Reserve Studies 101

Presented by:

Casey Lewis, RS, PE

Casey Lewis
Regional Engineering Manager
Casey.lewis@reserveadvisors.com

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512-991-3926

reserveadvisors.com

Agenda

1 **What are reserves**
Foundational understanding of what reserves are and their intended uses

2 **What is a reserve study**
A reserve study comprises two main components, physical evaluation and financial analysis

3 **How to facilitate**
How do you facilitate the onsite meeting and inspection, and what can you do to improve the accuracy of the study

4 **How to interpret**
Breaks down the different pieces of a reserve study, what each contains and how to use

1

What are reserves?

Foundational understanding of what reserves are and their intended uses

Reserve Funds

Specifically allocated

Funds which have been allocated for specific projects

Capital repair

the projects are for replacement or capital repair of common elements maintained by the Association

What is Association maintained?

Governing Docs

Legal opinions

Historical practice

2 | What is a Reserve Study?

A reserve study comprises two main components, a physical evaluation and a financial analysis

3-Part Test

1 **Association responsibility**
The Association has the obligation to maintain or replace the existing element.

2 **Reasonably Anticipated**
The need and schedule for this project can be reasonably anticipated

3 **Reasonably Estimated**
The total cost for the project is material to the Association, can be reasonably estimated, and includes all direct and related costs.

Why do we reserve?

Adequate Replacement Reserves is defined as a Replacement Reserve Fund and stable and equitable multi-year funding plan that together provide for the timely execution of the association's major repair and replacement expenses, without reliance on additional supplemental funding.

Community Associations Institute – An Explanation of Reserve Study Standards

Reserve Study

Physical Evaluation

Financial Analysis

Physical Evaluation

Meeting focus

Discussion between the reserve specialist and the community stakeholders

Inspection focus

Areas of focus for the reserve specialist while conducting a site inspection

Scope of responsibility

Understand what is Association maintained

History of capital projects

Learn what has been done and what is planned

Review of operating budget

Avoid shortfalls or double funding

Physical Evaluation

Meeting focus

Discussion between the reserve specialist and the community stakeholders

Inspection focus

Areas of focus for the reserve specialist while conducting a site inspection

Condition & life expectancy

Evaluate component condition relative to age

Manner of replacement

Determine best approach for replacement

Factors affecting cost

Locations, access, materials, etc.

Financial Analysis

01 Fund balance
Starting point of analysis

02 Contributions
Budgeted current year

03 Expenditures
Planned current year

04 Recommendation
Future contribution levels

Starting point → Income → Expense → Output

3 Facilitate a Reserve Study

How do you facilitate the onsite meeting and inspection, and what can you do to improve the accuracy of the study

Items Requested Prior to Meeting

One

Financial documents

Current year operating budget and a recent balance sheet are critical to completion of a reserve study

Two

Declarations and By-laws

For review to help identify association maintained elements and responsibility

Three

Capital project information

Details on projects the association has recently completed or is planning in the near future

Four

Interest rates

Allow us to more accurate forecast interest income

Physical Evaluation

Meeting facilitation

Discussion between the reserve specialist and the community stakeholders

Inspection facilitation

Areas of focus for the reserve specialist while conducting a site inspection

Duration

Meeting at the beginning of the day, most inspections last a single day

Who should attend

Individuals with historical knowledge

Bring questions and concerns

The reserve specialist will be asking numerous questions, but this is also the time for boards and managers to ask theirs

Physical Evaluation

Meeting facilitation

Discussion between the reserve specialist and the community stakeholders

Inspection facilitation

Areas of focus for the reserve specialist while conducting a site inspection

Notify residents prior

Alleviates concerns when homeowners see an individual walking throughout their community

Board involvement initially

Allows opportunity to identify areas of specific concern

Independent inspection

Provides the reserve specialist the ability to determine an independent, unbiased assessment of the common elements

4

Interpret a Reserve Study?

Breaks down the different pieces of a reserve study and what each contains and how it can be used

Interpret a Reserve Study

One

Executive summary

Provides a concise, high level overview of the findings of the reserve study that is easily distributed to stakeholders

Two

Expenditure spreadsheets

Provides a single page view of all common element expenditure details

Three

Funding plan

Outlines the funding needs for the next 30-years

Four

Report narratives

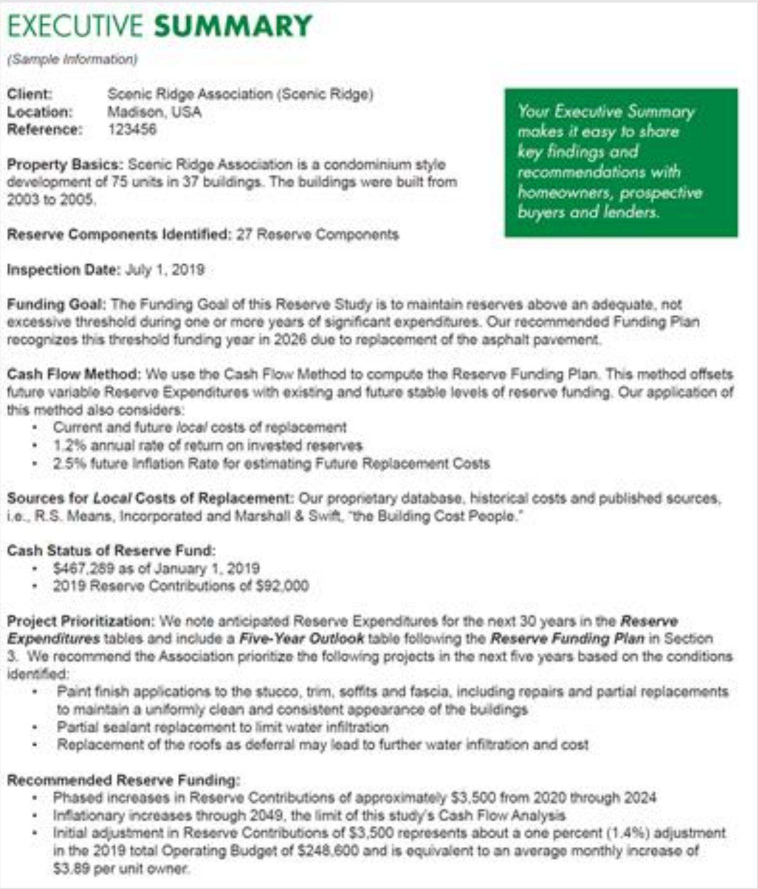
Provide detailed information regarding the common elements that educate and clarify

1 Executive Summary

» Funding goal outlines the critical expenditures

» Prioritized projects are identified

» Recommended funding provides a path forward



EXECUTIVE **SUMMARY**

(Sample Information)

Client: Scenic Ridge Association (Scenic Ridge)
Location: Madison, USA
Reference: 123456

Your Executive Summary makes it easy to share key findings and recommendations with homeowners, prospective buyers and lenders.

Property Basics: Scenic Ridge Association is a condominium style development of 75 units in 37 buildings. The buildings were built from 2003 to 2005.

Reserve Components Identified: 27 Reserve Components

Inspection Date: July 1, 2019

Funding Goal: The Funding Goal of this Reserve Study is to maintain reserves above an adequate, not excessive threshold during one or more years of significant expenditures. Our recommended Funding Plan recognizes this threshold funding year in 2026 due to replacement of the asphalt pavement.

Cash Flow Method: We use the Cash Flow Method to compute the Reserve Funding Plan. This method offsets future variable Reserve Expenditures with existing and future stable levels of reserve funding. Our application of this method also considers:

- Current and future *local* costs of replacement
- 1.2% annual rate of return on invested reserves
- 2.5% future Inflation Rate for estimating Future Replacement Costs

Sources for *Local* Costs of Replacement: Our proprietary database, historical costs and published sources, i.e., R.S. Means, Incorporated and Marshall & Swift, "the Building Cost People."

Cash Status of Reserve Fund:

- $467,289 as of January 1, 2019
- 2019 Reserve Contributions of $92,000

Project Prioritization: We note anticipated Reserve Expenditures for the next 30 years in the ***Reserve Expenditures*** tables and include a ***Five-Year Outlook*** table following the ***Reserve Funding Plan*** in Section 3. We recommend the Association prioritize the following projects in the next five years based on the conditions identified:

- Paint finish applications to the stucco, trim, soffits and fascia, including repairs and partial replacements to maintain a uniformly clean and consistent appearance of the buildings
- Partial sealant replacement to limit water infiltration
- Replacement of the roofs as deferral may lead to further water infiltration and cost

Recommended Reserve Funding:

- Phased increases in Reserve Contributions of approximately $3,500 from 2020 through 2024
- Inflationary increases through 2049, the limit of this study's Cash Flow Analysis
- Initial adjustment in Reserve Contributions of $3,500 represents about a one percent (1.4%) adjustment in the 2019 total Operating Budget of $248,600 and is equivalent to an average monthly increase of $3.89 per unit owner.

1 Executive Summary

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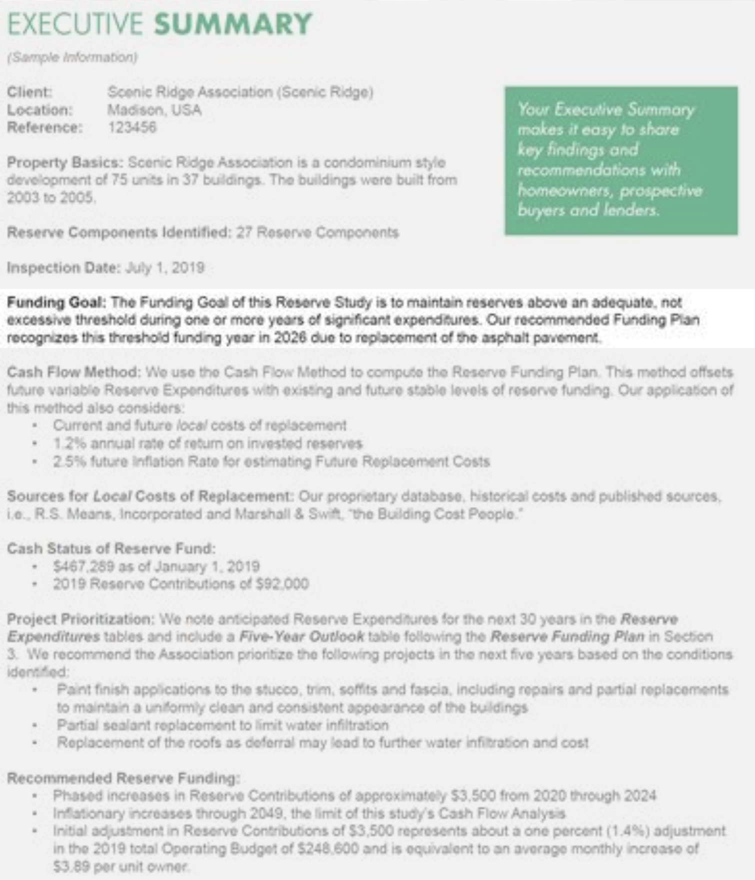

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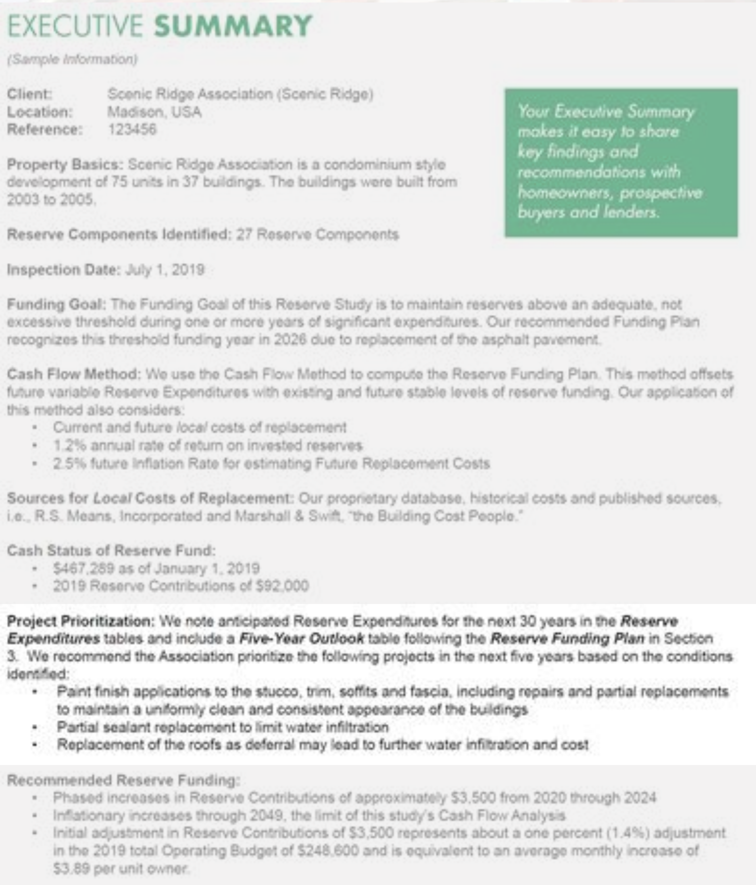

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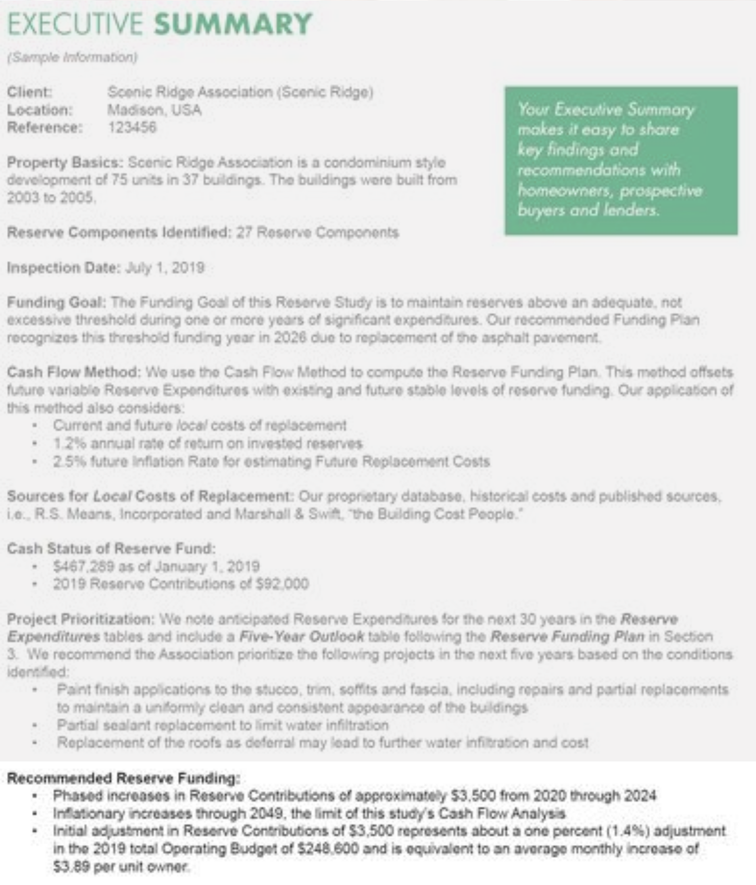

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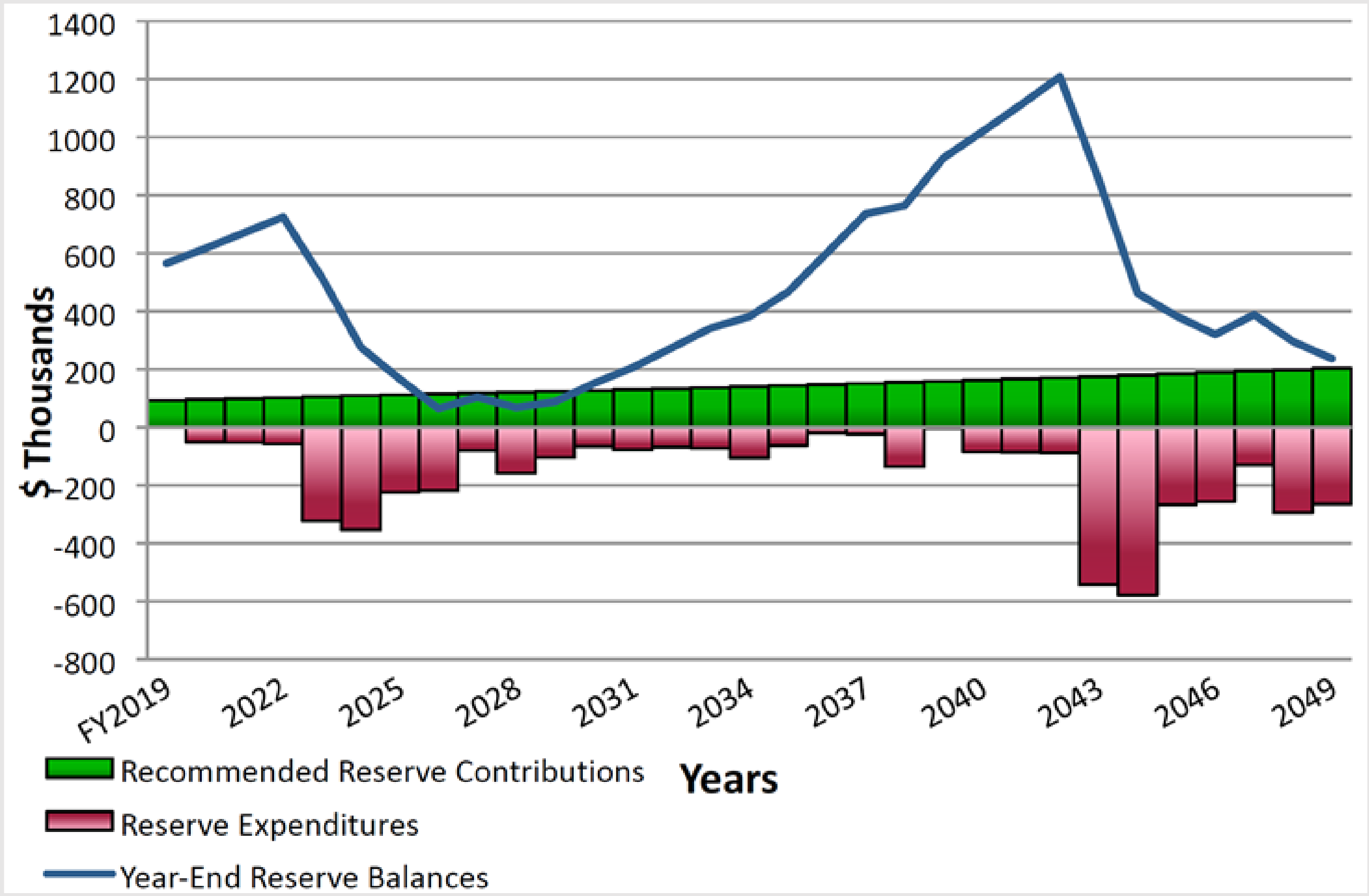
Executive Summary



2 Expenditure Spreadsheets

Explanatory Notes:

1) 2.5% is the estimated future Inflation Rate for estimating Future Replacement Costs.
2) FY2019 is Fiscal Year beginning January 1, 2019 and ending December 31, 2019.

Scenic Ridge Association
Madison, USA

Line Item	Total Quantity	Per Phase Quantity	Units	Reserve Component Inventory	Estimated 1st Year of Event	Life Analysis, Years Useful	Life Analysis, Years Remaining	Costs, $ Unit (2019)	Costs, $ Per Phase (2019)	Costs, $ Total (2019)	Costs, $ 30-Year Total (Inflated)	RUL = 0 FY2019	1 2020	2 2021	3 2022	4 2023	5 2024	6 2025	7 2026	8 2027	9 2028	10 2029	11 2030
				Exterior Building Elements																			
1.040	4,500	**1,500**	Square Feet	Balconies, Composite	2025	20 to 25	6 to 8	35.00	52,500	157,500	**509,630**							60,884	62,406	63,966			
1.260	75	**75**	Each	Light Fixtures	2031	to 20	12	100.00	7,500	7,500	**10,087**												
1.280	975	**488**	Squares	Roofs, Asphalt Shingles, Phased	2023	15 to 20	4 to 5	425.00	207,188	414,375	**1,221,969**					228,696	234,414						
1.400	130	**65**	Squares	Roofs, Flat, Phased	2023	15 to 20	4 to 5	1,000.00	65,000	130,000	**383,363**					71,748	73,542						
1.540	9,000	**4,500**	Linear Feet	Sealants, Windows and Doors, Phased	2023	to 20	4 to 14	2.50	11,250	22,500	**48,662**					12,418							
1.820	37,500	**37,500**	Square Feet	Walls, Masonry, Inspections and Repairs	2025	8 to 12	6	0.80	30,000	30,000	**136,335**							34,791					
1.860	75,000	**25,000**	Square Feet	Walls, Stucco, Paint Finishes and Capital Repairs	2020	8 to 10	1 to 3	1.50	37,500	112,500	**463,265**		38,438	39,398	40,383								49,203
1.910	75	**25**	Units	Walls, Trim, Soffits and Fascia, Paint Finishes	2020	4 to 6	1 to 3	500.00	12,500	37,500	**329,137**		12,812	13,133	13,461			14,496	14,859	15,230			16,401
				Interior Building Elements																			
2.060	3,600	**3,600**	Square Feet	Ceilings, Acoustical Tiles and Grid, Hallways	2034	to 30	15	5.00	18,000	18,000	**26,069**												
2.100	1	**1**	Each	Elevator Cab Finishes	2028	to 25	9	15,000.00	15,000	15,000	**18,733**										18,733		
2.200	400	**400**	Square Yards	Floor Coverings, Carpet, Hallways	2024	8 to 12	5	55.00	22,000	22,000	**97,541**						24,891						

Expenditure Spreadsheets

FIVE-YEAR OUTLOOK

Scenic Ridge Association
Madison, USA

Line Item	Reserve Component Inventory	RUL = 0 FY2019	1 2020	2 2021	3 2022	4 2023	5 2024
	Exterior Building Elements						
1.280	Roofs, Asphalt Shingles, Phased					228,696	234,414
1.400	Roofs, Flat, Phased					71,748	73,542
1.540	Sealants, Windows and Doors, Phased					12,418	
1.860	Walls, Stucco, Paint Finishes and Capital Repairs		38,438	39,398	40,383		
1.910	Walls, Trim, Soffits and Fascia, Paint Finishes		12,812	13,133	13,461		
	Interior Building Elements						
2.200	Floor Coverings, Carpet, Hallways						24,891
2.800	Paint Finishes, Hallways						20,705
	Building Services Elements						
3.060	Air Handling Unit, Rooftop Heating and Cooling Unit					9,934	

Funding Plan

CASH FLOW ANALYSIS
Scenic Ridge Association
Madison, USA

Individual Reserve Budgets & Cash Flows for the Next 30 Years

			FY2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Reserves at Beginning of Year (Note 1)		467,289	565,448	616,749	670,898	724,646	515,245	275,912	166,436	64,302	104,010
	Total Recommended Reserve Contributions (Note 2)		**92,000**	**95,500**	**99,000**	**102,500**	**106,000**	**109,500**	**112,200**	**115,000**	**117,900**	**120,800**
Plus	Estimated Interest Earned, During Year (Note 3)		6,159	7,051	7,680	8,323	7,395	4,719	2,638	1,376	1,004	1,025
Less	Anticipated Expenditures, By Year		0	(51,250)	(52,531)	(57,075)	(322,796)	(353,552)	(224,314)	(218,510)	(79,196)	(157,982)
	Anticipated Reserves at Year End		$565,448	$616,749	$670,898	$724,646	$515,245	$275,912	$166,436	$64,302 (NOTE 5)	$104,010	$67,853
	Predicted Reserves based on 2019 funding level of:	$92,000	565,448	613,228	660,293	703,351	479,610	222,244	91,803	(34,364)	(21,896)	

Explanatory Notes:

1) Year 2019 starting reserves are as of January 1, 2019; FY2019 starts January 1, 2019 and ends December 31, 2019.
2) Reserve Contributions for 2019 are budgeted; 2020 is the first year of recommended contributions.
3) 1.2% is the estimated annual rate of return on invested reserves.
4) Accumulated year 2049 ending reserves consider the age, size, overall condition and complexity of the property.
5) Threshold Funding Year (reserve balance at critical point).

4 Report narratives

» Provide detailed information regarding the common elements that educate and clarify

» Photos and condition statements validate expenditure timing

» Answers more detailed questions

Report narratives

Walls, Fiber Cement Siding and Trim, Paint Finishes

Line Items: 1.759 and 1.760

Quantity: Approximately 31,000 square feet of fiber cement siding and composite wood trim, and 160 linear feet of wood railings and associated wood columns at the front stoops. This quantity excludes the aluminum soffit and fascia.

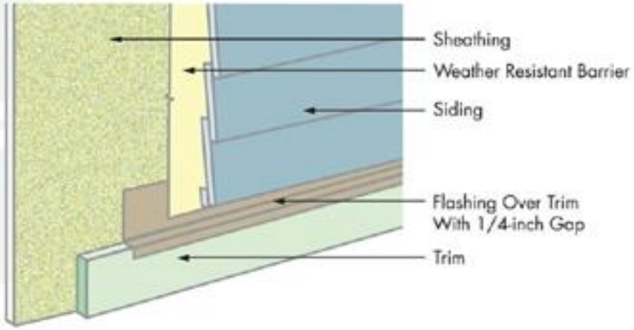
History: The finish at the fiber cement siding is original, and the trim and railings were painted in 2013.

Condition: Fair overall with locations of peeling finish, discoloration, sealant deterioration, wood rot and cracks evident

Fiber cement siding

Sealant deterioration and peeling finish at fiber cement, Unit 100

FIBER CEMENT SIDING DETAIL



Priority/Criticality: Defer only upon opinion of independent professional or engineer

Expenditure Detail Notes: Expenditure timing and costs are depicted in the ***Reserve Expenditures*** table in Section 3. We recommend the Association coordinate painting of all buildings in a single year. This will ensure aesthetic continuity, reduce total cost due to economies of scale, and minimize disruption to the unit owners. We anticipate the following during each paint application cycle:

- Paint finish application to the siding, soffits and fascia, trim and garage doors
- Replacement of up to two percent (2%) of the siding and up to ten percent (10%) of the trim (The exact amount of material in need of replacement will depend on the actual future conditions and desired appearance. We recommend replacement wherever cracks, delamination and deterioration impair the ability of the material to prevent water infiltration.)
  Replacement of up to fifty percent (50%) of the sealants

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