that using that number (deficit) as the amount of the special assessment needed will be an intuitive and "easier sell" to homeowners. Your thoughts?

A: Just because your association has a Reserve deficit doesn't mean it needs a special assessments. As I showed, most associations 70% Funded (technically with Reserve deficits) rarely need a special assessment. The better argument is that "We, unfortunately, don't have the cash to maintain the property" rather than referring to a technical deficit calculation. That said, it might help to say that "Our total deficit per

owner is \$12,752, but all we need to do at this time, along with higher ongoing Reserve funding, is a \$1500 special assessment.”

Q: If Association membership is aware that inadequate reserves may result in a special assessment (if members know that and can plan for it), what's wrong with proceeding in that manner, particularly if homeowners frequently sell and move on and may avoid monthly dues that include funds for the reserve account?

A: The problem is that new homeowners get stuck with a looming special assessment. We see more and more new homeowners demanding the seller pay the calculated Reserve deficit through the sales transaction (in cash, or a reduction in home value). Boards are responsible to budget for the sustainability of the association (check your Governing Docs), and owners are responsible to pay their fair share. Sneaking out before the Reserve special assessment hits is like sneaking out the back door of a restaurant after your meal before the check arrives.

Q: Insurance is becoming a true wildcard in terms of cost or perhaps even obtaining insurance. How can that be handled?

A: Speak to your insurance agent and raise your assessments.

Q: 30 years seems too short a period of time for some components of a condominium, i.e., building structural components, windows, doors, and others. Therefore funds, are sometimes collected too soon for reserves, which takes retirement savings away from the condo owners. Also, many of the components you use in your project tables can easily be covered in the condo's annual operating budget and not unnecessarily be put in a condo's reserves and lost to the condo owners.

A: I disagree. At a new association with a 50-yr component (seawall, for instance), funding is set so owners pay 1/50th per year... just their fair share. Nothing is collected “too soon”, or “unfairly”. Besides, 30-yr is an arbitrary line. Look – there may be some “over 30-yr” Useful Life items in your Reserve Study. Per your second question, dollars are dollars. Owners pay the same whether those dollars go through the Operating budget to pay bills or through the Reserve budget to pay the same bill.

Q: We have two accounts. An operating expense & an Infrastructure account. We use the Infrastructure account to fund Reserve Study projects & pay for any other infrastructure projects. Is this okay?

A: Depends on what your Governing Documents say. Most associations are required to have an Operating Fund and a Reserve Fund. That Reserve Fund is to be used to pay for scheduled Reserve projects. Many Reserve assets, such as lobby carpet, are not “infrastructure” assets, so that is not a good title for a Reserve fund.

Q: Does the % funded mean the % of the total likely expenses we have set aside?

A: No. See [here](#). Percent Funded is a National Reserve Study Standard term that describes the ratio between actual cash to the *deteriorated portion* of all your Reserve projects (which changes each year as project gradually age or are repaired/replaced).

Q: What percentage of your effort for an initial Reserve Study goes into developing: a) the component list, b) developing component condition assessment, c) defining the recommended future costs for repair, replacement & maintenance, and finally d) doing the budget analysis and percent covered by year?

A: The Component List is only a significant effort for a “Full” Reserve Study. The ratio of time spent on other aspects depends on how long since the last update, the type of update currently in progress (With-Site-Visit or No-Site-Visit), and the complexity of your component mix.

Q: What were the four elements that qualify a component?

A: See [here](#).

Q: I am seeing both a reserve study and a revised reserve study that has comments referencing changes made at the direction of the Board. This makes me nervous. Should we be using the original reserve study for our budget purposes?

A: Changes made “at the direction of the board” makes me nervous! The Reserve Study results are to come from your independent, credentialed Reserve Study provider, not the board. The board members are not the experts. A document based on arbitrary changes requested by the board should not be given the same credibility as that recommended by your Reserve Study professional.

Q: Can items be added to the reserve study by Board request if they want them to be consider a reserve item?

A: Best to discuss with your Reserve Study provider.

Q: When do you decide if a special assessment is better than raising the assessments above neighboring associations and impacting the value of the home?

A: We recommend a special assessment only when there is insufficient time to gathering enough cash via the ongoing funding. Basically – we recommend a special assessment in order to avoid deferred maintenance. And I disagree with your premise – special assessments, monthly fees, and Reserve Fund strength are in the mind of prospective buyers. An association in poor financial condition will never sell at highest market value in its neighborhood. A prospective buyer should be cautious, and pay less than market value.

Q: Percent-Funded Question: What is the appropriate relevant timespan to compute the percent funded? Is it the 30-year expense and funding plan? Or is it longer to catch the longest asset remaining useful life?

A: Percent Funded is calculated based on the component list, compared to your Reserve balance as-of the first day of your Fiscal Year. Your Funding Plan will affect your Percent Funded in future years, but has no bearing on the calculation of your Percent Funded this year. See more [here](#).

Q: Can you comment on the relationship between the an association's Percent Funded and the Cash Flow Method addressing adequacy?

A: Percent Funded measures the size/strength of your Reserve Fund. The Cash Flow (pooled) Method and Component (straight line) Method are two ways to calculate Reserve Funding. So Percent Funded tells you “where you are”, and your funding strategy is “what you’re going to do about it”. Adequacy is measured by both the association’s starting Reserve Fund position and its multi-yr funding plan. See more [here](#).

Q: How are loans accounted for in the reserve study?

A: Most commonly, the loan proceeds are added to the Reserve balance, and the loan payments are a Reserve expense.

Q: Do you perform reserve studies and how would I proceed to connect with you?

A: Yes! Launch an online request for proposal [here](#).

Q: What do we look for when finding a reserve study specialist?

A: Look for someone with a national credential (a “Reserve Specialist” or a “Professional Reserve Analyst”), and look for someone whose firm has plenty of experience. The minimum experience level to maintain your credential is 10 Reserve Studies per year. So look for someone who performs tens or hundreds of Reserve Studies. Or, of course, simply get a proposal from our firm [here](#)!

Q: Since a reserve study is due every 5 years, once the 5 years come around how do you know if you need a new reserve study or a reserve study update?

A: First, Best Practice is to update your Reserve Study on the basis of a diligent visual site inspection every third year. That keeps your association from drifting too far off-track. Second, all other things equal, if the quantities are solid and reliable, there is no need for another “Full” Reserve Study. But if your prior Reserve Study was prepared by someone without a national credential in the Reserve Study field, you should seriously start over with a “Full” Reserve Study by a credentialed provider.

Q: How often should you update your study?

A: See above.

Q: How much does a special assessment reduce home value?

A: Depends on the buyer's tolerance for an association with a reputation for being underfunded (likely needing additional special assessments).

Q: Is there a mandatory percentage of things the board HAS to complete every year? The board has issues with following through with completing projects, or completing little to no projects yearly and the capital reserve funds continue to increase yearly.

A: To my knowledge, there is no measure of a board's actions (or inactions), thus no mandatory minimum. Sorry to hear projects are slipping through the cracks at your association, and the place is falling into disrepair.

Q: If the HOA is 99% funded does that mean we are overcharging the members?

A: No. It means your Reserve cash is very close to the Reserve needs of the associations. Reserve funding requirements are actually lower when the association is not in rapid "catch-up" mode (which we'll demonstrate in our upcoming "Breaking Down Reserve Funding" webinar).

Q: Our board would like to replace part of our wood fence - which is due for replacement - with a metal fence to improve security. I see this as an opportunity to lower maintenance costs, too. Can the Reserve Specialist figure out what the net impact is on our reserves???

A: Yes. Your Reserve Study professional can run two scenarios: continuing "as-is", and what the costs look like if a portion is replaced by a metal fence.

Q: Are HOA fees allowed to be transferred into the Reserve funds to help offset the fund?

A: That's the nature of how it is done. Incoming cash from member assessments are regularly transferred to Reserves - hopefully on a regular, budgeted schedule.

Q: We have a - Condo community where every owner pretty much did whatever they wanted, even changing tiles on their balcony. Also the windows - everyone has replaced their original windows (many without permits). How do we establish the remaining useful life of items unit owners have replaced themselves?

A: You've got a mess on your hands. It will take work on your part to gather the information from current (and former) owners. Then likely group those projects into recent, middle-aged, and many-years-ago categories for establishing when the association will replace them (windows) or resurface them (balconies).

Q: For more than a decade a company other than Association Reserves set our funding at less than half what Association Reserves did (this is our first year using Association Reserves to perform our reserve study). What does this tell you, and how would you advise proceeding and presenting this to the homeowners?

A: Talk to your Reserve Study Project Manager, who will likely know the answer to that question (the prior Reserve Study used unrealistic pricing, forgot two of the four elevators, etc.). As we commonly say, the costs are what they are. So you'll need to gather that information to help the owners understand why their Reserve funding needs to increase so significantly.

Q: In the year a project is scheduled to be done, it is not done. In that case, does that money stay assigned to that project for a future date? Or does it go into the general fund for the next years projects?

A: You're thinking with the archaic "Component" (straight line) funding Methodology. The key is that the funds are in Reserves. They will be used as necessary so your Reserve projects can be accomplished in a timely manner. With the "Component" Method, those funds will be re-distributed the next time the Reserve Study is updated. With the preferred "Cash Flow" (pooled) Method, the funds simply remain ready to be spent on whatever Reserve expense comes up next.

Q: Can the life of the asset be revised if that asset is experiencing better results?

A: Absolutely. That's one of the many reasons to update your Reserve Study.

Q: What would the cost of a structural engineer's study of a 170 condo association - 1, 2 and 3 story buildings and townhomes.

A: That's very difficult to estimate, and depends on so many factors including your state/region of the country, and construction style (balconies or not, etc.). It is best to contact a local provider.

Q: We are a 20-year-old community. Irrigation timers are replaced monthly as needed, and bushes and trees are having to be replaced. We have added categories for items that require replacement that have a determined lifetime. All items are added to the reserve. Is this a problem?

A: Sounds like you are headed in the right direction. When you can identify something as a Reserve project, incorporate it into your Reserve Study the next time it is updated.

Q: Are your cost projections, including inflation, local to the HOA community is in or is it a national standard?

A: Local. Our client is that local association, and our numbers are tuned to that association.

Q: How to balance between low % funded now, and too high in 5-10 years?

A: 0-30% Funded is a danger zone – you should get out of there relatively quickly (1-5 yrs). You have more time then to begin to strengthen your Reserves... deep into the “fair” zone (30-70%), with an eye on getting over the 70% level in 15+ yrs.

Q: What if our home values are much lower than the local market because our monthly assessments are higher than the local average in order to fund our Reserves?

A: I disagree with that premise. The costs are what they are. Either homeowners will pay via monthly assessments or special assessments. Be proactive and provide your Reserve Study to owners who are selling, so they can stress to their buyers that the chance of a special assessment is low in your community (as opposed to the association across the street).

Q: Is there any way to utilize a reserve study to offset raising insurance premiums, especially in Florida?

A: No. Insurance premiums fail the test to be a Reserve component. Besides, whether that bill is paid from Reserves or Operating, it's still the same bill. Rising insurance premiums are causing associations all across the country to raise their monthly assessments.

Q: May a Reserve Study include a Capital Improvement such as a Lobby Renovation that typically occurs every 10-15 years in Condominium Towers?

A: Let me answer your question carefully. Reserves are not to be used to add new things to the association (Capital Improvements) – they are to be used to repair or replace existing assets. That said, Lobby Renovation is an existing asset, a regularly scheduled common area necessity, Lobby Renovation regularly qualifies as a legitimate Reserve project.

Q: When the saving interest rate (like now) is very low, is it better to schedule the funding for costly projects closer to their replacement time, instead of in advance of the project?

A: That's not such a simple question. You may wish to have your Reserve Study professional run a scenario or two for you, to test the sensitivities of such decisions.

Q: Our Association has just presented a Proposed Reserve Plan that only addressed half the components as well as reduced the planning horizon to 10 years. They have not solicited professional support. How should an owner address this with the Board? Publicly? Privately? Legally?

A: Respectfully, in a Board meeting. Then submit your concerns in writing. This a common way for boards to “justify” lower Reserve funding. It is foolish. Run for a board position, and set aside funds for your inevitable special assessments.

Q: Do HOAs get penalized for not having a reserve study? Are there legal consequences if the Boards put off having a Reserve Study for the HOA?

A: In some states yes, there are civil penalties to the board or the association for not complying with Reserve Study, Reserve disclosure, or Reserve funding requirements. Check with your association's legal team to learn how to stay in compliance.

Q: Our association allocates between 16-18% of total annual budget for capital reserves. Given all the variables that need to be taken into account in a capital reserve study, why isn't the percentage method as effective as a study?

A: Because associations are all so different physically (they have different assets), they've been maintained to different levels (so things deteriorate differently), they have different starting balances (some are in catch-up mode, some are in coast mode), and they have different Operating Budget sizes (important in computing this ratio).

Q: We were surprised by the cost of replacing water pipes and drains. What else isn't included in the reserve study?

A: Reserve Studies are designed to identify major predictable projects in the association's future. If a project is not predictable, it may hit the association as a surprise. A Reserve Specialist is not a magician... we cannot see the future. Just the present! A Reserve Study minimizes the number and types of expenses facing association owners. We make no claim to see everything that is possible to occur!

Q: As part of a Reserve Study, do you analyze prior year expenditures to validate adherence to 4-part test?

A: No – we do not audit prior year expenditures. We ask for what projects have been accomplished, but do not cast judgments on the board for their prior-year decisions.

Q: How frequently should the cost of component list projects be re-evaluated?

A: Annually. Anything less frequent than that, and they are out of date.

Q: Could you give us again the five points on “how to measure success”? Lack of SA, projects done on time, 70% funding - and what are the other two?

A: Thanks for caring! #s 4 and 5 are: Reserves spent appropriately (not wasted on pet projects), and Operating Fund not borrowing from Reserves.

Q: What is the process for starting a special assessment? Where can guidance be found? We are having roofing project in process, but are facing huge insurance premiums!

A: That guidance should be found in your Governing Documents. Get clarification and assistance from your manager and association attorney.

Q: If it was found in the reserve study that we are overfunded for a future maintenance project. Can the board move that specific reserve fund into the operating fund?

A: If your association uses the archaic “Component” (straight line) Method of funding Reserves, your first option should be to re-allocate those funds to another more needy component, before transferring it out of Reserves. If you use the “Cash Flow” (pooled) Method, leave the cash in Reserves so it can strengthen the overall Reserve fund.

Q: Please explain the economic assumptions. Specifically, should the expected interest earnings be for 1 yr or average annual expected for 30 years?

A: Interest earnings are not that influential to a Reserves analysis, so we recommend they be fine-tuned to the association’s current “actual”. Inflation, however, has well documented multi-yr trends, so we recommend using a 20 or 30-yr average for inflation.

Q: Can anyone purchase the uPlanIt component separately?

A: Yes. See annual subscriptions are available on our website [here](#).

Q: Who’s recommendation is the reserve study? The board or the Reserve Study professional?

A: The Reserve Study professional documents its findings and recommendation and provides that to the board. The board then makes the decision about how the association will respond.

Q: How do you decide what items go on the reserve vs operating expense? Is there a balance minimum? What if you want to take something off the list (wood chip replenishment) and add something (granite replacement)?

A: There is a National Reserve Study Standard four-part test for what is funded through Reserves. See [here](#). We’ll discuss this in more detail in our upcoming “Breaking Down... Reserve Components” webinar.

Q: Often a “last purchased date” or “date installed” is not found in a Reserve Study. This prevents the analyst from incrementing the Remaining Useful Life automatically. Isn’t that a problem?

A: No. Components don’t always deteriorate in a linear manner. Those who rely on a simple “age” related calculation will invariably get the Remaining Useful Life wrong.

Q: Can the 2023 Reserve Study be re-run if the Starting Reserve Balance was overstated?

A: Absolutely. Contact your Reserve Study provider to run a revision.

Q: Funding % is calculated off the current year, correct? But if you have large expenses in 5 years, shouldn't you have a reserve funding % listed for each year over the 30 years so you can see how much your funding % is now and a few years from now? Is that listed somewhere?

A: Percent Funded is an annual calculation. It is primarily used in disclosing the current state of the Reserve Fund as-of the “start date” of the Reserve Study. It is often used (as it is in our reports) to help guide the multi-yr Funding Plan towards an appropriate goal (such as future Full Funding). In an Association Reserves report, that information is reported in the 30-yr summary table.

Q: Shouldn't the ending point be reflected in the reserve study? That's the projected starting point for the following year.

A: Yes. The ending point for the first year becomes the starting point for the subsequent year. Most providers show this in their 30-yr income/expense summary table.

Q: Don't water pipes and drains replacement meet those four tests?

A: Commonly, yes, when there is enough information to establish cost and timing.

Q: Can you address the massive increase that inflation has made on the components? Do you expect National Reserve Study numbers to take that inflation into account?

A: You stated it... it's been massive. National Reserve Study Standards guide all credentialed Reserve Study providers to properly incorporate that information into their multi-yr Funding Plans.

Q: We hope to have our common area fire mitigation funded from reserves. There was some hesitancy for this as a component. We believe grounds need to be mitigated and periodically re-mitigated since fire fuel keeps growing. Costs are very high to be included in our annual operating budget. What are your thoughts on this developing problem?

A: I've put brush clearance in some of my client's Reserve Studies as a component. It is common area, it needs to be done regularly, and it is usually a significant expense. So it commonly meets the test to be included as a Reserve component.

Q: Do you send reminders to current customers when it's time to get a recommended updated report done?

A: Yes - We send proposals, approximately six-eight months prior to their Fiscal Year End, reminding them that it is time to consider a Reserve Study Update project.

Q: What percentage of your clients follow your funding recommendation plan?

A: Recent Surveys indicate “Completely Follow” to be in the 15% range. “Mostly Follow” is in the 25-35% range.