



Reserve Studies Unveiled

Understanding, Implementing, and Navigating Your Association's Financial Future

Presented by:

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Agenda

- » What is a Reserve Study
- » Benefits of Reserve Studies
- » Reserve Study Updates
- » Using a Reserve Study
- » Q&A

\$27B

Annual assessment dollars contributed to association reserve funds for the repair, replacement, and enhancement of common property.

Based on data from the Foundation for Community Association Research: foundation.caionline.org

1 | What is a Reserve Study?

Reserve Study



Physical Evaluation



Financial Analysis



Physical Evaluation



Meeting focus

Discussion between the reserve specialist and the community stakeholders



Inspection focus

Areas of focus for the reserve specialist while conducting a site inspection

Scope of responsibility

Understand what is Association maintained

History of capital projects

Learn what has been done and what is planned

Review of operating budget

Avoid shortfalls or double funding



Physical Evaluation



Meeting focus

Discussion between the reserve specialist and the community stakeholders



Inspection focus

Areas of focus for the reserve specialist while conducting a site inspection

Measure & Quantify

Condition & life expectancy

Evaluate component condition relative to age

Manner of replacement

Determine best approach for replacement

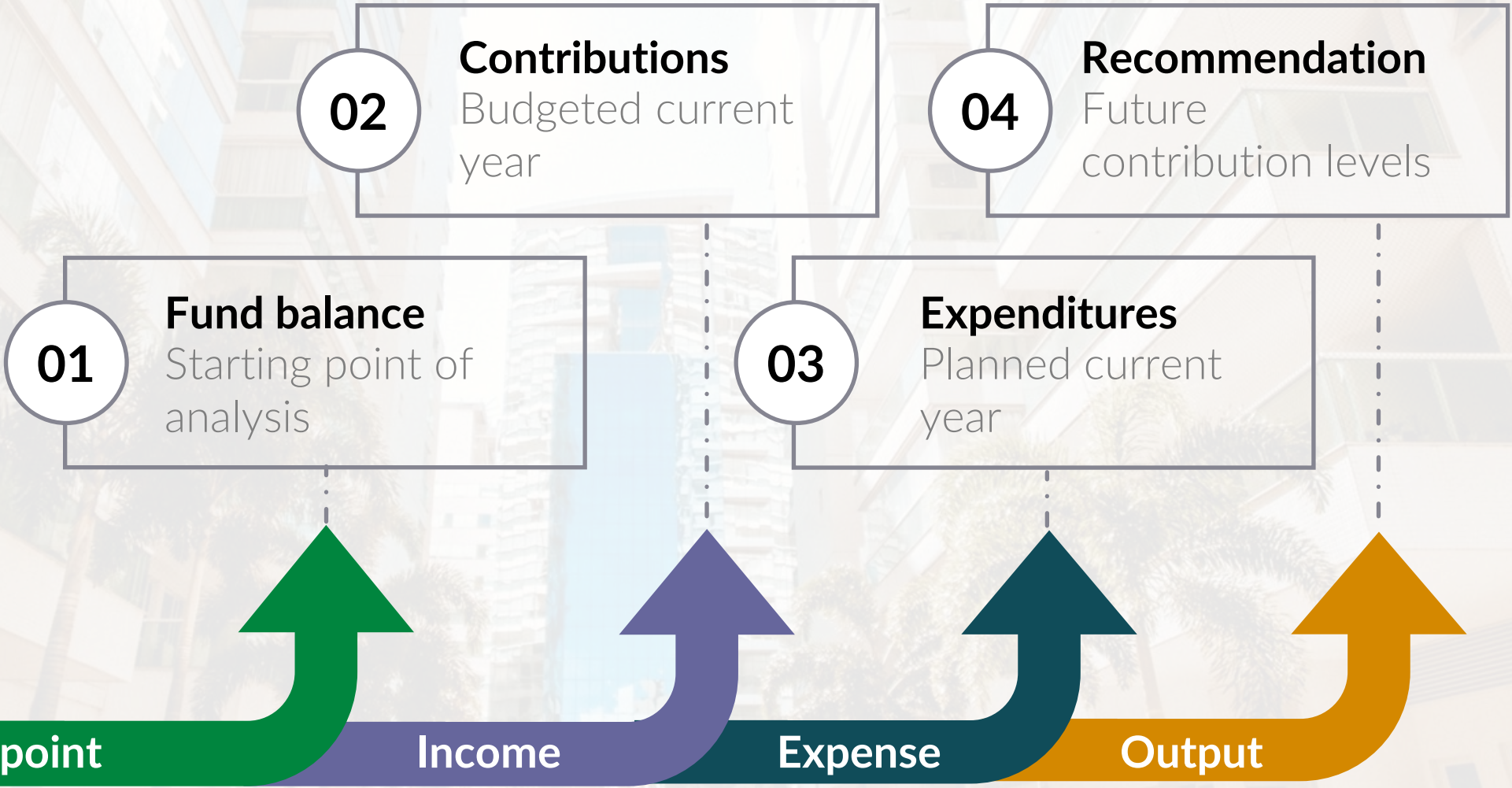
Factors affecting cost

Locations, access, materials, etc.

Prioritization of projects



Financial Analysis



Reserve Studies are NOT Transition Studies

- » Occurs at transition of control from the developer to the association
- » Identifies design deficiencies and material defects at the property
- » Ensures that the property is delivered to the community in generally good condition, consistent with the age of the property, and that all systems, materials, etc. are installed and functioning as intended.
- » Identifies components in need of repair or replacement, as well as provide associated costs for the replacement or remediation of the identified defects and deficiencies.

	LEVEL I	LEVEL II	LEVEL III	LEVEL IV
	FULL RESERVE STUDY	RESERVE STUDY UPDATE WITH SITE-VISIT	RESERVE STUDY UPDATE WITHOUT SITE-VISIT	PRELIMINARY, COMMUNITY NOT YET CONSTRUCTED
ONSITE VISUAL INSPECTION	✓	✓		
PRE-INSPECTION MEETING	✓	✓		
COMPONENT INVENTORY	Established	Re-Assessed/Evaluated	Reflects prior study	From site plans
COMPONENT QUANTITIES & MEASUREMENTS	Established	Re-Assessed/Evaluated	Reflects prior study	From site plans
CONDITION ASSESSMENTS	Based on visual observation	Based on visual observation	As reported by association	
USEFUL LIFE ESTIMATES	Based on engineer's condition assessment	Based on engineer's condition assessment	Based on client's reported condition	Based on industry standards
VALUATION/COST ESTIMATES	Established for each reserve component	Re-evaluated for each reserve component	Re-evaluated for each reserve component	Established for each reserve component
ELECTRONIC REPORT	Comprehensive report with component detail	Comprehensive report with component detail	Executive summary overview	Executive summary overview
EXCEL SPREADSHEETS	✓	✓	✓	✓
SUPPORT WITH IMPLEMENTATION OF REPORT	✓	✓	✓	✓
COMPLIMENTARY REPORT REVISION	✓	✓		

2

Benefits of Reserve Studies

Why Reserves Matter



Avoid Special Assessments or Loans



Preserves Appearance of Community



Provides Guidance/Alignment of Projects



Keeps Community Safe and Viable



Protects Investment



Reduces Cost of Maintenance



Fulfills Boards Fiduciary Duty



Compliance

Board Liability

- » Fiduciary Duty
- » Business Judgement Rule: Decisions need to be made:
 - » In good faith
 - » After reasonable inquiry
 - » In the best interests of association
- » Consequences
 - » Special assessments, deferred maintenance, mortgage difficulties, declining home values
- » Reserve study recommendations should align with board's strategic objectives
 - » Don't ignore reserve study, instead seek an adjustment

3

Reserve Study Updates

Keeping the Report Current

- » Reserve studies are a **snapshot** in time
- » Communities need the most **up-to-date** picture of your association's needs
- » Keeping the report current allows boards to make the most **informed decisions**

Keeping the Report Current

1

Deferral or acceleration

of replacement can occur for numerous reasons; a few being accelerated deterioration, replacement due to an insurance claim, or condition exceeding expectations.

2

Adding or removing items

either due to the construction of a new elements or the abandonment of an existing element.

3

Project coordination

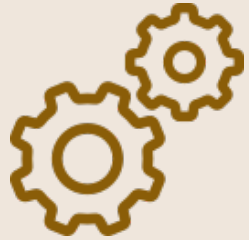
adjustments can take many shapes; possibly coordinating different elements into one project or splitting a large project into smaller replacement events.

4

Use of alternate materials

or products can occur; many times due to advancements in technology/materials or for aesthetic reasons.

Keeping the Report Current



Solid framework

for maintaining property in excellent condition



Avoid surprises

from unexpected assessments or loans



Minimize complaints

from owners due to declining condition of common elements



Reduce cost of ownership

through proactive repairs to achieve full useful lives

Keeping the Report Current



Promoting harmony within the community

- ✓ building trust in management & board decisions while providing confidence in long-term outlook
- ✓ increased curb appeal, property values and demand for association living



Enhanced accuracy of future reserve study updates

- ✓ incorporation of actual replacement schedule
- ✓ inclusion of preferred contractor costs

4

Using A Reserve Study

Using the Report



Guidance for annual funding levels as well insight into project management

Budget



Useful during special assessments or bank loans

Funding



Help define the scope and provide an expected project cost

Bids



Compliance with state or local laws and codes

Regulatory

Interpret a Reserve Study

One

Executive summary

Provides a concise, high level overview of the findings of the reserve study that is easily distributed to stakeholders

Two

Expenditure spreadsheets

Provides a single page view of all common element expenditure details

Three

Funding plan

Outlines the funding needs for the next 30-years

Four

Report narratives

Provide detailed information regarding the common elements that educate and clarify

- » Funding goal outlines the critical expenditures
- » Prioritized projects are identified
- » Recommended funding provides a path forward

EXECUTIVE SUMMARY

(Sample Information)

Client: Scenic Ridge Association (Scenic Ridge)
Location: Madison, USA
Reference: 123456

Your Executive Summary makes it easy to share key findings and recommendations with homeowners, prospective buyers and lenders.

Property Basics: Scenic Ridge Association is a condominium style development of 75 units in 37 buildings. The buildings were built from 2003 to 2005.

Reserve Components Identified: 27 Reserve Components

Inspection Date: July 1, 2019

Funding Goal: The Funding Goal of this Reserve Study is to maintain reserves above an adequate, not excessive threshold during one or more years of significant expenditures. Our recommended Funding Plan recognizes this threshold funding year in 2026 due to replacement of the asphalt pavement.

Cash Flow Method: We use the Cash Flow Method to compute the Reserve Funding Plan. This method offsets future variable Reserve Expenditures with existing and future stable levels of reserve funding. Our application of this method also considers:

- Current and future *local* costs of replacement
- 1.2% annual rate of return on invested reserves
- 2.5% future Inflation Rate for estimating Future Replacement Costs

Sources for Local Costs of Replacement: Our proprietary database, historical costs and published sources, i.e., R.S. Means, Incorporated and Marshall & Swift, "the Building Cost People."

Cash Status of Reserve Fund:

- \$467,289 as of January 1, 2019
- 2019 Reserve Contributions of \$92,000

Project Prioritization: We note anticipated Reserve Expenditures for the next 30 years in the **Reserve Expenditures** tables and include a **Five-Year Outlook** table following the **Reserve Funding Plan** in Section 3. We recommend the Association prioritize the following projects in the next five years based on the conditions identified:

- Paint finish applications to the stucco, trim, soffits and fascia, including repairs and partial replacements to maintain a uniformly clean and consistent appearance of the buildings
- Partial sealant replacement to limit water infiltration
- Replacement of the roofs as deferral may lead to further water infiltration and cost

Recommended Reserve Funding:

- Phased increases in Reserve Contributions of approximately \$3,500 from 2020 through 2024
- Inflationary increases through 2049, the limit of this study's Cash Flow Analysis
- Initial adjustment in Reserve Contributions of \$3,500 represents about a one percent (1.4%) adjustment in the 2019 total Operating Budget of \$248,600 and is equivalent to an average monthly increase of \$3.89 per unit owner.

- » Itemization of each common element
- » Useful and remaining lives
- » Project timing and costs
- » Big picture understanding

2 Expenditure Spreadsheets

Explanatory Notes:

- 1) 2.5% is the estimated future Inflation Rate for estimating Future Replacement Costs.
- 2) FY2019 is Fiscal Year beginning January 1, 2019 and ending December 31, 2019.

Scenic Ridge Association
Madison, USA

Line Item	Total Quantity	Per Phase Quantity	Units	Reserve Component Inventory	Estimated 1st Year of Event	Life Analysis, Years		Costs, \$				RUL = 0 FY2019	1 2020	2 2021	3 2022	4 2023	5 2024	6 2025	7 2026	8 2027	9 2028	10 2029	11 2030
						Useful	Remaining	Unit (2019)	Per Phase (2019)	Total (2019)	30-Year Total (Inflated)												
Exterior Building Elements																							
1.040	4,500	1,500	Square Feet	Balconies, Composite	2025	20 to 25	6 to 8	35.00	52,500	157,500	509,630							60,884	62,406	63,966			
1.260	75	75	Each	Light Fixtures	2031	to 20	12	100.00	7,500	7,500	10,087												
1.280	975	488	Squares	Roofs, Asphalt Shingles, Phased	2023	15 to 20	4 to 5	425.00	207,188	414,375	1,221,969				228,696	234,414							
1.400	130	65	Squares	Roofs, Flat, Phased	2023	15 to 20	4 to 5	1,000.00	65,000	130,000	383,363				71,748	73,542							
1.540	9,000	4,500	Linear Feet	Sealants, Windows and Doors, Phased	2023	to 20	4 to 14	2.50	11,250	22,500	48,662				12,418								
1.820	37,500	37,500	Square Feet	Walls, Masonry, Inspections and Repairs	2025	8 to 12	6	0.80	30,000	30,000	136,335							34,791					
1.860	75,000	25,000	Square Feet	Walls, Stucco, Paint Finishes and Capital Repairs	2020	8 to 10	1 to 3	1.50	37,500	112,500	463,265	38,438	39,398	40,383								49,203	
1.910	75	25	Units	Walls, Trim, Soffits and Fascia, Paint Finishes	2020	4 to 6	1 to 3	500.00	12,500	37,500	329,137	12,812	13,133	13,461			14,496	14,859	15,230			16,401	
Interior Building Elements																							
2.060	3,600	3,600	Square Feet	Ceilings, Acoustical Tiles and Grid, Hallways	2034	to 30	15	5.00	18,000	18,000	26,069												
2.100	1	1	Each	Elevator Cab Finishes	2028	to 25	9	15,000.00	15,000	15,000	18,733										18,733		
2.200	400	400	Square Yards	Floor Coverings, Carpet, Hallways	2024	8 to 12	5	55.00	22,000	22,000	97,541						24,891						

- » Details contributions and expenses by year
- » Highlights critical years
- » Provides content regarding funding needs

CASH FLOW ANALYSIS

Scenic Ridge Association Madison, USA

Individual Reserve Budgets & Cash Flows for the Next 30 Years

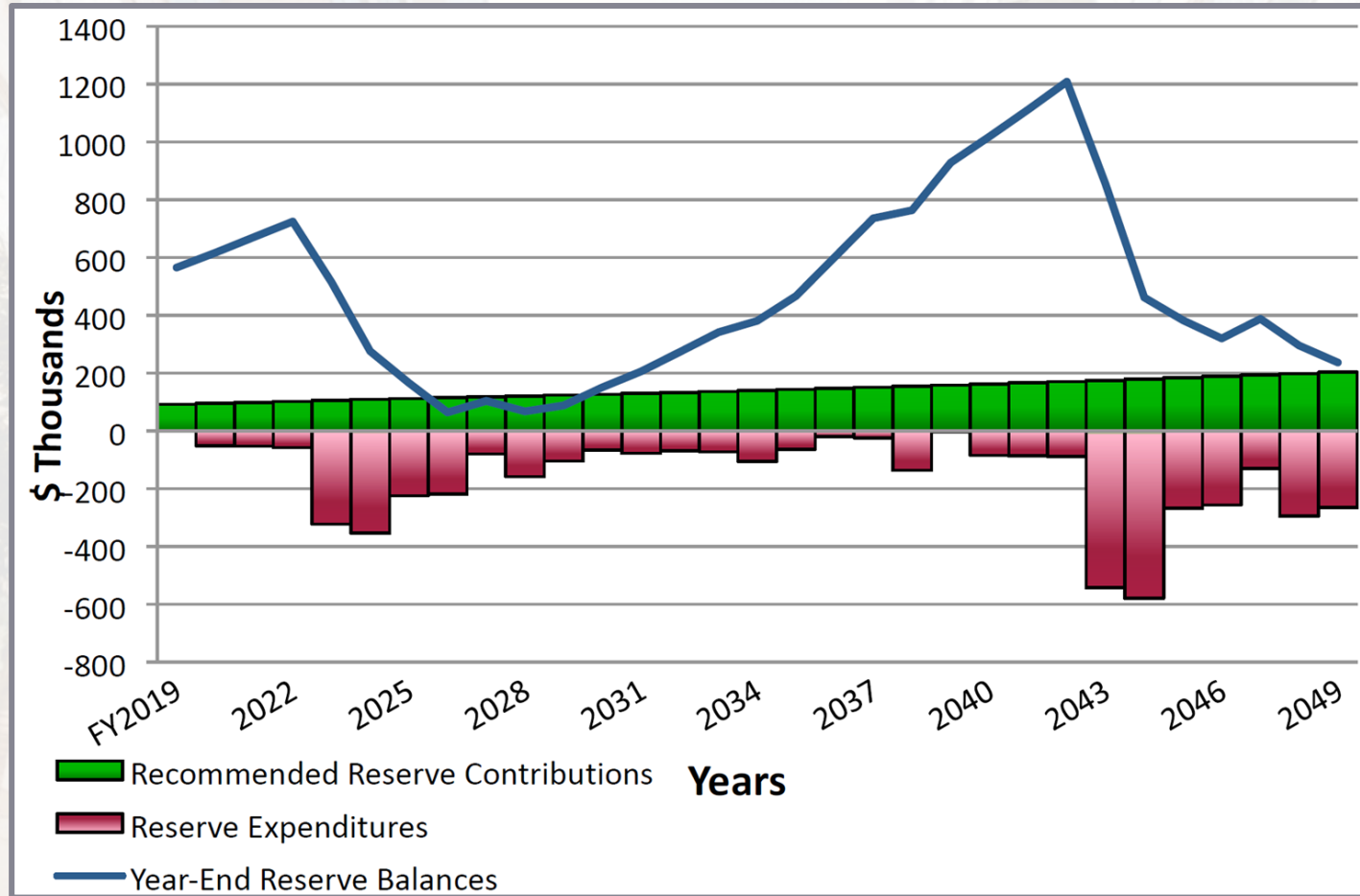
	FY2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Reserves at Beginning of Year (Note 1)	467,289	565,448	616,749	670,898	724,646	515,245	275,912	166,436	64,302	104,010
Total Recommended Reserve Contributions (Note 2)	92,000	95,500	99,000	102,500	106,000	109,500	112,200	115,000	117,900	120,800
Plus Estimated Interest Earned, During Year (Note 3)	6,159	7,051	7,680	8,323	7,395	4,719	2,638	1,376	1,004	1,025
Less Anticipated Expenditures, By Year	0	(51,250)	(52,531)	(57,075)	(322,796)	(353,552)	(224,314)	(218,510)	(79,196)	(157,982)
Anticipated Reserves at Year End	<u>\$565,448</u>	<u>\$616,749</u>	<u>\$670,898</u>	<u>\$724,646</u>	<u>\$515,245</u>	<u>\$275,912</u>	<u>\$166,436</u>	<u>\$64,302</u>	<u>\$104,010</u>	<u>\$67,853</u>
Predicted Reserves based on 2019 funding level of: \$92,000	565,448	613,228	660,293	703,351	479,610	222,244	91,803	(34,364)	(21,896)	

(NOTE 5)

Explanatory Notes:

- 1) Year 2019 starting reserves are as of January 1, 2019; FY2019 starts January 1, 2019 and ends December 31, 2019.
- 2) Reserve Contributions for 2019 are budgeted; 2020 is the first year of recommended contributions.
- 3) 1.2% is the estimated annual rate of return on invested reserves.
- 4) Accumulated year 2049 ending reserves consider the age, size, overall condition and complexity of the property.
- 5) Threshold Funding Year (reserve balance at critical point).

Funding Plan



- » Provide detailed information regarding the common elements that educate and clarify
- » Photos and condition statements validate expenditure timing
- » Answers more detailed questions

Walls, Fiber Cement Siding and Trim, Paint Finishes

Line Items: 1.759 and 1.760

Quantity: Approximately 31,000 square feet of fiber cement siding and composite wood trim, and 160 linear feet of wood railings and associated wood columns at the front stoops. This quantity excludes the aluminum soffit and fascia.

History: The finish at the fiber cement siding is original, and the trim and railings were painted in 2013.

Condition: Fair overall with locations of peeling finish, discoloration, sealant deterioration, wood rot and cracks evident

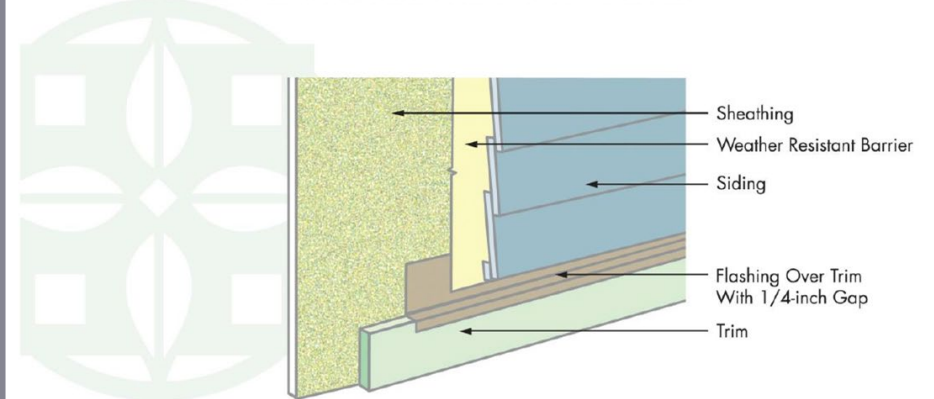


Fiber cement siding



Sealant deterioration and peeling finish at fiber cement, Unit 100

FIBER CEMENT SIDING DETAIL



Priority/Criticality: Defer only upon opinion of independent professional or engineer

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3. We recommend the Association coordinate painting of all buildings in a single year. This will ensure aesthetic continuity, reduce total cost due to economies of scale, and minimize disruption to the unit owners. We anticipate the following during each paint application cycle:

- Paint finish application to the siding, soffits and fascia, trim and garage doors
- Replacement of up to two percent (2%) of the siding and up to ten percent (10%) of the trim (The exact amount of material in need of replacement will depend on the actual future conditions and desired appearance. We recommend replacement wherever cracks, delamination and deterioration impair the ability of the material to prevent water infiltration.)
Replacement of up to fifty percent (50%) of the sealants



5 | Questions



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