



The Benefits of Having a Reserve Study

As budget season approaches, many associations are focusing on their reserve studies for two reasons only; one, **it is required**, either by state statutes or governing documents, and two, to make sure that the **reserve assessment fits within the desired overall budget** of the association.

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Pulse Stats Has Been Updated

The July 19, 2011 issue of “Metrics for the Depressed” is now available on the Pulse Stats section of HOA Pulse. This information is provided by Clifford J. Treese of Association Information Services, Inc. and provides informative industry statistics. This issue addresses the growth of Boomers over 65 and their geographic distribution. This site feature will generally be updated weekly, and the archive contains links to prior issues.

New Cases Added:

Foster v. Wilmington Plantation Owners Association

Board of Managers of the Chelsea 19 Condominiums Assoc. v. Chelsea 19 Associates

Chancy v. Chancy Lake Homeowners Association

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Business Spotlight

Facilities Advisors, Inc. (FAI)

The professionals at Facilities Advisors, Inc. (FAI) have been providing reserve study services to the HOA industry since 1982. FAI serves associations nationwide from our offices in California and Arizona. We have experience with virtually every type of association, and offer competitive fees, and quick turnaround in reports.

We believe that one thing that really sets us apart from our peers is the manner in which we approach the reserve study process. We have developed component templates for virtually every type of project to assist in our data capture process. The templates act as a thorough checklist to make sure that we consider all components that would normally be encountered in a specific location, such as a pool area. This means that we are unlikely to overlook any components, and also assures data integrity.

No matter how good the underlying site evaluation and compilation of component lists, that's not much help if it can't be translated into reports that are easy to understand. We constantly receive feedback from our clients that our reports are much easier to understand than any others they have seen.

- The secret lies in perceiving how people understand reports. Because reserve study reports typically contain a 30-year financial projections and a large number of components, the data can be overwhelming. We know that, so we make sure the data is presented in a manner that is easy to understand.
- All financial exhibits limited to a single page – because that's what the human mind can easily grasp. We do this by presenting data at a category, rather than a component level.
- We include totals on all reports so that a reader can see that the totals of data presented at the category level are the same as those presented at the component level.
- We present all component level reports as supplemental exhibits, not part of the "official" reserve study report. This means our "official" report is presented at a category level, and is relatively small. We present all component level exhibits as Supplemental Schedules that are not part of the official report.
- We present the component data in several formats – by category, by location, and expenditures by component, or by year.
- We present charts to provide visual images of the data. This helps the reader understand relationships of data much better.
- Our reserve study comparison exhibit is unique. It compares, on both a category and component level, our report to the prior report. The reader can instantly identify variations from the prior report.

Contact Facilities Advisors, Inc. today for your reserve study needs. Visit our website at www.reservestudyusa.com or email us at info@reservestudyusa.com or call us at 877-304-6700.



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The Benefits of Having a Reserve Study

By: Gary Porter, PRA, RS

As budget season approaches, many associations are focusing on their reserve studies for two reasons only; one, **it is required**, either by state statutes or governing documents, and two, to make sure that the **reserve assessment fits within the desired overall budget** of the association.

Those are definitely important, but represent only the short term benefits of a reserve study. The long range benefits include many more items. For many associations, maintenance of common areas is the largest single cost of the association. It is not often considered as such because it typically is broken into several different cost categories within the association budget, such as painting, pool maintenance, landscape maintenance, roofing repairs, paving, fencing, and other categories. When considered together as maintenance activities, these are often the largest single cost.

The reserve study is one factor that helps to identify, quantify, and attempt to control such costs. Another major factor is the association's maintenance plan. Many people have taken the position that the association's maintenance plan IS the reserve study, or is defined by the reserve study. We believe that cannot be true, as a comprehensive maintenance plan must also include operating maintenance activities. And, those operating maintenance activities often determine the resulting reserve maintenance activities applicable to the same common area components. Therefore, the reserve study should be a reflection OF the maintenance plan, not the creation of the maintenance plan.

Most associations have not yet developed internal procedures to the point that they have established formal maintenance plans or formal reserve policies. These should be viewed as the planning process from which the reserve study is ultimately derived. Because this advance planning does not exist in many cases, most reserve studies today are used for more purposes than would be considered normal in the above-described setting.

The reserve study will always be used to fulfill the **legal / fiduciary responsibility** of the board and the association. It is also used to establish an appropriate **capital reserve budget**. Performed regularly, and assuming that adequate initial funding exists, the reserve study report includes a future funding projection, normally for a 30-year period, that can be used to **achieve stable and predictable assessments** and **avoid special assessments**. In addition, many associations attempt to **assure a "fair" reserve contribution by all owners**. This is usually referred to as "full funding" or "100 percent funding." The concept behind this funding model is that as the useful life of components is "used up" or "depreciated," those members receiving the benefit of that useful life are also contributing an equal amount to the planned replacement of the "used up" or "fully depreciated" components. Other associations opt for less than full funding under the theory that as long as you never go below zero in the reserve account, you have adequately funded reserves.



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The Benefits of Having a Reserve Study—Cont.

The reserve study depends upon a comprehensive **component inventory** of the major components of the association. Creating this inventory is another benefit of the reserve study. The identification and evaluation of common area components can also result in the **improvement of maintenance procedures**, or an **improvement in energy use practices**. Where no formal maintenance plan exists, the reserve study also allows the association to **identify and plan for property repairs or replacements**.

The reserve study can play a big part in properly maintaining association common areas. This directly affects property values. A good plan will preserve and / or enhance property values. A poor or nonexistent plan will have the opposite effect. Given budget pressures, and particularly in today's depressed property value market, many associations are not increasing their reserve assessments annually. However, inflation is affecting your future maintenance obligations annually, and the longer that adequate reserve funding is ignored, the greater is the gap between funds on hand compared to maintenance obligations. During a 20+ year career of preparing reserve studies, we have seen the effect of inadequate funding, which is either significant special assessments, or deferral of necessary maintenance projects. The short term thinking of keeping reserve assessments low can cause ultimate repair / replacement costs to dramatically increase. We have seen the failure to increase monthly reserve assessments by as little as \$2 per month per owner and performing necessary maintenance result in costs increasing by tens of thousands of dollars. The cost benefit relationship or proper maintenance is well established. Attempting to save "pennies" in budgets can result in large decreases in property values due to inadequate maintenance.

The reserve study is also a **useful tool for prospective buyers**. While too few buyers are educated as to the values of a reserve study, or even understand it, educated buyers, and there are more of them every day, will want to see a reserve study before they buy so that they can evaluate the funding status of the association's reserves. Although FHA has relaxed its reserve study requirements, more lenders are becoming savvy to the value of a reserve study and are requiring reserve studies before they will lend. We believe we will see an increasing trend of **lenders requiring reserve studies**. Another benefit of the reserve study is that it may help **protect the association against litigation**. While this is a development that we hope does not represent a trend, we have seen litigation, and have testified as experts, in situations where litigation against associations has resulted from inadequate reserve studies or failure to perform a reserve study.

While the above describes the various benefits of a reserve study, it still boils down to the fact that it is just common sense to have a reserve study prepared. Not having a reserve study is like starting a trip with no destination in mind and no plan. You may end up in a nice place, or you may not. It's better to have an idea where you're going. It's better to know how you intend to get there. It's better to plan.

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Article Title	Article Summary	State
Lawsuit against homeowners group delayed in court	A lawsuit against Diablo Grande's homeowners association faced delays this week, after a judge learned that none of the defendants have been served with the suit.	California
Ask SAM: Straight Answers	Q: What can I do about a town house Homeowners Association board that will not give its homeowners financial statements or minutes of board meetings? They do not comply with written or verbal requests.	North Carolina
Area residents fight back against crimes	Dozens of Katy residents gathered at a local park last week in an effort to curb crime in their community.	Texas
HOA Advisor: Recording a violation of architectural requirements	Q. Can our homeowner association legally record a document against a lot within our community that would put a future buyer on notice that the home is in violation of our architectural requirements?	California
Some new HOA laws went into effect Friday	The legislative session has come to an end, finally. There were the "winners" and the "losers." This article presents a summary of some of the bills that were passed and signed by the governor.	Nevada
Commission provides HOA input to Legislature	In 2003 the governor appointed five members to the Commission for Common-Interest Communities, and since 2009 Condominium Hotels and two more commissioners have been added. Commissioners are charged to exercise any power and perform any duty assigned to them by provisions of Chapter 116 of Nevada Revised Statutes.	Nevada
Experts: Pinellas lawyer takes foreclosure fight to ethical edge	Pinellas County lawyer Robert L. Tankel advocates showing no mercy toward property owners who fall behind on their homeowners association fees.	Florida
Much condo board-attorney talk is protected	Q: Can the attorney-client privilege be used by a condominium board of directors to prevent a unit owner from viewing correspondence between the board and the association in matters not related to personnel?	Florida
Association fees could stall condo recovery	As the South Florida condo market shows signs of stabilizing, concern is growing that expected association maintenance fee hikes — like the one announced this month at the new Paramount Bay tower in Greater Downtown Miami — could stall the recovery.	Florida
City of Painesville is high bidder for Millstone Condominiums	Members of the Millstone Condominium Association clapped and cheered Monday after the city of Painesville was the high bidder to buy the flooded-out property	Ohio
Dolphin Tower insurance claim rejected	Dolphin Tower's insurer has rejected the condominium's claim for money to repair roughly \$8 million worth of structural damage, according to a federal court filing.	Florida
Can your association cut services, even if it breaks with past practices?	Back in the South Florida real estate boom days, condominium and homeowners associations promised a plethora of amenities and services — from landscaping to 24-hour security — typically covered by maintenance fees. But many owners are finding such community niceties are disappearing as communities struggle to make ends meet.	Florida
Can your condo association cut cable TV service to owners behind in maintenance fees?	Does Florida law allow condominium associations to cut cable services to owners behind in maintenance fees?	Florida

Article Title	Article Summary	State
Didn't pick up after your dog? DNA will tell	A Florida condominium association hopes dog DNA samples will help them determine which pet owners aren't picking up after their pooches.	Florida
Condo boards should post meeting minutes on Web	The books and records of the association, including the minutes of the board meetings, are, by law, open for inspection by all unit owners. It is not typical to automatically send meeting minutes to every owner for every meeting, but they certainly should be available to you upon request.	Florida
Board's maintenance rule may need fixing	The board cannot deviate from maintenance responsibility assigned to the association under the declaration and bylaws without a formal amendment to these documents.	Illinois
Condo talk: Windows, doors and holes in the wall	They say eyes are the windows to the soul; so then, what are windows. Are they the eyes into a major source of aggravation for condominium associations?	Illinois
New condo rules in effect	South Florida's fragile condominium market is set to shift this month as new state laws and updated federal residential financing guidelines go into effect.	Florida
Condominium Law: Legislation addresses owner privacy rights	HB 1195 became effective July 1 and primarily impacts operational and procedural issues for condominium associations and homeowners' associations.	Florida
HOAs feeling the financial sting of abandoned houses	With a sea of homes left empty by erstwhile homeowners who couldn't afford the mortgage, a number of homeowner associations around the country have are stuck having to pay for the upkeep on vacant properties lest the value of the remaining homes be harmed any further.	National
Common grounds maintenance is damaging condo unit	If the association's negligence in maintenance of the condominium property causes damage to your unit, the association is responsible for the cost of that repair. In fact, in a recent court decision the court affirmed the right of a delinquent unit owner to counterclaim for an offset for damages to their unit caused by the association's failure to maintain the common elements	Florida
Board weighs paying off debt with reserves	While it is always preferable for an association to reduce debt, the business question is whether the association has anticipated capital expenditures that will require funding from the reserve account to limit assessment increases.	Illinois
Homeowners association board can hike assessments without vote by owners	Our board keeps imposing assessment increases and owners can't afford it. Regular monthly assessments are raised indiscriminately. Owners have no say in these increases. When board members are questioned they say the association attorney told them they could raise the assessments whenever they want. Can they do this and what are owners' rights?	California
Legal rulings could open up RPV	Following an epic, nine-year court battle over whether his land - and that of the owners of 15 other lots in Portuguese Bend - could be developed, Tabor finally began construction on his Cinnamon Lane property in March.	California