Four Steps to a Great Reserve Study

By Robert W. Browning, PCAM, RS

***"Bob!"* OH NO…** here it comes I thought.

"*Why in the world did we hire you to update our reserve study if we are doing all the work?*" exclaimed an extremely stressed planned development treasurer.

I was preparing the "Update Without Site Visit," reserve study, a common study project in the two years a site visit reserve study is not required in California. The perception of this treasurer was that somehow, maybe through osmosis, I could learn about their reserve activity, without any communication! Even though, like most reserve specialists, we provide tools for the association to submit to us the component and financial activity, he did not think he should have to spend the time providing this important information about the reserves. This attitude would never work with your tax preparer, or auditor. Why would it work for the reserve specialist?

As a community association manager or association board member, like my client above, working with vendors such as a reserve specialist, can be a lot of work. Vendors should make your life easier, not more difficult, but sometimes it seems the reverse is true. Working with vendors may relieve management of some stresses of the job, but working with the reserve specialist, is not one of the less complicated vendor tasks. It will depend on the level of service reserve study, the familiarity of the reserve specialist with the community association, and the experience of the manager. Luckily, extra time spent at the beginning of the process, saves time in the long run, and also helps to ensure a great reserve study is delivered to the association.

The most exhaustive level of service reserve study is the full study, so let’s look at the steps to developing a great study, using a sample association having its first “full” reserve study.

STEP 1: COMMUNICATE

The best way to receive a quality reserve study is to communicate clearly with the specialist. A reserve specialist will usually provide a checklist of items needed to begin the project. Here is where the manager’s to-do list grows. Below is a sample checklist for a medium size association. Some of these checklist items may have been provided to the specialist to bid the engagement, but all are needed for a useful study:

Legal, Property, Organizational

- Executed contract & retainer fee
  Address of project, or sample address in association
  Fiscal year-end date
- Number of lots/units
- Year built
- Description of additional cost centers, leased facilities
  Contact info of on-site personnel if needed
- Access information, gate code, alarm code, keys, etc.
  CC&R’s, By-Laws, Articles (the last two not always needed but can be helpful)
- Map of project (Very important if common areas are not contiguous)
- Previous reserve study from different vendor (more on this later)
- Inventories: Fixed assets, property, vehicles, restaurant equipment, etc.
- Association vendor list (Manager should let vendors know it’s OK to talk with specialist)
- List of component projects in progress, recently completed, or upcoming (i.e. asphalt plans, roofing projects, deck replacement schedules)

Financial Information

- Audit, Review, Compilation, or year-end financial statement from previous fiscal year
- Current budget
- Bank Loan or special assessment information
- How often are assessments paid: monthly, quarterly, semi-annual

The list may look intimidating, but isn’t that what assistants are for?
Let us break it down. Except for the retainer fee and keys, everything else can be sent via email. The paperless office is here for most of us now, so having the files available electronically can save time for all.

STEP 2: GET ORGANIZED

“For every minute spent organizing, an hour is earned” according to Benjamin Franklin. So, let’s create extra time. When a manager is new to an association, one of the first tasks (if not previously done) is to create a sheet with many of the items on the checklist included in one place. Project address, gate codes, fiscal year, maps, number of units, etc., are things that never or rarely change. Many management firms have this data in a paper file, electronic file, on an iPad, or in the cloud.

For perishable items, like the audit and budget, these should be easy items to retrieve for the specialist. These are documents needed for escrows and statutory budget mailings and should be easy to send to the specialist. Other static files like the governing documents are easily transmitted these days via email.

STEP 3: KNOW WHAT THE SPECIALIST DOES *NOT* WANT

It may sound counter intuitive, but some documents seem like they would be gold to the specialist, but not so much.

- Tax Return: Other than displaying the filing status, there is nothing there for the reserve specialist.
- Complete Financial Statements: The balance sheet and income and expense reports are useful. We never need the delinquency list, bank statements, and other reports not relevant to reserves and there are probably privacy violations with some of these things being transmitted to the reserve specialist.
- General Ledger (GL): OK, this is a tricky one. Yes, the GL can be useful if it includes reserve accounts only AND is highly annotated. But a 100-page GL for the entire financial, is a tough read, does not provide enough detail, such as the actual scope of work, and by itself, is not a useful tool.

STEP 4: WHAT TO TELL THE BOARD

Occasionally the reserve study prepared by the previous specialist is withheld by the Board from the new reserve specialist. This is a bad idea and here is why. The best reserve study is a collaboration between the specialist, management and the association. The previous study is instrumental to the new reserve specialist for continuity and organization of the components. The previous study can be measured against the new study to see if the new (or old) study missed anything. More importantly, not having the previous study limits the available history on the components that is useful to the new specialist. This history can be transferred from the previous study to

THINGS SAID TO A RESERVE SPECIALIST ■ FUNNY OR CRAZY?

1. *If it saves you time, I don't need the entire reserve study completed, I just need the reserve contribution for the budget.*

Funny! The purpose of a reserve study is to develop the reserve contribution for the budget. If we could do this without preparing a reserve study first, why would we exist?

2. *Don't worry about updating the reserve study. I only need the "Assessment and Reserve Funding Disclosure" for my budget packet.*

Funny! Like above, the state mandated form is the result of the reserve study update. Not a standalone task.

3. *Our percent funded is 110%. We plan on returning the 10% back to the members next week.*

Crazy! Not funny. Percent funded is a snapshot on the day calculated and does not always relate to the reserve contribution or see into the future. This could be very damaging. Check first with your reserve specialist.

4. *Our special assessment was adopted yesterday. We need to update the reserve study to plan how to spend it.*

Crazy! This is backwards. Always include the reserve specialist in decisions addressing reserve shortfalls and while considering a special assessment or bank loan.

5. *We spent $100,000 this year from reserves, you don't need the detail, do you?*

Funny! Yes, the reserve specialist needs the detail on which components were affected by the expenditures. A scope of work, change orders, schedule are all important.

6. *Are you crazy, we can't afford to spend that much money on roofing.*

Funny! Yes, you can afford the expense. Try looking at the reserve study and not just the monthly financial statement.

the new study, ensuring continuity and memorializing work done.

Moreover, here’s an analogy we can all relate too. Imagine walking into your doctor’s office to have a pain in your leg diagnosed. “Hey Doc, I would not want to influence your diagnosis with any information about what hurts.” If the doctor did not throw you out of the exam room, he would have to run a myriad of tests on your entire body, to diagnose your painful leg. Like the reserve specialist without the previous study, the doctor will spend an inordinate amount of time learning things that could have been easily provided at the beginning.

A reserve study can be much more thorough, by starting off with complete information provided by the association to the reserve specialist. The checklist is the best place to start. I have lost track of how many times we have started an engagement with a new client, and I find out later that we did not have all the data we could have had. Even worse, it is the board that often notices the missing information. Adherence to a complete and exhaustive reserve study checklist can make the difference between a good reserve study, and a great one ■

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