RESERVES - ADVANCED CONCEPTS FOR MANAGERS AND BOARDS

by Robert M. Nordlund, PE, RS www.ReserveStudy.com Jun 11, 2025

Miss the webinar? Watch it here.

Key additional resources:

National Reserve Study Standards

National Reserve Study Standards – Explained and Examples

In this webinar we address some of the more "advanced" questions asked by clients and attendees of other webinars. Go beyond the basics (Reserve funding offsets ongoing deterioration), and learn how to put more "checks in the good column" and avoid common mistakes by learning:

- Strategies and keywords for communicating the value of Reserve funds, and a Reserve Study, to boards and homeowners
- Does delaying a project save Reserves? Is delaying wise?
- Dealing with Rejection (why spend $ on a Reserve Study if we're just going to ignore it?)
- Avoiding problems of your own creation (misstatements, forgetting, overspending, being casual about your investments…)
- Winning the "game" – knowing the objective, and the rules!
- How are "Adequate Reserves" defined, and do you have "Adequate Reserves"?
- Is ongoing maintenance money well spent?
- How to (safely) minimize Reserve funding (Hint: maximize interest, and spend wisely)
- Reserve Funding "Best Practices"
- Including projects 30 or more years away?
- What is "Best Practice" for updating your Reserve Study?

- Do strong Reserves influence property values? (Hint: yes!)
- Do associations with a strong Reserve fund have higher or lower Reserve transfers than weakly funded associations? (Hint: no!)

Get a sneak read of Chapter 1 of our book "Understanding Reserves" here.

See more about our novel online Reserve calculator uPlanIt here.

Join and enjoy our weekly 30-minute podcast for board members "HOA Insights: Common Sense for Common Areas" (get encouraged and equipped!) here, or subscribe from all your major podcast platforms.

Looking for more related resources? See additional recorded webinars on our "webinars" page here.

Remember—you're never on your own. Association Reserves is here to guide your association toward an improved future with carefully prepared Reserve Studies and wise counsel throughout the year!

Please find the Questions and Answers portion of the program beginning on the next page.

Webinar Questions Asked By Attendees

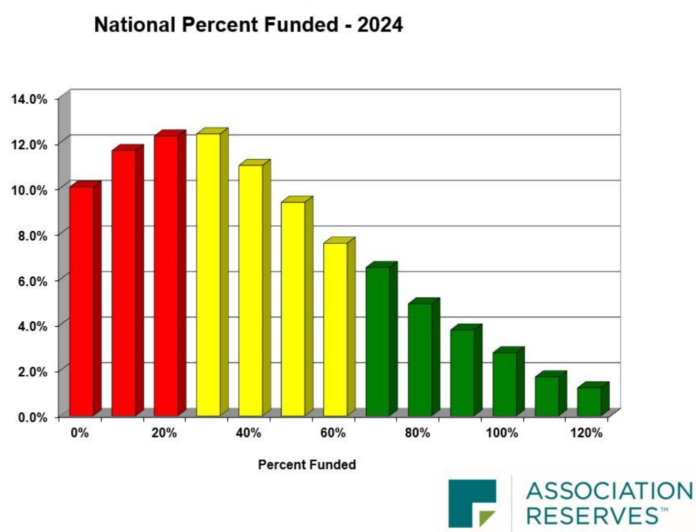
General Reserve Questions

Q: **In FL, is it true that ALL reserve cash as of 1/1/25 had to be put into the SIRS reserve account, meaning the Reserve balance for the "non-mandatory" fund will be starting at zero?**

A: That's not correct. Please discuss with your credentialed FL Reserve Study provider.

Q: **I'd be interested in knowing the average percent funded over ALL your associations.**

A: Please see below, for a national average.



Q: **Can you pay for preventive maintenance with reserves?**

A: Yes, depending on the size of the expense. Minor projects (replacing a pool pump, calling the repairman for the entryway gate system) are typically Operating Account projects because they are below the level of significance set for Reserve projects (typically 0.5% - 1% of an association's annual budget). Same with projects done multiple times per year (carpet cleaning, asphalt sweeping, gutter cleaning, local paint touchup, etc.) or by "handman" staff. But many other preventive maintenance projects qualify for Reserve designation because they are common area responsibilities, on a reasonably anticipated schedule, and significant to the association. Think boiler maintenance, deck sealant, etc. Best to discuss with your credentialed Reserve Study provider.

Q: **What is preventive maintenance verses repair?**

A: Preventive maintenance extends the life of a component (like sealing asphalt). Repairs restore function after failure or degradation. Reserves are generally for major repair and replacement projects, not minor upkeep projects.

Q: **When an association makes investment from reserve funds, often they get unexpected taxes and estimated taxes. Can taxes be paid out of reserve funds? It is not listed as reserve components in the reserve study.**

A: Yes, taxes due to investment income from reserves can be paid out of the reserve account. It is typically handled by setting the interest rate as "net after taxes" in the Reserve plan.

Q: **What is a financially responsible % of reserve funding?**

A: While 100% Funded is the "bull's eye", striving to be at least 70% funded is a prudent benchmark. At this level, the risk of special assessments is low, and the association is positioned to be able to perform its Reserve projects in a timely manner.

: **Your "Understanding Reserves" book is extremely helpful. Do you have cliff notes for members who are not able to read it?**

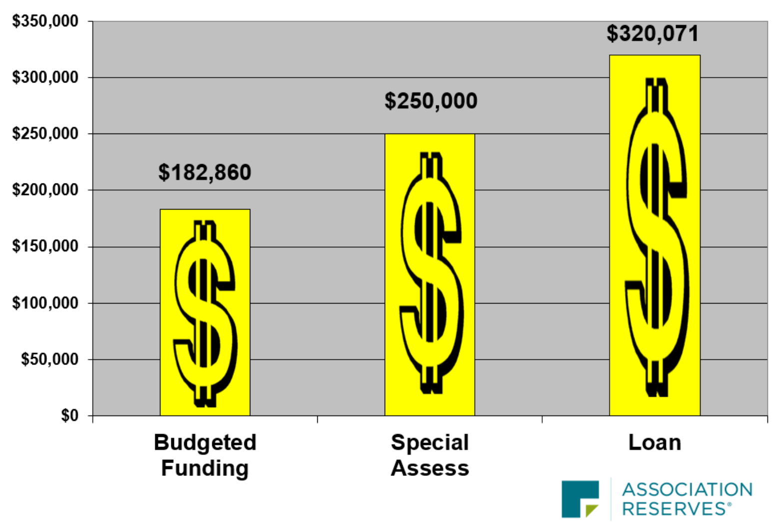
A: While we don't offer a literal summary, we do provide videos, webinars, and blogs that distill the core principles. Check out our website for and YouTube channel for digestible content.

Q: **I am interested in learning more about why a site visit is warranted every 3 years - if the Reserve Study doesn't account for current state of each item (aka they are not inspecting it) what information is gleaned from recurring visits? I feel as though a No-Site-Visit update is sufficient if no major maintenance or replacements have been accomplished.**

A: Your understanding of what a site visit entails is inaccurate. During a site visit, the condition of every component is observed and re-assessed. That re-evaluation, at least every third year, provides a benchmark of how the component, with or without preventive maintenance, due to weather, usage, and the quality of its original materials, is gradually progressing from "new" to "needs to be replaced".

Q: **What is the best way to convince the board that special assessments are more costly and end up charging new owners who did not benefit from the amenities?**

A: See the chart below, showing the owner-cost of roof project funded via budgeted transfers, a special assessment, or a 7%, 7-yr loan (very reasonable terms). Interest is earned on funds deposited in the bank over the life of the roof, lowering the cost the homeowners need to pay for the $250k roof. A special assessment gathers the $250k for the roof project (no interest factors). A loan is the most expensive way to pay for a Reserve project, because the owners (through their loan payments by the association) end up paying significant interest to the bank. And as you mention, through budgeted transfers, everyone living in the association pays their share of daily/weekly/monthly deterioration. For a special assessment, only the (unfortunate) owners at the time of the expense pay the entire cost. And for a loan, future owners pay for past Reserve projects… paying for things that no longer exist at the association because they've been repaired or replaced.



Q: How, if at all, can a reserve study account for associations that prefer to do some of the work themselves? (Landscaping, painting, etc.)

A: That can be a dangerous precedent… as owners and board members are volunteers, and association projects regularly require a level of skill provided only by professionals. But suppose you have Huckleberry Finn fence painting party, to save some money. Good for you. But you're not assured you'll have a similar set of eager volunteers in five years, so it's probably best to budget for a professional project this time and in the future; simply count it a small "win" for saving some money this year. You should never budget optimistically, relying on the hope that you can regularly get one or more projects done at a "bargain" (based on volunteer) rate.

Q: **We live in a 20-year-old age-restricted community. The owners have consistently voted not to increase reserve funding. Now 32 of those original owners (of our 50-unit association) have left… without paying their fair share and we now have a significant Reserve underfunding situation. How can a board communicate that "owners always get stuck with the bill" when 32 of them actually didn't?**

A: You can't change the past. But you can create an improved future. Begin by setting Reserves sufficient to offset ongoing deterioration, ensuring that all owners contribute their fair share.. That will likely require an increase to assessments to accommodate increased Reserve funding. But it is a reality. So set a budget where everyone pays a little bit over time as things get "used up" or expect to get hit with a special assessment like you will probably need at this time. There is no dodging the costs.

Q: **We have a very small HOA (8 units). What suggestions do you have for making an initial reserve study affordable? Proposals I've gotten in the past have been very expensive and I couldn't get board members to agree to it.**

A: Look for a qualified Reserve Study provider in your area, minimizing their travel costs. See if you can have the site inspection performed with another property "in your area". Be flexible on your timing… start early enough in the year that you can accommodate the provider "fitting in" the site inspection when they have a slow week. Get it done, as the sustainability of your association depends on it. Remember that future updates are significantly lower cost than the initial "Full" Reserve Study. Note that we serve two-unit client associations. They're the cutest!

Reserve Component Questions

Q: **What really qualifies as a Reserve Component? Note that they're sometimes called "Capital Improvement" projects in our area. What differentiates such a Reserve project from "routine maintenance" performed from the Operating Budget?**

A: A Reserve Component passes the National Reserve Study Standards three-part test: meaning it needs to be a common area maintenance responsibility, have a reasonably predictable life limit, and a cost significant to the association (typically in the range of .5% - 1% of the association's annual budget). Per the same national Reserve Study Standards, a Capital Improvement is defined as "Additions to the association's common area that previously did not exist. While these components should be added to the reserve study for future replacement, the cost of construction or installation cannot be taken from the reserve fund." So the IRS' definition of "capital" or "non-capital" projects is irrelevant to Reserve planning. Ongoing regular maintenance or "handyman repair" projects typically fall below the budget threshold for Reserve component designation, and are therefore handled through the Operating Budget.

Q: **Have you encountered a client association that removed the replacement of exterior wood siding from the reserve study and instead included only maintenance intervals? It was a $2 Million value. The board seems to think that it's not necessary to replace, but to just upkeep.**

A: That does not sound advisable. If replacement is "reasonably expected", which is typical for wood exterior assets, national Reserve Study Standards dictate that it should be funded through Reserves. Removing it "for cost savings purposes" just means that owners will pay for it at a later time with a big special assessment. There's no dodging the cost. That's the value of having an independent qualified professional prepare your Reserve Study. They uphold national standards and don't gamble with the future of your association. They focus on the association's needs, not minimizing its Reserve funding.

Q: **Do you recommend adding a line item in the reserves for deferred maintenance?**

A: No. We recommend doing a project on time, which eliminates budgeting for future instances of deferred maintenance. If you have it now, your Reserve projects will be singularly expensive this time around. But don't plan to be foolish with your money in the future.

Q: **Many of my sub-associations are being surprised as a recladding component is being added to their reserve study which greatly reduces their Reserves % Funded. How often is recladding necessary and what are the general rules a reserve specialist follows when added recladding to the reserve study?**

A: Recladding frequency varies by material and climate, and is typically in the 20 to 40 yr Useful Life expectancy range. Reserve specialists assess its expected Useful Life and current Replacement Cost based on age, material, maintenance, exposure to the elements, accessibility, and economies of scale.

Q: **Can reserves include standing maintenance funding such as storm drains, sidewalks, and other similar items?**

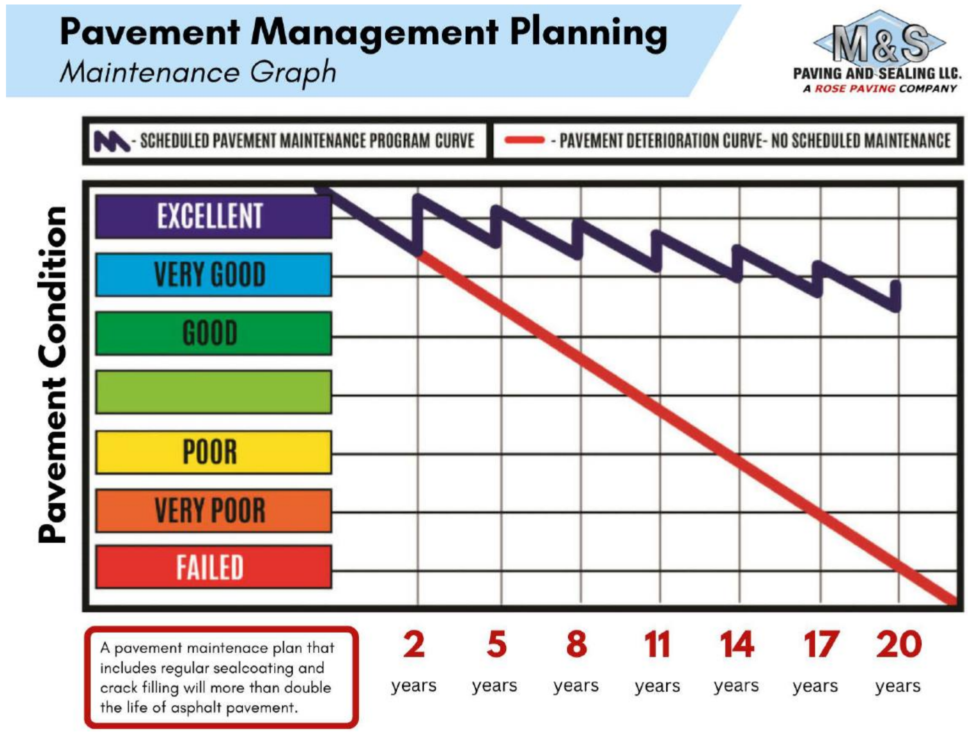
A: Yes—if they meet the National Reserve Study Standards: common area ownership, reasonably predictable life limit, and cost above a set level of "significance" to the association. It is common to have "sidewalk repairs" or "drain cleaning" on regular intervals appear in the Reserve Study.

Q: What is the suggestion when the Board does not agree with the reserve study? i.e. the estimate for redoing the streets, where do you get your numbers from? Also—Is the HOA board responsible to fund a project at the exact amount that the reserve fund shows as the value for replacement or repair? i.e. carpeting was put as $10K to replace but the actual estimates are way over that amount. Some board members insist that we cannot exceed the reserve amount under any circumstances.

A: The reserve study is a planning tool, not a mandate. Boards can deviate, but do so at their own risk. Regular updates help the provider periodically update their expectations on life expectancy and cost. We get our cost data primarily from other clients who have performed similar projects, resulting in a robust dataset of "actual" cost data. If you are concerned about some of your life or cost estimates, please discuss with your professional Reserve Study provider. Your goal is to be prepared for upcoming projects, not "do exactly what the Reserve Study says". Hopefully those two goals are aligned.

Q: Some of our owners don't think we should do asphalt seal coating, claiming it is only for aesthetics. What can we use to argue the point?

A: Sealcoating protects asphalt from UV and water damage, extending its life. Sealcoating is effective preventive maintenance; it will not repair damage that has already occurred. It extends the life expectancy of intact asphalt. Confirm with your local asphalt company. See a typical asphalt life expectancy chart below, with and without sealcoating. By the way - don't make your budget decisions based on owner opinions.



Q: **Should components be re-measured when a new reserve study is done, even if quantified in an older reserve study from a prior company? i.e.: perimeter walls or fencing.**

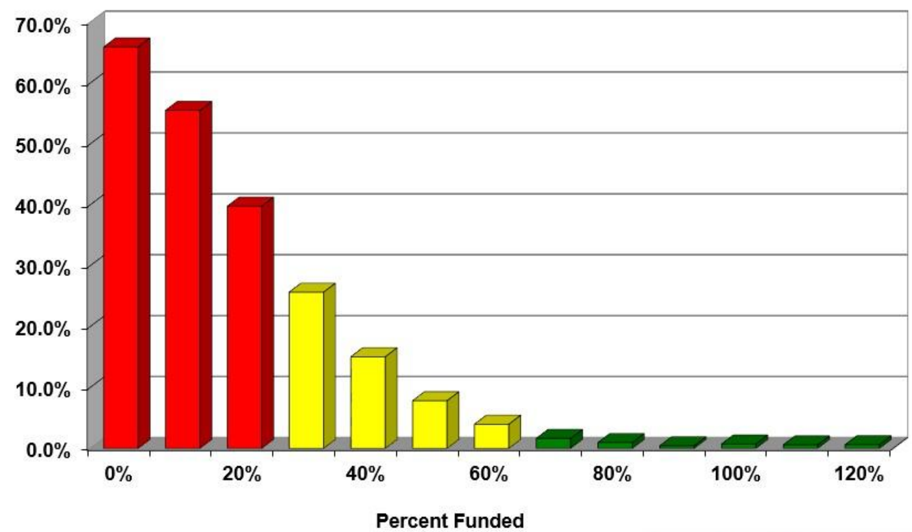
A: Measurement is a timely process. If measured well once (in a "Full" Reserve Study), and if the association has not changed in size, there is no need to re-measure previously quantified components.. Note that measurements are typically spot-checked in a With-Site-Visit Update engagement, either by the existing Reserve Study provider or the new Reserve Study provider, as a "quality check" measure to ensure accuracy.

Reserve Funding Questions

Q: **Many reserve companies consider 70% Funded as the lower limit of the range where the likelihood of a special assessment is "low". At what level should an HOA target?**

A: Aim for the bull's eye – 100%. Any "close misses" (70-130%) will result in the same low exposure to special assessments. See the chart below. Fully Funded (100% Funded) is ideal, but anything above 70% is the "strong" (low risk) range.

National Special Assmt Risk - 2024



Q: **The association I manage has told me to halt repairs on aging roofs and buildings and roll back the new $621 monthly fees here in 2025 to lower 2024 values. According to our Reserve Study, we are in the red zone (0-30% Funded). I think this is a foolhardy move. How do I convince them that funding reserves is the best idea?**

A: Document your recommendation against such a move and perhaps invite the association's attorney to join you in this objection (because it will increase their liability exposure, escalate future costs, cause home values to lag the market, and increase their chance of an upcoming special assessment). There's no dodging the costs. Underfunding now will result in equal or higher future costs, potential legal exposure, and dissatisfied buyers.

Q: **Do you recommend leaving any components "unfunded," such as block walls or concrete/sidewalks?**

A: Only if they don't meet Reserve funding criteria—e.g., their cost is too low, their Useful Life is still not reasonably predictable, funded via the Operating Budget (pool furniture…). But "unfunded" should never be a default status.

Q: **If the BOD decides to use Reserve Funds for Operating Expenses (i.e. Insurance Premiums or a special project), should the Reserves be paid back with Interest?**

A: Every dollar in the Reserve Fund "has a job". If you spend Reserves for something else (an Operating expense), that job still needs to be done, and you've degraded your readiness for future Reserve projects. If Reserve cash flow allows, a no-interest loan, with a specified payback period, should be acceptable. Check with your Reserve Study professional and attorney for details. I can't think of a reason to charge interest when loaning between internal funds. (i.e. charge yourself)

Q: Do condo-hotel type establishments need to do the full funding of reserves?

A: Check with your legal counsel on funding requirements. Nuances exist—check your governing documents and applicable state laws.

Q: Is the "10% to Reserves" for federal loan qualification actually written down anywhere that you can point to? Everything I read just says that reserves should be "adequately funded."

A: Fannie Mae, Freddie Mac, and FHA guidelines require at least 10% of total budget go to reserves. See here (it's the fifth requirement in the "Full Review Eligibility Requirements" section). Remember that adequacy is key… being prepared to perform upcoming projects in a timely manner. And that usually requires Reserve transfers in the range of 15% - 40% of total budget.

Legality & Compliance Questions

Q: I understand that a Reserve Study is sent to the state. What if there is an error that says the association is responsible for the owner catwalk door but in our By-Laws, it says they are the responsibility of the owners? Is that an issue?

A: Two things: Reserve Studies should be accurate, based on appropriate common area projects. Second, reporting and documentation requirements vary due to differing state and Governing Document requirements. Work with your Reserve Study professional to ensure accuracy, and consult your attorney to make sure all legal compliance is handled properly.

Investment & Banking Questions

Q: You mentioned FDIC—what are your thoughts on SIPC coverage as it relates to money market accounts held within brokerage or banking accounts?

A: Sorry, but that is beyond my area of expertise. SIPC appears to protect against brokerage failure, not investment losses. Check with your professional investment counselor for guidance on this matter.

Q: Thoughts on investing reserve funds earmarked for projects over 7-10 years out in mutual funds?

A: Don't do it. Reserves should only be invested where there is no possibility of loss of principal.