

Why a Reserve?

Overseeing the community's finances and developing budgets that enable the community to maintain and preserve market values of both the residential and common area property are important responsibilities of the association's board of directors. A funding plan for the future repairs or replacement of major common area components (e.g. swimming pools, asphalt surfaces, concrete areas, roofs, vehicular access gates, monument signs, etc.) is a very important part of the overall financial management of an association.

But how does the board know how much money they should be putting into the association's reserve fund? A professional Reserve Study will answer that question. A Reserve Study identifies all the building and ground components that are the association's responsibility to maintain, measures each of them, assesses their condition, projects a useful life and repair and replacement costs. All this information when projected out with an inflation factor over the long-term (e.g. 20-30 years) provides the board with a road map to follow for the funding, replacement, and repair of the association's common area components.

Over the years, boards have used various funding options for replacing or repairing common area elements: periodic assessments over the life of the assets; special assessments at the time of the actual replacement; borrowing funds when needed; or a combination of these options. Funding reserves by monthly contributions is the only fair way to address this need. Special assessments penalize those that have to pay them since former owners were able to use and enjoy the amenities without contributing to long-term repair and replacement needs. With a reserve plan that is funded monthly, each owner contributes his or her fair share based on the length of time of ownership. And more importantly, the association has money in its reserve fund when needed.

Professional reserve studies are designed to eliminate special assessments by ensuring that sufficient funds are available when property components need to be repaired or replaced. Elimination of special assessments offers peace of mind to owners and reduces claims of financial mismanagement. Unfortunately, many associations have fallen victim to boards that have failed to adequately plan and save for the inevitable repair and replacement of association property. So those with immediate financial needs resort to financing projects with special assessments or loans.

One must refer to the association's governing documents to determine if the board has authority to pass special assessments or to borrow funds, or if special assessments or the borrowing of funds requires approval by the membership. Selling homeowners on a special assessment is not a small or easy task.

Special assessments affect only the current property owners, regardless of the amount of time of ownership. Many owners view a special assessment as just a higher expense for them personally, and not in terms of the greater good or need for the repair or replacement. Apathy often runs deep. The board's hands may be tied and very necessary repairs may go undone for lack of funds. Deferred maintenance has the potential for increased costs down the road, such as mold abatement required as a result of deferred maintenance on leaky roofs. If the board cannot garner sufficient member support to pass a special assessment after careful planning and case making, the facts should be documented in the next board meeting minutes.

When new board members inherit a property without proper reserves and are then faced with many items in need of repair or replacement and there is a severe lack of funds for such, the board needs to arm itself with as much information as possible before approaching the ownership with the issue. A professional reserve study is a great way to assess the overall situation in detail. Although the reserve study can be costly, it provides the board and owners with a true assessment from an outside professional of the condition of the property and the elements for which the association is responsible to maintain.

The overall appearance of the community translates directly into its property value, which is a leading factor in members' satisfaction with their community. Also, lenders look for signs of financial health

when reviewing mortgage applications. Communities with inadequate reserve funds may find themselves at risk for mortgage denials.

Careful planning for the future repair and replacement of association assets is the board of directors' fiduciary responsibility and it demonstrates good stewardship of the association's money. There are reserve study professionals readily available to assist community associations in protecting the physical and fiscal needs of their communities for all the years ahead.