

Address Common Challenges in Reserve Studies: Q&A Session with the Experts

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Introduction:

Owning Real Estate is expensive. All the common areas are deteriorating every day, in a slow, steady, predictable manner. That's where Reserve Studies come in... providing the board with a guide for how much they need to set aside in Reserves on an ongoing basis to offset that cost of deterioration, and thus preparing the association for upcoming projects.

What you're going to find in a Reserve Study is the Component List and Evaluation of the Reserve Fund (measured in terms of Percent Funded, revealing how well that cash balance "suits" the needs of the association), and a Multi-Year Funding Plan. But put it all together, and it can appear complicated or confusing. So after a brief introduction, we presented a webinar that was (almost) all Q&A, in order to give you a forum to ask questions, get answers, and learn from the questions asked by others.

The result was an interesting and entertaining time, answering a wide range of questions from easy to hard, general to specific, and some that really made us think. I hope you enjoy the presentation!

Helpful Links:

National Reserve Study Standards [here](#).

An Amplification and Explanation of those Standards can be found [here](#).

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

Want an experienced professional to prepare your next Reserve Study update? We'll ensure 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 to prepare (update) your next Reserve Study?
Click [here](#) to see our network of offices across the country (serving clients in all 50 states!).



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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) 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:

$$(\text{Actual Reserve balance} / \text{Fully Funded Balance}) \times 100$$

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 far in excess of the cost of a Reserve Study. Boards should rely on credentialed professionals.

Webinar Questions Asked by 2025 Attendees

GENERAL RESERVE QUESTIONS

Q: Do Managers have a fiduciary responsibility? Meaning, are they required to act in the best interest of the homeowners? At times, it feels like they are not as invested as homeowners, who are the ones who choose to live in the HOA and make monthly payments?

A: Please check with your legal counsel for their instructions on this question. Our understanding, as Reserve Study professionals, is that managers have a fiduciary duty to the association (their responsibility is to the association, not their own self-interests). However the nature of that duty differs from that of the board. The board, as the elected representative body, carries the ultimate fiduciary responsibility to act in the best interest of the homeowners (which includes choosing to hire management professionals to assist them with their responsibilities). A professional manager acts as the board's agent and is to execute decisions with honesty, transparency, and reasonable care. However, managers don't set policy—they implement it. If you sense a lack of alignment, it's often a sign of unclear expectations or communication gaps, not necessarily a breach of duty. Start by reviewing your management contract—it should spell out duties clearly. Then ensure open communication so everyone rows in the same direction: protecting the property and the owners' investment.

Q: We're a new board, playing catch up because dues remained flat for 8 years, until 2025. How do we prioritize work when there are several large, costly projects, all of them deferred well past their "remaining useful life"?

A: Sorry to hear of your situation. We recommend looking at these projects in the following priority order:

1. Projects that correct any safety concerns.
2. Projects that will create a ~~large~~ significant inconvenience for owners/residents (elevator, entry gate, hot water system, etc.) if they are not functioning well. This may include proactive planning for projects that may require significant downtime (such as elevators).
3. Projects that will cost substantially more if/when deferred.

After the above three priority groups are finished, you'll typically move into decisions about more aesthetic items (such as interior remodeling or amenity projects). That certainly becomes more subjective to each association's board and membership. However, this recommendation is broad in nature and each property's needs are different, so we'd recommend that you discuss with your credentialed Reserve Study professional.

Q: Do you recommend we involve homeowners to determine project priority, to increase community support? Additionally, how do we tie in the benefit of this work, in a way that helps homeowners understand and accept shorter term financial pain in exchange for longer term value?

A: Building community is important, but remember that it's the board's job to set budget and maintain the association. Homeowner input (or committee input) should be fine for aesthetic projects like paint colors or clubhouse upgrades, but not for structural or safety needs. "Too many cooks in the kitchen" can slow you down.

Q: Our irrigation system has a major break and its renovation is listed in our Reserve Study. If the cost of this repair exceeds 1% of our budget, can we fund the repair with Reserve cash?

A: Check with your Reserve Study professional. Generally, if a major repair extends the Remaining Useful Life of the asset, those funds can be drawn from Reserves.

Q: Our association has extensive common area lands—largely natural and unmanaged—that face elevated wildfire risk. We also have ponds and waterways that influence sedimentation, flood conveyance, and water quality downstream. Since these natural resources don't neatly align with HOA boundaries and have implications for the broader community, how should they be treated within the Reserve Study framework—especially when there's minimal existing infrastructure or formal management history? Additionally, what level of collaboration makes sense with neighboring entities (such as municipal water districts, fire prevention authorities, and adjacent HOAs) to define shared responsibilities, mitigate liability, and explore joint funding for future management? And finally, do you have guidance for boards or homeowners who may be hesitant to initiate active land management, particularly in communities where "hands-off" maintenance has been the historical norm?

A: Wow. That's far beyond what we can answer in a webinar Q&A. But the answer is that you need to maintain the assets of your association. That means maintaining it in a safe and habitable manner. So that means your Reserves should support regular brush clearing to minimize wildfire risk, and projects to support waterway integrity in order to prevent disasters on or downstream from your property. Since Reserve Studies are based on a visual inspection only and these types of plans go beyond what can be determined visually, we recommend engaging a Civil Engineer or Hydrologist to provide expert counsel on the matter. Once their counsel is received and maintenance schedules are created, that should be enough information to incorporate within your property's Reserve schedule and funding.

On collaboration, such communication depends on how maintenance and financial responsibility relates to those separate entities. This is probably a better question for either the industry expert, your legal counsel, or a combination of both.

Remember that “doing what’s been done before” is regularly not a good answer. Our world is changing, your association is aging, insurance premiums are rising, and litigation is more prevalent. So that means we regularly need to act differently than those who came before us.

Q: How do I deal with a board where the majority does not comply with National Reserve Study Standards? Note that we are currently 34% Funded?

A: I’m not sure what you mean. It is the Reserve Study provider that needs to follow Reserve Study Standards, not the board. They are bound by fiduciary principles to responsibly manage the property. Generally, being 34% funded means your association is not well prepared for upcoming expenses. The responsible first step is to be well prepared... which often means raising homeowner assessments. You may wish to have your legal counsel weigh in on the board’s responsibility (and liability exposure) regarding action or inaction in this area. Your duty is to act responsibly, and be an advocate for other board members to similarly be responsible stewards of the association, even if progress is gradual.

Q: Some of the components shown as needing to be replaced next year are disputed by some homeowners and they use this as a reason to not trust the experts. Therefore, there is not public sentiment for following the reserve allocation recommendations. How do we handle this?

A: First, make sure your Reserve Study is updated. If the projects don’t need to be replaced, then your credentialed Reserve Study professional will make those changes in your Reserve Study to reflect the current condition of the property, and funding will be adjusted accordingly. Second, remember that as the elected fiduciaries, the board is responsible to maintain the association. Homeowners aren’t. Homeowners are free to complain about high costs and drag their feet. Third, everyone may be equally entitled to their opinion, but not all opinions are equal. A subject matter expert’s opinion should carry more weight than that of a homeowner.

Q: What is the best way to present the current study to owners that is informative and concise?

A: Keep it simple and visual. Start with the “why” before the “what.” Explain that reserves protect property values and reduce financial surprises. Advance planning is necessary because of the high cost of Reserve projects and the unending onslaught of ongoing deterioration. It takes years to prepare for major Reserve projects, spreading out the cost of deterioration evenly over the homeowner base, over the years. In the Reserve Study itself, show the Component list (what we’re responsible to do), their Reserve Fund Strength (Percent Funded – which identifies your financial starting point), and show the multi-year Funding Plan (how we’re going to get to the future). You can do the above in less than 10 minutes for most associations. After that, you can invite questions. If you suspect a lot of questions, either write them down for your

credentialed Reserve Study provider to answer, or plan to have that person there at the meeting (expect a nominal cost for their presence).

Q: Are there restrictions on what we can reserve for?

A: Yes. Per national Reserve Study Standards, reserves should only fund projects that are 1) common area maintenance responsibilities, 2) reasonably predictable in nature, and 3) significant in cost (too large to be absorbed by the ongoing Operational Budget). Items that are routine, minor, or the responsibility of management, the developer, an adjacent property, or individual owners don't belong in reserves. Capital Improvements (adding an asset that previously did not exist) are also not an appropriate use of Reserve funds. If you're ever unsure, ask your credentialed Reserve Study provider to verify whether an item qualifies.

Q: Our property's buildings are continuously maintained but not necessarily sufficient for long-term sustainability. Comments on obsolescence?

A: Great question. Ongoing maintenance slows deterioration, but it doesn't eliminate the eventual need for major replacement. Over time, materials, systems, and even building codes evolve – this is “functional obsolescence.” A generator or HVAC system may still work, but if it's inefficient, unsafe by today's standards, if repair parts are no longer available, or there are better materials available, it's functionally obsolete. Expect a “natural evolution” of materials or components (railings with thinner picket spacing, elevator controllers, entry control systems, etc.) due to technological or environmental (building codes, available resources, etc.) changes over time. Your goal isn't to preserve the association in its original state. It is to sustain the association so it is safe, functional, and so the homes are marketable assets.

Q: Our Reserve Study was completed just prior to the replacement of three out of five board members. The new board has not shared the Reserve Study (they have been in office for over 5 months) with the homeowners because they don't agree with the conclusion that we are 16% funded. We are in the process of planning the replacement of the decks at our condominium for around \$2,000,000. The board claims that the deck project shouldn't be part of the Reserve Study, since it will be funded by an assessment. Really? Doesn't the board have a fiduciary responsibility to release the study, and how can the board be forced to release the study to the community?

A: If a Reserve Study exists, it is prudent for a board to respect its conclusions. If a board challenges the findings of a subject matter expert, they invite legal exposure if they ignore that advice. If they don't agree with a report (Reserves, asphalt, elevator, or whatever) a new board should contact that professional and seek clarification. Ignoring a problem (being 16% Funded only invites it to become worse). Making statements about what should or shouldn't appear in a Reserve Study is not in a board's area of expertise. We recommend checking with the association's legal counsel for clarity on their liability exposure for ignoring; or not releasing the Reserve Study to

the homeowners. While the board has privileges and responsibilities, homeowners should be treated as members of the association and provided with information about their homes in a transparent manner.

Q: Do you use local vendors for your studies?

A: Yes. While our cost data is supported by national benchmarks, we rely heavily on local cost validation. Each Reserve Specialist in their “home office” reviews current market conditions—labor, materials, logistics—through their network of local contractors and service providers, making relationships that allow them to deliver consistently reliable pricing and life expectancies to their clients.

Q: Our last Reserve Study was prepared in December 2022. When is the next Reserve Study due?

A: National Best Practice is for an on-site-based Reserve Study update at least every third year. So if your Reserve Study was prepared in December of 2022 for the 2023 fiscal year, you are due for a With-Site-Visit Reserve Study Update in fall of 2025 for the 2026 fiscal year. Note that some states have longer intervals for required updates, but those are minimum standards, not industry best practices. Also – because Reserve Funding is often one of your largest budget line items, it is prudent to update that information annually, in inexpensive No-Site-Visit Reserve Study updates. Our clients that update annually regularly have the lowest incidence of special assessments, because their budgets remain “on track”.

Q: Our 2022 Reserve Study says we were 28.7% Funded. As a homeowner, our requests for HOA documents with financials are denied. We feel this is “financial abuse”. Can we personally sue them for breach of fiduciary duty? Davis-Stirling Common Interest Development Act (Civil Code §§ 4000–6150), particularly Civ. Code §§ 5510–5590.

A: We are not attorneys and thus do not provide legal counsel. You have two choices. 1) Run for the board (with some other like-minded homeowners and turn the association around yourself), or 2) reach out to an attorney known for serving community association homeowners in their conflicts with their association. Boards have a clear fiduciary duty to the association and its members. Boards are volunteers, and while the majority across the country are well-intended volunteers, some make serious mistakes or don’t have the best interests of the association in mind. You may make a great board member for your association!

Q: Should the reserves be audited annually?

A: An annual audit is not national Best Practice. State statutes and Governing Documents often have requirements that need to be met. If you are unsure,—consult with your association’s legal counsel and the CPA (who reviews and prepares your association’s

annual financial report) to find out what is required. Regular oversight by an independent financial expert is prudent.

RESERVE COMPONENT QUESTIONS

Q: Can a board spend money on items not listed in the Reserve Study?

A: Hopefully the Reserve Study lists all at your association that meet the three-part test (explained in a separate question above), so the association can responsibly prepare financially to perform those projects in a timely manner. If you feel a project should be funded through Reserves but doesn't appear in your Reserve Study, ask your credentialed Reserve Study provider what you should do. It may be an appropriate Reserve project, and you can spend Reserve cash and that professional can add that project in the next Reserve Study Update.

Q: Can the board spend Reserves on non-capital (per IRS definition) items?

A: Yes. Prepare your Reserve Study (and fund your Reserves) per national Reserve Study Standards, and prepare your taxes according to IRS standards. The two are not always the same. Note that if you file tax form 1120-H, the distinction between the IRS's definition of "capital" and "non-capital" projects are meaningless. If your association files form 1120, your CPA or tax preparer can make the adjustments necessary during the tax preparation process.

Q: Where can we get a copy of the Reserve Study standards? We have an irrigation system, and our Reserve Study suggests a 50-year life. My research suggests PVC has a 50 - 100-year life. What is right?

A: You can find the National Reserve Study Standards on CAI's website (CAIonline.org) [here](#). Remember that while PVC may "last" for 50-100 years, flexing with use (being pressurized on-and-of, freeze-thaw cycles, being walked on, some parts exposed to the sun, shifting soil, or being pushed around by tree roots...) means that an effective water-tight life expectancy is often in the 30-50 year range. Check with your credentialed Reserve Study provider and your landscaper. Make sure those two are communicating. Then trust their conclusions.

Q: My Association received a Reserve Study done by your company. Are your estimated replacement costs determined by national average or is it specific to the city where the association is located?

A: We base our costs primarily on local conditions. Our project managers work within their regions, so they know the going rates for labor and materials in your area. Of course, we keep an eye on national cost trends and inflation, but the real accuracy comes from regional experience. That's why every Association Reserves study reflects local realities.

Q: We don't have any structures, but we do have 59 acres of "Wildlife-Urban-Interface" area and two ponds. How are these incorporated into the Reserve Study? How are subject matter experts (SMEs) vetted, and how are their assessments tied into the 30-year financial plan?

A: Even if your association doesn't have buildings, it still has significant assets that require long-term stewardship. For natural features like ponds or wildlife-interface areas, the focus is on management cycles rather than replacement. Think sediment removal, slope stabilization, vegetation management, wildfire mitigation, and shoreline reinforcement. When possible, we consult subject matter experts (SMEs) — such as hydrologists, lake management experts, arborists, or fire hazard experts to establish realistic maintenance or renewal intervals. Those findings are integrated into your Component List.

Q: Is it \$10K or \$25K replacement cost to be set as reserves?

A: There's no national minimum dollar threshold — it depends on your association's size and budget. Some State Laws set a threshold, above which projects must be handled through Reserves. But we have some small associations that budget for a \$500 project, because their Operating Budget couldn't handle that large of an unanticipated expense. Typically projects begin to be considered for Reserve designation when they are at or above .5% to 1% of the association's annual budget. Best to discuss with your local credentialed Reserve Study professional.

Q: We changed our procedures in maintaining our tile roofs on several buildings. As such, we believe we have extended the life of said roofs by at least 20 years each. Thus, we appear to be "over-funded" for replacement for said roofs and would like to transfer a portion of those reserves to another component that is quite low in its percent funded equation. Can we do this?

A: Possibly. First, remember that the primary way a tile roof fails is the underlayment (the waterproof "tar paper" under the tiles) ages and fails. That's not a maintenance issue; it's simply a function of age. That said, please discuss with your credentialed Reserve Study professional. If they agree, they'll extend the Useful Life and Remaining Useful Life, which will lower your Reserve Funding obligations. But don't confuse the needs of the association with funding methodologies. Cash Flow funding methodology (also called pooled) is always beneficial to the association, and does not involve "re-allocating" funds from one "component project" to another.

Q: As a follow up, how do we make sure that future boards do not utilize reserve funds for non-reserve items. For example, we have an elevator reserve for functionality of the elevator, the board decides to add gold plating and spends far more on the interior of the elevator not reserved for. Is this illegal and can the members stop this expenditure?

A: The best protection is clear policy and transparency. The policy (see an example [here](#)) helps to bridge actions from year to year and board to board, but fundamentally it requires board members (and homeowners who will become board members) to be educated and understand that Reserve funds are collected carefully over years to be spent carefully only on appropriate projects.

Q: **On AR reserve studies you do not itemize all components. You provide summaries of various groups. Why not use itemization?**

A: We group components for clarity and efficiency. Listing tens or hundreds of line items doesn't make a study more accurate — it makes it harder to interpret and manage. Grouping assets into projects (like “clubhouse furniture” or “bathroom remodel”) provides a cleaner understanding of what the funds are for, and how they will be spent. This prevents someone mistakenly thinking that a sofa replacement is a Reserve expense. Often the details are shown in the Inventory section of the report, itemizing what the 47 pieces of pool-area furniture actually are (12 chaise lounges, 16 chair, 4 tables...). What we present is what we believe is the right level of detail for strategic planning. The goal is to help you make informed decisions, not to overwhelm you with the sheer quantity of components.

Q: **What is your thought/opinion on Reserve Funding of large landscaping and arborist projects?**

A: Many landscape projects — like tree trimming, irrigation system refurbishment, and “entryway planting” can qualify for Reserve planning by passing all elements of the national Reserve Study Standards three-part test. In other words, “greenscape” elements commonly qualify for Reserve Funding. However, many clients choose subjectively to exclude landscaping/arborist projects from Reserves by allocating for such items within a different part of the budget (such as Operating). Due to this, inclusion/exclusion can become subjective. Check with your credentialed Reserve Study professional for its appropriateness at your association. The Reserve Study can incorporate these projects to sustain the beauty of your property's common areas.

Q: **We have about 5 acres surrounding 4 midrise condo unit building, pool, clubhouse, tennis court, etc. We have many trees that are 20 years old, and some are reaching the point of replacement. We plan to bring in an arborist to lay out a 30-year plan. The Engineering firm that prepares our Reserve Study has a policy not to include trees. We are hoping to use the arborist roadmap to layout a 25–30-year capital reserve line item. Your thoughts and opinions on this?**

A: Good for you to get the opinion of a tree care professional! Unlike your engineer, Association Reserves has a policy of following national Reserve Study Standards. We believe your association is best served by budgeting for all component projects that pass all three elements of the national Reserve Study Standards three-part test (common area, reasonably predictable, above a minimum cost of significance). We believe it would be inappropriate to exclude qualifying component projects.

Q: How are costs determined for the component replacements, ie. do they communicate with local vendors or just search for current pricing in the local market?

A: We use a combination. Each of our Project Managers references current market data via our database of recent “actual” costs experienced by our nearby clients, and validates it with regular references to our network of service providers. This real-world grounding yields the best chance that what appears in your updated Reserve Study prepares you for the cost of upcoming projects.

RESERVE FUNDING QUESTIONS

Q: Our past boards did nothing to deal with Reserve Studies. We are now faced with a significant backlog to deal with. What is best way to handle this?

A: We are glad you understand the importance of Reserve planning! Major projects at your association are best spread over many years and across all the owners who enjoyed the use of those common area assets (not just the unfortunate set of owners present at the time the project needs to be accomplished). As we’ve said in prior webinars, it likely took many years to get your association into this jam and it may take many years to get your association out of it. But you can start the process now. Get an updated Reserve Study prepared by a credentialed professional and work with them to prioritize upcoming projects. Expect to first address life safety projects, then damage prevention projects, then projects that worsen with delays (like asphalt or painting). You don’t need to fix everything overnight. What matters is creating and communicating a credible plan and beginning to fund it. Show owners the path of progress you have chosen, and expectations for the improved home values, and the pride of ownership that will result from higher ongoing assessments due to (finally!) responsible Reserve Funding.

Q: Our mgmt. firm is taking over management for an association where its Reserves appear to be very underfunded. How should we approach this before going to the board requesting a Reserve Study?

A: Just as you stated. You don’t know the status of their Reserves, so your firm can’t make wise decisions or recommendations about moving the association forward. You don’t know what direction to go—This association needs a plan. That plan is a Reserve Study prepared by a local credentialed Reserve Study professional. That Reserve Study will tell you what condition items are in, evaluate the current size of their Reserve Fund, and lay out a multi-year plan to sustain the association. Your job as a manager (or board member) is to care for the physical and financial needs of the property. That plan starts with an updated Reserve Study. Then communicate the plan. Then implement the plan.

Q: As a manager, I just reviewed a Reserve Study that's heavily front-loaded — showing a high percentage funded for the first five years, but then with funding dropping 50% within ten years. Am I correct to assume Reserve Specialists generally advise against this approach?

A: Yes. As mentioned in the webinar, the four Funding Principles require that we strive for stability and equity... which is not accomplished by front loading Reserve Funding and then decreasing funding (in an inflationary economic environment, no less!!!). Equitable Reserve Funding should strive to evenly spread the “ongoing cost of deterioration” over the ownership base, so everyone pays their fair share over the time they own a home in the association. Your local credentialed Reserve Study provider can and should recommend such a plan.

Q: How is a reserve study “a plan” if the issue is years of underfunding and delaying maintenance?

A: It sounds like you are starting with one foot in a hole. The first part of the plan is to stop digging the hole deeper, and then begin climbing out of that hole. A Reserve Study is a financial roadmap to an improved future. A Reserve Study clearly tells you where your association is at this point in time, but it also provides a multi-year Funding Plan to offset ongoing deterioration and sustain the association. The Reserve Study's financial plan starts with the current condition of the components and the financial position of the Reserve fund itself. Once that Reserve Study is completed, it's time to stop underfunding and delaying maintenance. That's how you start moving forward to proactively care for your association. The result is improved property values and pride of ownership.

Q: Are management companies responsible for guiding HOAs with regards to Reserve Funding? If not - HOAs can easily become seriously underfunded. Is there any recourse for the HOA?

A: Management companies play an important advisory role — they help boards implement their policies. Managers are not the decision-makers. The best managers “coach” their boards forward, encouraging responsible Financial, Physical, and Operational behaviors. If a manager is only a “babysitter” for the association, bad things commonly happen (underfunding to the point that the property deteriorates, collections lapse and delinquencies rise, legal compliance is ignored, homeowners become disgruntled and distrustful due to lack of communication, etc.). If the board chooses not to follow sound advice from their manager (hopefully well documented in meeting minutes), the ultimate accountability rests with the elected Board of Directors. As with prior questions, we must state that we are not attorneys (and do not provide legal counsel) so the second question is best suited to be posed to your association's legal counsel.

Q: We have received bids for some reserve items that are significantly lower than the replacement costs listed in the Reserve Study. What should we do if this trend

continues and we consistently find we can replace items for less than what we have budgeted? Aren't we at risk of overfunding our reserves in the long run? Each year the reserves are recommended to be increased by 3% to keep up with inflation.

A: Interesting. Usually Reserve Study accuracy is challenged because of costs under market pricing. Check with your local credentialed Reserve Study provider. They may have benchmarked your property as associated with a "higher area of town", or it may have had a reputation of being "difficult to work with", which causes higher pricing. Expect actual costs to fluctuate, but if you feel you see a trend, challenge your Reserve Study provider with this information and request a revision. Their motivation should be to prepare you for your upcoming prices, not just the goal of "not being low" in their cost estimates. Remember that experiencing a few "low" cost projects doesn't automatically mean you're overfunded; it just means you may have caught a favorable moment in the market.

Q: Is the Percent Funded or Reserve account funding balance more important?

A: Percent Funded is more important, because it reveals the appropriateness of your Reserve cash balance. A \$1 million balance sounds strong until you realize you have an upcoming \$3 million roof project! Percent Funded tells you how well prepared for your association's future. Aim to be above 70% Funded, that's the "strong" range where special assessments are rare.

Q: Contributions to our reserve fund are considered capital contributions per the IRS regulations as long as the money is spent on items that qualify as capital assets per IRS regulations. Per Reserve study standards, there are components that should be included in a Reserve Study that do not qualify as a capital expense per IRS regulations (painting, tree trimming, asphalt seal-coating, etc.). Is there a recommendation on how the HOA should handle these rule differences?

A: Yes. Task your tax-preparer (or CPA) to make the nominal year-end adjustments necessary to get the Reserve Funding numbers right for tax prep purposes. This is only necessary if you file tax form 1120. It is not at all necessary if your association files the more common 1120-H tax form. Prepare your Reserve Study and fund your Reserves according to national Reserve Study Standards, and prepare your taxes according to IRS standards. IRS and Reserve Study standards do not always align. One's purpose is taxation, the other is for budget planning.

Q: In addition to a Reserve Fund, is it also advisable for an HOA to establish a Rainy-Day Fund (Emergency Fund) to cover unexpected medium to larger community expenses that may not be covered by insurance? If so, should this fund be maintained in a separate account, or should it be integrated into the HOA's budget and designated as an Emergency Fund to enhance transparency? Furthermore, how should an Emergency Fund be funded? Additionally, I'm curious to know the percentage of larger HOAs that have both a Reserve Fund and an Emergency Fund.

- A:** That's a good question. Generally, an "Emergency Fund" is a good idea. Many of our clients have it. It is typically funded by excess revenues; and is not considered Reserves. It is a separate savings account "on the side". Some of our clients do this for things like heavy snow years or insurance deductibles. A well-funded Reserve account minimizes surprises from your major projects, and an emergency fund softens the blow for the weather-related or "accident" related "surprise" expenses that befall your association. Note – you should prioritize funding Reserves over funding a contingency fund. Reserves are for predictable projects that will happen, a contingency fund is for "maybe" projects.

INTEREST/INFLATION QUESTIONS

- Q:** **The question of price estimates is significant. I often find that bids are higher than the Reserve Study estimates. Should the default inflation rate be more than the standard 3%?**

- A:** Inflation has been a moving target lately, and 3% has long been the "standard" assumption because it reflected decades of stability. At this time of cost instability, successful planning requires regular updating of your "current" cost expectations, combined with long term planning for the next 30 years. Current costs are jumping higher than 3% per year. However, we have no expectation that this rate of "high inflation" will continue for the next decade, let alone for the next 30 years. So the answer is to update your current costs; regularly update your Reserve Study, and anticipate that our country will continue enjoying long-term economic prosperity with a nominal (and healthy) rate of inflation. Check with your local credentialed Reserve Study professional on this matter; and update your Reserve Study regularly.

- Q:** **The escalation rates between past reserve studies to our association contained varying rates of escalation. How are escalation rates determined and applied to different types of components?**

- A:** Generally, escalation (or inflation) rates are applied evenly to all future costs. Some component projects may "jump" more than others in the short term, very unevenly. Some increases will vary from industry to industry (i.e. asphalt vs. exterior painting vs. HVAC). To keep up to date, update your Reserve Study regularly, and expect that leaders in our country establishing economic policy will keep the long term inflation under control; and at a healthy rate.

- Q:** **Are there any rules or requirements about putting some of your reserve account investing it into a short-term CD to get a better interest rate? i.e say 50% of the reserve balance?**

- A:** Yes — and it's wise to explore that. It is wise to engage an investment professional familiar with Reserve planning to assist your association. Best practice is to balance

returns and liquidity (availability of cash) while always maintaining safety. So don't lock up your Reserves in a longer-term investment to maximize returns, when you'll need those funds for an upcoming elevator or roof project! An experienced community association investment professional will ask for a copy of your current Reserve Study; and provide wise counsel. Remember, your goal isn't to "make" money, it's to prudently collect, protect, and nurture association funds-until they are needed.

Q: Please address the issue of determining the inflation assumption percentage and the percentage return on invested Reserves when computing/revising future required reserves.

A: Those two rates — inflation and interest — form the heart of your long-term projections, and they must work together logically. Inflation represents how fast costs rise, while interest represents how fast your funds grow. But remember that inflation works on the entire value of your Reserve projects, while interest is earned on the much smaller number of cash actually on deposit. So interest will never offset inflation. Reserve Funding software correctly handles the two. Your multi-year Reserve Funding Plan guides you forward, so that with interest and inflation, you'll have the right amount of money available when you need to spend it. Regular (annual) Reserve Study updates help you recalibrate as component conditions and costs change, and as your Reserve cash balance changes.

STATE-SPECIFIC QUESTIONS

Q: I'm new to a Florida board. What are the top 3 recommendations for me to start with? I'm an accountant so the financial stuff doesn't concern me, what should I be looking for/concerned about/asking about related to our reserve?

A: You're already ahead of the game by asking this question. My top three recommendations:

1. Understand your statutory obligations. Florida law now mandates specific reserve components (often referred to as "SIRS" — Structural Integrity Reserve Studies). Make sure your community is in compliance with these new requirements. Discuss with your association's legal counsel.
2. Get familiar with your Reserve Study. Don't just look at the numbers — understand what each major component represents and when it's due for replacement. Discuss with your credentialed Reserve Study provider if you have questions.
3. Prioritize communication. Help fellow board members and owners see that reserves aren't just "savings" for a future rainy day, they are funds that pay the bill of ongoing deterioration. Your accounting background will serve you well, but remember: this isn't only about numbers — it's about physical assets, timing, risk management, and effective owner communication.

Feel free to take a look at our “Florida Legislation FAQs” page [here](#)!

Q: Can our FL board vote to transfer Non-SIRS cash to our SIRS, or does it need owner approval?

A: FL law is complicated on this matter. Please discuss with your association’s legal counsel.

Q: Should the budget paperwork for our FL association include the component funding schedules for each SIRS and non-SIRS?

A: It is best practice to include both. Communicate clearly – these are the funds you are taking from homeowners and using to pay the “bill” of ongoing deterioration, so major repair and replacement projects can occur in a timely manner (preserving their home values). Transparency keeps everyone on the same page.

Q: How do you determine costs in California versus other states?

A: Each of our regional offices start with standardized cost data, adjust for regional differences in labor, materials, and building codes. We primarily tap our internal cost database of “actual” costs experienced by our local clients, adjusted by what we learn from our network of service providers. So pricing used by Project Managers in our different CA offices will likely be very different from pricing used by Project Managers in our TX, OH, NJ, or FL offices. The goal is always the same: provide accurate, locally relevant costs that reflect your community’s true repair and replacement realities – not just national averages.

Q: Here in FL, we are dealing with Mandated reserves by new state statutes (SIRS reports). We need to know what is necessary to keep track of board elected use of those reserves for items covered and to keep the members informed that funds are going to items reserved for. What is best practice in showing reserve expenditures?

A: Transparency is everything. Florida’s new Structural Integrity Reserve Study (SIRS) law now limits how certain funds can be collected and used. Be clear and candid in communicating both to homeowners. Members don’t need to see every invoice or payment for all projects, as that could cause confusion and invite unnecessary questions. However, the summary of all projects completed through Reserves should be noted and presented. As an example, membership may not need to see the 10 different payments sent to a contractor for a major exterior restoration and painting project, but the summary of the project scope (i.e. what was done) and the total cost would be a good start to communicate.