



# After Surfside Collapse, CAI Releases Updated Reserve Study Standards

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A reserve account is for associations what a savings account is for individuals. It is money set aside for common area replacements that come up in the future. Best practices are to have a separate bank account for the reserve and use the reserve only for those components contained within your community's reserve study not be used for regular day-to-day expenses like landscaping, utilities, or insurance costs.

Board members have a fiduciary, or legal, duty to maintain adequate reserves for their association. 68 P.S. §§3303 (a). Failure to maintain sufficient reserves has been the subject of much community association litigation in Pennsylvania in recent years in lawsuits between owners and associations, and between associations and developers about failure to maintain common areas and how to fund what are alleged to be long overdue repairs. Additionally, buyers looking at purchasing a unit in associations are likely to ask about reserve balances and many lenders look at reserve balances as a criterion for loaning funds to buy a unit.

A reserve study is a "budget planning tool that identifies the components a community association is responsible to maintain or replace, the status of the reserve fund, and a stable and equitable funding plan to offset the anticipated future major common area expenditures".<sup>1</sup>

There are two parts of a reserve study:

1) the Physical Evaluation which is, "The portion of the reserve study where the component inventory, condition assessment, and life and valuation estimate tasks are performed." Some typical components of the common areas could be the roof, gutters, elevators, pools, and fences. The description of each component would include the number and type of each as well as the estimated useful life of each component (i.e. when will the roof need to be replaced on the clubhouse) as well as their replacement cost; and

2) the Financial Analysis which is "The portion of a reserve study in which the current status of the reserves (measured as cash or percent funded) and a recommended reserve funding plan are derived, and the projected reserve income and expense over a period of time are presented."

This is a critical portion of the study because it provides recommendations for what is required to provide for adequate funding. Adequate funding is a critical definition to understand and is defined as, "A replacement reserve fund and stable and equitable multiyear funding plan that together provide for the reliable and timely execution of the association's major repair and replacement projects as defined herein without reliance on additional supplemental funding."

As a result of the tragic collapse of Champlain Towers South condominium in Surfside, Florida, CAI convened working groups to discuss public policy solutions that would result in safer and more financially sound buildings. The working groups developed CAI's Condominium Safety Public Policy Manual which can be found at [www.condosafety.com](http://www.condosafety.com).

Following the development and advocacy of these public policy initiatives, CAI convened a task force to review and update the Reserve Study Standards to incorporate maintenance and structural integrity into the reserve study process. The task force worked for nearly one year, spending hundreds of volunteer hours to update the standards.<sup>2</sup>

At the 2023 CAI national conference in Dallas in May, CAI released these updated Reserve Study Standards.<sup>3</sup> While the standards continue to provide a framework for community association practitioners in the preparation of reserve studies, they have been updated in a number of ways including clarification of terminology, to provide additional guidance regarding preparation of the report as well as the necessary relationship to maintenance and structural integrity.

The standards now suggest that two supplemental reports be prepared and provided to the reserve provider for reference in the study.<sup>4</sup> They are a Preventive Maintenance Manual and a Periodic

Structural Inspection Report. Regarding the Preventive Maintenance Manual, the conclusions contained within the study should reflect whether preventative maintenance is being performed and its anticipated effect on the useful lives of the components. Should, based on the public policy report, periodic structural inspections be necessary, the cost and timing for these inspections should be included within the study.<sup>5</sup>

In addition, if the inspection report indicates that corrective maintenance be performed (even though not a cyclical replacement) the cost and timing of this work should be included within the study.

A number of additional updates and clarifications were also made within the standards:

- It was clarified that structural or safety evaluations are not included and that the structure is not included within the study.

- Long life components are now to be included. In the past, generally only components which would require replacement within 30 years of the date of the study were included. The new standards give various options for long life components to be included. The requirements for the Level II, Update with Site Visit of the study now include the inclusion of these components. The definition of a Long-Life Component is, "Those components with an estimated remaining life of more than 30 years from the date of the study being prepared."<sup>6</sup>
- The requirement for disclosing the communities' preventive maintenance planning and its effect on useful lives has been added.<sup>7</sup>
- While in the past generally only components that could be seen were included, the standards now require that unseen components

which will require replacement be considered for inclusion.<sup>8</sup>

- The meaning of "adequate" funding was clarified. In the past this has generally been assumed to be a funding plan in which the need for special assessment or borrowing would not be necessary during the 30-year funding plan projection period, which is also known as Baseline Funding.<sup>9</sup>
- Updating the reserve study recommendations are now included with the best practice being at least every third year.<sup>10</sup>

In conclusion, community associations should be sure to have a current reserve study prepared by a qualified preparer and to fund their reserves in conformance with the studies'

*(Continued on page 36)*



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(Continued from page 35)

recommendations. If a board is following the advice of an appropriate professional about the adequate amount needed to fund their association's reserve, and using those funds toward proper expenses, they are taking steps toward fulfilling their fiduciary duty to their association and helping to shield themselves from as well as legal liability. Additionally, boards can help their communities avoid large special assessments or borrowing funds that are not in reserve for necessary repairs.

#### FOOTNOTES

<sup>1</sup> CAI, Reserve Study Standards RSS-RS0502023 Page 4

<sup>2</sup> Condominium Safety Public Policy Report, Reserve Studies and Funding, Maintenance and Structural Integrity, Published October 2021, Updated December 2022 by CAI/

<sup>3</sup> CAI, Reserve Study Standards RSS-RS0502023

<sup>4</sup> CAI, Reserve Study Standards RSS-RS0502023, page 13, Reserve Provider, "Reserve Specialist® (RS) designation. An individual with a RS designation is the most qualified individual to conduct reserve studies."

<sup>5</sup> Corrective Maintenance is defined as work that is necessary to be performed based on deterioration of a component which could not be anticipated and in many cases is due to a lack of preventive maintenance.

<sup>6</sup> CAI, Reserve Study Standards RSS-RS0502023, page 9, Long Life Component.

<sup>7</sup> CAI, Reserve Study Standards RSS-RS0502023, page 6, Supplemental Reports.

<sup>8</sup> CAI, Reserve Study Standards RSS-RS0502023, page 8, Note 10

<sup>9</sup> CAI, Reserve Study Standards RSS-RS0502023, page 13, Adequate Reserves

<sup>10</sup> CAI, Reserve Study Standards RSS-RS0502023, page 12, Updating the Reserve Study

#### ABOUT THE AUTHORS

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**Mitchell H. Frumkin, PE, RS** founded Kipcon, Inc. in 1986 and fosters its growth with constant innovation and education. A Licensed Professional Engineer in eighteen states, Mr. Frumkin holds the Community Associations Institute's (CAI) Reserve Specialist designation. A recognized industry expert, Mr. Frumkin is a frequent speaker, writer and committee member on the state and national levels for the CAI, NAHB, and many other professional organizations. Mr. Frumkin is past president of Community Associations Institute and CAI Keystone. He can be contacted at [mfrumkin@kipcon.com](mailto:mfrumkin@kipcon.com).



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