Apr 11, 2025

Engaging Homeowners – Communicating the Importance of a Reserve Study

Robert M. Nordlund, PE, RS
Brian Weaver, PCAM
www.reservestudy.com

Documents Referenced in the webinar:

- 2017 Association Reserves Study to investigate Property Value relationship to Reserve Funding (see here)
- Communicating Reserve Study Results to Homeowners (see here)

Miss the webinar? Watch it here.

See all of our other available recorded webinars (on related or more advanced topics) here.

The Setup:

We know the story: the board sees the association's costs and obligations and bears the responsibility of setting a sustainable budget for the association. The homeowners think "How can it be that expensive?", and they grumble or push back. It starts that simply.

Community association living has been described as "carefree", but it is anything but "free"! The association, as a corporation, needs to have a sustainable budget (Operating – that offsets the daily/weekly/monthly bills, and Reserves – that offsets ongoing/predictable deterioration of the major common area assets). Hotels do. Gyms do. Rental car agencies do. They all set their budget so that their ongoing income stream pays their ongoing bills (payroll, facility costs, etc.) and capital deterioration (roofing, equipment that wears out, etc.). So – how does the board at an association eliminate the communication gap and engage the homeowners to join them in guiding the association towards a safe and successful future?

The Details:

Understand that Reserve costs are real. Mother Nature and Father Time are undefeated. A Reserve Study reveals the ongoing cost of deterioration, as clearly as your water bill reveals the cost of the water you used up the last month. Both of those bills need to be paid.

If you don't pay the "Reserve Deterioration" bill, you face two consequences: Special Assessments or Lagging Property Values (or both). Reserve Funding makes a difference in property values because it affects Curb Appeal, which swings Real Estate values at least 7%, and as much as 30%. We've measured a strong Reserve Fund to influence property values by

12.6%. That means the extra $50 (or $100) in your homeowner assessments going to maintain the property via the Reserve Fund regularly returns thousands of dollars back to you in home value. Make sure you tell the homeowners!

The Strategy:

Communicate regularly, and in many ways. Reinforce the following concepts:

- Reserve expenses are not big projects separated by years. The cost burden on your association due to Reserves is measured on a daily, weekly, and monthly basis. It is summarized in your Reserve Study. Every homeowner needs to face the fact that things are deteriorating while they own a home in the association, and they should pay their (small) fair share as part of the budget.
- We live in an inflationary economic environment. Costs are going up. Communicate that while the board is watching costs closely, life is getting more expensive, and the association is no exception.
- Reserve funding is not "contributions". They are budgeted transfers paying the ongoing cost of deterioration.
- Reserves are not "for the future", "for a rainy day", or "for emergencies". Reserves are for predictable daily/weekly/monthly deterioration.
- And most importantly, communicate that owning Real Estate is expensive.

Use pictures to your advantage. Some people don't respond to numbers. Some people don't respond to words. But a picture is worth a thousand words. Show the deterioration. Show the needs. Show what your Reserve Funding will do for the association (your "Reserve dollars at work").

Finally, understand that money spent on maintenance, repairs, and replacements will together minimize your insurance costs (your Operating costs).

Summary:

Learn how much your common area assets are deteriorating on an ongoing basis (in your updated Reserve Study).

Set your budget to collect those funds.

Collect the funds.

Perform your Reserve projects in a timely manner.

Communicate to the homeowners that Reserve Funding is expensive, across the country it is regularly 15-40% of an association's total budget (making it clear that there is not "something wrong" with the budget at your association).

Other Links:

CAI's national Reserve Study Standards (updated 2023)

“Understanding Reserves” book (**updated for 2025**). Order single copies on Amazon here, or download chapter one for free here.

Want an experienced professional to help with your Reserve Study update, ensuring appropriate component selection, life estimates, pricing, and development of an appropriate Funding Plan custom designed for the needs of your association? Launch a free online proposal request by clicking here.

Looking for local expertise?
Click here to see our network of offices across the country (serving clients in all 50 states!).

ASSOCIATION RESERVES®

Planning For The Inevitable

Webinar Questions Asked by 2025 Attendees

General Reserve Questions

Q: **Case studies are always helpful when it comes to liability and deferred maintenance. Do you have any resources that would be beneficial to hear?**

A: We have case study stories on our website here. We also feature actual budget situations from our clients in our webinars, such as our recent Components Deep Dive (aka Understanding Components in your Reserve Study) found here. But the most significant case study is the tragic collapse of Champlain Towers South in Florida in June of 2021. Years of deferred maintenance led to disaster.

Q: **Our HOA is in a place where we take care of the obvious and kick the can down the road for the rest. This leaves us vulnerable to any large, unexpected expenses. What can a board member do, especially when most of the board is disinterested in the finances and wants to keep their own assessments low?**

A: This is a leadership challenge. Start by educating—explain the reality of Reserve deterioration and the reality of boardmember fiduciary responsibility and where it states in the Governing Documents that the board is responsible to budget for the sustainability of the association. However, sometimes the best you can do is be the consistent, reasoned voice of responsibility in the room.

Q: **As a fairly new association, our current board has provided numerous written materials on various topics for owners along with including issues in open board meetings, yet it is apparent that the majority of owners (usually the unhappy ones) have not read the materials at all. Even when new detailed written materials are provided on a topic, they still do not read and misinformation spreads. Any suggestions on how to overcome this or try a new approach?**

A: It's a common communication challenge. People just plain don't read as much as they did previously. Try video summaries, infographics, or hosting short Q&A sessions during social events. Repetition is key—don't just send a PDF once and assume it'll be read. Also, consider peer communication— building representatives or floor representatives to communicate association news on behalf of the board. Sometimes hearing it from a fellow homeowner has more impact than hearing it from the board.

Q: **We manage 5 separate communities. How do we sell that it is OK if the assessments of one are higher than that of the other communities (who are not properly reserving for ongoing deterioration)?**

A: Transparency is your ally. Show the math—illustrate how the association with higher assessments includes funding of ongoing deterioration and show the strength of their Reserve Fund. Reinforce the concept that there is no avoiding expenses… either homeowners will pay a little bit per month from budgeted assessments, or in periodic special assessments. Each board gets to choose.

Q: **Do you find patch and repair is a typical homeowner approach to caring for their building?**

A: Unfortunately, yes. It's the duct tape approach—temporarily cheap, but ultimately expensive. Local reactionary repairs are usually a symptom of underfunding (because the funds aren't there to get the entire project done "right"). Reserve studies help shift the mindset from reactive to proactive, showing how timely replacements actually save money in the long run. Fundamentally, it is less expensive to repair or replace things on a larger scale than a little bit here or there on an ongoing basis.

Q: **What leverage do you have when working with an HOA and they refuse to fund Reserves as recommended?**

A: You can lead a horse to water but you can't make it drink. Education and homeowner pressure (we want to maintain our home values!!!) are two common ways, another way is to have your attorney or insurance agent explain the liability exposure of the board should they pursue the goal of "low monthly assessments" instead of pursuing their responsibility to maintain the assets of the association.

Q: **Is this "insider" sell-out strategy by Board members illegal?**

A: We're not attorneys and we can't give legal advice, but selling right before a large special assessment is about to hit is a prime example of placing your own needs over that of the association (bailing out before you deliver the bad news to others). When a board member's decision (to delay news of an upcoming special assessment) benefits themselves at the expense of the association, it can be a breach of fiduciary duty. Homeowners can consult an HOA attorney to pursue action if they suspect wrongdoing.

Q: **A lot of people live paycheck to paycheck, and they don't even have money to replace their own things like their car or their air conditioner. How do we get someone to understand the importance of budgeting when they cannot do it for themselves?**

A: When individuals can't do it themselves, that's when they especially need the board to do it for them. Set the budget at a level that sustains the association. In doing so, you make it clear what the cost of ownership is at the association. You can't make a person's own financial choices for them. Let them decide if they can afford to stay a member of the association, or if they need to sell and move out.

Q: **How can board members best respond to those owners who claim they cannot afford an increase in dues to cover increased costs to better fund reserves?**

A: It's not your responsibility to make the association affordable to others, and it's not your responsibility to make personal financial decisions for your homeowners. Set the budget where it needs to be. Then the owner can decide if they choose to afford it, or if they choose to sell and move out.

Q: **Our community members agree that funding reserves is important. We disagree about whether we need to fund 100% of the recommendations or whether 70-80% might be responsible as we work toward full funding. Advice?**

A: Good for you to appreciate that funding Reserves is important. While the risk of special assessment being 75% Funded is almost no different than the risk of special assessment of being 95% or 100% Funded, the difference in Reserve Funding at that point is so trivial that you might as well shoot for the bull's eye (100% Funded) rather than only 70-75% Funded. We don't advise anyone to aim for the edge of the target. In all probability, if your goal is to be 100% Funded, there's a pretty fair chance that circumstances will conspire so you only end up being 70-80% Funded. So aim for the bull's eye.

Q: **Why was the standard for funding the reserves changed from 20 years to 30 years?**

A: The industry standard (national Reserve Study Standards) shifted to a requirement to display at least 30 years of income and expenses to help associations identify, and prepare for, more reasonably expected projects. Doing so reduces their exposure to budget instability and special assessments.

Q: **What do you say to a member who says they can do their own reserve study that won't cost as much as what it will cost a credentialed Reserve Study professional?**

A: That do-it-yourselfer homeowner doesn't have access to the actual project cost experience gained by a Reserve Study professional, or the experience of crafting funding plans per national Reserve Study Standards that balance the Four Funding Principles. But most importantly, would the board be convinced to change assessments based on a homeowner volunteer? And how would that individual demonstrate any independence from the results of their analysis… when they would materially benefit by the lowest funding recommendation possible? That's certainly not the board's objective… the board's objective is to meet their requirement to budget for the sustainability of the association.

Q: **Our 50-unit association is only 20 years old and we've underfunded reserves regularly to the point that we are facing a shortage of about $700,000. 32 of our original owners have sold over the years, so they got away without paying their fair share. But the rest of us are facing some serious "catch-up" needs. How should this be unfairness be explained to the current owners?**

A: Be honest, but empathetic. Frame it as a legacy problem you're now forced to fix. Show how past underfunding shifted the burden unfairly onto the shoulders of current homeowners – that's the truth of the matter. Explain how you're going to catch up as fairly as you can, and how from this point forward everyone will be paying their "fair share" so this won't happen again.

Q: **How do we communicate a NEWLY required element to the Reserves Specialist to add it to the Reserves? Ex: The change to recycled water for the irrigation of the common area was never envisaged but will be required in 5 years.**

A: Easy— have a discussion with your local credentialed Reserve provider. Likely they already know of this local requirement, and have already updated other Reserve Studies with this new project. They may do it as a revision, or if your Reserve Study was prepared for a prior year, it may remind you of the need to have an overall Reserve Study update.

Q: **Do unpaid special assessments require foreclosure action if unpaid?**

A: In most jurisdictions, yes. Special assessments are typically common area financial obligations just like anything else. Please discuss with your association's legal counsel on this matter.

Reserve Component Questions

Q: **How would you suggest handling estimated replacement costs vs. our actual replacement cost experience? We typically find the actual costs to be much higher than the costs appearing in our Reserve Study. This means our Percent Funded and recommended Funding is likely not as high as it should be.**

A: Discuss this with your local credentialed Reserve Study professional. Explain that your cost experience is different than their estimates. That may be "explain-able", or it might reveal the need to change Reserve Study providers. Please note that Reserve Studies are planning tools, and if that Reserve Study was prepared a few years ago, there's no way (with COVID, supply chain issues, and years of recent high inflation) you can expect such an old document to provide accurate current guidance. That's why Best Practice is a With-Site-Visit Update every third year, with inexpensive No-Site-Visit Updates in the in-between years.

Q: **Many assets have a range of costs for replacement. Example: asphalt - a less expensive overlay or replacement. Can reserve study analysts help decide which makes sense?**

A: Absolutely. Please discuss the implications of choices being offered to you with your local credentialed Reserve Study professional, who will likely have some insights and recommendations. They may also be able to help you with some cost and funding scenarios to assist in your decision-making process.

Reserve Funding Questions

Q: **What's the comparison of annual reserve assessments as a percentage of annual operating budget?**

A: A typical range is 15-40% of the total annual budget, depending on the property type and reserve needs. The range is because each association has different types and quantities of common area assets, and because some associations are in a stable funding mode and some are in a "catch-up" funding mode.

Q: **Due to many years of underfunding, inflation, and low-cost estimates, my HOA's funding needs have grown to a place where we can no longer fund even the baseline funding without an untenable increase in assessments. A former board member claims that we don't have to fund "windows and doors" that are estimated to be "needed" a few years from now, as they don't fail all at once and can be funded "as needed." Is theirs a legitimate argument or not? Suggestions?**

A: First, it's your property, and it's your responsibility to maintain it. You may not like it, but the board's job is to budget to care for the needs of the association. You can read that in your Governing Docs. You can't just decide to "not fund necessary Reserves" because you don't like it without inviting significant liability risk. Please discuss your Windows and Doors issue with your local credentialed Reserve Study professional. They likely have the experience to craft a solution that works for your association, such as phasing out the project over a number of years. Buckle up, it might be an expensive next few years for members of your association. But be confident that the resulting increase in home values will more than offset the Reserve Funding that you invest.

Q: **Should a project to be covered by reserve funds be included in the annual Operating budget?**

A: No. Generally you pay for Reserve projects with Reserve cash. You don't want to "double-budget", collecting funds for the same project from Operating and Reserves. Wherever you don't spend the money from will have a net over-collection against anticipated expenses.

Q: **Is it prudent to take funds from Reserve Funds to pay current expenses (i.e. Insurance) even if there is intent to pay back BUT with NO Interest Income payments? It would seem this is cheating the reserves (intended for Reserve projects) from earning interest income.**

A: It may, in effect, deprive the association of expected Reserve interest income, but it also may be the zero interest loan the association needs to make it through a cash-flow crisis. If you do borrow from Reserves, make sure there is a very clear repayment plan.

Q: **I'm a retired investment advisor and on our HOA finance committee. I'm being told that based on some state laws the reserve fund cannot be invested in anything risky, i.e. stocks. This seems overly restrictive for goals that are 20-30 years in the future. Is this true?**

A: Nationwide, it is inappropriate to invest Reserves in any investment vehicle that could suffer the loss of principal. Fiduciaries (boardmembers and managers) should never put the assets of their client at risk. That can lead to significant liability exposure. This guidance might feel limiting, but it reflects the need for safety and predictability.

Q: **How frequently do you see Special Assessments due to health and safety issues caused by deferred maintenance and not funding the reserves?**

A: Sadly, too often. Deterioration is ongoing – it never stops. So boards who choose to underfund Reserves just create a problem (a shortfall) for future owners. Most special assessments in the USA are for projects that were eminently predictable 10-20 years in advance. In other words, most special assessments are avoidable.

Q: **Is this statement accurate? "According to the National Reserve Study Standards, Reserves are intended to help ensure that each homeowner pays their fair share of the property's deterioration, in direct proportion to the amount of time they are owners."**

A: Yes, that is a fair statement. There is no such statement within the Standards, but it a nice summary statement that reflect the spirit of those national Reserve Study Standards (see here).

uPlanIt Questions

Q: **I enjoy U-Plan It, but I think it is only free for a while. Is this still true, or what is the current window if you're an existing and ongoing Association Reserves customer?**

A: Indeed, it is free to Association Reserves professional clients during their budget season (up through the end of their Fiscal Year), plus a bonus three months. After that, it is time to consider updating your Reserve Study, not continuing to tweak/adjust your prior Reserve Study figures.

Interest/Inflation Questions

Q: **Given the recent years of economic volatility, how do you choose or estimate an inflation rate in your reserve study? Or do you just reset it every six months or yearly?**

A: We base it on long-term economic trends, not short-term fluctuations. A Reserve Study is a 30-yr plan, so we need to use an inflation rate that has long-term stability. Typically that means setting an annual inflation value of 2.5–3%. In high inflation years, that is yet another motivation to update your Reserve Study annually.