



# Breaking the Barrier

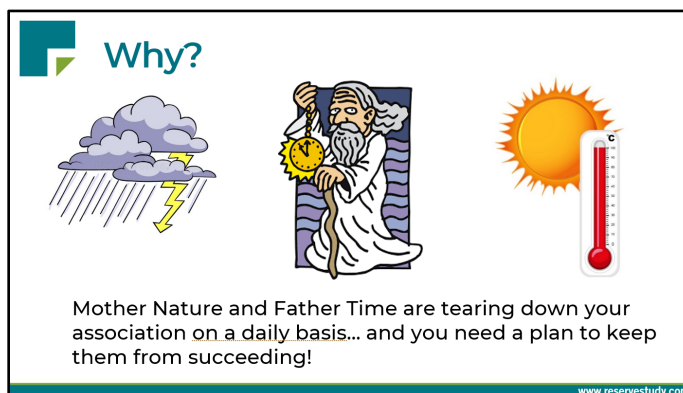
Robert M. Nordlund, PE, RS

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

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Mother Nature and Father Time are tearing down your association's common areas. Do you have a plan to defend your association? The defense against ongoing deterioration is a Reserve Study. Whether as a reaction to a recent special assessment, or a recommendation from your manager, attorney, or insurance agent, you need a Reserve Study to mount a defense against deterioration. Don't let deterioration get a toehold in your association! And don't wait for a Reserve Study, or Reserve funding, to be required by law. You shouldn't need a law to get you to pay the "bill" of ongoing deterioration!



Don't think you can afford a Reserve Study, or afford to fund Reserves as recommended? So why bother? Think again. Owning Real Estate is expensive. But fortunately, major repair and replacement projects are very predictable. It's not a choice of "if" you will fund Reserve projects, it's a question of how. You'll fund Reserve projects one of three ways:

- Through budgeted Reserve transfers
- Through special assessments
- Lower property values (the most expensive choice of the three).

You may say that none of these are very palatable choices. But one is clearly better than the other two.

What's involved in getting that Reserve Study? It's pretty simple. It starts with getting proposals from qualified individuals/firms. Then choose the right "Level of Service" that meets the needs of your association (typically about 1% of your annual budget or less), and get that project started at the right time of the year.

Prepare to mount a defense against the ravages of ongoing deterioration. Get a Reserve Study, and keep it updated (a With-Site-Visit Update at least every third year). Funding Reserves as recommended lowers boardmember liability, it lowers your special assessment risk, and it raises home values.

#### **Recommended Links:**

CAI's national [Reserve Study Standards](#) (updated 2023)

"Understanding Reserves" book (new in 2021). Order single copies or eBook on Amazon [here](#), or download chapter one for free [here](#).

Want an experienced professional to help with your Reserve Study update, ensuring appropriate component selection, life estimates, pricing, and development of an appropriate Funding Plan? Count on Association Reserves! Launch a free online proposal request by clicking [here](#).

Looking for local expertise?

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 2024 Attendees

**Q: If I buy a single family house the lack of reserves is reflected in the price. Why is a condo different?**

A: Actually, a condo is no different. A condo's price is affected even more significantly by Reserves (or lack thereof) because the association maintain all the residential structures.

**Q: Specifically, what is in the numerator and the denominator of your 25% rule of thumb?**

A: Specifically, for any given budget period (month or year), the numerator (the top number) is the size of the budgeted Reserve transfer, divided by the total budget. That means if your Reserve transfers are \$250,000/yr, and your total budget is \$1,000,000/yr, your Reserve transfers are 25% of the total. That also means your Operating Budget is \$750,000/yr.

**Q: Why is it better having the \$ in the condo bank vs the unit owners pocket until it's needed?**

A: First, because that's required by your Governing Documents. Second, because that's the most fair way for everyone to pay the cost of ongoing deterioration... in direct proportion to the length of time they've owned a home in the association. And third, because many unit owners don't set the money aside and have it readily available when the association needs to spend it.

**Q: How do you address the common statement "I'd rather have the money in my pocket and just assess me when needed"? When assessment time comes, then they argue about how much it is. Can't win.**

A: See above. But specifically, the cost of deterioration is real and predictable. Some owners may prefer to have the money "in their pocket" and maintain sufficient cash Reserves that they can write a check whenever the association needs the money. But most owners are not capable of writing checks to the association... they simply don't have the cash on hand. So it is irresponsible for the board to run the association presuming owners have readily available cash on hand.

**Q: Please describe the limitations of a reserve study. In other words, what issues might not be uncovered in the study that might require material investment in the future?**

A: Hidden issues (plumbing, electrical wiring, lack of underlayment or waterproofing layer in the construction of walls or roofing), or issues that require special investigative expertise to learn (something that only a structural engineer or architect would be able to discern in a diligent inspection).

**Q: Pooled or line item?**

A: Pooled (cash flow). Always. In 80,000 Reserve Studies, I've never seen a situation where the "line item" method (Segregated Method) is advantageous to the client.

**Q: How should we communicate to homeowners about the existence of Reserve Studies, repair delays, increase in monthly assessments (and Reserve funding), etc.? Is it through board meeting minutes, newsletters, or website postings? Should the board or our association manager be the one communicating?**

A: Communicate many ways, and repeatedly. Owners may ignore you, but make it hard for them to ignore!

**Q: How do we educate new board members?**

A: There are online classes (see [here](#)), there are trade organizations that do regular "welcome to the board" sessions, the manager can take new boardmembers "under their wing", and existing boardmembers can do their own "onboarding" of newly elected boardmembers.

**Q: How do we "sell" getting a Reserve Study?**

A: Make it clear that deterioration is inevitable, and the costs can't be avoided. But those costs are eminently predictable. Getting a Reserve Study and funding per its recommendations literally helps owners avoid unpleasant special assessments, it lowers boardmember liability exposure (due to eliminating of "guessing" about important budget figures like Reserve transfers), and elevates home values.

**Q: Are there different strategies for owners who are on fixed incomes?**

A: Recommend your board get a Reserve Study, so you can find if you can afford to stay in that association before a special assessment takes your choice away from you.

**Q: How dangerous is having zero reserves?**

A: It's not a problem if the association is new. But the older an association gets, the higher the risk is for special assessments, and the deferred maintenance (and potential safety problems that follow) when the cash doesn't exist to do important repair and replacement projects in a timely manner.

**Q: Does FL require a reserve study be done on all condos by a certain date or just legislation for reserves to be collected?**

A: FL law on associations is primarily divided between the body of law guiding condominiums, and HOAs. Please see [here](#) for our FL law FAQs page, and please go to your local attorney for specific guidance.

**Q: Can you reserve for an insurance deductible (in FL or other states)?**

A: Because the timing of the need for insurance deductible cash is unknown (insurance is for "surprises", or unexpected events), setting aside Reserves for an insurance deductible is inappropriate. Reserves are for predictable occurrences. That said, if financially possible at your association, you may set aside a specific insurance deductible account of funds. But those are not "Reserves".