Reserves, Insurance, and Building Inspections

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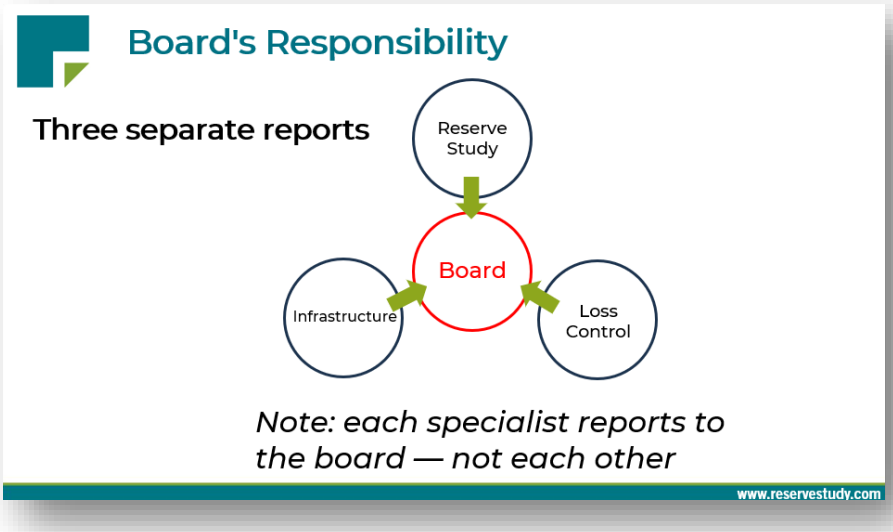
Recap:

Reserve Studies tell us what we need to plan for, infrastructure inspections tell us what needs attention, and loss control inspections identify conditions that result in property damage or liability claims. The reason for today's program is each of these inspections look at your property from a different perspective, and every year as your association ages, these three inspections become more significant.

These three reports are prepared by different professionals for different purposes. One is not a substitute for the other. To have a complete understanding of where your association is and where it is going, you need all three.

- Reserve inspection – Best Practice is at least every third year
- Infrastructure inspection – Best Practice is every 5-10 years
- Loss Control inspection – a more irregular basis, often after a series of claims or at policy renewal time

It is up to the board to digest and coordinate this information, as shown below:



Summary:

Since nobody else is reading all three but the board and management, it is up to you to identify overlaps, contradictions, and gaps. It is up to you to share relevant information (the other two reports) with these three professionals, so they are fully aware of the bigger picture.

A report nobody acts on is an expense, not an asset.

Fund and schedule the projects that are necessary to be accomplished. Document any deviations from the plan, or what has been recommended.

The result – you are able to protect the association's financial stability, physical assets, and ensure long-term insurability.

So – find your problems early. Solve your problems early.

Early is inexpensive and small. Late is expensive and potentially dangerous.

Want an experienced professional to prepare your next Reserve Study update, ensuring appropriate component selection, life estimates, pricing, and development of an appropriate Funding Plan *custom designed* for the needs of your association? Launch a free online proposal request by clicking here. See our network of regional offices across the country here, serving clients in all 50 states.

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" Reserves Insurance and Building Inspections"

Attendee Questions – 2026

General Reserve Questions

Q: How do we encourage boards that are hesitant to obtain a Reserve Study because they believe the cost outweighs the benefits to their association?

A: If I was lost in the woods, I'd like a map. That's what a Reserve Study is. Typically an association needs to fund Reserves about 25% of total budget in order to offset deterioration, but the range is about 15% to 45%. A Reserve Study will tell you what's right for your association, helping you fund honestly and avoid a future crisis (special assessment or deferred maintenance). Your first "Full" Reserve Study often costs about 1% of your total budget (Updates are even less expensive).

Find out how much you need to set aside towards Reserves to fulfill your job as a board member, protect your owners from special assessments, and maximizing property values. An independent, professionally prepared Reserve Study by a credentialed professional is a small cost.

Q: Why isn't it mandatory to obtain an engineer's report every five or ten years?

A: That's really a question of state legislation and how different jurisdictions regulate community associations. Even almost 30 years after National Reserve Study Standards were published, only about half of the states have legislation requiring Reserve Studies, Reserve disclosures, or Reserve funding. Legislation takes time. So expect a few more years before more states enact legislation requiring infrastructure reports.

But remember – you don't commission an infrastructure report because it's the law. You get one because it keeps your problems small and inexpensive.

Reserve Component Questions

Q: Are loss control inspections performed by an independent expert or by the insurance company's property inspector?

A: It can be either, depending on the purpose of the inspection. Insurance companies often conduct loss control inspections using their own inspectors or third-party professionals. Their primary concern is identifying conditions that could increase the likelihood or severity of an insurance claim. It is a necessary part of their job, to evaluate the risks at the client property. Thus it is typically done at no cost to the association. It just helps the insurance company set their premiums accurately.

Q: I would assume that an infrastructure inspection is critical for the Reserve Study provider to have before finalizing the Reserve Study to determine the timing and magnitude of potential major projects. Is this a recommended practice? Doesn't the professional engineer assess the Remaining Useful Life of components?

A: That is correct. It is best for the infrastructure inspection to be done before the Reserve Study, so those projects can be included in the Reserve Study's projection of future expenses, and can create a Funding Plan to get those projects accomplished. California law specifically "times" the infrastructure report to occur coincident with the association's every third "three-year" Reserve Study site inspection update (once every nine years). Note that while a Reserve Study categorizes expenses into individual years, an infrastructure inspection typically groups them into "immediate", short term (1-5 years), and upcoming (6-10 years). So the Reserve Study provider will often discuss project timing with the infrastructure expert in order to most effectively place the expense in the correct year.

The better the information going into the Reserve Study, the more reliable the resulting financial plan.

Q: What are the typical costs for Reserve Studies and infrastructure inspections? Are subsequent inspections available at a reduced cost?

A: Costs depend on the size, complexity, age, and location of the property, as well as the scope of work. A first time (Full) Reserve Study often costs approximately 1% of an association's total budget. Update Reserve Studies are less expensive. Infrastructure inspections are often multiple times the cost of a Reserve Study. But remember – with all professional services you often "get what you pay for", so don't always select the least expensive provider. The quality of the information you need to get, in order to lead your association forward, is the goal.

Q: California SB 326 (Civil Code §5551) inspections are part of the infrastructure inspection process, correct?

A: Yes. These "Exterior elevated element" inspections (of wood frame stairs, decks, etc. that hold humans more than six feet above ground) can certainly be coordinated with a broader infrastructure inspection, but it's important to understand that California's §5551 inspections are just a narrowly defined and limited "infrastructure" inspection to wood frame exterior elements. A broader infrastructure inspection may also include important items such as above-ground planters, an evaluation of patio deck systems (above an underground garage, etc.), pool decks, concrete balconies, metal railings, etc.

Reserve Funding Questions

Q: If we're updating our Reserve Study regularly, should our insurance coverage value be higher than the Reserve Study's total of estimated replacement costs? I would think so, to ensure sufficient funds are available to repair or replace an item after paying the deductible.

A: The answer is yes, but be careful. You're comparing two different financial planning tools that measure different things.

Insurance is designed to protect the association against covered, unexpected losses, and needs to cover "total replacement". Reserve funds are designed to pay for predictable

deterioration and eventual repair or replacement projects related to common-area components.

So insurance coverage will always be a higher amount than discrete repair and replacement projects. But your goal is not to make sure your insurance coverage is higher than the total of Reserve projects. Your goal is to be insured sufficiently for the replacement value of your assets. Make sure your insurance coverage and reserve funding each adequately address the costs they're designed to cover.