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RESERVE STUDY THOROUGHNESS: WHAT IS A MAJOR COMPONENT?

THE COMMUNITY MANAGEMENT INDUSTRY'S QUEST TO UNDERSTAND WHAT CONSTITUTES A "MAJOR COMPONENT"

IS ELUSIVE. CALIFORNIA CIVIL CODE (CCC) REQUIRES RESERVE STUDIES TO INCLUDE IDENTIFICATION OF THE MAJOR COMPONENTS THE ASSOCIATION IS OBLIGATED TO REPAIR, REPLACE, RESTORE, OR MAINTAIN THAT HAVE A REMAINING USEFUL LIFE OF LESS THAN 30 YEARS (§5550) AS OF THE DATE OF THE STUDY. THE CODE ONLY SAYS THAT A "MAJOR COMPONENT" HAS THE MEANING USED IN SECTION 5550. THE FIRST PART OF THE EQUATION IS SIMPLE, THAT ALL MAJOR COMPONENTS BE INCLUDED IN THE RESERVE STUDY, AND THOSE WITH A REMAINING USEFUL LIFE OF LESS THAN 30 YEARS MUST BE INCLUDED IN THE FUNDING CALCULATIONS. YET, IT DOES NOT ANSWER THE CENTRAL QUESTION: WHAT IS A "MAJOR COMPONENT?" THAT LEAVES THE DETERMINATION UP TO THE RESERVE STUDY PREPARER. ■ BY LES WEINBERG, MBA, RS, EBP, AND SCOTT CLEMENTS, RS, PRA, CMI

REMEMBER THAT A RESERVE STUDY REFLECTS THE UNIQUE ASPECTS OF YOUR COMMUNITY WHILE SEEKING COMPLIANCE WITH THE COMPLEX RULES AND REGULATIONS GOVERNING THE PROCESS.

HOW DOES A RESERVE STUDY PREPARER

DECIDE? Per the National Reserve Study Standards (NRSS) of the Community Associations Institute (CAI), preparers utilize the five-part analysis: 1) association responsibility 2) expectations of limited Useful Life 3) predictable remaining useful life expectancies 4) above a minimum threshold 5) required by local codes.

1) ASSOCIATION RESPONSIBILITY: It seems obvious, but it's important to note that Reserve Studies are only focused on items the association is obligated to maintain. However, neither the CCC nor NRSS prohibit the inclusion of items for information purposes. Therefore, it is prudent and in compliance with CCC and NRSS, to include components that are the responsibility of the individual unit owner, a sub or master association, local utility or municipality, United States

Postal Service, or other entity that may have responsibility for components within the community, for information purposes. A reader of the report sees that the items are present but not association-maintained or funded.

2) LIMITED USEFUL LIFE: Many items within a community have a "life of property" expectation, notably concrete. That is not to say the concrete within the community will never need maintenance or repair, but rather that complete replacement of the concrete is not expected, and therefore not provided for in the Reserve Study calculations.

3) PREDICTABLE REMAINING USEFUL LIFE: The estimated time a component can be expected to continue to serve its intended function. This is only an estimation, and ultimately the actual replacement may occur before or after



the estimated timeline. For that reason, the CCC requires the on-site evaluation on three-year cycles to ensure the life expectancy estimations are based on current information and observations. As with concrete, other items are expected to last longer than 30 years. However, some items or systems may need complete replacement at some point in time, particularly as properties age. Other examples would include potable water and drain/waste/vent piping, masonry walls, sectional concrete flatwork, waterproofing membranes, electrical transformers and control panels, sub-grade utility lines.

Once an item or system has a reasonably-predictable remaining useful life inside the 30-year range, it should be included as a funded item in the Reserve Study. This may require the incorporation of opinions of outside experts, such as contractors or engineers. Once identified, these types of long-term components should be added to the Reserve Study inventory

and included in the funding obligations to ensure the community has the resources to maintain or refurbish the facilities and infrastructure.

4) ABOVE A MINIMUM THRESHOLD:

Small/insignificant costs are expected to be funded via an operating budget. Therefore, a Reserve Study preparer and the client should establish a minimum threshold that a single item, or a series of like-kind items, would need to exceed in order to be considered a major component. Typically, the threshold would be in the \$500-\$1,000 range. However, higher thresholds would be more appropriate for larger communities with multi-million-dollar maintenance budgets.

5) AS REQUIRED BY LOCAL CODES:

California has the 30-year or less remaining useful life expectancy inclusion requirement, the three-year on-site inspection cycle (\$5550), and the annual requirements of providing the Reserve Study Summary, Reserve Funding Plan adopted by the BOD, and

the Assessment and Reserve Funding Disclosure form (§ 5300 & 5570).

PREPARED BY WHOM?

The CCC and NRSS defer to the discretion of the preparer on numerous issues... which is why it is critical for community managers and association board members to thoroughly evaluate the Reserve Providers. While anyone can follow the CCC and NRSS requirements, CAI-certified Reserve Specialists (RS) have demonstrated their extensive education and experience needed to achieve the designation. RS preparers must also commit to follow the NRSS and the CAI Code of Ethics in their daily business practices.

Managers and board members should ask all service providers to submit appropriate certificates of insurance, such as Errors and Omissions, General Liability, Professional Liability,

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Reserve Study Thoroughness: What Is A Major Component?

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Workers Compensation, and/or active business licenses. Requesting samples and references from recently-served associations and community managers is prudent. Finally, requesting references from industry colleagues for recommended service providers is a good way to get the “short list” started. And our chapter website has a list of Reserve Specialists who are members.

Questions to ask potential Reserve Study providers:

- Describe your education and experience in providing Reserve Studies.
- Elaborate on your experience with similar properties: geographic location, architectural type, number of units, age, amenities, etc.
- What methods are utilized for assessment of component identification, quantification, and condition?
- Describe your process for including or excluding infrastructure components.
- Are community members encouraged to attend site inspections and participate in the evaluation process?
- What circumstances would allow for client-provided information regarding quantities, costs, and life expectancies of components to be included in the report?
- Are draft copies of the study provided prior to finalization, to enable review, discussion, and propose adjustments?
- Describe additional services and fees, such as additional drafts, alternative funding scenarios, attendance at committee or membership meetings, report customization fees, etc.

COLLABORATIVE REVIEW

There are numerous components within a community that may be discretionary, or part of a 30-year+ useful life expectancy group. Expected lives of systems can vary greatly based on the quality of material, the quality of the installation, the climate in which it resides, and the usage and maintenance patterns. It is incumbent upon Reserve Study preparers, community managers and boards to inquire about the long-term responsibilities to maintain the community. Each community is unique, so it is imperative to utilize the criteria of the CAI NRSS and the CCC in evaluating the following:

- **Potable Water Piping**
Life expectancies for copper piping used for potable water typically range from 30 years for lower-grade materials in a high-use environment, to 60 years with a higher-grade material in a low-use environment. For areas that still utilize galvanized steel, the life expectancy ranges are similar, with a narrower 40-50-year life expectancy range.
Potable water piping is considered a Major Component by most analysts. The discretion is in applying the useful and remaining life expectancies. Excluding potable water piping from funding in a Reserve Study for a newer community is not unusual, as it’s

often considered to be a 30+ year component. However, with respect to a 40-year old property with original piping, replacement should be included in the funding calculations, as few systems would be expected to last 70+ years.

- **Drain/Waste/Vent Piping**
Complete replacement of drain/waste/venting systems is rare. Whether metallic or polymer, life expectancies are typically considered well beyond 30+-years remaining, and thus rarely warrant funding for complete replacement in a Reserve Study. However, sectional replacement will typically increase in frequency and severity as the system ages. It would be appropriate to include funded allowances in a Reserve Study based on recent historical costs, to allow for the use of reserve funds for these types of repairs. The expenditures may be infrequent, but significant, and difficult to absorb in a statutorily-mandated operating budget.
- **Weather Shell and Waterproofing Elements**
Waterproofing systems can be difficult to evaluate given their enclosed nature, often beneath other elements or encapsulated within the structure. Some preparers may estimate the replacement based on age; others may consider it a 30+ year component. Site inspections



performed should include the accessible areas, and notations of visible evidence of moisture intrusion or failed waterproofing. However, if a scope of work is unknown until further review and evaluation by specialists, the appropriate reporting for such would be inclusion in the Reserve Study report—however, without funding and with a notation that the amount is unknown. This would inform the readers of the issue but refrain from guessing or “ballparking” a financial liability. Once the issue has been evaluated and a course of action decided upon, the information can be included in a future Reserve Study Update. Reserve Studies are designed to provide information that will vary over time, including those that may take years to review, evaluate and decide upon.

• **Hardscape/Masonry**

Complete replacement of hardscape/masonry, such as concrete walkways,

perimeter walls, curbing, flower-bed edging, driveways, etc. is rare. Life expectancies are usually well beyond 30+-years remaining life, and thus complete replacement is rarely considered in a Reserve Study. However, sectional replacement will increase in frequency and severity as the systems age. It is prudent to include allowances in a Reserve Study to allow for the use of reserve funds for these types of repairs based on recent historical costs.

• **Landscape/Irrigation Piping**

Although not typical reserve components, these items are frequently included by associations. Whether from drought, plant material becoming aged, or root damaged lines, associations will reserve and maintain these items when they want to reduce water consumption or update the aesthetic appeal of the community. If properly accounted for, some landscaping costs would be within the guidelines in the CCC and NRSS. As

cost variances are based on customer choices, it would be best to collaborate with the community’s service providers and leadership on how to treat these in the Reserve Study.

These points should serve as a guide to ensure your community is operated at the most efficient level possible. Remember that a Reserve Study reflects the unique aspects of your community while seeking compliance with the complex rules and regulations governing the process.



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