



Reserve Studies

While you are no doubt familiar with the term Reserve Study, we thought it prudent as we head into budget season to share a few helpful facts regarding these often misunderstood, yet very important reports. Below is information to help you get up to speed on these valuable tools and why your association needs one.

What is a Reserve Study?

A reserve study is a visual inspection of common area components that an association is responsible to maintain, repair or replace. The reserve study, must at a minimum accomplish the following:

1. Identify the components that your association is obligated to repair, replace, maintain or restore.
2. Identify the probable useful and remaining life of these components.
3. Estimate the cost to repair, replace, maintain or restore these components.
4. Include a 30 year funding plan necessary to defray the costs necessary of such costs.

Why do we do Reserve Studies?

The State of California's Davis-Stirling Act requires that a disclosure summary of the association's reserves, based upon the most recent reserve study, be included in your association's annually published Proforma Operating Budget. The reserve study and disclosure statements must then be kept for any existing and potential association members to examine.

Surprisingly enough, data shows that as many as thirty percent of California Homeowners Associations do not complete an annual Reserve Study!

Are there different types of Reserve Studies?

Yes! There are 3 different levels of reserve studies available to choose from.

- **Full Study or Level 1 Study** – The Reserve Study will include a complete component inventory, assessment of each component and estimates for replacement costs as well as remaining useful life. The Reserve Analyst will measure all components prior to estimating their costs based on industry standard replacement costs, history and estimated lives. They will then provide a report containing a complete component list and replacement costs, along with a status of the association's reserve fund, a proposed funding plan and a reserve study disclosure statement based on the association's actual adopted budget. *This is mandatory for the first time a reserve analyst undertakes a study for your association.*
- **Update with Site Visit/On-Site Review or Level 2 Study** – The Reserve Analyst will use the existing inventory of components from their first Level 1 study and will undertake an on-site visual inspection of each component. Each components remaining useful life and valuation will be



evaluated and revised as necessary. They will then provide a report containing updated component list and replacement costs, along with a status of the association's reserve fund, a proposed funding plan and a reserve study disclosure statement based on the association's actual adopted budget. *Every association is mandated to have this done every third year.*

- Update with No Site Visit/Off-Site Review or Level 3 Study - The Reserve Analyst will take an existing inventory of components and update the inventory based on actual association expenses replacement costs, along with a status of the association's reserve fund, a proposed funding plan and a reserve study disclosure statement based on the association's actual approved budget. *Every association should do annual Reserve Studies to provide the most accurate disclosure statement possible.*

What should be in a Reserve Study?

All studies should include the following information:

- Summary of the association including number of units and when it was constructed
- Current balance of the reserve fund as of date of the study, type/level of the study completed, fiscal year for which the study applies
- Projection of the reserve fund starting balance, recommended contributions by year, projected expenditures by year and projected ending balance
- An inventory list of the components, including quantities, useful life, remaining useful life and replacement cost
- Information on the method used to come up with the funding plan and the source of how the component replacement costs were determined
- A percent funded calculation based on how much money the association has in the bank and the calculated amount that should be in the bank. It should also show each unit's calculated unfunded liability.

Who can perform a reserve study?

The Davis-Stirling Act does not specify who should perform reserve studies. However, an independent, credentialed Reserve Analyst is the best option for four reasons:

1. Expertise. Boards rarely have the expertise (or independence) to evaluate the condition of a component, its remaining life or the cost to replace it.
2. Liability. Boards should not take on the potential liability of conducting their own study. Depending on the extent of the association's common areas, self-prepared Reserve Studies could violate the Business Judgement Rules.
3. Politics. Having an independent Reserve Analyst prepare your study also saves the Board from membership criticism.



4. Use of the Study. A well-prepared reserve study can also act as a “blueprint” for the future, providing your Board with a long-term tool for financial and physical planning.

Reserve studies should be completed by a company that has accredited Reserve Analysts. Reserve Analysts should hold a Reserve Specialist (RS) certification through Community Association Institute (CAI) or Professional Reserve Analyst (PRA) designation through the Association of Professional Reserve Analysts (APRA).

Need help getting started with your Reserve Study? The team at CM Squared is here to help! Our staff has over 50 years of Reserve Study and Construction experience and will complete your Reserve Study accurately and efficiently. We will provide you with a useful tool to determine not only your long-term financial requirements but your long-term physical responsibilities.

Contact us at info@GoCM2.com today to get started!

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