

Three Keys to Assuring the Most Efficient Use of Reserve Funds

Community leaders, as defined within the Community Associations Institute's [*Rights and Responsibilities for Better Communities*](#), "have a responsibility to fulfill their fiduciary duties to the community they serve and to exercise discretion in a manner they reasonably believe to be within the best interests of their community." Also, important to note is that economic pressures do not grant community leaders immunity against claims of breaching their fiduciary obligations. Regardless of the economic landscape, it is imperative that those who are elected to serve and protect their community, continue to do so. This begins with:

1. Preparing and adhering to a budget that serves the best interest of the community
2. Preserving the quality of the community's physical assets
3. Maintaining an adequate level of reserve funds
4. Continuing to collect owner assessments

With today's society, delinquencies and requests for payment deferrals continue to rise. All while the expense of maintaining community assets continues to add up; a recipe that drives a tendency to reduce spending through deferred maintenance, repairs and replacement of common property. This approach to balancing community expenses over time is likely to result in inconvenient and costly emergency repairs, diminished useful lives of common property, and ultimately, mistrust within the community.

Emergency Repairs vs Planned Capital Projects

Many scenarios exist in life where we, as individuals, test the boundaries of action vs inaction. Failing to replace a hot water heater until we wake up to a cold shower on Monday morning or neglecting the replacement of a 30 year old air conditioner that ultimately fails on the hottest day in July, to name a couple. While the inconvenience might be a small price to pay for an individual, emergency repairs within shared living spaces has greater consequences.

Take, for example, the failure to replace aging elevator controls. A typical useful life for elevator controls is up to 30 years, which is mainly due to difficulty in acquiring replacement parts for aging equipment. A reserve study consultant is able to evaluate the association's record of historical maintenance practices and review the frequency and significance of recent major repairs in order to determine a realistic timeline for future replacement. The result? A prioritized list of capital expenditures and customized funding solutions that offset those future costs.



In following the reserve study consultant's professional recommendations, the community association has adequately funded reserves and is in a position to replace the elevator controls in a timely manner. Replacement should be planned well in advance to avoid scheduling conflicts and to provide owners ample opportunity to plan ahead of time.

Failure to replace elevator controls in a timely manner will inevitably result in emergency repairs, causing inconvenience to just about every owner that resides above the first floor. It is also worth noting that the cost of emergency repairs combined with what will inevitably be a near-term replacement, will almost certainly exceed the cost of completing the replacement in the first place. Which leads us to our next point...

Preventative Maintenance

Preventative maintenance is key to maximizing useful lives, to providing a level of flexibility with the timing of replacement, and to minimizing the total annual cost of ownership. Furthermore, routine maintenance minimizes the risk of emergency repairs as minor issues can be caught and addressed before they escalate.

It's best practice to maintain a preventative maintenance contract on a building's major mechanical systems, such as the elevators, boilers, etc. While the specific activities outlined for each of these components will vary, examples for a boiler might include:

- **Weekly** - Inspect for leaking water and ensure areas around the boiler are free from obstruction. Check temperature readings and verify vent termination is not blocked. Listen for unusual vibrations or noises. Conduct boiler blowdown to minimize corrosion and remove suspended solids in the system.
- **Monthly** - Check water and pressure levels, check controls and switches for proper operation, and clean and inspect water or fire tubes to reduce scaling.
- **Annually** - Conduct full inspection and cleaning of burners and flues. Any pressure relief valves must be inspected and certified.



You'll note, many of these activities are not labor intensive, and likely can be accomplished with relative ease. Preventative maintenance is about identifying and rectifying potentially small issues before they develop into larger concerns.

Preventative maintenance is not the end all be all. Rather, it is one component of the strategy to preserve the quality of community assets while practicing fiscal responsibility. Eventually, every community asset requires replacement. This leads us to our final point...

Project Prioritization

As we learned earlier, the professional reserve study prioritizes all capital expenditures, which are supported by customized funding solutions. By evaluating the condition of each common element and understanding current maintenance practices, the schedule of capital projects is optimized to ensure the community is making the most efficient use of reserve funds.

As more Americans are home today than ever before, owners are taking a greater interest in their Associations' overall condition. What does this mean for Community Associations? Project prioritization becomes more important with the risk of reduced revenues.



The professional reserve study brings to light capital projects of utmost importance versus those that are discretionary. Critical projects comprise of those that jeopardize the safety of residents and/or lead to more costly repairs if ignored. Discretionary projects comprise of those that are primarily aesthetic, or those in which deferral doesn't create a safety concern or lead to increased replacement costs. Discretionary projects are oftentimes more visible throughout the community. Whereas many critical projects are not typically apparent to the average unit owner (ie flat roofs, piping, or building mechanicals).

Disseminating the priority of capital projects found within the professional reserve study is important to effectively communicate Association needs and decisions to homeowners. And, a proactive approach to planned capital projects and proper preventative maintenance minimizes the risk of emergency repairs. All of which is critical to ensuring your Association is making the most efficient use of reserve funds in a time when revenues are negatively affected by today's economic climate.