6 RESERVE FUND REGRETS TO AVOID

Has Your Board Made These Blunders?

PRIORITY #1: MAINTENANCE

How can you ensure that your association's reserve study and maintenance plan are aligned? Download a free workbook, ***12 Questions to Assess Your Maintenance Plan***:

https://bit.ly/12-Maint-CA

You know that your reserve fund plays a critical role in keeping your community or high-rise in excellent shape. Replacement and repairs of important assets are key to maintaining your association's reputation and property values, keeping residents safe and lowering the risk of a major special assessment.

That's why it's crucial to use your reserves effectively, plan accordingly and most importantly, avoid these **6 common blunders.**

#1: "We can't use our reserves for THAT..."

Many boards think that they can't use their reserve fund to pay for certain projects (e.g., painting) within their community because it doesn't meet the IRS's definition of a capital component. While your taxes *should* be prepared per IRS guidelines, your reserve planning should be completed according to **National Reserve Study Standards**. For instance, if your painting project falls under the category of a reserve project (e.g., common area maintenance responsibility, limited life, predictable remaining useful life and above a threshold cost of significance), it may be funded through your reserves.

#2: "We can easily get one more year out of it..."

Even if you *can* get a little more life out of a project, it doesn't mean you *should*. That's particularly the case if it's an asset that's designed to protect an underlying common area component (e.g., asphalt sealcoating, wood painting, ironwork fence painting, deck sealing, etc.). For these projects, it's best to complete any repairs or replacements on schedule. The small amount saved by delaying the project can lead to significantly higher expenses because of damage to the underlying (and expensive) structural component, or worse, it can lead to safety concerns or risks to your residents.

THE MOST COMMON RESERVE BLUNDER IS...

Watch Kirk Kowieski, vice president at FirstService Residential, share what reserve blunder to avoid at all costs.

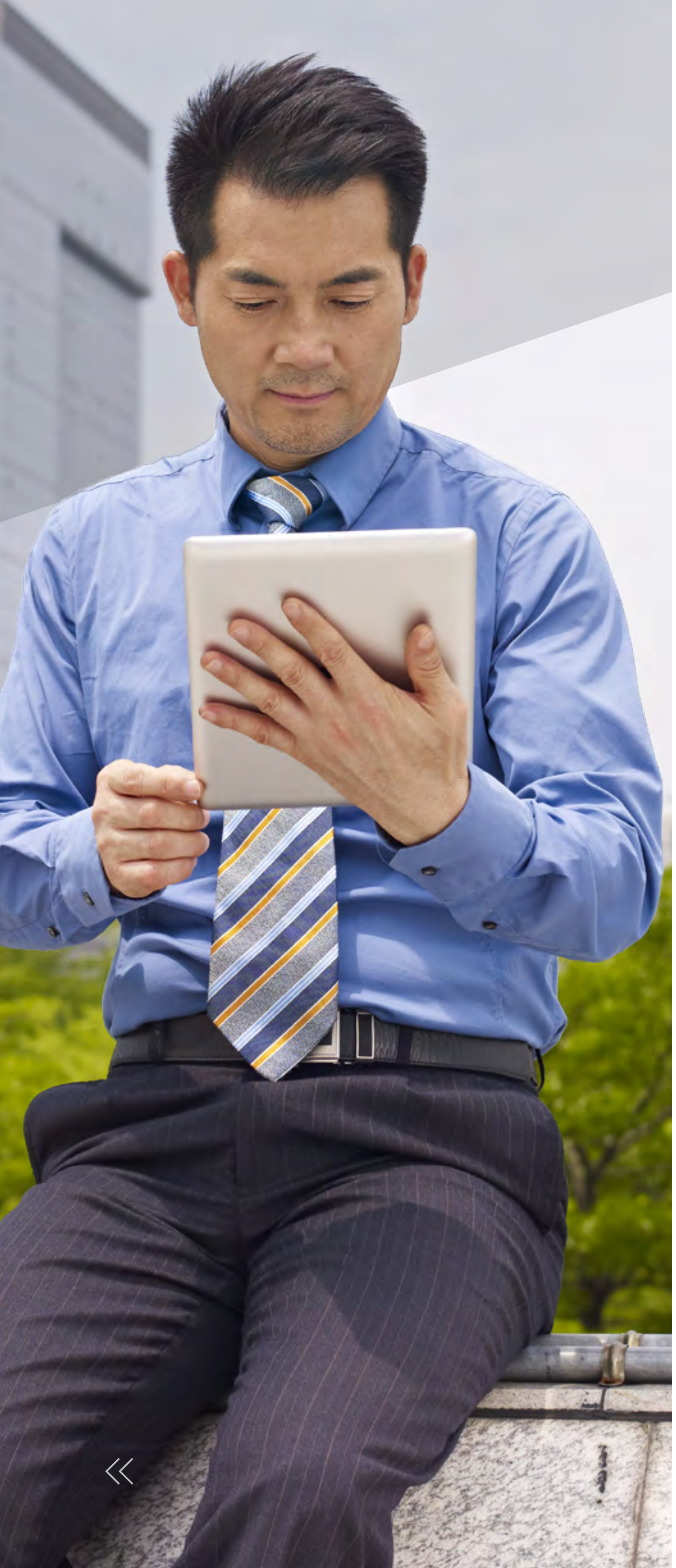
WATCH VIDEO: **https://bit.ly/HOA-RES-CA**

#3: "It can't be that expensive to maintain…"

Don't underestimate the cost to maintain your assets, particularly for major components such as swimming pools, chillers, boilers and elevators. In fact, lowballing the cost of ongoing renovation and refurbishment comes at a high price. Consider the cost of maintenance on a luxury or sports car – it often has a high price tag because the elements are more complex. Similarly, maintaining a chiller system or modernizing an elevator system is easily a five-figure or six-figure expense. Work closely with a proven reserve study firm and experienced community management company to make sure you aren't underestimating any major maintenance costs.

#4: "No one can even see it…"

This common blunder applies to assets that may go unnoticed because they are hidden from plain sight. For example, if above-ground planter-box systems (typically located on patios above walkways or underground garages) are not regularly maintained and recoated, they will begin to leak. The water will then overflow into whatever is beneath it, causing significant damage. While it's expensive to remove vegetation and re-coat planter box systems, it's more expensive to rebuild a deck or repair concrete that resulted from months or years of moisture exposure. Make sure you are performing on-site inspections of "hidden" assets.



#5: "We've had them for years and they're fine..."

Just like underestimating major costs, your association shouldn't avoid maintenance on exterior assets like siding or windows. While the exterior siding of your clubhouse or windows on your high-rise may seem perfectly fine now, they will require replacement eventually (in 30+ years). It's important to keep them maintained on an ongoing basis and prepare for the future cost of replacement (which is **substantial**). Even if you're a relatively new association, building those long-term costs into the budget is critical if you want to avoid being hit with a major special assessment down the road.

#6: "Our association has plenty of funds..."

Even if you have well-funded reserves now, that may change as market conditions fluctuate and the costs of goods and services rise. (**Learn more in the article, *Inflation, Insurance and "In Case Of"*: https://bit.ly/HOA-Dues-CA**) Eventually, the items that your reserve fund covers will need to be paid for, and too often, it's in the form of a special assessment. Associations that update their reserve study annually and adjust their budget accordingly require a special assessment 35% less often than those who updated their reserve study every 5 years. Small, regular increases in assessments (and regular updates to your reserve study) will help your community avoid needing to special assess large amounts down the road.

NO REGRETS...

To avoid these 6 common blunders, work closely with an independent, credentialed reserve study professional and your management company. They can help you and your board plan wisely and avoid major special assessments down the road.

About FirstService Residential

FirstService Residential is North America's property management leader, partnering with more than 8,500 communities across the U.S. and Canada. HOAs, community associations, condos and strata corporations rely on our extensive experience, resources and local expertise to maximize their property values and enhance their residents' lifestyles. Dedicated to making a difference, every day, we go above and beyond to deliver exceptional service.

FirstService Residential is a subsidiary of FirstService Corporation (FSV), a North American leader in the property services sector. Find out how we can help your community thrive. Visit www.fsresidential.com/california.

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