

**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 —

**Reserve Fund Plans
Make `em Smoooth**

Reserve Fund Plans, or Studies, depict two main series of numbers. One of them is the expenditures forecast, the year-by-year estimates of the expected costs of major repairs and replacements for the plan-period. The other is the funding schedule. That’s the series of annual dollar amounts you expect to raise for the reserve fund from the fees paid in by unit owners.

Of course there are the all-important balances as well, but the balances are derived from the two series mentioned above. Establishing and maintaining adequate balances is critical and many of our Whizdom articles will tackle issues related to that challenge. But today we’re just going to talk about the expenditures and funding numbers.

Let’s start with expenditures.

Your total estimated expenditures are derived from the sum of all the specific expenditures. For example, you have, for a given year, an estimate that driveway paving will cost \$25,000, that central air conditioning replacements will run you \$15,000, and that balcony restoration will amount to \$55,000. So your total that year will be \$95,000. All the other years have their own repairs and replacements and will add up to annual totals, the same way.

It could happen though, (and it often does), that total annual expenditures will be “high” for a few consecutive years, and “low” for a few consecutive years. If the annual expenditures were graphed, you’d have a line with significant peaks and valleys, as opposed to a flatter line. It would mean that your repairs are “bunched up” in some periods and at a low level in other periods.

If this is the case, you may have cause to re-think the expenditures plan. Here’s why.

In the span of years where your expenditures are going to be high, you’ll have reserve fund balances that become low and stay low until that period is over. Maybe you can get through it okay, but ... if you run into unexpected costs — a not unusual experience — your fund may be in trouble.

The other side of the coin is equally perilous. If you enter a period where your estimated expenditures are low, you’ll run excessive balances for a while. Not good either, as you’ll see.

So either way, you have a potential problem.

One way to fix the balances that get too low or too high is by raising or lowering the owners' contributions. Right? Yes, but that introduces another set of problems.

For one thing, owner prefer steady (or reasonably steady) monthly fees. They don't like to pay a lot for a while, and then pay a little for a while. So if you "use" the level of fees to level out the fund's balances, you'll get a flood of complaints.

Okay then. Why not just set the contributions (fees) at a high level and leave them there?

Not a good solution. In periods where expenditures are low the fund's balances will become excessive, and the owners will wonder why all that money is in the property's hands and not in their pockets, where it should be. And they would have a point!

The answer? It's found in the annual expenditures totals. If you have to work with a volatile expenditures series you'll run into the kinds of difficulties we've described. So the answer is to do as much as you can to level out the yearly expenditures estimates.

An approach that can do wonders to level out an up-and-down expenditures plan is to look at the possibilities of "staging" your repairs and expenditures. Consider the chances of refurbishing 25% of the balconies every second year, over eight years, for example. For big jobs that must be done all at once — roofing would be typical — you'd try to move other work out of the same time-frame.

Another idea: A greater level of detail in your components listings will enable you to schedule more "little jobs", and avoid big expenditures. For example, if, instead of having a line Hot Water System you might break it down among boiler repair, coil replacements and so on.

Our suggestion is to do two things. Well ... do one thing first, and if necessary do the next thing. The first thing. Determine if you do, in fact, have an excessively variable series of annual expenditures. Usually just scanning a graph of them will give you the answer. But if you want to be sure, look at an "Index Chart". This chart is part of a software package for reserve funds. Type reserve fund software into Google to find it.

The second thing. If your scan (or your index) says ... yes, your expenditures are too volatile, you can shift your expenditures around by doing what-ifs until you come up with a more steady annual series. We'll discuss these techniques in a future article.

But our Whizdom message for today is — keep your reserve fund numbers smooooth.

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.