Why is a Reserve Study Important?

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Boards are responsible to protect, maintain, and enhance the physical and financial assets of the association. To meet our responsibility we set assessment rates to match anticipated expenses. Those expenses may be “Operational” (daily, weekly, or monthly bills), or they may be the silent ongoing “cost” of the deterioration of our major components. While we generally feel we have a good handle on our Operational expenses, to prepare for inevitable major component repairs or replacements we need to know the answers to three important questions:

- What are our upcoming major expenses and when will they occur?
- Do we currently have “enough” in Reserves?
- How much should we be setting aside towards Reserves?

Boards get fresh answers to the above questions in an updated Reserve Study. Reserve expenses are the largest expenses an association will face. Preparing adequately for large Reserve expenses typically takes years of properly sized contributions. Errors in contribution size compound over the years, causing special assessments or deferred maintenance.

A Reserve Study identifies the scope and schedule of these inevitable major upcoming expenses, evaluates the association’s current level of financial preparedness, and recommends a fair and responsible plan of Reserve contributions. Success means having sufficient funds set aside in order to accomplish our Reserve projects in a timely manner without special assessments. In addition, responsibly-sized Reserve contributions mean every homeowner pays their fair share of the ongoing cost of common area deterioration.

Reserve expenses are large and predictable. A Reserve Study provides us the insights we need to see into the future and avoid surprises, keep our assessments fair, avoid special assessments, and maximize our property values.