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# Funding Your Reserve Study: What Every Board Needs to Know

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Background:

- Graduated from Portland State University 2006.
- Designated Reserve Specialist since 2009 (CAI #240).
- 19 years of industry experience as a Building Envelope Consultant.

Experience:

- Failure Analysis of hundreds of multi-family and commercial buildings.
- Design and oversight of dozens of rehabilitation projects.
- Development and expansion of reserve study services in Oregon, Washington, Utah, Nevada, and Florida.

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## Offices:

Portland, Oregon
Seattle, Washington
Winter Park, Florida
Ottawa, Ontario

## Services Overview:

Rehabilitation and Repair Planning
Building Envelope Design
New Construction Consulting Services
Construction Administration
Reserve Fund Studies
Expert Witness Support Services
Forensic Evaluations
Risk Management

# Presentation Purpose

This session helps directors understand the purpose and function of a reserve study, and how to incorporate strategic planning and development to resolve complicated issues.

Understanding the nature of the HOA/Condo association is critical to navigating that process.

- Understanding the legal requirements for an HOA/Condo association
- Why communities face recurring reserve funding challenges
- How reserve studies can support better long-term decisions
- Help Board understand how to navigate reserve planning and disclosure

# What is the Purpose of a Reserve Study?

Establishes the requirements Condominiums and Homeowners Association to set aside funds for future maintenance and replacement of commonly owned and maintained elements.

**Statutory Requirement:**

- Oregon: **ORS 100.175** for condominiums and **ORS 94.595** for planned communities, as applicable based on the community's form of ownership and governing documents.

- Washington: **RCW 64.34** for Washington condominiums, **RCW 64.38** for Washington HOAs, and now **RCW 64.90** because WUCIOA increasingly overlays or supersedes portions of the older statute

- Generally, the Board must:
  - Conduct a reserve study or update the existing reserve study annually.
  - Establish a dedicated Reserve Account
  - Include in their Annual Budget a specific line item for reserve funding based on the reserve study

# A Reserve Study Should Disclose the Following

For reserve-study report purposes, disclosure content should generally include:

- Reserve account starting balance
- Component Inventory
- Estimated remaining useful life of each component
  - Estimated maintenance frequency, and associated cost at end of maintenance cycle
  - Estimated replacement frequency, and associated cost at end of useful life
- Inflation assumption
- Investment return / reserve interest assumption
- Annual reserve funding recommendation, Board approved funding, and any anticipated deficits
  - In Washington a specific disclosure statement is now required.

# What to Look For in a Reserve Study

## Physical Analysis

- Full component inventory with useful life and remaining useful life
- Current replacement cost for every major system, not rough estimates

## Financial Analysis

- Current reserve balance and percent funded
- A multi-year funding plan and cash-flow projection

## Credentials & Cadence

- Prepared by a credentialed reserve specialist
- A full study every few years, with an update in between site visits

# Why Are Reserves Often Underfunded

## The Original Sin

- Many associations started underfunded from day one and never fully corrected course
- Contributions get set to keep dues flat, not to match the study's recommended number

## Reactive, Not Data-Driven

- Funding decisions become emotional and political under owner pressure
- Boards often gravitate toward the cheaper solutions that do not perform
- Small deferred items quietly compound into large, expensive failures

Every unplanned expense, Every premature failure, Every missed opportunity to properly correct the issue erodes the accuracy and utility of a Reserve Study.

# Reserve Studies – Resetting the Expectation

A Reserve Study is nothing more than a budgeting tool

- Based on assumptions established from a visual assessment
- Based on assumptions of durability and performance
- Based on assumptions related to inflation
- Based on revenue assumptions
- Based on replacement and maintenance assumptions that are vague or not well defined

Missing the mark on any of those factors can cause significant underfunding of the reserve

# Business Decisions vs. Emotional Decisions

**THE CHALLENGE**

- Boards often face pressure from owners
- Decisions can become emotional, political, or reactive

**THE SOLUTION**

- Reserve studies outline “the plan” from a financial perspective
- Data helps Boards make informed and rational choices

**CLARITY > REACTION**

## What is “the plan”?

Data brings clarity. Clarity builds confidence.

# Establish a Clear Vision for Your Community

## Establishing Budgets on Qualified Assumptions

Planning

- Analysis - Accurate Timing of Replacements & Maintenance
- Reasonable Service life Expectations
- Well Conceptualized Scope of Work
- Contractor Estimates
- Sufficient Contingencies

Budgeting

- Conservative Inflation Estimate
- Contractor pricing for large and complicated projects
- Expedite or Phased Over Time
- Reserve Study Implementation
- Establish Expectations for Reserve Funding

# Trust but Verify

Validate Assumptions with the help from the Experts

Reserve studies are strongest when informed by:

- Professional Management
- Architects & Engineers
- General Counsel
- Qualified Contractors

# No Good Deed Goes Unpunished

## Community Buy-In Matters

Owners Need to Understand:

- What the issues are?
- What is the Solution?
- How much is it going to cost?
    - How does it effect their pocket today and tomorrow
- What other solutions were considered?

Communication is part of successful reserve planning.

# Catching Up: Establish a 5-Year Funding Plan

## You Don’t Have to Fix It Overnight

### The Recovery Roadmap

- Compare the reserve budgets against other funding options
- Prioritize the components at greatest risk first
- Establish good repair boundaries
- Implement Stabilization Efforts and Understand the Expectations
- Build a phasing plan and fund it on schedule
- Revisit and update the numbers as costs and priorities shift

Boards can move from underfunded to healthy in phased steps:

- Graduated dues increases
- Small special assessment
- or a hybrid of both

## See the plan through!

# If You Don’t Fund to the Study, Say So

### The Disclosure Duty

- Clarify if reserves are being funded at the level the study recommends
- Identify if any major elements are not being funded
- If funding falls short, that shortfall must be disclosed too – not glossed over

### Where It Shows Up

- Resale disclosure packages that buyers and lenders review before closing
- Annual budget disclosures that go out to every owner

### The Risk of Silence

- Undisclosed underfunding exposes the board, not just the association
- *Confirm your exact state and governing-document requirements with legal counsel*

# Certa Pillars of Project Delivery

## Advise

- Understand the history of the project
- Understand the community's opportunities and limitations

## Design

- Develop design solutions collaboratively
- Use the reserve budget as a tool to inform design

## Assure

- Observe the work in progress
- Maintain high expectations for construction quality

# Questions?

Thank you!