

RESERVE STUDY

PRESENTED BY SAM LE BLANC

WHAT IS A RESERVE STUDY?

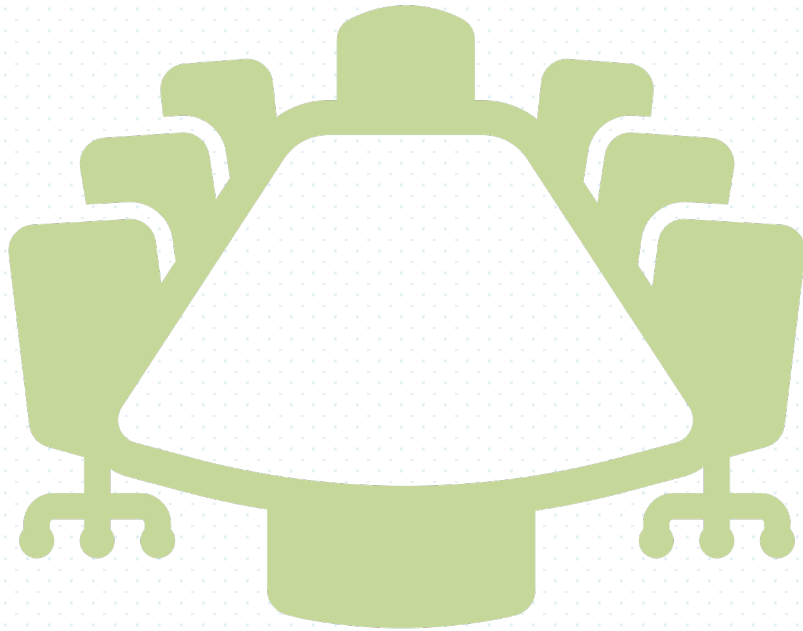
A reserve study is a list of all the physical elements of your property and a reasonable expectation of when and the cost to replace those items.



WHY DO WE NEED A RESERVE STUDY?

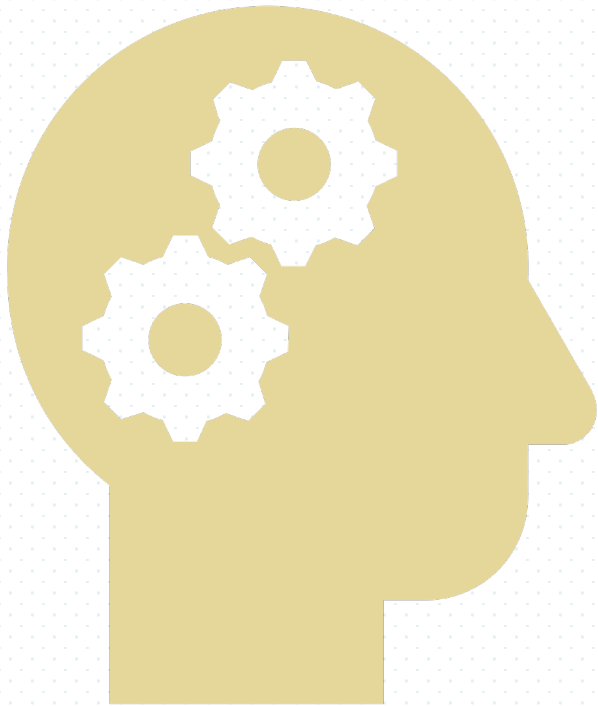
Any association should have a reserve study for three basic reasons: board responsibility, lack of knowledge, and finances.





BOARD RESPONSIBILITY

Condominium bylaws specifically impose a responsibility on the board to calculate assessments to cover both annual operating costs (annual budget) and the long-term replacement of all physical components of the property (reserve/capital budget). The fiduciary responsibility of the Board is to collect adequate amounts in reserves to cover the replacement costs of capital projects.



LACK OF KNOWLEDGE

Most boards are composed of volunteers who are not professional engineers, architects, or construction workers who will have familiarity with the costs of replacing the community's assets. Every community needs a plan for replacing its assets. The reserve study is completed by a professional engineer and helps fill in this gap.



FINANCES

Saving the correct annual reserve contribution is an integral part of the financial health of any community. Board members are usually not qualified to execute the financial analysis to compute an adequate annual reserve contribution. The reserve study provides the board with a recommended annual reserve contribution. Secondly, if a community is not contributing enough to reserves, the owners may find it difficult to obtain loans.

THE RESERVE STUDY:



Provides a strategic plan for planning for replacement of community assets



Is a financial analysis and plan for raising adequate funds for capital projects (budgeting)



Is a key element in helping the board meet its responsibility as outlined in the bylaws



If followed, will help units retain and even add value over the long-term.

A RESERVE STUDY WILL BE PRESENTED IN THE FOLLOWING WAY:



Executive summary of the report with a recommended annual reserve contribution



List of all the physical elements of the community



For each of the elements the engineer will provide the current age, life expectancy, remaining economic life, and replacement cost



Financial analysis of reserves including the current balance and models for future cash flows based on various assumptions



Chart/list of annual capital projects that Boards should review as part of the annual budget process.

PROS AND CONS OF A RESERVE STUDY

Pros:

- A professional assessment of the property and its condition
- Guidance on the annual reserve contribution
- Early warning system

Cons:

- Static document unable to respond to price changes
- Does not adjust based on when projects are actually completed.

THE BOARD HAS A RESPONSIBILITY TO REVIEW THE RESERVE STUDY WHEN THE FIRST DRAFT IS PRESENTED. THE BOARD SHOULD:



Review the common element list and assess if it is comprehensive



Does the life expectancy and current evaluation of the condition of common elements seem correct-use your knowledge of the building and common sense as a guide



Address any issues with the engineer-this is a dynamic document.

HOW OFTEN SHOULD WE PERFORM A RESERVE STUDY?

Even before the Surfside tragedy, states were beginning to pass laws about reserve studies. In our area, the following laws are in effect:

- DC - no regulations
- VA - associations are required to have a reserve study update every five years and disclose it to owners
- MD - in PG and MO counties associations are required to have a reserve study update every five years AND fund reserves at the required levels unless an industry expert provides written documentation that the project can be delayed for X amount of time.

WHY IS IT IMPORTANT TO UPDATE THE RESERVE STUDY?



The beginning balance of the updated reserve study will be the actual cash balance at the time; this means that any amounts over- or under-collected will be calculated into the new annual contribution in the reserve study



This is important because it reflects the real experience of the community



An update also provides a chance to reflect any recent experiences the association experienced-including adding items, deleting items, and updating costs with any recently obtained data

BEST PRACTICES

- **Best Practice:** have a reserve study for your community.
- **Best Practice:** review the study at budget time and adjust the annual reserve contribution as recommended in the study.
- **Best Practice:** review the reserve study at budget time and determine which items listed for completion in the upcoming year will be done.
- **Best Practice:** update the reserve study every five years and follow the recommendations
- **Best Practice:** track completed projects and costs. Some reserve study companies offer an add-on spreadsheet that can be updated in between studies. Our next presenter, Damian Esparza from Smart Property, has a different solution that will help your community keep your reserve study up-to-date. EJF is partnering with Smart Property to help our communities keep their reserve studies relevant.