

How to Sell the Results of a Reserve Study Without a Revolt

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While the importance of associations building a strong reserve fund is no mystery to you, raising fees or assessments is often a sensitive subject with homeowners. Every association needs a long-term planning goal, and a reserve study creates an accurate timetable for all major improvements.

FIDUCIARY DUTY

One of the primary business duties of community associations is maintaining and preserving property values of the associations' common property. To do this properly, associations must develop funding plans for future repair or replacement of major common-area components.

A reserve study is a budget-planning tool that identifies the current status of the reserve fund and establishes a stable and equitable funding plan to offset the anticipated future major common-area expenditures. Being prepared for non-annual expenses allows your association to change the unexpected to the expected. Reserve studies are one of the best strategies for financial and physical health at the association's disposal. In order to keep the replacement costs current, the reserve study should be updated (with a site visit) every three to four years.

COMMUNICATION AND RELATIONSHIPS

It is our belief that fundamental to the accomplishment of any of these objectives is two basic premises: communication and relationships. Communication is multi-faceted – between the board and the owners, between the board (and/or subcommittee) and the consultant, and between the consultant and the owners. To ignore these opportunities for effective communication will result in diluting the effectiveness and ultimate success of the implementation of any reserve study on the books for your association.

Relationship nurtures trust and confidence. Through effective communication, greater trust and confidence can be developed between the various parties involved. As a result, it is more likely (although certainly not guaranteed) that the recommendations of a reserve fund study can be effectively implemented.

AN OUTLINE FOR SUCCESS

It is imperative that the scope of a reserve study be clearly defined before even seeking proposals from consultants. The following are a variety of options to be included in the scope of any Request for Proposals:

- **Define the project** – From the table above, define exactly what is expected of the consultant. This should be as a result of discussion by the board and/or building subcommittee to determine what is needed. It is particularly important to decide whether the reserve study is to be based on simply replacing existing components or if upgrades and improvements should be considered.
- **Interview the consultant** – The RFP should include a paragraph such as follows below. Getting to know the consultant, the people involved on your project and their approach to the project is imperative to a successful relationship.

The board will select two to three consultants it believes to be qualified for the work and then conduct interviews. The objective of the interview is to meet the people who will be specifically working on our project, discuss a variety of questions, and generally understand the procedures the consultant intends to use for the project. A final choice will be made within one week following the interviews.

A reserve provider's objectives are threefold: to provide a broader perspective on reserve studies; to assist property managers with a successful presentation of reserve fund studies; and to create opportunities for more meaningful reserve studies and effective implementation of recommendations.

- **Pre-project meeting** – The board (or building subcommittee) should meet with the consultant before actual work starts. The objective is to refine and finalize the scope of the project. This is also an opportunity to determine what will be expected of the association (or management company) and what will be expected of the consultant throughout the project. Suggested language for the RFP is as follows:

The first step after selection is a meeting with the board (building subcommittee) to review, refine, and finalize the scope of this project. At that time, the items to be covered, the procedures involved, the on-site protocol to be used by the consultant, and any special concerns of the board (building subcommittee) will be discussed.

- **Conduct an owner survey** – The intent is to give all of the owners the opportunity to express any particular concerns they might have about the project. While this may seem risky, it has been our experience that it is actually quite effective. Such a survey would be accompanied by a letter from the association providing all of the owners with the scope and

limitations of the reserve study to be conducted and encouraging them to respond to the survey. It has been our experience that there is a very high percentage of response. Often the response to these surveys will reveal patterns that relate to association responsibilities as well as giving owners the opportunity to note areas of concern. The following is text for the RFP relative to this point:

The consultant is expected to participate in at least one meeting with the board (building subcommittee) prior to commencement of the project.

The consultant is expected to distribute a survey for use by all unit owners and compile the results of that survey as a part of the reserve fund study.

The content of the survey should be reviewed and modified for each specific project. Also, a letter should be distributed to the unit owners, along with the survey, explaining the purpose and logistics of the reserve study and the survey. That letter should be on the association stationery. The survey would be on the consultant's stationery.

The final report would include a summary of the survey findings as well as any specific recommendations or observations related to the survey.

- **Follow-up meetings** – It is important that the consultant be willing to discuss the findings of the study with the directors, building subcommittee, and unit owners. This is especially important if the study includes an evaluation of upgrades and improvements. Ideally, there will have been ongoing communication with the directors (building subcommittee) throughout the study process. A meeting with the unit owners will be a logical extension of that process. The following is language to be used in an RFP for that purpose:

The consultant is expected to attend at least one meeting to which all of the unit owners are invited. This will occur after submittal and acceptance of the final report. The consultant will be expected to provide an overview of their findings and to respond to questions from the unit owners.

- **Report format** – Effective communication means effective distribution of information. In larger associations (more than thirty to fifty unit owners), distributing the complete report is impractical, cumbersome, and usually unnecessary. However, a condensed “owners’ report” is a valuable tool to distribute information. Typically, the owners’ report would include an

executive summary and the financial projections that are part of the master report. To achieve this purpose, the following language is suggested for the RFP:

The consultant will provide (enough for the board or building subcommittee) copies of the complete final report. This will include photographs highlighting areas of concern and/or special interest. In addition, the consultant will provide a single reproducible copy of an owners' report which will include a brief (two to three pages) overview of the findings of the study and the reserve fund projections.

- **Review draft report** – For the association, directors, and building subcommittee to be comfortable with the work of the consultant, it is important that there be interaction throughout the process. Generally, we recommend that the consultants meet with the directors/building subcommittee regularly throughout the process of developing the study and submit a draft report for review and comment by the directors/building subcommittee. Recommended RFP language is as follows:

The consultant will provide a draft report for review by the board (building subcommittee). The board (building subcommittee) will provide comments within two weeks of receipt of the draft report. Following that, the consultant will provide its final report.

Now That You Have the Results, Where Do You Go From Here?

In the first half of this article, we discussed reserve studies and selling the results of the report to your association (without a revolt!). Now that you have the association on board with the report, how do you go about implementing the actual findings?

Tom Landry, the legendary head coach for the Dallas Cowboys, said, “Setting a goal is not the main thing; it is how you will go about achieving it and staying within that plan.” This applies to associations as well: implementing a reserve study properly is as important as obtaining a quality study to begin with.

A reserve plan will outline where your association currently stands, and where to go from here. By providing your association with comprehensive inventory of all common elements and an in-depth analysis to dictate your community’s maintenance standards, the final report will greatly assist your association in reaching financial stability.

A reserve study consists of two elements: physical analysis (condition assessment) and financial analysis (fund status and funding plan). The physical analysis, which should always result from a minimum of one site visit and meeting with the Board of Directors, produces a detailed reserve component list for your community. This component list will inventory the association’s common elements and the remaining useful life of each one.

The financial analysis measures the status of your reserve fund in both actual monetary figures and the percent funded. The percent funded is particularly important as it will give you a goal to work towards relative to your association. For example, if the physical analysis shows that your entire 200-space parking garage needs to be re-paved and repaired, a mere \$10,000 in your fund may seem like small potatoes. However, to a 4-unit condominium building, this amount may be more than enough.

The funding plan serves a measure of your current condition and as a road map for the future – which may make this the integral part of your reserve study. While you may be tempted to look only at the bottom line and determine what your association’s monthly reserve dues will be, individual features such as the inflation factor and replacement cost cannot be ignored. To ensure a sound budget throughout the years, each piece of the reserve fund puzzle must work together.

The funding plan will recommend a monthly reserve contribution, which is the amount each homeowner will pay in monthly dues (or quarterly, depending on your particular association) to the reserve fund only. The assessments are based on the funding plan developed to take your current reserve account to the funding objective. If your association currently has a weak account (or none at all), the reserve dues will naturally be higher than those associations with well-funded reserve accounts. Using the cash flow method, owners will pay dues to the reserve fund, designed to offset the annual expenditures from the reserve fund.

If your community doesn’t have a reserve fund in place, you still have several options as you start from scratch. One avenue that is growing in popularity is to start your reserve

dues schedule immediately, and deposit the money into an interest bearing account. This will let your money work for you by accruing interest; this also ensures that your association funds are secure.

Along the same lines, securing a loan from a bank that specializes in community associations is another option that is growing in use. This can be a good alternative for associations who are drastically under-funded but don't want to impose a special assessment on the homeowners. However, with the payments spread out over a number of years, the interest added to the loan will end up adding quite a sum to the original loan amount. Planning ahead and making regular contributions to the reserve fund will reduce the risk of such a loan.

A special assessment may be necessary for associations that need the money relatively quickly, particularly in the case of an emergency, and don't want to go through a bank to obtain a loan (and therefore, pay interest). While the dues will go right from the association to the vendor, no middleman or bank contract required, this can be an unpopular choice with the residents of your community. A special assessment can last months or several years, but the monthly dues are often quite high. The upside to this option is the short span of time it will take to replace or repair large common elements, allowing your community to "wipe the slate clean" and start a planned reserve contribution fund.

Based on your starting reserve balance, the final step is to establish a preventive maintenance schedule. If your association does not maintain the components as detailed in the report, you run the risk of putting your association much farther behind in both maintenance and reserve funding.

Additionally, updates to the reserve study should be performed every three to five years, depending on the size of your association. A quality reserve study performed by a Professional Engineer is the ideal way to continue planning for future repairs and improvements, but changes to the association inventory and inflation are only two of the factors that can change the original reserve projections.

All common assets of your association can successfully be maintained with advance planning. Stable budgets and an aesthetically pleasing property will keep homeowners content and ensure a stable budget, all while attracting new homeowners.

Reserve studies contain an evaluation of property condition, and most importantly, serve as an indispensable tool in projecting costs and managing reserve accounts. Major expenses are inevitable, these can often be headed off with advance preparation. Reserve studies have the unique effect of allowing you to peek into the future to ensure you plan appropriately today.