



## Cash Flow Slams into Florida

After sitting off the coast for several years now just waiting patiently for just the right moment, *Cash Flow* finally made landfall. It slammed ashore during the dark-of-night on December 23, 2002 with the amendment of Chapter 61B-22 of the Florida Administrative Code. This new legislation is significant in terms of the impact to reserves, and clears-the-way for association management to utilize various long-term funding plans (which include the methods and goals).

Prior to the enactment of this new law, association management was restricted to *independent funding* of each reserve item. This type of funding method used to determine reserve allocation is known as the *straight-line method* which is similar to the *component method* (a National Reserve Study Standard). The reserve funds were allocated to specific line items and locked into position to prevent movement. This type of funding plan was extremely restrictive and provided no flexibility to adapt to the cost and/or life adjustments that typically occurs in any long-term funding plan.

As a professional reserve study consultant, I commend the legislators of this wonderful state for producing one of the best (if not the best) amendments affecting reserves in years. This enacted law now allows for '*pooled reserves*' and provides a significant amount of flexibility in the funding plan. Association management now has the option to *collectively fund* for reserves by utilizing the *cash flow method* (a National Reserve Study Standard) to determine reserve allocation.

Reserve funds held by association management are not required to be allocated to specific line items. These funds can now be allocated to the entire pool of reserves which consists of all reserve items. This change in the law has opened-the-door for the utilization of the *cash flow method* to determine reserve allocation. The *cash flow method* was developed to provide *collective funding* of all reserve items. This method, unlike the straight-line or component method is dynamic, provides association management with the flexibility to utilize various funding goals and has been around for quite some time.

Savvy association management will immediately embrace and use this 'pooled reserves/cash flow' way of managing the reserve fund. For others, it will take a little more time to thoroughly review, understand and implement the critical parts of this amended law affecting reserves. But, one can expect to see *pooled reserves* and utilization of the *cash flow method* to determine reserve allocation on the rise in Florida and here-to-stay for quite some time!

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