ASSOCIATION RESERVES®
Planning For The Inevitable

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Navigating Reserve Planning

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Miss the webinar? Watch it here.

Eleanor Roosevelt said that "It is always better to learn from the mistakes of others. You can't live long enough to make them all yourself". Life is indeed complicated. And Reserve planning is about anticipating and preparing for the (uncertain) future, so it is bound to not occur exactly according to our plans.

That's why we created this webinar – to showcase three case studies, and allow our audience to "look over our shoulders" as we re-enact what happened at those three associations:

- A 157-home townhome association, built 1987, that just got its first Reserve Study. While the results were somewhat obvious (they had over 20 years of un-addressed deterioration on major elements like roofing and siding). And the Reserve Study clearly showed that while $410,000 sounds like a "lot" of money, compared to the Reserve projects that were necessary at this association is was just a pittance. $410k meant they were 4.4% Funded. See how this board leaned in to this revelation, coming up with a solution that will revitalize the association and significantly boost everyone's home value, far in excess of their special assessment and loan obligations.
- An 84-unit 5-story metropolitan condo association, built in 1975. Their Reserves were in the "fair" range at 56% Funded, and had been keeping up with all major repair and replacement projects at the association, keeping home values maximized (units were selling for $1.3M to $1.6M ea). But then "reality" struck. They botched their carpet installation and had to re-order (there went $140,000). Then their elevators failed 12-yrs early. They were certainly unprepared for that major expense. But both in the same year sent them scrambling. See how this all worked out with minimal problems for the association and the owners.
- Then we provide an example of an association with a prior Reserve Study prepared by another company, that they wanted to update "in-house". So we show how quick it is to use a uPlanIt license (see more here) to upload a prior Component List, enter starting Reserve Balance and interest and inflation, and develop a Funding Plan. With the right tools, it's easy.

Other resources mentioned in the webinar:

Link to National Reserve Study Standards – [here]

Download Chapter 1 of our book "Understanding Reserves - [here].

See additional recorded webinars on our "webinars" page [here].

Remember - you're never on your own. The Association Reserves team is here to guide your association forward towards a future with sufficient funds to perform your major repair and replacement projects on time, maximizing owner enjoyment and their property values!

Webinar Questions Asked by Attendees

General Reserve Questions:

Q: How much does a Reserve Study from Association Reserves cost?

A: Every Reserve Study is bid separately, based on size of the association, type of association (condo, HOA, etc.), amount and complexity of common area amenities, geographic location, Fiscal Year End, and age. Please click here to get a no obligation proposal within a few days. In almost all cases, even the most expensive "Full" Reserve Study is only about 1% of the association's total budget.

Q: What responsibility does the board have to inform new owners of how the property is being managed? When I moved in, I had no idea how behind the association is with property management. Everything I am learning, if I had know this, I would not have purchased.

A: Every prospective buyer should ask pressing questions of the seller, because neither the board or management has any obligation to provide information to a prospective buyer. Prospective buyers should ask for the Reserve Study. Ask for Rules & Regulations. Ask for Meeting Mintes, etc. It's the buyer's job to ask questions of the seller.

Q: We had a reserve study done 20 years ago in 2005. We just had a new one done 2025. The predictions from the first one were grossly underestimated. How do we trust the new reserve study?

A: First, comparing current costs to anything 20 yrs old misses 20 years of inflation. Those old numbers should be extraordinarily low! National Best Practice is for a Reserve Study to be updated annually, and based on a fresh site inspection every third year. If your current Reserve Study was prepared by a credentialed individual (with a RS or PRA after their name), it should be reputable.

Q: We had incredible inflation, 67% for roofs in one year! We also experienced considerable component repair expenses this spring (~$200K) that our predecessors didn't have in the RS. The trifecta is that our Reserves are weak (in the 0-30% Funded range. Thus, even the "baseline" Funding recommendation doubled from the prior year's Reserve Study because of the immediate requirement for funds. That would have required a 51% increase in assessments. To counteract that, I proposed cuts from the PM's budget, changing contractors for major expenses (to save $), and clearly defining what is/isn't the HOA's responsibility so as not to include "private property" windows and sliding doors which were covered by the HOA in the past. We're getting a good investment return on our Reserves on-deposit, but interest on a small Reserve balance is a small number. We've been using your uPlanIt to investigate our options. Anything else I'm missing?

A: Sorry to hear your association is in a financial jam. Sometimes that happens. That reminds me of our first case study example. It may be time for a big special assessment to get out of the financial hole the association is currently in. Remember that every homeowner signed to pay their fair share. That means they are obligated to pay their fair share when there are unfortunate times, like now. Elevate your leadership and salesmanship. Make the point that homes in the association are worth the investment… that it's time to "pay the piper" for many years of owners not paying their fair share to offset ongoing deterioration. Sorry, but you're confronting the reality that owning Real Estate is expensive.

Q: Some of your contents seem unrealistic. e.g. "Surprise Condo Assoc" throwing away $140K of premium carpet just because the color was off. Hard to believe!

A: In that case example, the carpet was a special order. The mill made a mistake. Had the treasurer rejected it, it would have been the mill's $140,000 problem. But the treasurer signed the documents accepting the carpet, and there were two days of the old carpet being torn out and the new carpet being cut and installed before the mistake was realized. Very unfortunate, but a true story. Crazy things like this happen in the real world. Besides… the "wrong color" carpet clashed terribly with the wallpaper and trim in the hallways. I saw a scrap. It was indeed unacceptable for such a well-maintained and attractive association.

Q: $410K is NEEDED Reserves or what they had?

A: For "Sleepy Villas", $410k is what they had in Reserves. The board all felt that "seemed like a lot of money"… until the Reserve Study revealed they had about $10M of common area deterioration that needed to be addressed, either immediately or in the near future. Then all of a sudden $410k seemed like "not very much money".

<u>Component Questions</u>

Q: How does breaking up a replacement project into phases help?

A: Instead of a big project occurring all in one year ($100,000 of painting, for instance), $50,000 this year and $50,000 next year means the association has a lower expenditure in the initial year and the association has another 12 months to scrape up the second $50,000.

Q: What are the remaining useful lives of the components that were deferred in your Case one (Sleepy Villas)? Were they deferring beyond what was appropriate?

A: The components were initially set at a Remaining Useful Life (RUL) of zero. We gave all three phases the same RUL=0 because doing the siding all at once would mean the association was enjoying minimum cost due to economies of scale. In working through the cash flow problem, the board (with the help of a consultant) identified the worst buildings and surfaces that needed to be done immediately (RUL=0), the buildings and sides that could make it another year (RUL=1), and those that could limp another two years (RUL=2). That ended up being a bit more expensive in total, but it gave them time to collect the special assessment and get the loan commitment without water leaks and other problems due to literal "deferred maintenance".

Q: For repair of property that has different aged building, do you break it out by building?

A: Generally, yes. Sometimes a Reserve Study professional will break down a building by age or by surfaces (North, South, East, West, facing the road, facing the trees, facing the water, etc.), reflecting the differing repair and replacement timing of those areas.

Q: Our last reserve study did not include estimated infrastructure annual costs (sewer- water pipes). We are 35 year old community and now are just adding $40.000 annually to our reserve study spending. Should a reserve study include that?

A: Reserve Study professionals rely on a thorough interview with the client to discern current cost trends. It sounds like that information was not clearly communicated to your Reserve Study professional. Please discuss this with your Reserve Study professional, to figure out if the additional $40k/yr should come flow through the Reserve Fund, or from the Operating Account.

Funding Questions

Q: For the Sleepy Villas example (Case one), what does 4.4% Funded mean?

A: Percent Funded is a National Reserve Study Standard term that describes the ratio between cash in Reserves and the value of Reserve Component Deterioration. See more here.

Q: How is % funded for reserves calculated for a single family HOA that has a brick wall and wrought iron fence, pool, tennis court, one entry and exit gate, and less than 1 mile of HOA asphalt streets, curbs and sidewalks? Estimated replacement cost?

A: The calculation is the same in all instances… Reserve balance (typically at the beginning of the Fiscal Year) compared to the Deteriorated Value of the Reserve Components at that point in time. See above answer.

Q: When a reserve study <u>recommends</u> a Special Assessment, why is this preferred over having an <u>unplanned</u> special assessment?

A: Any advance notice is better than a last minute emergency. A special assessment in your Reserve Study is a plan that the boards can work with, pitching to the owners, explaining why it is necessary, etc. That is better than the roof leaking or losing your insurance coverage because the entry gate doesn't work and the asphalt is so crumbled that it is a trip and fall menace. A crisis situation is to be avoided if at all possible.

Q: What if your homeowner assessments are already at $700 a month?

A: That's great if your expenses (Operating and Reserves) are $650 to $700/month. If your association needs more, your homeowner assessments should be higher. That's the name of the game.

Q: When <u>loan</u> interest rates exceed interest rates earned on reserve on-deposit, why would it be beneficial to borrow funds in excess of Baseline Funding? (i.e. why borrow to be fully funded if lending rates exceed interest less taxes.)

A: We do not advocate borrowing at all. Our banker friends know that. Borrowing is fundamentally expensive. It is always better to be getting money from the bank (interest earnings) than paying it to the bank (loan interest). But borrowing is an alternative to owner-direct funding (special assessments), when the client deems the special assessment is practically or politically impossible.

Q: In this economy, how are unit owners expected to fund "special assessments" at $1000/home or more in addition to their assessment fees without going broke when the association did not manage the property properly?

A: Homeowners signed to become full members of the association, responsible for their share of its debts and obligations. Some times, when the association has been run poorly, owners will be asked to "dig deep". Some owners may need to sell and move to less expensive housing. If the majority of owners feel that way, they can begin seeking a developer who may be able to cost-effectively "de-convert" the association, buying the property from the owners and dissolving the association.

Q: I'd like your opinion on pros and cons of pooling.. pitfalls.. anyone ever pool without incorporating existing reserves?

A: Please see our webinar on the matter (Reserve Studies 103) here. In summary, after over 80,000 Reserve Studies completed for our clients, the Cash Flow (pooling) Method of Reserve Funding is <u>always</u> advantageous. The Straight Line Method always results in higher Reserve Funding requirements from the owners for exactly the same projects, due to how cash is used less efficiently in the Straight Line Method. When applied by a knowledgeable Reserve Study professional, outside of special cases where separations may be required by Governing Documents or State Law, a Cash Flow

Method funding analysis uses <u>one</u> 'pool" of Reserves. So roll up all your Reserve funds (roof fund, asphalt fund, carpet fund, repaint fund, etc.) into one Reserve Fund and have your Reserve Study professional use the Cash Flow Method.

Q: Most of our owners only want to know how much this will cost them. They will vote on the issue based on this. It seems that the solution proposed would be a significant bump to the current funding? About how much?

A: It sounds like the board of your association needs to step up your leadership. Owning Real Estate is expensive. Costs are what they are. It is in the best interests of homeowners to maximize their property values. That's where the real money is made. See more here. So increase your Reserve Funding by $10s or $100 or more per month, and make thousands on higher home values.

Q: When a building is new or rebuilt, how much should be set aside for repairs that aren't likely to be needed for 20-25 years?

A: <u>No funds are set aside "for the future"</u>. Reserve Funding offsets the boring, daily, weekly, and monthly cost of deterioration that occurs on an ongoing basis. When you offset <u>ongoing deterioration</u> all along the way, everyone paying "their fair share" of the life (value) of the common area deterioration that occurred while they owned a home in the association, the future takes care of itself.

<u>uPlanIt Questions</u>

Q: If my HOA orders a Reserve Study for the period Jan 1 2025 through Dec 31, 2025, how long does the "seasonal access" period last for uPlanIt?

A: The budget (based on the Reserve Study) for your 2025 Fiscal Year was prepared in late 2024. Your access to uPlanIt begins the date the Reserve Study was completed (Sep 15, 2024, for example) through that budget planning period (Dec 31, 2024), plus a bonus three months (Mar 31, 2025).

Q: How much is a uPlanIt subscription… after our free term expires?

A: $399 per budget season.

Q: What is the underlying software of your reserve model? Is it a type of database (vs. spreadsheet) software?

A: It is an online web-based (cloud-based) web application.

Q: **What happens when a board member removes necessary components to increase the percent funded in uPlanIt? Does Association Reserves ever drop a client when the HOA is not being realistic?**

A: uPlanIt is the "sandbox" where clients get to test their own what-if scenarios. Association Reserves takes no responsibility for the wise or foolish cases our clients test on this platform.

Q: **Why couldn't the software be revised to reflect different inflation rates over the 30-year term? That would be extremely helpful in dealing with the short term high inflation rates.**

A: There is no limit to the complexities and scenarios we could build uPlanIt to handle. But uPlanIt is designed for boardmembers to investigate the typical tests/questions they have about their Reserve Study… what if we move a project out a year, or what if we can get it done for $25k less, or what if we have $25k less in our Reserve Fund, or what if we can get 4% on our Reserves (instead of 1%)? We kept coming back to keeping it simple for our typical user, and encouraging them to seek professional help for more complex scenarios.

Q: **Can your uPlanIt app be linked with other financial apps (MS-Excel) to manage expenses and reporting on an on-going basis?**

A: The Component List from uPlanIt can be output to a .xlsx spreadsheet, which as you suggest can be imported into many different software platforms.

Q: **Is there a multi-year purchase price of your uPlanIt app tool?**

A: No, just one year at a time.

Inflation Questions

Q: **Our reserve study uses a single inflation rate (3%) for the entire span of the study. In our region, inflation, especially construction materials and services, are much higher recently. Since most of our decisions are made for the next 3 to 5 years, how do we make the study more accurate, and thus, more useful?**

A: We bias short-term expenses higher than we expect over the long term. Inflation in the country should stabilize, meaning we don't expect any periods of low inflation or high inflation to last very many years. So with short term costs currently biased high, and with long term projections based on the assumption that inflation will return to its decades-long pattern of being in the 3% range, we feel this serves our clients very well.

Q: How do you determine inflation? I'm in construction and escalation can be 25%

A: In recent years, inflation has been high. We don't believe it will be high for long. We want to both prepare our clients for their near term costs (with projections biased high for the next 3-5 yrs), with more "normal" inflation moving the costs up for the remainder of the 30-yr projection period.

Q: Do you have different inflation rates for different parts of the country? What is your source for determining inflation?

A: There are different inflation rates possible for almost every zipcode in the country. But we believe national trends are more powerful than local nuances (beyond the accuracy of the typical Reserve Study forecast), so we tend to use a national inflation value based on Government CPI multi-yr trends..

Q: Did you just say that you need to pick a single inflation rate for the entire time frame?

A: Yes

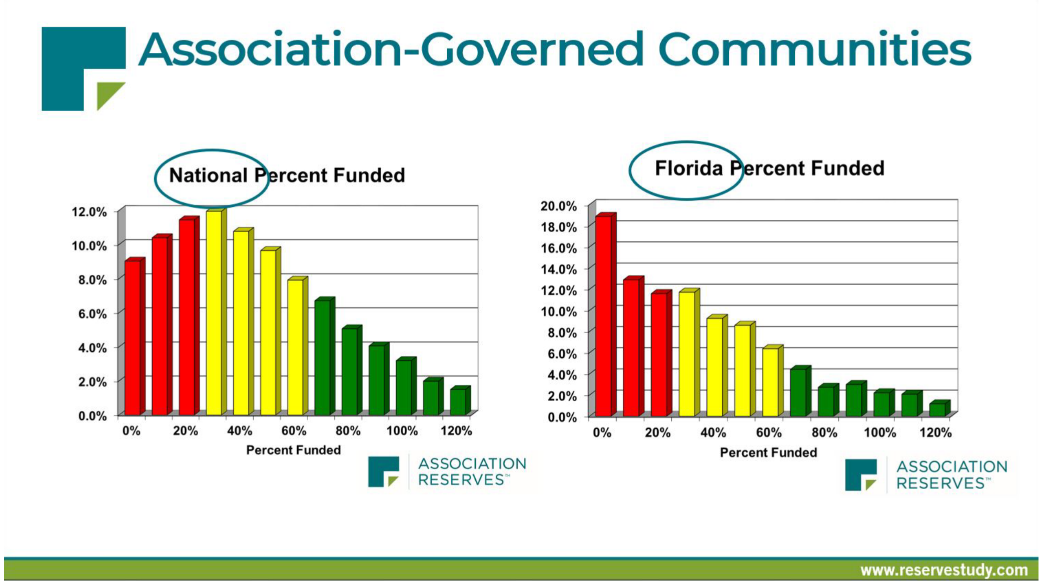
Q: In the past we were only required to update reserve studies every five years. Have you seen that with Covid and Inflation increases over the last few years has put a well funded hoa into a poor or middle funded community?

A: Updating a Reserve Study only every fifth year does not serve your association well. Associations that did not update their Reserve Study (and consequently their Reserve Funding Plan) over the last few years are seeing a significant drop in their preparedness (Percent Funded). National Best Practice is to update your Reserve Study annually, and base that update on a diligent visual site inspection at least every third year.

FL Specific Questions

Q: How do FL condo associations compare to rest of major condo states on % funded. What are the % funded percentiles in FL?

A: The percentage of FL associations with a weak Reserve Fund is significantly higher than the national average. See below:



Q: Does your company have engineers to support and complete Florida's SIRS report and then compute this information into a reserve study?

A: We have credentialed Reserve Specialists (RS) on staff to prepare SIRS documents for our FL clients. That's the credential you want preparing your Reserve Study.