



ASSOCIATION
RESERVES™

Fundamentals of Reserves

Course #9630246

Approved for 1 Hour of Continuing Education Credit by the
State of Florida Department of Business and Professional
Regulation for licensed Community Association Managers.

Subject Area: IFM/ELE



Association Reserves

70,000+ Completed Reserve Studies
since 1986

Regional offices nationwide

Pioneers of many industry-wide
principles

10 Consecutive Readers Choice
Awards (FLCAJ)

CE Provider #0005433



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Florida Regional Office
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Our Florida Team

Statewide Presence (19 Staff in All)

Thousands of Association Clients

Engineering, Architecture, Construction
Management, Business and Accounting

(5) Credentialed Reserve Specialists



Course Outline

What are Reserves?

Reserve Study Basics



A green-tinted background image of a city skyline, featuring several tall skyscrapers. The text is centered in a white rectangular box.

WHAT ARE RESERVES?



The Budget

Operating Funds

- “Routine” costs
- Unrestricted use
- Expected to be spent in the year collected
- Typical uses: utilities, insurance, management fees, routine maintenance

Reserve Funds

- Infrequent costs
- Restricted use
- Funds accumulate until need arises
- Typical uses: roofing, painting, pavement, HVAC, elevators, etc.

“In addition to annual operating expenses, the budget shall include reserve accounts for capital expenditures and deferred maintenance. **These accounts shall include, but are not limited to, roof replacement, building painting, and pavement resurfacing,** regardless of the amount of deferred maintenance expense or replacement cost, **and for any other item** for which the deferred maintenance expense or replacement **cost exceeds \$10,000.”**

- Florida Statutes 718.112 (Condominiums)

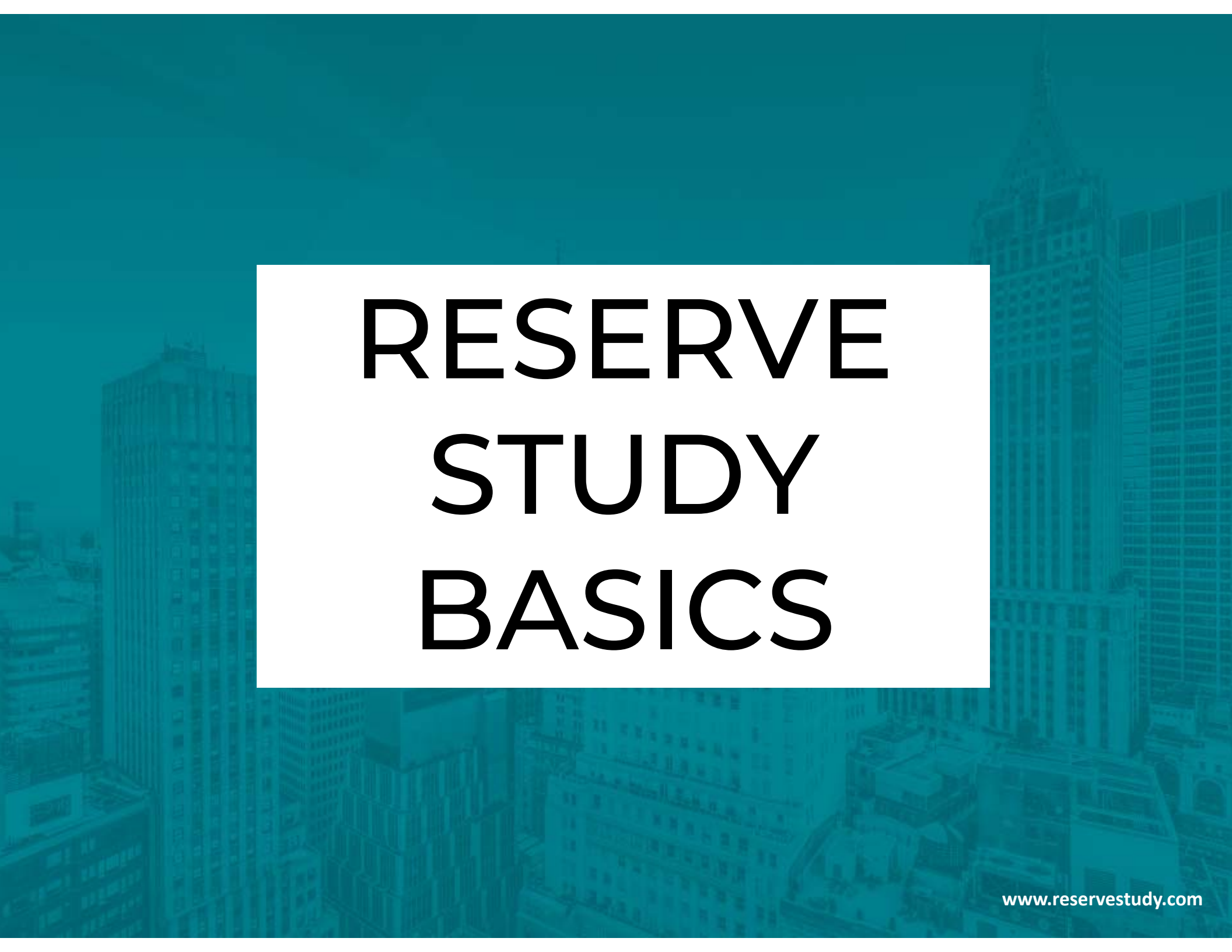
“...the association is responsible for the repair and maintenance of capital improvements **that may result in a special assessment** if reserves are not provided...”

-- Florida Statutes 720.303 (HOAs)

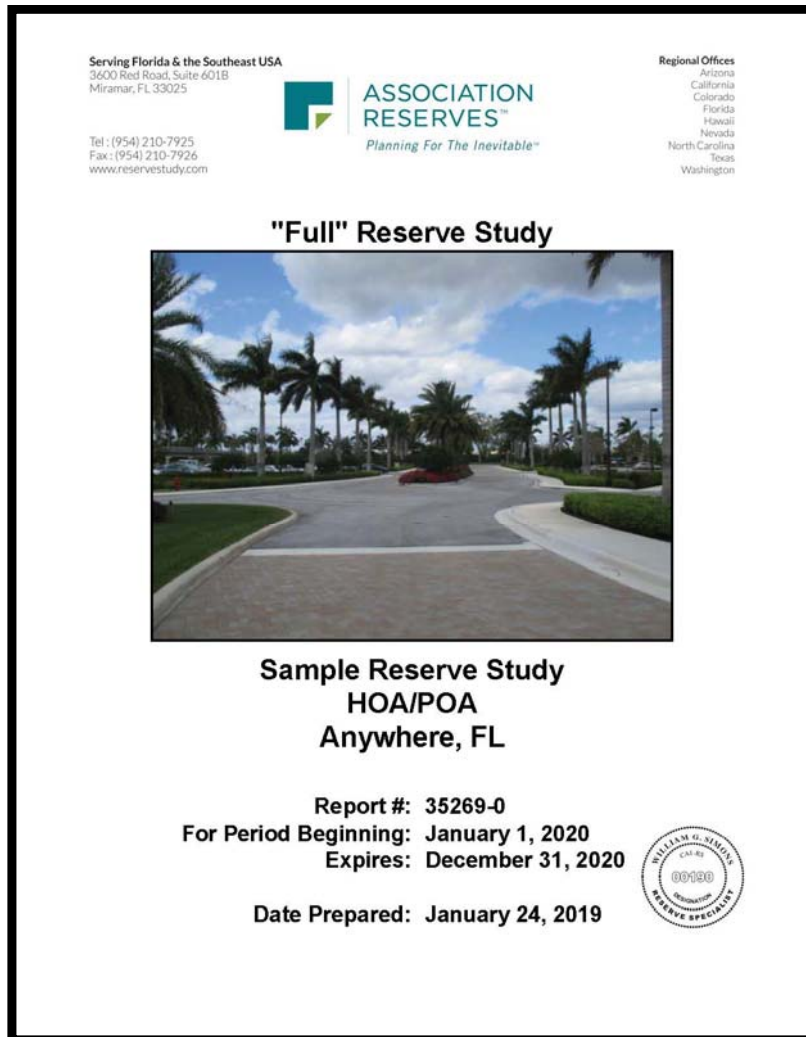
Practical Definition

“Money that an association saves over long periods of time for large repair and replacement projects.”



The background of the slide is a teal-tinted photograph of a dense city skyline, featuring numerous skyscrapers and buildings. The image is slightly blurred, giving it a professional and modern feel.

RESERVE STUDY BASICS

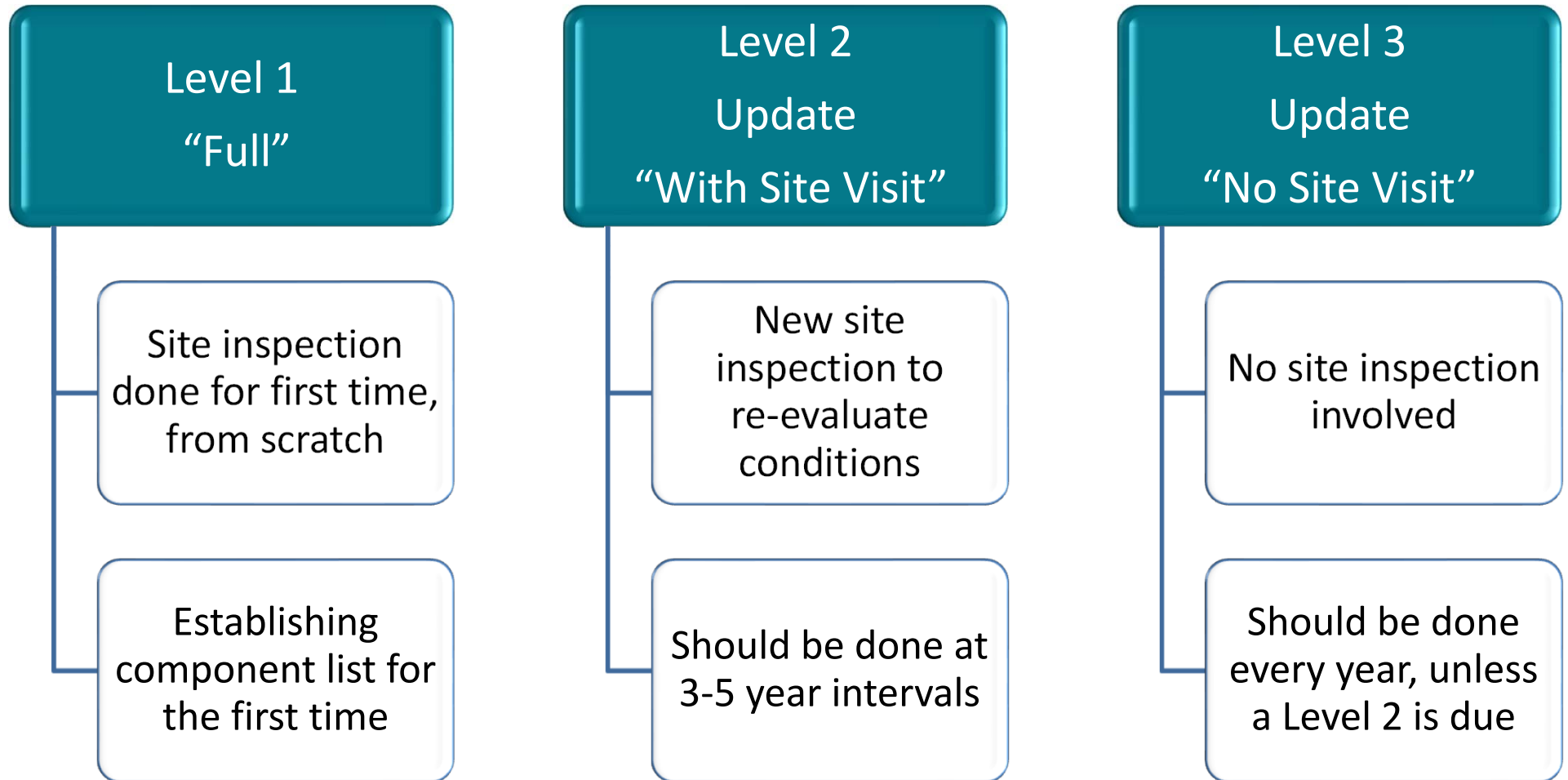


“A budget planning tool which identifies the current status of the Reserve fund and provides a stable and equitable Funding Plan to offset the anticipated future major common area expenditures.”

-National Reserve Study Standards (NRSS), Est. 1998



Levels of Service



Two Parts

*Physical
Analysis*

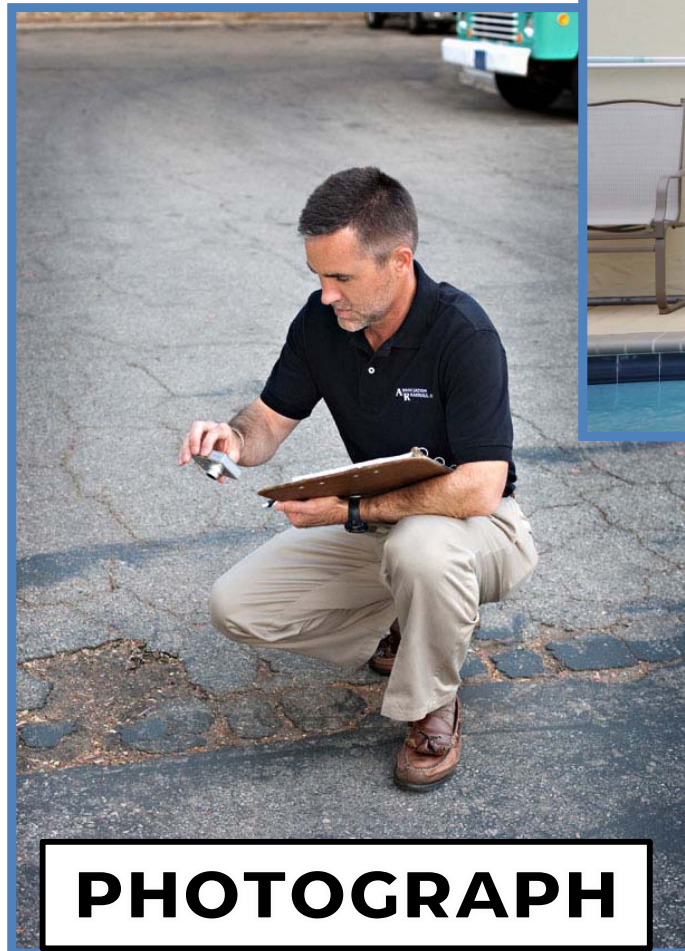


*Financial
Analysis*



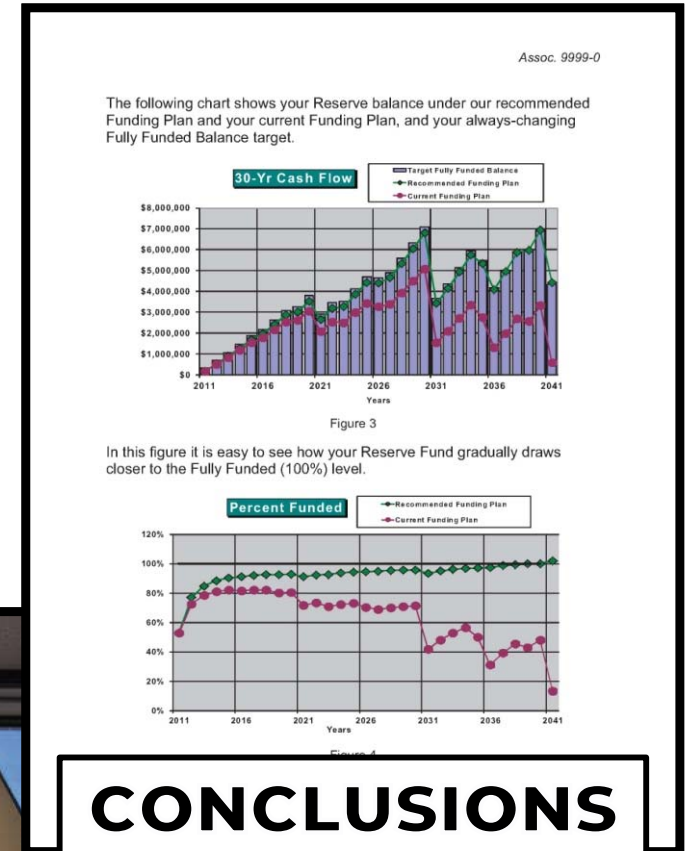
Part 1

Physical Analysis



Part 2

Financial Analysis



Three Outcomes

#2 Percent-Funded

3- Minute Executive Summary

Association:	Sample Condo Association	Assoc. #: 9999-0
Location:	Anywhere, FL	
# of Units:	311	
Report Period:	January 1, 2011 through December 31, 2011	

Results as-of 1/1/2011:

Projected Starting Reserve Balance:	\$176,000
Fully Funded Reserve Balance:	\$332,480
Average Reserve Deficit (Surplus) Per Unit:	\$503
Percent Funded:	52.9%
Recommended 2011 monthly Reserve Contribution:	\$29,000
Recommended 2011 Special Assessment for Reserves:	\$0
Most Recent Reserve Contribution Rate:	\$26,435

Economic Assumptions:

Net Annual "After Tax" Interest Earnings Accruing to Reserves.....	1.00%
Annual Inflation Rate	3.00%

- This is a "Full" Reserve Study (original, created "from scratch"). The information in this Reserve Study is based on our site inspection on July 16, 2010. This Reserve Study was prepared by a credentialed Reserve Specialist (RS).
- Because your Reserve Fund is between 30% and 70% at 52.9% Funded, this represents a fair position. In perspective, associations funded at this level face a moderate risk of special assessments and other cash flow problems. Your multi-year Funding Plan is designed to gradually bring you to the 100% level, or "Fully Funded".
- Based on this starting point, your anticipated future expenses, and your historical Reserve contribution rate, our recommendation is to increase in the upcoming fiscal year.
- The monthly Reserve contribution amount recommended here should be increased by 4% in each of the next 14 years, followed thereafter by annual increases of 3%. No assets appropriate for Reserve designation were excluded.

Association Reserves – Florida, LLC

Table 1: Executive Summary

9999-0

#	Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost	Future Average Cost
Sample Condo - Exterior/Garage					
104	Balcony Decks - Re-coat	5	4	\$99,000	\$111,425
105	Balcony Decks - Resurface	28	27	\$346,500	\$769,677
201	Asphalt - Resurface	24	23	\$7,600	\$14,999
202	Asphalt - Seal/Repair	4	3	\$693	\$757
324	Exterior Lighting - Replace	20	19	\$33,613	\$58,940
326	Garage Lights - Replace	30	29	\$4,200	\$9,898
701	Main Entrance Doors - Replace	15	14	\$3,900	\$5,899
702	Garage Gates - Replace	25	24	\$17,500	\$35,574
903	Exterior Furniture - Replace	8	7	\$160,000	\$196,780
1111	Garage Interior - Repaint	14	13	\$19,125	\$28,086
1115	Stucco - Repaint	10	9	\$7,925	\$10,340
1118	Parking Spaces - Restripe	7	6	\$17,200	\$20,538
1130	Helipad - Recoat	5	4	\$3,125	\$3,517
1202	Pool - Resurface	10	9	\$28,000	\$36,534
1203	Spa - Resurface	5	4	\$8,000	\$9,004
1304	Deck Underlayment - Replace	20	19	\$88,200	\$154,659
1307	Torch-Down Modified Roof - Replace	20	19	\$138,450	\$242,773
1705	Exterior Planters - Waterproof	15	14	\$265,000	\$400,836
1980	Building Envelope - Seal/Waterproof	10	9	\$460,000	\$600,196

Sample Condo - Interior Areas					
326	Exit Signs - Replace	30	29	\$32,000	\$75,410
403	Mailboxes - Replace	25	24	\$26,613	\$54,098
601	Corridor Carpet - Replace	10	9	\$116,000	\$151,354
902	Gym Equip, Accessories - Replace	8	7	\$111,425	\$137,039
903	Lobby Furniture/Artwork - Replace	12	11	\$150,663	\$208,552
903	Office Furnishings/Equip - Replace	12	11	\$13,650	\$18,895
904	Kitchenettes - Refurbish	10	9	\$10,000	\$13,048
910	240 Lounge - Remodel	12	11	\$125,000	\$173,029
910	Common Area Bathrooms- Remodel	12	11	\$12,000	\$16,611
910	Gym - Remodel	10	9	\$15,000	\$19,572
910	Lobby/Offices - Refurbish	12	11	\$9,000	\$12,458
1110	Corridor Interiors - Repaint	10	9	\$61,200	\$79,852
1110	Stairwell Interiors - Repaint	15	14	\$43,600	\$65,949
1802	Elevator Cabs - Remodel	10	9	\$70,000	\$91,334

Sample Condo - Mechanical/Systems					
302	Emergency Generator - Overhaul	50	49	\$200,000	\$851,244
303	AC Condensing Units - Replace	20	19	\$9,500	\$16,658
303	Fan Coil Units - Replace	25	24	\$18,500	\$37,607
303	Heat Pumps - Replace (Common)	20	19	\$84,000	\$147,295
303	Packaged AC Units - Replace	20	19	\$13,500	\$23,672
304	Variable Frequency Drives - Replace	10	9	\$50,000	\$65,239
305	Stairwell Pressure Fans - Replace	20	19	\$16,500	\$28,933
306	Emergency Supply Fans - Replace	20	19	\$16,500	\$28,933
306	Garage Exhaust Fans - Replace	20	19	\$9,000	\$15,782
306	Garage Supply Fans - Replace	20	19	\$19,000	\$33,317

Association Reserves – Florida, LLC

#1 Component List



Outcome #1

Component List

Listing of life and cost estimates

Framework constant, but data changes

Defined by National Reserve Study Standards



National Reserve Study Standards

Four-Part Test:

1. Association Responsibility

2. Limited Useful Life (UL)

3. Predictable Remaining Useful Life (RUL)

4. Above Minimum Threshold Cost



Specifically mentioned by Florida Statute 718



Roofing

Painting

Pavement Resurfacing

Elevators

HVAC

Balconies/Walkway Decks

Fire Alarm & Suppression

Misc. Mechanical Systems (Security, Backup Power, etc.)

Site Elements (Fencing, Lighting, Etc.)

Exterior Waterproofing

Amenity Area Upgrades

Interior/Lobby Remodeling

Lake & Pond Maintenance



Outcome #2

Percent Funded

“Snapshot in time” of financial strength

Measures likelihood of financial problems

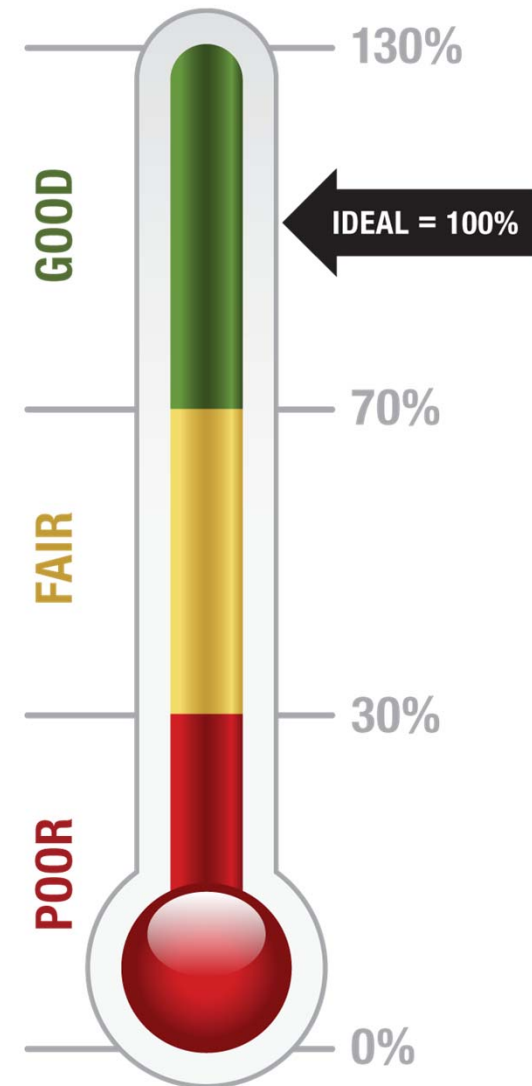
Will fluctuate over time



Percent Funded

Can be thought of as similar to a credit score, since it measures risk.

Quick, snapshot assessment of an association's long-term financial health





How is it Calculated?



How much money you have

÷

How much money you SHOULD have

=

Percent Funded



How much you have...

Easy!

- Projected Reserve account balance at start of the next fiscal year





How is it Calculated?

How much money you have

÷

→ How much money you SHOULD have

=

Percent Funded

How much you SHOULD have...

Also known
as the “Fully
Funded
Balance”



If I tell you my association has
\$50,000 in Reserves, does that
really tell you anything?



\$50,000... *sounds* like a lot!



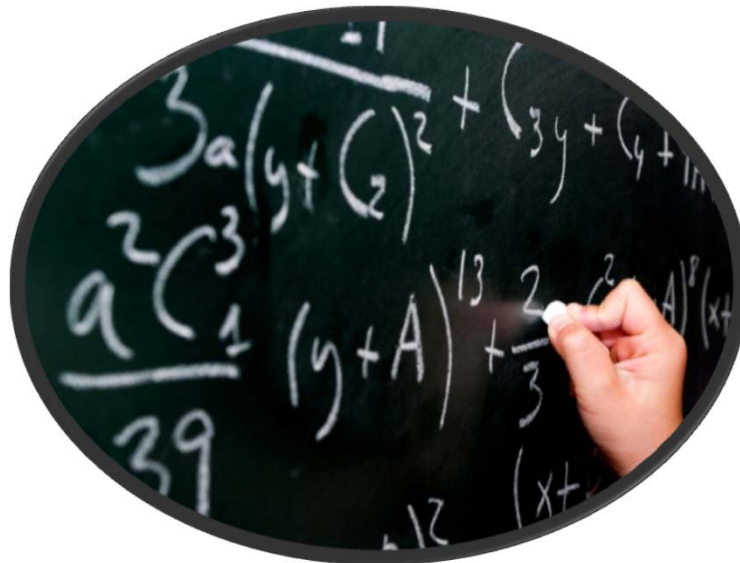


Fully Funded Balance

Current Age

Expected Useful
Life

x Current Replacement Cost





Example:

“Seaview Condominiums”





Starting Reserve Balance

(sum of all Reserve money)

\$60,000

January 1,
2023





Roof Replacement

$$\frac{\text{Age}}{\text{UL}} \times \text{Cost} = \text{FFB}$$



$$\frac{10 \text{ Years}}{20 \text{ Years}} \times \$80,000 = \$40,000$$

Fitness Equipment

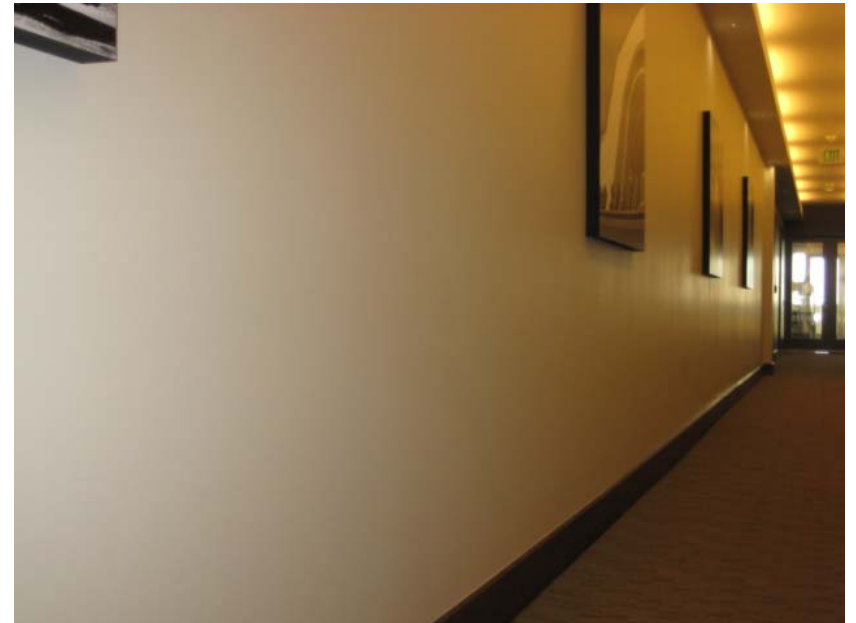
$$\frac{\text{Age}}{\text{UL}} \times \text{Cost} = \text{FFB}$$



$$\frac{5 \text{ Years}}{15 \text{ Years}} \times \$30,000 = \$10,000$$

Hallway Painting

$$\frac{\text{Age}}{\text{UL}} \times \text{Cost} = \text{FFB}$$



$$\frac{2 \text{ Years}}{8 \text{ Years}} \times \$100,000 = \$25,000$$



Example:

"Seaview Condominiums"

Total Reserve Money

Sum of all Components' Fully
Funded Balances

= Percent Funded



Example:

"Seaview Condominiums"

\$60,000

\$75,000

= 80% Funded

Projected starting balance

Sum of Fully Funded Balances:

\$40,000 (Roof)
+\$10,000 (Fitness Equipment)
+\$25,000 (Painting)

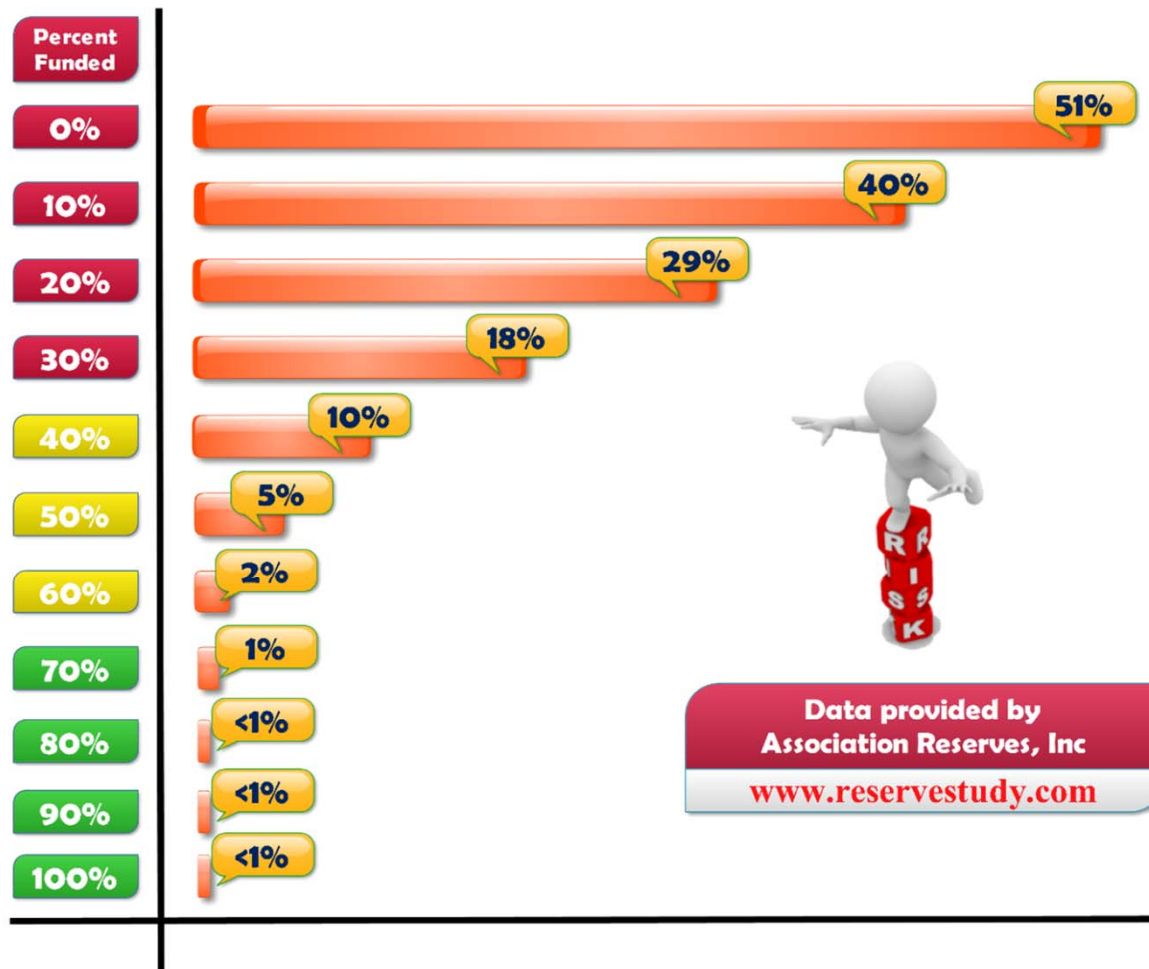
\$75,000



The Big Picture



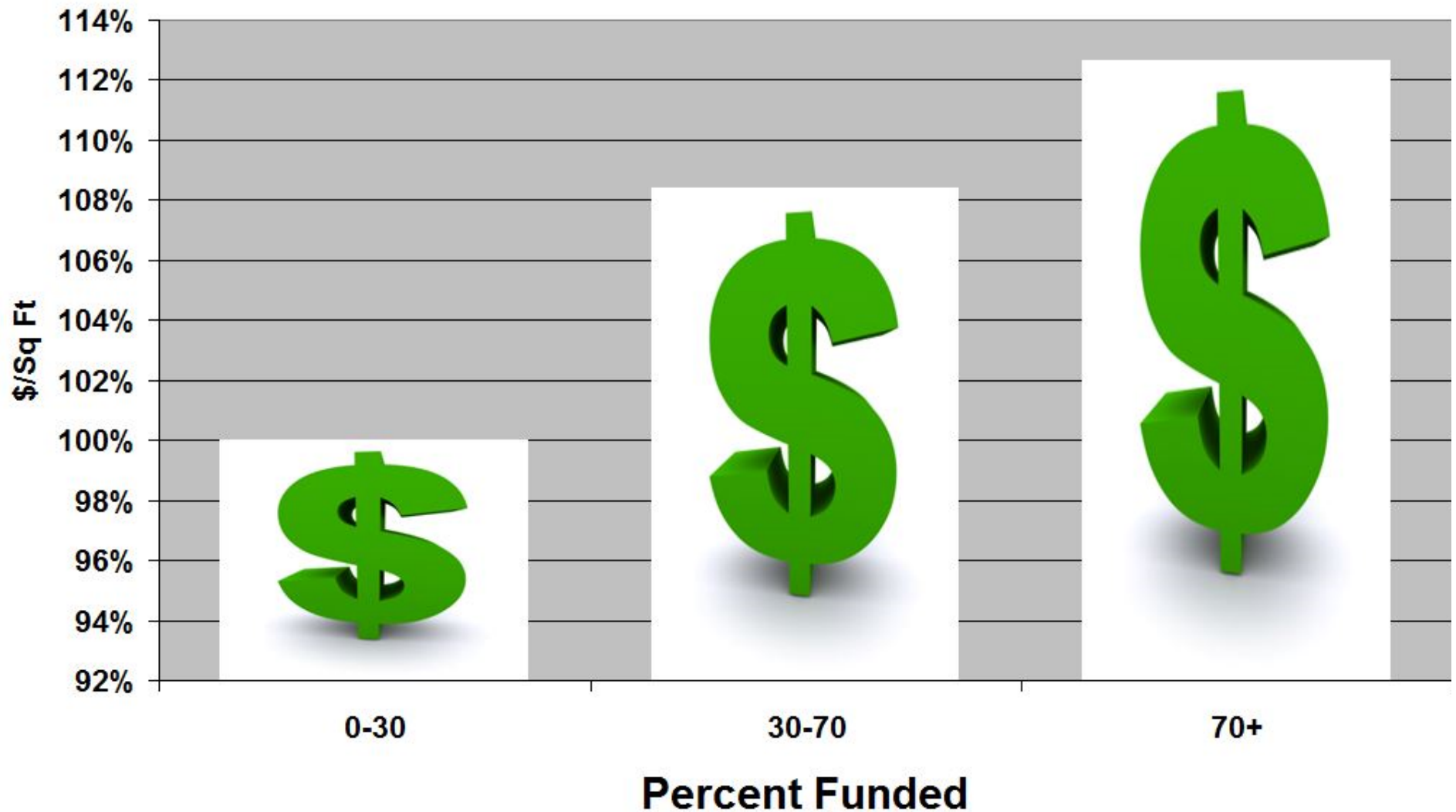
RISK of Special Assessment





Home Price Gains:

+13% with Strong Reserves





Outcome #3

Funding Plan

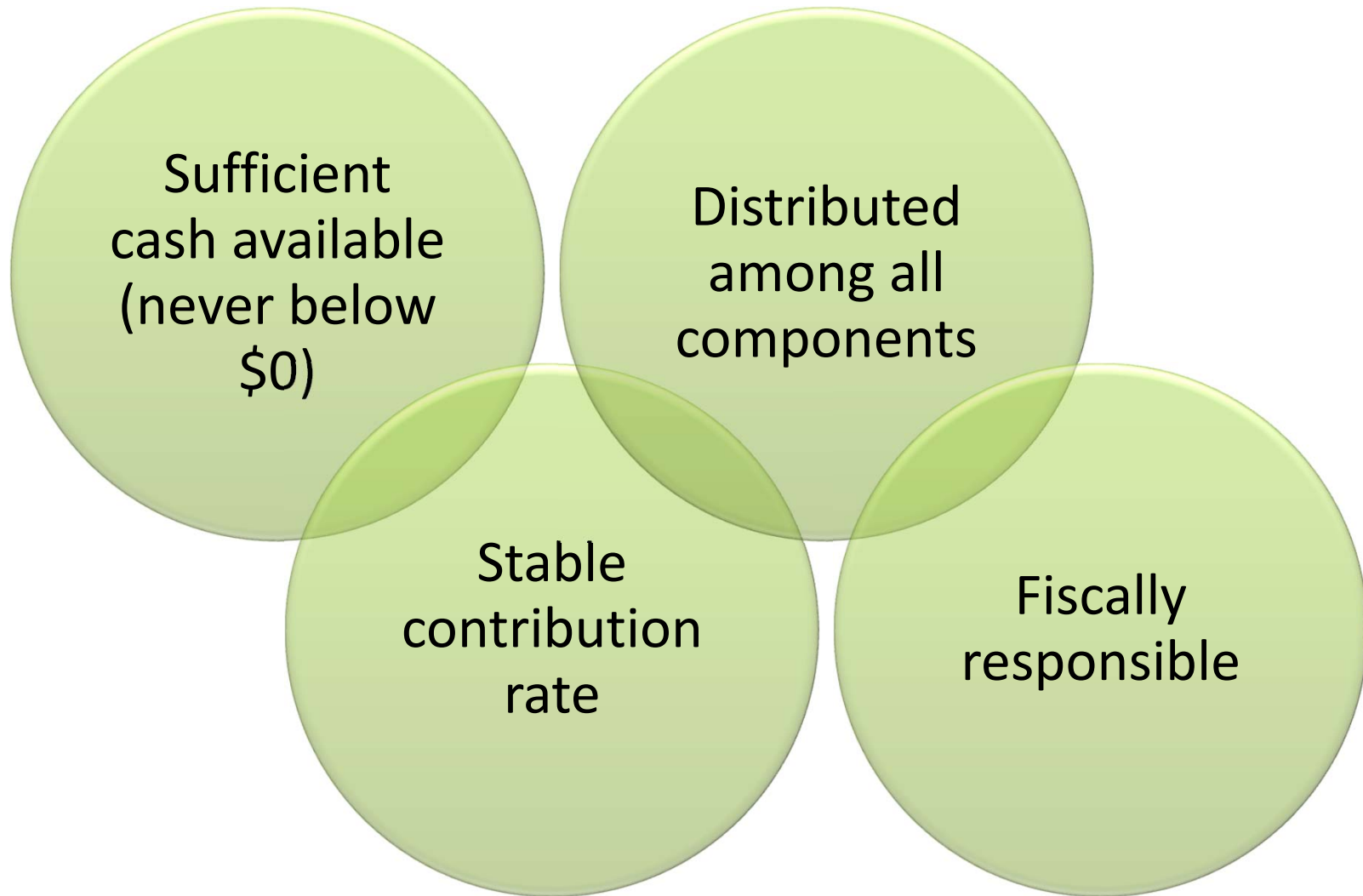
Review of current budgeted contribution to Reserves

Should match the frequency of regular assessments

May include special assessment recommendations

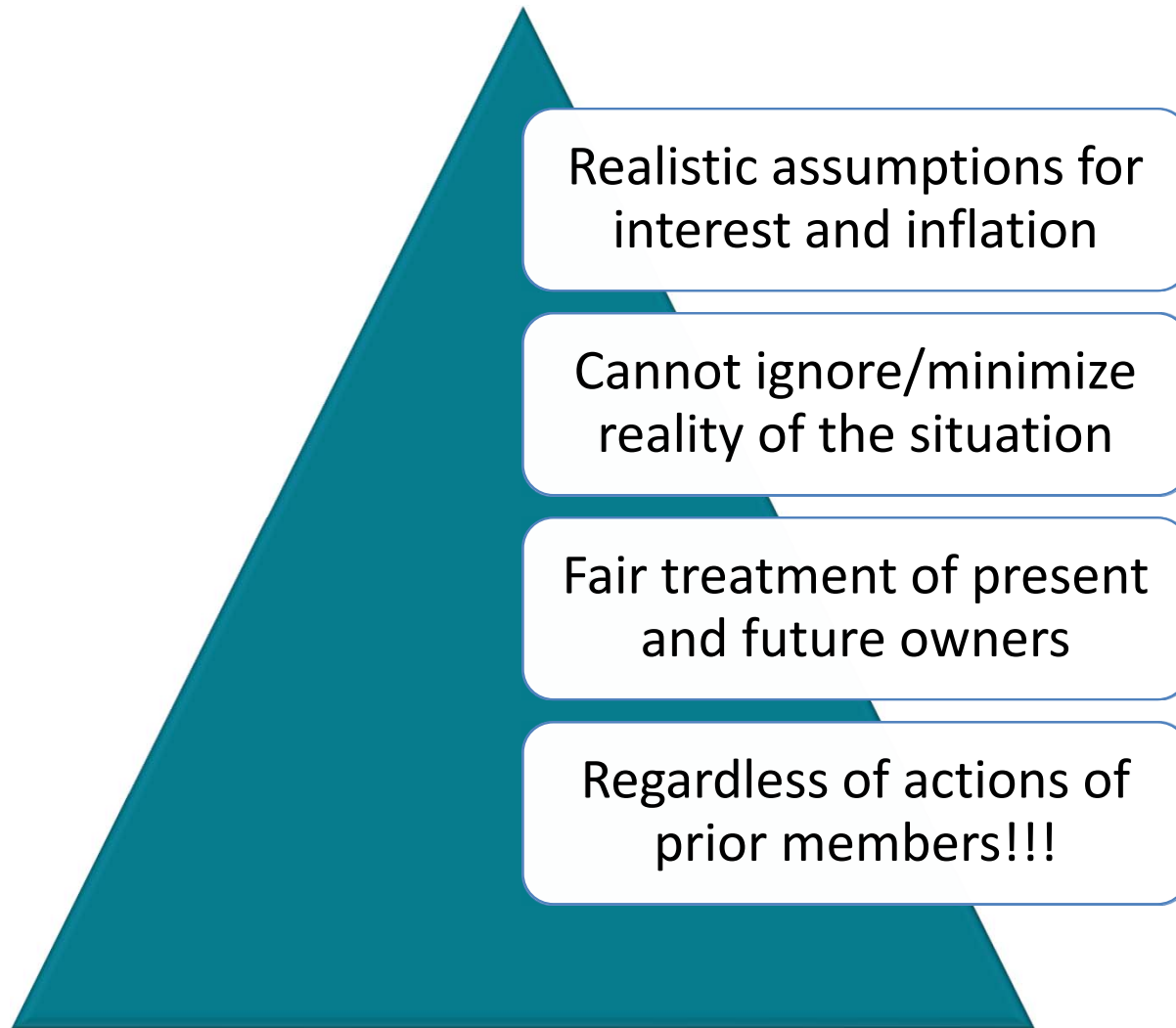


Key Principles





Fiscally Responsible



 **Thank you!**
Questions?



Need more help? Send an email
to **wsimons@reservestudy.com**