Reserve Fund Whizdom

BY
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You can be a “whiz” with reserve fund issues — whether you’re a Board Member, Property Manager, Reserve Fund Specialist or Accountant. Read our short articles, think about what we’re saying, agree with us and adopt the advice, or debate and argue another viewpoint. You’re sure to end up better for it.

Today’s Whizdom is all about —

A Reserve Fund Expenditure Is Not an Isolated Event

If you’re into reserve funds … as a Board Member, a Property Manager, a Reserve Fund Specialist, an Accountant … we hope you won’t be surprised to learn that a single expenditure has far-reaching consequences.

Let me explain.

A simple case is that you replaced your condo’s hallway carpeting. The plan called for its replacement in 2008, but because of its condition you did the job this year, 2006. The cost, let’s say $45,000, found its way into your books of course. But the estimated cost ($35,000) still sits in your reserve fund plan, in the 2008 column.

Anyone referring to the 2008 plan, unless they’re extra careful is going to see that cost as “coming up”, instead of “taken care of”.

We maintain that you should do something to head off wrong interpretations. And we have a suggestion for what you should do. We’ll get to that a bit later.

But let’s go on a bit with other meaningful chain effects that our carpeting replacement is causing.

For one thing, the carpets cost $10,000 more that you expected them to. If, in your reserve fund plan, you have carpet replacement costs in there every 8 years, perhaps all those estimates are low as well. The chances are very good they are, because your planner was thinking $35,000, not $45,000.

(By the way, we’re putting aside the inflationary calculation in this article. The principles are the same, regardless).

So here you are with a plan that shows a replacement cost of $35,000 several times in the carpeting row of the spreadsheet, when it should be showing $45,000. Imagine what that variance is doing to your projected balances. It’s showing them artificially too high and the error is increasing as you go through the plan’s span.

There’s more.

Remember, in our example, that the carpet was replaced 2 years sooner than the plan called for. The plan called for an eight year interval and you replaced it after only six years.

Your plan, however, is showing a carpet replacement cost occurring every eight years. If you adjusted the plan (as you should) you'd have the costs occurring every six years. What a difference it would make to your projected balances a few years out!

Our point, above, is that a single expenditure from the fund can, and does, have broad and costly implications.

All right, how do you handle this? In a word, you adjust your plan as real expenditures occur. You adjust it not only for the single actual expenditure dollars being different than the estimate, but you adjust it also for the probability that later, similar expenditures will resemble the latest expenditure and not the earlier planned amounts. You also adjust your plan for the change in intervals if you think the interval in the plan now looks too long, given your latest experience.

In this short article, we cannot go into the how of making these adjustments, but we refer you to some software that's designed to do the job. Just go to Google and type in — reserve fund software. See our article on Update Scan Fix, as well.

You'll rest easier if you're "on top" of your property's reserve fund.

Graham Oliver is President of Oliver Interactive, Inc. the developer and supplier of RFund: The Reserve Fund Manager. He invites you to read other Whizdom articles on the RFund website, and he encourages you to let him have your views on his writings. Visit **oliver-goup.com/rfund** anytime.