

Reserve News



Associated Reserve Planners – USA

An association of professional reserve planners dedicated to promoting the highest standards within the reserve study profession



International Capital Budgeting Institute

Professional reserve study standards for the future of reserve studies. ICBI established Generally Accepted Reserve Study Standards and Principles in 2015

Reserve News is a joint newsletter publication of **Associated Reserve Planners (ARP)** and the **International Capital Budgeting Institute (ICBI)**. Associated Reserve Planners is a membership organization for professional reserve planners who follow Generally Accepted Reserve Study Standards. The International Capital Budgeting Institute is an international standards-setting organization established to create professional, consistent standards for capital budgets, including reserve studies. The two organizations work together to promote Clarity, Consistency and Comparability in the reserve study profession.

Each issue of **Reserve News** contains news regarding both **ARP** and **ICBI** organizations and articles of general interest on the topic of reserve studies.

1st Quarter 2021

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Long-Lived Components

Long-lived components should not be an issue for discussion, but they are. What are the long-lived component we're talking about? The focus of this article is on the piping and electrical systems inside the walls, under slab and underground of most condominium projects. These include domestic water lines, wastewater (sewer) lines, gas lines, and electrical wiring – generally referred to as the “in-wall utilities.”

Why are these items an issue for discussion? Because of the inconsistent treatment we see within the reserve study industry. Ever see these components in a reserve study? Unlikely, because most reserve preparers ignore them for two reasons. Reason number one is that they can't inspect them as part of a normal reserve study, which by definition is a limited scope visual observation, and because their standards tell them to ignore them until they show signs of failure. Reason number two is that nobody wants to pay for these components in advance – the cost is too great and the time period is too long, as these items typically have an estimated life of approximately 50 years.

ICBI's Generally Accepted Reserve Study Standards **require** that these items be included in the reserve study but can either be included in the funding plan or disclosed as not being funded. The standards that other, non ICBI members, follow state that the reserve study should include all major components, but also state that these “in-wall utilities” should be excluded from the study unless they show signs of failure. Unfortunately, that's about 50 years too late.

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Member Focus – Brian Hill

Brian Hill is the founder of Associated Reserve Planners Canada. Brian currently holds the Designated Appraiser Residential (DAR) as well as the Designated Reserve Planner (DRP) designation with the Canadian National Association of Real Estate Appraisers (CNAREA). Brian obtained his Bachelor of Commerce Degree in 1985 and completed the Canadian Securities Course in 1982.



Brian began his appraisal career in 1986 at Canada Mortgage and Housing Corporation (CMHC) before entering the private sector. As technology and the mortgage lending/appraisal industry changed so did Brian. In 2000 Brian started Dream Home Appraisal Corp. and expanded to serve three western provinces. In 2005 Brian sold portions of this firm and relocated to beautiful Kelowna, BC in the heart of wine country often referred to as Napa North as well as home to world class skiing and golfing not to mention the numerous beautiful lakes.

In 2012 changes to Provincial legislation created the need for Reserve Studies or Depreciation Reports as they are called in BC. The training in the field was not great and Brian was often left to seek answers online. A search for a software solution led Brian to Advanced World Concepts and the PRA System/Facilities 7, soon after the Canadian version known as RFA Pro was created.

Associated Reserve Planners Canada was formed out of a recognized need for standardization in the Industry. In 2012 Brian taught the first course in the Designated Reserve Planner (DRP) program of the Canadian National Association of Real Estate Appraisers (CNAREA). Brian currently sits on the Board of Directors of the International Capital Budgeting Institute assisting in the creation of the ICBI Reserve Study Standards published in 2015.

Brian has consulted with Provincial regulators in efforts to clarify portions of the applicable Act intended to protect the consumer. There remains much to do in Canada to standardize the Reserve Planning industry as the industry, created from legislation, remains otherwise unorganized and thus lacks the professionalism required of the role. Brian's affiliation with ARP-USA and ARP-International has opened the door to establishing all that is currently lacking.

ARP – ICBI 2021 Annual Conference – Save the Date

The Joint ARP – ICBI 2021 Annual Conference is tentatively scheduled for Saturday May 8, 2021 in Las Vegas, Nevada. Planning is based on occurring on the day after CAI's 2021 national conference in Las Vegas. This allows members who normally attend the CAI conference to save on travel costs by also taking advantage of the CAI event and spend one extra day in Las Vegas to attend the ARP – ICBI reserve study conference. Planning is considered tentative at the moment simply because the Covid-19 pandemic has upended too many meetings and travel plans.

The ARP – ICBI 2019 conference in Orlando was a two day event. The 2020 conference was completely cancelled due to the pandemic and travel and meeting restrictions. For 2021 we have settled on a one day conference to be held in Las Vegas on Saturday, the day after the CAI conference ends. Educational sessions will total 8 hours and will consist of courses that also qualify for the RRC credential – so there will be testing involved. These educational sessions will also satisfy your continuing education requirements for 2021.

Save the date. We will make registrations forms available on the websites soon and will email registration forms to all ARP and ICBI members. We also expect this conference to be available in a virtual format.

New RRC Credentials Issued

Chad Heiser, President of the **Budgeting Professionals Credentialing Board** (BPCB) has announced that effective September 1, 2020 two individuals were awarded the coveted Registered Reserve Consultant (RRC) credential. The RRC credential is the only credential for professional reserve preparers that requires applicants to have completed a standard set of educational training courses covering all aspects of the reserve study process. Each of the courses contains a series of questions that test the individual's knowledge of the topic. Applicants must have attained passing grades in all courses before they may apply for the RRC credential. Included in the courses are tests regarding Generally Accepted Reserve Study Standards and Principles. All RRC credential holders are required to follow Generally Accepted Reserve Study Standards and Principles. The two individuals named below were awarded the credential for having written the courses presented to all applicants. As developers of the training courses they have demonstrated their knowledge in all basic technical fields of the reserve study process.



Chris Bevis, RS, RRC – CEG Assessments

Gary Porter, RS, RRC, FMP, CPA – Facilities Advisors International

The **Budgeting Professionals Credentialing Board** adheres to Generally Accepted Reserve Study Standards and believes that the reserve study process is a multi-disciplinary process requiring that professional reserve preparers have knowledge in (1) facilities maintenance, (2) valuation (pricing), and (3) financial modeling and reporting. Accordingly, BPCB has established a required listing of training courses be completed in order to apply for the RRC credential. These courses are divided into several categories:

- Reserve Fundamental Courses addressing topics such as reserve study standards, calculations, and reporting, and cost estimating
- Component Courses addressing topics in Grounds Components, and Building Components
- Specialty Courses on topics such as Highrise, Country Club, and Timeshare resorts reserve studies

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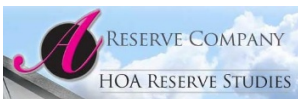
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Long-Lived Components – continued

This gets right to the issue of “fairness” of reserve assessments. The entire concept of reserve funding is based on the principle that those who are “using” the components should pay for their respective share of use. That implies that funding should always be at 100% which virtually never happens. But these long-lived components are really an exception to the normal rule because of both their extremely long life and their high cost.

When you look at the issue of estimated life of 40 to 60 years, using 50 years as an average (and by the way, I’ve heard engineers testify to that life on multiple occasions in construction defect lawsuits), that 50 year life may exceed the lifetime of many residents, and almost certainly exceeds the time period that an individual will live in a given condominium unit. As a result, the attitude is why pay for something that I can’t even see that MAY fail 50 years in the future? I won’t even be alive then.

When you look at the issue of cost you see the second reason why these items are rarely included in reserve studies. Based on personal experience with 14 condominium associations that have been forced to make either partial or complete replacement of these systems, costs have ranged from \$15,000 to \$50,000 per unit. That wide discrepancy is because of the type of building and type of construction. The lower end cost was associated with low rise (four story and under) projects. The higher end cost was associated with high rise projects (up to 32 stories that we have personally dealt with). Looking just at the low end cost, and ignoring the effects of inflation, and assuming the 50 year average life, each unit owner would have to contribute \$25 monthly for 50 years in order to accumulate the \$15,000 replacement cost. Let’s face it, that doesn’t fit into the association assessment structure and virtually nobody is going to pay that, so these items almost always end up becoming a special assessment item when they are required to be replaced.

In our reserve study company with more than 1,000 association clients, we have exactly six associations that have been funding for replacement of the in-wall utilities since day one. Six out of one thousand. Why are those associations different? Because they are all managed by a single management company serving an extremely elite group of owners – let’s call them the 1% crowd. The fact is that this group, unlike the rest of the industry, simply doesn’t worry about monthly assessment rates because their members can afford and are willing to pay whatever it is. What they don’t want are surprises, so monthly assessments are kept high to avoid any possibility of a special assessment.

So what’s the bottom line? Why are we discussing this topic? Because there needs to be consistency within the industry. Both ARP and ICBI are committed to providing Clarity, Consistency, and Comparability within the reserve study industry. ICBI’s Generally Accepted Reserve Study Standards require that long-lived components either be included in the funding plan or disclosed as not being included. Given the state of the industry today and looking at the majority of reserve studies, you would never know that these components even exist. That does not serve the best interests of the members of the association. Consistent disclosure does serve the best interests of the entire industry.

Note: this article is based on Gary Porter’s “The Fourth Wave” article published in 2018. See full article [here](#).