



# RESERVE STUDY MAINTENANCE

Things Change,  
Ensure Your Study  
Keeps Pace

BY PAUL HUIJING, P.E., EPB

Reserve studies are an important association planning tool for communities of all sizes. In a series of articles published over the past year, various objectives and phases of the study have been examined including:

## WHY?

- An initial reserve study is essential to proper association budgeting and planning.

## HOW?

- To read the reserve study for essential details.
- To implement the reserve study with strategies for funding reserves in a sustainable manner.

In this article, we assume that your association has a reserve study and focus on:

## WHEN?

- The information and projections in the study need to be updated.

## RESERVE STUDY MAINTENANCE

### RESERVE STUDY UPDATES

The reserve study needs to be updated periodically to ensure that reserve funding stays on a predictable and sustainable path. Updates reduce the likelihood of special assessments and enable stakeholders to plan effectively. In general, an update is recommended every 1-5 years depending on financial circumstances of the association.

After the initial reserve study, reserve funding can be accurately defined and association capital replacement/repair budgets established. This should result in a sustainable community or a path to sustainability, depending on current association circumstances. In associations with low current reserves, funding will need to “catch up” to overcome years of underfunding. The pace of this “catch up” transition can be set by the association. Prioritization of needed repairs will be critical in this situation.

As we discussed in the initial WHY article, the various stakeholders all have an interest in long-term sustainability to maintain the value of their investment in the community. Unit

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owners, board members, mortgage lenders, and prospective buyers all benefit from the stability that can be achieved by properly funding reserves so special assessments will not be required and repairs can be made in a timely manner.

### TIME IMPACTS RESERVE STUDY ASSUMPTIONS

As time passes, the assumptions about annual expenditures and common component deterioration will become inaccurate. Eventually the associa-

tion will need to update the reserve study based on aging infrastructure, replacements/repairs performed, and unforeseen occurrences. Updating on a regular basis will reduce the chance that special assessments are needed and improve the accuracy of the study for budgeting of expected repairs/replacements. Timing of expenditures can be adjusted to reflect condition of components and association priorities. Phasing of repairs can be implemented. Updates provide stakeholders with a current assessment of their investment.

The timing of the updates will



depend on the circumstances of the individual association. Changes in the community and its financial condition will indicate the update interval. Physical changes may include additional building and road construction as a community is completed. In this case, the study can be updated for the previously existing buildings and the new building components can be inventoried and added. If an association is in the process of “catching up” from underfunding, more frequent updates will help create a more stable path to sustainable funding.

### UPDATE FREQUENCY

Your current reserve study should have a calculation of percent funded. The reserve fund percent funded is a measure of the health of the association’s reserve fund. Expressed as a percentage, it is calculated at the beginning of the fiscal year and is the ratio of the actual reserve balance to

the calculated theoretical fully-funded reserve balance. One hundred percent funded means the association has a proportionally correct balance to-date for common components maintained.

Communities with well-funded reserves (75 percent funded or greater) should consider updates every 3-5 years to maintain funding at superior levels. Average funded communities with medium reserves (40-74 percent funded) should consider updates on a 2-4 year interval. The more typical recovering communities with 15-39 percent funding will benefit from more frequent updates every 1-3 years.

Poorly funded communities with 0-14 percent will need the most help. These will need a radical plan for recovery over 30 years. More frequent updates are recommended because circumstances will be changing rapidly. Component remaining lives will need to be extended due to the financial condition of the community. These ex-

tensions should be reviewed frequently for accuracy. Funding contributions can be recalculated based on changes in remaining lives that seem reasonable.

Any update timing recommendations should be modified if there are large changes in the community. Major unexpected repairs for unfunded items or premature failure of a major component will need to be accounted for in reserve funding. In addition, external factors, such as significant inflation increases and weather events, should be reflected in the study funding.

### TYPES OF UPDATES

Assuming there are no large physical changes in the community, there are two types of updates possible:

- **Update Without a Site Visit**

If the prior reserve study was done within the last 2-3 years and there have been no substantial problems with common components, the study

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## RESERVE STUDY MAINTENANCE

may be a good candidate for an update without a site visit by the reserve professional. Changes to the reserve study can be made based on discussions with the association. The life and valuation estimates, reserve fund balance, and funding plan are typically adjusted.

### ● Update with a Site Visit

If a study was done more than three years ago or there have been significant problems with common components, an update with a site visit is recommended. This update includes the prior tasks plus a condition assessment of all components, especially large pav-

ing, roofing, and siding components. In addition, adding a limited number of new components can be included.

Costs for study updates can vary significantly depending on individual circumstances. Updates without site visits can range from 20 to 40 percent of the original study cost. For an update with a site visit, costs can range from 30 to 60 percent of original.

### WHAT DO YOU NEED FOR AN UPDATE?

In order to perform an update, your reserve professional will need quantities for reserve components in the

prior reserve study with sufficient detail to identify each component. Based on CAI National Reserve Study Standards, "a tabular listing of the component inventory, component quantity or identifying descriptions" should be included. Quantities enable anticipated expenditure updates based on current/recent unit costs for similar associations. For example, if the price of roofing material has increased by 50 cents per square foot since the last time the study was done, this can quickly be reflected in the current cost for the component. The current condition of the roofing can also be evaluated if the update includes a site visit.

In addition to component quantities, you will need to list what has changed in the community since the last reserve study. It will save time/cost if you can provide the reserve professional with information on what has occurred since the last study. An organized list will include:

*Poorly funded communities will need the most help. These will need a radical plan for recovery over 30 years.*

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- Repair/replacement projects completed since the last study
- In-process and planned projects
- Costs for recent and planned projects

It is always better to use actual costs for the association rather than estimates. Actual costs will take into account any unusual circumstances at the location.

With the changes since the last study and a site visit, if warranted, the reserve professional can update your reserve study and create a new funding plan that reflects the current state of the community. This will ensure that the community remains on a sustainable financial path or continues progress towards that goal.



■ PAUL HUIJING, P.E., EPB, IS  
REGIONAL VICE PRESIDENT WITH  
ADVANCED RESERVE SOLUTIONS,  
INC., IN WILBRAHAM, MA.

## BEST PRACTICE

# COMPONENTS BEYOND THE STUDY TIME FRAME

CAI reserve study standards call for a minimum 20-year study, but I believe that 30 years is a more appropriate time period because major components such as roofing and paving typically fall into the 20-25-year useful life range. Sometimes components expected to be replaced beyond the time frame of the initial study are not included—I recommend including them.

If these components are not included in the initial study, it is assumed that they will be added during future reserve study updates. However, many times updates are not performed with recommended frequency. For example, if a component needs to be replaced in year 22, the association should be saving for this over time. If an update of an original 20-year study is not done for 10 years, then the association will only have 12 years to save for this replacement. This could result in an unexpected increase in funding requirements.



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