



## RESERVE STUDY ROAD MAP FOR MANAGERS

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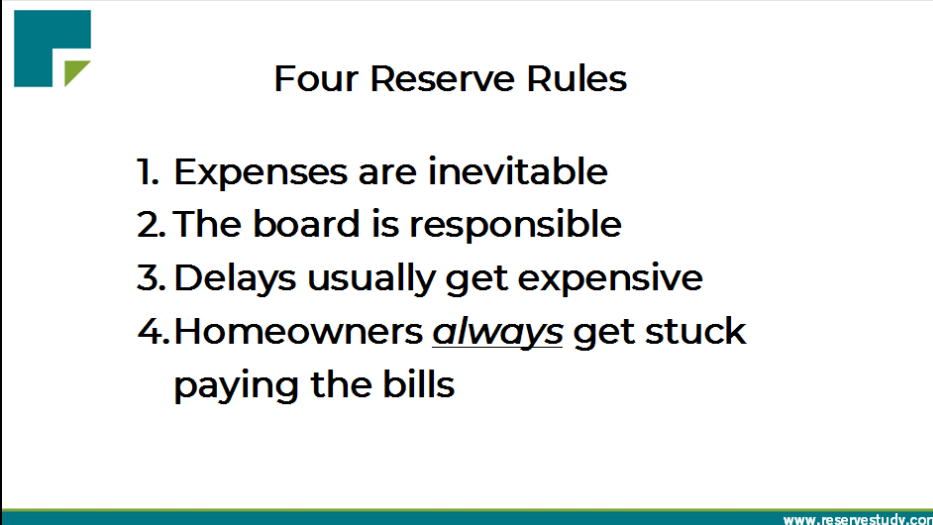
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Miss the webinar? Watch it [here](#).

The tragic collapse of Champlain Towers South on June 24 of 2021 got our attention because it was so deadly and so unexpected. Now our concerns for deferred maintenance have expanded beyond projects that cause big catch-up special assessments, or unsightly things that drop property values. Now we need to consider that deferred maintenance can also be dangerous. That's why following a roadmap to the future is even more important, guiding us forward so the present is less stressful and the future is more secure. So – update your Reserve Study regularly, 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. Where you are not sure (what to do now, how to run this

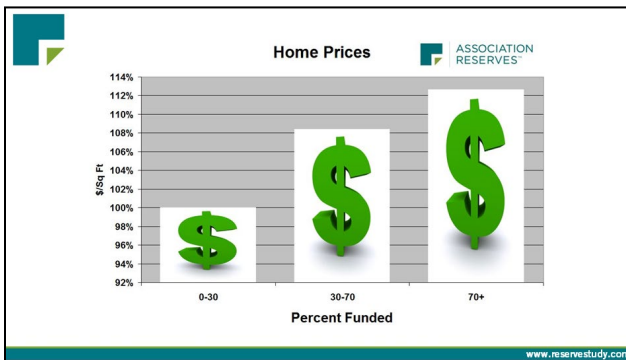
multi-million dollar Real Estate corporation!), reach out to an expert. That may be for accounting questions, election questions, landscaping questions, Reserve funding questions, or other subject matter experts.

### 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 Reseve 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?**

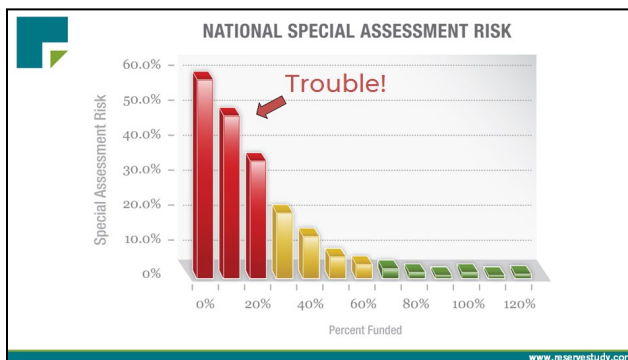
Reserves are for repairs and replacements –

Not new additions to the association

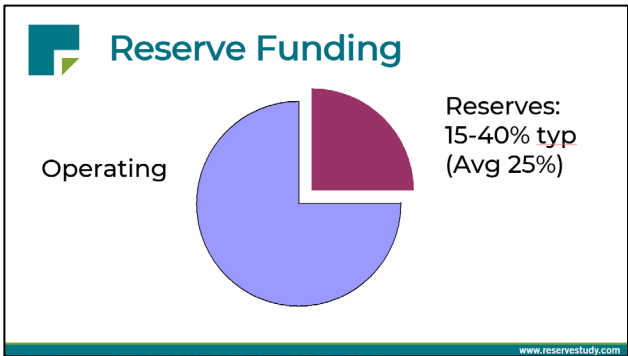
So natural upgrades are ok!

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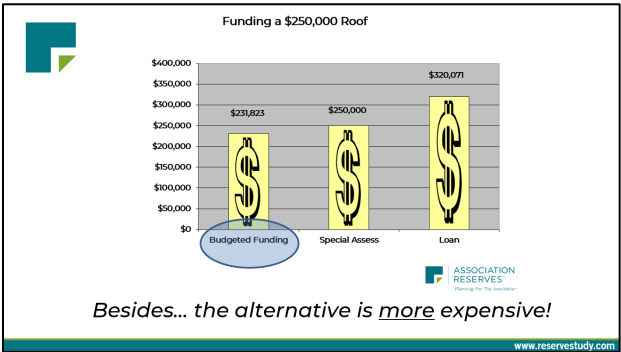
Don’t spend precious Reserves on non-Reserve projects!



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! Often this is in the range of 25% of total budget.



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

## Recommended contributions still too steep?

Consider the \$10 solution

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What if you can't make the change to adequately fund Reserves this year? Consider a 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)



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

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” preceding this webinar [here](#).

National Reserve Study Standards – [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 5,777 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: Is there a rule of thumb on cost impact of deferring some maintenance for a year or two?**

A: For anything other than “inconsequential” projects (things that almost nobody knows about or cares about or uses, like perhaps a water heater for the clubhouse that is used once a month), there’s no problem delaying that project. In general, projects that are re-evaluated and still serving their intended purpose and projects that fail due to obsolescence are also candidates for deferring with no consequence. But projects that protect underlying structural elements (roofing, painting, deck sealing...) or cause catastrophic consequences to residents (water heater failure or elevator not functional...) or the building (entry gate or front door system) often increase the total project cost by 50% or more.

**Q: A bar graph was shown depicting Reserve funding at 70% had home values increasing at a great rate. Where is that data sourced?**

A: We did that study back in 2017. See more [here](#).

**Q: Does Association Reserves have experts on particular components, e.g., civil engineer? Is hiring a civil engineer a more accurate means for life span of asphalt streets?**

A: Our team is made up of budget generalists. That is the nature of being a Reserve Study professional. We reach out to the association’s knowledgeable service providers for additional insights, and ask for copies of the association’s subject matter expert (asphalt, HVAC, roofing, infrastructure) reports. When we feel an expert report is warranted, we will make that specific recommendation to the association.

**Q: Please explain 25% of budget for reserve with an example?**

A: If your annual budget is \$1M, we would expect appropriate Reserve funding would be in the range of \$250k/yr (25%). That means \$750k to Operating and \$250k to Reserves. Stated another way, if your monthly homeowner assessments are \$400, we would expect appropriate Reserve Funding would be in the range of \$100/month (25%), leaving \$300/mo (75%) to be used for monthly Operating Fund expenses.

**Q: You stated to check with the study preparer to see if an item should be on the reserve study. The person who prepared our original study is now gone. Who decides now? For instance, we have a boardwalk that is deteriorating but it is not listed on the reserve study so the board won't do it. How to get it listed?**

A: Retain a new Reserve Study professional to update the Reserve Study and provide wise counsel to the association. Reserve Studies are fundamentally perishable, and you need an active, ongoing relationship with a local provider, getting that information regularly refreshed in order to provide guidance to the board exactly as you desire at this time.

**Q: If another reserve study company completed a study, can your company take the prior 2 studies and make an updated reserve study involving an in person site inspection?**

A: Absolutely. We can review your previous studies and use that information as a foundation of background information in order to prepare a With-Site-Visit Reserve Study Update.

**Q: What is the best way to build confidence in Boards to use the reserve study as a tool when there is resistance to review data?**

A: You can lead a horse to water but you can't make it drink. Just as your Doctor knows more than you do, providing wise counsel, a credentialed Reserve Study professional is experienced in their field, aware of the predictable life cycles and costs of normal building components. Just as you don't need to study medicine to take your Doctor's counsel, please be reminded that over the course of 37 years, over 81% of our clients return regularly for updates, because our assistance has been accurate and helpful.

**Q: How far in advance is needed to contract with your company for an update study this fall or next January?**

A: We recommend reaching out at least six months in advance of your Fiscal Year End. This allows time to price the project, for you to review competitive proposals, make a decision, and engage the Reserve Study provider.

**Q: Does the board have the right to change anything on our reserve study? For example, I found our reserve study included "windows." In our HOA, owners own and are responsible for their own windows. They are not the responsibility of the HOA. If an owner wants to replace their windows, they have to pay for them - materials and labor.**

A: Such changes should be discussed with your Reserve Study provider and a revision issued. That is typically the responsibility of the provider, not the board. Credible Reserve Study providers value insights on historical life expectancies, costs, and common area nuances such as windows, doorknobs, fences, balcony surfaces, etc.

**Q: Do you have an associate in the state of Hawaii?**

A: Yes, we serve associations nationwide, including Hawaii. A few of our experienced Los Angeles-based Project Managers regularly are in Hawaii serving our portfolio of clients there.

## **COMPONENT QUESTIONS**

**Q: A prior 2021 reserve study recommended replacing 6 residential streets in 2023, but only 1 street has alligator cracks so the recommended maintenance was deferred. How accurate are reserve study recommended replacement dates or useful life of a component, e.g., street?**

A: Reserve study projections are based on typical life expectancies and observed conditions at the time of the study. It is likely that the other streets, installed at the same time, will soon begin to exhibit signs of deterioration. Speak with your Reserve Study professional for counsel on this matter. Since it has been three years, your association is due for a With-Site-Visit update at this time anyway. It may be more cost effective to do all at once than mobilize an asphalt company to work on individual streets.

**Q: Would security cameras at an entry gate be considered a “capital item”, and thus meet our Governing Document requirement that all capital assets be funded from Reserves?**

A: Yes – a tangible asset like access control cameras should fall into the category of “capital assets” your Governing Docs were designed to require budget provision to sustain... even if not specifically listed. Setting aside funds through Reserves ensures that your association can repair or replace them in a timely manner. Note that National Reserve Study Standards has a broader definition of Reserve projects, and we encourage you to do your Reserve planning in line with National Standards, not “just” your Governing Documents. So remember that major non-capital projects (asphalt seal, tree trimming, etc.) can and should be funded from Reserves. Update your Reserve Study and get a thorough, well established Component List that will provide for the sustainability of your association.

**Q: Can you give us a list of new reserve line items?**

A: Please engage a credentialed Reserve Study professional to update your Reserve Study, providing you with a current Component List based on the National Standard three-part test: Common Area responsibility, reasonably predictable, and above a specific significant cost.



**Q: Our HOA is due for an updated Reserve Study. 1 of our 6 buildings was destroyed by fire, but has been reconstructed. Will that building be calculated with adjusted RUL's in the new study?**

A: Yes, your roofing, painting/siding, etc. Reserve Components will now likely be split into two projects... the five buildings in Phase I, and the sixth building (the reconstructed one) that is now effectively Phase II. It may have the same or similar materials, but it will definitively have different Remaining Useful Life estimates from the five buildings in Phase I.

**Q: Do all reserve study companies have the same component list?**

A: No. All companies complying with National Reserve Study Standards have the same guiding principles (the National Standard three-part test that guides the selection of Reserve Components), but expect different nuances in how that three-part test is applied. Each will likely have their different component numbering system or order that components are displayed, and there will likely be some differences in how components are identified (together in a group like "Clubhouse Furniture", or listed as separate assets).

**Q: My board pays for repair and waterproofing for owner's alterations and modifications of their units. Do these costs belong in the Reserves? The chronic repair and waterproofing show up every 5-8 years.**

A: No. The first of the National Standards three-part test is that projects funded through Reserves need to be a common area maintenance responsibility. Private property is thus disqualified from being considered a Reserve component.

**Q: Plumbing is hard to estimate but is one of our biggest liabilities. How do we account for those in our reserve study?**

A: Unless you have a clear pattern of plumbing expenses to provide to your Reserve Study provider, for them to match in their Reserve planning for your association, your Reserve Study provider will likely wish to interview your plumbing vendor for insights in how to financially prepare your association for upcoming plumbing repair or replacement projects. It may be appropriate for your association to commission a local specialist to perform an in-depth analysis/study of your plumbing system to provide some additional insights and guidance. This may result in a more accurate expectation when a major project will occur (and at what cost), or if smaller phased projects may be appropriate.

**Q: How do you handle the large expenses upcoming? Our percentage is fine until we hit a large item like the roof (which needs to be replaced every 25 years). Such a big project significantly drops our Percent Funded!**

A: Remember that providing sufficient funds to accomplish your projects is the goal, not a specific Percent Funded target. A strong Percent Funded facilitates doing large

projects. After that large project, presuming appropriate funding, your Percent Funded will rebound in time to shoulder other small and large projects around the association. Keep your Reserve Study regularly updated to ensure you are “on track”!

**Q: My Assn is funded at 71.9% (strong). It appears that items under about \$15K would not be included in Reserves, per national standards. If our Board wants to include items down to \$5K, is that a problem?**

A: National Standards recommend an “appropriate” cost threshold, but do not dictate a particular threshold. Work with your credentialed Reserve Study provider to have a cost threshold that supports the concept of funding only “major” projects through Reserves. Setting that cost threshold too low handcuffs the board from handling “minor” projects themselves with Operating funds. It’s a balance... paying for projects from Operating vs Reserves. Either way, the projects cost what they cost, it’s not like you will be reducing costs to homeowners one way or another. Find a cost threshold that is a suitable balance for your association.

**Q: Over the past few years, USPS has made national news by turning over the responsibility of Cluster Box Units to HOAs. Is there any guidance on how to break that up between master and sub-associations?**

A: That’s probably a better conversation to have with your association’s legal counsel. If the boxes are consistent all throughout the Master, perhaps the argument is that it’s a Master association responsibility. Otherwise, it may be better to add Cluster Box replacement to the sub-association. Include your Reserve Study provider in this discussion. Just make sure they don’t appear in both (or neither)!

**Q: If we have a brick fence repair that is pending, should we defer the fence repair until after a reserve study update?**

A: No. Your primary responsibility is for the care of the association. A Reserve Study can be updated while the project is in-process, or completed. There’s actually a good argument to get it done now so you’ll have an updated Useful Life and Cost to incorporate in that upcoming Reserve Study update.

**Q: Should hazard insurance etc.be included in reserve study components?**

A: No, insurance is an ongoing operational expense and should be included in your operating budget. Expenditures for insurance deductibles are unpredictable, and are thus not appropriate for Reserve component/funding designation.

**Q: One of the communities I manage has two water valves in the common area at the front of their community. When they leak and sometimes it's as often as every 6 months or so, would repairing that still be categorized as a reserve item or regular maintenance? The cost to repair it is roughly about \$400 or so.**

A: If the cost threshold for Reserve components at those associations is under \$400, then it should be a Reserve expense. But that would force it to be an association with a very small budget (\$40,000 or so annual budget). But if it's a semi-regular (often twice per year), relatively small cost like \$400, I'd suggest it would be best to budget for that in the Operating Budget.

**Q: What is a sound dollar amount to determine an operational expense or a reserve expense?**

A: A common threshold is found in the range of .5% to 1% of your total annual budget, or the manager or board's "signature authority" to do a project on their own. This helps differentiate between routine maintenance due to normal life at the association, and significant projects best accomplished by setting aside funds well in advance.

**Q: In California, Fire Mitigation maintenance is becoming mandatory. We do not have any extra funds in our 2024 landscaping budget. Can we use reserve funds to pay for our city-mandated fire mitigation maintenance? We have an owner who insists that our reserves cannot be used for this mitigation work.**

A: Reserve funds are only to be used for projects that meet the National Standard three-part test. Fire mitigation commonly passes those tests (common area maintenance responsibility, reasonably anticipated, and above a cost that is significant to the association). Consult your Reserve Study provider – likely you are in need of an update at this time, and likely you will be adding Fire Mitigation to the Reserve Component List (and slightly increasing your Reserve Funding rate).

**Q: One board member wants to overstate "pet" projects to not have them go over budget. How do we counter that thinking?**

A: There is value in having a realistic expectation for upcoming projects... and it is common for projects to go slightly over budget for one reason or another. So an expectation for "reality" is encouraged, but padding for the purpose of being able to look back in retrospect and say "my project came in under budget" is petty. Get your cost estimates from your Reserve Study that was prepared by an independent, credentialed provider, and the problem goes away.

**Q: Do you continue to see extremely large increases in pricing? For example, our reserve said a pool deck redo was \$6000, but it's actually \$33,000.**

A: Yes, recent economic factors have led to significant cost increases in construction labor and materials. It also may have been due to deferred maintenance that increased the scope of the project. It is important to regularly update your Reserve

Study by a credentialed, experienced, independent provider to stay on top of upcoming cost expectations for projects, so your association can be financially prepared.

**Q: Our current reserve study lists over 210 components. Something got out of hand. What should we do now?**

A: Some associations are fundamentally complex, deserving long Component Lists. Have a conversation with your credentialed Reserve Study provider, communicating your concern about how hard it is to now track so many possible Reserve projects. Perhaps suggesting that some similar projects be grouped together (Phase I with Phase II, and Phase III with Phase IV, etc.), or ironwork painting with wood trim painting, or perhaps raising the cost threshold allowing smaller projects to be successfully handled from the Operating Budget. A Reserve Study is excellent when it helps the board provide for the safety and sustainability of the association. It is not “excellent” because the provider wanted to impress the client with a record number of components.

**Q: When we updated our pool, we went ahead and did the pool deck and kept it under budget. Can we use the excess funds to pay for other needed projects, but not needed until 2 years?**

A: Yes, reserve funds are typically redistributed (naturally by using the Cash Flow Methodology, or by manually redistributing cash among components when using the Component Methodology). There is no mandate to spend funds per plan in a given year. Reserve Studies are budget guides, not budget mandates!

**Q: What is the proper & legal way to add reserve line items?**

A: In every regular Reserve Study update, the Component List should be reviewed for compliance with the National Reserve Study Standards three-part test. Your credentialed Reserve Study professional should be able to do this very effectively by adding, editing, or deleting component projects as appropriate.

**Q: What about new reserves that may be added by the board during a meeting?**

A: Adding, deleting, and editing Reserve Components should not be accomplished arbitrarily during a board meeting. A Reserve Study is typically updated annually, during budget preparation time of year. Adjusting Reserve Components is a decision that affects all aspects of your Reserve Study, so should be done after consultation with your Reserve Study professional (who should welcome your suggestions), who can ensure its compliance with the National Reserve Study Standards three-part test.

## **FUNDING QUESTIONS**

**Q: What is the standard percentage of regular monthly assessment to allocate towards reserve?**

A: It is most common for associations to find their Reserve needs are met with Reserve funding that is between 15% to 40% of their total budget. 25% of total budget is a common amount. Find what your association actually needs in an updated Reserve Study.

**Q: Roofs require about 20 years of payments toward the reserve fund, during which time the money gets no returns, or only low (interest) returns. Would it be better to have a special assessment for very long useful life items?**

A: No. The amount of interest earnings is not a significant factor in this decision. Legally, the board is responsible to budget for all costs incurred by the association, and deterioration is a predictable cost. Practically, it is a known expense and should be shared by all owners who enjoy the use of that assets. Gradually accumulating funds over time ensures the funds will exist when needed... very different than a special assessment which in almost all cases will require an affirmative vote of homeowners (never a sure thing!). Finally, it is fundamentally unfair to place the entire burden of that cost on the (unlucky) few homeowners living in the association when the roof needs replacing.

**Q: Is there a way to show how past due an item is in a reserve study? They often say the useful life is 5 years and the remaining useful life is 0. It says the same thing for multiple years. Is there a way to show the useful life was done 5 years ago?**

A: Reserve Studies may include notes or flags for deferred projects, but the fact is that Boards should seriously consider the appropriateness of doing all RUL=0 projects this year, and make plans to get that project done unless the project is clearly deemed inconsequential or upon re-evaluation appears to indeed have more life left. As stated in the webinar, deferred projects commonly make the project more expensive.

**Q: We worked out a plan - replacements in excess of \$500K, we fund at 10%. \$100K to \$499K at 30%. Under \$99K at 100%. Is this really a good plan?**

A: That's a head-scratcher. I've never heard of such a plan. Deterioration is real, and so is the board's responsibility to budget for the needs of the association. If a project meets the National Reserve Study Standards three-part test, you should be funding it all through Reserves. Where else is the \$ going to come from? There is no fairy godmother coming to help out, and it is fundamentally unfair (and irresponsible enough to cause you some liability exposure) to pass a bill you should be paying onto someone else.

**Q: How do you fund the Association budget to plan for unexpected capital expenses, like storm damage, that insurance doesn't cover?**

A: Reserves are for predictable expenses. Special assessments or a separate “emergency fund” are for surprise expenses. Responsible Reserve funding reduces an owner’s exposure to a special assessment to true emergencies or surprises. Note that there is a special assessment insurance you can buy nowadays for such truly “accidental” or “surprise” special assessments. But Reserves are how you pay for the predictable cost of deterioration. .

**Q: Explain the statics of overall funding levels. As I understand it, 70% overall funding level has a high level of statical soundness. Your comments?**

A: Yes, a percent funded level of 70% or higher is considered "strong" according to industry standards. Since not all Reserve projects occur at the same time, most associations don't “need” to be 100% Funded. But since planning for the future is full of surprises, some extra margin for the unexpected is wise. Thus special assessments are common among associations who plan to have “just barely” sufficient cash in Reserves. On the other end of the spectrum, special assessments are rare among associations setting aside funds on an ongoing basis, preparing for all their Reserve projects. If one goes project over budget or needs to be done “early”, there is cash set aside towards other upcoming projects that can be used to accomplish that project without a special assessment. Maintaining a strong Reserve balance contributes to the financial health and stability of the community, and the enjoyment of its owners.

## **INFLATION QUESTIONS**

**Q: Since 2021 inflation has increased operating costs, what specific items have increased more than inflation? Asphalt for streets in a gated community? Would an asphalt street repair bid for \$60K in Nov. 2023 still be about the same a year later, or increased by a nominal percentage tied to fluctuating oil prices?**

A: Asphalt costs have indeed been volatile due to fluctuating oil prices, labor cost increases, and supply chain disruptions. Other materials like lumber, steel, and labor costs have also seen significant increases. It's important to update your Reserve Study regularly to be planning your Reserve funding based on current cost expectations.

## **UPLANIT QUESTIONS**

**Q: Can I use uPlanit prior to hiring Association Reserves for a Reserve Study?**

A: Yes, uPlanIt is an online Reserve calculator that can help associations beginning the reserve planning process. While it's beneficial to work with a professional for a

comprehensive study (getting a reliable Reserve Component List!), uPlanIt can provide initial insights by allowing the board to reliably evaluate Funding Plans based on National Reserve Study Standard computational principles. Just go online to start a subscription for \$399 – see [here](#).

**Q: I thought that uPlanIt has a cost? Our Study was done last Fall and we did not take advantage of it at that time.**

A: uPlanIt access is free for our professional Reserve Study clients through their budget season, and three months into the beginning of their next year (at which time they should be focusing on updating their upcoming Reserve Study, not continuing to fiddle with last year's Reserve Study). If a board wishes to extend their use of uPlanIt, they can do so by going online and starting a subscription for \$399/yr – see [here](#). The data is still there waiting for you to access it.

**Q: If we annually have a study with or without site visit, is uPlanIt available to us to use for entire year?**

A: Pretty close to yes. uPlanIt access begins the day your Reserve Study is completed, through the end of your budget year, and three months into the following year. Then when your Reserve Study update is completed a few months later, uPlanIt access is restored with this refreshed information. And this goes on and on each year into the future.

## FL SPECIFIC QUESTIONS

**Q: Can an HOA use two SRIS reserve reports from 2 different providers and implement the plan with the lowest Reserve Funding recommendation?**

A: I suppose so, but let me consider your above question. If your entire objective is a low funding recommendation, and it cost you two SIRS report preparation fees to “find one with a low funding recommendation”, and that decision is challenged and it is revealed that you cared more for “low assessments” than your job to provide for the needs of the association, I think you'd have some significant liability exposure in the matter. Your job is to provide for the needs of the association, not minimize homeowner assessments. Pick a qualified, credible provider, and implement their recommendation. That will be good for the association, you'll be able to sleep safely and confidently in your “three stories or higher” condo, and you'll have peace about how you fulfilled your responsibility as a boardmember.