As the community association industry continues to realize explosive growth - 55 million Americans now live in a planned community vs. almost none only 30 years ago - this evolution also brings advancements in education and technology. And as often is the case, progress is accompanied by confusion.

In the early years, prospective buyers didn’t know what they were getting into with community living. Board members volunteered to conduct practically all aspects of managing the Association - an attorney on the board would handle legal aspects, the treasurer, often a CPA, would manage the books, and all the board members would field those calls from homeowners who demanded that their sinks be unclogged at association expense - in other words, manage the association, and more. Board members, unit owners, and prospective buyers were naive at best.

Over time, boards became more educated in their roles as fiduciaries of these non-profit corporations. Smart boards began looking for professional help in all facets - legal counsel, accounting services, professional Reserve Study providers, and property management firms - all specializing in the unique needs and issues that are specific to community living.

The explosive growth of Reserve Study services is a good example of boards seeking professional expertise. Association boards were unsure for years about how to achieve the goal of adequately handling future capital expenditures. Confusion reigned supreme in the difficult task of finding a professional Reserve Study provider, let alone selecting the right one.

The Professional Reserve Study industry is only about 25 years old. As the demand for professional Reserve Studies grew, so did the number of Reserve Study providers. The big problem from the ensuing proliferation of Reserve Study providers was that there were no guidelines as to what constitutes a professional Reserve Study and who should conduct them.

The industry has seen the emergence of two organizations that are committed to the development of high standards of professionalism for Reserve Study providers, The Association of Professional Reserve Analysts (APRA), followed by the Community Associations Institute (CAI) Reserve Professionals Committee. The designations achieved in the respective organizations are: PRA (Professional Reserve Analyst) in APRA; and RS (Reserve Specialist) in CAI. The organizations share a primary goal: to establish high standards to ensure that both the engineering and financial components of a Reserve Study are included; and there are high engineering standards in Reserve Study preparation that must be followed by the preparer of Reserve Studies.

APRA’s reach extends across all industries, including the private and public sectors. CAI remains focused strictly on the community association industry of residential housing for 55 million Americans. Reserve Study proposals should include certain criteria that are required by both APRA and CAI’s Reserve Professionals Committee. The best business decision is to select a reserve study professional belonging to both CAI and APRA. The Board can take comfort in knowing the provider is experienced in Reserve Study services and that they won’t be a guinea pig for someone who is not a specialist in community association work but claims to be able to conduct a Reserve Study.

Top Ten Questions You Should Ask Your Reserve Study Provider

The following questions are offered as a guide in the decision making process to select a Reserve Study firm.

1) What is the firm’s background and experience? Engineers? Architects? What are their credentials? How many Reserve Studies has the firm conducted in the last year? Five years? Ask for employee qualifications in the proposal.

2) What organizations does the firm belong to that helps you in conducting Reserve Studies? Association of Professional Reserve Analysts, Community Associations Institute are the leading organizations. Other trade associations: American Association of Cost Engineers, American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE), Association of Construction Inspectors, and more.

3) Does the firm comply with APRA and CAI basic requirements for a Reserve Study? Are both the engineering and financial components of the Reserve Study included, as required by both APRA and CAI? The Reserve Study must include: inventory of common elements, useful life, remaining useful life, future replacement costs, and a funding plan to set up sufficient reserves.

4) What percent of the firm’s work is for community associations? Does the firm specialize in reserve studies or is it working for community associations as a sideline business? If not, they may not be able to take cost saving success stories from other communities and apply them to your Association.

5) What is the size of staff involved in our assignment? What is the background of the individual inspecting the association and will others in the firm be involved? Does the firm have a strong quality control system in place? Will the principals of the firm be involved in the analysis, review, etc.??
6) Does the firm use full time employees only, subcontract engineering or accounting services, or is it part of a loose affiliation with other firms spread throughout the United States? This question can speak volumes about the expertise of the firm and its individuals.

7) Which method do you use for funding reserves? Of the two methods, cash flow and component, APRA and CAI both endorse the cash flow method, which should determine minimum but stable levels of funding over the term of the analysis.

8) What is your basis for replacement costs of the common elements? Databases purchased from national companies, contractors, manufacturers, internal database information, etc.

9) Do the reports comply with the AICPA Audit Guide and relevant state statutes?

10) Are many Reserve Study references provided that are either of similar properties or in close proximity to home or both? Call references. They often can shed much light on their likes and dislikes with the firm.

The dangers of not funding or under funding reserves cannot be underestimated. Virtually every property manager can speak of instances where Association boards were faced with unpopular and/or difficult choices such as special assessing or obtaining bank loans in order to maintain the common elements for which they are responsible. Board members are fiduciaries of their Association, just as corporate board members are fiduciaries of their companies.

A professional Reserve Study is an accurate long range strategic plan that is essential for an Association’s success. Besides, it just makes good business sense.

Article by John P. Poehlmann, RS.

Reserve Advisors, Inc. is the leading provider of Reserve Studies, Transition Studies (defect analysis at developer turnover), and Property Insurance Advisory Services in all 50 states and Canada since 1991.

Clients benefit with a customized, thorough analysis that’s based on our noninvasive, visual inspection and is easy to use. Understanding the needs and issues that are specific to client objectives helps ensure satisfaction.

Clients comply with national standards because many of our engineers and architects hold the Reserve Specialist (RS) and Professional Reserve Analyst (PRA) designations from the Community Associations Institute and Association of Professional Reserve Analysts.

Our focus is to help clients preserve and maintain their property in excellent condition.

John Poelmann, RS   Theodore J. Salgado, P.E., PRA

Our principals are at the forefront of education and professional standards. John has more than 25 years experience in the reserve study and valuation business and holds his Reserve Specialist (RS) designation. He’s served on CAI’s (Community Associations Institute) national Board of Trustees. Ted is a professional engineer who has more than 30 years experience in the reserve study and valuation business. He is a past president of the Association of Professional Reserve Analysts (APRA) and holds his RS and PRA professional designations. Both are founders of CAI’s Reserve Professionals Committee, which developed national standards for reserve study providers.