

Condo Insights

#64 – Understanding the Capital Reserve Study Part 3

Part 3 in this series will look at the different levels of reserve studies, and how associations should approach their first reserve study.

Reserve Studies are prepared with three different levels of service: full service, update with site visit and update without a site visit. Specifying the level of service allows for easy comparison between different reserve studies and ensures that the association understands the scope of the work performed. Knowing the level of service helps the association understand the methodology used in the study, which is crucial for interpreting the findings and making informed decisions. Different levels of service come with different costs. Clearly stating the level of service helps the association understand the budget implications of the reserve study.

Level I is a Full Reserve Study. It includes both a physical and financial analysis with an engineer's site visit. The component inventory list and current component condition assessments with useful life and valuation estimates are determined from a visual on-site inspection. This information is used to conduct the financial analysis which includes the current fund status and recommended funding plan. A Full Reserve Study is recommended if the association has never had a reserve study, if a substantial time has lapsed since the last study or if there are concerns about the accuracy of component inventory, quantities or measurements.

Level II is an update to the previous reserve study and includes an engineer's site visit. The report updates both the physical analysis and financial analysis of an existing report. A site inspection is conducted to verify and/or make adjustments to the existing component asset list, condition assessments, useful life and component valuation estimates. The financial analysis is updated, including the current fund status and recommended funding plan. A Level II Reserve Study is recommended after major projects and as required by state law.

Level III updates the financial analysis only, with no site visit. The current fund status and funding plan is updated, using information gathered from board members, vendors, the association manager and information contained within a prior reserve study. A Level III report is recommended to review, adjust and verify that the existing funding plan is accurate and suitable for current economic conditions.

How should the board approach a reserve study. The first step is to identify firms experienced in preparation of reserve studies. Engineering firms that specialize in reserve studies and those that specialize in forensic analyses serve distinct purposes. Reserve Specialists have a thorough understanding of how buildings age and deteriorate and are qualified to determine if an issue is normal or abnormal based on their observations. Forensic engineering firms specialize in invasive or destructive analyses to determine the exact cause of a specific issue and the appropriate remedial action.

Look for a reserve study company with multi-disciplined engineers who have industry accreditation (CAI's Reserve Specialist Designation and/or APRA's Professional Reserve Analyst designation). Ask to see samples of their work. A detailed report that utilizes tables, graphs, pictures, diagrams, spreadsheets and explanatory graphics make the report easy to understand. These items are important pieces of a reserve study and should not be considered as extras. If possible, have the engineering firm commit to a timeline or schedule that includes site visit and delivery of the first draft. It should be obvious but confirm the report will be in compliance with requirements in the Structural Integrity Act.

The engineering firm will request information about the association, to identify common elements, and to have clear understanding of the scope of association responsibilities for operation, maintenance, repair and replacement. Associations should provide the engineering firm with the Master Deed, building plans, the most recent capital reserve study (if one exists), a schedule of recent replacements including date, type and cost of any major repairs or replacements that have been performed on the common elements since original construction, the projected balance in the reserve fund at the start of the study period, the amount of the current annual reserve contribution and the association's current maintenance schedule and/or maintenance budget.

Condo board members should expect a comprehensive report that clearly explains the condition of their community association's common elements and a funding plan to pay for future replacements.

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