

# WHAT ARE THE FOUR FUNDING PRINCIPLES?

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January 1998

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The Funding Plan is the *recommended action plan* by which the association provides income to the Reserve Fund to offset anticipated Reserve expenses. Reserve contributions are recommended for the initial year within the context of a 20- or 30-yr plan, the Funding Plan is created based on four distinct principles. Sometimes these four principles all point to one solution, sometimes they have to be balanced against each other in the best interests of the association and its members:

1. Adequate Reserves when Required
2. Budget Stability
3. Fair Distribution of Contributions
4. Fiscal Responsibility

To elaborate, fundamentally the Reserve Funding Plan must provide adequate funds when they are expected to be required at a future point in time. If \$100,000 is needed in five years for a new roof, the Funding Plan should yield a Reserve Balance of at least \$100,000 in that year. Because associations are corporations and their members expect and deserve the corporation to be run in a stable manner, it is important that the budget be designed for year to year stability. Large assessment changes from year to year indicate instability, and homeowners deserve a degree of stability in order to plan their own budgets.

To be fair to the owners and to stay away from accusations of "self-dealing", it is important to offset **inherently unstable** periodic Reserve expenses with a **stable** Reserve income stream. It is fundamentally unfair (and potentially irresponsible) to burden one set of owners with the cost of a replacing a Reserve component that deteriorated over a period of many years. This means that in addition to spreading the Reserve contributions fairly among the present unit owners, it is important to spread the Reserve contributions fairly among current and future owners. And finally, since Boardmembers are "fiduciaries" (caring for the assets of others), they have to act in a fiscally responsible manner, making "sound, business judgement decisions". Boardmembers

must to act as corporate officers of multi-million dollar Real Estate corporations should act, making responsible, informed plans as they fulfill their job to "maintain, protect, and enhance" the assets of the corporation.