

RESERVES

Are reserve studies really necessary after the developer relinquishes control?

BY ROBERT J. PETRISIN, RS

Local statutes and/or governing documents normally require community associations to prepare and distribute certain financial information, including the operating budget, to all of its members prior to the start of the association's next fiscal year. A significant part of this budget is the reserve allocation.

Developers typically establish the initial reserve allocation for an association's first-year budget by filing certain documents. This original budget should never be used as the foundation for future reserve fund planning. Developer estimates are usually prepared several years in advance of project construction and are frequently obsolete by the time the first unit closes escrow. This early planning may not accurately reflect the association's true liability for the project as actually built. Other possible shortcomings include the following:

- 1) the inclusion of only limited major components
- 2) the estimated life shown may not reflect local conditions
- 3) the estimated cost shown may not reflect actual local prices



- 4) the reserve allocation may lack annual inflationary adjustments

Therefore, it is imperative for a newer association to conduct a level I comprehensive (or full) reserve study immediately after it has taken over control of the association from the developer, so the new board of directors can determine the long-term funding requirements independently. Older associations that have been operating without a reserve study should also conduct a level I comprehensive reserve study as soon as possible to protect themselves against financial instabilities that may result in special assessments and/or deferred maintenance.

A properly prepared reserve study allows association management to utilize the resulting information in the operating budget. Because the reserve allocation is a significant part of the budget, annual financial updates or level III reserve study updates (no-site visit)—performed at the same time as the preparation of the operating budget—should be accomplished for up to two years following the completion of a level I comprehensive reserve study. A level II reserve study update (with-site visit) should be performed at least every third year to provide for a thorough on-site condition assessment of all accessible reserve components, to update the component study and to ensure statutory and/or governing document

compliance. Proposals should be requested several months prior to the association's fiscal year budget preparation to allow for unanticipated lead-time problems. ■

Robert J. Petrisin, RS, is president of Strategic Reserve Consultants (SRC) in Temecula, California.

INTEREST RATES ARE AT AN ALL TIME LOW!

Repairs Renovations REFINANCING

National Cooperative Bank specializes in financing for housing cooperatives and community associations. For major repairs, renovations or refinancing NCB offers:

- Loans from \$25,000 and up
- Lines of credit or permanent loans
- Three, five and ten year terms
- Fixed or floating competitive rates

We can help you determine what makes the most financial sense. Call us today for a **FREE** prequalification on financing for your building.

NCB

National Cooperative Bank

Eastern U.S., Contact: James Glantz Vice President 800/766-2622 e-mail: jglantz@ncb.com	Western U.S., Contact: Robin Odland Vice President 888/622-6336 e-mail: rodland@ncb.com
--	--

Visit Our Website: www.ncb.com