

Your Reserve Fund's Safety Nets

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. (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 our 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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Your Reserve Fund's Safety Nets

In trouble? Here's a way out

Can reserve fund balances go wrong? They certainly can, and they definitely do! Your authors explain why reserve funds go off the rails sometimes. They also describe three safety nets that can be deployed for occasions when you need them. Lifeboats, parachutes, air bags — reserve funds have them too!

When you think about it, we have safety nets everywhere. Emergency exits on airplanes, lifeboats on liners, fuses in our electrical systems, etc., etc. Why? Because we know that everything doesn't always go as it should. Airplanes crash-land, ships hit icebergs, and wires get overloaded.

How about your reserve fund? You hire a reputable Reserve Fund Specialist. The Specialist inspects the property and comes up with predictions on when repairs and replacement will be required, and how much they will cost. And you set up a schedule of funding so these things can be paid for when the time comes. What can go wrong?

Enter Murphy's famous line ... "If something can go wrong, it will". Things break down, or wear out, or cease to function, before they're supposed to. The cost of replacing or repairing them is higher than your Specialist expected. Your healthy-looking plan suddenly isn't doing the job and you're "in the red" ... or close to it.

Maybe your Specialist wasn't as competent as you thought — and we quickly add, that's a rarity. But a bit more likely is that he or she slipped up, when making the plan. Overlooked something, did some faulty arithmetic. Still not likely but possible. But most likely of all, mechanical or structural parts of your property simply did not stand up the way they should have. Kind of “nobody's fault, but it happened”.

That's the cost end of things — how about the funding end? Well, the reserve fund plan included a funding schedule and it all looked good, at the time. But once in place, after real expenditures began to vary from planned expenditures, nobody was paying much attention. The predicted balances, had they been updated with new information would have looked sicker and sicker, and warning lights would have flashed. With no warning system in place, your property found itself up to its neck in quicksand before they realized it.

All right, we've identified three broad areas of cause — the plan was faulty, the property's components failed unexpectedly early, and the fund balances were not being monitored properly. Which brings us to ...

... our safety net theme. First question: Do you have one? (A safety net, that is). The answer “yes”, you actually do. You have three, in fact. Your fund needs an injection of money, where do you get it? One source — one of your safety nets — is from a financial institution. The other source is from your unit owners. And the third source isn't actually a source at all. It's an “arrangement”.

First, the financial institution. We're talking about borrowing. The kind of institution that usually springs to mind is The Bank. And it is, indeed, an option. But you may not know that there are firms that specialize in just the kind of loans we're referring to here. They know all about shortfalls in reserve funds, and they know all about owners' contributions and reserve fund spreadsheets and plans. You'd be surprised if you knew how many properties used their services.

The other source of funds is, of course, the Special Assessment. (We were about to say, "the dreaded Special Assessment"). It's safe to say that it's not a good day, when the Board announces that all unit owners must write a one-time (hopefully) check for some significant sum. No matter how it's explained a hue and cry is inevitable. It's bad tasting medicine, but if it's swallowed, it works!

Let's compare the Loan with the Special Assessment. The loan will almost certainly call for some increase in monthly fees. It's to abide by the agreed-upon repayment schedule. But the amount, each month will usually be tolerable because it's spread out over time. Part of the re-payments will be interest on the loan so the amount paid back, in total, will be higher than the actual amount required to fix the fund.

Another thing is that new owners coming in to the property will also pay the higher fees caused by the loan. Higher monthly fees have an affect on resale attractiveness, and that's a consideration.

With a Special Assessment on the other hand it's a "done deal". You get the money that's required, there are no extra

costs associated with getting it, the fund is brought back to a healthy position and your crisis is over. On an ethical basis, the people that were there when the fund became ill are the ones that are paying to cure it, not new residents who had nothing to do with the shortfall.

There's no best way. Like many condo issues, some properties will see one alternative as better than another property. Sometimes, even, for good reasons!

All right, we have compared, in some detail the pros and cons of Special Assessments, with Loans. But there is one more lifesaver that could be deployed in some cases. It's called "Financing".

Financing involves entering into a lease-agreement with the supplier. You essentially rent the component instead of buying it. One example would be the chiller unit that's part of your HVAC System. Another would be telecom equipment for switchboards or intercoms.

Some infrequent projects, like window replacement for example, can be "financed" by the contractor who performs the work. Suppose you have a \$100,000 window job that only takes two months to do. That would ordinarily require two \$50,000 payments. Financing by the contractor however might require twelve monthly payments of \$9,000. The extra \$8,000 being the charge by the contractor for floating the cost, and handling the extra paperwork.

A question might then arise regarding whether the lease payments would then fall into the operating budget or would be

paid for from the reserve fund. And that, dear readers, is something that you'll have to take up with your professionals since it would be subject to an interpretation of your local condominium statutes if any, and your property's bylaws. Tricky, in this regard, but still a good option.

Let's end by stressing that the recurring theme of this book is to create a good plan and monitor it continually. Our view is that by doing so you'll come close to eliminating the probability of ever requiring a safety net to save your property from serious injury.