

EchoJournal

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A Construction Manager Looks at Reserve Studies

By Richard Tippett

We recently took on the responsibility for specifying and managing the repairs and partial re-paving of the roads and parking areas in a fairly large complex in Fremont. The complex was twenty-three years old at the time.

When we asked what their budget for the project was, the board gave us a dollar value that they said was based on their reserve study that had just been updated the year before. They were very proud of the fact that their reserve was fully funded. Part of our internal procedure is automatically to perform a rough check of all budget estimates that we receive. Our rough check showed that the reserve study was off by 50 percent. We immediately notified the board of this discrepancy; the apparent lack of funds meant possible postponement of the work.

We asked the board for a copy of the study. It arrived, bound, forty-plus pages long, with three pages of disclaimers making up the preface. All in all it was a very impressive, authoritative looking document. Unfortunately, the appearance was deceiving.

As we analyzed the paving reserve number, we found the following discrepancies:

There was an 18 percent error in the amount of paved area reported. None of the visitors' parking areas apparently was included in the totals.

There was no provision for replacing the asphalt concrete drainage channels, which had failed completely, with reinforced structural concrete.

There was no provision for strengthening failed asphalt paving at dumpster areas. These areas had all failed because they were never designed or constructed to withstand the weight of garbage trucks.

There was no provision for resetting the surface drain boxes that had settled over twenty-plus years. There was also no provision for repairing the drain lines that ran into them and that had been crushed by the settled boxes.

There was no provision for correcting tree root damage in two parking areas or installing tree root barriers so that the damage wouldn't reoccur.

There was no allowance for restriping the parking area, installing new reflectors, repainting speed bumps and the "Stop" signs at intersections or repainting curbs at fire hydrant, loading zones or the five handicapped spaces.

The unit prices for both seal-coating and re-paving were both 35 percent below current market rates.

There was a hastily-called meeting with the board and the management company. We discussed whether to proceed with the work, whether additional money could be found to pay for it, and what alternate and (short term) less expensive approaches could be taken to repair the paving. There was no real possibility of postponing all of the work; some areas were already rutted and others were badly alligatored from excess lawn watering.

At the board's direction we contacted the reserve study preparer. The purpose was twofold: to learn why there was such a discrepancy between the reserve study and what we saw as the realities on site, and to see "what could be done."

We learned the following:

The employee who prepared the study had not inspected the complex. He had never measured the paving, looked into the drains, or gone near the dumpsters. He had spent roughly four hours on site. The time was divided between meetings with the board and the manager, looking at the pool, lawns, paint, landscaping, fences, roofs (from the ground only) and "walking around."

The study was based on previous studies by other firms. The new prepar-

er simply took the data from the previous study and "corrected" the cost of work for present inflation rates. He then deducted money spent for major repairs since the previous study and reissued the document.

There was no attempt made to verify either the quantity of work or the dollar value for the units of work. In other words, no one actually measured the paving or checked to see if the price to coat or replace paving was accurate, or even looked at what the prices were based on.

Because no site survey was done, the additional cost of the necessary work of removing tree roots, raising drain boxes, building concrete gutters or strengthening paving at dumpsters was not added to the reserves.

It turned out that the unit prices used in the reserve study were based on California Department of Real Estate unit price estimates published twenty-five years before, when the developer first put the project together. DRE unit price estimates from that time period are notoriously inaccurate.

The reserve preparer had not corrected the DRE unit prices to match current market prices. Market prices had tripled over twenty-five years. Correcting the DRE unit price for 3 percent annual inflation over 23 years only doubled it.

This example of a "bad" reserve study is just one of the many we have been personally involved with or have heard about. Some are even more egregious. One that we know of reserved (inaccurately) for complete plywood siding replacement after twenty years, but assumed that wooden decks would last for thirty years comes to mind; after nineteen years the siding was fine, but forty percent of the decks had to be rebuilt!

It is now a common occurrence to discover that an association's reserve study is inaccurate and incomplete. There is apparently a cottage industry producing computer-generated documents that are based on reports generated by the developer at the inception of the complex and that have limited basis in reality. The documents cost little to produce and provide a nice cash flow for the producer. They satisfy the

technical requirements of Davis-Stirling. They do nothing to satisfy the board's need for a reliable planning document.

A valid reserve study requires that the preparer spend time on the site, examining and measuring the common area components whose maintenance/replacement is reserved for. The physical examination must then be followed by a review of present-day repair/replacement costs based on the work that will actually need to be done for that particular association.

A valid reserve study can't be done for \$2,000.00, unless the complex is very small, or very new. If your association is 50 or more units, plan to spend at least \$3,000-5,000 or more. Insist that the preparer check both work quantities and unit prices; the preparer should come to the site and measure and inspect your property and the preparer should provide source information for the unit prices that the reserve estimates are based on.

Getting a valid reserve study will prevent the kind of unpleasant surprises that our paving client experienced.

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