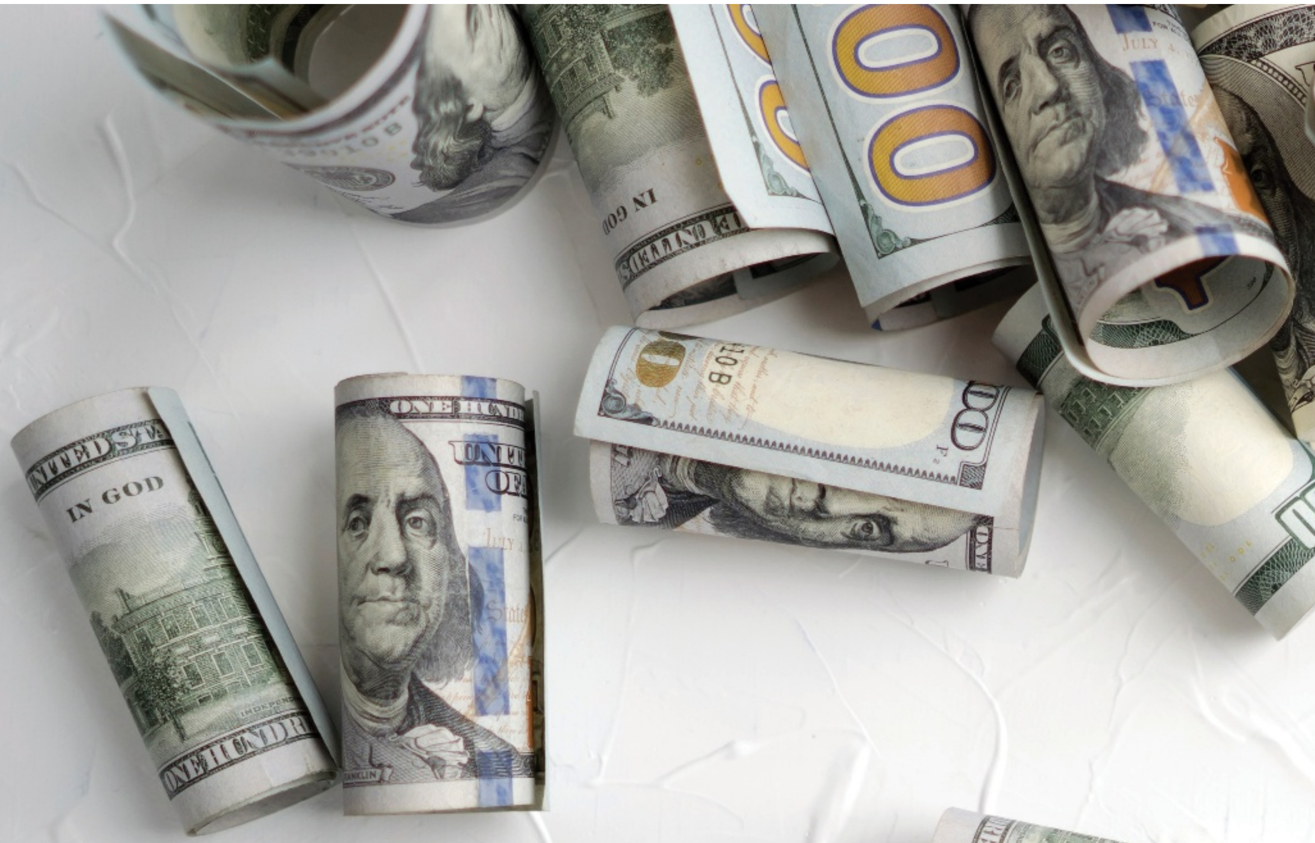
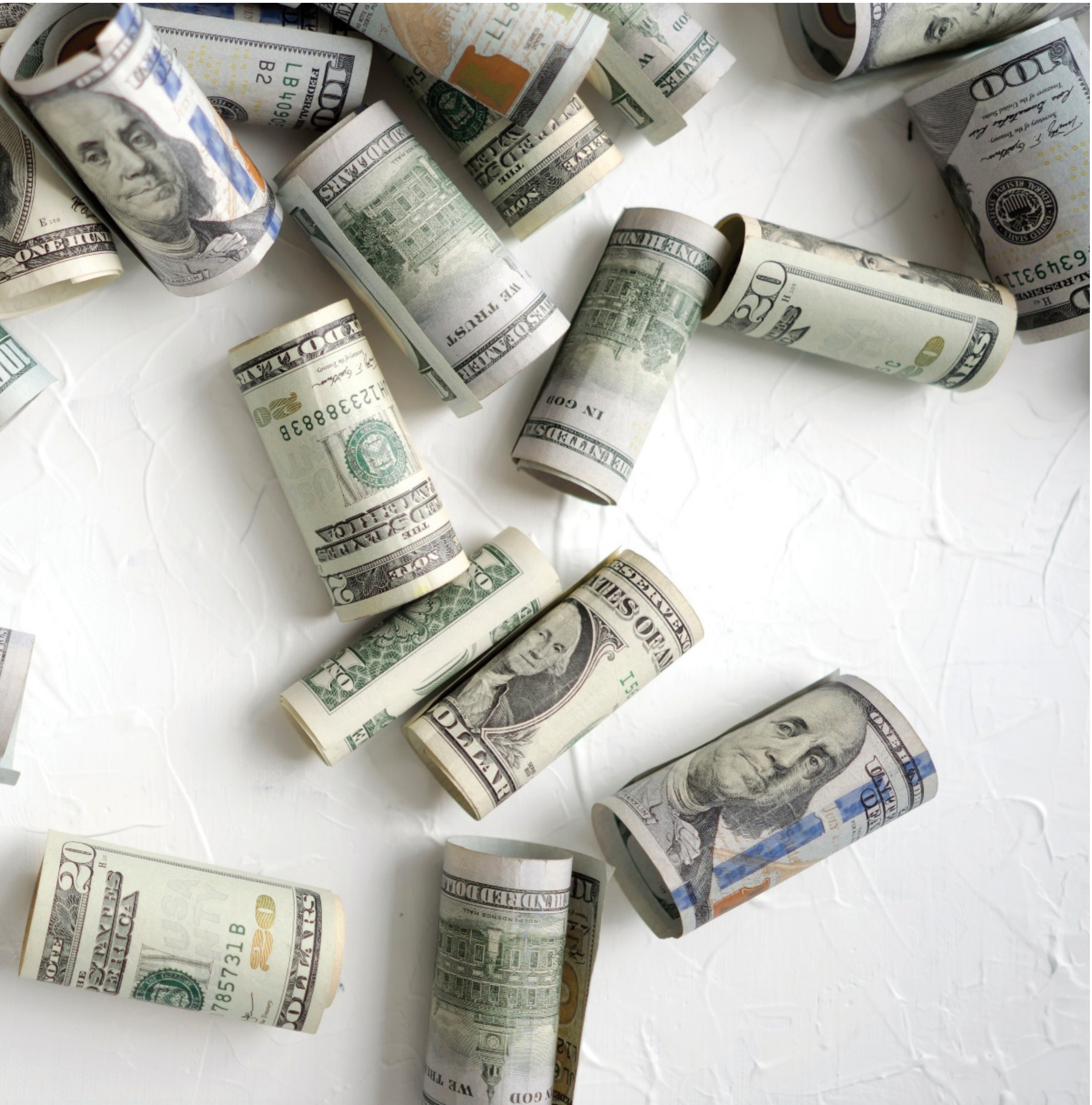


# RESERVE STU

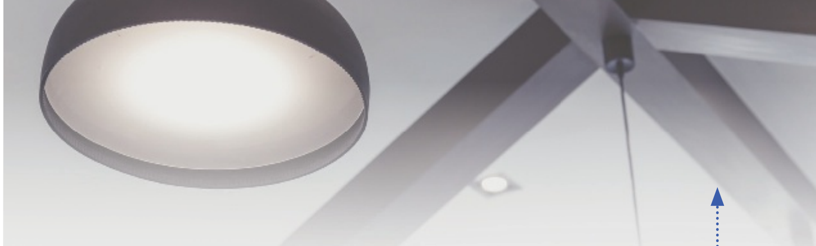
## AVOID MAINTENANCE FUNDING PROBLEMS

**YOU WON'T FIND MANY ASSOCIATION BOARDS** that question the importance of reserve studies, but you will find more than a few that have never commissioned one, haven't read the study they did commission, and/or haven't followed its recommendations.

We asked Paul Huijing, P.E., EBP, regional vice president for Advanced Reserve Solutions, to identify the most common mistakes boards make in their handling of reserve studies and to suggest some best practices that might avoid these pitfalls.



# UDY PITFALLS



# RESERVE STUDY PITFALLS

**PAUL HUIJING, P.E., EBP**
*Regional Vice President*
*Advanced Reserve Solutions*

## FAILING TO COMMISSION A RESERVE STUDY.

There is no more serious error than this.

## FAILING TO APPROACH THE RESERVE STUDY IN A THOUGHTFUL, ORGANIZED WAY.

Huijing describes the reserve study as "a journey" for which, he says, "boards need to create a roadmap." The starting point, he suggests, is a comprehensive list of all the components for which the association is responsible. You can't estimate repair and replacement costs over time, he says, unless you know exactly what the association will have to repair and replace. "Some items are major, some are minor," he says, and the association's list should include everything. The small hallway lights outside doorways can be easy to overlook, he points out. "But if there are 150 of them and they cost $200 a piece," the replacement cost will be significant—and unfunded if not included on the reserve replacement list.

## STARTING RESERVE PLANNING TOO LATE.

Reserve studies typically have a 20-year time frame—at a minimum—estimating the reserve contributions required to fund capital expenditures over that period. Huijing says he was contacted recently by an 18-year-old community that never established a reserve fund.

"They only have two years to close their funding gap." The sooner boards tackle the reserve planning process, he notes, "the more organized and fair" the funding process can be.

*The report must not only be clear, he emphasizes, it must also be digestible. If the recommendations seem unachievable, boards will ignore them.*

## FAILING TO INSIST ON AN UNDERSTANDABLE, USER-FRIENDLY FORMAT FOR THE RESERVE STUDY.

This is an issue boards should address in the bidding process, up front, Huijing says, by asking companies to submit sample reports. "Can you get a good idea in 10 or 15 minutes what the report is saying and can you explain the information to owners?" If the report isn't clear, Huijing says, "you're going to put it in a drawer and forget about it."

The report must not only be clear, he emphasizes, it must also be digestible. If the recommendations seem unachievable, boards will ignore them. Huijing suggests breaking large repair/replacement projects into smaller segments that can be tackled at different times. Instead of a single line item for replacing all roofs, he suggests "phasing roof replacements separately in a logical order," based on their ages and conditions.

Similarly, light replacements could be organized as several projects based on their location—exterior and interior—lobby, hallways, and common rooms, for example.

## EXCLUDING COMMON COMPONENTS THAT FALL OUTSIDE THE STUDY'S TIME HORIZON.

If windows with a 30-year life expectancy aren't included in a 20-year study, Huijing notes, the funding plan won't cover their replacement.

## FAILING TO UPDATE THE STUDY FREQUENTLY ENOUGH—OR AT ALL.

For associations that are "well-organized and well-funded," updates every four to five years should be sufficient, Huijing says—to reflect changes in costs, track how different components are aging, and modify the payment schedule "based on accomplished repairs and replacements."

Associations that "are struggling to keep up" will need more frequent updates, he says, "to ensure that their funding plan" will cover the repair and replacement costs they will face. A two-year review might reveal a small funding shortfall; a five-year review would likely find a much larger gap, requiring a larger increase in owners' fees.

## FAILING TO SET REALISTIC FUNDING GOALS.

Ideally, reserves should be 100 percent funded, in the same sense that everyone should maintain their ideal weight. The reality is, "no one gets to 100 percent" reserve funding, Huijing agrees. "But associations can create a reserve fund that is healthier than it is now." The goal, he suggests: "Try to get above 50 percent. You can't predict everything, he notes, and you can't anticipate every potential funding requirement. For example, he notes, water and sewer lines and plumbing pipes, which are supposed to last forever, sometimes break. The higher the reserve funding percentage, he says, the better-protected the association will be against these "unexpected" expenses and the less likely it will need a special assessment or a bank loan to finance them.

## LACKING A PLAN FOR PRESENTING THE RESERVE FUND STUDY'S RECOMMENDATIONS TO OWNERS.

Realistic and consistent reserve funding will almost certainly require periodic fee increases, which boards don't like to announce and owners don't like to hear. Instead of explaining why an increase is needed to achieve a reserve funding goal, Huijing suggests boards develop "an expense map for the future," showing owners that if the current reserve funding level is unchanged, the reserve balance will fall to zero.

"That usually gets owners' attention." CM