ASSOCIATION RESERVES®
Planning For The Inevitable

How to Read a Reserve Study – a Simple Guide for Board Members

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Introduction:

We look at Reserve Studies all day, all through the year. But we appreciate that looking at a Reserve Study is something our clients do once a year, or once every few years. So, this webinar was prepared for our clients, so they have a good experience receiving their Reserve Study product. One note at the beginning… as one attendee noted, we don't show examples. That's because this is a webinar for all board member readers of all Reserve Studies, not just Association Reserves clients. So, we address concepts here, not literal example of "Look on page X for this information, which should look exactly like the example on screen".

This webinar took our audience through three sections:

- What is a Reserve Study
- What information is found in a Reserve Study (three things, shown below), and
  - Component List (identification of your inevitable upcoming projects)
  - Evaluation of your Reserve Fund Balance (in terms of Percent Funded, where 0-30% is weak, 30-70% is fair/average, and 70% and higher is strong
  - Recommended multi-yr Funding Plan
- What do you do with your Reserve Study

Summary:

As a board member, it's often necessary to get information or advice when you don't know the answer yourself. That's where a Reserve Study comes in. All your common areas are continually deteriorating, and you're responsible for sustaining the common areas. That puts you in a head-scratching position… asking yourself the question "What do I do now?" And that's where a Reserve Study steps in.

A Reserve Study tells you about your upcoming projects, so you aren't surprised by things that aren't surprising. A roof failing in plain sight over 20 years is not surprising. It should not create a financial crisis. It is eminently predictable! Such big projects take years to prepare for financially, and when you know what's coming, you can prepare.

A Reserve Study tells you how you're doing right now. Is your association well-prepared financially, or are you currently facing a cash flow crisis? The evaluation of your current Reserve cash balance tells you about your starting point. Basically, it's a "where are you now" data point on a map.

Now… "where do we do from here?" is the purpose of your multi-yr Funding Plan. Knowing the projects ahead and your starting point, the Funding Plan tells you how to fund your Reserves in order to be able to perform all your Reserve projects, near and far, in a timely manner without unfairly burdening future owners with deterioration that occurred years before they even became owners.

Owning and maintaining Real Estate is expensive. Mother Nature and Father Time are undefeated. But Mother Nature and Father Time are predictable. So are your Reserve projects. Reading your Reserve Study, and comprehending it, allows you to make budget changes (as necessary) to ensure that every owner pays their fair "usage fee" for the deterioration of the common areas that occurred while they were a homeowner in the association.

We want your association to thrive. We want you to be financially prepared for upcoming expenses. So, we help you, in the way of a Reserve Study, see the future and get ready for it. So… good luck with your Reserve Study! Look for the Component List, an evaluation of your starting Reserve Fund strength, and adjust your budget per the recommended multi-yr Funding Plan.

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.

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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

Recent related news column by former CAI President (attorney) Kelly Richardson here.

"HOA Reserve Study Laws Explained: Legal Responsibilities of HOA Boards"

Attendee Questions - 2026

General Reserve Questions

Q: How would you advise reserves be administered when collected from one group or phase of an association for a project used exclusively by that group or phase? Can those be co-mingled with other reserves?

A: Generally, it is best to <u>not</u> co-mingle funds used for different purposes by different groups of members. Your Reserve Study provider can easily break the Reserve Study into two reports… one for the "main" section, and one for the subset of owners responsible for their own amenities (e.g.: the gate and mailboxes for their phase of a development, the elevators and hallways of the condo units within a larger townhome association, or the dock facilities for the marina members).

Q: I liked your informative webinar! We had a Reserve Study done based on an onsite inspection in December 2025. But there is one homeowner in our HOA that disagrees with the reserve study recommendation and is pushing for different timing for different projects like inside painting, etc. How to deal with demands like that?

A: Boards have a role – to lead the association forward and budget responsibly for the care of the association's common areas (they can be sued for being ineffective!!!). Homeowners have a role – to pay their fair share of assessments. <u>Homeowners don't get to demand anything</u>. You serve the needs of the association, not individuals. Thank the person for their opinion, and move on.

Q: Isn't it wasteful to have a high (what you call strong) Reserve Balance?

A: No. Reserves are collected to offset ongoing deterioration, preparing the association for upcoming major projects that require years of gradual financial preparation. In advance of a large project (roofing or asphalt or elevator, for instance), your Reserve balance will be large. That's because it is expensive to own and maintain Real Estate. Collecting gradually over time is the board's responsibility per the Governing Documents (to collect funds to pay the bills of the association), and to avoid creating an emergency or unsettling special assessment for eminently predictable upcoming costs.

Q: How can boards better communicate the importance and value of Reserve Studies to homeowners and gain support for long-term planning?

A: Communicate regularly (monthly meetings, newsletter, email blasts, text blasts, website… however your association communicates its owners) that Reserve funding is an ongoing "usage fee" to offset ongoing deterioration driven (unmercifully!) by Mother Nature and Father Time. Every day, your roof, asphalt, paint, elevators, and mechanical systems are wearing out. A Reserve Study answers three questions: what projects are upcoming, how well prepared financially the association is, and what to do next to prepare for upcoming projects. It's a journey to the future. A Reserve Study helps all homeowners know how the association is doing, and how the journey is going.

Q: What are the best practices for obtaining, updating, and using a Reserve Study?

A: Obtain it from an independent, credentialed provider. Because every year the cost of projects change, the condition of your components changes, and your Reserve Cash Balance changes, expect to regularly update your Reserve Study. Industry best practice is for an inexpensive No-site-Visit update every year, with a site-inspection-based update at least every third year. How to use it? Follow its guidance in your annual budget process, advising the owners how the journey is going towards being prepared for upcoming major projects.

Q: What are the roles and responsibilities of the Board, management company, and Reserve Study professional in reserve planning?

A: The board fundamentally has the responsibility to sustain the common areas. To know how much to budget (and what to say to the owners), they commonly hire an independent, credentialed Reserve Study professional to provide wise counsel. The manager counsels and encourages fiscally responsible board behavior (funding Reserves, getting a Reserve study update, etc.), perhaps even recommending Reserve Study professionals they know who have served other properties well. And the Reserve Study professional's job is to tell the board honestly and accurately what projects are coming, advise clearly on the strength or weakness of the current Reserve Fund, and recommend a multi-yr Funding Plan so that the cost burden is spread fairly over the owners over the years, and projects can get done in a timely manner.

Q: How can boards navigate difficult governance issues while fulfilling their fiduciary responsibilities?

A: Boards should remember that they're elected to make good decisions—not popular ones. And board members soon lean that their job is hard, not easy. In our inflationary economic environment, often a good board decision means increasing assessments. Sometimes it means saying "no" to delaying maintenance. The board has a job, and they can be sued for not doing their job well. Homeowner property values are riding on the quality of their decisions. So, lead well. Don't get distracted trying to make life in the association affordable for one or more homeowners. That is their problem, not yours. Your problem is sustaining the association. If it is too expensive for a particular homeowner to live in your association that you keep well maintained, they can choose to sell and leave. Be curious (pursue the facts). Care for the property. Be courageous… make good decisions. And communicate clearly how you're leading the association successfully into the future.

Q: What lessons can associations learn from communities that failed to properly plan for reserves or deferred maintenance?

A: The Champlain Towers South tragedy in 2021 that claimed 98 lives reminded everyone that structural deterioration doesn't wait until the budget is ready. Mother Nature and Father Time don't care that your budget is tight, and they don't negotiate. Deterioration doesn't slow down or stop; it just grows in size and strength like water behind a dam. Living in an association while underfunding Reserves is like a person living off credit cards… easy for a while, until the bill comes due. If an association doesn't budget to offset the very predictable daily/weekly/monthly deterioration it faces, it will face deferred maintenance, special assessments, and lagging property values, and more recently, increased insurance premiums and limited mortgage opportunities for prospective buyers.

Reserve Component Questions

Q: What do we do if the costs we are experiencing are higher than we see in our Reserve Study?

A: That generally occurs when your Reserve Study is a few years old. So, update your Reserve Study. If your Reserve Study is for the current fiscal year, discuss this issue with your Reserve Study provider. Make sure they are aware that your cost experience is higher than their expectations, and that you need a revision to more effectively prepare for upcoming projects.

Q: How do you determine which common area assets belong in a Reserve Study and which belong in the Operating budget?

A: Your Reserve Study professional follows three simple rules found in National Reserve Study Standards in compiling that list:

1. The project needs to be a common area maintenance, repair, or replacement responsibility.
2. The project needs to be reasonably predictable
3. The project needs to have a cost that is significant to the association

Typically, projects that don't meet the "cost significance" test (often .5% to 1% of the annual budget) are handled from the Operating Budget.

Q: What components should be included for different types of communities?

A: Every community is different, that's why the three-part test (see above) is the guide. Single family home associations will have a different blend of components than a townhome association, which will be different than a condo mid-rise, which will be different than a condo high-rise. Age also plays a factor, commonly revealing more components in need of repair or replacement as a property ages and as quality of construction and lack of maintenance is exposed.

Q: How are component useful lives, remaining useful lives, and replacement costs determined and updated?

A: Much is based largely the experience and expertise of the Reserve Study provider, who sees deterioration and the results of recent projects on a regular basis through their work week. There are some industry norms, but life expectancies and costs vary with location, material, maintenance, and usage. Use of a local provider who has become familiar with the usage and maintenance trends at your association, and is familiar with local life expectancies and current, local costs is highly recommended.

Q: How should boards evaluate repairs, replacements, upgrades, and preventative maintenance when planning for future reserve expenses?

A: Seek wise counsel from management, your Reserve Study provider, and your regular service providers (those who care for your property on an ongoing basis). Most Reserve projects have a pretty clear life cycle. You can see those projects coming from years away.

Q: How can boards and managers work together to ensure the Reserve Study accurately reflects the association's assets and maintenance history?

A: Collaborate. Review the Component List. Make sure all the major projects are listed, and watch with each update as the major projects draw closer and closer. It is a slow process, like a glacier moving down a mountain. No one knows the property better than the board, management, and perhaps some homeowners on the maintenance or Reserves committee. Also - communicate with your Reserve Study professional during regular (annual) updates regarding recent repair and replacement trends.

Q: How do we budget for upgrades to our community? Reserves?

A: Reserves are for the repair and replacement of existing common area assets. Therefore, Reserves can be used for normal upgrade of assets (from a wood dock to an aluminum dock, re-lining your tennis court to make it also work as two pickleball courts during a resurface project, replacing with vinyl fencing instead of wood, etc.) during a Reserve project. But for new installations to your association (a guard house where none previously existed), that is not an appropriate use of Reserves. You need a special capital improvement fund (or a special assessment) to fund that project.

Reserve Funding Questions

Q: What funding level should our association strive for, and what does "properly funded" really mean?

A: The board's job is the sustainability of the association. And generally, the Governing Documents require you to fund for all known expenses. So don't ignore the obvious and invite special assessments in to your association, assaulting your homeowners, by underfunding Reserves. Adequacy is a combination of current cash and a multi-yr Funding Plan that provides for all predictable projects to be accomplished in a timely manner.

That commonly means Reserve Funding 15-45% of total budget, and a Reserves "Percent Funded" well above 30% Funded (above the "weak" range where special assessments are common), and ideally also well above the 70% level (where special assessments are rare).

Q: How should boards determine annual reserve Funding rate and HOA dues while balancing affordability and long-term financial stability?

A: The Reserve Study tells you how much is needed to offset deterioration – the unstoppable costs driven by Mother Nature and Father Time. It's up to the board to set the budget to provide income to offset those non-negotiable expenses. A Reserve Study doesn't address your Operating Budget (total HOA dues = Reserve Funding + Operating Budget). "Affordability" is not your goal. Communicate clearly to the homeowners that owning and maintaining Real Estate is expensive. If they don't like how much it costs to live in your association (paying the budgeted assessments), they can sell and leave.

Q: What funding strategy is best for our association?

A: Regular, properly sized budgeted assessments that allow Reserve transfers of sufficient size to offset ongoing deterioration.

Q: How should reserve funds be invested and managed to maximize long-term financial performance while minimizing risk?

A: Protection of principal is paramount (as a fiduciary, you can't risk losing other people's money). Seek strong returns, but <u>don't ever expect those returns to offset inflation</u> (interest is only earned on funds on-deposit, which will always be far less than the total value of your Reserve projects that grow with inflation every year). Second, plan for liquidity, so the funds are available (and not tied up in a CD!) when they need to be spent on that elevator, roofing, or painting project.

Q: What options are available for associations that are underfunded or facing major repair projects?

A: There aren't any magic solutions. Your most common response is to raise Reserve funding (which requires an increase to homeowner assessments). For a short term or immediate need, you may be forced into a special assessment or a loan. Remember that a loan is the most expensive way to pay for a Reserve project, because you end up paying the cost of the Reserve project <u>and</u> interest (instead of the bank <u>paying you interest</u> from your funds on-deposit).

Q: **You mentioned a multi-yr Funding Plan. So, it's not just "what to set aside this year"?**

A: Correct. A Reserve Study identifies 30 yrs of upcoming expenses, so we design a 30-yr Funding Plan to offset those expenses. Typically, we strive for a multi-yr plan that offsets ongoing deterioration, gradually increasing in future years as costs increase. Yet sometimes we start with a few initial steep increase years (10-20% increases to Reserve transfers) for some clients to take them from their current insufficient funding rate up to the range where they need to be.