

# Reserves: Advanced Concepts for Managers & Boards



ASSOCIATION  
RESERVES™

[www.reservestudy.com](http://www.reservestudy.com)

**Bryan Farley** is the President of Association Reserves – Colorado. A Reserve Specialist, Bryan has completed ~3,000 Reserve Studies and has been a frequent speaker on the topic of Reserve Studies.



ASSOCIATION  
RESERVES™



## Community Associations – a precarious concept

- Relies on (untrained) volunteer leaders
- Owners required to fund it
- Many/most stumble forward
- Associations commonly fail to thrive
- Not “carefree living”



Constant (expensive)  
Deterioration

Financial  
Pressures

Board/Owner Friction



**It's so easy to fail...**



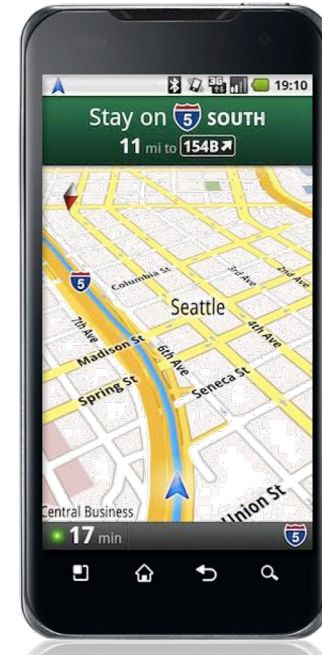
# Dealing with Rejection

- What's it good for?
- It's just a bunch of guesses!
- Why pay for something we'll just ignore?
- Why should I care... I won't be here!
- I don't want my dues to go up!



# Dealing with Rejection

- The costs exist whether they are funded monthly or by special assessments.
- A Reserve Study is a budget guide - it will never be perfect!
- Framework for decisions (you're lost without it!)
- Helps you prepare for the inevitable – the roof (etc.) will to fail, likely on-schedule and on-budget!





# Dealing with Rejection

“... but we’re just going to ignore it!”

- OK, face the consequences. Welcome to special assessment land!
- It’s a guide, the board still gets to choose.
- But at least the board will be able to make informed choices (no guessing!).





# Dealing with Rejection

Built on National Standards

- Component Selection, calculations, terminology...
- Update regularly (with-site-visit every 3<sup>rd</sup> year)
- Appropriate for one of your largest (15-40%) budget line items





# Problems you can Avoid

- • **Making statements you can't support**



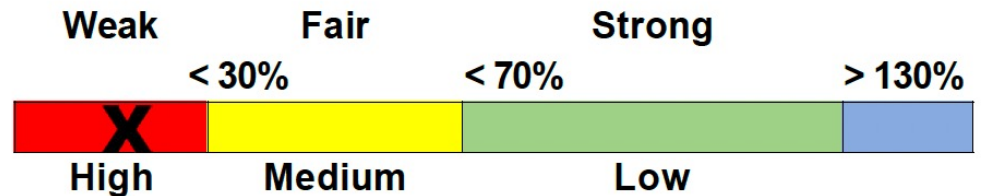
# Problems you can Avoid

## Findings & Recommendations

as of January 1, 2025

Starting Reserve Balance .....	\$611,142
Fully Funded Reserve Balance .....	\$3,666,181
Annual Rate (Cost) of Deterioration .....	\$335,321
Percent Funded .....	16.7 %
Recommended 2025 Annual "Fully Funding" Reserve Transfers .....	\$670,000
Alternate/Baseline Annual Minimum Transfers to Keep Reserves Above \$0 .....	\$600,000
Recommended 2025 Special Assessments for Reserves .....	\$0
Most Recent Annual Reserve Transfer Rate .....	\$669,727

Reserve Fund Strength: 16.7%



Risk of Special Assessment:



## Problems you can Avoid

- Making statements you can't support
- ➔ • **Avoiding Updates (adjustments!)**



# Problems you can Avoid

Annual Reserve Studies reduce your  
Special Assessment Risk!

Update  
Every 5 yrs?

35.1%  
less



Update  
annually

Update  
Every 3 yrs?

28.5%  
less



Update  
annually

**ASSOCIATION**  
**RESERVES**  
Est. 1986



# Problems you can Avoid

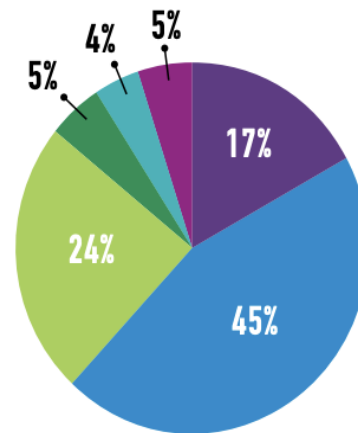
**Did your property & casualty insurance premium increase at the last or current renewal?**

**91% Yes**

6% No    3% Unsure

**How much money per homeowner did the increase premium cost (per year)?**

17% N/A  
45% UNDER \$100  
24% BETWEEN \$101-\$500  
5% BETWEEN \$501-\$1,000  
4% BETWEEN \$1,001-\$2,000  
5% MORE THAN \$2,001



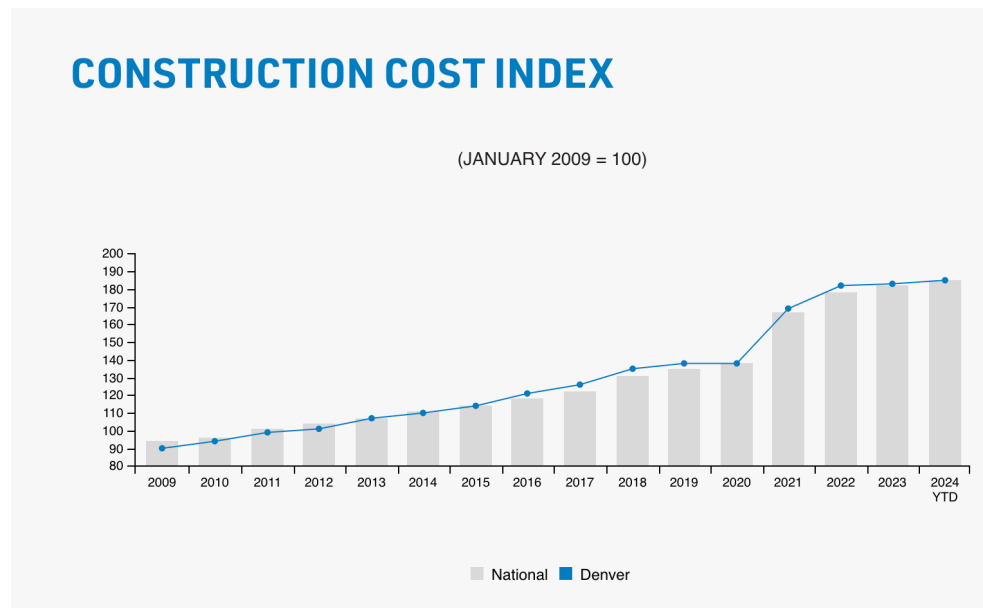


## Problems you can Avoid

- Making statements you can't support
- Avoiding Updates (adjustments!)
- ➔ • **Delaying projects**



# Problems you can Avoid





# Problems you can Avoid

$$\% \text{ Funded} = \frac{\$ \text{ in Reserve Fund}}{\$ \text{ in Accumulated Deterioration}}$$

Year	1	2	3	4	5	6	7	8	9	10
Accumulated \$ Value	\$1k	\$2k	\$3k	\$4k	\$5k	\$6k	\$7k	\$8k	\$9k	\$10k



## Problems you can Avoid

- Making statements you can't support
- Avoiding Updates (adjustments!)
- Delaying projects
- ➔ • **Bleeding the Reserve Fund dry**



### Reserve Component Attributes

### Capital Improvement Attributes

Component/project is currently  
a common area  
maintenance responsibility

Component/project is NOT  
currently a common area  
maintenance responsibility

Incidental Cost

Discretionary

Natural Evolution of existing  
project/asset/system

Entirely new purpose,  
use, or capability

Integral part of a system,  
not reducible into  
separate components

Assets are fundamentally  
reducible into  
smaller or component parts



## Problems you can Avoid

- Making statements you can't support
- Avoiding Updates (adjustments!)
- Delaying projects
- Bleeding the Reserve Fund dry
- ➔ • **Neglecting Reserve transfers**



## Problems you can Avoid

- Making statements you can't support
- Avoiding Updates (adjustments!)
- Delaying projects
- Bleeding the Reserve Fund dry
- Neglecting Reserve transfers
- ➔ • **Being casual about your investment**



# Big Picture

What is the goal?



## Big Picture

What is the goal?

- Enough \$ to do projects on time



## Big Picture

How do you win at this game?

- Collect the \$, spend wisely

What are the rules?



# The “Rules”

## Four Reserve Rules

- Expenses are inevitable
- The board is responsible
- Delays usually get expensive
- Homeowners always get stuck paying the bills.



# The “Rules”

## Business Judgment Rule

Board decisions are defensible if they were made...



# The “Rules”

## Business Judgment Rule

Board decisions are defensible if they were made...

- In good faith (loyalty)
- In best interests of the community (care)
- Reasonable/prudent manner (inquiry)



# Are your Reserves “Adequate”?

## New Definition

- Reserves cash-positive (minimum 20 yrs)
- No reliance on future loans or special assessments





# Minimizing Reserve Funding





# Minimizing Reserve Funding

- • **Maximize Interest**



# Problems you can Avoid

- For every point of interest increased, there is almost a 7% decrease, averaged, in the fully funding reserve contribution recommendation.

Effects of Interest on Reserve Funding Plan

	Original		Contribution		Total		Difference	% Reduction
	Starting Balance	Interest	Rate	Rate (+1% int)	Rate (+2% int)			
1	\$ 383,234	1.00%	\$ 13,950	\$13,150	\$ 12,430	\$ 1,520	5.45%	
2	\$ 81,183	1.00%	\$ 3,080	\$2,930	\$ 2,780	\$ 300	4.87%	
3	\$ 676,609	1.00%	\$ 9,300	\$8,600	\$ 7,940	\$ 1,360	7.31%	
4	\$ 535,940	1.00%	\$ 7,905	\$7,220	\$ 6,270	\$ 1,635	10.34%	
5	\$ 144,766	1.00%	\$ 6,260	\$5,750	\$ 5,270	\$ 990	7.91%	
6	\$ 857,026	1.00%	\$ 15,000	\$13,920	\$ 12,970	\$ 2,030	6.77%	
7	\$ 495,744	1.00%	\$ 11,450	\$10,520	\$ 9,660	\$ 1,790	7.82%	
8	\$ 215,778	1.00%	\$ 7,960	\$7,600	\$ 7,240	\$ 720	4.52%	
9	\$ 638,638	1.00%	\$ 6,400	\$5,840	\$ 5,320	\$ 1,080	8.44%	
10	\$ 268,740	1.00%	\$ 8,850	\$8,250	\$ 7,720	\$ 1,130	6.38%	
11	\$ 142,148	1.00%	\$ 11,100	\$10,480	\$ 9,870	\$ 1,230	5.54%	
12	\$ 441,975	1.00%	\$ 10,350	\$9,810	\$ 9,290	\$ 1,060	5.12%	
13	\$ 378,254	1.00%	\$ 18,500	\$17,270	\$ 16,020	\$ 2,480	6.70%	
14	\$ 61,740	1.00%	\$ 6,850	\$6,350	\$ 5,875	\$ 975	7.12%	
15	\$ 935,942	1.00%	\$ 21,320	\$19,900	\$ 18,565	\$ 2,755	6.46%	
16	\$ 322,440	1.00%	\$ 6,100	\$5,745	\$ 5,415	\$ 685	5.61%	
17	\$ 169,392	1.00%	\$ 8,300	\$7,785	\$ 7,295	\$ 1,005	6.05%	
18	\$ 23,900	1.00%	\$ 15,600	\$14,620	\$ 13,740	\$ 1,860	5.96%	
19	\$ 484,139	1.00%	\$ 15,015	\$13,870	\$ 12,770	\$ 2,245	7.48%	
20	\$ 172,738	1.00%	\$ 8,575	\$8,100	\$ 7,640	\$ 935	5.45%	
Average							6.57%	



# Minimizing Reserve Funding

- Maximize Interest
- ➔ • **Execute Projects on time (eliminate expensive deferred maintenance)**



# Minimizing Reserve Funding

- Maximize Interest
- Execute Projects on time (eliminate expensive deferred maintenance)
- ➔ • **Eliminate need for “catch-up” Reserve funding**



# Save on your Reserve Study

- Cost-effective updates (Full/WSV/NSV)
- Ask Questions (Components, upcoming S.A. risk, Funding Objective, Funding Sensitivity/Options...)
- Contribute to the process (provide info, assist with Site Inspection – mgr, board, committee...)



# Advanced Concepts

Can you “influence” the process? (remember the Business Judgement Rule)

Facts/Dates are great!

- Board’s priorities are influential
- Don’t worry about “undue influence”. We know when to dig in our heels!



## Advanced Concepts

- Maximize Interest
- Execute Projects on time (eliminate expensive deferred maintenance)
- Eliminate need for “catch-up” Reserve funding
- ➔ • **Inflation is more important than interest**



## Advanced Concepts

*The Reserve Study shows 3% inflation assumption.  
Should the assumed inflation rate be changed?*

**NO**



# Advanced Concepts

- Maximize Interest
- Execute Projects on time (eliminate expensive deferred maintenance)
- Eliminate need for “catch-up” Reserve funding
- Inflation is more important than interest
- ➔ • **Delaying a component – minimal contrib influence (but be mindful of different failure modes)**



# Advanced Concepts

- Maximize Interest
- Execute Projects on time (eliminate expensive deferred maintenance)
- Eliminate need for “catch-up” Reserve funding
- Inflation is more important than interest
- Delaying a component – minimal contrib influence (but be mindful of different failure modes)
- • **Paying from Op or Reserves – little/no difference to homeowner**



# Advanced Concepts

Operating	Reserves
Recurring Expense	Recurring Expense
Month to Month & Year to Year	Longer Term Timeline
Less Than 1% of Annual Budget	Greater Than 1% of Annual Budget
As Needed	Planned Expense



## Advanced Concepts

- Maximize Interest
- Execute Projects on time (eliminate expensive deferred maintenance)
- Eliminate need for “catch-up” Reserve funding
- Inflation is more important than interest
- Delaying a component – minimal contrib influence (but be mindful of different failure modes)
- Paying from Op or Reserves – little/no difference to homeowner
- ➔ • **SAVE MONEY with “logical coordination”, advanced planning, & good maintenance**



# Funding Best Practice

- What does funding success look like?



# Funding Best Practice

- Characterize as “offsetting deterioration”
- Steady & Smooth!
- Multi-yr (Exercise) Plan



# Funding Best Practice



- Characterize as “offsetting deterioration”
- Steady & Smooth!
- Multi-yr (Exercise) Plan



# What are you Getting?

Only events within 20 (or 30) years?



# What are you Getting?

Only events within 20 (or 30) years?

- Farther out is ok, if project is “significant” & reasonably expected



# What are you Getting?

Do we really need to update our Reserve Study?



# What are you Getting?

More frequent updates reduce special assessment risk

- Every 5 yrs (“Rescue”)
- Every 3 yrs (“Adjustment”)
- Annually (“Tweak”)



# Other Resources



- Do self-study training (online)
- CAI & other Trade Organization Events (live & online)
- Custom training



# Your Choices Create the Future...



gogladly.com  gladly

DESIGN BY [WWW.DAWIDSZYMCZYK.COM](http://WWW.DAWIDSZYMCZYK.COM)



Your Choices Create the Future...



We can help!



Additional Resources at  
[www.ReserveStudy.com](http://www.ReserveStudy.com)



ASSOCIATION  
RESERVES™



ASSOCIATION  
RESERVES™

[www.reservestudy.com](http://www.reservestudy.com)