Reserve Funding Plans – Selling Out, Settling, or Succeeding?



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Associations often struggle to determine the appropriate level of Reserve funding for their communities. This challenge is understandable, as associations must weigh boardmember reluctance to raise Reserve funding against the need to adequately offset deterioration. Unfortunately, the scale seems to have tipped in favor of the former option; data from over 100,000 Reserve Studies prepared by our company indicates that 74% of associations throughout the United States are currently underfunded. At this point, Boardmembers are faced with taking one of three approaches: selling out, settling or succeeding. The majority have opted for the first two routes which, unfortunately, will ultimately lead to special assessments, deferred maintenance, & lower property values. The third path may be challenging, but the results are more than worth the extra effort.

Selling Out

In spite of advice from their Reserve Studies, Boardmembers choose to keep reserve transfers at a woefully inadequate level, even when Reserve cash flow problems become obvious. It is easier to take the comfortable route and ignore the need for adequate reserve funding, but this approach is not beneficial in the long run. In fact, selling out is actually foolish, as current and future homeowners will face special assessments, deferred maintenance, and lower property values far in excess of what adequate Reserve transfers would have been. There is no avoiding the cost of deterioration driven by Mother Nature and Father Time.

Settling

These are the Associations who budget well-intended Reserve transfers, but less than needed by the association. While inadequate Reserve funding may appear to have no ill-effects for a while,

it will gradually erode the association's financial future. It is much like living while accumulating credit card debt. It is all well intended, but inadequate funding only means the underfunding debt grows over the years like water behind a dam. Ideally, Boardmembers should choose to think beyond the absence of current Reserve projects, and budget for the long-term sustainability of the association. Someone is going to have to pay for a new roof or new roadway surface. That "someone" should include all who've used it over the years.

Succeeding

It is tempting for associations to undercut reserve transfers or to settle for partial success. But those willing to bite the bullet and follow the Funding Plan necessary to assure timely repairs & replacements are likely to experience significant financial rewards for years or even decades to come. Reserve study recommendations indicate that well funded Reserves support sustained financial health, minimizing the risks of special assessment, avoiding deferred maintenance, and maximizing property values.

An association's current decisions regarding Reserve funding will greatly impact its future trajectory. Through preparing Reserve Studies we observe what is happening at thousands of associations each year. It is our experience that those who successfully budget their Reserve transfers to offset ongoing deterioration reap financial rewards, and those who settle or sell out suffer the consequences. What does your Reserve Funding Plan reveal about your association's approach to the future?