

Community Association Reserve Studies

A Summer School Primer – What you need to know, and tips for success.

By Neal Bach, CPA
Bach, James, Mansour & Company

Successful community associations, like successful businesses, plan ahead. Almost every community association budget has some level of contribution to a reserve fund that pays for major capital expenditures. Will your reserve fund balance actually meet those financial obligations? School may be out for the summer, but it's never too late to learn a little more about reserve studies.

Most Covenants Require a Reserve Fund

Covenants that require a reserve fund ensures that the board can maintain the quality of life in your neighborhood or complex and keep the summer amenities open. Without an adequate amount of money in the reserve fund, the association may not be able to pay for major repairs when needed, or will have to implement major assessments to fund the work.

A Well-Funded Reserve Is Like an Endless Summer

I have seen many examples of both under- and over-funded reserve funds. There is no magic reserve number or calculation. The actual amount of money required in the fund varies, based on a number of factors, including:

- Common area elements – parking lots, roads (for gated communities), fencing, retention ponds, and landscaping.
- Amenities – swimming pools, tennis courts, clubhouses, and playgrounds.
- Age of facilities – older items obviously require more maintenance.
- Useful life – how long those items can be used before major repairs or replacement.
- Replacement cost – the expense today to replace the item. For example, it may cost twice as much today to replace a water slide since so few companies manufacture them.

A reserve study is essentially a physical and financial analysis that takes into account all of the elements listed above and estimates the costs associated with maintaining and replacing those items when necessary. Based on this analysis, the study will determine the funding level that the association will need to maintain over time, so the board will know how much to budget each year. If your association does not have a reserve study, or if it is more than three years old, it may be time to commission a new one.

Commissioning a Reserve Study

Some communities attempt to conduct this study without professional assistance, and there are even some do-it-yourself reserve study packages. Before you head down this path, ask yourself if you are really qualified to assess the future funding needs of your community. Are you ready to take on that liability?

Reserve studies are not an exact science, but they are still a science. Here are five tips for effectively commissioning a reserve study:

- **Hire an expert.** Use an engineering firm with references from similar communities. Professional engineering firms charge about \$3,000-5,000 to conduct the study. There are some great firms listed on the CAI-Georgia.org website.
- **Be Prepared.** The firm will ask you questions about your existing facilities. Know when things were originally built or installed and their projected useful life.
- **Get quotes.** Seek your own replacement estimates for comparison. If you don't know how much it will cost to replace your pool, ask.
- **Include inflation.** While 2-3% annual inflation seems trivial, over 20+ years this can present a major problem if you have not factored it in. The

“A Well-Funded Reserve Is Like an Endless Summer...”



30-year average inflation rate (based on the Consumer Price Index) is just under 3%.

- Update every 3-5 years. Review the study annually to make sure you have not missed something. For example, the life span may have changed, or prices may have shifted.

School Is Over! Implementing Your HOA Reserve Study Results

Assume the first draft report you receive will require changes. Review the information, compare the details to your own research, and follow up where there are major differences in lifespan or replacement estimates. Engineers may use averages, so as they say on the TV weight loss commercials, “Your actual results may vary.” Here are a few thoughts about successful reserve study implementation:

- Treat the reserve like a savings account for specific major repairs, not a slush fund.
- Fund it regularly and adequately and don't shift money back to cover community operations.
- Document any variances so that future boards understand what happened and why.

Your Legal Responsibility

I don't want to scare you, but if “maintaining an adequate reserve fund” is required in your covenants, as a community association board member it is your fiduciary responsibility to ensure that the fund will cover future capital expenses. Ask to see your community's reserve study. If there is no current study, commission one. If you can't convince your fellow board members to commission the study, you may not want to stay on the board.

Just like in our personal lives, saving today for a rainy day is much easier than struggling to find the money at the exact time you need it. An adequately funded reserve will ensure that your neighborhood is protected today and into the future, making life a warm summer breeze for future community association board members. ■