

RESERVE STUDY BASICS FOR 2017

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Association Reserves

www.reservestudy.com

Jan 25, 2017

Note: This course is approved by the Community Association Managers International Certification Board (CAMICB) to fulfill continuing education requirements for the CMCA® certification. www.camibc.org

<https://www.reservestudy.com/wp-content/uploads/2017/02/Reserve-Study-Basics-2017-Webinar-Outline.pdf>

Below are some questions raised by attendees of the course.

Q: Can you provide a "definition" of the results expected in a good budget, which includes Operating and Reserve? For example, one which covers expected costs for current owners going out X years, but one not to overfund for future owners.

A: A good budget provides for the short term and long term costs of the association. The daily/weekly/monthly expenses should be handled through the ongoing Operational budget. The ongoing cost of deterioration of our Reserve components should be paid through ongoing Reserve contributions. That way everyone pays their fair share along the way, and the needs of the association are met.

Q. Do you have and use a master component "punch list" with typical Useful Life expectancies and Replacement Costs?

A: We have company guidelines based on our experience, but each Reserve Study we prepare is a custom document, with the Component List based on the NRSS four part test, with Useful Life and Current Replacement Costs based on client replacement cost and history, the experience of other relevant properties, our background of experience with the asset, interviews with association vendors, the local environment (weather), maintenance, usage patterns, economies of scale, quality of materials, etc. We have some competitors who quickly move through an association with a "punch list" and as quickly pop out a cookie-cutter Reserve Study, but it doesn't approach our accuracy and it's not the way we do things.

Q. We have brought up the subject of getting a Reserve Study thru the years, but we always get shot down by the same argument: "Don't want to put away that amount of my money. I'm too old." What should I do?

A: Choose your words carefully. Reserve contributions offset ongoing deterioration. They are not "for the future" for other people's benefit. Timely maintenance and minimized Reserve contributions (due to Reserve expenses that don't go over-budget from being delayed) maximize the owner experience. Real Estate agents notice, and it is reflected in higher home values. Typically, associations enjoy a 5:1 ratio of increased equity due to Reserve contributions (increasing Reserve contributions from a ridiculously low amount to an amount

which offsets ongoing deterioration over the course of a year). I like investments where I get a 5X return on my money!

Q. Can/should we reserve for an earthen dam and the lake?

A: If either meet the NRSS four-part test, yes. Consider the need for soil movement and stabilization. Consider the need for landscape control around the perimeter of the dam. Consider the need for spillway (or bridge) maintenance. Consider the need for dredging the lake bottom. There are many ways earthen dams and lake components can and should appear on your Reserve Study

Q. What if the association is severely underfunded and the Board refuses to increase dues or Reserve contributions?

A: Expect deferred maintenance, Special Assessments, lower property values, or all of the above. Begin your own savings account to set aside some funds for the inevitable special assessment that will come.

Q: What is deferred maintenance?

A: A project that is delayed, typically due to inadequate funds or indecision. The typical result is a higher project cost due to greater deterioration.

Q. Why not just special assess or take out a loan?

A: In addition to budgeted contributions being the fairest way to collect Reserve contributions (because each owner pays their share of deterioration, month by month, over the time they live at the association), budgeted contributions are the least expensive way to pay for Reserve projects. For a \$250,000 roof, over 15 years homeowners would only need to contribute about \$232k towards the project, with the rest made up by 1% compound interest from the bank. Special assessments are typically a last-minute option, when an association needs the money rapidly, but they take time to implement, there's no certainty the special assessment will pass, and the funds take a while to be collected. A loan is expensive. With current loan rates (7% and up-front fees), it will cost the homeowners about \$320k to pay for a \$250k roof project. That's about \$90k more than if they would have collected those same funds from the homeowners, over time in the way of monthly contributions. The only person this is good for is the banker. For everyone else, it is just an expensive way to pay for a project.

Q: If a Board member doesn't want to raise the dues because most residents are on a fixed income, how can that be handled?

A: Board members have a legal responsibility to care for the assets of the association and hold the interest of the association higher than their own personal interests. So, if they don't set the budget appropriately, they face legal exposure. The Board is responsible to run the association in the best interests of the majority of the owners. If a minority of people can't afford to live there, the truth is that they need to move and live elsewhere. We go into depth on this topic in our webinar "Tight Budgets, Tough Choices".

Q. If you're at 100% funded, you're ready to pay for the next, say 20 years, which is not realistic. Please comment.

A: That reveals a popular misconception about Percent Funded. Being 100% Funded means the Reserve funds on hand are presently equal to the current deteriorated value of the Reserve components, not the total replacement value of all the Reserve components. So being 100% Funded just means your Reserve Fund is currently “on pace”, not that you’re sitting on a big pile of money.
