

# Immunizing Your Reserve Fund Plan

## **First ... About our Book**

The chapter you are about to read (next page) is identical to the material in our book "Reserve Fund Essentials". This 94-page book covers a wealth of need-to-know reserve-related wisdom. Its 17 chapters deliver insights, suggestions and processes designed to ensure that co-owned and co-managed properties create healthy reserve funds that can be managed to everyone's satisfaction.

Thirteen chapters can be accessed from our website [oliver-group.com/rfund](http://oliver-group.com/rfund). (Click on Book/Articles). The four chapters that cannot be accessed are "**Reserve Fund Fundamentals**" and "**Reserve Funds: What Does Adequate Really Mean?**" These are major, significant chapters and are included in our "Reserve Fund Essentials" book. To find out more about the book and how to order it, please click [MORE](#).

## **Now ... About the Authors**

You may wish to learn more about the authors of "Reserve Fund Essentials" (and the chapter you are about to read). To do this click [MORE](#).

## **Next ... Your Selected Chapter Begins**

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# Immunizing Your Reserve Fund Plan

## Become Bulletproof

Being a Board Member or a Reserve Specialist has its rewards. For sure. But it has its downsides as well. The good news is that the downsides can be reduced, probably never to zero, but very close. This chapter offers a number of specific ideas for creating and maintaining a reserve fund plan that would be hard to criticize.

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First, exactly what are we immunizing? Well, we're referring to immunizing your reserve fund plan. Preempting criticism of it. Ensuring that the preparers — (most often Reserve Specialists) — and acceptors — (most often the property's Boards) — of the plan can hold their heads up high.

It is not about immunizing the fund itself. That is, guaranteeing that it's adequate, that it won't run into a deficit position, or that it calls for excessive owner contributions. These are important challenges that we treat separately in other chapters.

So, how do you guard against criticism, or worse? "Worse" being publicly embarrassed, not re-engaged for the duties you were performing, or asked to go into some other line of work?

Here are a few suggestions that we think will help.

- Make sure your spreadsheet's opening balance for the projected years, starts with the very best number obtainable.
- Be certain that your plan lists all the possible repairable and replaceable components of the property.
- Get your repair or replacement intervals right.
- Use all possible sources to get the information you need on timing and costs.

Let's take a look at these questions, one at a time.

**Your spreadsheet's opening balance for the projected years must start with the very best number obtainable** — given recent expenditure and funding activity. To explain ... if the first year of your 30-year plan starts in 2007, you will have an opening balance for 2007 which is identical to the closing balance for 2006 (the year you're currently in). But Year 2006 was not over when the plan was put together.

What you must do then, is obtain the latest monthly closing balance, and calculate as exactly as you can what the funding dollars, the interest-earned dollars and expenditure dollars will be for the remaining months. That way you can arrive at a closing balance for 2006 that will make an unassailable foundation for all the figures that follow.

Balances "roll" forward. If the beginning balance is wrong, the reserve fund's projected balances for the entire 30-year plan will be out of whack.

**Be certain that your plan lists all the possible repairable and replaceable components of the property.**

These are the things that you as a community use and look after. They can be called capital assets, common elements, physical components, or corporate property. They are usually listed as rows down the margin of your plan. Make sure that everything on your property that can be repaired or replaced is listed and that you actually can locate everything that's listed. Also check to see if each component listed is really common to everyone or if it's the property of an individual unit owner. Appliances can be troublesome, so check your documents and plans carefully. This needs to be very accurate — your plan will be wrong if your components list<sup>1</sup> is wrong.

**Get your repair and replacement intervals right.**

How long is each component expected to last? Well, nothing lasts forever. Even the world's greatest monuments are being repaired and restored. All components are subjected to temperature variations, moisture changes, physical use, natural weathering, wear-and-tear, or structural loading. They're going to deteriorate. And even if the wear-and-tear is very slow, some components simply become redundant, unused, or useless. There aren't many coal cellars in residential buildings anymore. Deciding on the correct intervals for replacement or repair can be very difficult in some instances; however, don't expect your shingles to last 40-years when every other shingle in your locale was replaced in 15- to 20-years.

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<sup>1</sup> This book offers a 450-item components list that may help.

Yes, an important characteristic of reserve fund plans is the intervals that are chosen between periodic repairs or replacements. If the building is quite new, and not many repairs or replacements have been carried out, the intervals you choose will be those recommended by the professionals you engage. Their experience with other properties will be transferred to the work they do for you. If you're one of the acceptors of their plan, don't hesitate to look over these intervals and question your planner regarding his or her recommendation.

If the property has been in existence for a while you should have records of when and how often work was done. You'll see that the carpeting that was last installed, was needed 9 years after the next earlier installation, so (unless you've changed the quality-level of the carpeting) you can probably use that 9 years as your interval over the span of the plan for carpet replacements. We think that recent, real information is better than "standard estimates" that are often tempting to use.

**Use all possible sources to get the information you need on timing and costs.**

Now here's a challenge. Just where does one go to obtain realistic timing and cost estimates for replacement and repairs? One idea ... take a look at some published public tender results. The price your municipality paid for roofing, per square foot, for example. These tenders all work the same way — they say ... "give us your best price for these exact-same services or products". Rarely is there just one bidder, and almost never are there two bidders that come up with the same price. Sometimes the low bidder is one-quarter the price of the high bidder! Is the lowest bid the right one?

Judging from the number of projects with cost over-runs that doesn't seem likely.

Another source of information would of course be the professionals — suppliers, contractors, and engineers — you'd call in to actually do the job. To get them to give you time-consuming estimates for free, you should ask for “order-of-magnitude” numbers. They're good enough to compare their thinking, and if you're getting a few to look at, you will be considered to have done a pretty thorough job. Consider, as well, using the estimate that's on the high side. That way you'll automatically build an element of conservatism into your plan.

Finally, talk to your neighbors. Ask what their experiences have been on their intervals and costs for major jobs. You can try using an extrapolation — (You would extrapolate by adjusting for the number of units and the square footage differences) — from a neighbor's low-bid, but be careful to build in a plus-factor for the possibility that yours will be higher. It's better to plan for the worst and hope for the best rather than the other way 'round.

To conclude, we're suggesting four areas where homework pays off. Homework that can be trotted out to demonstrate that you, as a reserve planner, or as a Board of Directors, have taken a number of steps, and have put in some real effort to ensure that your plan numbers are as good as they can get. Most people get their flu shots each year. Try this kind of immunization as well, to protect you from the unwelcome effects of disapproval from your community of unit owners.