



Not All Reserve Studies Are Created Equal

A Funding Plan Is Only as Good as Its Initial Estimates

by Steven J. Mainardi, PE, RS

A reserve study is a necessary financial planning tool that aids a Common Interest Realty Association in determining the amount of funds required for future repair and replacement of common elements. The reserve study is one of the most valuable planning tools available in achieving balance and optimizing long-term property values. The determination of adequate reserves is essential to the successful operation of any community association, not just an extra expense. Accurate reserve planning helps assure financial integrity by protecting against declining property values due to deferred maintenance and the inability to keep up with the aging of components. Especially in today's uncertain real estate market, adequate reserves present potential buyers a more accurate and complete picture of the association's financial strength and

market value. Inadequate reserves may also prohibit current owners from refinancing their property due to federal lending restrictions.

A reserve study is comprised of two key components: (1) A physical analysis or condition assessment of the association's common elements and (2) A financial analysis that determines a long-range funding plan for repairing and replacing the association's common elements. The basis of an accurate reserve study begins with a competent and diligent inspection of the major components which the association is obligated to maintain. The physical analysis is comprised of the component inventory and a detailed condition evaluation. At this time, the inspection professional will closely scrutinize the current condition of all the common elements during an on-site visit and determine the remaining useful lives, based on observations and other information.

It is highly recommended that the physical analysis be reserved for professionals with the proper training and

experience. Since building inspection engineers have a vast amount of experience and knowledge of how building systems and components wear with time, many board of directors choose to contract with a building inspection engineering firm which holds the CAI Reserve Specialist (RS) designation, certifying them to conduct reserve studies. Only once the components' estimated useful life, estimated remaining life, and estimated current and future replacement costs are identified then an accurate reserve funding scenario can be prepared. Inaccurate assumptions in the condition of the common elements will put the validity of the entire study in jeopardy and will be of little or no value.

The physical analysis should also include a review of documented maintenance records along with interviews with property managers, board members, and maintenance workers regarding the condition of the major components. A good reserve study may also function as a maintenance planning tool for the association. It can be used as a guide to obtain proposals in advance of pending projects. This will give the association the opportunity to shop for the most competitive prices available.

It is also a misconception that a reserve study is good for an extended period of time as the study has projections for the next 30 years. An accurate reserve study should be updated, including a site visit every three years, as unpredicted events may occur and anticipated events do not always materialize. Older associations that have been operating without a reserve study or funding plan should initiate this process as soon as possible. New associations should have a reserve study done in a timely manner and certainly by the end of the first year of any significant construction, as initial budgets may not include a physical analysis of the new construction. The frequency of updates of component data will also depend on the soundness of the original data and estimates. Thus, a properly prepared professional physical analysis will lead to a better maintenance program for the association. Additionally, clear and concise maintenance suggestions may save more than the cost of the original study on future repair and replacements.

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