ASSOCIATION RESERVES™
Planning For The Inevitable™

Dec 13, 2023

RESERVES IN REAL LIFE

by Robert M. Nordlund, PE, RS and Mark Bradley www.reservestudy.com

Miss the webinar? Watch the full (41:49) webinar here.

How does a change in inflation impact your Reserve funding requirements? Does a delay in a project or two actually provide any significant savings? What changes have the most influence? Why should we trust estimates 20 or more years into the future? And why am I being asked to fund future roof replacement that will occur after I'm no longer a member of the association? Reserve Studies can generate some complicated questions. But we believe our clients are best served by taking the complicated and making it simple. Brought to you by popular demand, watch over the shoulder of two experienced Reserve professionals, Mark Bradley and Robert Nordlund, as they tear apart two very real Reserve Studies: one for a 34-unit, five building townhome, and the other for a much more complicated 134-unit, 33 story high-rise.

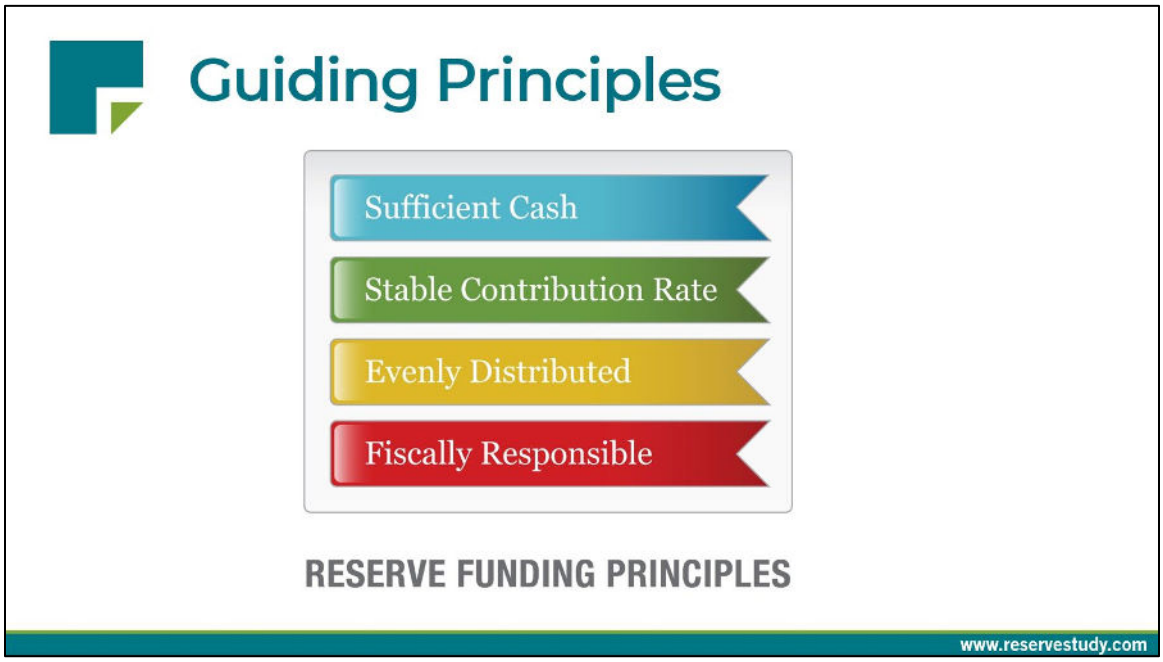
The "Guiding Principles" for this program, demonstrated during the webinar on our online Reserve calculator "uPlanIt", are as shown below:

First – Funding offsets ongoing deterioration, not future projects. This means owners are being asked to pay for the deterioration of the current roof, at its current cost. And because Reserve Studies are perishable and updated regularly, no estimate should ever be relied upon for more than three years. Constant updating means the costs and Funding Plan are always being refined so the association becomes financially prepared for those upcoming projects.

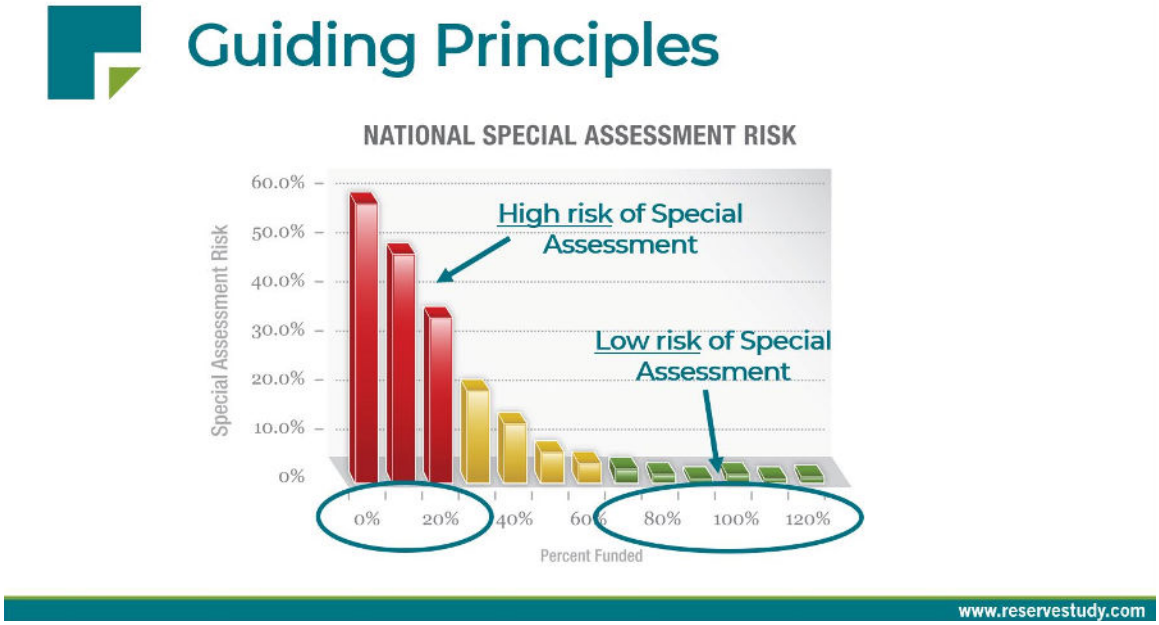
Then, it's important to make sure the Reserve Study is funding the right projects, which are those meeting the National Reserve Study Standard three-part test:

1. The association has the obligation to maintain or replace the existing element.
2. The need and schedule for this project can be reasonably anticipated.
3. The total cost for the project is material to the association, can be reasonably estimated, and includes all direct and related costs.

Next, any multi-year Funding Plan needs to balance four objectives.

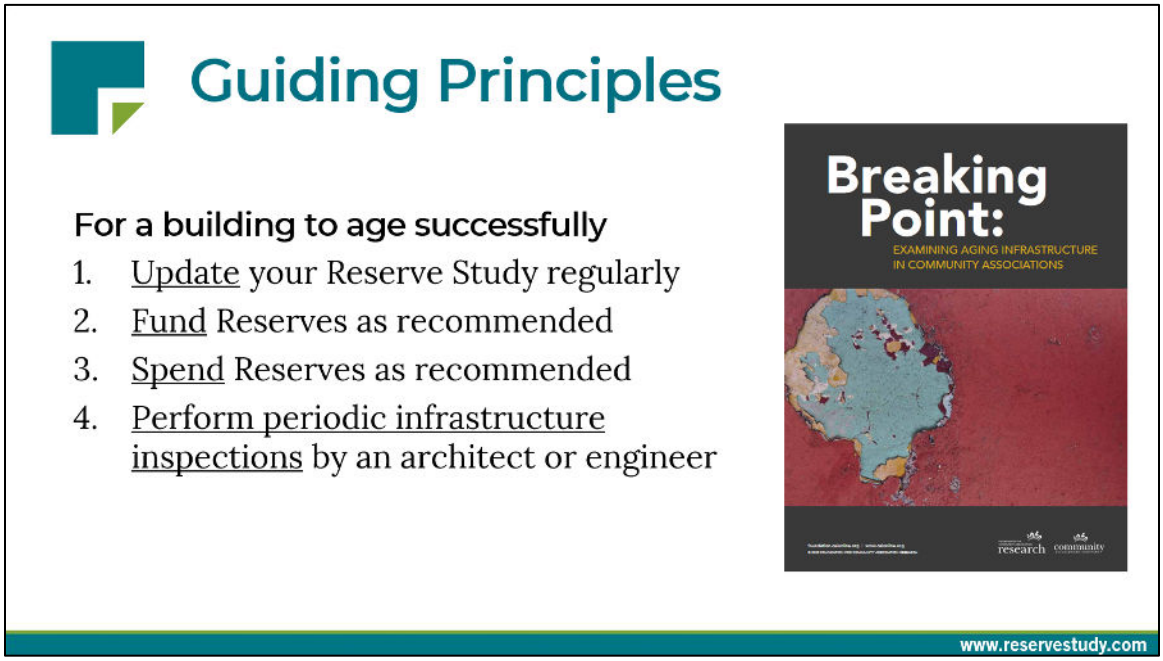


And with respect to the Funding Plan, the goal is significantly affected by an association's aversion to having inadequate funds to perform their predictable Reserve projects… or in other words, their aversion to special assessments. Usually, special assessments are predictable years in advance by looking at the association's Percent Funded.

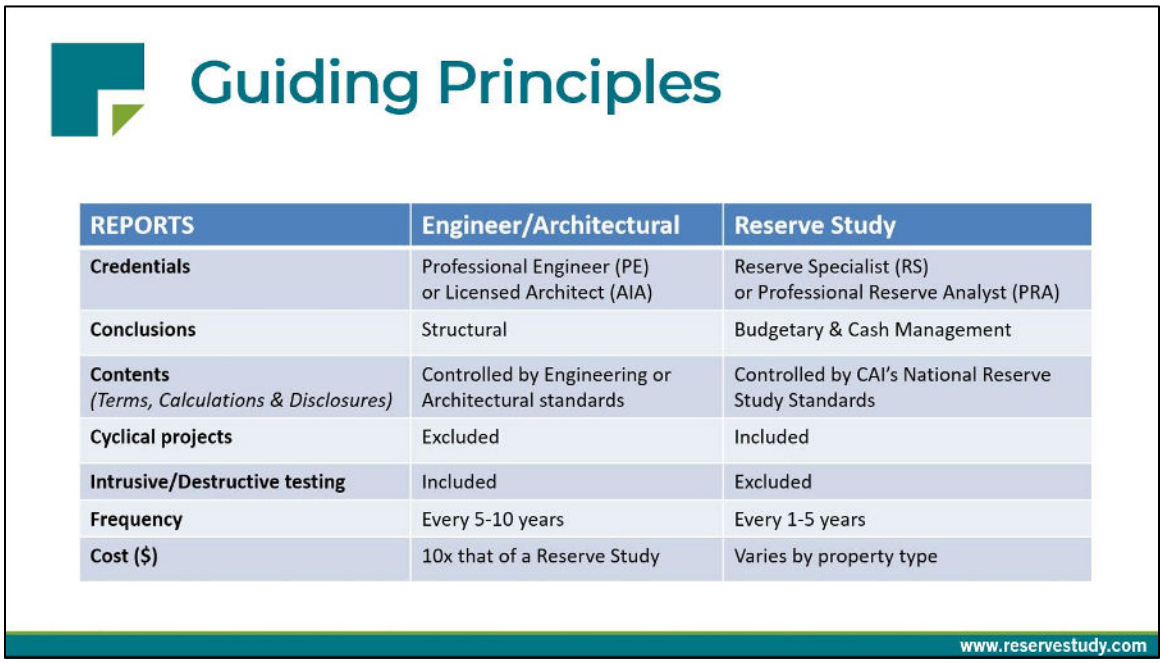


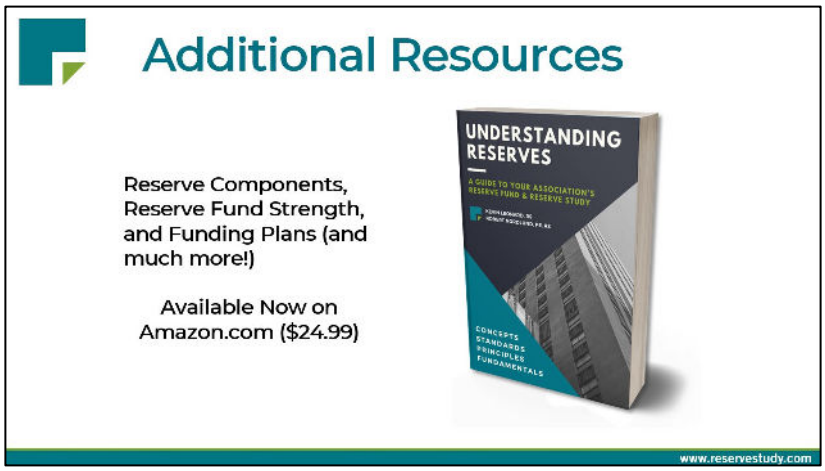
And for the two final guiding principles:

There are four keys to a building aging successfully (per the CAI Research Foundation's report, found here):



And finally… be careful. There are some key differences between an engineering or architectural report and a Reserve Study. Don't get them mixed up!





Want a handy resource? Enjoy our book "Understanding Reserves" and have ready-access to key Reserve Study and Reserve funding questions. Get the book online or download Chapter 1 for free here.

Looking for the 2023 updated National Reserve Study Standards? Find them here.

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

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ASSOCIATION RESERVES™

Planning For The Inevitable™

Over 5,000 Reserve Studies Nationwide

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

Webinar Questions Asked by Attendees

General Reserve Questions

Q: Reserves are for maintenance & repair of current elements, not for cosmetic or enhancement- correct?

A: Per National Reserve Study Standards, Reserves are not for capital improvements (adding new assets to the property), but they may be for "cosmetic" projects (lobby remodel, landscaping planting, new hallway lights, etc.).

Q: Is the various analysis (4 years of special assessments, 10% increases for 4 years, etc.) that you demonstrated in the webinar on how to creating a Funding Plan actually in a completed Reserve study, or do clients use uPlanIt to figure it out themselves?

A: A recommended Funding Plan prepared by your Project Manager that complies with the National Reserve Study Standards Four Funding Principles appears in your Reserve Study. That also appears in uPlanIt, where you can test adjustments from that recommended plan.

Q: How can a board hire someone to map out the Property's reserves and costs? We need help planning for the future. The board we have does not have the tools to do this, and our property manager is very detached. So although we get a reserve study annually, it's not being looked at as closely as it should be. Our HOA needs serious help.

A: Many Reserve Studies are unfortunately "cookie-cutter", and not customized to the needs of the association. In addition, many are written as technical documents, not board-decision guides. So, I understand your situation. Look for a Reserve Study created by a credentialed Reserve Specialist (RS) or Professional Reserve Analyst (PRA) and get a sample copy of one of their reports. See if it communicates clearly what the association is responsible for maintaining, their financial starting point, and the recommended path forward. That's what a Reserve Study boils down to. It doesn't need to be complicated.

Q: I am an HOA Advisor with 60 HOA's under my management. What would you recommend is the best way to push these board members to be proactive about Reserve planning? Many don't see the importance of Reserve planning and as a result end up being underfunded.

A: Two things: remind them that the cost of deterioration will occur whether they plan ahead and make Reserve transfers or not. Without planning, their property will deteriorate, and they will face special assessments. Then remind them of Champlain Towers South. Until the last few years, the boards there pretty much ignored the

reality of ongoing deterioration. And by the time they got their arms around the problem, it was too late.

Q: Money to pay for projects need to be transferred to reserves first right? Some homeowners want the association to pay for repairs, but we have not funded our Reserves for years.

A: You can't pay for things with money you don't have. Transferring Funds on an ongoing basis to Reserves to offset ongoing deterioration ensures the funds exist so those Reserve projects can be accomplished in a timely manner. If this is not done, homeowners will pay for those same projects in arrears, either through special assessments or loans.

Q: How can we find certified Reserve Specialists in our area who work with condo associations?

A: Do a Google search or search through your local CAI chapter for Reserve providers. Note that Association Reserves has clients in all 50 states, served by our network of regional offices. See more here.

Q: How do you respond if the board member disputes the costs that you've given them and they insist that you roll them back, in other words, showing costs as less than actual? Alternatively, if they ask you to phase them in over a number of years, e.g., a decade?

A: At Association Reserves we welcome client input, but the bottom line is that it is our logo on the cover of the report. If we can't substantiate the projected costs suggested by a client, we use ours. Same with project timing. Sometimes our clients come up with great ideas. Sometimes it is more described as "wishful thinking". Same answer… it is our logo on the cover, and we've been hired to give our advice. So we only show information we believe is accurate in the Reserve Study.

Q: Can interest earned on reserve funds be used for operations, or should it remain in the Reserve Fund for use on Reserve projects?

A: It is best to have Reserve interest remain in the Reserve Fund. This is because Reserve interest varies (sometimes significantly) from year to year based on the size of the Reserve balance, so it is not a reliable way to budget from year to year to pay steady, ongoing Operating Fund bills.

Reserve Component List Questions

Q: **In an HOA that has multiple buildings with multiple components—do your studies inspect each building individually to see which have roofs that need to be replaced before others because some were replaced in as 'as needed" time frame and are not all equally in good or bad shape? This example refers to all components, not just roofs.**

A: Yes. We evaluate the entire property, combining different projects, or separating (phasing) as appropriate.

Q: **Our HOA has determined to address weed (fire) abatement. This is a CA HOA and fire abatement has become a major issue. The Board determined to address the issue for our common area. The price tag is extensive and has to be addressed annually. Some Board members have suggested using the Reserve. The annual cost of this next year has been added to the Operating Budget. Is there any argument that can be made for using the Reserve?**

A: A new expense is a new expense, whether paid from Operating or Reserves. Your assessments will have to increase to offset this new expense. In this light, Operating or Reserves makes no difference… the homeowners pay. But I would suggest this project is a candidate for performing through Reserves, because as an annual project it fits better into the Reserve plan which handles expenses on an annual basis, rather than the Operating budget which addresses monthly expenses.

Q: **Please address repairing (within RUL) versus replacement on infrastructure items.**

A: In general, maintenance is cost-effective (money well spent), extending the Useful Life and Remaining Useful Life of a component, lowering its net life-cycle cost. But "band-aiding" a depleted component, limping it along beyond what is wise, is a foolish expenditure of money. Check with your Reserve Study provider for a perspective on the component(s) at your association.

Q: **How do you determine what are the costs 20 or 30 years out for various components? Do you have to go out and get multiple vendor estimates? Do you have resources to estimate the costs based on current standards or benchmarks?**

A: We don't estimate future costs. All Reserve Study providers identify current costs. While the software inflates the costs out into the future as we develop the Funding Plan, we expect regular refinement (updates) will keep the costs continually adjusted as the time to repair or replace draws closer.

Q: **How do you advise managing uncertainty? Our engineer gave us a very wide range over how much a major item might cost. (e.g.: anywhere from $5M - $15M)**

A: Usually, the right questions reveal a good answer. Keep investigating and enlist the assistance of your Reserve Study provider.

Q: If you move a component back a couple of years because the component is in good shape, do you change the cost of the component or leave it as the cost this year?

A: All costs displayed in the Component List are current costs. The software does its job of inflating the current cost appropriately out into the future based on its Remaining Useful Life.

Q: Can reserve funds be used to fund reserve studies?

A: They could (cash is cash), but usually Reserve Study fees fall below the cost level of significance to be funded through Reserves.

Q: What's the useful life of a building? Can we plan for a building to be 100 years old?

A: That's an economic decision, not primarily a functional or physical decision. You'll see that day coming when a developer contacts the board making a purchase offer. That day may vary from the facility being a few decades old, to a century as you suggest, or your facilities may be a continually renewable asset with proper ongoing care.

Reserve Funding Questions

Q: So is a Reserve Study just a depreciation analysis?

A: That's a reasonable comparison. The physical assets depreciate, and the board needs to fund the care of those assets to ensure sustainability. That's essentially a Reserve Study.

Q: Components with significantly long lifespans will cost substantially different over the course of 30 years. In the past 5 years the problem has grown. How do we plan for years of Reserve Funding when the future cost can be substantially different than the goal as initially written?

A: Every year, do your best planning. Regular Reserve Study updates (Best Practice is a With-Site-Visit at least every third year, with annual No-Site-Visit updates in the in-between years) ensures you are always adjusting your budget, updating prices and your rate of Reserve funding, pursuing a successful Funding Plan.

Q: It appears that the calculation of Percent Fully Funded is "Projected Starting Reserve Balance"/"Projected 'Fully Funded' Reserve Balance". Where does the numerator (Projected Starting Reserve Balance) come from? Are client reserve account balances verified?"

A: Projected Starting Reserve Balance comes from the client, who reports to us the latest Reserve Balance and their plans for changes (budgeted transfers in, and planned expenditures out). We do not "audit" that information. National Reserve Study Standards allow us to take the client's word for that figure.

Q: We had planned to replace flat roofs over three years. Last March when the cost per roof was presented to us via tenders from three companies, the cost per roof was way higher than budgeted. We are thinking of holding off for a year or two before continuing the replacement program to accumulate more reserve funds. At this time there are no known problems with our flat roofs. Is this reasonable thinking to postpone rather than have a special assessment or borrowing money? We are a 228 townhouse complex with about half flat roofs. The peak roof shingles have all been recently replaced.

A: It is best to discuss this with your Reserve Study provider. Remember that replacing a roof "early", before it leaks, is only a minor mistake. Replacing a roof "late", after it leaks, is a major and costly mistake.

Q: Assume you have streets with a 30 useful life and 5 years to go until replacement … and then asphalt costs rise greatly. Any options other than splitting the project or assessments?

A: Having a strong Reserve Fund allows an association to absorb cost overruns, doing projects "on time", without a special assessment. That is the best strategy. In your hypothetical, another strategy would be to consider a delay to that project (or another project), to give the association time to accumulate additional funds.

Q: Why did our 2023 reserve study call for a huge increase in reserve transfers in the following year, then 3% thereafter, when this is in no way a "stable contribution rate"?

A: National Reserve Study Standards dictate we create a plan that provides for the needs of the association. Sometimes that good plan reveals the association needs immediate corrective action. After that corrective action is taken (a "huge" increase) then a stable plan of nominal annual increases follows.

Q: So the "Significance" calc is the current cost of a given component expressed as a percentage of the total of component current costs?

A: Close. The "Significance" calc begins with finding the component's "cost per year" deterioration (current cost divided by its Useful Life), and its significance is that component's "cost per year" out of the total of all "cost per year" component calculations, expressed as a percentage.

Q: Without making owners go bankrupt, is there any formula to decide the payment schedule for special assessments?

A: No formula. Some associations simply set a deadline to pay, some offer a payment plan over x months, and many offer a slight discount if the owner can pay in full "early" or on an accelerated schedule. And of course, every owner pays their fair share based on the division of financial responsibility outlined in the Governing Documents.

Q: We noticed that you apparently put a 3% inflation number in our latest Reserve Study. Do we have control to change that if we disagree with your number?

A: While we believe 3% (or something close to that) is a good figure to use for a 30-yr planning horizon, you can change that in uPlanIt to the value of your choice.

uPlanIt Questions

Q: Can you explain more what the current Cost is on UplanIt?

A: Per National Reserve Study Standards, "…repair and replacement costs that appear in the component list should be for the current year and include all related expenses the association should expect to complete the project—materials, labor, shipping, engineering and design, permits, installation, disposal, etc. While expenses *may* be adjusted for inflation in the funding plan, only current costs should appear in the reserve component list."

Q: What does changing the reserve funding amount do?

A: Increasing the Reserve Funding rate increases the amount of cash flowing into Reserves, boosting its preparation for upcoming projects. Decreasing the Reserve Funding rate means less cash is flowing into Reserves, oftentimes making the Reserve Fund unprepared for upcoming scheduled projects.

Q: Where does uPlanIt show % Fully Funded?

A: On the Recommendations tab (in the gray box, as it is a calculation and not an editable field), and in many tables and charts.

Q: Is there a way to sort the component deterioration significance by the significance % (highest % to lowest %)? Is there a way to group the similar items together like roofs even though separate components?

A: At this time, no component sorting features are in place other than the default organization, which is that components are sorted by component #. Separate components can be "grouped" together by giving them component #s that keep them ordered together.

Q: For your clients that have a professional reserve study performed by you, do you provide a "fully populated" uPlanit database?

A: Yes. uPlanIt appears with the starting balance, the components, and the Funding Plan that appeared in the published Reserve Study.

Q: You also offer a DIY product that costs about the same as the uPlanIt product. Does the DIY also include access to uPlanIt?

A: No. Only our professionally prepared (Full, With-Site-Visit Update, and No-Site-Visit Update) reports include uPlanIt access.

FL Specific Questions

Q: What are implications of new 2023 Florida Structural Integrity Reserve Study (SIRS) requirements, specifically the implications of NOT being "Fully Funded"?

A: There is no requirement that FL associations be Fully Funded. Please see here. In general, associations with a weaker Reserve Fund require higher Reserve transfers in order to prepare financially for upcoming projects, so the farther your association is from being "Fully Funded", the more likely it will be that recommended Reserve transfers will be higher than associations with a strong Reserve fund.

Q: In Florida, is a SIRS needed for Townhomes or only for High Rise Buildings over 3 stories?

A: Condos of any physical style (apartment style, high-rise, townhome) three stories or higher trigger SIRS compliance requirements.

Q: Did you say Champlain Towers South was following all 4 of the recommended precepts of aging successfully (updating their Reserve Study, funding Reserves, spending Reserves, and getting a structural inspection report), yet they still collapsed?!?!?!

A: No. They only commissioned a Reserve Study and a structural inspection report in their last few years. The final board finally implemented a plan to fund the necessary and costly repairs that had accumulated, but as we all now know, that planning was too late. The building unfortunately ran out of time.

Miscellaneous Questions

Q: A Reserves law went into effect in our state (FL) in 1992. Why are we still using $10,000 life instead of $25,000 to $50,000?

A: That's a better question for your FL legislator. The better answer is why do you care? The $10,000 cost threshold to appear as a Reserve component is a minimum standard. The association can, and should, fund for projects even of lower costs that meet the National Reserve Study Standard three-part test. Your objective is to care for, and provide for the needs of the building, not just "follow the minimum standards of the law".

Q: How often do you recommend inspection by architect or engineer?

A: There is no consensus on that matter. The opinions range from every five to every ten years, and that depends on the type of construction and age of the building.

Q: What percent of your total reserve funds should you tie up in higher interest CDs. It's hard for our Board to decide how much to tie up.

A: That is a complex question. That question should be answered by a qualified investment counselor, only after reviewing your updated Reserve Study and your anticipated expenditures for the next few years.

Q: Why do you not adjust for the effect of taxation on the net interest rate? Interest income is subject to income tax. A 5% interest rate applied to the reserve fund looks nice, but the HOA is paying income tax (state & federal) on the interest income. So 5% interest becomes 3-4 % net interest earnings after tax. And many HOA's pay the tax on the interest income out of the reserve fund.

A: Different associations have different tax rates, depending on the IRS form that they file. And most associations accrue Reserve interest to Reserves while paying taxes from Operating... so the payment of taxes is a minor operational expense that does not diminish the Reserve Fund.

Q: If an HOA doesn't plan properly, like you have shown here, is the special assessment something the board can automatically impose, or does it require the vote of the membership if it exceeds the normal assessments limitations in the CC&Rs?

A: That depends on your Governing Documents and the laws of your state. Please seek legal advice on this matter.

GENERAL RESERVE STUDY QUESTIONS (ASKED IN PRIOR YEARS)

Q: What is the typical reserve study cycle?

A: "Full" first, then annual No-Site-Visit updates, with a With-Site-Visit update every third year.

Q: How do I read the study for understanding the % funding level that should be selected?

A: Typically, the Funding Goal will be established by your Reserves professional. Any credentialed professional will attempt to balance the four funding goals… providing adequate Reserve funds, keeping the budget stable from year to year, providing an equitable distribution of funding over the owners over the years, and something that is fiscally responsible. At Association Reserves we feel this means we are to guide our clients smoothly towards a Full Funding goal. The Funding Goal should be clearly stated in the Reserve Study, and you can typically see it in the 20-30-yr cash projections table.

Q: The actual reserve study can be considered as a document that guides us in collecting funds based on the study, but we do not need to follow it all the time by replacing everything on the schedule dictated in the report, do we?

A: The Reserve Study consists of findings (the condition of the components and the status of the Reserve Fund) and a recommendation (the Funding Plan). It is a budget guide (except, as I understand, in MD where the board must implement the Reserve Funding Plan outlined in the Reserve Study) and a guide as to which projects to perform and when. But as we mentioned in the webinar, check with your Reserve Study professional before delaying a project. In some cases that will be fine, in some cases that is ill-advised.

Q: If a reserve study says to repair the roof in 2022, then it needs to be done? Or is it only a recommendation?

A: See above. A Reserve Study is a recommendation. For an expensive project like a roof, it may be appropriate to get a specialist involved to further inform your decision to "do now" or "wait a year or two".

Q: How long does it take from getting bids for a reserve study to completion?

A: A bid can be as simple as overnight. Our "rush" turnaround is two weeks.

Q: Can membership waive doing reserve study?

A: Check with your Governing Docs and your State Law. Typically, business decisions are made by the Board of Directors.

Q: What is the approx. cost for a reserve study for a 48 unit, 2 floor bldg., NO common areas ie - pools, interior walls etc.?

A: A good starting point estimate is 1% of the association's total budget for a "Full" Reserve Study. Update With-Site-Visit and Update No-Site-Visit Reserve Studies are significantly less. Click here to obtain an actual proposal for your association.

Q: We are a small community of 14 units. How would your fees reflect that?

A: Every Reserve Study is based on the time it will take to complete the project. Size, complexity, time of year, distance from one of our offices, and age are all reflected in our proposal price.

RESERVE COMPONENT QUESTIONS:

Q: How would you handle a component that is hard to predict RUL but could be a major expense? An example is an elevator. It could last forever or break soon per our expert inspection.

A: Elevators don't last forever. Based on the type of equipment, one can see failure (where repairs become cost-ineffective) coming years in advance, so we recommend modernization before it breaks down. That way you can anticipate the project, assemble all the parts, notify residents, and get it done in the most efficient and cost-effective manner.

Q: A lot of items can be considered as regular maintenance and not part of the reserve study right? Like pool filter replacement?

A: Yes. If the project is below the "threshold of significance" at your association (typically .5-1% of your annual budget), that may more appropriately be handled through the ongoing Operational Maintenance budget.

Q: We had a one-time lobby refurbish for $100k a few years back. The person doing the reserve study included that for future reserves (with a 30-year life). Can we ask this lobby refurbish be excluded from the reserve listing?

A: You can ask for it, but I would recommend against that. A lobby refurbish fits the National Reserve Study Standards (NRSS) four-part test mentioned in the webinar and found here (common area maintenance responsibility, life-limited, with a predictable remaining useful life, and above a minimum threshold cost of significance). Schedule

it regularly (every 10-20 yrs) to keep your building from looking "tired" and outdated. That boosts property values far more than the cost of the lobby refurbish.

Q: What were the big 5 that drive the bus? Roofing, Painting, Asphalt, Siding, and Windows?

A: The State of Washington "big six" are found here and are painting, roofing, asphalt, siding, windows, and decks. Legislation in WA added plumbing (see here), so it is now a "big seven" in the State of Washington. Note the list is not complete. WA legislation appropriately states that the big seven, and any other major repair or replacement project over 1% of the association's annual budget should be funded through Reserves. https://wscai.org/reserve-study-components-washington/

Q: We have an annual contract for termite inspections, that includes any and all treatment; the cost is over $11,000. Can that be paid from reserves?

A: That could go either way, as it passes the NRSS four-part test. So, at your association it is your choice… Operating or Reserves.

Q: Is it typical that actual expenses to repair/replace items end up costing more than what is in the reserve study? That's what we're finding.

A: Inflation is real. If your Reserve Study is a few years old, expect the costs appearing in the Component List to be lower than current costs. But please look at your funding analysis, where most Reserve Study providers prepare the association for an inflated future cost. Look and see… a $100,000 roofing expense appearing in your Component List from 2019 will likely appear as an expense in 2022 of $110k or more.

Q: In your experience, what are key expense areas for Single homes HOA associations with no ownership of streets and sidewalks?

A: Recreational assets (tennis courts, pool, clubhouse…).

Q: We are finding our pipes (high rise) are failing after 12 years instead of 40. Can replacement meet the 4 part test or must it be an emergency or special assessment? They are failing very early, not according to plan!

A: Plans help you be prepared, but they don't ensure you will be prepared. Check with your Reserve Study provider. I would expect this to be a Reserve expense. Usually, major components give indications of upcoming failure, so remember to look for the warning signs your building is sending, don't just rely on everything going exactly according to plan.

Q: For associations that have deferred maintenance reserves, can upgrading or replacement to irrigation equipment be an item that reserves are used for?

A: Irrigation equipment commonly passes the four-part test for funding through Reserves. Upgrade as appropriate when it is time for replacement. I don't know enough about your situation to comment on what "deferred maintenance reserves" may mean at your association.

Q: Please comment on skylights - aren't they homeowners responsibility unless legal docs specifically say HOA takes care of? (or is that just CA?) Do they have an estimated useful life?

A: Check your Governing Documents and get a credible legal opinion. Skylights typically have a predictable Useful Life and Remaining Useful Life (getting dry, discoloring, cracking of finish, installation sealant/caulking beginning to show signs of age, etc.).

Q: What is the process if our pool cracks and fails and replacement is not in the study?

A: You are responsible to maintain your common areas. So fix the problem. Check with your Reserve Study provider if it is appropriate to use any Reserves for this project.

Q: If an association learns of a future project that is not in the Reserve Study, can it be added so that the funding begins not accumulate for that project?

A: If it passes the NRSS four-part test, yes.

Q: Why wasn't our security system modernization in our Reserve Study? What if the cost exceeds the minimum dollar amt used in study?

A: Please speak with your Reserve Study provider. Typically access control systems meet the NRSS four part test and are included in your Reserve Study.

Q: Can you provide your clients with an example of a Reserve Usage Policy? Specifically, what should be paid for from Reserves and what should not be paid for from reserves.

A: We don't have a sample "Reserve Usage Policy". We cover that in our recent webinar "Reserve Study Road Map" (find that webinar here), where we go through the principles of what to fund (or not) using Reserves. And it of course all starts with the NRSS four-part test.

Q: Should termite, dry rot and fungus treatment be a reserve item?

A: Termite treatment and repairs commonly meet the NRSS four-part test, allowing them to be funded through Reserves.

Q: Can you fund tree maintenance (trim and/or replace) as a reserve item?

A: Yes, major tree trimming, if not included as part of your ongoing Landscape Maintenance budget, commonly meets the NRSS four-part test.

Q: In determining whether to include a component, is there a cutoff (in terms of its cost) where you decide not to include it? (For instance, is it calculated based on its percent of the overall funding plan?)

A: Yes. Commonly the threshold cost between Operating and Reserves is in the range of .5% to 1% of the association's annual budget. Your Reserve Study professional will guide you through this decision point.

Q: How do you deal with assets that can't be inspected? For example, we are responsible for the water infrastructure beyond the main water meter. Some on our board want a 100-yr lifetime which seems too long.

A: Retain a plumbing expert to provide you with whatever insights are available. This is typically what a Reserve Study professional will do.

RESERVE FUNDING QUESTIONS:

Q: How do you handle an under-funded reserve when major expenses come in? Special Assessment?

A: It depends on the timing, but our tools are generally increased Reserve funding (when there is time on the association's side), or if not, either special assessment or loan or combination of those two.

Q: Our reserves say our pool is to be replastered every 12 years and has 0 remaining life. It has never been replastered in 40 years. Shouldn't that be reflected somehow? Why would we continue to contribute when we already had collected enough money? What happens to all that excess funding?

A: One answer at a time. Pool surfaces don't last as long as they once did (material composition has changed). A good Useful Life expectation at this time is 12 yrs. If it needs to be resurfaced now, a good expectation is that it will need to be resurfaced again in about 12 yrs (not 40). And any funds collected "after" a component has hit 0 yrs Remaining Useful Life are redistributed to other components, strengthening the Reserve Fund for those components that need to be accomplished "early".

Q: Why is the risk of special assessment higher at 100% versus 90% or 110% (in the graphic that you showed)?

A: The data in that area is essentially "background" data. The risk of special assessment fluctuates between .5% and 1.5% due to the randomness of the circumstances facing clients in those categories, but that the bottom line is that the risk of special assessment in that range is immaterial.

Q: Is the recommended funding by month or year?

A: Recommended funding is identical to your association's normal budget cycle (annual, quarterly, or monthly).

Q: For Funding Plans calculated with the Cash Flow (pooled) methodology, do you recommend that an HOA strive to be 100% funded? Or is it sufficient to be at an agreed-upon level, say 30% or 50%?

A: We recommend the Funding Goal be 100% (Fully Funded). The evidence (see image above) shows that the benefits of being "well funded" begin at about the 70% level, but since this is the business of estimating future events over which we have no control, we like to direct our clients towards the bull-eye, not the edge of the "safe" range.

Q: Our reserve study doesn't include the calculation of Percent Funded. Is that something we should be asking for?

A: Absolutely.

Q: The Funding Plan you showed had increases of 3% for 25 yrs and 2.5% for later years - what does this mean and why is this done? This is on the high rise Case #2.

A: Good eyes! That is done to "finesse" the Funding Plan's approach to the 100% level. We manipulate the rate of annual increases to approach the desired Funding Goal in a smooth and stable manner.

Q: If your RUL is 0 but is still in good shape, do you change the UL?

A: Check with your Reserve Study professional. Some projects are best done when scheduled, before "failure". If a delay is warranted, in most cases extend the RUL. In some cases, it may be appropriate to extend the UL also (if it appears in the future it will also last longer than initially expected).

Q: Do you set a "minimum balance" or "threshold" in $ below which the funding plan is not allowed to go?

A: There is no National Reserve Study Standards on this. The recommendation is to retain a Reserve balance at least 10% of the prior year's expenses (to give some margin for expenses going over budget). Other benchmarks are your Reserve cash balance and Percent Funded. Discuss with your Reserve Study professional.

Q: Is the goal to get to be 100% funded or is it OK to be lower and what would be the lowest funding % that would be acceptable?

A: We are bound to guide your association towards a future where Funding Principle #1 (sufficient Reserves) is met. We believe, based on the statistics, that the lower you are below the "strong" range, the more you strategically invite cash flow problems. Bottom line… it's your association, your choice. We just make good recommendations.

Q: Can we request approximations for the items that do not get put into the reserve calculations (grayed out items) to build into our reserve/capital plans? Are we allowed to request "alternate" funding plans to present to our boards along with the summaries we are provided?

A: Reserve professionals are your experienced guides. Please feel free to discuss strategies with them for funding projects that are currently not designated for Reserve funding. uPlanIt is the Association Reserves tool provided so clients can test their "alternate" ideas to their heart's content.

Q: Are there state requirements for our reserve % maintained? Does it vary by state?

A: Generally speaking, no. A new law in MD (spurred by the Surfside tragedy) requires the association to fund per the Reserve Study. But there are no specific benchmark "Percent Funded" landmark points in various states.

Q: Does Indiana have any requirements for reserve funding?

A: Check with your local credible community association-industry attorney. A brief summary of state-by-state Reserves legislation, compiled by CAI, can be found here.

Q: In year 1, if a $5000 component has a useful life of 5 yrs, how should a planning tool that calculates % funded YR by YR, assume YR 6 will look like for that component (for deterioration value) $1000 or $6000?

A: A good explanation is found here, where each year into the future the cost is inflated and the fraction of life deteriorated is updated.

Q: I notice proposed funding gets to 100% at 30 years. Is that the normal objective?

A: There is no rush to be 100% Funded. It is a virtuous goal. We feel it responsible to guide our clients there smoothly. For some, that is a shorter path than others. There is nothing magic that happens when an association is 100% Funded, and there is nothing magic about the 30-yr window.

Q: What is required by the Florida statute in terms of a Reserve balance Percent Funded target?

A: Nothing.

Q: When a far-in-the-future component comes within 30 yrs, is that when it starts being funded? And does Reserve funding interest rate and inflation rates automatically get updated or is it the purview of the Board to request more realistic rates?

A: There is no magic to the 30-yr point. Our software does not distinguish between "under 30 yrs" or "over 30 yrs". If the project meets the NRSS four-part test, it is funded. And it is your Reserve Study professional's job to update interest and inflation assumptions with every Reserve Study update. If the board wishes to see the effects of interest and inflation assumptions other than what is recommended in their Reserve Study, they can use a Reserve calculator tool like the Association Reserves "uPlanIt" tool demonstrated in the webinar.

Q: If one expects a major painting expense of $50,000 in 2 years would it be prudent to raise the funds in the 2 years as a 24 month special assessment? Currently reserves are 35% and not even close to covering the painting.

A: The details of your Reserve funding requirements should be something you should discuss and have worked out by your Reserve Study professional.

Q: Are there state laws that dictate whether the Board funds Reserves over time with monthly contributions vs special assessments?

A: No. In general, the board is responsible for caring for the assets of the association and setting a budget to accomplish that objective. While most Governing Documents (and some state laws) require the board to provide "adequate" Reserves, there is essentially no enforcement mechanism (which explains why special assessments are so common).

Q: What if an HOA funds its reserves based on a % of the next 3 years of expenditures vs. the "deteriorated useful life" method you are using?

A: A planning horizon for only the next three years of expenses is too short. It will subject your association's members to significant assessment swings as large projects (that are best funded over 20 yrs or more) enter or leave that short three-yr window.

Q: We have a very healthy reserve fund. Our Reserves are just over 100% with $5 million in reserve funds. We don't defer any maintenance or replacements. Do you have any words of caution for someone who is proposing to lower dues for a limited number of years to allow our funding to float down to 75%-89%?

A: Don't mess with a good thing. Keeping your Reserve Fund stable is a good thing. If you reduce Reserve funding to lower Reserve Fund strength, that is a one-time benefit to those owners who enjoy lower assessments for the few years that the Reserves are allowed to fall in strength. Then you're back to higher Reserve funding, as you're back to "keeping up with" ongoing deterioration. I'm sure your attorney will advise you that Board members are not to favor any particular membership group, such as near term owners vs owners farther in the future.

Q: You extended RUL for the sample elevator from 17 to 19 years. Why did you not increase the EUL from 25 to 27 years? This has a profound effect on Funded Balance and Funded %.

A: Because we expect elevator modernization to occur about every 25 yrs. UL and RUL are not always linked. It is very possible that next time around there might be usage patterns that require the elevator to be modernized a couple years early, meaning adjusting the RUL down to from 10 to 8 (or 3 to 1) the equipment begins to show its age.

INFLATION/INVESTING QUESTIONS:

Q: What rate of inflation are you using now?

A: We still believe the best indicator of future events is the past. We are finding we are increasing current costs significantly from prior Reserve Studies, but we have no expectation for this higher rate of inflation to last for decades. So, our typical inflation rate is still 3%

Q: What inflation rate is recommended to use when creating the reserve study?

A: We recommend 3% for long term planning.

Q: How did you come up with the 3% assumption?

A: Backward looking trends.

Q: We just received our Reserve Study and it says that we aren't allowed to use "Inflation". Is that accurate?

A: In FL, Funding Plans are required to be "flat", meaning the same amount year after year. But of course, inflation is real, and it affects current and future cost estimates.

Q: Does the reserve planning assume constant reserve contributions every year, or are they increased with the assumed inflation rate?

A: As we demonstrated in the webinar, to achieve Funding Principle #3 (equitable distribution over time), that is best achieved with nominal "inflation offsetting" increases to your annual Reserve Funding requirements.

Q: Do you have a view on community reserve investment strategies? Are you generally seeing a conservative approach (e.g. FIDC insured deposits) despite current inflation levels?

A: The best course of action is safe investments where principal is not at risk. We'll address this issue in a future webinar with an investment specialist.

Q: What resource should we use to update inflation each year? Annual CPI or something else?

A: Check with your Reserve Study professional, as there are a number of different indexes. See more here.

Q: For components that are due in near term projects such as in 2023, would you increase the inflation for those components or keep it at 3% inflation?

A: We are setting "current costs" higher than normal for projects with a Remaining Useful Life under 3 yrs but keeping long term inflation at 3%.

Q: If our reserve study is using a 3% rate and it's higher now (as we all know), is it okay to wait a year and see if it comes down from this high of 8% and then adjust to the new rate next year?

A: Nope. Set your current costs to where they are, expect to update your Reserve Study regularly (annually) with appropriately adjusted current costs, and keep your long-term expectation that in our great country inflation will soon settle back into the 3% range.

Q: Who makes the final decision on the inflation rate appearing in the Reserve Study? Experience indicates that reserve studies sometimes contain a rate that conflicts with past history and may be too aggressive or too conservative.

A: The Reserve Study professional. As demonstrated in the webinar, our uPlanIt online Reserve calculator allows the board to test any inflation scenario and see the effects of that change.

uPlanIt Questions:

Q: Would you please share the link to this simulation?

A: The link to the recording of the webinar can be found here. Access to uPlanIt (automatically populated with your Reserve Study data as a starting point) is free to Association Reserves Full, With-Site-Visit, and No-Site-Visit clients for the budget season for which the Reserve Study was prepared. Other associations can gain access for a budget season for $149. See more here.

Q: Our association is planning an on-site Reserve Study update with Association Reserves. Will this planning tool just demo'd be available to the Board?

A: Yes.

Q: Can you reorder that Significance screen to see the most important at the top?

A: Interesting idea, but we felt it less confusing to leave the table in component order, because that's how components are ordered in all other tables.

Q: Is there a tutorial to go thru how to use uPlanIt? We just had our reserve study done by you and I believe it includes uPlanIt populated with our data?

A: Every screen within uPlanIt has its own short tutorial video.

Q: Why do some items have Yes in the second column and others have No. What does that mean?

A: That is the Yes/No answer to the question if they appropriate for funding through Reserves. Many components that fail the NRSS four-part test appear for informational purposes (grayed out, with a "No" in that column), to show that they weren't "missed".

Q: **Where does the number of units show in the tool?**

A: The number of units displays in the "Recommendations" tab, reflecting the information in the association's account.

Q: **You did a reserve study for us in 2014. Do we have access to uPlanIt or do we need to have an updated study?**

A: You need to have us update your Reserve Study (and access to uPlanIt is free for a budget season), or you can get a one budget-season subscription for $149.

Q: **How do we track expenditures, and contributions each year, including those that have not been expensed but carry forward. Sample spreadsheet or template available?**

A: Keep a log or record in your association's file or historical notebook.

Q: **Does the tool allow analysis of extending the remaining useful life of major components based on inspection?**

A: Absolutely. Changing (extending or shortening) a Remaining Useful Life is easily accomplished.

Q: **Please post a link to purchase a subscription to uPlanIt.**

A: Thank you for your interest. See here.

ENGINEERING REPORT QUESTIONS:

Q: **About the Structural engineering report - doesn't our insurance company ask for those - or are we as a board responsible for calling someone in to get that done?**

A: Generally, it is a board choice, part of the board's responsibility to know the condition of the property and care for the property.

Q: **How are you going to treat the new Florida reserve study requirements? How treat "structural engineering study?**

A: We are working to get some troublesome clauses "cleaned up", and we are working to partner with some engineering or architectural firms in order to create this new work-product. See more here.

Q: How is the new legislation regarding SIRS going to change your services, if that study has to be done by an engineer?

A: Normal Reserve Studies, prepared according to National Reserve Study Standards, will still be available. As stated above, we are working (alongside all other Reserve Study providers in FL) to develop a relationship with an engineering or architectural firm that can perform the "structural" inspection portion of this new SIRS (required every tenth year).

Q: Will funding requirements as demanded by engineers in Phase II inspections be a separate Reserve Fund or will it be part of this base reserve?

A: Corrective repairs should appear in the Reserve Study for budget and cash flow management, and we expect that to be the same Reserve fund as all other projects.

Q: Can that engineering inspection be paid for our of Reserves?

A: Yes. It will likely appear as a budgeted anticipated major expense in the Reserve Study.

Q: How do you distinguish when an engineering study is preferred over a reserve study?

A: As shown in the Outline (above) and in the webinar, best practice is to have a with-site-visit Reserve Study Update every third year. Structural inspections don't yet have an official best practice, but it will likely settle in the ten year range. California has a wood balcony/stairwell inspection requirement every ninth year, and Florida has this new Milestone inspection every tenth year.

Q: How do we know what type of engineer we need and is there a list?

A: Since the CA law has been in place for a number of years, local CAI chapters or attorneys may maintain a list. A list in FL has yet to be created, as this Milestone Inspection is a new product.

Q: How is the reserve study going to change because of the tragedy at Champlain Towers in Surfside? I think its Florida statute 718.112(2)(f)

A: Lack of proper and timely maintenance is a problem anytime, anywhere. Best practice, outlined in the webinar, and published in the CAI Research Foundation's report on Aging Infrastructures (see here) is to regularly update your Reserve Study, fund Reserves as recommended, spend Reserves as recommended, and perform a periodic infrastructure inspection. What needs to change is associations failing to do any or all of the above. Boards should not wait for these four steps to be mandated by their local state law.

Q: Are engineers or architects performing reserve studies?

A: Generally, no. That is a different field, with a different skill set, answering to different standards. I (Robert) happen to be a CA licensed Mechanical PE, but my focus is on budgeting, not structural concerns. Association Reserves is not in the structural evaluation business.

MISCELLANEOUS QUESTIONS:

Q: Can you explain "the high cost of deferred maintenance"?

A: Here are some informative articles… one, two, and three. The bottom line is a statement in one of the articles stating "Every $1 deferred in maintenance costs $4 of capital renewal needs in the future" and "Less preventive maintenance on systems shortens their life cycle by as much as one-third."

Q: My board seems to be more concerned about increasing the amount of their reserves instead of addressing the issues that are present. How do I help them to understand that it is more cost effective to handle the repairs sooner rather than later?

A: See above. Catch and fix a problem while it is small.

Q: Do you consider a separate property insurance reserve? If so, how? If not, why not?

A: No. It fails the NRSS four-part test. Insurance should be an ongoing operational expense.

Q: Can you discuss the pros and cons of setting up a reserve for insurance deductibles?

A: The "con" is that it fails the NRSS four-part test in not being predictable. Associations may choose to set aside some extra margin in their Operational budget for unpredictable events, but those are generally considered the realm of special assessments.

Q: Any updates to SB 721 regarding deck and balcony inspections and repairs?

A: That CA Senate Bill, now codified into California Law as Civil Code 5551, appears stable at this time (an "every nine years" inspection). There is some talk about merging it with a relatively similar apartment inspection law, but we will have to wait and see.

Q: This question may be a little off track from this webinar (apologies!) but are you folks including drought /recovery financial needs given the severity of the current drought and the Executive Order (no watering of Common Areas) currently getting underway?

A: Water for landscaping is an Operational expense, so that is a budget savings outside our area of expertise. We expect that some associations may be accelerating their upcoming (Reserve) landscape renovation projects so that their landscaping has lower watering requirements, replacing water-intensive turf and plant areas.

Q: How can you get the new HOA board to implement the results of the reserve study?

A: You can lead a horse to water but you can't make it drink. See this new service that scores associations. Caring for the property improves the association's overall score, and it's standing in the local Real Estate market. It becomes cost-effective to take good care of the property.

Q: As for convincing our owners that aren't on the board that a special assessment is needed, isn't it easier to tie it to a certain project - like roof repair - than saying we need it just to make the financial models look better?

A: Correct. We had one client pile the debris from a failed balcony right by the guard house… so every homeowner saw it every day. That got the message across that it wasn't just one poor owner's balcony… everyone's balcony in the association was at risk. That easily got the special assessment votes needed for balcony repairs. "Strengthening Reserves" is vague, and generally not a good reason for a special assessment.

Q: In our association, it feels like long-time owners want what they want now, and to get "their money back" before they leave this earth. This leads to pet projects getting done that are not in the study or pressed out to a distant future. This means we are underfunded for major projects. Any advice?

A: The Reserve Study is a budget guide. As Benjamin Franklin stated, if you fail to plan, you plan to fail. Run for the board with some other like-minded individuals? Start saving up for the eventual special assessment? Move?

Q: How do we respond to board members or residents who say, "the Reserve Study is just a suggestion or recommendation", and "if we don't do that until next year, we can save a bunch of money"?

A: Those people are short sighted. Deferring a project doesn't change the fact that the project still needs to be done, often at a higher cost due to deferred maintenance complications. That is destructive thinking that will lead to special assessments, lower property values, and potential safety problems at the association (not to mention personal liability exposure for those board members who chose to ignore the counsel in the Reserve Study).

Q: Are there spreadsheets or do-it-yourself help available online for free?

A: Possibly, but I am not familiar with them, or their compliance with National Reserve Study Standard calculation methodologies.

Q: If components are listed as unfunded in Reserves, what advice do you have for how to ensure the HOA remembers to budget for these projects or purchases in the Operating fund?

A: Every association needs a maintenance schedule, coordinated with their Reserve Study. Those are projects scheduled throughout the year (cleaning the loose debris off balconies & roofs & gutters, cleaning out drains, vacuuming and shampooing carpets, etc.). An ongoing maintenance schedule should be part of every association's annual calendar.