

COMMON FOUNDATIONS

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Welcome to the first edition of **Common Foundations**, Criterium Engineers' community associations news-letter!

As expert engineers in the building field, we hope to share the knowledge we've gathered over our 47 years in business. Our extensive experience working with community associations across the country has made us aware of the complicated issues you deal with on a daily basis. We hope you will find our news-letter informative and helpful to you.

In this issue, we focus on reserve studies and the "Seven Things You Need to Know" as you prepare to have a study performed on your property. Future issues of interest to you will include articles on transition studies, making improvements to your community, maximizing value in your capital and maintenance funds, association fees structures, and problem-solving.

We will also discuss new products and ideas and how they might fit into your community, as well as ongoing discussions on topics such as mold and pressure treated lumber. Our goal is to improve the value and enjoyment of both your home and your community, making it more than just a destination at the end of the day.

Seven Things You Need to Know Before Conducting Your Next Reserve Study

One of the primary business duties of Community Associations is maintaining and preserving property values of the Association's common property. To do this properly, Associations must develop funding plans for future repair or replacement of major common-area components. A reserve study is a budget planning tool that identifies the current status of the reserve fund and establishes a stable and equitable funding plan to offset the anticipated future major common-area expenditures.

Reserve studies plan for the replacement of major items that must, at some point in time, be replaced, as major items deteriorate during use. They also minimize the need for special assessments. And lastly, a replacement fund enhances resale values. Following are things to keep in mind when planning your reserve study.

1. All Reserve Study preparers are not equal.

There are a number of ways to evaluate the qualifications of the person or firm whom you are going to retain to perform your study. Key factors when making your decision should include the following: knowledge and experience of the provider, ability to understand the clients' needs, local expertise and availability, quality control and accountability, and pro-



fessional education. A key to evaluating this qualification is to have this portion of the work performed under the direction of a licensed Professional Engineer (PE), as the license confirms that the person has been trained and educated in performing this type of evaluation.

2. **All Reserve Studies are not equal.** Until just a few years ago, most reserve studies included a list of all of the components, their replacement cost, and remaining useful life in order to determine what the next years funding should be. After many years of discussion and development, the Reserves Committee of CAI con-

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Spotlight On..... Manchester, NH



The decks at this New Hampshire condo property are a good example of why the 1980s earned a reputation for poor quality construction. The use of untreated lumber contributed to the rapid deterioration of the decks. John Turner, P.E., of Criterium-Turner Engineers was assigned the mission to identify "What went wrong?"



In short, there were at least seven major defects in the construction of the patios that eventually led to the collapse of one 8-unit wide deck. This incident (along with many like it) was a major wake up call to associations and property owner/managers. An enhanced reserve study should always include a building evaluation by a Professional Engineer.

RESERVE: Seven Things You Need to Know

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should include not only this "Financial Analysis" but also a comprehensive "Physical Analysis." This is now the standard. The physical analysis is important because it determines the existing condition and actual expected life of the common elements. The financial analysis focuses on the planning and budgeting of replacing these common elements, and includes a cash flow projection of the reserve fund over a 20-year period.

3. Full Funding of a Reserve Study may mean that you are over funded. There are a number of different "Funding Goals" which are recommended for use as the basis for your Association's future reserve fund planning. "Baseline Funding" is when the cash flow projection reaches \$0 at some time over the projection period.

"Component Full Funding" is based on keeping every individual component within the Study 100% funded. In most instances, this will result in a significant amount of funds, which are never used during the cash flow projection period. "Threshold Funding" is when the amount in the fund during the cash flow projection period is based upon keeping a minimum balance within the fund. "Statutory Funding" is based upon the establishment of the amount to be funded as dictated by the local state requirements.

4. The Replacement Costs included within a Reserve Study should consider replacement alternatives, not just replacement with the exact same component or system. In many instances the original component, which is being replaced, either is no longer available or has become outdated since it was first installed. By making recommendations for alternatives to the initial installation, the Association may be able to install a replacement component or system with a significantly longer life,

such as a new type of roofing system, or a component or system which is much more energy efficient such as a new HVAC system. In both cases, this will result in either a reduction in the recommended contributions to the Reserve Fund or a reduction in your energy costs.

5. The Reserve Study can be used for much more than just estimating the Association's contributions to the

A reserve fund is intended to cover non-annual maintenance, repair, and

Reserve Fund. The Reserve Study cash flow analysis can also determine how the Association's Reserve Funds can be invested. They give the Association the ability to plan for the actual replacements, therefore making it easier to negotiate more effectively with contractors. An investment plan can be established to maximize

the return on these funds based upon when they will be needed.

6. The Reserve Study will not be the only funding the Association will need for the upkeep of the common elements.

The Reserve Study is only for the major repair or replacement of the common and limited common elements that are the Association's responsibility. A reserve fund is intended to cover non-annual maintenance, repair and capital improvement costs. If the proper maintenance is not performed, it can result in a significant loss of useful life for the reserve components.

7. The actual cost of performing the replacement work when it occurs may vary from the costs included within the study.

In preparing the reserve study, the replacement costs that are used are based upon both industry estimating standards as well as the actual cost of similar projects that have been performed. Actual costs at the time work is done are influenced by many variables, and in

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