

GRAND ADVENTURE

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The Impact of New Reserve Study Standards

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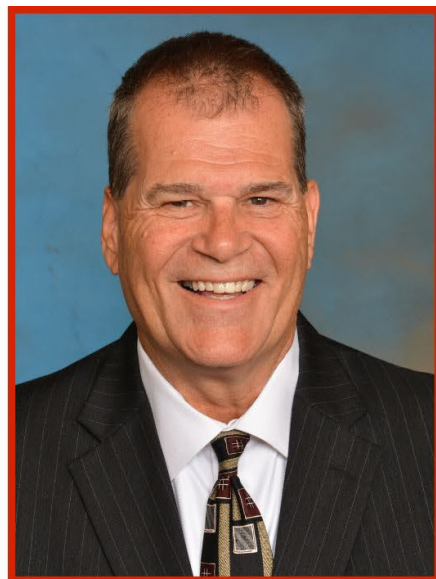
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Session Outcomes & Takeaways

At the conclusion of this session, attendees will:

- Understand California Reserve Study Laws
- What to look for when selecting a Reserve Study Company
- Understanding changes to Reserve Study Standards and effects on California CIDs including Reserve Funding



Session Outcomes & Takeaways

(continued)

- Best practices for integration of data & recommendations into maintenance programs
- How and when to rely on your experts, and which experts to involve
- How to best communicate Reserve Study information to Boards and members



What is a Reserve Study?

- A budget planning tool
 - Identifies the current status of reserve fund
 - Anticipates and prepares for major common area repairs/replacement expenses
 - Equitable funding plan to offset anticipated future repairs



What is a Reserve Study?

(continued)

- Consists of two parts:
 - **Physical** analysis
 - **Financial** analysis



What a Reserve Study is NOT?

- Engineering Report
- Architectural Review
- Pest Control Inspection
- Home Inspection

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Reserve Study Requirements

- Civil Code Section 5300 – Disclosures
- Civil Code Section 5550 – Reserve Study Requirements
 - Visual inspection of component every 3 years
 - Annual update
 - Annual disclosures



Fiduciary Duty - What is the Board's Responsibility?

- Business Judgment Rule
- Duty of Care
- Duty of Loyalty
- What happens if a Board chooses not to follow the recommendations?



Consequences of Underfunding Reserves

- Champlain Towers Tragedy
- Catastrophic Failures
- Higher Insurance Premiums



Consequences of Underfunding Reserves (continued)

- Deferred maintenance leading to expensive corrective maintenance
- Long term, higher assessments
- Home resale prices may suffer
- Poor curb appeal can lead to apathetic members



National Reserve Study Standards Updates – Why Now?

- Champlain Towers South
- Original Standards Date Back to 1998
- Evolution of the industry

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New Reserve Study Guidelines – What changed?

- Component Definition
- Supplemental Reports
- Adequacy Definitions



Component Definition Revisions – What's included in the Reserve Study?

Three-Part Test

1. The association has the obligation to maintain or replace the existing element
2. The need and schedule for this project can be reasonably anticipated
3. The total cost for the project is material to the association
 - Can be reasonably estimated
 - Includes all direct and related costs



Component Key Points

- Components are not restricted to physical items
- Professional inspections, evaluations or related building services qualify IF they meet the definition of a component
- If preventive maintenance is not being performed, the remaining useful life is reduced, if applicable



Long-Life Component (Remaining Life > 30 Years)

- Inclusion of long-life components with funding in the study
- Addition of long-life components with funding within the 30-year period
- Identification of long-life components in the component inventory PERIOD!

NOTE: Disclosure of long-life but unfunded components is a required disclosure in the reserve study



Supplemental Reports

- Preventative Maintenance (PM) Manuals
 - Recommended but not required to be included
 - Disclosures if PM schedule is in place and being used are required



Supplemental Reports

(continued)

- Periodic Structural Inspections
 - Inspections can be paid from reserves
 - Recommended work can be included in reserve study if meeting level of a component
 - May be treated as Long-Life Component



Reserve Fund Adequacy Defined

- Replacement reserve fund
- Stable & equitable multi-year funding plan ensuring reliable and timely repair of association's major assets
- No reliance on supplemental funding (loans & special assessments)



Impact to Managers/Enforcement Considerations

- FHA Requirements
- Lender Disclosures



Best Practices for Managers

- Ask good questions
- Hire reputable company
- Have a Maintenance Matrix
- Communications during updates & inspections (what's new/changed)
- Communication of funding plan adoption vs Reserve Study recommendation
- Disclosure preparation with Reserve Analyst



Boards Who Push Back

- Document recommendations in Manager Report
- Invite Reserve Analyst to talk with the board (virtual is best, in-person, teleconference)
- Work with Reserve Analyst to ensure the required disclosures lay out the recommended steps needed



Q & A

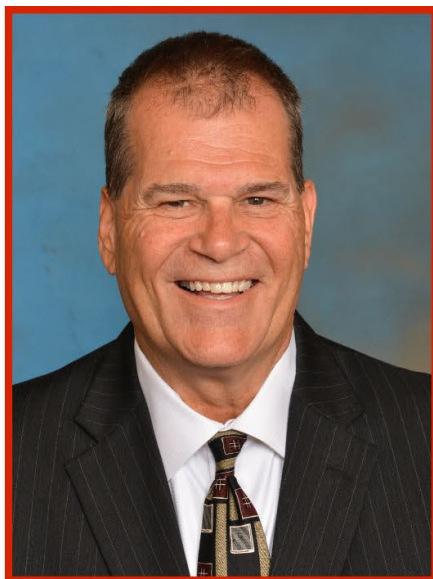
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