

Selecting the Right Reserve Study Professional for You

by Sally Conley

Community associations have undergone explosive growth in the past few decades. It is estimated that over 50 million Americans now live in a planned community compared to almost none only 30 years ago. This growth is accelerating and, as is often the case, progress is accompanied by confusion.

It is important that every community association board know what a reserve study is and the pivotal role it plays in the future of the association. A reserve study is the physical and financial analysis of all common elements that the board is responsible for maintaining and details a repair and replacement schedule over the next thirty years. A reserve study is critical for many reasons, of which the most influential may be that it is a key financial tool that helps the board to fulfill its fiduciary responsibility to maintain the common property of the association.

In the early years, prospective buyers had no idea what they were getting into with community living. Many board members were volunteers from within the community and, as such, they enlisted to conduct virtually all aspects of managing the association. An attorney on the board would handle legal aspects; a CPA would act as treasurer and manage the books. All board members would field calls from homeowners with questions, etc. Subsequently, board members became more educated in their roles as fiduciaries of the association. Overextended boards began looking for professional help in all facets such as legal counsel, accounting services, professional reserve study providers, and property management firms—each specializing in needs unique to community living.

The unprecedented growth of reserve study services is a prime example of boards reaching out for professional assistance. Most board members lack not only the knowledge and expertise required to determine future capital expenditures and replacement schedules, but also the time to compile this data. Additionally, many do not want to assume the responsibility of determining funding requirements. The board is responsible for maintaining what is a homeowner's single largest investment, and professional advice is often the best way to go.

As the number of community associations continues to rise, so does the demand for professional reserve study providers. Trying to find and select the right provider can be a difficult task. It is important to know what constitutes a professional Reserve study and who should conduct them.

The industry has seen the emergence of two organizations that are committed to the development of high standards of competency for reserve study providers: The Association of Professional Reserve Analysts (APRA) and Community Associations Institute (CAI). The designations that a reserve study provider can achieve in the respective organizations are: PRA (Professional Reserve Analyst) in APRA; and RS

(Reserve Specialist) in CAI. The organizations share a primary goal of establishing high standards to ensure that both the engineering and the financial components of a reserve study are included.

A professional reserve study proposal should include certain criteria that are required by both APRA and CAI's Reserve Professionals Committee. A proposal that includes this criterion will indicate to the board that they are hiring the "best" in their field. The board can take comfort in knowing that the provider is experienced in reserve study services and that they won't be a "guinea pig" for someone who is not a specialist in community association work but claims to be able to conduct a reserve study.

The following questions are offered as a guide to aid in the decision-making process of selecting the right reserve study firm for your association.

Questions You Should Ask Your Reserve study Provider:

1. ***What is the firm's background and experience?***
Are they engineers or architects? What are their credentials?
2. ***Which organizations does the firm belong to that demonstrate a high level of expertise in reserve studies?***
Association of Professional Reserve Analysts (APRA)? Community Associations Institute (CAI)? Other trade associations such as Association of Construction Inspectors (ACI), etc.?
3. ***Does the firm comply with APRA and CAI basic requirements for a reserve study? Are both the engineering and the financial components of the reserve study included?***
The study should include a component inventory, condition assessment, life and valuation estimates, and a fund status and funding plan.
4. ***What percent of the firm's work is for community associations?***
Does the firm specialize in studies for community associations, or are studies for community associations a sideline business? If not, they may not be able to take cost saving success stories from other communities and apply them to your association.
5. ***What is the size of staff involved in our assignment?***
What is the background of the *individual* inspecting the association? Will others in the firm be involved in the analysis and review? Does the firm have a strong quality control system in place?
6. ***Does the firm use full-time employees only or subcontract individuals such as part-time building inspectors?***
This question can speak volumes about the expertise of the firm and its staff, or lack thereof.
7. ***Which method do you use for funding reserves—Cash Flow or Component?***
APRA and CAI endorse both methods. However, the cash flow method determines minimum yet stable levels of funding over the term of the analysis without the fear of special assessments.

8. ***What is your basis for replacement costs of the common elements?***
The most accurate sources are database cost info and internal database information of the reserve study provider's that are tailored to your locale.
9. ***Do the reports comply with the AICPA Audit Guide and relevant state statutes?***
An increasing number of states are passing legislation regarding association reserve funds and funding requirements.
10. ***Can you provide reserve study references that are either of similar property style or in close proximity to my own?***
Contact references because they will often share what they liked and disliked about a firm.

In addition to the above, there are many other benefits to having a professional firm conduct your reserve study. Due to their expertise and familiarity, the provider may be able to make recommendations that can prolong or extend the life of common elements and save the homeowners significant dollars over the long term. Years from now questions about the study can be answered because the firm will be available, while an individual may have moved away. A professional reserve study is also an excellent tool for marketing the association to prospective buyers and their lenders. Property is an investment and the study will show that the association is managed with expert advice, which adds to the value of the property.

The dangers of not funding or under funding reserves should not be discounted and determining appropriate reserve contributions is not an easy task. Boards do not want to be faced with unpopular and/or difficult choices such as special assessments or obtaining bank loans in order to maintain the common elements for which they are responsible. A professional reserve study provider can determine adequate, not excessive, reserve contributions.

A professional reserve study is an accurate, long-range strategic plan that is essential for an association's success. It is important that the study be conducted by a knowledgeable, reputable firm that meets or exceeds the guidelines set forth by APRA and CAI in order to ensure the most precise physical and financial assessment of your property. Like many things in life, one feels more secure when you know something was done right—a professional study is the best way to provide peace of mind for the community association board and homeowners.

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