Case Studies of Successful Reserve Planning

Robert M. Nordlund, PE, RS www.reservestudy.com
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Introduction:

What separates a thriving Condo/HOA/Co-Op from one constantly putting out financial fires? Leadership. And that leadership knows to rely on a Reserve Study prepared by an independent, credentialed expert to provide the insights the board doesn't have. In this webinar, we show four examples of clients, the decions they've made, and the adjustments we've made, to guide them safely and successfully towards an improved future. What's interesting to note is that more years of Reserve Studies doesn't necessarily indicate success. More years of "working the plan", making courageous decisions in light of ever-changing cash, conditions, and costs is the key to success. It's all about having sufficient cash on hand, having collected it evenly and fairly over the years, so the funds exist when needed.

Cases:

Garage Door Villas – showing what happens when the board at this townhome association has an agenda to minimize Reserve Funding, specifically by not wanting to fund their common area garage doors. Distractions are destructive to effective Reserve planning.

Forgetful Villas – the board of this townhome followed a plan from their last Reserve Study, but forgot to increase their funding annually as recommended, and forgot to reference their Reserve Study in the in-between years in order to keep their association on-track. The result was a significant drop in their Reserve Fund strength. And it was partly because they decided to change landscape companies (to save money from their Operating budget). See and learn how that affected their Reserve plan!

Procrastinate Pointe – the board of this mid-rise association had a multi-yr mindset that it wasn't necessary to fund Reserves as recommended, because they were always "saving" by not spending $ to perform their Reserve projects. But they learned that Mother Nature and Father Time don't care about what they're collecting or spending, their association continues to deteriorate at a steady rate. The result is that by underfunding for years, they now are faced with a huge special assessment.

Waterfront Overlook – this older (very nicely situated) salt-waterfront property with a dock, deck, waterfront pool, elevators, hot water, fire alarm system, etc., made some well-intended estimates about how much to fund their Reserves over the years, and finally commissioned their first Reserve Study. That decision was made partly because of a new law requiring Reserve Studies in their state, and partly because of huge infrastructure costs in their association. They fundamentally needed a plan in order to manage all the costs that were everywhere they looked. When you are surrounded by costs, it helps to have a plan guiding how you can move forward successfully!

Conclusion:

Budgeting is hard. But moving forward is best done with a plan. That plan is your Reserve Study, regularly guiding you how much to set aside in Reserves, allowing you to report to your ownership base "how we're doing" with respect to becoming prepared for upcoming projects. We hope you enjoyed the webinar. Similar help is available for you and your association!

Other Links:

"Understanding Reserves" book (**updated for 2025**). Order single copies on Amazon here, or download chapter one for free here.

Read or download our white-paper "Navigating Inflation and Investments: Strategy Guide for HOA Reserve Funds" here

Three Quarters of Associations are Underfunded, What that Means for You (here)

Handling Aging Infrastructure – Reserve Planning for Older Communities (here)

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

ASSOCIATION RESERVES®

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Webinar Questions Asked by 2025 Attendees

General Reserve Questions

Q: **Do you have examples of HOA's? We have 217 units in our HOA.**

A: Yes — absolutely. We've worked with thousands of HOAs nationwide, including those with similar size and complexity to yours. We've shown examples of HOAs in other webinars (see Example 1, a 200+ unit HOA in our Understanding Reserve Funding webinar here). But note that what's important isn't the number of homes or type of association but whether your Reserve Study accurately reflects your association's physical assets and long-term repair obligations. That means a component list that matches your property, realistic cost estimates, and a multi-yr funding plan (that you follow!) that keeps you financially prepared.

Q: **How accurate can you keep your future reserve forecasting before the estimations starting becoming "best guesses"?**

A: Great question. A Reserve Study is a forecast — not a guarantee. But it's based on real observations, real ages of components, and real costs other associations like yours are paying for that project. And with regular updating (a With-Site-Visit Update at least every third year), you are continually receiving updated and refined estimates as those projects gradually draw closer and our projections get more accurate. The "fuzzy" estimates far away become more refined the closer they get, allowing your association to continually refine its planning in order to be well prepared. A Reserve Study is not a "set it and forget it" analysis, while you wait 20 years to see if an estimate about a project and a cost 20+ yrs into the future comes true or not.

Reserve Component Questions

Q: **Should a component called "Major Landscape Refurbishment" with a life span of 0 years be included in the reserves or in operating budget? Our new reserve study calls it out as client requested. Is this typical to be included and would your company normally include this?**

A: Every project that meets the national Reserve Study Standards three-part test (common area responsibility, reasonably predictable, and a cost that is above a level of significance) should appear in your Reserve Study. You should not have to twist your Reserve Study provider's arm to have legitimate Reserve projects appear in your Reserve Study. Components with a 1-yr Useful Life (singular major annual projects like tree trimming, roof repairs, sidewalk repairs, fence repairs, etc.) often pass this three-part test. Projects done annually, but throughout the year (weekly landscape maintenance or pool maintenance) typically are best budgeted through the Operating budget.

Q: **How do reserve assets deteriorate? Is there a formula for determining this?**

A: Reserve components deteriorate through use, exposure, and time. Components typically do not deteriorate in a linear way, only serving its function halfway when it is halfway to needing to be replaced. A roof is a prime example… it can be at its halfway-old point and still be shedding water and the elements 100% successfully. Different assets deteriorate differently. We start our relationship with a client using “typical” estimates for Useful Life, adjusted the quality of materials, their usage, weather exposure, and maintenance. Then over the years we note observed characteristics and adjust the Useful Life as appropriate. There’s no single universal formula because every component and every property behaves differently over time.

Q: **How can we get our Reserve Study provider to include aging cast iron and copper piping in the buildings?**

A: Reserve Studies by nature are based on observed characteristics and information reported by the client’s experts. For aging piping, we rely on interviews with the association’s plumber. Please share contact information about all your major service providers with your Reserve Study provider, so they can do their research and learn about how your elevator’s been behaving, your boiler, your gate system, plumbing, etc. We want to use all the information available about your property to design an effective funding plan that prepares you to successfully provide for your property, minimizing surprises.

Q: **Our HOA has a "tot lot" with a plastic slide. It is rarely ever used. Our Reserve Study indicates that it has reached the end of its useful life, even though it looks fine. This is a low-income community, and we have very limited reserves. What can we do? Can we just leave it as is? Can we remove it and eliminate the tot lot?**

A: Tot lot assets are significant safety items, and as such should inspected, repaired, and replaced on a schedule (as noted in your Reserve Study). Remember that your job as a board is to <u>sustain</u> the association, not periodically prune off components just because you feel they are “expensive”. People purchased homes in their community not necessarily so they could play on the slide regularly, but when their kids (or grandkids) come to visit, <u>they</u> <u>could</u> play on the slide. Care for your common area assets. Raise the assessments to care for and sustain your common areas, caring for and maximizing your home values in the process.

RESERVE FUNDING QUESTIONS

Q: **I’m curious as to why your examples are so severely underfunded if your company has been doing regular reserve studies on this property. Are they just ignoring the recommendations?**

A: You can lead a horse to water, but you can’t make it drink. We observe, and are aware, that Boardmembers are always under financial pressure. And Boardmembers come-and-go. Not all boards are as effective as others in making choices to care for the property physically and financially. And in addition, over the years some properties experience misfortune in the way of true surprises, depleting their Reserves. So regular Reserve planning guides and encourages <u>every</u> board through their years leading the association: working with their specific physical and financial circumstances, through years of high inflation and supply chain issues, surprises, blind spots, and leadership styles. We don’t guarantee success, but by standing alongside them and providing wise counsel, we give each of our clients their best chance of achieving success.

Q: **By being bound to "follow your recommendations," is this your Full Funding recommendation? Is this phased in, or is it a financial jolt?**

A: No matter what state (where they are or are not required to follow our recommended Funding Plan), we recommend our clients "Fully Fund" their Reserves. That is a safe and appropriate goal for Fiduciaries (boardmembers) responsible to care for the assets of others. They are not responsible to "just have the association squeak by if things go exactly according to plan". Often we are able to recommend an "exercise plan" of politically palatable gradually increasing assessments, "phasing in" higher Reserve funding over many years. The alternative is for the board to cheap-out (chicken out) and keep assessments low, which leads to an "emergency" special assessment when they don't have enough cash to do an essential project on time. The choice really boils down to raising Reserve funding or facing special assessments. The roof doesn't care.

Q: **In your example, what state requires an Association to fund according to Reserve Study recommendations?**

A: Maryland. There are other states that have Reserve funding requirements, each with their different nuance. For instance, Florida requires funding only for a short list of "structurally significant" Reserve projects (although, of course, all other components are deteriorating and will eventually require repairs or replacements). The bottom line is that funding is driven by Mother Nature and Father Time, not your state's legislation. Check with your association's legal counsel for what the law requires in your state. Note that, and fund what your association needs. It may be more than your state's minimum requirements. Again, the roof doesn't care what the law says. You should be financially prepared.

INTEREST/INFLATION QUESTIONS

Q: **Is it assumed that any interest earned on reserve account investments remains within the reserve account, rather than being withdrawn or treated as profit?**

A: Most associations keep interest earned on Reserve investments in Reserves. The amount of Reserve interest earned goes up and down over the years with the size of the Reserve Fund, and is not a stable multi-yr income source for the Operating Budget. Look closely, as most Reserve Study providers attribute "after tax" interest to Reserves. This allows for the tax on interest earnings to be paid from Reserves. By leaving net after-tax interest in Reserves, it can grow and compound with the rest of your Reserve funds.

FL SPECIFIC QUESTIONS

Q: **What are the statutory requirements regarding the Budget Meeting Notice to include the both the SIRS and Non-SIRS component schedules with all the required information regarding the said components?**

A: Sorry, please reach out to your legal counsel for statutory questions such as this.

Q: Robert, have you or your company ever done an analysis of the Reserves balance history of the Florida towers that collapsed? What are the lessons from that case?

A: We performed the first-ever Reserve Study for Champlain Towers South, delivering that report in March 2020. The board began to react to that report, but COVID-19 quickly hampered their efforts to get funding and get actual contractor bids. The building unfortunately collapsed 15 months later, before they were able to begin all their Reserve repair and replacement projects. It breaks our hearts that the association did no Reserve planning prior to that time. We wish they had contacted us 5, 10, 15, 20, 25, or 30 years earlier. The tragedy underscores why reserves aren't optional — they're a lifeline for safety and financial stability. You can't fool Mother Nature and Father Time. Regular professional Reserve Studies, followed by timely implementation of funding and repairs & replacements, protect both property and lives.

Q: I live in the state of Florida. Can you please explain how HB913 will impact the timeline and requirement and options of how Reserves can be funded in Condos? Can you also explain the difference between line item budgets vs Pooled budgets? What are the Pros v Cons?

A: You'll find your Reserve funding recommendations in your Reserve Study prepared by a FL Reserve Study provider. "Pooled" Reserve funding always uses your precious cash more efficiently, so that is the methodology your Reserve Study provider will recommend. Check with your legal counsel for any additional questions. Remember – the law is always changing in FL, but Mother Nature and Father Time have been consistent for centuries – they are unrelenting. Defend your building. It will be expensive. Don't relax. Fund what your association needs, not just what ever-changing FL legal minimum requirements dictate.

Q: We are first year- in turnover mode. We have a SIRS report provided by the developer. We are a condominium 3+ stories and the fifth building of what will be eight total. We compared the results of our Reserve Study with previous studies prepared for the other providers and they are completely different. Why is this?

A: That is unfortunate, but not unusual. In FL, since the tragic collapse of Champlain Towers South, many companies have entered the market, resulting in many Reserve Studies being prepared by engineers or architects or others new to the industry. This means their reports are prepared without depth or without compliance to national Reserve Study Standards. Get your Reserve Study prepared by an independent, credentialed expert (someone with a "RS" or "PRA" behind their name). Then you'll find less variation between providers. We've been preparing Reserve Studies for over 38 years, and recently delivered our 100,000th report. We've learned a thing or two along the way, and our clients benefit from our experience and expertise.