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STRATEGIES FOR EDUCATING NEW BOARD MEMBERS ON RESERVE MANAGEMENT

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February 2025

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Becoming a new board member for a homeowners association (HOA) can feel overwhelming. Beyond navigating the complexities of community leadership, new members must quickly understand all the physical, financial, and political aspects of board leadership. Here we'll address reserve management—a cornerstone of maintaining a thriving, financially secure community.

Reserve management isn't just about numbers; it's about ensuring that the community's physical assets are protected and its future is safeguarded. New board members often bring valuable enthusiasm but may lack the technical knowledge needed to address reserve studies, funding strategies, or maintenance planning effectively. Annually educating new board members on reserve management is essential for the association's long-term success. This article outlines strategies to equip new board members with the tools, knowledge, and confidence they need to manage reserves responsibly.

Understanding the Framework: Governing Documents and State Laws

The first step in educating new board members is helping them understand the legal and operational framework under which the association operates. Governing documents, such as the bylaws, CC&Rs (Covenants, Conditions, and Restrictions), and rules and regulations, provide the foundation for board responsibilities. These documents often outline specific reserve requirements, such as minimum funding levels or the scope of assets to be included.

In addition to internal documents, board members must familiarize themselves with state laws. Many states require periodic reserve studies or specific disclosures regarding reserve funding levels. For example, California's Davis-Stirling Act mandates regular reserve studies for all but the smallest HOAs. Noncompliance with these laws can result in fines, lawsuits, or reputational

damage. Educating new board members on these requirements ensures they understand their fiduciary duty to act in the community's best interests.

The Unique Role of Board Members

One of the most significant challenges for new board members is transitioning from the mindset of a homeowner to that of a fiduciary leader. Unlike homeowners, who may prioritize personal preferences or short-term cost savings, board members must focus on the collective, long-term welfare of the community.

A key part of this shift is recognizing that deterioration is ongoing. Every roof, pool, road, or other common-area asset is aging and wearing down, even if it doesn't send a bill that month. New board members must understand that reserve funding is not an optional expense—it's a necessity to prevent the community from falling into physical and financial decay. Without consistent funding, the association risks slipping into "catch-up" mode, where emergency repairs and special assessments replace proactive planning.

Educating on the Basics of Reserve Management

To manage reserves effectively, new board members need a solid foundation in reserve management principles. This includes understanding:

1. **Reserve Studies**
   Reserve studies are the backbone of sound reserve management. These professional assessments identify the community's physical assets, project the timing of their repair and replacement needs, and forecast those future repair and replacement costs. Against that schedule of upcoming expenses, a Funding Plan is developed so those projects can be accomplished in a timely manner. New board members should learn how to read and interpret a reserve study, focusing on key metrics like the Percent Funded, recommended Reserve Transfers, and Funding Goals.

2. **Funding Strategies**
   Educating new members on funding strategies is crucial. A Fully Funded reserve (100% Funded) ensures that the community can meet future obligations without resorting to special assessments or loans. Board members should understand the differences between Funding Goals:

   - **Full Funding**: Setting aside Reserve transfers such that the Reserve balance is equivalent to the value of Reserve Component deterioration. This is a conservative but responsible goal that puts the association's physical and financial obligations in balance. Special assessments are rare among associations at or near the Fully Funded level.

   - **Threshold Funding**: Maintaining reserves at an arbitrarily selected minimum acceptable level, often 50% funded or higher. This balances sufficient Reserve

cash on hand with slightly lower Reserve funding requirements. Note that special assessments are infrequent among associations in the 30-70% Funded range.

- **Baseline Funding**: A riskier approach that funds just enough to avoid running out of cash, minimizing funding costs but inevitably exposing the association to future special assessments when large or unexpected expenses arise. Note that special assessments are common among associations in the 0-30% Funded range.

Boards must balance these strategies with the association's budgetary constraints, making informed decisions that prioritize financial stability. Speak to your local credentialed Reserve Study professional for counsel in this matter.

3. **Preventive Maintenance**
   Proactive maintenance plays a critical role in reserve management. Regular upkeep extends the life of assets, reduces long-term costs (and thus reserve funding), and prevents the need for premature replacements. For example, regularly cleaning and repairing a roof can extend its life by several years, stretching the number of years between costly replacements. New board members should learn how maintenance schedules impact reserve projections and why neglecting maintenance (saving a few dollars) can lead to financial strain from higher costs (significantly higher Reserve funding requirements).

Providing Tools and Resources

Equipping new board members with the right tools and resources can accelerate their learning curve. Consider providing:

- **Workshops and Training Sessions**: Offer training on reserve management where experienced board members or reserve specialists explain key concepts, or expose them to free industry education (webinars, podcasts, in-person seminars).
- **Written Guides**: Create a handbook outlining the basics of reserve studies, funding strategies, and legal responsibilities, or have a written resource such as "Understanding Reserves" on hand as a reference.
- **Software Tools**: Obtain access to reserve planning software that provides the opportunity to try one or more alternatives, to learn firsthand the future consequences of this year's budget decisions.
- **Mentorship**: Pair new members with experienced board members who can provide guidance and answer questions as they arise.

Communicating the Long-Term Impact

One of the most effective ways to educate new board members is by illustrating the long-term impact of reserve management decisions. Use real-world examples or the experience of your own association to show what happens when reserves are underfunded versus properly managed.

For instance, an underfunded association might need to impose a $5,000 special assessment on homeowners to replace a failing roof. In contrast, a well-funded association could handle the expense without additional fees because funding was spread out over the last 20 years (with everyone paying their fair share), preserving homeowner trust and community morale. These scenarios help new members see the tangible benefits of proactive reserve management.

Engaging with Professionals

New board members should understand that they don't have to manage reserves alone. Engaging with professionals, such as credentialed Reserve Specialists, accountants, and legal advisors, ensures that the board benefits from expert guidance. Professionals can provide insights into state law compliance, reserve study nuances, and funding strategies tailored to the community's needs.

Encourage new board members to actively participate in meetings with these professionals, asking questions and seeking clarification when needed. Over time, this interaction builds their confidence and expertise, preparing them to mentor future board members.

Fostering a Culture of Education

Reserve management education shouldn't be a one-time effort. Boards should foster a culture of ongoing learning, where all members—new and experienced—stay informed about best practices, legal changes, and evolving community needs. Regularly revisiting reserve studies, attending industry seminars, and engaging with community management organizations can keep the board up-to-date and effective.

Conclusion: Building Confidence and Competence

Educating new board members on reserve management is essential for the financial health and stability of an HOA. By providing a strong foundation in governing documents, state laws, and reserve planning principles, boards can ensure that all members are equipped to make informed, proactive decisions.

New board members may initially feel uncertain, but with the right knowledge and sufficient time to absorb training, they can quickly become confident leaders who understand the importance of planning for the future of their association. By prioritizing reserve management education, boards can build not only financial security but also homeowner trust, ensuring a thriving community prepared to tackle challenges.