**Understanding Reserve Studies**

**Why does a community need a reserve study?**

-review by professional engineer of mechanical and other common elements and their condition

 a) will be listed and generally in detail

 -will receive a list of immediate items that need attention

a) Board should look at this list with management and address the issues

-provide a guide for the Board of upcoming projects and reserve contributions

a) this is a separate list that shows by year the projects and costs that the engineer believes need to be completed

**How to use the reserve study?**

Reserve study highlights

-**list of physical elements**

a) review the list and make sure the list includes all items

-**life expectancy, current age, replacement cost**

 a) review the list and make sure your experience correlates with what the report says

-**cash flow vs. component method**

 a) component means collecting the full amount for each item every month

 b) cash flow method means having enough cash on hand in any given year to be able to pay for that year’s suggested capital expenditures

 c) in most cases the cash flow method number will be lower

-**chart of cash flows**

 a) beginning balance on 1/1 + reserve contribution amount to be added + interest earned – capital expenditures = ending balance at 12/31

 b) the ending amount is a reference number used when asked “does the association have enough in reserves?”

c) however, this number is influenced by whether or not the association spent the amounts listed for capital projects (unspent funds should be added to the end of year balance or if projects cost more than listed, that amount must be subtracted)

-**chart/list of annual projects**

 a) this list is an easy-to-read list of capital projects by year

 b) Boards should review these each year as part of the budget process and determine if they will proceed with the projects

-**the important number and what it means for the association**

 a) in the Executive summary will be a listing of the amount the reserve study is projecting the association needs to save each year to pay for future capital projects

 b) if the amount is significantly more than the current amount being saved, the Board can consider a plan to phase in the increases to prevent sticker shock

**What is a capital budget?**

-a capital budget is separate from the operating budget

 -the capital budget is comprised of capital projects and should be projects outlined in the reserve study

 -projects not in the reserve study should not be considered as capital projects because no money has been saved for projects outside the reserve study

 -CAVEAT: the Board can include items outside the reserve study in a capital budget as long it understands that this may cause other projects to be underfunded

 -if a capital budget item will cost significantly more than the amount in the reserve study, the Board should address this and consider if a special assessment is called for; the decision can be made in light of overall cash balances and future capital projects

**How often should we perform a reserve study?**

 -no rule or law on this

 -***Best Practice*** is to update the reserve study every five years

**Why is it important to update the reserve study?**

-the beginning balance of the updated reserve study will be the actual cash balance at the time; this means that any amounts over- or under-collected will be calculated into the new annual contribution in the reserve study

-this is important because it reflects the real experience of the community

-an update also provides a chance to reflect any recent experiences the association experienced-including adding items, deleting items, and updating costs with any recently obtained data

Reserve Study Companies

Good for smaller buildings, not too much detail, simple presentation

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