

# **RESERVE STUDIES**

WHO, WHAT, WHEN, & WHY YOU NEED ONE



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# Introduction to ..... CBS

- Single-source consulting firm specializing in
  - Reserve Study Analysis
  - HOA Start-Up Budgets
  - Bureau of Real Estate Processing
- Over **130** years of combined experience



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# OUR TEAM



## WHAT is a Reserve Study?

A **tool** used to inventory, assess, and project the financial needs of an association

- *A reserve study is broken into two main parts:*
  - Component inventory: a physical inspection and inventory of the common area improvements
  - Funding Plan and Financial Analysis: A projection of the association's current funding levels and investments compared to the maintenance and replacement costs of the common area amenities, expressed as a percent funded



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## WHAT is a Reserve Study?

### *Component Inventory*

- An inspection and evaluation of the major components the HOA has to maintain.
- Only covers items with a meaningful cost and a remaining life less than 30 years
- Example: a swimming pool is made up of over a dozen items each having a different cost, maintenance requirements, and useful life expectancy.

#### Filter - Purex Triton TA-60/600 - 2023

Asset ID	1040	1 ea	@ \$1,100.00
Spa		Asset Cost	\$1,100.00
Recreation/Pool		Percent Replacement	100%
Placed in Service	June 2003	Future Cost	\$1,393.45
Useful Life	20	Assigned Reserves	\$660.00
Replacement Year	2023	Monthly Assessment	\$6.31
Remaining Life	8	Interest Contribution	\$0.06
		Reserve Allocation	\$6.37





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# **What are the steps in doing a Reserve Study?**

- **Step 1: Site Inspection**

- Component inventory
- Condition evaluation
- Photo log
- Age Adjustment (Useful life vs. remaining life)



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# **What are the steps in doing a Reserve Study?**

- **Step 2: Financial Analysis**
  - Analysis of the HOA's financial records
  - Bank statements / account balances
  - Planned replacements
  - Delinquency report
  - Inflation and interest rates
  - Info related to any planned or on-going litigation



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# WHAT is a Reserve Study?

## Funding Plan

- The reserve study takes the information from the components and the financial analysis and creates a 30-year projection reflecting future reserve income and expenses for the association.







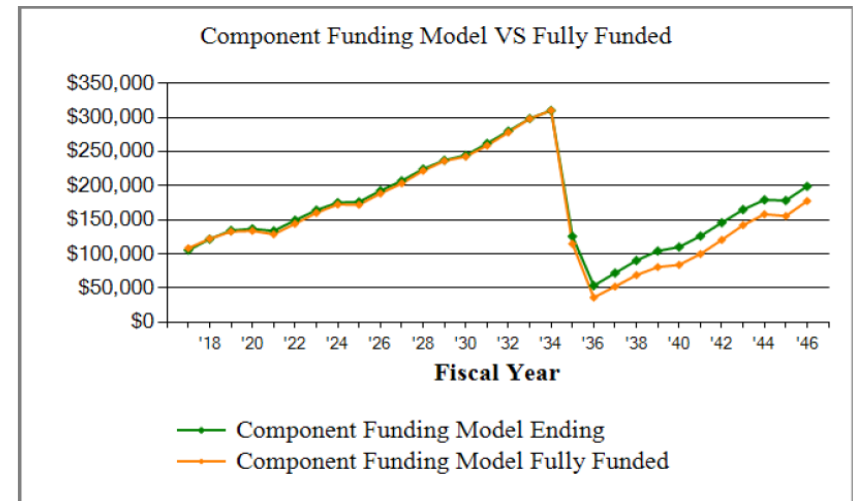
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# WHAT is a Reserve Study?

## Component Funding Model Projection

Beginning Balance: \$89,471

Year	Current Cost	Annual Contribution	Annual Interest	Annual Expenditures	Projected Ending Reserves	Fully Funded Reserves	Percent Funded
2017	224,200	15,667	343		105,481	108,331	97%
2018	228,684	15,776	400		121,657	122,136	100%
2019	233,257	15,903	444	3,629	134,375	132,634	101%
2020	237,923	14,977	453	13,138	136,667	133,775	102%
2021	242,681	15,796	442	19,267	133,638	128,739	104%
2022	247,535	15,108	497		149,243	144,114	104%
2023	252,485	14,338	550		164,132	160,053	103%
2024	257,535	14,334	589	4,007	175,048	172,358	102%
2025	262,686	16,947	588	16,487	176,096	172,052	102%
2026	267,939	16,620	646	837	192,525	188,468	102%
2027	273,298	16,825	696	2,974	207,072	203,243	102%
2028	278,764	16,425	757		224,254	221,723	101%
2029	284,339	16,574	802	4,424	237,207	236,209	100%
2030	290,026	19,098	823	12,858	244,269	242,409	101%
2031	295,827	17,641	886	1,056	261,740	258,687	101%
2032	301,743	17,224	950		279,915	278,057	101%
2033	307,778	17,362	1,014		298,291	298,099	100%
2034	313,934	19,123	1,053	8,301	310,166	310,103	100%
2035	320,212	20,872	405	205,856	125,588	114,662	110%
2036	326,617	19,039	156	91,342	53,441	36,025	148%
2037	333,149	18,274	222		71,937	52,168	138%
2038	339,812	18,079	286		90,303	68,943	131%
2039	346,608	18,955	334	5,392	104,199	80,698	129%
2040	353,540	21,187	351	15,674	110,062	83,844	131%
2041	360,611	19,564	409	3,925	126,111	99,770	126%
2042	367,823	19,057	478		145,646	120,508	121%
2043	375,180	18,702	546		164,894	142,036	116%
2044	382,683	19,602	594	5,954	179,137	158,116	113%
2045	390,337	22,925	586	24,499	178,149	155,406	115%
2046	398,144	21,407	661	1,243	198,973	177,495	112%



The **Component Funding Model's** long-term objective is to provide a plan to a fully funded reserve position over the longest period of time practical. This is the most conservative funding model.



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# FUNDING MODELS

We offer three different types of funding models to show the options available to the HOA:

- Current Assessment Funding Model (Always included)
  - Component Funding Model (Most Conservative)
  - Threshold Funding Model (Least Conservative)

All funding models calculate a percent funded

- **Fully Funded Reserves = (Age/Useful Life) x Current Replacement Cost**
- **Example: Cluster Mailbox= (15 years old ÷ 30useful life) x \$1800 = \$900 is fully funded.**



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# FUNDING MODELS

- **Current Assessment Funding Model:**

- A 30 year projection of your current funding plan and assessment levels.
- The Annual Reserve Funding Disclosure is based off of this model.

- **Component Funding Model:**

- Calculates what dues should be to maintain a fully funded (100%) reserve position
- Will increase reserves before an expense to ensure it never drops below 100%

- **Threshold Funded Model (Minimum Funding):**

- The goal of this funding method is to keep the reserve cash balance above a predetermined number; usually \$10,000 or the limit of insurance deductible.
- Any change in component life or cost estimates could cause the association to go below.

**Even with this model, Special Assessments can be avoided!**



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# **How do Reserves fit into the overall financial plan?**

***Reserve Funds are NOT operating funds.***

The Board must work with their Manager to establish a policy to distinguish between the two.

# How do Reserves fit into the overall financial plan?

Since 2009, the law has required that the HOA Board adopt a *“reserve funding plan”* to set aside funds for the long term repair and/or replacement of major common area components.

These funds must be kept separate from operating expenses.

Every year, a reserve funding disclosure must be presented to the members.



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# Reserve Funding Disclosure

*This required disclosure is included in our Reserve Studies and the Annual Reserve Study Update.*

The update does not include a site visit, but does address new repairs, financial data, and updated funding percentage.



# Annual Funding Disclosure

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## Assessment and Reserve Funding Disclosure Summary for the Fiscal Year Ending 2017

(1) The regular assessment per ownership interest is \$60.00 per Month. Note: If assessments vary by the size or type of ownership interest, the assessment applicable to this ownership interest may be found on page 3-1 of the attached summary.

(2) Additional regular or special assessments that have already been scheduled to be imposed or charged, regardless of the purpose, if they have been approved by the board and/or members:

Date Assessment Will Be Due:	Amount Per Ownership Interest Per Month or Year (If Assessments Are Variable, See Note Immediately Below):	Purpose Of The Assessment:
	None	
	None	
	None	
	Total:	

(3) Based upon the most recent reserve study and other information available to the board of directors, will currently projected reserve account balances be sufficient at the end of each year to meet the association's obligation for repair and/or replacement of major components during the next 30 years?

Yes X No     

(4) If the answer to (3) is no, what additional assessments or other contributions to reserves would be necessary to ensure that sufficient reserve funds will be available each year during the next 30 years that have not yet been approved by the board or the members?

Approximate Date Assessment Will Be Due:	Amount Per Ownership Interest Per Month or Year:
N/A	
	Total:

(5) All major components are included in the reserve study and are included in its calculations.

(6) Based on the method of calculation in paragraph (4) of subdivision (b) of Section 5570, the estimated amount required in the reserve fund at the end of the current fiscal year is \$237,690.00 based in whole or in part on the last reserve study or update prepared by Walla Services as of October, 2015. The projected reserve fund cash balance at the end of the current fiscal year is \$337,317, resulting in reserves being 142% funded at this date.

(7) Based on the method of calculation in paragraph (4) of subdivision (b) of Section 5570 of the Civil Code, the estimated amount required in the reserve fund at the end of each of the next five budget years is:

Year	Estimated Reserve Amount Required
2017	\$237,690
2018	\$260,746
2019	\$293,731
2020	\$330,274
2021	\$368,161

If the reserve funding plan approved by the association is implemented, the projected reserve fund cash balance in each of those years will be:

Year	Projected Reserve Fund Balance	Percent Funded
2017	\$337,317	142%
2018	\$362,230	139%
2019	\$396,020	135%
2020	\$432,438	131%
2021	\$469,304	127%

Note: The financial representations set forth in this summary are based on the best estimates of the preparer at that time. The estimates are subject to change. At the time this summary was prepared, the assumed long-term before-tax interest rate earned on reserve funds was 0.37% per year, and the assumed long-term inflation rate to be applied to major component repair and replacement costs was 2% per year.

(b) For the purposes of preparing a summary pursuant to this section:

(1) "Estimated remaining useful life" means the time reasonably calculated to remain before a major component will require replacement.

(2) "Major component" has the meaning used in Section 5550. Components with an estimated remaining useful life of more than 30 years may be included in a study as a capital asset or disregarded from the reserve calculation, so long as the decision is revealed in the reserve study report and reported in the Assessment and Reserve Funding Disclosure Summary.

(3) The form set out in subdivision (a) shall accompany each annual budget report or summary thereof that is delivered pursuant to **Section 5300**. The form may be supplemented or modified to clarify the information delivered, so long as the minimum information set out in subdivision (a) is provided.

(4) For the purpose of the report and summary, the amount of reserves needed to be accumulated for a component at a given time shall be computed as the current cost of replacement or repair multiplied by the number of years the component has been in service divided by the useful life of the component. This shall not be construed to require the board to fund reserves in accordance with this calculation.





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## **WHO NEEDS A RESERVE STUDY:**

Every Common Interest Development in California as identified by Civil Code Section 4100 (Condominiums, Planned Developments, Mixed Use, etc.)







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## WHO NEEDS ONE:

The Association is responsible for repairing, replacing or maintaining the common areas.

The Board of Directors has a fiduciary duty to *manage association funds* and property...



*The goal is to manage long-term needs  
in such a manner that special assessments are avoided.*



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# WHEN do you need a Reserve Study?

## *Civil Code 5550:*

- At least once every three years, a reserve study needs to be prepared.
- Annually, the board shall review the study, or cause it to be reviewed and adjust the analysis of the reserve account requirements.



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# WHEN do you need a Reserve Study?

## ***Civil Code 5570:***

- Annually, an Assessment and Reserve Funding Disclosure Summary must be delivered to all members with the annual budget.

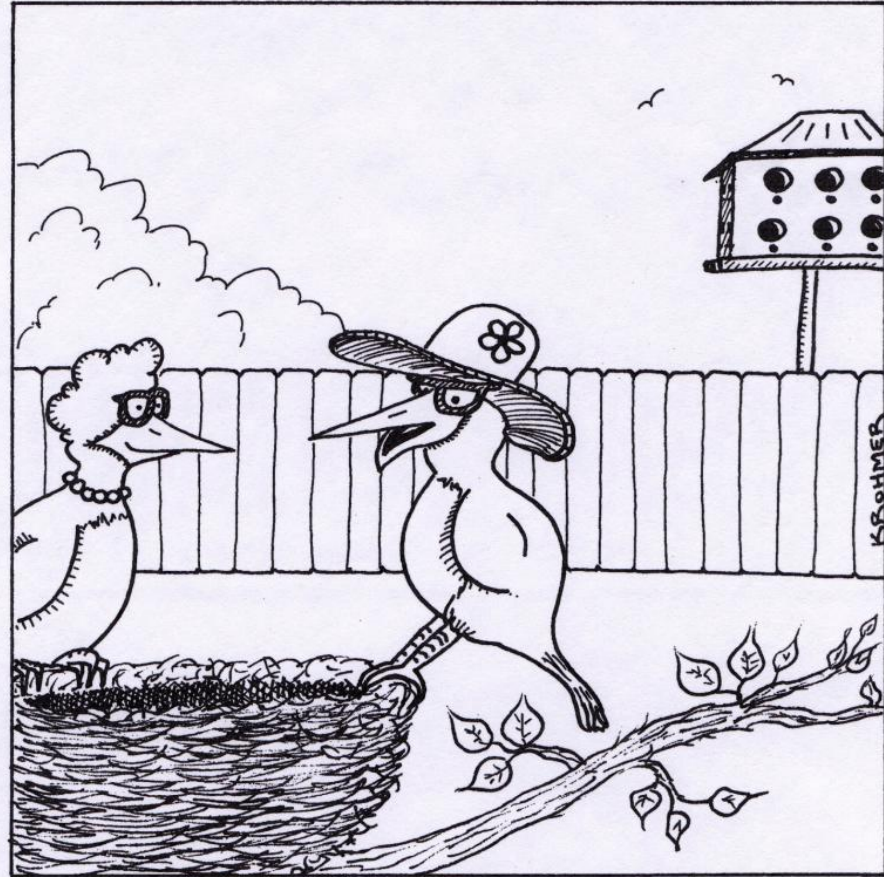
*When we work with developer clients, we recommend that a Reserve Study be done after the first year of operation, to insure that the project is built as planned and that the budget is adequate for operation.*



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## WHY DO YOU NEED ONE?

Maintaining adequate  
reserve funding  
has a positive impact on  
resale values.



FRANK AND I ARE LOOKING INTO MOVING TO  
THE NEW CONDO THAT WENT UP NEXT DOOR





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## **WHY do you need a Reserve Study?**

Other than being required by law, some Associations overlook the need to perform a Reserve Study regularly, resulting in the need to levy a Special Assessment to address repairs that must be performed immediately.

Repair needs may occur sooner than anticipated, most commonly from poor maintenance or weather.





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# Why hire a professional Reserve Analyst?

**Liability**

**Experience**

**Training**







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# Why hire a professional Reserve Analyst?

A fresh pair of eyes sees things that passers-by become blind to over time.





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## WHO PREPARES RESERVE STUDIES?

While the law doesn't stipulate specifically, it does require the inspection to be "Competent and Diligent".

Some project CC&Rs stipulate the Board shall employ a Reserve Study Specialist.

**Your HOA** is best covered by a Reserve Study prepared by a Certified Reserve Specialist.







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# What are the **RED FLAGS** that signal potential problems?

- Special Assessments are required to fund major repairs
- Deferring Maintenance
- Percent funded continues to drop

# Common Area Calamity

## STREETS!







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# Concrete & Curbing

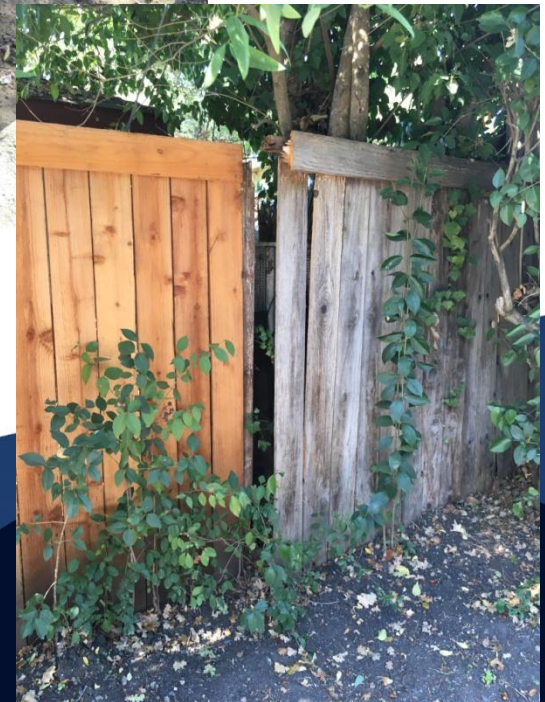
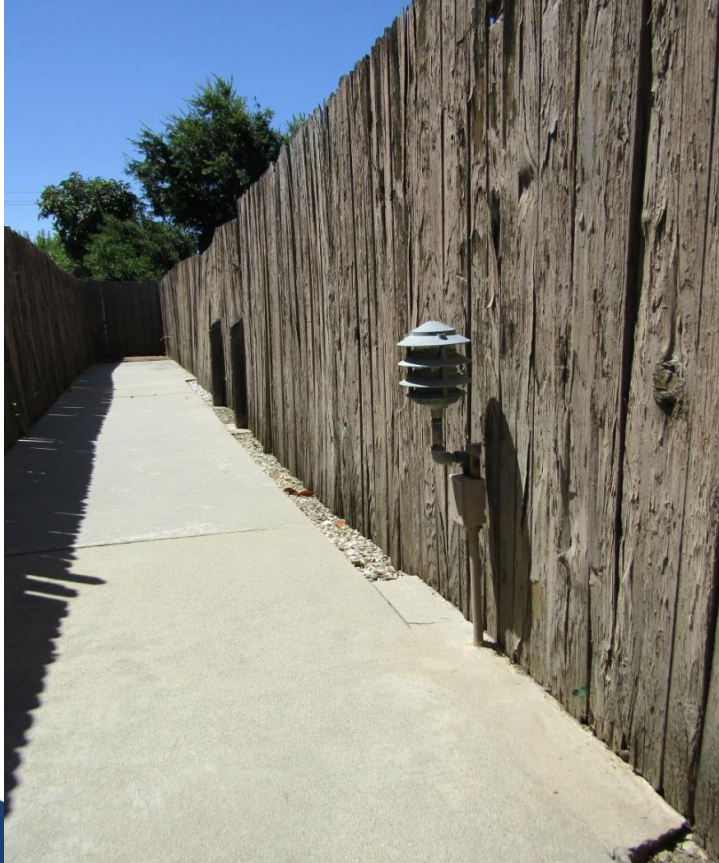






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# Walls & Fences

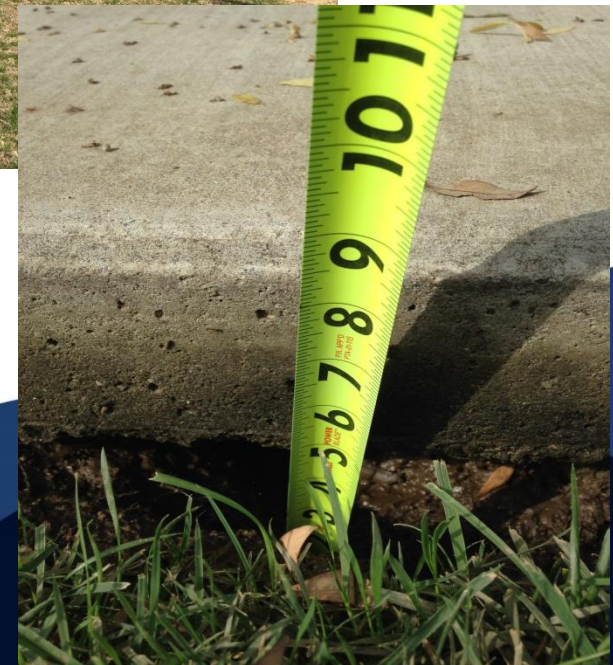






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# Landscaping







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# Buildings





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# THANK YOU!

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