

Keeping Your Reserve Study Current



One of the most crucial elements of an Association's reserve study is that it remains current. Reserve studies are intended to be 'living' documents that will change and adjust over time, becoming more accurate as the Association has more actual cost history and insight to use for future planning.

If the Association is drawing financial conclusions based on outdated or inaccurate information, it increases the chances that they'll be faced with a special assessment to cover any shortfalls that may have otherwise been caught during an update. Reserves should be one of the largest line items in an Association's budget, so it is very important to make sure your figures are accurate and current.

Leading experts in reserve studies advise that community associations update their reserve studies as follows:

- Board members and property managers should update the reserve component list annually as part of the budget planning process. This does not necessarily need to be done by an outside company as long as there is a recent reserve study to serve as a template.
- A full reserve study, which includes a site inspection and condition assessment, should be conducted as soon as possible after developer/property turnover.
- Formal reserve studies should be conducted by outside professionals every 3 to 5 years.
- Reserves should be professionally updated whenever the association has completed or is contemplating any major expenses.

While it may be tempting to forego the above guidelines and use a previous year's reserve study to save time during the budgeting process, this usually results in negative consequences.

The longer an Association waits between updates, the greater risk they have of getting off an adequate funding rack. This can lead to special assessments, large assessment fluctuations, or claims of mismanagement. The Association will also not have the benefit of revisiting the technologies or money-saving opportunities that may not have been available to them when the last study was done.

Mortgage companies and savvy home buyers are doing more and more research into an Association's financial status before buying or lending into a community. An outdated or inaccurate reserve study could be unattractive to a buyer or mortgage company. Several Associations have not been able to obtain financing for major projects because they did not have a current reserve study in place to show the lender.

On the other hand, when a community association updates their reserve studies regularly, there are many benefits for everyone involved.

BENEFITS FOR THE COMMUNITY ASSOCIATIONS

Updated reserve studies are important in that they help Associations reduce the risk of major financial stresses, such as special assessments, large bank loans, and major increases to membership dues. Having adequate reserves will ensure that an Association can take care of the physical needs of the property on schedule, not having to defer maintenance and allow property values to drop as a result of poor physical and aesthetic standards. Lastly, we're seeing that the real estate marketplace is paying a lot more attention to reserves as a result of the last five-plus years of real estate troubles. Many buyers are placing a higher value on Associations with strong levels of funding. A reserve study is a valuable tool for Association's to either document their financial strength, or show that they are committed to improving their standing going forward.

BENEFITS FOR HOMEOWNERS



First and foremost, a reserve study that is regularly updated will eliminate or certainly greatly reduce special assessments. Picture yourself as a young couple who recently bought a condominium trying to make ends meet and getting a surprise special assessment bill in the mail from the Association saying that you have to come up with \$4,000 in the next 6 months for a re-roofing project that wasn't planned for.

Second, a reserve study typically recommends funding the reserves on a consistent basis from year to year with slightly increasing reserve contributions-this method treats current and future owners equally and fairly. What I like to tell people is that what they're actually paying for with their reserve contributions isn't so much replacement of common elements but rather for the wear and tear while they live there.

Third, it's easier for homeowners to look at their personal, long-term financial planning since they know that increases will be minimal and predictable.

The fourth reason, is preservation of the market value of their investment. This is a big one because people's single largest investment is usually their home. A reserve study will help maintain the property in good condition, which helps strengthen the market values of the homes.

BENEFITS FOR PROPERTY MANAGERS

An accurate reserve study helps the property manager to do his or her job. They need to know when capital projects are coming down the pike so they can go out to bid, help the board in understanding the bids (as we all know, no 2 bids are alike), and determine the best provider. It's a great planning tool for the manager, working either with the board or on their own when planning the next year's budget. A professional reserve study will help the manager in preserving a strong relationship between the board and management company by bringing in experts. Lastly, a reserve study will help free up the manager to focus on the many other property management functions.

BENEFITS FOR BOARD MEMBERS

The board's primary responsibility is to maintain and protect the common property of the Association. A current, accurate reserve study helps them fulfill that fiduciary responsibility and ensure they are in compliance with state statutes.

Having that long-term plan saves boards countless hours and meetings. It gives the board that long-term financial master plan that they need to prepare for the short-term and long-term future. It's an objective look at the future needs of the Association. This is important, considering that all it takes is one or two disgruntled homeowners claiming that the board is making decisions for their own benefit, and all of a sudden, your harmonious community isn't so harmonious. No matter how far out in left field those types of accusations can be, they can still breed a lack of confidence in the board.

Based on all of this information, it is easy to see that regular updates to reserve studies are in the best interests of everyone involved.

