What is a Reserve Study?

Robert M. Nordlund, PE, RS
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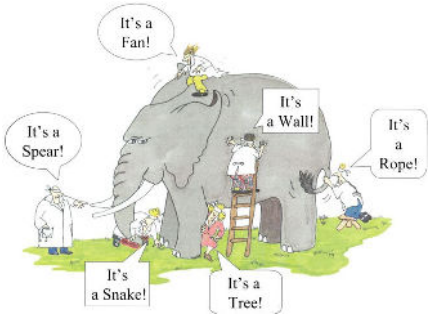
Introduction:



So – what is a Reserve Study? It depends… on your perspective. If you are a lender, it tells you one set of facts. If you are in the insurance field, it tells you other things. And if you are a boardmember or homeowner, it tells you a third set of information. But at its heart, it is one document, providing infmation valuable to at least three sets of people… four if you add prospective homeowners.

Per National Reserve Study Standards: a Reserve Study is *a budget planning tool that identifies the components a community association is responsible for maintaining or replacing, the status of the reserve fund, and a stable and equitable funding plan to offset the anticipated future major common area expenditures.*

Lenders primarily look at a Reserve Study to see the % of total budget going towards Reserves, the upcoming cost of near-term projects (typically in the next five years), and the recommended Reserve transfers. Expect the lenders will compare the recommended Reserve transfers to your budgeted rate. They're not going to be pleased if they find your association funding less than is recommended. And they care about Reserve Studies being less than 36 months (three years) old.

Insurance professionals are looking at the Component List to see if most of the components are "ok", or if there are many with a Remaining Useful Life of zero (or something close to zero). They also look to see if there are some major projects (roofing, elevator, asphalt, painting, etc.) that are due to be accomplished in the very near future. They are looking to see if the association is doing its job to maintain the common areas, or if they are risking some accidents (insurable losses) related to delaying projects that need to be accomplished or are overdue. Expect that a large number of expensive, old projects will invite higher insurance premiums, because insurance companies don't want claims related to projects the association should be handling with their own money. They also want to see Reserve Studies less than 36 months (three years) old.

Finally, let's get to the people living at the association: owners and boardmembers. The boardmembers see it as a decision-making tool, helping them know what projects to prepare for (so they can plan their year and get proposals in advance), the strength of their Reserve Fund (is the association's financial starting point weak, fair, or strong?), and finally, how much needs to be transferred on a regular basis to offset ongoing deterioration and provide the cash for upcoming projects.

So depending who you are, and what you're trying to find in the Reserve Study, in some ways it is a disclosure document (showing the current state of the association), and in another way it is a recommendation document (pointing the path forward).

Just remember… a Reserve Study is no substitute for a thorough preventive maintenance plan, a structural evaluation, or a safety evaluation. Those are different specialties. Remember the definition of a Reserve Study… it is fundamentally a budget planning tool.

One key takeaway to check if you were listening… does Reserve funding increase the cost of homeownership at the association… even with raised Reserve funding? The answer is no. The roof doesn't care if you're funding Reserves or not. It will fail, generally right on schedule. So either you budget for that cost over time, or your owners pay it via a special assessment or a loan. Owning and maintaining Real Estate is expensive. Plan on Reserve funding being in the range of 25% of your total budget. To find out how much your association needs, you'll need an updated Reserve Study (at least every third year).

Summary:

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. See our network of regional offices across the country here, serving clients in all 50 states.

Other Links:

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

Learn about uPlanIt, our free online Reserve calculator tool 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)

Webinar Questions Asked by 2026 Attendees

General Reserve Questions

Q: What is the BOD responsibility in regards to reserve study? What if they don't fund anything even if our Reserve Fund is weak? Is the BOD liable?

A: The Board's responsibility is stewardship—protecting, maintaining, and preserving the association's common assets. A reserve study is simply a tool to help them do that responsibly, rather than "guessing". Ignoring the wise counsel in a Reserve Study puts the board at risk. Check your Governing Documents to see what board responsibilities are for your association regarding budgeting (Operating and Reserves). Further, be reminded that the board has a fiduciary responsibility, as they are caring for the assets of others. That is a high standard, and commonly yields some liability exposure if a board doesn't handle that responsibility well (exercising their duty of care, duty of loyalty, and duty of inquiry). Regarding specific legal responsibility, I'll defer that question to an attorney.

Q: Is an update with no site visit still acceptable for audits, for example?

A: Yes—with conditions. A "Level II: Update With Site Visit" and "Level III: Update No Site Visit" are both recognized under National Reserve Study Standards.

A no-site-visit update can be appropriate if the prior study is recent and conditions haven't significantly changed. However, for audits or lending scrutiny, a site visit provides stronger credibility.

Q: Is it very expensive to switch from one reserve study company to another - will the new one do a FULL reserve study?

A: Switching from one credible Reserve Study company to another (staffed with individuals with the RS or PRA designation) should be readily done. But when a credible firm takes over the responsibility to update work done by a company or firm not proficient in Reserve Studies, it generally means starting over with a fresh "Full" Reserve Study. Even so, the cost difference is usually not dramatic relative to the long-term value. The bigger issue is confidence in the data—accuracy matters far more than saving a few dollars.

Q: Is it required by law to fund the reserve account with recommended percentage?

A: Not to my knowledge. Some states that require funding do have a few years to transition from "no Reserve Funding" to a responsible funding level. Regardless of a stipulated minimum, such as the 10% of budget (moving to 15% of budget in Jan 2027), the issue is responsibly funding your Reserves. Best practice is to fund reserves at a level that avoids deterioration and special assessments. That will keep you well above any minimum requirements.

Q: Since the Board and Community Managers have most control over the management and control of a reserve study, what would be your advice to an Assistant Community Manager who has not dealt much with these matters so they can be more useful to the team?

A: Start by understanding that reserves are about long-term planning for major projects (expenses) that are predictable and inevitable. The projects will happen. It is wise for the association to prepare. Look for and find the three results:

- The Component List
- The strength of the Reserve Fund
- The recommended Funding Plan

In addition, see which projects will be occurring soon, learn their starting point financially (0-30% Funded is weak, 30-70% is fair, over 70% is strong), and find a way to make the Budget fit the Funding Plan (not vice-versa). Remember, the expenses will happen whether or not you prepare, so you better prepare!

Q: How frequently do we need a Full reserve study?

A: A Full Reserve Study (creating the Component List and quantifying all the components) is usually only done once. Best Practice for afterwards is a With-Site-Visit Update (at least every third year), with annual No-Site-Visit updates in-between.

Q: If the BOD has to borrow from the reserves for an unexpected expense, how soon should the BOD pay it back?

A: The easy answer is as soon as possible. Check with your attorney… some states require "borrowed" Reserves replenished within 12 or 24 months.

Q: How important is it to align your insurance policies with the reserves?
A: Very important—but remember that they serve different purposes. Insurance handles unpredictable events; reserves handle predictable deterioration. Accuracy is the paramount issue, so your insurance professionals can rely on the information found in your recently updated Reserve Study.
Q: Why is it so difficult to get good common-sense facts through to people?
A: Because people are people. Keep your message simple, and repeat. Presuming you are talking about Reserve funding, remind them that deterioration is ongoing, and your objective with Reserve funding is to match that ongoing deterioration, so everyone pays their fair share over time. It's easier that way than disruptive special assessments. Owners will pay, either way.

Q: Does our reserve study say what we should prepare to repair or replace in the next 0–5 years, and if we are funded to do it?
A: That's exactly what the reserve study is designed to answer. Your Reserve Study lists your upcoming projects (National Reserve Study Standards is to project annual income and expenses for at least 30 years), so you should see your upcoming projects and the Funding necessary to accomplish those projects in a timely manner.

Q: Can you speak to self-studies by board members?
A: Some states require a credentialed individual to perform the Reserve Study update, so in-house Reserve Studies are off the table in those locations. In general, in-house Reserve Studies carry the weakness of lack of expertise, lack of experience, and lack of independence. And a critical blow is that if that in-house Reserve Study doesn't carry the clout (gravitas) to effect change, it is a waste of time.

We sell two in-house Reserve Study products. One is our "Do-It-Yourself" Reserve Study Kit designed for boards to inexpensively accomplish No-Site-Visit Updates by adjusting the prior year's Reserve Study or for large associations with knowledgeable staff or outside consultants

who need a Reserve Study platform to use to accomplish their task. The other is our online Reserve Calculator called "uPlanIt", which allows boards and managers to either adjust or update their Reserve Study as part of their ongoing Reserve planning process.

Neither replaces a professional Reserve Study update.

Q: How do you explain reserves to people who don't "get it"?
A: I like to say: reserves are simply setting aside money today to offset the cost of ongoing deterioration. Think of it as paying the "roof bill". It's not a rainy-day fund, or charity for future owners. It's a money you set aside to pay for your own deterioration-related projects. Owners will pay this deterioration bill. The question is if they'll pay it a little bit at a time matching ongoing deterioration, or in big chunks via unwanted and unsettling special assessments.

Q: Do you discuss insurance coverage and deductibles in a reserve study?
A: No. Insurable losses, and the associated deductibles, are not Reserve projects (because they by definition aren't predictable), so they don't appear in a Reserve Study.

Reserve Component Questions

Q: Does a reserve study include a component for the likelihood of a wind/hail event under the special (very high) deductible so that "normal" reserve funding plan take that into account?

A: No. Reserve projects are the predictable deterioration-related projects at your association, not for contingencies or insurable events. An interesting intersection is some insurers failing to insure an "old" roof. For associations that have responsibly set aside Reserve funds for their old roof, having no insurance coverage for that roof is a non-issue. They're ready to replace it with their own money.

Q: We are a mountain community and have heavy equipment to plow and grade our private dirt roads. Would a reserve study include replacement of the equipment?

A: Absolutely—if the association is responsible for replacing it, if its life expectancy is reasonably predictable, and if the cost is above a minimum level of significance to the association (commonly .5% to 1% of the association's annual budget). In other words, Reserves can be for equipment and moving things… pickup trucks, golf carts, large snow removal equipment, and in some cases, even horses!

Q: Are drains and culverts reserve items?
A: They can be, if the association is responsible for them, they have a reasonably predictable remaining life, and their repair or replacement cost is above a level of significance to the association.

Q: Is a detention pond concrete structure an asset to plan for?
A: See above – it may be. Some ponds are self-healing, needing almost no maintenance (other than minor dredging or silt removal). In most cases we reach out to your pond maintenance company for insights.

Q: We have a 50-year-old clubhouse. How do we determine condition and risk?
A: That's where a site inspection and professional evaluation are critical. Age alone doesn't tell the story—condition does. We look at wear, maintenance history, furnishings, how the building

is being used, etc. Likely we'll break it down into multiple components such as roof, interior and exterior painting, flooring, bathroom and kitchen renovation, new furniture, new kitchen appliances, etc., all of which may be on different Usefull Life and Remaining Useful Life cycles.

Reserve Funding Questions

Q: What level of funding do you consider adequate vs. good vs. excellent?

A: We generally look at **Percent Funded, which measures Reserve Fund balance**:

- **0–30%** → Weak (high risk of special assessments)
- **30–70%** → Fair (moderate risk of special assessment)
- **Over 70%** → Strong (low risk of special assessment)

Reserve Funding is what is recommended in the Reserve Study. It is expensive to own and maintain Real Estate. Expect that Reserve Funding for your association will be somewhere in the range of 15-45% of total budget.

Q: How do you determine percent to budget reserves?

A: It's not a fixed percentage—it's driven by the funding plan needed to offset ongoing deterioration and prepare to accomplish future projects in a timely manner. The reserve study calculates the required transfers necessary based on project timing, costs, and current fund balance. The "right" number is whatever keeps the association on a stable path.

Q: What amount is standard to increase each household each year?

A: There is no universal standard. However, steady, modest increases (often 3–5% annually) are generally more manageable than large, sudden jumps. In our inflationary economic environment, lack of an annual increase is clearly a sign the board is out of touch with reality.

Q: Can you discuss the difference between Full Funding and Threshold Funding goals?

A: **Full Funding** aims to keep the reserve balance equal to the accumulated deterioration, aiming for the target of being 100% funded. **Threshold Funding** is pursuing the goal of an arbitrarily selected minimum balance (e.g., never dropping below $X) or minimum % Funded level, below which funding is never to drop. Pursuing a Full Funding goal is clearly understood to be a conservative, responsible funding goal that minimizes special assessments and maximizes fairness. Learning that your association is pursuing a Threshold Funding goal can mean something close to Full Funding, or something close to Baseline Funding (the goal of not running out of $).

Q: How do you address the views of owners who want to kick the costs down the road to future owners because they plan to be gone by the time funds are needed?

A: That's a fairness issue and a responsibility issue. I don't blame owners. They like to minimize their monthly assessments. Who could blame them? But boards have the weight of responsibility on their shoulders… to comply with the Governing Documents, State Law, and the

Business Judgment Rule that measures the risk volunteer boardmembers carry. So in addressing owners, remind them that they are responsible for the costs either way… budgeted funding or not. Because lack of budgeted funding means they'll get hit with an unwelcome and disruptive special assessment. New buyers will pay less for that home when they notice the Reserve Fund is weak. So there's no escaping. Owners will pay one way or another.

Q: Can we use a cash flow method for calculating funding for the next 5 to 10 years based on the information provided by a Component Costs and Starting Balance?

A: Yes, you can, but that is short-sighted planning. There are many major projects that will be disruptive if you cram 20 yrs of deterioration-offsetting Reserve Funding into only the last 5 or 10 years. Short-term planning, as you suggest, will lead to very volatile reserve funding recommendations as new (huge) projects enter that short planning window.

Q: What is the best or most efficient way to get out of the red?
A: There are really only three options:

1. Increase Reserve funding
2. Special assess (not recommended, as it unfairly burdens current owners)
3. Defer necessary projects (which commonly makes those projects more expensive when you eventually address them)

Owning and maintaining Real Estate is expensive. You need to face that fact and increase your Reserve funding.

Interest / Inflation Questions

Q: When we get a Reserve Study Update do we get a new replacement costs or do we use the original cost and use an inflation factor on those prior values?

A: Our company, and most reputable Reserve companies, provide new/current costs with each Reserve Study update. Continually projecting a current cost by looking backwards is relatively unreliable.

Q: Should we use stochastic or Monte Carlo "randomizer" methods to model uncertainty in inflation and investment returns?
A: For most associations, this is "overkill". Reserve studies are planning tools, not precision forecasts. We use reasonable, consistent assumptions for inflation and interest. What matters more is having a responsible and accurate plan, following that plan, and adjusting it year by year into the future. Note that our online Reserve calculate uPlanIt (to which our professional Reserve Study clients have free access throughout their budget season) makes testing various "what if" scenarios quick and easy. You could see the effect on your Reserve Funding Plan on various interest and inflation assumptions in a matter of minutes.

Q: What is your basis for replacement costs, and how do you factor in local inflation?
A: We base projected costs on current, real-world data, primarily that of completed projects similar to yours, on client associations in your region. For future year cash flow planning, we apply a stable multi-yr inflation assumption so we can design the Funding Plan to meet projected future costs. And with every professional update, we update all those benchmark cost estimates.