WHAT ARE THE FOUR FUNDING PRINCIPLES?

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Updated November 2026

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The Funding Plan is the recommended action plan by which the association transfers cash into Reserve Fund to offset ongoing deterioration and prepare the association for anticipated Reserve projects. In a Reserve Study, Reserve funding is recommended for the initial year, in the context of a 30-yr Funding Plan. That Funding Plan is created based on four distinct principles defined in National Reserve Study Standards. 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:



RESERVE FUNDING PRINCIPLES

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 household budget.

To be fair to the owners and to stay away from accusations of “self-dealing”, it is important to provide for those predictable but “irregular through the years” big Reserve projects with a stable Reserve funding plan that matches the ongoing daily-weekly-monthly cost of deterioration. 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. So in addition to spreading the Reserve cost out over the years, we want to pursue the goal to evenly spread it out over many years… in our inflationary economic environment. That means spreading the cost out over the years so future owners will pay slightly more “future dollars”, but with all of those dollars having equal purchasing power.

And finally, since Boardmembers are “fiduciaries” (caring for the assets of others), they are called to act in a fiscally responsible manner, making “sound, business judgement decisions”. Boardmembers are corporate officers of multi-million dollar Real Estate corporations, called to make responsible, informed plans as they fulfill their job to “maintain, protect, and enhance” the assets of the corporation. So in addition to providing sufficient cash, a stable funding rate, and a Funding Plan that is evenly distributed over the owners over the years, the Reserve Funding Plan is designed so that Boardmembers following the plan will be acting in a fiscally responsible manner.