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Breaking Down… Reserve Funding!

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Miss the webinar? Watch it here.

"So… what's it going to cost us to properly fund our Reserves?" This potentially scary question causes many associations to not even get a Reserve Study. But as we covered in our "Breaking Down Reserve Expenses" webinar, you don't have a choice about the deterioration. That is going to happen whether you embrace it or not. You do have a choice about the funding – whether you choose to prepare a little bit at a time each month, or if you choose to wait and experience deterioration (things not repaired or replaced) and special assessments. Again – with funding you have choices. That's what this webinar is all about – the choices you have in crafting a Funding Plan to meet the expenses at your association, maximizing owner enjoyment and property values.

Once those inevitable and largely predictable expenses are established, that's when you begin to see all the nuances. In the webinar we start with an outline of the "Tools and Rules" (pros and cons of Cash Flow Methodology vs Component Methodology), and the rules that guide and protect boards, owners, and Reserve Study providers found in National Reserve Study Standards. First spoiler (but not if you've already seen the webinar) – the Cash Flow Methodology is the best choice for associations and Reserve Study professionals.

Then we turn to goals. Because the projected costs in a Reserve Study are estimates, it is prudent to have some "margin" for projects that don't occur exactly on time, or on budget. But how much margin is wise, and what words are used to describe choices? We'll talk about things like Full Funding, Threshold Funding, and Baseline Funding, and show the statistical background that can help guide your choices. Another spoiler alert – most Reserve Study professionals recommend Full Funding because it keeps their clients away from the dreaded special assessments that label their recommendations as "insufficient".

The body of the webinar shows the influences of interest, inflation, and starting balance on the creation of funding plans. Then just to make things a bit crazier, I changed the expenses (bringing them forward) to show the additional challenges when an association is facing significant expenses in the near-term, with little Reserve cash to start with (an all-too-common problem). You may wish to watch this portion of the webinar multiple times, to absorb the lessons.

Summary

I felt the most important slide of the summary was the image shown below. Just like the make and model of an automobile defines its gas mileage, the nature of the association defines the expenses it will face (size, amenities, materials, etc.). The board's job is to provide funds to sustain the association and communicate the cost of running the association to the owners via the budget, so owners and prospective owners can make informed choices about the affordability of living at the association.

Ignoring inevitable & predictable expenses is foolishness. They will happen, generally on schedule, and they will be expensive. So embrace the need to prepare for these expenses, funding your Reserves responsibly.

Put an expert on your side with Association Reserves, giving you the information you need to make the wise decisions that guide you and your association toward an improved future! 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 FUNDING QUESTIONS

Q: How do we find out which states have "borrowing against reserve funds" rules?

A: Ask your association attorney to learn of your state's requirements, and any requirements noted in your Governing Documents. I personally have clients in CA and WA where there are state statutes requiring specific payback periods when Reserves are borrowed for non-Reserve use.

Q: When an amenity is shared between 2 HOA communities, with each HOA assigned "ownership percentages" based on the # of units in the HOA, the greater % is responsible for performing all maintenance. How can an HOA assess adequate reserve funding if the greater "owner" fails to complete a reserve study on the amenity?

A: Do your own Reserve Study. We have clients with 35% or 25% or 65% (or whatever) responsibility for various assets (it gets very complicated with mixed-use properties… like combination hotel/condo/retail buildings!). Every association is responsible to set aside funds for their own obligations. If the "master" association doesn't commission a Reserve Study (it is best and most cost-effective if the other associations get their own Reserve Studies done at the same time by the same company), the "other" association(s) should. It is not uncommon for us to find, for instance, that an association only has 33% financial responsibility of the tennis court on the border of an adjacent association. So we inspect and include that tennis court in your Reserve Study, and assign you 33% of the cost of resurfacing that tennis court. When the "master" association reacts in an emergency billing you for the resurfacing cost (because they never got a Reserve Study), you casually withdraw it from Reserves and say "no problem… here's our portion. We were ready!"

Q: Could you have a special assessment that included more than the immediate or emergency need? Could it cover regular, but unfunded expenses?

A: Yes. Special assessments are "strong medicine" for a financial problem. Generally they are only as big (bad?) as absolutely required… meaning they are usually not padded very much. Some margin for the upcoming roofing (or asphalt, or siding or elevator…) emergency is warranted. I know no overarching Reserve Study Standards restriction that a special assessment be matched to an immediate need. Check with your attorney to see if there are any restrictions in your Governing Documents. Note that a special assessment is rarely a good solution to a "we need to strengthen our Reserves in general" problem.

Q: **So our association can request the cash flow method and just have one bucket of money rather than show $ for each component? Because if each component has an amount and the cost of replacement/repair is greater it still has to be paid.**

A: Expenses are the same between two different funding calculation methodologies. They prepare the association for exactly the same expenditures. The only difference is in how efficiently (or inefficiently) homeowner funds are held while waiting for the project to happen. The Cash Flow Method tolerates poor timing and cost estimates better than the Component Method, because there is a larger pool to draw from. Of course, in either methodology if a project goes over budget, funding needs to be increased (there is no "magic" here!), but the consequences are less in the Cash Flow method.

Q: **What is a good ratio between Operating and Reserve accounts?**

A: Regarding <u>size of the accounts</u>, best practice is to keep 2 -3 months of Operating expenses on hand. The Reserve Fund will grow and shrink depending on the timing of your Reserve projects (rising as you prepare for a big project, dropping after a large Reserve project). That's why it's best to measure your Reserve Fund by Percent Funded, not cash. Regarding <u>ongoing funding</u>, a good starting point is 75% of your total budget going to Operating costs, and 25% going to Reserve funding. Because ach association is unique, see your Reserve Study to find what your funding needs are, and incorporate that into your overall budgeted owner assessments. But 75/25 is a pretty good starting point for fraction of budget.

Q: **When calculating for special assessment, do you include the funds that you are already currently putting into reserves? I ask this because we are only 13% funded and the treasurer has the mindset that ALL funds should be counted in one big pot. My current concern is that our last board and on-site manager did not keep up on all the maintenance and now we are playing catch up and there are major repairs, i.e., roofs, drainage, siding repair, chase and cap on the chimneys.**

A: Special Assessments are generally solutions to problems caused by lack of planning. The answer to your question is yes, all funds should be considered. Consult your Reserve Study professional, and figure out how much can come from your Reserve Fund and how much you'll need from a special assessment. And remember to update your Reserve Study afterwards after the dust settles!

Q: **Is it true that the association has to use the reserve money before they can do an assessment?**

A: No. See above. Based on how much cash you have on hand in Reserves, and your short-term and long-term Reserve needs, it is not that simple.

Q: **Does it make sense to withhold funding the reserve account until the end of the year and make a lump sum contribution as opposed to monthly contributions?**

A: That's generally not a good idea, as other "expenses" regularly appear that tend to siphon away funds that were earmarked for Reserves. Set the Reserves aside on an ongoing basis, matching everything deteriorating on an ongoing basis. Deposit the Reserve funds when you can!

Q: **How do you budget for a very expensive line item such as $99,000 solar panels with a useful life of 30 years? Would you factor in the full $99,000 replacement cost and divide it by 30 years in the Reserve account and add the annual maintenance cost in the Operating account?**

A: Generally, yes. Account for inflation, so something $99,000 now will be much more expensive in the future. That will drive the funding requirement higher. And I'd budget for ongoing maintenance through the Operating fund.

Q: **The component method is very straightforward - consider each item as distinct, determine the annual funding required, and add them all up. The pooled method seems to be a more "magical" way - continually adjusting the required amount until everything settles down. It seems to be a logical but iterative, refining process. Does this seem correct? Thanks.**

A: That is correct. Nothing "magical" about the Cash Flow method, one just has more flexibility due to dealing with the entire Reserve Fund as a whole. And you are right in that finding a funding solution is an "iterative" (try, and try again) process, not the result of a mathematical calculation.

Q: **We received a reserve study in 2021 and our Fully Funded Balance target was $514K. In 2023 it is now $1.2M. I understand that things got more expensive, but how can this double?**

A: Hard to say exactly why without looking at your Reserve Study, but a combination of projects drawing closer and projects getting more expensive and perhaps adding a few more projects... I can see it growing that much.

Q: **How might you determine the cash margin or percent-funded threshold?**

A: The best guidance is your special assessment risk tolerance. So if you can tolerate special assessments approximately 1/3 of the time your association is in the 0-30% Funded range, aim low. If you want to reduce your association's special assessment exposure to the 10% range, aim for 40-70% Funded. If you want to reduce your association's special assessment exposure down to the 1% range, aim for Fully Funded (70% & above).

Q: How do you calculate "Average Reserve (deficit) or Surplus per unit" on your report? Ours show ($43). What does that mean?

A: Suppose your Fully Funded Balance is $100,000, and your Reserve Fund has $60,000 (making your association 60% Funded). The difference is $40,000. If you have 20 units, that means the average Reserve deficit per unit is $2000. This represents the $ it would take, on a per-unit basis, to "cure" the deficit. It is an important number new buyers may wish to know.

Q: We had deposited surplus funds into the Reserve Account in the past, more than that required by the Reserve Study. We need those funds now. Can we withdraw the surplus funds to pay for operations?

A: No. Once they go into the Reserve Fund, those funds are bound by Reserve rules. As you saw in the webinar, the Funding Plan was based on those funds being there, and you disclosed to the homeowners that those funds were there for Reserve purposes.

Q: Can you tell us how the planning for associations with funding calculated by the Component Method would be different? Do you recommend moving to the Cash Flow method of calculation?

A: Absolutely move to Cash Flow. As explained in the webinar, the Cash Flow method is advantageous. Many FL associations (where the Component Method is the default by state statute unless you officially choose to move to the Cash Flow method, much to the relief of your Reserve Study provider) continue to be bogged down in the Component Method. The difference is explained in our Reserve Studies 103 webinar, which you can find and watch on YouTube or here.

Q: In your examples, is there a monthly reserve funding amount per unit as well as a special assessment?

A: Yes, I might have gone too quickly for you to see. Please re-watch the recording of the webinar. Ongoing, budgeted funding should always be the backbone of the association's income stream. Special assessments are just the "supplemental funds" (an additional, temporary "tax") the association collects when necessary. Special assessments should always be "in addition to" funds collected on an ongoing, budgeted basis.

Q: Is it true that ultimately it is a bucket of money in the reserve account?

A: The Cash Flow method considers Reserves as one big bucket of cash, the Component Method considers Reserves all split up into many smaller buckets. See our Reserve Studies 103 webinar on YouTube or here.

Q: Why is the "baseline funding" even presented as an option if it's so risky?

A: Because many associations have been using it for years without having a name for it, wondering why they continue to have special assessments. We teach about it, yet do not recommend it.

Q: Where in my reserve study do I find the number against which to determine the percent funded that our Replacement Reserve balance represents? And how do I keep it current, taking into account projects that have been completed?

A: Look for the "Fully Funded Balance". That' what your actual Reserves are compared to when computing your association's Reserve Fund strength (Percent Funded). Not all Reserve Study providers (unfortunately) show that figure. One keeps that number current by regularly updating your Reserve Study (which incorporates the changes in Useful Life, Remaining Useful Life, and Current Replacement Cost of all your Reserve components).

Q: Our first major expense, painting the entire complex of over 100 units, is over a decade away. Our Reserves are currently 27% Funded, but this is a large dollar amount, which may grow to over $1 million. As a result, the board (except me) and the Property Manager see no problem with our funding. Presenting the cash flow concept that goes out that many years seems a good start. Any other ideas?

A: Absolutely. Whether it is near of many years away, start your financial preparations now. Ten years gives you time to prepare for a huge expense. My son's wedding is later this year. My wife suggests we start taking dance lessons now, as "cramming at the last minute" is rarely an effective strategy.

Q: What does the reserve funding represent? Monthly contribution??

A: Generally yes. Everything deteriorates on a daily/weekly/monthly basis, so match that deterioration with Reserve funding. That way your association stays in financial balance.

Q: What do you do with funding if a component is still functioning well past its Remaining Useful Life? Stop? Keep funding?

A: Remember that just because something lasted longer than expected, it has not stopped deteriorating. Think of it as deteriorating over 12 years instead of just 10 years. Update your Reserve Study, which recomputes the Reserve funding needs of the association based on slightly more cash than expected in Reserves, and a longer life for the asset than expected.

Q: **I love seeing the cash flow method! I started assembling a 10-15 year look at this for our board last week. In addition, though, I'm adding what it would look like on three different inflation scenarios: your organization's 3%, what the latest inflation rate was reported as, and somewhere in-between. Thoughts?**

A: National Reserve Study Standards currently require a minimum projection of 20 years of income and inflation… that number will grow to 30 years later this year when updated Reserve Study Standards are published. With that far of a look forward, use a long term stable inflation rate (3%-ish), don't let it be too sensitive to current trends. See more here

Q: **Do the condo rules about 10% of budget apply for commercial condos?**

A: That's a good question! Check with your lender to be sure, but I Googled it, and found that they only purchase mortgages for associations where the square footage allocated to commercial purposes in an association is 35% or less than the total.

Q: **How do you calculate the initial Percent Funded?**

A: Per National Reserve Study Standards, it is Actual Reserve Balance (projected forward to the first day of the Fiscal Year) divided by the calculated Fully Funded Balance on that day. See more here.

Q: **Why is min funding % different for condos vs. e.g. HOA/PUDs?**

A: Lenders care less about the influence of the financial status of the association in HOA/PUD homes because the influence of the association is less. In my HOA, I own my own home, and paint it and repair it and replace the roof. In a condo, the board manages all the roofing, hallways, common area painting, asphalt parking, etc. So the "value" of the home is much more dependent on how well the association is run, and the unsettling special assessments that arise from a cash flow crisis in a condo are much larger than in a HOA/PUDs

Q: **Does the 10% of expenses rule assume that your reserve is already fully funded?**

A: No. That rule is insensitive to the association's current Reserve Fund status. The requirement is there to ensure the condo association is setting aside at least a minimum/reasonable amount towards Reserves on an ongoing basis, offsetting ongoing deterioration.

Q: **Please explain - 10% of what? Budget? Revenues? Operating?**

A: 10% of total budget… assessment income + all other incidental income. So if your annual assessment income is $950,000 and you get another $50k from laundry/rentals for an annual total of $1M, Fannie Mae, Freddie Mac, and the FHA want to see a minimum 10% of that ($100,000) being set aside towards Reserves.

Q: **You recommended the Cash Flow method over the Component method. But later you recommended Fully Funded method over Baseline Funding. But doesn't Fully Funded use the Component method?**

A: No. You're mixing apples and oranges. Calculating the "Fully Funded Balance" is independent of any Funding Plan calculations. Many (most?) Reserve Study providers use the Cash Flow Method to guide their association clients towards the goal of becoming Fully Funded.

Q: **In the $250,000 roof replacement example were you implying that the association would need to borrow a portion of the replacement cost if it was fully funded?**

A: No. That was a narrow example comparing an association needing $250k for a roof project. I showed the $ of homeowner cash collected over 15 years (about $232k), compared to a "last minute" special assessment of $250k, to the homeowner payback for a $250k loan ($about $320k). In real life, (hopefully!) at least some existing Reserves could be used, reducing the size of a last minute special assessment. But the lesson stands true… it is always less expensive for your homeowners to fund Reserves gradually over time, rather than paying off a loan.

Q: **How do you incorporate CD's and other money market accounts in your Reserve Funding Plan?**

A: Anticipate higher interest, reducing the $ you will need to collect from homeowners.

Q: **Is the "lump sum reserve funding" a way around the reserve funding restricted spending?**

A: Sorry, don't understand the question (funding, spending, restricted…). Email me directly if you need an answer.

General Reserve Questions

Q: **I have an association that is strongly resisting having a reserve study despite one being required by our state statutes. Do you have a recommendation how to convince them to get a reserve study? They do have significant reserve components.**

A: You can lead a horse to water, but you can't make it drink. This association is headed towards a special assessment, home values that are not maximized, and a lawsuit against the board. If you are an owner there, prepare yourself for a significant special assessment when the board finally "learns" of a big project that needs to be accomplished.

Q: **Our board doesn't see any incentive to improve funding, as they'd be voting increases on themselves, they fear owner backlash, and some are planning to move, figuring let somebody else pay! Are there any suggestions to getting this paradigm to shift?**

A: Maximized home values (from Reserve projects done on time that maximize “curb appeal”) are real, with the effect typically measured in thousands of dollars. Higher Reserve funding is typically measured in only hundreds of dollars per year. It is a good financial decision to fund Reserves on an ongoing basis. See more here.

Q: How much should an HOA pay for a reserve study for a 600 unit residential gated community?

A: Hard to tell, it depends on extent of amenities, age, location in the country, and Fiscal Year End. Click here to get a proposal and find out for sure.

Q: Do you ever meet with Boards to help them work through underfunded reserves?

A: Yes. Ongoing consultation is typically accomplished on an hourly basis ($200/hr).

Q: What is your interpretation of Maryland’s HB-107 funding requirements for established Condo Associations?

A: It is strong medicine, requiring Reserve funding according to Reserve Study results. Of course, you should always get a legal interpretation from an attorney, not a Reserve Study provider.

Q: If our association does a formal study with a firm such as yours, do we have to implement the study?

A: Only in MD (see above). In most states, the board gets to decide if they fund Reserves as recommended, or if they develop an alternate strategy of their own.

Q: What percentage of your client HOAs are fully funded (or at a level of 90% funded or above)?

A: Just under 30% (27.8% to be exact) of all our clients are in the “strong” range, with Reserves 70% Funded or more.

RESERVE COMPONENT QUESTIONS

Q: Our last reserve study underestimated the cost of deterioration by a lot (i.e. the roof was twice as much than in the report). What resources are available to estimate better?

A: Generally we find that when a cost if significantly underestimated, it is due to being a few years old (inflation is real). Look for an independent, credentialed Reserve Study professional, someone with a “Reserve Specialist” (RS) or “Professional Reserve Analyst” (PRA) behind their name. That arms your association with a dedicated Reserve Study professional, giving you the best chance of having “close” cost estimate.

Q: **Our reserve study analyst seems to not get true component costs correct…so when they come up as expenses, we are always underfunded.**

A: Consider changing to a different Reserve Study provider… as you would any time someone (or some company) repeatedly disappoints you.

Q: **We find the cost estimates do not reflect the current market costs. As such, the reserve study is inaccurate.**

A: Correct. As we covered in our recent "Breaking Down Reserve Expenses" webinar, those projected expenses (their timing and their estimated costs) form the foundation of the entire Reserve Study. They need to be as "solid, reliable, and complete" as possible.

Q: **My understanding is Reserve funds are for the replacement of assets. If an item requires maintenance as well, how is that maintenance incorporated into the Reserves? Is it an additional line item on the Reserves? Items include Fences and Roofs.**

A: Reserve funds provide for the care of the property. Sometimes that is a replacement, but Reserves can also be used for significant repair, overhaul, care, or analysis projects. There is no requirement that a Reserve component be a "replacement". For instance, you may have "Wood Fence – Replace" and a "Wood Fence – Repaint" components appearing in your Reserve Study. Reserve components are "projects", not individual assets or "replacements".

Q: **Can insurance deductibles be a legitimate Reserve expense. We're in a hurricane corridor and have a large deductible on our policy. And if not, is there another method short of a bank loan prearranged?**

A: No. There is a National Reserve Study Standards four-part test, and unscheduled events (insurance deductibles) do not pass the test. Insurance deductibles are funded via special assessments or other sources of cash.

Q: **How are the estimates calculated for each component? Are they evaluated every year with real estimates?**

A: Most Reserve Study providers base their cost estimates on actual costs experienced by similar associations. Those costs in your Reserve Study are refreshed every time your Reserve Study is updated.

Q: **This may be a little off-topic for this webinar (as opposed to earlier webinars), but do you recommend including insurance premiums in a reserve study or in the annual operating budget? Our HOA annual insurance premium is in the low six figures which are currently assessed separately from our monthly dues assessment. We have established a reserve for the high deductibles our policies impose.**

A: Insurance premiums are a schedule multiple times/yr operating cost. It is best to increase your budget to include insurance premiums in the Operating Budget, as they are a true cost of home owners. No ongoing expense should be handled with "special assessments", which is a tool used by the board/association to rapidly collect cash to handle an unbudgeted cash shortfalls. As mentioned above, Reserves are not for insurance deductibles.

Q: We have a dry pond in our community that is having Erosion problems. Would this be a component of the reserve study?

A: It could be. Contact your Reserve Study professional and talk through the National Reserve Study Standards "four part test" with them, and update your Reserve Study with that new project if it is found to be appropriate.

INFLATION QUESTIONS

Q: Re: inflation, the cost of our components due for maintenance this year rose 61% since last year. That would seem to suggest that using the CPI index against everything would not be practical.

A: You haven't provided enough information for me to answer completely. For Reserves, as a multi-decade planning tool, it is inappropriate to use a short term high (or low) inflation rate. I also don't know when or how the estimates for those "maintenance" projects were established. But clearly, inflation is real, and it is advisable to get a credentialed "RS" or "PRA" on your team to help guide your association's budgeting process (at least with respect to Reserves!) so you'll have enough funds to sustain the association.

Q: Our HOA board proposed paying recent skyrocketing monthly gas bills for pools with a special assessment. Our annual gas budget was exceeded in the first three months of this year. I thought that special assessments were for inadequate reserve items only.

A: A Special Assessments is the way the board levies a "supplemental tax" on the homeowners when existing funds are insufficient to sustain the association. Special Assessments are most commonly used for Reserve projects (how are we going to pay for that $100,000 roof?), because boards get plenty of practice budgeting for the ongoing daily/weekly/monthly expenses. But of course, many boards get too optimistic for one reason or another and they run the association out of cash. A better solution would be to increase ongoing budgeted assessments mid-year to make up for ongoing expenses that are greater than budgeted. My question to you... how could they be so wrong on this? Is there a huge gas leak somewhere, or are the pools being heated to a higher temperature (or for more hours) than previously?

Insurance/Banking/Accounting/Legal/Etc. Questions

Q: **If the board has liability, that would seem to motivate underfunded HOAs like mine to start acting more responsibly. Please explain a board's liability exposure.**

A: Whether by Governing Documents (the board must set assessments sufficient to pay for…) or state laws having to do with fiduciary responsibility (when one person is responsible to care for the assets of another person), the board is responsible to provide for the needs of the association. That is their job. Homeowners are entrusting the care of their homes to the board. If the board is acting in a financially reckless or imprudent manner, they can be sued by homeowners who can demonstrate the board failed to collect the funds to care for the (now deteriorated) property, for damages due to units that fail to sell, etc.

Q: **We are a 16 unit HOA built in the late 70s. If we opt for a loan in 2026 to do the roofs, are banks friendly towards HOAs? Also, we do not have solar panels on our roofs and that will likely be something we'll consider when we are ready to reshingle.**

A: Banks love HOAs, because loans are a nice profit center. It is better that you pass a multi-yr special assessment now to collect the funds, rather than waiting a few years and then paying 20% or more for your shingles because of the interest you'll be paying to the banker. Remember that banks are only friendly to associations that are financially strong enough to pay off the loan. Otherwise they'll either ignore your loan application, or force you to significantly increase your monthly assessments. So it's better to significantly increase your monthly assessments now, raise the cash yourself, and not pay thousands of dollars of interest to the bank for many years.

Q: **What are the typical terms for a loan to an HOA - rates, length of loan, etc? How are HOA's viewed by lenders from a risk basis?**

A: Typical terms are a few years (3-7), a few "points" (thousands of dollars) to pay for origination costs, and an anchoring rate plus a few points of interest. Banks have no collateral for the loan other than the mandatory income stream that flows from owners to the association (they can't really take the clubhouse or the elevator as collateral). So they look for that income stream to be healthy. So they regularly insist you increase homeowner budged assessments in order to qualify for the loan. But if you did that before you tried to qualify for the loan, you'd likely have enough Reserves to care for your property without needing a loan. Bottom line – raise your budgeted assessments to what they need to be to sustain the association – and you'll maximize property values and avoid burdening your owners with the high cost of loan repayment.

Q: Our commercial condo owners have been concerned about tax due on reserves. What is needed to avoid owing tax on our reserve balances?

A: Two things. Tax is not due on funds designated towards Reserves… they have special "carry over" powers and are not treated as "profit". Second, you can file the simpler Tax form 1120-H ("H" is for HOA), and that eliminates the question entirely. But ask your tax expert… I'm only a Reserve Study expert.

Q: What is the purpose of the Accounting & Tax Summary in our condo Assn report? Our Assn Board looks at that summary to see how we have funded each component. Is that proper?

A: Some CPAs like to gather that information in order to prepare your annual 1120 tax form. They do some additional calculations with those figures that may result in slightly lower tax than if you used the simpler 1120-H tax form. Remember that in a "cash flow" analysis, there is no true funding of "each separate component". So that table is only prepared as an approximation for tax purposes.

Q: I want our reserves to be earning interest, otherwise having big reserves is a losing proposition. Where do you suggest parking reserves?

A: In interest-bearing savings vehicles. Join us next month for a discussion with an association investment expert for some ideas and recommendations.

uPlanIt Questions

Q: If I use UPlanIt will my changes be visible to other board members?

A: Yes. It is an online tool and multiple users can log in and see all the adjustments you've made.

Q: Do you do a "threshold" or "margin" solver (something between baseline and full)?

A: No. We recommend running the Full Funding solver and the Baseline Funding solver to find those high and low solutions, and then test some in-between solutions to achieve your desired "Threshold Funding" objective.

Q: Also, for how long is it accurate to use uPlanIt -- can it be used to compensate for an out-of-date reserve study?

A: uPlanIt access if provided for one budget season (up through the end of your Fiscal Year End, and three months into the beginning of the next year). If you wish to use it for updating your Reserve Study after access has expired, you can gain a subscription for $399 for that budget season.

Q: If an association opts to use the uPlanIt, should it be in the hands of the board only? What is the board's liability, if any, in turning the tool over to a non-board member?

A: It is an online calculator. We recommend it be used by the board and committee members for their decision-making purposes (finding out what happens if they depart from Reserve Study recommendations). It is just a calculator. It's results have no bearing to anyone other than its users. A child could play with it and not affect the association's Reserve plans or decisions.

Q: Does ARI do webinars about using UPlanIt?

A: We have presented two in the past (see the latest here), and we have one scheduled for later this year. Make sure you are signed up for our email list (scroll to the bottom of any page at www.ReserveStudy.com) to learn when that program will be scheduled.

Q: Is the subscription for UPlanIT annual?

A: Yes. As it is meant for one budget season, it "times out" after three months into the following fiscal year.

Q: Is there a way in UPlanIt to have multiple interest rates for parts of the reserve balance?

A: No. We felt that was a level of complexity that would not be of value to the majority of users. Just use a "weighted average" and you'll be just fine.

FL Specific Questions

Q: Florida is requiring full funding by 2025 - what is the best way to get from minimal to full? An huge increase or a loan?

A: First off, FL is not requiring "Full Funding" by 2025. FL is only ending the ability of owners to veto the board's budgeted Reserve Funding. Thus there is no rush to rapidly jump from a low starting point to become "Fully Funded". Continue to watch closely, because as-of my writing this, some "fixit" bills are making their way forward through the FL legislature.

Q: Are different reserve study companies required to perform the inspection, i.e, structural engineers vs mechanical engineers vs architects vs Reserve Study professionals?

A: As written in the 2022 law, yes. In "fixit" bills currently moving forward in the FL legislature, credentialed Reserve Specialists (RS) and Professional Reserve Analysts (PRA) individuals will be listed among those qualified to perform the "Structural Integrity Reserve Study".

Q: If a condo association has three 3-story buildings and seven 2-story buildings: Does the SIRS, due by 12-31-24, need to analyze all 10 buildings or just the three 3-story buildings? Also, if the legislation continues to require straight-line funding of the SIRS Categories, does this need to be done for all 10 buildings or just the three that are above 2 stories?

A: While legislation (as of this writing) still says "building", we all know associations budget for the entire association. So expect the single taller building to be a trigger for a SIRS to be performed on the entire association, not just that one building.

Q: SB 4D implies that we will not be able to use pooled funds or the cash flow method? Is this your understanding?

A: That is incorrect. The Cash Flow Method is a legitimate (leading!) way to calculate the Reserve Funding needs of associations, even in FL, and even in the newly invented SIRS product.

Miscellaneous Questions

Q: Wouldn't the score you are talking about be provided when the Association conducts a Reserve Study?

A: The Percent Funded measure in a Reserve Study shows how well the association is prepared for its own Reserve needs. The new FiPhO™ Health Score measures an association's overall financial, physical, and operational health, a much move revealing figure.

Q: Our Manager or Pool Company forgot to turn off the gas, as requested, this winter. Who should pay the bill, the Manager, Pool Company or HOA?

A: Ahhh, the burden of leadership. "Trust but verify" is an old Russian proverb, brought to the forefront by Ronald Regan in nuclear disarmament discussions with the Soviet Union during the Cold War era. The HOA is responsible for the bill. Inquire of the Manager and Pool Company to see if they had fault in the matter, and ask them to participate in the cost.

Q: Recommendation for telling prospective new homeowners what condo costs budgeting means.

A: Create your own "welcome package" with the things prospective homeowners (rules) and new homeowners (budget, invitations to participate in social or leadership activities) should see.

Q: Ours is a 12 unit CO condo. We will need to replace the entire steam heat system with solar/heat pump. Grants will be critical. Are inside-the-condo costs homeowner costs or condo (reserves and shared) costs? If so, do individual homeowners apply for individual grants?

A: Sorry, you'll need to check with your association attorney on this matter, as the division of costs between homeowners and the association is likely covered in your Governing Documents.

Q: How are special assessments viewed from the perspective of the real estate industry - impact on sales, valuation of property, etc?

A: Special assessments are generally known by Real Estate agents who are familiar with your association. They know that special assessments are a sign of the association being financially unprepared for its own bills. Special assessments are indicators, like deferred maintenance, that a prospective buyer should not pay "full price". I certainly wouldn't, if another special assessment was likely!

Q: Can we get a copy of the National Reserve Standards?

A: Certainly. See here. Note that they are currently being updated, on schedule to be released/published at the upcoming CAI National Conference in Dallas May 17-20, 2023. So you may also wish to check back in a month.

Q: Our Board changes every year and sometimes multiple times. How do we make sure the budget gets used for what it needs?

A: Create a guiding notebook (full of policies), so the lessons learned from one board are passed to the next board. "Institutional knowledge" is a great thing. "Those that fail to learn from history are doomed to repeat it." Winston Churchill, 1948