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Reserve Studies 102 – The Financial Analysis

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Miss the webinar? Watch it here.

Our job is to help your association prepare for *inevitable* future expenses. This webinar helps you understand if your Reserve Fund is strong, weak, or somewhere in-between. We also explain what drives your Reserve funding requirements… what makes them higher or lower than seemingly similar associations. It all starts with understanding that deterioration is inevitable and unrelenting. Deterioration is a formidable, expensive opponent.

So – how do you know if your association is prepared (or not)? First, your Reserve Study provider calculates the amount of deterioration at your association at this time. That number is called your Fully Funded Balance. Shown below, it is the fractional age of every component multiplied by its current cost. That reveals the "value" of its life "used up".

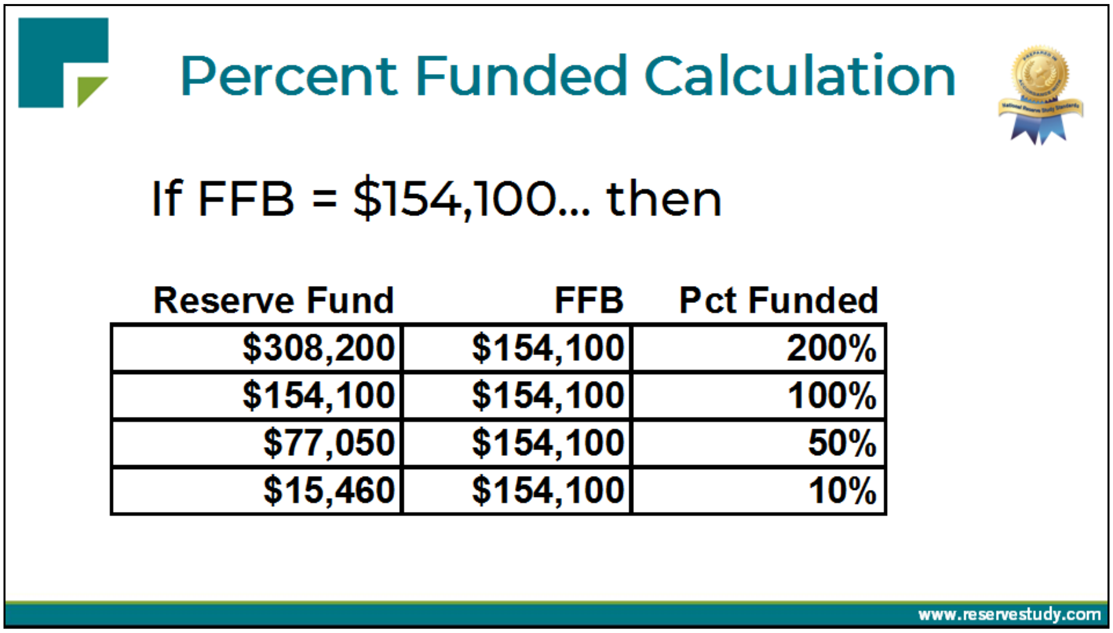
Fully Funded Balance

Fractional Age X Current Cost

(Summed for all components)

Then, your Reserve Study provider compares how much Reserves you actually have on deposit to this target value. That's when you begin to learn if you should feel good or bad about how much boards and owners have set aside in prior years, resulting in today's balance.

The result of that comparison looks like this – your association's calculated Percent Funded.



Percent Funded Calculation

If FFB = $154,100... then

Reserve Fund	FFB	Pct Funded
$308,200	$154,100	200%
$154,100	$154,100	100%
$77,050	$154,100	50%
$15,460	$154,100	10%

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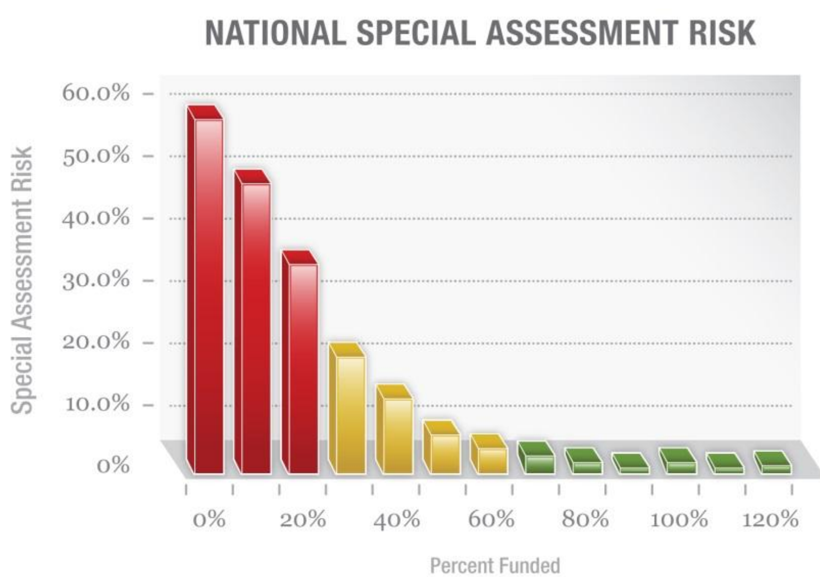
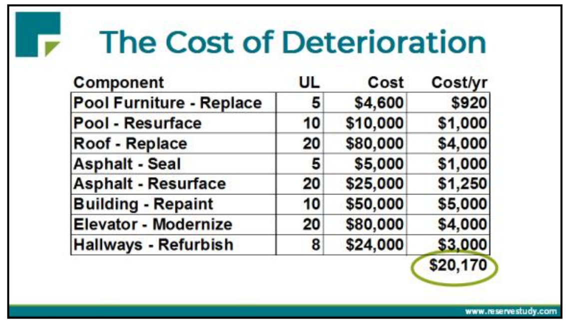
And now you should be wondering… what does this tell me, and what does this mean? Your association's resulting "Percent Funded" is a strong indicator of special assessment risk. It is not an absolute correlation, but there is a <u>high risk</u> of special assessments when the Reserve Fund is in the weak 0-30% range, medium risk when the Reserve Fund is in the middle 30-70% Funded range, and <u>low risk</u> of special assessments when the association has a strong Reserve Fund (over 70 Funded).



Okay – now that you know your starting point, let's talk about your Reserve funding needs. In the webinar we discuss the "deterioration rate" – the smooth and predictable rate at which your Reserve components are deteriorating. This "ongoing cost of deterioration" is as real as any other bill your association faces! Your Reserve Study provider calculates your "deterioration rate" by dividing each Current Cost by its Useful Life, revealing a $/yr rate". This is the "pace line" of ongoing deterioration at your association, based on the components identified in your Reserve Study. This cost of deterioration is what you offset with ongoing Reserve funding.



Component	UL	Cost	Cost/yr
Pool Furniture - Replace	5	$4,600	$920
Pool - Resurface	10	$10,000	$1,000
Roof - Replace	20	$80,000	$4,000
Asphalt - Seal	5	$5,000	$1,000
Asphalt - Resurface	20	$25,000	$1,250
Building - Repaint	10	$50,000	$5,000
Elevator - Modernize	20	$80,000	$4,000
Hallways - Refurbish	8	$24,000	$3,000
			$20,170

If your association is transferring more than your ongoing cost of deterioration, you'll *strengthen* your Reserve Fund over the years. If your association is transferring less than your ongoing cost of deterioration, your Reserve Fund will *weaken* over the years.

The well-being (adequacy) of your Reserve Fund is a combination of your starting point (your Percent Funded), and responsibly sized Reserve transfers. A Reserve Study prepared according to national Reserve Study Standards should identify your starting Reserve Fund strength and craft a multi-yr custom Funding Plan to provide sufficient Reserves so all your owners pay their fair share of the "deterioration bill", and so the association can perform its Reserve projects in a timely manner (allowing the board to fulfill their responsibility to maintain the common areas).

Note that Reserve transfers sufficient to offset ongoing deterioration are typically in the range of 15 – 40% of an association's total budget.

National standard Funding Methodologies such as the Component Method (aka "Straight Line") and Cash Flow (aka "Pooled") are different tools used to calculate Reserve funding rates in light of the timing of upcoming expenses. The Component Method regularly calculates very high near term Reserve funding obligations, and for that reason is rarely utilized outside of Florida.

National standard Funding Goals such as Full Funding, Threshold Funding, and Baseline Funding describe the amount of margin built into the multi-yr Reserve Funding plan, above expenses, to minimize the association's exposure to special assessments.

These Reserve Funding Methodologies and Goals are covered in detail in our Reserve Studies 103 webinar curriculum. See the last version of this webinar on our website here, or join us the next time we present this webinar live.

Free eBooks on Reserve Fund Strength and Reserve Funding Plans are available here.

Get an expert on your side to provide you the information you need to navigate towards an improved future. We can help by preparing your Reserve Study update, ensuring your Reserve Fund Strength is calculated correctly and a Funding Plan is custom-prepared for your association. Enlist the support of a team who has prepared over 90,000 Reserve Studies for clients in all 50 states over the last 30+ years! Launch a free online proposal request by clicking here. Or click here to see our network of offices across the country (serving clients in all 50 states!).

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Planning For The Inevitable

Over 90,000 Reserve Studies Nationwide

Click here for a free Chapter 1 preview of our book "Understanding Reserves"

****Note: This course is approved for continuing education credit by:**

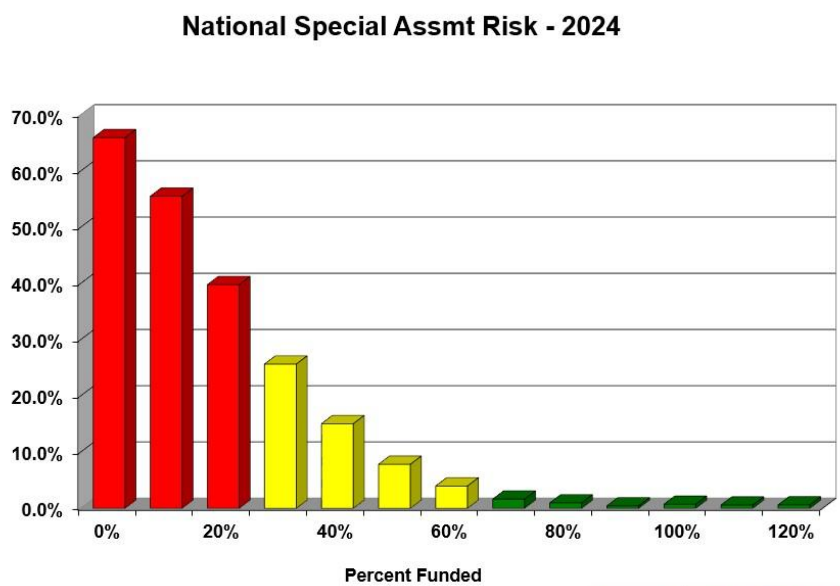
- **The Community Association Managers International Certification Board (CAMICB) to fulfill one CE credit for the CMCA® certification**

Reserve Studies 102 Attendee Questions

General Reserve Questions

Q: How did you determine that 70% is sufficient for a level of funding?

A: The 70% threshold is based on statistical analysis. Please see the data below, which has been compiled from the completion of over 80,000 Reserve Studies. Note how special assessments (due to insufficient Reserves on hand) are common in associations 0-30% Funded range (left side of the graph), infrequent among associations in the yellow 30-70% range, and extremely rare for associations above 70% Funded.



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Q: What is the best method to present this to homeowners? Most just focus on keeping Monthly dues low.

A: Remember that your roof, asphalt, and paint don't care how much Reserves are being funded. Their expenses will occur very predictably. So, it's a choice… 1) Pay for these predictable expenses a little bit at a time as the property deteriorates as part of ongoing assessments, or 2) Via "emergency" special assessments. Homeowners pay the same either way, but it's a lot smoother and responsible to pay a little bit at a time in a budgeted manner. Besides, that's typically the requirement outlined in the Governing Documents (to budget for the collection of sufficient funds to provide for the ongoing care of the property). The positive side effect is the property stays looking nice on an ongoing basis, which will help maximize property values.

Q: **Can you speak about the items that are now being recommended on new Reserve Studies associated with setting aside money for infrastructure inspections for aging buildings?**

HOA specialty Insurance Companies (like CAU) are also indicating that for HOA buildings/condos that are older than 40+ years old, these types of engineering assessments may be required by underwriters to provide renewal options and/or calculate renewal premiums.

Follow up; do you know if CAI and/or Association Reserves will begin to gather a source of nationally recommended service providers that can satisfy this specialized assessment for plumbing and/or electrical systems integrity so HOA's can begin to gain validated cost expectations to load into their reserve study expense expectations for this type of "new component"?

A: National Reserve Study Standards were updated in 2023 to recommend the inclusion of subject matter expert (SME) reports such as infrastructure inspections. These less frequent and more expensive inspections reveal building needs not identified within the scope of a Reserve Study. These inspections are highly recommended. As you stated, there are some cases where these inspections are required by local law or by your insurance carrier. In addition to insurers, expect lenders are soon to be asking for them. After the collapse of Champlain Towers South in 2021, there is an increased awareness that buildings don't last forever if not maintained rigorously. Costs for such inspections are now regularly included as Reserve Components. At this time, as an independent provider of Reserve Study services, we do not expect to develop a list of recommended inspection service providers. Candidate companies can be found based on referrals from your attorney, management company, or through trade organizations such as CAI.

Q: **How do you convince fellow board members how important this is?**

A: We discuss this question regularly via webinars (which are recorded for future playback for anyone who couldn't attend live). Here is a point to hammer home, which is also a message that is now being popularized by attorneys and other industry professionals: buildings deteriorate in a predictable manner, and the boards are responsible for the care of those buildings. Remember that keeping monthly assessments low doesn't save money. It only pushes the expense over to special assessments, resulting in a higher chance that the building will appear deteriorated as it deteriorates, while waiting for the funds to be collected. Also, keep in mind that a reputation for periodic special assessments damages property values. It's not to anyone's benefit to skimp on Reserve funding.

Q: **How can artificial intelligence and predictive analytics improve the accuracy and efficiency of reserve studies, and what challenges might arise in implementing these technologies?**

A: AI and predictive analytics have the potential to enhance Reserve Studies by saving staff time and improving accuracy in forecasting component deterioration rates and costs. We have a healthy database of building deterioration rates and costs among our clients, and we look forward to leveraging that information in the future to be able to prepare Reserve Studies faster and less expensively, helping more associations prepare responsibly for their future.

Q: What if we have done everything right and a hurricane accelerates the roof replacement or the paint and waterproofing in Florida?

A: Reserve planning allows you to be ready for the predictable. Insurance is for accidental events. If you are well prepared financially to replace your roof in two years and it gets destroyed by a hurricane (or a hailstorm), your insurance carrier will pay for the cost of a new roof, and your Reserves will instantly become much stronger. In many cases, you then can slow down your Reserve funding due to that jump in Reserve Fund strength, making some cash available for the inevitable increase in your insurance premiums. Together, your Reserve planning and insurance coverage help create a sustainable future for the association. When done properly, special assessments become wonderfully rare, and property values are maximized.

Q: How often should we update our Reserve Study?

A: National Best Practice is a With-Site-Visit Update at least every three years, with annual (inexpensive) No-Site-Visit updates in between. Physical conditions and financial circumstances are in a continual state of change, and regular updates ensure that funding strategies remain relevant and effective.

Q: How do we make sure that our reserve study is accurate and detailed? That is, that it covers everything and we don't miss something?

A: Work with a credentialed Reserve Specialist (RS) or Professional Reserve Analyst (PRA) who spends an appropriate amount of time staying updated on the history of your building(s) and the projects that have been accomplished over the years. A baseline of expertise and an accurate reflection of past behavior is the best predictor of (good) future results.

Q: How do we as managers keep our homeowners focused on reserve funding without kicking funding down the road for another time or Board?

A: Emphasize the risks of deferring funding—higher costs, special assessments, and declining property values. Use Reserve Study projections to show how a little bit of Reserve funding on a continual basis helps offset ongoing deterioration – with everyone paying their "fair share". Nobody is then forced to pay for the deterioration that occurred prior to their ownership in the association, nobody is providing charity for future owners, and property values are maximized. Deterioration due to Mother Nature and Father Time is real, unavoidable, and insidious. Associations need to put up a good fight with appropriate Reserve funding or there will be serious and expensive consequences.

Q: **Can we have an "exit fee" when homeowners move out that's based on the number of years a homeowner has lived in the association? I'm asking because our association is penalizing buyers with a fee when they buy a home instead of homeowners who have lived there forever and never paid their fair share into underfunded reserves.**

A: Check with your association's attorney. Since people sell at different times (after different # of years of ownership), the simple solution is to budget for the ongoing cost of deterioration, so everyone pays their fair share along the way. Adopt that as the policy of the association.

Q: **Can you speak to how the Reserve Study is now affecting insurance and those costs?**

A: Insurance companies are scrutinizing reserve studies to assess financial preparedness. Well-funded reserves reduce perceived risk and are indicators of "well-run and well-maintained" associations, leading to lower premiums. Underfunded associations may face higher costs or difficulty securing coverage, dwarfing the cost of what would have been prudent & responsible budgeted Reserve transfers.

Q: **Board members always get sticker shock from major projects such as painting etc. Are there industry ballpark cost numbers for such major projects? Example: Paint cost/square foot to be painted. Roof cost per square foot?**

A: Yes, industry benchmarks exist for projects like roofing, painting, and paving. However, costs vary by region and project complexity. Expect your independent, credentialed Reserve Specialist to provide updated estimates based on their local experience.

Q: **Can you explain how a special assessment amount is calculated?**

A: A special assessment is so unfair, it is typically the funding method of last resort and only used in a situation where the association doesn't have time to collect funds via the regularly budgeted income stream. A special assessment is typically calculated by dividing the (immediately needed) shortfall by the number of units. If an association needs $500k now for a roof project and it only has $100k now in Reserves, it has a $400k shortfall. With 100 homeowners, that means a $4000/unit special assessment.

Q: **I've told boards that I can't give an accurate explanation for what "adequate Reserves" are off the top of my head, and that a reserve study will provide that. As we know, boards can be pushy :) Is there anything we can say to those who don't want to pay for a study?**

A: Not having a Reserve Study is like driving blindfolded—sooner or later, you'll crash. A professional study ensures financial stability and prevents costly surprises. We can tell you that most associations need to be setting aside 15-40% of their total budget towards to Reserves. If you're doing that (the most common value is in the 25% range), you'll at least be somewhat close to funding Reserves at the appropriate level. BTW – per national Reserve Study Standards, "Adequate Reserves" are defined as "A replacement reserve fund and stable and equitable multiyear funding plan that together provide for the reliable and timely execution of the association's major repair and replacement projects without reliance on additional supplemental funding."

Q: **Do reserve studies vary greatly between reserve study companies?**

A: National Reserve Study Standards provide a stable platform, but like in any professional field, the readability of the report, amount of detail, additional features offered, and customer service make each company unique. However, the basic contents, disclosures, and calculations *should be* similar.

Q: **Do reserve study preparers review the governing documents?**

A: In a first-time engagement with a client, generally, the answer is "yes". This helps provide a baseline of what is and isn't a common area.

Q: **How can I convince board we don't need a contingency %? We've had a 5% "contingency" line item forever and it increases our funding requirement.**

A: Reserve planning is fundamentally based on estimates of cash and expenditures in the future, so one needs to expect a certain level of uncertainty. At Association Reserves we recommend strict adherence to national Reserve Study Standards with respect to the definition of the "component projects" appearing in your Reserve Study, meaning no miscellaneous "contingency" line item. We recommend a strong/conservative Funding Goal (Full Funding) to prepare our clients for a future where Reserves can pay for predictable projects with a little bit of margin for the unexpected. Some of our competitors throw in a "contingency" line item, yet choose a minimal Funding Goal (Baseline), handling "uncertainty" via the Component List. It is likely best not to have a "margin" in your Reserve Study for uncertainties in both your Component List <u>and</u> your Funding Plan.

RESERVE COMPONENT QUESTIONS

Q: **What should we do if we do not agree with any number of Reserve Study line items - if we've gotten a more accurate cost estimate or Remaining Useful Life estimate?**

A: A Reserve Study is a professional analysis, but it's not set in stone. It is a budget and cash flow guide. Please discuss your concerns about particular line items with your local Reserve Study professional. Our goal is to model the physical and financial behavior of the client property as best we can, and if clients have some insights, we welcome that feedback. It may result in a revised Reserve Study.

Q: If you replace items before they were scheduled to be replaced, will this impact your reserves?

A: Absolutely. An "early" expenditure will tend to deplete your Reserve Fund, weakening it. Hopefully, you will have other projects occurring "later" than expected to offset this "early" expenditure". Too many "early" or "higher cost" projects and your Reserve Funding will need to be adjusted upwards. Timing differences and cost differences are two reasons your Reserve Study needs to be updated (re-tuned) regularly.

Q: You used the example of replacing pool furniture. If the Board does not replace pool furniture because (in their opinion) it is still in functional but dated, how does that affect property values and does this stay on the reserves as not completed? Same for all components that call for refurbishing if they are not completed because it is only for "aesthetics" and the community stays outdated. How does this affect the association in the future?

A: Some components reach the end of their aesthetic life before they reach the end of their functional life. That is when they no longer serve the best interests of the association and should be replaced. Think of it from the perspective of a prospective buyer. If the property appears "dated", buyers are not enticed into paying top dollar for a home in the association, and you've instantly lost more money than the cost of a new set of pool furniture (or lobby furniture or clubhouse furniture, or…). Something at the end of its aesthetic (or technological) life is legitimately due to be replaced.

Q: What about items not included in reserve study. For example, we had to add a water pressure regulator to each unit, but this item was never included in the reserve study. What about insurance costs, which are skyrocketing?

A: If a project meets the national Reserve Study Standards three-part test, it should appear in your Reserve Study. Discuss with your local credentialed Reserve Study provider for inclusion in your next update. And yes, insurance costs are skyrocketing. So, in addition to a potentially higher Reserve funding requirement due to the addition of water pressure regulators, you'll likely need to increase your assessments to pay the cost of keeping your property well-insured.

Q: How do you handle a situation where an asset is at the end of its estimated useful life but we have support to increase the remaining useful life?

A: Discuss with your Reserve Study provider. If legitimate, they may revise the report (if recently prepared), or you may be due to update your Reserve Study to incorporate this new information.

Q: How do you factor in preventive maintenance that extends the useful life of components?

A: Please see our recent webinar, "Components – a Deep Dive" here. We discuss this in more detail, showing how spending money to maintain your major components and maximize their life expectancy actually saves the association money. We regularly ask for your Preventive Maintenance schedule/plan, and we look for telltales to find if you are maintaining things well or just letting them fail. It makes a difference in the Useful Life and Remaining Useful Life estimates we use for your Reserve components.

Q: If we have 35 units in our Condo, do we have 35 components or 1 component that is the total of all units?

A: You should have a component line item for each project that meets the national Reserve Study Standard three-part test definition. Typically, an association has between 25 and 50 components. The # of components depends on the type of property (condo vs. HOA), the # of phases, the types and amount of common area amenities, and general complexity. The # of components is not directly related to the # of units in the association.

Q: How do you determine the remaining useful life if 56 roofs are replaced at all different times over a 7-year timeframe?

A: We would create seven different phases for roof replacement, modeling the actual experience/behavior of the property.

Q: Age is obviously critical to the RUL factor. However, is there a subjective opinion about the need for higher funding for older assets?

A: Yes. Older associations have more components that are reaching the end of their Useful Lives, just like a used car has higher ongoing expenses than a new car. Planning ahead with a Reserve Study helps spread these costs out over the life of these assets. This Funding Plan allows all owners to pay their "fair share" of the deterioration that occurred while they owned a home in the association.

Q: How do you factor in past unfunded obligations (i.e., maintenance or replacements) that are at the end of their RUL but carried forward undone?

A: This is a common issue. When many components in your Reserve Study have a Remaining Useful Life (RUL) of zero, that places a significant financial strain on the association. It is like water piling up behind a dam. That water is the ongoing deterioration. It still keeps flowing, even if the board is blind to the need to do projects that take care of the common areas. In many cases, it means that due to a lack of funding in prior years, they've created a big "catch-up" special assessment, meaning nobody really saved any money by underfunding their Reserves. They just lived in a deteriorating association with lagging property values.

Reserve Funding Questions

Q: **Where would I find our percentage funded? We have a professional manager, but not a component list or reserve schedule/study.**

A: Your Percent Funded should be in your Reserve Study report. Challenge your manager to commission a Reserve Study by an independent, credentialed provider. Without a Reserve Study, you're moving into the future blindly, unaware of your current Reserve Fund size/strength (Percent Funded) and what you should be setting aside regularly in Reserves to offset deterioration.

Q: **If an HOA is 12% funded, which would be a better choice to fund, a Special Assessment or a Loan?**

A: It depends on the association's cash flow needs. Some brand-new associations are 12% Funded, but they have time to build their Reserve Fund strength through via budgeted transfers before the cash is needed. Older associations that are 12% Funded may be facing an immediate cash need. Discuss your options with your local independent credentialed Reserve Study provider. Note that we never recommend a loan. It is a very expensive way to fund the predictable cost of ongoing deterioration, putting that cost onto the shoulders of future owners who should be focusing on paying the cost of current, ongoing deterioration (not making up for the sins of the past). And by the way – increase your Reserve funding to strengthen your Reserve Fund and minimize the chance of getting in a similar jam in the future!

Q: **If a reserve fund is more than 100% funded, do you recommend pausing scheduled transfers to the reserve fund?**

A: No, we do not recommend pausing Reserve transfers. In these cases, we regularly recommend a slightly reduced Reserve Funding rate to gradually "burn off" that surplus and bring the Reserve Fund back down to the 100% level over several years.

Q: **What is the recommended percentage of an HOA's reserve fund relative to its operating account? For instance, if an HOA has $50,000 in its operating account, what would be an appropriate reserve fund balance?**

A: There is no Op vs Reserves size ratio relationship. Reserves and operating funds serve different purposes. The Reserve Fund balance rises and falls based on upcoming, or recently accomplished projects, while the Operating Fund should typically hover around two or three months of expenses.

Q: **Should we double our Reserve Funding rate by adding the deterioration rate?**

A: No. Your "deterioration rate" influences the size of the Reserve Funding needed to offset ongoing deterioration. It is not a separate thing. You'll find your Reserve Funding needs should exceed your "deterioration rate" in times of high inflation and when your association is in "catch-up" mode, but otherwise, it should be somewhat similar.

Q: Where prior boards or owners have underfunded the reserves, and the structure is aging, and special assessments have been maxed out, are there any other funding options available?

A: It sounds like a loan is out of the question because banks only like to give loans to associations with sufficient cash flow to repay the loan. You may have a real problem on your hands. This will require a significant "political" effort on your part to get owners to invest in the association (dig deeper for additional special assessments or higher ongoing Reserve funding), or it may cause you to investigate the possibility of a "deconversion".

Q: What does a homeowner do if the board members are not funding the reserves properly? We are down to 4% funded and are continually hit with special assessments. Current president (past 12 years) and manager work in "crisis - management" rather than proactive management. What can homeowners do?

A: Gather some other like-minded homeowners and put pressure on the board to begin to run the association in a more fiscally responsible manner. Run for the board to create a majority who care about the financial sustainability of the association. In the meantime, set aside your own private "Reserve Fund" of something in the range of 1/3 to ¼ of your current monthly assessment rate, preparing you to pay the inevitable upcoming special assessments.

Q: Is taxable reserve interest from various Reserve investment vehicles payable from reserves?

A: Yes. Most Reserve Study providers only presume that "net after tax" interest earnings actually accrue to Reserves. That said, this amount of tax is small enough that many associations simply pay the tax as a nominal expense from the Operating Fund.

Q: What if we put more components into the operational budget, taking some from the reserve fund?

A: If, for instance, you move pool furniture from Reserves to Operating (so you can replace pieces a few at a time, here and there, rather than all at once every x years), that's fine. Just make sure you discuss with your Reserve Study provider so that the component project is removed from the Reserve Fund and properly noted for future reference. Remember that such a move doesn't save anyone any money… it just means you'll be paying an expense from the right pocket instead of the left pocket.

Q: With the expected rise of increase costs to Operating accounts, such as insurance and utilities, what is a healthy monthly reserve transfer the Board should strive for when planning for budgets?

A: It varies but follow what is recommended in your Reserve Study. Often that's in the range of 15-40% of your total budget. As you're finding out, owning and maintaining Real Estate is expensive!

Q: **I see our association is paying small pool repairs, and heater repairs or replacements from the Reserve Fund. But such repairs and maintenance are not on the reserve study, and the pool heater has already been replaced twice! Is this a proper use of reserve funds?**

A: Your association shouldn't be spending Reserve cash unless it specifically addresses or resolves a listed Reserve component, there because it passes the National Reserve Study Standard three-part test. Please discuss with your Reserve Study professional. It sounds like you're paying for "maintenance" from Reserves, depleting your Reserve Fund!

Q: **Some expenses are very high (e.g. roofs, siding, or road replacement). How do you handle reserves when the board of directors decide to replace the asset, e.g. roofs, over a few years? This may be done to keep from a special assessment.**

A: We model this by creating multiple line items for the project, phasing it in portions over a number of years. As you suggest, this spreads costs more evenly and reduces the risk of special assessments. But… make sure that you have the time to delay the later phases and aren't causing the association more problems by running into repairs that will be needed shortly before the delayed phases are replaced. Also, be aware that each time a major contractor sets up at your association there are "mobilization" costs. Finally, in times of inflation it may be best to "get it done now" rather than face costs 20-40% higher in just a few years. It is best to discuss with your Reserve Study provider.

Legal/Law Related Questions

Q: **What legal implications (if any) do BODs face if they are negligent in securing reserve funds over time? (I understand you are not lawyers, but in your experience)**

A: Our answer as Reserve Study professionals (not legal advice) is that board members have a fiduciary duty to maintain the association's financial health. If they knowingly underfund reserves, they could be held liable.

Interest/Inflation Questions

Q: **Our Reserve Projects are different in cost each year – they all don't increase regularly in a straight line. Also we use the best inflation rate for the coming year (which changes by year) and pursue a Full Funding goal (we strive to be 100% Funded). Are you saying our revenue generation plan should be forced into a smooth line as shown?**

A: Good for you and your professional Reserve Study provider to appreciate all the above. Costs increase irregularly through the years, and a conservative Full Funding goal is a strong plan. It is also prudent, and consistent with the national Reserve Study Standards four Funding Principles to provide budget stability for your association moving forward. While we realistically expect annual (or every three-year) adjustments to your Funding Plan, the plan itself should be smooth.

Q: Reserve studies generally do not take into account inflation. Due to the current market conditions, how much more should we be adding to our current reserve study to account for inflation?

A: Actually, I disagree with your premise. Interest and inflation are real and powerful, and their inclusion is recommended in a Reserve Study. I see interest and inflation being used in all our Reserve Studies and all the Reserve Studies of our competitors. We believe in the United States, and we believe our leaders will use their economic tools to keep inflation at a low and consistent level. We've already seen economic tools being used to bring down inflation from the "highs" we experienced in the last few years. Looking at historical averages, we suggest 3% inflation is a good value to use for planning over the next 30-year horizon.

FL Specific Questions

Q: How long after a SIRS (Structural Integrity Reserve Study, as required here in the State of FL) is prepared do you recommend updating that Reserve Study?

A: Because an association's physical situation, financial situation, and the economic environment in which it exists are all in a continual state of change, national Best Practice is for a Reserve Study to be updated on the basis of a diligent visual site inspection at least every third year, with recommended (inexpensive) No-Site-Visit.