

Reserve Studies: Think Backwards to go Forward

By Robert W. Browning, PCAM, RS

Nevada fall is in the air. As our thoughts shift from summer vacations and ice cream to budgets, reserve studies and disclosures, what better time than now to discuss tips for fast and easy reserve study preparation and adoption. We will discuss scheduling, working with your reserve analyst, and finally, dealing with those pesky disclosures (which may include a little dancing on our part.) Why not start with scheduling by suggesting a new technical reserve study term: “Backwards Thinking.”

Backwards thinking, you say?

I guarantee backwards thinking will help you get your budget and reserve study adopted fast and easy. If you are a manager, you may even get Thanksgiving off. Pick a date you want to mail the budget and disclosure packet to the association members. From there, identify one or two board meetings before the mailing date (properly noticed) where the board can adopt the budget and reserve study. From there, decide when the finance committee (FC) will need to adopt their recommendation for the board (if the association has a finance committee) and calculate backwards how long the FC will need to work on the budget and reserve study draft.

Is this starting to make sense? After you have the FC schedule in place, identify the time the reserve analyst will need to do either a site-visit study (more time) or an update without a site visit (less time.) Now you need to have the reserve study ready for the FC and work backwards to get the study done in time for the FC and/or board. Continuing backwards, determine how long the reserve study will take, depending on the level of service of the study, and pick a date for the reserve study contract to be adopted by the board and have the reserve study proposals available for the board by the board meeting, a month or two before you need the reserve study draft. Whew! That is a lot of backwards thinking, and for this year, it may be too late, but this will definitely work for you next year.

Something to think about if your association has a fiscal year-end other than December: you can save dollars on your reserve study if you use the backwards-thinking method! Many reserve analysts are buried with work June -- November since most associations have December year-end fiscal years. If your association has a June fiscal year-end, ask the reserve analyst if there is a discount available if the contract engagement is during December – May. You have nothing to lose, and the reserve analyst will be happy to have their workflow spread more evenly throughout the year.

“Backwards thinking” will help ensure the board adopts the budget and reserve study after a thorough and contemplative review process. This is important, especially in these economic times, both in terms of reserve component costing and the loss of assessment revenue for some associations due to the economy. In addition, there are

forces at work slowing down the reserve study process, and the reserve contribution is the single biggest line item in most association budgets.

“Just send over the disclosures Bob, no need to update the entire study!” This common manager request is not possible because the disclosures flow from the current reserve study update. The disclosures are developed as a result of the reserve study. It is impossible to simply output the disclosures without lifting the heavy lifting of first updating the entire reserve study.

The second item slowing down reserve study preparation these days has to do with economic conditions. It used to be a rare occasion when a board member or FC member wished to meet the reserve analyst on site. Now it seems everybody wants a piece of the reserve analyst. Scheduling appointments take time. Walking the community with even the most well-intentioned association volunteer can slow down the process. Imagine if the roofer, attorney or CPA were asked if the volunteer could watch them perform their job. It would seem an odd request, but folks often want an audience with the reserve analyst these days. In most cases, this is fine and a valuable opportunity, but it does add time and may impact the reserve study cost.

Economic conditions are causing boards to look at different ways of dealing with reserve components. All reserve analysts often hear the following statements: “Is there a cheaper, better way to do the project?” “Let’s get three bids for the reserve study costing!” “The reserve study costing seems high; let’s get a bid from a contractor or engineer.” These are all valid concerns in reserve studies. Be aware these things can slow down the process. Economic conditions are also driving boards to look at several different funding plans. Running alternate funding options, adding special assessments or bank loans to the funding plan, looking at different rates of contribution increases; these are all plausible for the board to deal with. But they do add time to the process.

What are other tips to help speed up the reserve study process? Communication is key between the reserve analyst and the manager. The reserve analyst needs specific information to update the reserve study and prepare the proper disclosures.

For purposes of this article, we will use the “off-year,” Level III, Update Without Site-Visit Reserve Study as a basis for our example since this is a typical reserve study being performed in Nevada. Each reserve analysis firm will have its specific detailed checklist of items needed for the Level I, Full Study (including a site visit) and the Level II, 5-year update with the site-visit study.

Information needed by the reserve analyst to update the reserve study and prepare disclosures to include the following items (examples in parenthesis):

Start of the reserve study process

- Last year-end reserve balance (12/31/2020 Audit, review, or balance sheet)
- Current year annual reserve contribution (2021 Budget)

- Projected missed reserve contributions, if any, (with payback plan if available)
- Reserve expenses since the last update was completed
- Loan or special assessment information

After the board adopts the study

- Adopted reserve contribution (2022)
- Details of any adopted special reserve assessment (needed for funding plan and disclosures)
- Details of any bank loans or other funding considerations

Once the reserve analyst hears back from the association that the reserve study (any type of study) has been adopted, the analyst will generally return a final study and/or the disclosures, depending on how many and what kind of changes the board has made.

In the final reserve study packet will be several disclosures mandated by the law. We do not have room in this article to detail why these disclosures are needed (see your attorney), but we can discuss how they should be presented. Most reserve analysts will prepare all disclosures mandated by NRS and NAC, and below is a list of the disclosures that should be in the annual board packet:

1. Major component summary including current replacement cost, useful life and remaining life (bold type)
2. Percent funded calculation as of the end of the year for which the study was prepared (bold type)
3. Current deficiency in reserve funding expressed per unit (bold type)
4. A statement explaining if there are deferrals of major component work along with the justification
5. Special assessment declaration—Yes or No
6. The mechanism by which reserves will be funded
7. Statement detailing procedures used for calculation and establishment of reserves
8. A statement that the full reserve study is available to any member

Budget packets are getting thicker by the year. As you can see above, there are several disclosures or statements that must be in most budget packets. And this is only for disclosures related to reserves. Putting all of this together takes time, and unfortunately for the manager, other parties like reserve analysts are needed to assist in getting the budget packet completed.

Be sure to seek the advice of legal counsel if there is any question as to what should be included in the yearly budget packet. There are many reasons why an association may need to revise or augment the reserve or budget disclosures based on special circumstances. In addition, if the association has received funds from a compensatory damage award or settlement related to design or construction defects, there are specialized disclosures needed in the annual budget packet that are best left to legal counsel.

You can never ask for the reserve study or reserve study update too early. In a worst-case scenario, there may be an added revision needed at budget time if the manager orders the reserve study early in the year. Most reserve analysts will be grateful for work early in the year, even if it means providing a revision in the heat of budget season. You may even save money on the reserve study as well.

Remember, “Think Backwards to go Forward” and you will be eating turkey on Thanksgiving instead of calling your reserve analyst to check on the status of the reserve study.

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