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What is a Reserve Study?

- A Reserve Study is the art and science of anticipating, and preparing for, an association's major common area repair and replacement expenses. Partially art, because in this field we are making projections about the future. Partially science, because our work is a combination of research and well-defined computations, following consistent National Reserve Study Standard principles.

A Reserve Study can be broken down into three key elements:

1. The **"Component List"** serves as the foundation by spelling out the scope & schedule of all necessary repairs & replacements.
2. **"Reserve Fund Strength"** is a calculated ratio that compares the actual amount in Reserves to the current value of Reserve Component deterioration.
3. The **"Funding Plan"** is a calculated plan of regular monthly assessments and/or special assessments necessary to perform the repairs & replacements in a timely manner.



1. Component List

1. **Component must be the Association’s maintenance responsibility.** Reserve line items should be established based on a thorough understanding of the Association’s common area assets and maintenance responsibilities, as defined in the association’s governing documents or a well-established Association precedent.

2. **Component must have a limited Useful Life.** Reserve line items with “very extended” lives (i.e., life of the property) or components that can function indefinitely with only minor ongoing maintenance or repair.

3. **Component must have a predictable Remaining Useful Life (RUL).** Test #3 rules out any unpredictable or random Reserve line items. A future expenditure needs to be reasonably anticipated in order to be defined and incorporated into a Funding Plan.

4. **Component cost must be above a minimum threshold cost.** Reserve line items where the cost falls below a minimum threshold. It is inappropriate to clutter the Component List with expenses that are insignificant or are more appropriately handled in the ongoing Operating budget.



RESERVE COMPONENT “FOUR-PART TEST”

How do we establish Current Repair/Replacement Cost Estimates?

In this order...

1. Actual client cost history, or current proposals
2. Comparison to Association Reserves database of work done at similar associations
3. Vendor Recommendations
4. Reliable National Industry cost estimating guidebooks

Description	UL	RUL	Cost
Pool Furniture - Replace	5	0	\$4,600
Pool - Resurface	10	5	\$10,000
Roof - Replace	20	18	\$80,000
Asphalt - Seal	5	2	\$5,000
Asphalt - Resurface	20	2	\$25,000
Building - Repaint	10	1	\$50,000
Elevator - Modernize	20	5	\$80,000
Hallways - Refurbish	8	6	\$24,000

2. Reserve Strength

1. Fully Funded Balance= The value (in dollars) of Reserve Component deterioration, as of a specific date

$$\text{FFB (\$)} = \text{Current Cost (\$)} \times \text{Effective Age (years)} / \text{Useful Life}$$

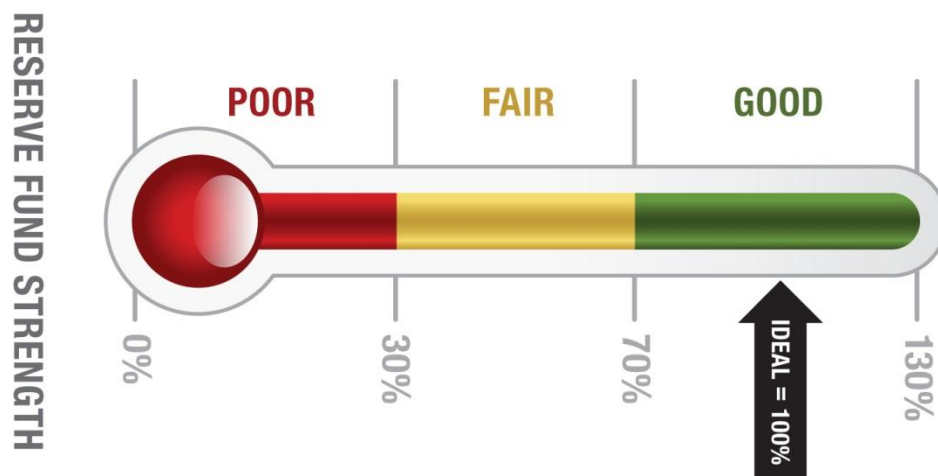
Pool - Resurface	10	5	\$10,000
(FFB=\$5,000)			

2. This calculation is actually made for each component then summed together to arrive at the **Total FFB** for the Association.

$$\begin{aligned} \text{\% Funded} &= \frac{\text{Reserve Fund Balance (actual)}}{\text{Fully Funded Balance (computed)}} & \text{X} &= \text{\% Funded} \\ & & \text{\% Funded} &= \$50,000 / \$250,000 \\ & & \text{X} &= 20\% \end{aligned}$$

3. Why is FFB used?

- FFB is an independent and meaningful measure of Reserve Fund Strength
- FFB is a reliable predictor of the need for a Special Assessment to perform timely repairs & replacements



3– Funding Plan

According to National Reserve Study Standards, there are four Funding Principles to balance in developing your Reserve Funding Plan.

1. Design a plan that provides you with sufficient cash to perform your Reserve projects on time.
2. Stable contribution is desirable because it keeps these naturally irregular expenses from unsettling the budget.
3. Evenly distributed reserve contributions over current and future owners enable each owner to pay their fair share of the association's Reserve expenses over the years.
4. Develop a plan that is fiscally responsible and safe for Boardmembers to recommend to their association.



RESERVE FUNDING PRINCIPLES

How to pay?

- Increase Reserve Contributions
- Special Assessment
- Loan
- Do Nothing

What is our Recommended Funding Goal?

Maintaining the Reserve Fund at a level equal to the *value* of deterioration is called “Full Funding” (100% Funded). As each asset ages and becomes “used up”, the Reserve Fund grows proportionally. **This is simple, responsible, and our recommendation.** Evidence shows that associations in the 70-130% range *enjoy a low risk of special assessments or deferred maintenance*. The objective of a multi-year Funding Plan is to Fully Fund the Reserve Fund, where there is a low risk of such Reserve cash flow problems.

Funding a \$250,000 Roof

