ASSOCIATION RESERVES™
Planning For The Inevitable™

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Understanding Reserve Funding

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What Guides all these Decisions:

Our decisions are guided by national Reserve Study Standards (see here), but the cost of Reserve projects and the reason associations need to plan for sufficient cash on hand to deal with those costly projects is because of deterioration caused by Mother Nature and Father Time. Blame them for the problem! Get comfortable with the reality that owning Real Estate is expensive. The best way to pay for it is a little bit each month over time, so everyone pays their fair share to combat ongoing deterioration over the months and years they own a home at the association.

The costs are what they are. The board's only choice is how to deal with those costs. And it boils down to ongoing funding, letting the property deteriorate (with property values going along in decline), or in periodic catch-up special assessments or loans.

Note that due to time limitations, we're not able to address the fundamental decision of which mathematical tool to use to develop a Reserve Funding Plan. So anyone interested in a discussion of the Cash Flow (pooled) methodology vs the Component (straight line) methodology can see our webinar here on developing the Reserve Funding Plan, where we are able to address this topic fully.

The Examples:

Using two Reserve Study clients as examples (a 200+ home community where the association maintains the roadway and the oceanfront clubhouse, and mountainside condo association under 50 units), we show the importance of:

- The "Deterioration Rate" – the ongoing cost each year at which Reserve projects are moving from "new" to "needs to be repaired or replaced". This is the Cost divided by the Useful Life for each component, summed for an association total.
- The choice of Funding Goal – the multi-yr target of any Funding Plan. Do you choose to just barely have enough cash (often coming up short when things don't occur exactly according to plan), or do you choose to pursue having enough cash on hand

to offset the value of deterioration at the association (a goal with a little bit of "margin")?
- The Starting Balance – how well funded associations can "coast", while poorly funded associations need to "step on the gas" while they are in catch up mode.
- The timing of upcoming major projects. Do you have a few years to prepare, or do you have an immediate problem on your hands?
- The (wonderful) influence of Reserve Interest earnings. Simply stated, the more you can safely earn from your safe and prudent investments, the less your owners need to pay.

Conclusion:

Owning Real Estate is expensive. Expect Reserve Funding to be in the range of 15% - 40% of your total assessment income. See Reserve Funding like the sand falling through an hourglass… the steady progress of deterioration <u>that needs a counteracting force</u>.

- 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 those funds.
- Spend that money - perform your Reserve projects in a timely manner.

Further Resources: "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®

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FAQs

Disclaimer: We're grateful for all the questions shared during our live webinar sessions. Due to the high volume of inquiries, similar or duplicated questions may already be addressed in the FAQ section below. If your question requires a more detailed explanation or if you're seeking further information on the topic, we encourage you to contact your local reserve study provider — you can find their contact information [here].

Q: What is the difference between an Operating expense and a Reserve expense?

A: Most attendees seek clarity on this. The key rule: a Reserve expense must be a common-area responsibility, with a reasonably predictable life expectancy, and a cost that is "material" (significant) to the association, meaning commonly above 0.5% to 1% of the annual budget.

Q: What is the 3-part test for including something in the Reserve Study?

A: See above. Per national Reserve Study Standards, it must:

- Be a common-area maintenance responsibility
- Have a reasonably predictable life expectancy
- Have a cost that is "material" (significant) to the association, meaning commonly above .5% to 1% of the annual budget.

Q: How often should we update our Reserve Study?

A: National "Best Practice" is a With-Site-Visit update at least every third year, with No-Site-Visit updates annually in between. That's because all Reserve Study information (Reserve balance, conditions, costs, interest, and inflation) begins to drift from "the plan" within a year's time.

Q: Is 70% funded "good enough"?

A: Yes. Your target should be the 100% Funded level (Fully Funded), where the cash in Reserves is equal to the dollar value of deterioration at your property. But studies show that there is essentially no further reduction in special assessment risk once an association is above 70% Funded.

Q: What if our Reserve Study doesn't include a component we know we need?

A: Reach out to your local credentialed Reserve Study provider. It may be added if it passes the 3-part test. Timely updates ensure your plan is accurate through the years, helping you plan effectively for the care of your property.

Q: How do we convince reluctant board members or homeowners to fund Reserves?

A: In most cases, you don't need to "convince" the homeowners. It's their duty to pay the rate of homeowner assessments that the board sets. For board members, and in the associations where homeowners vote to 'approve' the budget, remind everyone that deterioration is real, maintenance and replacements are expensive, and it is the board's responsibility to budget for the sustainability of the association. Frankly speaking, remember that you have no control over the expenses. Mother Nature and Father Time ensure that everything is in a constant state of deterioration. Your only choice is if you pay the cost of that deterioration evenly, on an ongoing basis, or in periodic unsettling special assessments.

Q: Can we use Reserves for preventive maintenance?

A: Yes—if it significantly extends the life of the component and passes the cost threshold. Routine care still belongs in the Operating budget. Discuss further with your local credentialed Reserve Study professional.

Q: What happens if our Reserve Fund is over 100% funded?

A: Do not pause contributions. Your provider may recommend a slightly reduced rate of Reserve funding in order to gradually deplete that surplus over time.

Q: Can Reserve funds be borrowed or used for emergencies (like insurance premiums)?

A: Sometimes. Check with your legal counsel to see if it is prohibited by your Governing Documents or State law. If borrowing is allowed, ensure all borrowed Reserves are restored in a timely manner. Some states (e.g., CA & WA) require any borrowed Reserves to be repaid within a specified (relatively short) period of time. It is inappropriate to expend Reserves for Operating expenses (like insurance premiums). Operating Fund shortfalls are an indication that your assessments need to be raised.

Q: Why are actual project costs sometimes higher than what's in the Reserve Study?

A: Often the culprit is an old Reserve Study (not for the current year). Reserve Study costs are estimates prepared to the best ability of the provider. If you find some costs in your Reserve Study were understated, challenge your Reserve Study provider with that news and request a revision or commission an update.

Q: What is Percent Funded and how is it calculated?

A: Percent Funded is a relative measure of Reserve Fund strength:

(Actual Reserve balance / Fully Funded Balance) × 100

Note that the Fully Funded Balance is the cash value of all the Reserve component deterioration at the association.

Q: Can we delay Reserve projects or substitute alternatives like patch repairs?

A: Yes—but with caution. It may lower costs short-term but often leads to higher future expenses or safety concerns. It is best to discuss with your local credentialed Reserve Study provider to discuss phasing, delays, or interim repairs.

Q: Do different vendors produce different Reserve Study results?

A: Yes, even under national standards. Differences may arise due to assumptions about maintenance, cost sources, professional judgment about the amount of deterioration, and the selection of a Funding Goal (Full Funding is a conservative goal, Baseline Funding is an aggressive/risky goal, and Threshold Funding can be any level in-between). Please discuss differences and strategies with your local credentialed Reserve Study provider.

Q: How should boards handle underfunded Reserves without alienating homeowners?

A: Transparency and clear communication are key. Explain that prior underfunding has created a “legacy burden” that needs to be confronted. Explain that the ongoing cost of deterioration has exceeded Reserve Funding, and the association needs to increase Reserve Funding to prepare for upcoming projects. Homeowners may have enjoyed lower assessments for years, but that assessment structure was unsustainable.

Q: Can a homeowner or board member prepare a Reserve Study themselves?

A: In most states, they can. But it’s never recommended. Lack of expertise and lack of independence are significant obstacles. Reserve Funding is commonly 15-40% of an association’s total budget. For a budget line item that large, an understated funding recommendation can result in deferred maintenance or special assessments that cause home values to drop <u>far in excess</u> of the cost of a Reserve Study. Boards should rely on credentialed professionals.

Webinar Questions Asked by 2025 Attendees

General Reserve Questions

Q: **How can we find a reserve study company that is trustworthy? How do we know they are someone who goes with the national standards?**

A: That's a great question. Just like with any professional service, you want to do more than just a quick Internet search. Look for firms where they have credentialed Reserve Study professionals carrying either the Reserve Specialist (RS) or Professional Reserve Analyst (PRA) credential. Then do the standard: ask for references, review sample reports, and confirm that their methodology aligns with the National Reserve Study Standards. That's how you separate the professionals from the pretenders.

Q: **For multi-year special assessments -- should this be avoided in properties with a high turnover of owners? Does this scare away lenders?**

A: Any special assessment can create challenges, making prospective buyers or their lenders cautious. You're right… multi-yr special assessments create some administrative challenges. In addition, some owners pre-pay their special assessments (just to get it off their backs), often earning a slight discount in the process. Some owners negotiate a payoff of the lingering special assessment as part of the sale transition. A multi-yr special assessment is a hurdle, yes, but not an obstacle. A well-funded reserve account, sufficient to perform major repairs and replacements in a timely manner, is always preferable because it smooths out the financial burden and avoids spooking owners or their lenders.

Q: **What is the ISBN of the book you publish on reserves?**

A: Our book, "Understanding Reserve" is ISBN-13 979-8315887409. It's written to be accessible, practical, and a go-to reference for boards and managers alike. You can find it for sale on Amazon here.

Q: **How do you deal with owners on fixed incomes?**

A: That's a sensitive but important issue. Owners on fixed incomes are best protected by stable, predictable assessment increases every year as costs increase. That way they can decide on their own timeframe when it is time to move to less expensive housing. That is much more considerate than forcing out an owner on a quick time schedule when they are faced with a huge special assessment. Remember that the board is responsible to provide a budget that meets the costs of the association. Only the owner can decide if the association is "affordable" enough to continue living at the association. Note that not everyone can afford to live in your association, and that's ok.

Q: **What is the best way to plan for paying the deductible in an insurance loss that most residents will approve in advance?**

A: Insurance deductibles typically do not qualify as a Reserve expense, failing test #2 that they be "reasonably anticipated". Because of that, some associations build up and keep a contingency ("emergency" fund) on the side for unexpected expenses. That way they have some cash on hand for an unexpected expense (insurance deductible) or a "true emergency" special assessment. Note that Reserves are for predictable expenses, special assessments are for unpredictable expenses.

Q: **Our association is 45 years old and has never conducted a reserve study. We have $600,000 set aside for our 82-unit condominium, but many components are nearing the end of their useful life. We are now preparing to complete our first reserve study. Is it too late to turn things around?**

A: No. It's never too late to start making wise choices. You are clearly "far behind", and it will likely take a few years to rebuild the physical and financial health of your association. Your $600,000 is a great start. A reserve study will show you what is ahead, helping you prioritize projects and navigate forward. You'll likely find your budgeted assessments will need to increase as you "catch up" for years of under-funding Reserves, but the increase in property values should more than make that investment worth your while.

Q: **Is the Board "required" by HOA law to fund per the reserve study?**

A: The short answer is "it depends", because State laws vary. Only a few States require the board follow the Funding Plan prepared by the independent and credentialed Reserve Study provider. What is always true, however, is that boards have a fiduciary duty to act in the best long-term interest of the community, setting aside funds to offset ongoing deterioration, sustaining the association. Your updated Reserve Study identifies the projects in your future. It's best you begin to get prepared.

Q: **Can you comment on any experience of reserve fund studies and implementation in Mexico (Beach location).**

A: We have numerous Reserve Study clients in Mexico. Like any oceanfront location, Useful Life cycles are shorter, increasing Reserve funding requirements. But any board concerned about their property's physical presentation and owner enjoyment (residential or vacation resort) commission Reserve Studies to learn what it costs to keep the property looking nice while spreading the cost fairly over the ownership base. Deterioration doesn't know about international boundaries, so boards everywhere need to put up a good fight against Mother Nature and Father Time.

Reserve Component Questions

Q: **We do not know when the roof was installed. How do you determine when it needs to be replaced in this case?**

A: There are always physical telltales of a roof's condition. Sometimes a county record search will reveal construction permits that tell us when a major project was accomplished. Also, we have satellite tools with dated imagery helping us see when the appearance of the roof changed, and there is often someone at the property (a long-term owner) with a good enough memory to "get us close". But the bottom line is that we make our best estimate, and continually refine that estimate every three years when the site-inspection-based Reserve Study update is performed. This ensures that the association is on-track for being financially prepared when the roof eventually becomes due for replacement.

Q: **I noticed this year that Association Reserves is letting Boards change the remaining years' life without documentation from qualified vendors. This didn't use to be the case. What changed?**

A: I believe you are mistaken. We are hired for our expert counsel, and that's what we provide. When corrections are offered to us ("Sorry, the roof was last replaced in 2013, not 2015"), we will trust that information and make a revision. If our opinion is challenged on a matter (as it often is), we ask for documentation such as contact information for your roofer, HVAC professional, etc. to investigate the validity of such a change. We want to get to the root of the difference of opinion on the matter. We want the Reserve Study to be "right". We will be over-ruled by your support professionals. But please note that with our free online Reserve calculator "uPlanIt", you can do whatever you want, testing any (wise or crazy) scenario. We don't judge! That tool is for you to utilize. But be reminded that the figures in uPlanIt do not affect the results in your published Reserve Study.

Q: **I'm seeking information on roof replacement costs and the expected rate of deterioration. Is this considered a major expense item?**

A: Absolutely. Roof replacement is one of the "big three" expenses we see in nearly every reserve study (alongside asphalt and painting). Roofs are expensive and their deterioration is very predictable, readily passing the National Reserve Study Standards three-part test. Get help from your local Reserve Study professional, as it is not your job to do such projections and take on such responsibility.

Reserve Funding Questions

Q: **For nonprofit communities serving low-income households (≤80% of the county's median income), what would be considered a reasonable reserve funding level and target? Additionally, what alternative approaches might be used to meet these funding needs? Suggestions are requested for strategies to secure the necessary reserve funding.**

A: Reserve Funding levels are primarily set by Mother Nature & Father Time (how fast they turn things from new into "needs replacement", and the repair or replacement costs of your assets. Reserve Funding levels are not set by government standards. Mother Nature and Father Time scoff at government limitations on Reserve funding. Owning Real Estate is expensive. Because boards don't have control over the $/yr of deterioration for a property that is already built (we can't make it "more" or "less" expensive), boards are forced into budgeting for that cost. Otherwise, the community will become run down and eventually need to be bulldozed and rebuilt. Now that's expensive! Maintaining Real Estate in a timely manner is significantly less expensive than fixing it after it's run-down or having to rebuild it when it is no longer habitable or economically viable. It's important for government standards to responsibly acknowledge, and provide for, the ongoing care of these structures.

Q: **If a HOA has been using a line-item method of reserve funding for 20 years, can they change to a pooling method by a simple Board vote?**

A: Unfortunately, this is not a simple question. In general, the Reserve Study professional's use of mathematical tools is up to them, and use of the Cash Flow (pooling) Method is hands-down the best tool to use for the job. But at least in FL, the choice of which mathematical tool is used and how one officially changes from one to another is controlled by State Law. So, in general, the answer should be that the board doesn't even need to be involved… simply let your professional use the tool best suited for your association. But in FL (and perhaps some other states, check with your legal counsel) there is an official process to follow regarding how to change from one tool to another. Your local credentialed Reserve Study provider should also be aware of the standards in your state.

Q: **We are a 20-year-old association (50 units) facing its first major project (roofs) next year and are $700,000 short. What is a better funding strategy: (a) a $14,000 per unit special assessment or (b) a 10-year $700K loan?**

A: Both are reasonable solutions. Both are influenced by political factors at the association. The special assessment will cost your owners less total cash, but while the loan will cost less in the short term it will cost your owners significantly more money over 10 years. Have a discussion with your Reserve Study provider to look at the numbers both ways and choose which (or a hybrid) is best for your association. Either way, begin building the strength of your Reserve Fund with higher Reserve funding to prevent this from happening again in the future!

Q: **Is it ideal to have a 2-year plan versus a 3-year plan?**

A: Per National Reserve Study Standards, a Reserve Study is required to show 30 years of income and expenses. This long-term planning minimizes the chance the association will be surprised. Also be reminded that National Reserve Study Standards "Best Practice" is to update your Reserve Study on the basis of a diligent site inspection at least every third year, with inexpensive "No-Site-Visit" updates in the in-between years (because your **Costs**, your **Cash** in Reserves, and the **Condition** of your components all change every year).

Q: **Why don't developers properly budget reserves into the initial assessment for association members?**

A: The stereotype exists because developers have short-term thinking. Their motive is to sell homes, not maintain them. Thus their Reserve funding is commonly marginal. Presenting the community as "cost-effective to live in" increases the ease of selling those new homes. Proper Reserve Funding, while higher than marginal (insufficient) funding, gives homeowners an accurate understanding of the cost of becoming a member in this fine new community, and minimizes the chance those homeowners will be upset with the developer in a year or two and trigger complaints that might turn into Construction Defect litigation. Deterioration is real and expensive. There's no fooling Mother Nature or Father Time.

Q: **What happens when budgets to sufficiently fund Reserves fail to be passed by our owners, and there is not enough in reserves either for the projects that need to be done or for a bank to approve our association for a loan.**

A: When reserves and overall cash flow are too low, banks see the association as a risky borrower and don't offer an option of a loan. If members also vote down special assessments or ongoing Reserve funding, the association may be trapped with no good options. In these cases, projects still need to be done — roofs still leak, elevators still break down — and the association will be forced into emergency measures, often at even higher costs. In some jurisdictions boards may have "emergency power" to pass special assessments for habitability or life-safety, or the association may be turned over to a court-appointed trustee with almost unlimited powers. If not, in some cases the property simply becomes uninhabitable, condemned, and sold. Owners need to understand funding reserves isn't optional — it's inevitable. The only choice is whether to pay steadily or painfully.

Q: **Our 2024 reserve fund was at 104% and in 2025 it dropped to 73%. What caused this, and might it happen again in the future?**

A: Please discuss with your Reserve Study professional. It may be that a significant component (or two or three) was added that finally presented itself as "reasonably predictable", there may have been a significant cost increase to some key components (due to labor or material cost changes), or an unanticipated drop in your Reserve Fund balance. We had one association that changed management companies, and for a year the new mgmt. company forgot to make Reserve transfers, resulting in a significantly lower balance than expected a year later! I'm sure there's an answer. Expect your Percent Funded to fluctuate from year to year, but usually not as much as yours did this last year.

uPlanIt Questions

Q: **What software are you showing? We have a reserve study in a written document and an excel spreadsheet.**

A: What you're seeing is uPlanIt, our online Reserve Calculator. See more here. Access is free for our professional Reserve Study clients through the remainder of their budget season. It is also available on a subscription basis for all other associations. uPlanIt gives boards and managers an easy-to-use tool to test scenarios, explore funding options, and see the future impact of today's decisions, all in national Reserve Study Standard formats and with standard calculations. Think of it as turning your reserve study into a living, breathing financial roadmap.

Q: **Do you recommend the HOA manager only to have access to uPlanIt, or do you recommend the directors be included with access as well?**

A: By default, our Primary Contact (often the manager) has uPlanIt access. But we regularly recommend that a treasurer or budget representative also be given access, so they can get comfortable "owning" their own Reserve Study data. It is best that not too many people have access, as one person may unintentionally end up making changes to another person's scenarios.

Q: **Are the numbers from my reserve study pre-loaded in my uPlanIt?**

A: Yes. If your reserve study was prepared by Association Reserves, the data is automatically pre-loaded. That means when you first open uPlanIt, it is a "live" version of your printed (pdf) report. For all other associations (subscription clients), you can easily upload your component list using our import feature.

Q: **Who is allowed access to the uPlanIt? (I am a board member).**

A: Access is flexible. The Primary Contact on the account can provide access to whomever they choose. Typically, the manager and a boardmember or committee member or two are granted uPlanIt access, but it's up to the association to decide. It is best to keep access limited to key decision-makers, but some associations broaden their user pool for more collaboration. The important thing is that the right people — those guiding the community's finances — are empowered to use the tool.

Q: **Can you save multiple versions under uPlanIt? Would be useful for scenario analysis.**

A: No. It is one tool, and it is always "live". If you wish to "save" a scenario, you should print that out to be able to show it to other decision-makers, compare it to other scenarios, and be able to re-create it as necessary. Additionally, a user has the ability to save a spreadsheet file of their components, if a user would like a record of their changes.

Q: **Number of homes or condos seems to be different from number of units used for study calculations. Is this correct?**

A: Yes, that can happen. The reserve study calculates based on legal ownership units. In some condo associations, an owner may purchase two adjacent units and knock down a wall to create one larger home. Reserve Studies are designed to support the budget process, which follow the assignment of Percentage Ownership (and # of units) found in the Governing Documents.

Interest/Inflation/Tax Questions

Q: **Can you address the tax implications of earning interest on your reserves?**

A: Yes. Associations are typically treated as nonprofit corporations, but that doesn't mean they are tax-exempt. Interest earned on reserve funds is considered taxable income. Most associations file IRS Form 1120-H, which offers favorable treatment but still requires paying tax on interest earned. So, when you earn interest, a portion of that needs to be paid in tax. The net <u>after-tax</u> interest earnings are typically retained in the Reserve fund, helping to grow the Reserve Fund and compounding for future years. Paying a bit of tax is a small penalty for the interest earnings you receive from the outside financial institution.

FL Specific Questions

Q: **Is partial funding to cover reserves an option in Florida or do we need to budget to have Full Funding in place by the time a project is anticipated to hit?**

A: Florida is unique in its legislative requirements. Full Funding (a particular measured amount of Reserves on-deposit) is not required in FL. The ability of homeowners to **waive** Reserve Funding has been eliminated for structurally significant projects, and the ability of homeowners to **waive** Reserve Funding for all other projects has become more difficult. So, do you need to budget to have funding in place by the time the project occurs? That is best. If you don't, you'll face deferred maintenance, higher costs, lower property values, special assessments, loans (if your deteriorated association can still qualify for a loan), safety concerns, or a combination of the above. Fund Reserves because your association needs the cash for an upcoming repair or replacement project, not because the law says you should. Besides, it’s good for your property values!