



NJ Reserve Study Legislation (S2760)

Q: Why do we need a reserve study?

A: It is required by NJ and to prevent tragedies like the Champlain Towers South collapse in Surfside, FL that claimed 98 lives.

Q: When did this go into effect?

A: S2760 went into effect in January 2024. Legislative updates and amendments (S3992) went into effect August 21st, 2025.

Q: Won't this increase the cost of our home ownership?

A: No. The expenses (costs) that the homeowners are responsible to bear are unchanged. The law just requires the association to fund these inevitable Reserve projects on an ongoing, budgeted basis, rather than wait and suffer expensive and potentially dangerous deterioration while last minute funding via special assessments or loans are pursued. In either case, the projects must be paid for.

Q: Who does this apply to?

A: All NJ community associations, unless the association's combined common area assets are less than \$25,000 in value.

Q: What qualifies as a Reserve Study?

A: A Reserve Study prepared by a qualified individual Reserve Specialist, or an engineer or architect licensed by the State of NJ, in compliance with National Reserve Study Standards.

Q: When must our Reserve Study be updated?

A: At least every five years. A reserve study cannot be older than 5 years. If yours is older than 5 years or you don't have one, it must be updated or you need to get one completed.

Q: How often must a Reserve Study based on a site inspection be performed/updated?

A: At least every 5th year. Note that industry Best Practices (per the national trade association "Community Associations Institute", and Fannie Mae and Freddie Mac requirements) is every third year.

Q: What about if we're a brand-new association (for new associations formed after 1/8/24)?

A: Within two years of the newly elected board.

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Q: Must we fund the Reserves?

A: Yes, per the plan, so that the 30-yr funding plan provides sufficient cash to perform all the anticipated Reserve projects without reliance on future loans or special assessments.

Q: What if something fails early and we don't have enough cash?

A: Special assess or get a loan. This law does not prohibit special assessments or loans in true "surprise" situations.

Q: Must we be "fully funded" (100% Funded) by any point in time?

A: No. "Fully Funded" is a measure of Reserve Fund size, where the cash in Reserves equals the cash value of deterioration at the association. The law does not require associations to build their Reserve Funds to any such specific level. The law only requires associations to have a plan to fund Reserves on an ongoing basis such that for the next 30 years, Reserve cash will exist when necessary to accomplish all anticipated Reserve projects (also known as "Baseline Funding"). In other words, at a minimum, the plan must be to "not run out of Reserve cash at any time in the next 30 years". Note that "more than the minimum" is highly recommended to protect owners from special assessments, since the future rarely works out exactly according to plan.



NJ Reserve Study Legislation Amendment (\$3992)

Q: When was the NJ legislation (\$2760) amended?

A: August 21st, 2025

Q: What exactly is adequacy?

A: Adequacy is defined as having a reserve funding plan that never dips below \$0 during a 30-year projection.

Q: What is a baseline plan, and should it be included in our reserve study?

A: A baseline plan is also known as a 0% threshold plan. It simply means that a funding plan can dip all the way down to \$0 (but not below \$0) over the 30-year projection. This plan is the riskiest of all plans. A reserve provider is now required to provide this as an option to the Association.

Q: What is the 85% funding plan option?

A: This option was put in place to assist Associations in funding their reserves. Some Associations were unable to meet even the baseline funding plan option. An Association now has the right to fund 85% of their selected plan. For example, if the Reserve Study provided a baseline plan that required the Association to fund \$100,000 this year to stay adequate, the Association could choose to fund \$85,000 (85% of the reserve study funding plan).

Q: Who produces the 85% plan?

A: Technically, this is the responsibility of the Board of Directors or Management Company. The reserve study provider is now required to provide an Association with at least the baseline plan. If a Board elects to use the 85% option, they will calculate 85% of the reserve plan provided to them.

Q: We need help calculating the 85% plan.

A: We can assist you in calculating the 85% funding plan, determine when your balance is projected to go below \$0, and what the expected assessment or loan will be.

Q: We had our reserve study done last year but are struggling to fund according to the plan. Can we use the 85% plan for a past study?

A: Yes. So long as your study was completed after January 8th, 2024, you can choose to fund 85% of one of the plans provided to you.

Q: If it costs us less, why doesn't everyone choose the 85% option?

A: While it may cost you less in the short term, the actual cost to you will be the same (potentially more) in the long run. If a baseline plan brings your balance down to \$0, then funding less than what the baseline plan recommends will naturally bring your balance below \$0. As a result, the membership will have an assessment, need a loan (with financing fees and interest), or have significant increases in reserve transfers to make up the shortfall.



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Q: What do we have to do if we choose this 85% option?

A: Before adopting an annual budget to fund the reserve account in this amount, the association must provide a notice to all unit owners in 20-point bold font that informs them that the association's board has elected to fund the capital reserve fund at 85% of the amount recommended by the association's 30-year capital reserve study and funding plan. The notice must provide the year in which it will fall below \$0 and the expected amount of the special assessment or loan.

Q: How long can we use this 85% option?

A: 5 Years. After that, the association must use whatever funding plan the board has selected from the reserve study.

Q: Do we need to tell anyone else?

A: If an association decides to use this 85% funding plan option, all unit owners who are/ will be selling their units must provide a prospective buyer with a copy of the association's most recent notice regarding the 85% funding plan.

Q: Do we still need to use only that money assigned to a component for that component?

A: No, this language has been deleted. This is known as the component method, and it assigns an amount to each component to be used for that component. This component method is an inefficient use of reserve funds.

Q: Does the language from S2760 about the two and ten-year catch-up plans still apply?

A: No, this language has been deleted. Often, the catch-up plan was more difficult for an Association to follow than just updating their reserve study and getting a new funding plan.

Q: Can we still use 5%, 10%, or x% threshold plan?

A: Yes. A full funding plan is most conservative and recommended. A baseline plan (0%) is the riskiest plan. Any plan between the baseline and full funding (5%, 10%, etc...) can be provided upon request.