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Reserve Study Basics For 2025

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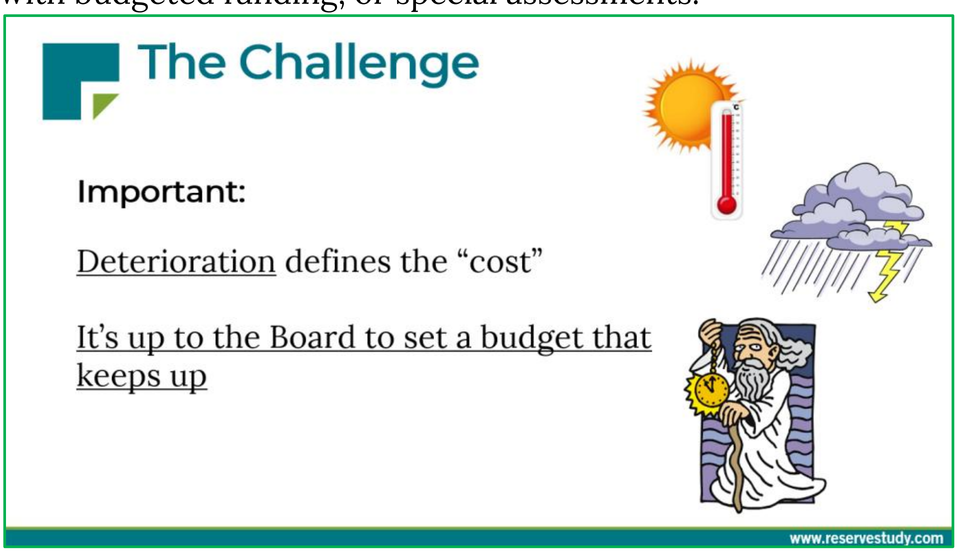
Miss the webinar? Watch it here.

See all of our other available recorded webinars (on related or more advanced topics) here.

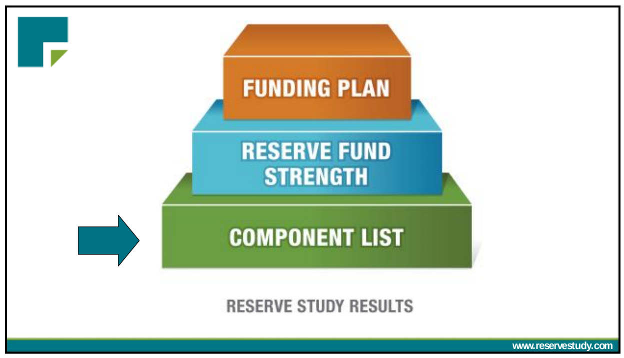
We want the best for you… to see your association age safely and successfully. That's done with a Reserve plan that guides the board's decision to fund Reserves so an association's major predictable repair and replacement projects can get done in a timely manner. Deterioration is unstoppable and expensive, but fortunately very predictable. Mother Nature and Father Time don't care if you are trying to minimize your homeowner assessments. Their "bill," the ongoing cost of "deterioration", is a "bill" just like any other bill, and regularly amounts to 15-40% of an association's total budget. If ignored, it does not go away. You don't have a choice about these costs. But you do have a choice about how to fund these costs… generally either with budgeted funding, or special assessments.



What are the Reserve Study basics?

There are three types of Reserve Studies, designed to provide you with just the kind of cost-effective assistance/guidance that is needed. A "Full" when one hasn't ever been done, a "With-Site-Visit" update at least every 3rd year, and a "No-Site-Visit" update in the in-between years.

Each of those Reserve Study types contain the same three kinds of information.

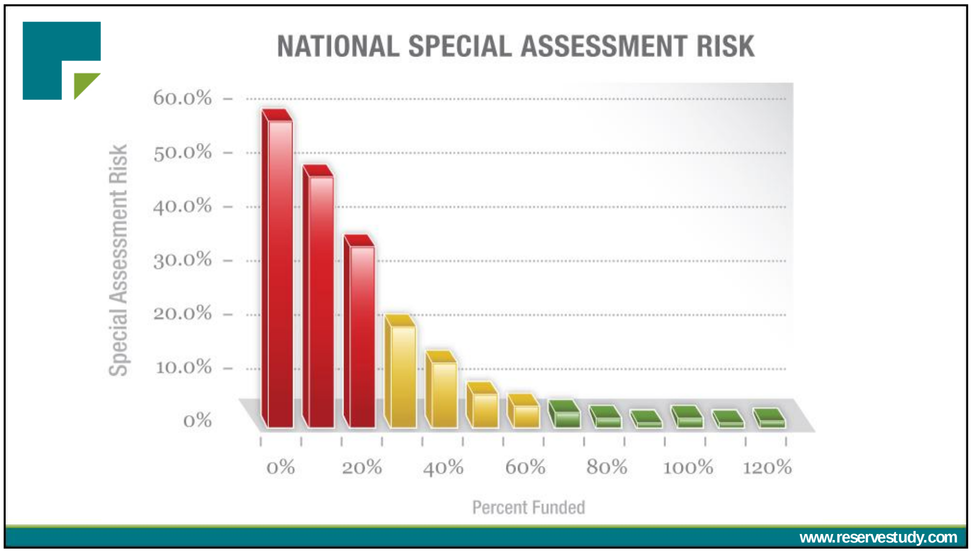


- Funding Plan tells you how much is needed to offset ongoing deterioration and provide for upcoming expenses, so projects can get done *on time*. For more information, see our [Reserve Studies 103 webinar]() on Funding Plans.

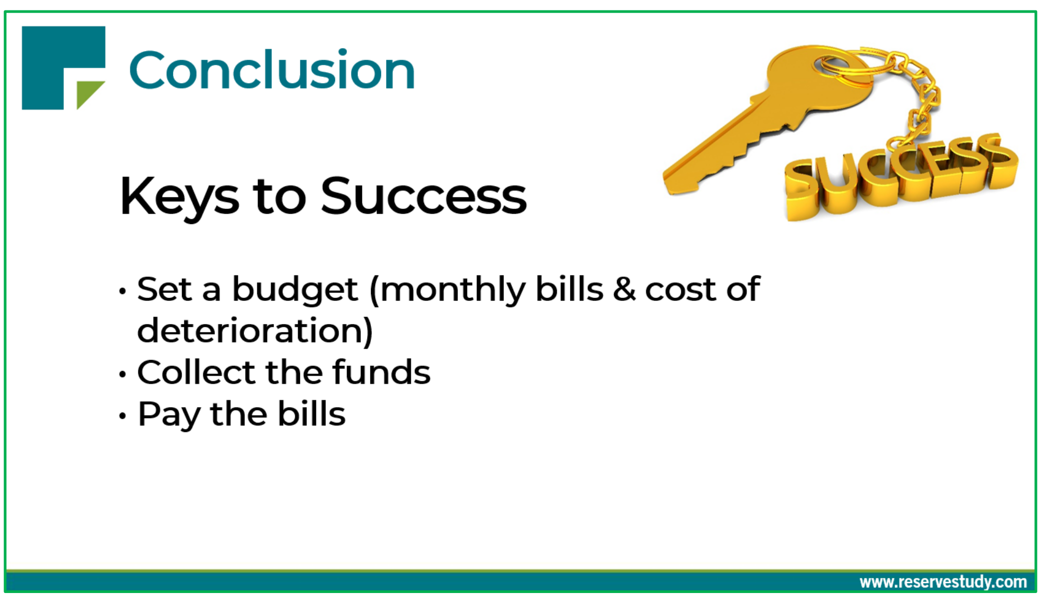
- Reserve Fund Strength tells you how well current funds have kept up with component deterioration, measured by Percent Funded. For more information, see our [Reserve Studies 102]() webinar on financial matters.

- Component List identifies the specific projects to be funded through Reserves, revealing their scope and schedule. Those appropriate for Reserve Funding are defined by the national Reserve Study Standards three-part test shown to the right. For more information, see our [Reserve Studies 101 webinar]() on Reserve Component selection.

Your Percent Funded reveals the consequence of having (or not having) enough Reserves on hand. Special assessments are common when Percent Funded is low, in the 0-30% range. An effective Reserve Funding Plan can help your association strengthen its Reserves, getting it above the 70% level where your homeowners will enjoy special assessments being very rare.



The “keys to success” are to set a healthy, realistic budget at your association, where the income matches (or slightly exceeds) anticipated costs… both the “regular” monthly bills and the ongoing cost of deterioration. Collect those funds and pay those bills!



There's never a reason to worry or fret… Association Reserves is here to guide your association through these inevitable upcoming expenses, towards a financially sustainable and improved future!

Need our professional assistance? Get a proposal for an updated Reserve Study by clicking here.

ASSOCIATION RESERVES®

Planning For The Inevitable

****Note: This course is approved for continuing education credit by:**

- **The Community Association Managers International Certification Board (CAMICB) to fulfill one CE credit for the CMCA® certification.**

Webinar Questions asked by Attendees

(prepared for webinar presented 2025-01-15, full recording can be found here)

General Reserve Questions

Q: Are there laws requiring boards to fund sufficient reserves? Are there penalties for failing to maintain the recommended reserve amounts?

A: Yes, in a few states. There are also legal consequences for failure to comply. Some states have requirements for Reserve Study preparation (type and frequency), and other states have requirements for Reserve Study disclosures. Please check with your local legal counsel for details.

Q: Can a board member complete a reserve study if they have limited assets (gates, roads with no other assets to maintain), if they have a financial background?

A: Preparing a Reserve Study requires a combination of physical evaluation skills, cost estimating skills, and financial analysis skills. In addition, it requires someone with the "gravitas" to convince the board and homeowners of the cost of ongoing deterioration. Or if they are wrong, they can doom the association and its members to future special assessments. That's why credentialed Reserve professionals exist, to expertly and independently guide association clients towards the future. Note that for reference on what "limited assets" might constitute, California has an interesting clause in their Reserve Study requirement, excusing associations from Reserve Study preparation whose total value of common area repair and replacement projects are less than half their annual budget (Civil Code 5550(a)).

Q: What happens to condominium associations who do not have a reserve study and rely solely on special assessments?

A: Their board members are at risk of litigation (failing to budget for the needs of the association and general fiscal irresponsibility), members experience higher costs of ownership due to "scope creep" from projects that are delayed while special assessment funds are compiled, and lagging property values because people fundamentally hate special assessments (and Real Estate Agents know that!).

Q: Why should we get a reserve study from Association Reserves instead of just doing our own? We have a history of projects so can predict their useful life and costs.

A: Good for you to have a nice history of Useful Lives and costs. So… you do it yourself. Are your calculations correct? Have you incorporated all assets? Are your disclosures compliant with national standards (so people shopping for a new home can see your Reserve Study formatted similarly to others they are seeing)? Is what you are preparing compliant with your state laws? The #1 claim for Board member D&O

insurance is “Breach of Fiduciary Duty”, and one of the top causes is boards trying to save a dime by doing things by themselves and screwing things up. Bottom line, you’ll get better results from a credentialed professional, and it’s not expensive compared to the downside risks.

Q: Can you suggest a statement to send out to homeowners when you need to increase HOA dues to responsibly fund Reserves?

A: Sure! “To maintain the quality and long-term sustainability of our community’s common assets and to fulfill our responsibility per our Governing Documents to provide for the financial needs of the association, the board has commissioned a Reserve Study to learn our Reserve funding needs. Based on this professional guidance, a dues increase is necessary to offset ongoing deterioration of our common areas and prepare financially for these predictable major projects. This will have the effect of strengthening our property values and minimizing your exposure to unwanted future special assessments.”

Q: How do you suggest I get our board to commission a Reserve Study when they are not willing to do so? They have no firm guidance on how much they should set aside, and even then, they tend to pull funds from reserves to cover Operating expenses. They are doing all they can to avoid increasing assessments! I’m so frustrated.

A: You can lead a horse to water, but you can’t make it drink. Remind them that you are willing to pay more on an ongoing basis and hate the thought that the association might not have enough for upcoming Reserve projects (typically, adequate Reserve funding is about 15% - 40% of total budget). Two other things you can do, begin your own Reserve Fund for the inevitable upcoming special assessment, and run for the board (with other like-minded people).

Q: Our property has a few income restricted units vocally resistant to assessment increases or special assessments (which requires a 2/3 vote of homeowners to pass). What should we do?

A: Transparency is key. Share clear financial projections and communicate the long-term benefits of reserve funding. Then raise monthly assessments in order to adequately and responsibly fund Reserves. If homeowners can’t afford it, they can sell and move out. Your responsibility is to the well-being of the association. You have no responsibility to keep the association “affordable” for anyone.

Q: I would like to show my board the relative homeowner values of neighborhoods with and without strong Reserve funding. Do you have such data?

A: Yes, see here. Strong Reserves boost home values by approximately 12.6%.

Q: How often should a reserve study be updated to ensure compliance with the law, and what key indicators signal the need for an immediate reassessment?

A: National Best Practice is to update your Reserve Study on the basis of a diligent visual site inspection at least every third year, and No-Site-Visit updates in the in-between years. That is also a responsible plan for a budget line item that regularly is 15% - 40% of your total budget! It deserves annual review and updating. Please check with your association's legal counsel regarding legal compliance. Beyond the passage of time, indicators for an update are when the Reserve balance is significantly different than projected in the last Reserve Study, when Reserve funding or Reserve spending is significantly different than in that last Reserve Study, or when Interest or Inflation (or both) are significantly different than in the last Reserve Study.

Q: Will you have a webinar about how to read the reserve study? The information provided is overwhelming.

A: Please see here for a webinar on how to read your Reserve Study. Note that generally Reserve Study providers provide a free overview of your completed Reserve Study, perhaps even recording it for replay to the rest of the board and homeowners.

Q: Who participates in the initial onsite study?

A: The reserve study provider typically works with board members, the association manager, and maintenance staff.

Q: I have had a reserve company take over conducting a reserve study for one of my HOAs. This company's numbers for Useful Life and Real Useful Life differed drastically from what the previous reserve company had stated. It seems that Useful and Remaining Useful Life numbers vary from one reserve company to another. Why does this occur?

A: Beyond differences explained away due to the passage of time between the two reports, differences between two companies exist due to job quality and thoroughness (do they follow National Standards, or just do things their way), experience, and expertise. Ask the provider why theirs is so different from the prior report!

Q: In California, you can obtain a FiPHO score for an association (like a personal FICO score). Will FiPHO scores begin appearing in reserve studies in the near future?

A: The number of associations with an overall FiPhO (Financial, Physical, and Operational) score continues to grow (see more here), and is about a year or two from what may be considered "critical mass" where it becomes a standard metric management companies, service providers, and prospective buyers ask to see. Reserve Study results become part of a FiPhO score, not vice-versa. Find out how your association "measures up" today by going to ourFiPhO.com, "claiming" your association, and populating the requested data fields.

Q: Where you have a small association and there is no on-site manager, if you order a full on-site study will the board be contacted first to provide additional information

or answer any questions that may arise or be allowed the opportunity to participate in the Reserve Study site inspection or process?

A: Yes. If there is no on-site manager, we seek board input to provide association history, access to all restricted areas of the association, the latest financial information, etc. Preparing a Reserve Study requires interaction with an association representative.

Q: Say my entity is your new client. Walk me through what the process looks like for a "Full" Reserve Study. What do you expect from me and what should I expect from you? From us what documents and resources are needed? What interaction takes place with our board and membership?

A: Please see a webinar on the process here, or a short "explainer" video here. As you can expect, we arranged the site inspection with an association representative. We ask for a copy of Governing Documents, a history of Reserve projects, and current financial information. Expect collaboration.

Q: Do certain reserve study vendors specialize in new vs old buildings? I'm concerned a study vendor will not be able to understand our old building heating system.

A: Some Reserve Study providers with more limited experience have narrow specialties. Most larger Reserve Study providers have sufficient staff, so they have specialists in-house for different types of properties (sprawling single-family home communities, high-rises, townhomes…) or associations of different ages. Please check with candidate Reserve Study providers to ensure they have the skills and experience for your association.

Q: Regarding Major projects and no guessing… what do you mean by no guessing in this context?

A: It refers to using experience to establish Useful Life, Remaining Useful Life, and current Replacement-cost estimates. A credible, credentialed Reserve Study provider does not "wing it" while working on your Reserve Study. Also – if we make an estimate for a project 25 or 30 years away, that's not a guess. It is a reasonable expectation for a project that is updated and adjusted at least every third year as time passes.

Q: If you change reserve study vendors, would the new vendor always do an on-site full study to start out with?

A: No. If your prior Reserve Study was prepared by someone with a Reserve Study credential (with "RS or "PRA behind their name), typically a different company will be comfortable updating that work product. In those cases, expect that a With-Site-Visit Update is likely to be their recommended Level of Service.

Q: How do you advise an association that cannot afford needed funding due to a perceived assessment increase limit?

A: The board needs to be courageous. They signed on to lead the association, they have the power to set budgets, they now have the legal obligation to care for the association, and remember that the homeowners agreed to pay their fair share of expenses when they joined the association. Seek wise counsel from your Reserve Study provider to find out if some funding alternatives exist (increasing Reserve Funding in steps over a series of years, perhaps in combination with a special assessment), but costs are what they are. They need to be paid. And those funds always come from the homeowners. Expect you'll need to raise assessments.

Q: Unfortunately, if too many owners cannot pay the increased amount to properly fund the reserve, delinquencies become a big problem. How do you suggest approaching this possibility?

A: That is generally a perception issue. People love their homes and will dig deep to remain in their home. Make it clear what the cost is to maintain the home. Raise assessments regularly each year. Then when individuals find the association too expensive, they'll leave and sell to someone who can afford to live there. There are many places that are too expensive for me to live (so I don't live there).

Q: What's the average cost for a full study for a new community?

A: Costs vary widely based on property size, type, age, complexity, and location. A "Full" Reserve Study often costs in the range of 1% of your association's annual budget.

Q: Why do reserve study vendors charge wildly different amounts for the study? Does each vendor have different databases or calculations that merit the cost difference?

A: Differences reflect expertise, methodology, and software tools. Higher fees often correlate with more accurate, comprehensive reports. There are some competitors who "work out of their trunk" and deliver unsubstantiated results. There are other competitors who participate in continued education, have more experience, and sustain a national credential. While some providers are simply more efficient than others, the quality of Reserve Study providers varies greatly, and quality regularly comes at a cost.

Q: My Association just had a new reserve study done and my BOD and Finance Commission really want to make changes to some things in the study to push things out further than indicated. It seems to me we should be going with what the reserve company put together for us, but is this something most Associations do in terms of making changes?

A: While boards may ask for changes to correct something that is incorrect (the roof was actually replaced in 2015, not 2016), most Reserve Study providers know when to dig their heels in when the client is clearly just trying to manipulate the results ("Yes our roof is 30 yrs old, but I'm sure it will last another 30 or 40 years!"). It's ok for a board to push but expect a credentialed Reserve Study provider (someone with an RS or PRA behind their name) to know when to say "no" to requested changes.

Reserve Component Questions

Q: I just worked with a reserve company that really didn't know how to estimate the repair and/or replacement timing or cost of gas and water lines. According to the new CA Senate Bill 900 (CA Civil Code §5550(c), CA associations are now required to be able to fix gas, electricity, water, and sewer lines within 14 days. How can I obtain a somewhat accurate allocation in our reserve study?

A: Reserve Studies are based on reasonable expectations for upcoming major common area projects. There are many utility line issues that are patently unknowable. A credible Reserve Study provider (one with an RS or PRA behind their name) can tell you if potential repairs or replacements of your utility lines qualify for Reserve Funding, or not. Neither you nor your Reserve Study provider can be held to impossible expectations.

Q: Are measurements for a full on-site study done when the site visit takes place or are the measurements obtained from drawings/documents?

A: Measurements nowadays are typically compiled from a combination of on-site measurements and satellite tools. Because drawings provided are commonly not "as-built," they are nowadays not a primary source of measurements.

Q: What if the board finds an existing component that is NOT listed in our RS?

A: Contact your Reserve Study provider. It may be a simple oversight, or it may be intentional (it falls outside the definition of a Reserve Component, or they expect it to be handled from the Operating Budget). If it was an oversight, expect to get a revised Report in a timely manner, or if it is a while since that report was prepared (more than 60 or 90 days) you should get that component added during your next update.

Q: How do you handle components like roofs in a place like North Texas, where we experience hailstorms annually and it's very rare for roofs to last past a decade without an insurance claim for a roof replacement?

A: The board is responsible for budgeting for the sustainability of the association. Your association may or may not suffer roof damage, and insurance may or may not fund a replacement. So, you budget responsibly for a reasonable expectation of Useful Life, Remaining Useful Life, and replacement cost through Reserves. <u>If</u> you suffer the tragedy of a major hailstorm that destroys your Roofs <u>and</u> new roofs are funded via insurance, your Reserves will emerge stronger, and your Reserve funding requirements may drop.

Q: **How do you determine the number of years in useful life?**

A: Experience, after considering the material quality, local environment, quality of installation, and ongoing maintenance.

Q: **When you are looking at things and deciding if they are a regular maintenance item or a reserve item - what generally is the price cutoff?**

A: The price cutoff varies but is often in the range of .5% to 1% of an association's annual budget (or the board or manager's "signature authority" to spend money).

Q: **Are there components of landscaping that should be included in reserves, like the cost to replace shrubs and trees that have a useful life?**

A: Yes. Landscaping projects commonly appear as Reserve Components. Common examples are tree trimming, irrigation system repairs, entryway planting, common greenbelt replanting, etc.

Q: **Do reserve studies actually take into account the level of maintenance and current state of an item, or is remaining life solely based on installation date and a database that says how long it should last?**

A: A credentialed Reserve Study provider will take into account the observed condition, material quality, local environment, quality of installation, and ongoing maintenance.

Q: **If you display 30 years of Reserve income and expense, what do you show on year 1 for something with a 60-year life cycle?**

A: When you fund towards a Percent Funded goal, your goal is to offset ongoing deterioration. So, in the first year, you are effectively funding 1/60th of that upcoming project, even though the expenditure does not display in the first 30 years of cash flow. When you fund for a long-term component at the beginning of its life expectancy, you are prepared when, after 30 years, the projected expenditure actually begins to display in your "next 30 years" of cash flow projections.

Q: **Our in-house Reserve Study plans for the next 30 years. If our roof has a 60-year warranty, do we wait until year 31 before I show it as a Reserve component?**

A: You obviously could, but that would not be fair to have the entire cost of that roof shouldered by the owners during only its "last" 30 yrs of life. Everyone should pay their fair share of deterioration during the time they lived in the association. See the above answer. This is a good example of using a credentialed Reserve Study provider capable of handling and planning for long life components.

Q: **On the component list, if a component is expected to last a "lifetime" (like Hardie Plank siding), do you fund for that through Reserves or just wait and special assess when needed?**

A: We don't believe Hardie Plank siding is a "lifetime" component. Depending on the application (siding in a moderate climate, or at an alpine ski resort) and installation, we expect it will last 30-50 years. So Hardie Plank siding meets the three-part test to be a Reserve component and should be included for funding in your Reserve Study (so it does not cause a special assessment when it finally fails, on schedule, in plain sight).

Q: Does your scope of work include Lake Bank Soil Erosion?

A: Generally, we seek wise counsel from the company managing or maintaining your water assets to supplement our general experience on this possible expenditure.

Q: What criteria should an association use to identify and prioritize projects?

A: Life-safety comes first, then cost, then (in)convenience, then aesthetics. Effective Reserve planning should help you have sufficient funds to perform all your scheduled Reserve projects in a timely manner and not have to delay some projects lower on the priority list.

Q: How come insurance for an HOA is not part of a reserve study? The insurance rates are increasing drastically in California. For one of my small HOAs, insurance is practically bankrupting them. Insurance is the protection of the components. Hence, I don't understand why this isn't part of a reserve study. Some HOAs are having to choose between paying their HOA insurance versus fixing a component. Many HOAs are in a deferred maintenance mode due to higher insurance rates.

A: Insurance premiums do not pass the national Reserve Study Standard three-part test. Insurance premiums are an operational expense. Insurance only protects the association against accidents. Besides whether through the Operating Budget or Reserves, the bill needs to be paid. A $100,000 annual insurance premium costs the homeowners $100,000, whether the cash comes out of the checking account or the Reserve account. When insurance costs go up, associations need to raise their assessments to cover that cost. Reserve funds are already designated towards necessary projects. They are not available to pay Operating expenses.

Q: Does the reserve study only apply to items in place as opposed to a projected building, e.g., adding a community center?

A: Reserve funds are to be spent on existing projects that pass the national standard three-part test… that they are a common area maintenance responsibility, the project can be reasonably anticipated (in scope and timing), and the cost is "material" to the association. So, no – Reserves are designated towards existing projects. They are not available to be spent adding new things to the association.

Q: Do we need a reserve account for something that "last forever" like cement siding?

A: I'm of the firm opinion that nothing lasts forever. Even fiber-cement-based siding (like Hardie-Plank or Hardie-Shingle) have limited life expectancies. They have life expectancy limitations that can be reasonably anticipated. So, in addition to being common area components and a project with a significant cost, they meet the criteria for funding through Reserves.

Q: **If a single-family community only has an entrance and possibly a couple of ponds, how important is reserve funding for that particular community without a lot of common elements?**

A: Reserve funding helps an association not be surprised by major projects that are not surprising. If your association has minimal common areas, Reserve Funding may not be appropriate. For instance, CA law exempts residential community associations from Reserve Fund preparation requirements if the sum total of the value of their common areas repair and replacement projects are less than 50% of the association's annual budget (CA Civil Code §5550(a)).

Q: **How do you define a "capital improvement"? Our CC&Rs state that any capital improvement over $10k must be voted on by the owners, which many argue are reserve component replacements.**

A: A capital improvement typically refers to the addition of a new asset or significant enhancement of an existing one. The English Language is troublesome in this area, where the context of some Governing Documents clearly, but unfortunately, describe Reserve projects performed on existing assets (roofing, siding, asphalt, elevators, etc.) as capital improvements. So, seek clarity from your association's (Reserve-fund savvy) legal counsel on this matter. FYI, a Capital Improvement is defined in national Reserve Study Standards as: "*Additions to the association's common area that previously did not exist.*"

Q: **How can we set up reserve items for periodic (not uniform) deferred maintenance items such as landscape replacement or roof repairs of unknown cost?**

A: Set up a Reserve line item for an "allowance" – meaning a reasonably anticipated expenditure on a reasonable interval. It may be "concrete sidewalk repairs - $5000 every three years" or something like that. It will likely not be exactly right, but it can be close enough for budget purposes for providing funds to sustain your association without regularly de-stabilizing your Operating Budget.

Q: **Let's say we want to add a new water feature you spoke of. Let's say it a cost of $10K. This is, of course, not in our reserve study. Can a board include that in our operating budget the following year, or does there need to be a membership vote to approve?**

A: Whether a membership vote is needed depends on your governing documents. Please seek legal counsel on this matter.

Q: **I am Landscape Chairman of our Association. Deterioration is ongoing for plants, grasses, etc. Each year I take money from reserves to cover these expenses. How does this fit into the Reserve Account vs Operating expenses?**

A: Routine landscaping expenses are typically operational costs, and you should not be spending Reserves on operational costs. If a project is for sustaining the common areas, is reasonably anticipated in scope and schedule, and is significant in magnitude to the association, have your Reserve Study professional create a line item to funding those periodic projects.

Q: **How is the ARI cost database developed, and it is based upon national average costs?**

A: Our internal cost database is based on the actual, local cost experience of our clients.

Reserve Funding Questions

Q: **So, are you saying best practice is to have 25% of your funds go to reserves?**

A: No. We are saying it is common for associations to need 15% - 40% of their total budget to go to Reserves. About 25% of the total budget is a common value. Best Practice is to have a regularly updated Reserve Study that tells you what is right for your association, this year.

Q: **Like so many other associations, our association is "behind the curve" regarding funding reserves. As we start to build reserves, is it truly frowned upon to partially rely on a line of credit for the first couple years while funds are building up?**

A: No. Using a line of credit can provide temporary relief. It can be part of a structured plan to fund some expenses while the Reserve Fund is building.

Q: **We are a 9-unit association. We recently proposed a lump sum fee designated towards Reserves to be paid by new homeowners. We were also thinking about a similar fee to be levied on owners selling their home. Are these good ideas? Are they common?**

A: Ideally Reserves should be funded by the owners who enjoyed use of those common area assets (and how they contributed to home valuation) during their time as homeowners. I am not a fan of new buyer fees, because they ask funding from exactly the people who had nothing to do with deterioration, and they are inherently unstable (some years more, some years less, depending on how many sales occur at the association). Our recommendation is to set your budget for sustainable Reserve funding and not penalize new owners with a fee. You want to welcome them to a fiscally stable association, where everyone has (and does) pay their fair share of expenses over time.

Q: **As an association under 10 years old, is it acceptable to have a Reserve fund less than 70% Funded? Isn't that something that you get to, in time? Does it need to happen immediately?**

A: A "new" association's Reserve Status is set up by the developer, either well, or poorly. Fortunately, in the early years the deterioration is small, so it's easy for an association to quickly catch up with properly sized Reserve Funding. Check with your local, credentialed Reserve professional to get on a plan that serves your association well.

Q: **How do you catch up if you're underfunded?**

A: Increase your Reserve funding – at least a little this year, and again for the next few years. For most associations, that's the trick. The rate at which you increase your funding (or need to pass a special assessment) depends on the magnitude and timing of upcoming projects. Check with your local, credentialed Reserve professional to get on a plan that serves your association well.

Q: **If you are going to have a large project that will take up a large part of the reserves. Is it better to use all of the reserves or combo with special assessments or loans?**

A: A balanced approach using reserves, a special assessment, a loan, or a combination of the above is something you should discuss with your local, credentialed Reserve professional.

Q: **Is "Percent Funded" based on recommended balance or recommended funding? What is the formula for calculating?**

A: Neither. Percent Funded is based on actual Reserve balance, compared to the deterioration (needs) of your Reserve components. This is defined in the National Reserve Study Standards. See more here (p16 and p18), or our eBook on the topic here.

Q: **We do not have a reserve fund account. We just have one account with both the operational funds and reserve funds. How do you suggest we get started with a separate reserve fund account? How much do we get from the account and move to the reserve fund?**

A: Go to the bank and open a dedicated reserve (savings) account. Get a Reserve Study from your local credentialed Reserves professional and discuss with that expert how large an initial transfer to make.

Q: **Our reserve study came back, and we are woefully underfunded (only 5% Funded). What is the fairest way to impose the huge assessment that has been recommended when we have 3 units that were purchased just this past year and most of the rest have been owned for 15 to 20 years. We have about 30 units.**

A: Everyone bought into the association, and "signed on the dotted line" that they would pay their proportionate share of association expenses. Hopefully the new owners got a discount because the Reserves were weak, because they're going to join everyone else in an expensive "catch-up" process to prepare for the large expenses typical of a 20+ yr old association. Discuss with your local credentialed Reserves professional to see if you have time to simply strengthen your Reserves with increased funding, or if a special assessment (perhaps spread over a few years) is a more appropriate solution.

Q: What are the consequences for Board members and/or manager for not taking care of a reserve item that has passed it life expectancy since the item is in good working order?

A: While we do not give legal advice, it is our understanding that board members are responsible for the care and sustainability of the association. When that job is not accomplished, they have liability exposure. If it is a matter of a project not getting done on time and being deferred, the consequence is regularly a significant increase in the cost to accomplish the project due to additional damage. Generally, deferring does not avoid costs. It just backs them up (like water behind a dam) where they just grow. The timely execution of your Reserve projects is always best.

Q: I have heard that when an HOA's overall reserve funding level gets too low, banks won't lend or refinance loans for HOA homeowners. I have heard that an overall reserve funding level of 10% or less is a percentage that spooks banks, and I have also heard 15%. What do you think the percentage is?

A: Let's be careful here. Lenders to homeowners (mortgage providers – we're not talking about a loan to the association for a big project) give preferred rates to homes in associations that meet Fannie Mae and Freddie Mac standards. One simple example is that "Fannie and Freddie" require condominium associations to set at least 10% of their budget towards Reserves on an ongoing basis (generally not "sufficient", as most associations need to fund Reserves 15% - 40% of budget, but it's an easy to calculate minimum standard). So, if your condo association is funding Reserves at less than 10% of total budget, prospective buyers or homeowners there will have trouble getting a loan, or at least a loan attractive terms.

Legal/Insurance/Investment/Accounting Questions

Q: Can you comment on NJ new Law that took effect in Jan 2024) Rigid or unfair requirements?

A: This "new" law in Jan 2024 requires associations to acknowledge and fund the predictable cost of deterioration. It is just the State of NJ telling associations to set budgets sufficient to pay the ongoing cost of ownership on an ongoing basis, rather than waiting until a special assessment is necessary. This new law has nothing to do with ongoing costs… just the matter in which they are paid. Interestingly, details of the application of this law continue to evolve. Please discuss with your local (NJ) Reserve Study professional to ensure your association is compliant.

Q: **Do you think that the State of California will pass legislation in the near future requiring HOAs to maintain a certain level of reserve funding, such as 50%? Many HOAs in California are woefully underfunded.**

A: It's certainly possible, but it's hard to anticipate what legislators will do. There has been long-standing legislation in CA requiring regularly updated Reserve Studies and annual disclosure to homeowners, so CA associations and homeowners have been "facing the facts" for years.

Q: **Why do master and sub associations have duplicate liability insurance? Can they be reduced by using the same insurance company?**

A: Please check with your insurance agent. Different legal entities generally require different insurance policies. I would expect, as you suggest, that using the same insurance company for each would provide the best coverage (no duplication, no gaps) at the best rates.

Q: **How is Reserve Funding treated on the balance sheet? Is it regarded as pure revenue or future accounts payable? I'm concerned about the tax implications for a robust funding program.**

A: Reserve funding is typically recorded as an equity account on the balance sheet, representing funds set aside for future major repairs or replacements. As Reserves are set aside and dedicated to offset deterioration, Reserves are not considered revenue (profit). Note that interest or investment earnings are different… they are taxed. Please discuss further with your local tax professional familiar with HOA-specific regulations to ensure compliance.

Interest/Inflation Questions

Q: **How does inflation impact the cost of deterioration? Assume our HOA's annual cost of deterioration in 2024 is $400K, does the cost increase by 3% per year? So, for 2025, all other things being equal, are we looking at $412K cost of deterioration?**

A: Yes, if inflation is 3% annually and all other factors remain the same. Everything is expensive, and it's only getting more expensive. It's important to have a Funding Plan that anticipates this moving target, providing sufficient funds to get Reserve projects done in a timely manner without reliance on additional or outside funds.

FL Specific Questions

Q: What is the law in Florida to have reserve study budget in place and to start funding the reserves. I know there is a new law passed due to the Champlain Towers South tragedy in Surfside, FL in 2021.

A: The changes following the Champlain Towers South tragedy relate to structural safety and reserve funding. In general, stiffer requirements are in place for associations containing buildings three-stories or higher. Please discuss with your local credentialed Reserve Study provider and your association's legal counsel.