



RESERVE STUDY ROAD MAP FOR MANAGERS

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


Owning and maintaining Real Estate is fundamentally expensive. Deterioration is real. Board members who don't respect the power (and winning streak!) of Mother Nature and Father Time do so at their own peril. In order to prepare for major, predictable repair and replacement projects (roofing, painting, asphalt, elevators, etc.), years of financial preparation are required. Otherwise, the result is special assessments, loans, or deterioration. The high cost of deterioration cannot be avoided. But you can plan for it, and set your budget appropriately so you have the funds to complete your major repair and replacement projects in a timely manner.

This webinar arms managers with the tools they need to make all those little decisions through the year to guide prudent and responsible board choices (that won't be regretted years later!), and to encourage homeowners to understand the value of contributing their fair share towards managing deterioration along the way as part of the ongoing budget.

So here we have a roadmap to the future. Following a roadmap (a plan) to the future is important, as it guides us forward so the present is less stressful and the future is more secure. It's all about making wise decisions now to set you and the properties you manage up for a successful future. So – collect Reserves as recommended, spend Reserves as recommended (on projects that pass the National Reserve Study Standards [three-part test](#) and get a periodic infrastructure inspection by a qualified engineer or architect.

Below are a few of the key concepts excerpted from the webinar:

Keep it simple: Remember the “Four Reserve Rules”




Four Reserve Rules

1. Expenses are inevitable
2. The board is responsible
3. Delays usually get expensive
4. Homeowners *always* get stuck paying the bills

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Remember that as a Manager or Board Member, you are not expected to be an expert in every field. If you are unsure (whether it's about budgeting, operations, or compliance) reach out to an expert! That may be for accounting questions, election questions, landscaping questions, Reserve funding questions, or other subject matter experts.

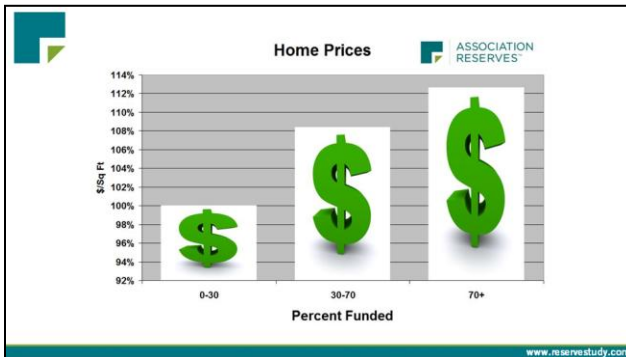


Reserve Study Benefits


- Avoid Surprises
- Save \$ (minimize deferred maint)
- Reduce Liability (promote Fairness & Fiscal responsibility)
- Maximize property values
- Compliance/Disclosures

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Why are we doing this... why should Boards care about Reserves?



Remember that curb appeal (which occurs when Reserves are strong) is real, and measurably affects home values! Read more [here](#).



Is it a Reserve Expense?


Yes if...

1. The project is listed in the Reserve Study
2. The project is not listed, but is related, significant, and extends the component's Remaining Useful Life
3. It passes the four-part test (and your Reserve Study provider agrees)

BJR

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Is it a Reserve expense? Yes, if the project is in the Reserve Study, or if you've consulted with your Reserve Study provider (complying with Business Judgment Rule).




Five Failure Modes

- Inconsequential
- Re-Evaluate
- Obsolescence
- Protection
- Catastrophic

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Save the owners the high cost of expensive deferred maintenance – know when it’s ok to delay a project (red), and when it is best to do it on schedule (green)!




What if it costs more/less?

- Perform the project
- Expect extra/unused funds will be re-allocated among components*
- Update your Reserve Study with different \$ or UL/RUL

Remember the 4 Reserve Rules!

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Expect some projects to be more (or less) expensive than anticipated. Spend the money (from Reserves), and update your Reserve Study with those more accurate expectations.



Capital Improvements?

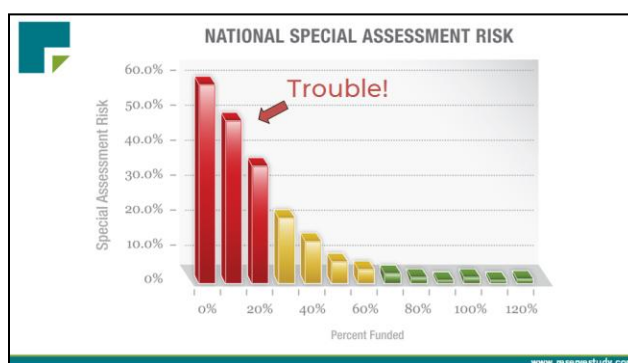
Reserves are for repairs and replacements –

Not new additions to the association

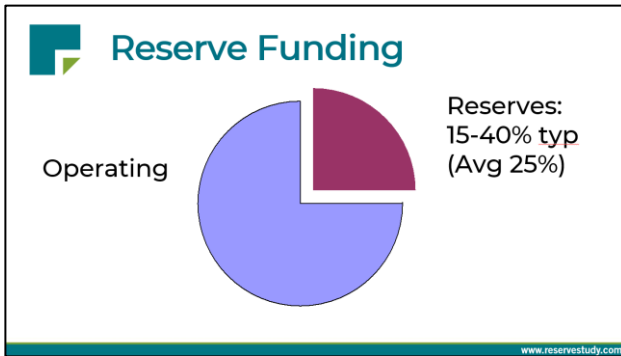
So natural upgrades are ok!

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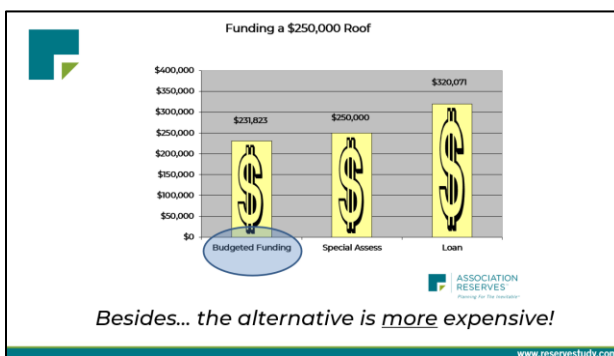
Don’t spend precious Reserves on non-Reserve projects!



Measure your Reserve Fund size meaningfully (with Percent Funded), making sure the Board and Owners know the implications.



Appreciate that common areas are expensive to repair and replace. Set aside enough funds to avoid expensive deferred maintenance and troublesome special assessments! Typically, Reserve contributions range from 15% to 40% of the total budget, with 25% being common.



Remember that budgeted Reserve transfers are the least expensive way to pay for those inevitable Reserve contributions.



Unable to fully fund Reserves this year? Consider a phased (multi-yr) plan... \$10 per owner in Reserve funding increases for the next few years!


Doing your Job...

Update Expectations?

- With-Site-Visit at least every 3 yrs
- Everything changes every year!
- *Special assessment risk drops approx. 30% when updated annually*


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Keep the association on-target, update their Reserve Study regularly. There are fewer special assessments among associations who update their Reserve Study annually!

 **Additional Resources**

Reserve Components,
Reserve Fund Strength,
and Funding Plans (and
much more!)

Available Now on
Amazon.com (\$24.99)



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Want a handy resource? Enjoy our book “Understanding Reserves” and have ready-access to key Reserve Study and Reserve funding questions. Get the book, or download Chapter 1 for free [here](#).

Additional Resources mentioned in the webinar:

CAI’s Common Ground (Mar/Apr 2018) magazine article “On the Road with Reserves” [here](#).

National Reserve Study Standards – [here](#)

Looking for more related resources? See additional recorded webinars on our “webinars” page [here](#).



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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: As my board's CFO, what info should I look at monthly in our Reserve Study?

A: As the CFO, you should be focusing on the reserve fund's balance, the funding compared to recommended, and the spending compared to estimated. Keep an eye on planned expenditures for upcoming years, being aware of those upcoming projects.

Q: As Managers should we be connecting with the Board Treasurer for status on financials? Most of my Board members do not seem to know what their role entails.

A: Absolutely. See above. Fund Balance (compared to the trajectory anticipated in the Reserve Study), recommended funding compared to actual, and expected spending compared to actual. The Reserve Study is the board's roadmap to the future, so they can steer the association wisely in a responsible direction.

Q: Here in Maryland, we are starting the process of preparing our associations for compliance with the new Maryland Building Energy Performance Standards (BEPS) legislation. Have you begun considering energy efficiency improvements in your reserve studies?

A: It is wise for boards to keep an eye on energy efficiency, whether required by local State law or not. We are not building energy inspectors, we prepare the budget and cash flow. With a building energy evaluation done by a qualified professional, we incorporate that information into the overall Reserve plan so the association will have sufficient funds to accomplish required projects. This is similar to how we incorporate structural inspection information, elevator modernization information, asphalt study information, etc. Specialists in many fields inform the component projects appearing in a Reserve Study. Updating your Reserve Study regularly (on the basis of a diligent visual site inspection at least every third year) is key to staying on top of requirements and funding.

Q: Is an HOA with only six townhouse units too small for a Reserve Study?

A: No HOA is too small for a Reserve Study. For example, we serve associations as small as two-unit duplexes. A Reserve Study helps even small associations know what's coming, and "keeps the peace" as each owner learns their fair share of the financial burden of preparing for those upcoming projects. It is nice to have a trained professional on your side, so you aren't surprised by major projects (roofing, painting, asphalt, etc.) that are not surprising.

Q: What is the role of the Finance & Budget Committee and the Reserve Study?

- A:** The Finance & Budget Committee generally works with the Reserve Study professional, handling details (providing access, historical records, etc.), reporting Reserve Study results to the board, and managing the Reserves budget (income and expenses) through the year. This committee plays a vital role in communicating the association's physical status and financial needs to both homeowners and the board, so everyone is on the same page with what it costs to live in the association, and what projects will be done next (with homeowner money) to maximize homeowner enjoyment and property values.

RESERVE COMPONENT QUESTIONS

- Q:** **I am a Manager new to the HOA world. What other types of projects typically occur? I know that there's landscaping, roofing, concrete... but what other ancillary items are commonly missed?**
- A:** Welcome to the "HOA world"! We cover typical Reserve projects, and the three-part test for determining what should (and should not) be funded through Reserves in an entire webinar, our Reserve Studies 101. Please find it on our webinars page [here](#). Any major predictable project that would otherwise disrupt the monthly operating budget is a good candidate for Reserve Funding: asphalt resurfacing, building painting, re-roofing, elevator modernization, boiler replacement, etc. The list is different for each association, but is prepared and regularly updated for you in the form of your Reserve Study. Refer to it and rely on it!
- Q:** **How are the replacement costs determined?**
- A:** At Association Reserves, repair and replacement costs are generally established based on our "actual cost" experience with other similar projects performed on similar associations in your area. We also take advantage of our ongoing relationships with local service providers, subject matter experts, and actual cost experience from our network of offices across the country. Every once in a while we reference industry "typical" cost database publications, but that is rare.

RESERVE FUNDING QUESTIONS

- Q:** **How do you balance historical data with current market trends to keep reserve funding recommendations accurate and realistic over time?**
- A:** Historical costs are great benchmarks. We've been tracking Reserve project costs since 1986, so we know what "current costs" are for major Reserve projects. We look at an association's historical costs to see if (at that time) they were low, normal, or high, allowing us to adjust our current pricing accordingly. Regularly updating your Reserve Study helps you avoid being in the situation where the only information you

have at your disposal is the record that you replaced your last roof for \$100,000 back in 2010. All by itself, that doesn't help you much.

Q: Our first Reserve Study is now in-process, and we expect to have it before our budget is finalized for next year. We have set aside \$600K in reserves so far and the 2026 budget will be started in August. Is the 25% target from the budget's Total Income?

A: Good for you to have commissioned your first Reserve Study, and good for you to wait to finalize the budget until you have its results. One of the results will be a funding recommendation. As stated in the program, most associations find they need to be funding their Reserves in the range of 15% - 40% of their total budget. So you're soon to find out where your association fits in that range. FYI, another Reserve Study result is an evaluation of your Reserve Fund size, meaning you'll also find out if your \$600k is "a lot", "ok", or "just a little" compared to what your association "should" have at this time, based on deterioration found around the association.

Q: How do you feel about borrowing from the reserve fund?

A: Borrowing from the Reserve Fund can be a very effective way to manage a short term cash flow problem. We see associations doing it to smooth out their cash flow through the year, or give themselves a zero-interest loan for a cost-saving project (converting light bulbs, or obtaining a new energy-efficient HVAC unit, or...). Just check with your Reserve Study provider to ensure your Reserve projects don't need that cash during the term of the loan, and that you have a repayment plan in place!

INTEREST/INFLATION QUESTIONS

Q: At what point does the inflation rate get increased? It's lower than the actual rates on some of my studies.

A: Inflation is a very powerful factor in a 30-yr Reserve Funding plan, so we use an inflation rate that we feel will most accurately reflect the average inflation over the next 30 years, not "today's" (erratic) inflation rate. So yes, during a period of high inflation, your Reserve Study will show a lower rate, and during a period of low inflation, your Reserve Study will show a higher rate. It's all because we're crafting a 30-yr plan, not a plan for this month or just this year.