FOUNDATION FOR COMMUNITY ASSOCIATION

research

DATA DRIVEN. INDUSTRY FOCUSED.

BEST PRACTICES

Reserve Funding

Effective reserve planning and funding are essential to the long-term financial health, safety, and stability of community associations. This report highlights:

- Reserve Study Preparation & Review
- Federal & State Requirements
- Communicating Reserve Funding Needs
- Trends in Reserve Funding & Management

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ACKNOWLEDGEMENTS

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The Foundation for Community Association Research is a nonprofit affiliate of Community Associations Institute, the professional organization representing those who manage, govern, advise, and live in 375,000 common interest communities throughout the United States. The Foundation's mission is to provide authoritative and reliable research and reports on the operations of the common interest community industry and its community associations.

CONTENTS

WHAT ARE BEST PRACTICES?

The Foundation for Community Association Research is proud to offer function-specific *Best Practices Reports* for the community association industry. The Foundation has developed best practices in select topic areas using a variety of sources including recommendations from industry experts and various industry-related publications.

The outcomes of the best practices project include:

- Documented criteria for function-specific best practices.
- Case studies of community associations that have demonstrated success.
- The development of a showcase on community excellence.

The benefits of benchmarking and best practices include: improving quality; setting high performance targets; helping to build confidence that stretched goals are possible; strengthening cost positions; developing innovative approaches to operating and managing practices; accelerating culture change by looking outward; and bringing accountability to the organization.

The Foundation's entire catalog of *Best Practices Reports* is available at foundation.caionline.org as free downloads. Printed versions are for sale at www.caionline.org/shop.

For additional guidance on analyzing, managing, funding, and forecasting association reserves, consult *Reserve Studies and Funds GAP*, Reserve Study Standards, Explanation of Reserve Study Standards, and CAI courses M-206: *Financial Management* and M-201: *Facilities Management*.

OVERVIEW

Since the early 1970s, community associations such as condominium associations, cooperatives, and planned communities have experienced exponential growth. This growth is expected to continue for the foreseeable future in the United States and globally.

Approximately 35 percent of U.S. housing inventory exists in planned or managed residential communities, generally referred to as common interest communities or community associations. The Foundation for Community Association Research estimates that in 2026, there are nearly 375,000 established community associations in the U.S. representing 30 million housing units and 80 million residents. Community associations also are a growing trend in Europe, Australia, South Africa, and the Middle East.

WHAT ARE RESERVE FUNDS AND WHY DO THEY EXIST?

Community associations come in all sizes. They vary by age, type, amenities provided, and maintenance obligations. Careful planning for future repairs and replacement is in the best interests of the community association, and also required by law in many states. Maintaining an adequate reserve fund helps associations satisfy legal, fiduciary, and professional responsibilities. It also minimizes the need for special assessments or borrowing and enhances property values in the community.

The concept of reserves—community-wide assessments to fund the replacement of common elements—dates back to 1947 before the first condominium was created in the United States. Every association should have a specific amount of cash in a separate account to fund necessary repairs or replacement projects. These funds are normally known as the reserve account.

RESERVE BALANCE: Actual or projected funds clearly identified either at the beginning or end of the association's fiscal year that will be used to fund reserve component expenditures. The source of this information should be disclosed within the reserve study. Also known as beginning balance, reserves, reserve accounts, or cash reserves. This balance is based on provided information and not audited.

There are several reasons why associations need reserves:

- **Protect and enhance assets.** Funding of reserves protects the physical assets in the community and the investment each owner made by purchasing a home in the community. By making sure that worn components can be replaced when needed, associations carry out a primary function of good fiscal planning.
- **Fairness.** The most equitable means to fund reserves is a process where every homeowner contributes their fair share over the period where they benefit from the common assets. A

community consists of past, present, and future homeowners, and the financial burden of maintaining the association should be distributed equitably among these three groups.

- Sound financial planning. Funding for eventual replacement of the common components should be part of every annual budget. If the reserve funding is not properly planned, special assessments or borrowing will be needed.
- Fiduciary duty. The board has a legal and fiduciary responsibility to homeowners. By not including reserve funding in the association's annual budget, board members are not demonstrating prudent judgment and sound business practices. Failure to adequately plan for reserve obligations may expose the board to claims alleging breach of fiduciary duty.

WHAT IS A RESERVE STUDY?

While associations have long recognized the need to set aside funds for future capital expenses, uniform guidance on how to conduct and evaluate reserve studies did not emerge until the late 1990s with the publication of *Reserve Study Standards* and the accompanying Explanation of CAI's Reserve Study Standards.

At its core, the concept of a reserve study is straightforward: estimate the cost of replacing a component and spread that cost over its useful life. However, applying this concept in practice is more complex. Most associations are responsible for multiple components such as roofs, paving, mechanical systems, and amenities. Each of these components has a different replacement cost, expected lifespan, and maintenance history.

The process becomes even more complex when the association has multiple components of varying ages. In these cases, the reserve study professional must evaluate the current condition of each asset, estimate its remaining useful life, and adjust funding recommendations accordingly. This combination of physical assessment and financial forecasting is what transforms a reserve study from a basic budgeting exercise into a critical planning document.

RESERVE STUDY: A reserve study is a budget planning tool identifying the components a community association is responsible to maintain or replace, the current status of the reserve fund, and a stable and equitable funding plan to offset anticipated future major common area expenditures. This limited evaluation is conducted for budget and cash flow purposes. Tasks outside the scope of a reserve study include design review, construction evaluation, intrusive or destructive testing, preventive maintenance plans, and structural or safety evaluations.

Reserve Example:

If an association has one component that will cost $100,000 to replace in 20 years, the association should set aside $5,000 per year for 20 years to accumulate the money needed to replace the component. This analysis requires knowledge of cost estimating and the economic life of the component. It will need to be updated regularly to account for changes in condition or estimated remaining useful life and inflation.

Table 1 provides a sample reserve study component inventory to illustrate how these elements are typically identified and organized.

Table 1. Example of Reserve Study Component Inventory

Component	Quantity	Unit	Unit Cost	Current Replacement Cost	Estimated Useful Life	Estimated Remaining Useful Life
Pavement Overlay	28,000	SY	$22.00	$616,000	20	12
Pavement Seal Coat	28,000	SY	$2.00	$56,000	5	2
Concrete Walkways	34,000	SF	$12.00	$408,000	30	22
Brick Pavers	4,000	SF	$19.00	$76,000	25	17
6' Wood Fence	900	LF	$48.00	$43,200	20	12
TOTAL				**$1,199,200**		

ADHERENCE TO FEDERAL AND STATE REGULATIONS

One of the most significant forces reshaping reserve study practices and strategies is the rapidly evolving regulatory, lending, and insurance landscape. In recent years, heightened attention to building safety, aging infrastructure, and deferred maintenance has resulted in new statutory requirements at the state level and more stringent underwriting standards at the federal level—particularly for condominium associations.

Today, these requirements do more than establish compliance obligations; they directly influence a community's ability to access mortgage financing, maintain property values, and demonstrate long-term financial sustainability.

STATE STATUTORY REQUIREMENTS

In response to building failures and growing concern over aging building stock, many states have enacted or are considering legislation affecting reserve studies and reserve funding. These laws may require community associations to:

- Conduct periodic reserve studies.
- Prohibit or restrict the waiver of reserves.
- Maintain minimum reserve funding levels.
- Perform and fund for preventive maintenance.
- Complete structural, facade, or milestone inspections tied to long-term funding plans.

States that currently require community associations to conduct reserve studies and/or fund reserves include California, Colorado, Florida, Hawaii, Maryland, Nevada, New Jersey, Ohio, Tennessee, Virginia, and Washington. Similar legislation is pending in additional states.

Because statutory requirements continue to evolve, associations and reserve professionals should regularly consult current guidance. The most up-to-date information on state reserve requirements can be found on CAI's website.

FEDERAL LENDING AND REGULATORY REQUIREMENTS FOR CONDOMINIUMS

In addition to state law and *Reserve Study Standards*, federal lending policies play a critical role in shaping reserve funding practices for condominium associations. Federal agencies including the **Federal Housing Administration**, **Fannie Mae**, and **Freddie Mac** establish reserve, maintenance, and insurance expectations that directly affect project eligibility.

Over time, these requirements have expanded significantly. Today, most condominium associations seeking conventional or government-backed mortgage financing must comply with detailed financial, physical condition, and insurance standards.

Recent updates to Fannie Mae and Freddie Mac guidance further reinforce a shift toward stronger financial discipline, enhanced documentation, and ongoing monitoring of condominium projects.

Current and emerging federal expectations generally require condominium associations to:

- Provide for adequate funding of replacement reserves and preventive maintenance.
- Maintain reserve funding levels of at least **10% of annual assessment income**, increasing to **15% for applicable loans beginning in 2027**.
- Follow the **highest funding level identified in reserve studies**, rather than a lower funding approach which provides for adequate funding. The baseline funding methodology is not accepted.
- Maintain sufficient documentation demonstrating financial stability, building condition, and absence of critical repairs.

Failure to meet these requirements can render an association ineligible for mortgage financing, directly affecting unit marketability, access to homeownership, and property values.

EXAMPLE:

Understanding the 15% Reserve Funding Requirement

Fannie Mae and Freddie Mac generally require condominium associations to allocate at least 15% of annual budgeted assessment income to reserves. Certain income sources may be excluded from the calculation, including special assessment income, utility pass-through income, and certain incidental income, as permitted by agency guidelines.

EXAMPLE: An association has $900,000 in annual assessment income, plus $100,000 in special assessment income, $50,000 in utility pass-through income, and $25,000 in incidental income. Although total revenue is $1,075,000, the reserve funding calculation would generally be based on the $900,000 in regular assessment income. Under a 15% requirement, the minimum reserve contribution would be $135,000 (15% of $900,000).

Associations should consult current Fannie Mae and Freddie Mac guidance and qualified professionals when evaluating financing eligibility.

FANNIE MAE AND FREDDIE MAC CONDOMINIUM LENDING POLICIES

Fannie Mae and Freddie Mac are government-sponsored enterprises that purchase and guarantee mortgages in the secondary market. Their condominium project eligibility standards are closely aligned and increasingly emphasize long-term financial sustainability, building safety, and insurance adequacy.

Recent policy changes introduce several important shifts:

- **Elimination of the limited review process**, resulting in more projects undergoing full review and increased documentation requirements.
- **Expanded use of full project reviews and lender questionnaires**, increasing administrative responsibilities for associations and managers.
- **Removal of investor concentration limits**, while placing greater emphasis on overall financial health and project stability.
- **Expanded eligibility for waiver of project review** for smaller communities (up to 10 units), offering limited flexibility for certain projects.

In addition, long-standing requirements remain in effect:

- Projects with critical repairs or unsafe conditions are not eligible for lending until repairs are completed.
- Critical repairs may include conditions affecting safety, structural integrity, or habitability, including those requiring partial or full evacuation.
- Lenders must obtain documentation such as reserve studies, engineering reports, and inspection findings to confirm project condition.
- Special assessments are evaluated for purpose, amount, and repayment status, and may impact borrower eligibility.
- Associations deemed noncompliant are classified as ineligible for mortgage financing until deficiencies are resolved.

Both Fannie Mae and Freddie Mac require lenders to collect and review condominium questionnaires (including Forms 1076 and/or 476) along with supporting documentation.

FHA CONDOMINIUM LENDING POLICY

The FHA insures mortgage loans for individual condominium units under Section 203(b) of the National Housing Act. To be eligible, a condominium project must:

- Be in full compliance with applicable state and local laws.
- Be in good standing with relevant regulatory authorities.
- Serve as primary residential use and contain at least two dwelling units.

FHA-insured condominium loans may be used to purchase or refinance units in approved projects such as low-rise, mid-rise, high-rise, and certain manufactured housing developments.

FHA condominium lending requirements are periodically reviewed and updated. Associations, managers, and reserve professionals should consult the FHA website for the most current guidance.

INSURANCE REQUIREMENTS AND MARKET REALITIES

Updated federal guidance also reflects significant changes in the property insurance landscape. While certain requirements have been relaxed to address market constraints, overall expectations for coverage and risk management remain high.

Key updates include:

- Greater flexibility in demonstrating coverage sufficiency, including removal of strict replacement cost documentation requirements.
- Elimination of requirements to insure roofs at full replacement cost and removal of inflation guard requirements.
- Establishment of a *maximum per-unit deductible of $50,000* for master policies.
- Increased reliance on *unit owner (H06) policies* where gaps exist in master coverage or where deductibles apply.

These changes acknowledge current insurance market challenges while maintaining a baseline level of protection and shifting more responsibility to associations and unit owners to coordinate coverage effectively.

Federal guidance now emphasizes that compliance is not a one-time event but an ongoing responsibility. New expectations include:

- Annual verification of insurance coverage by servicers.
- Monitoring for reductions in coverage over time.
- Annual communication reminding borrowers of their obligation to maintain insurance.

These requirements increase transparency and oversight throughout the life of the loan and reinforce the importance of maintaining current, accurate documentation.

PRACTICAL IMPLICATIONS FOR BOARDS AND MANAGEMENT

Given the growing complexity of regulatory, lending, and insurance requirements, boards and community association managers play a critical role in maintaining eligibility and responding to lender inquiries. Best practices include:

- Maintaining current reserve studies, completed within the last three years, that reflect adequate funding levels.
- Formally adopting and documenting a reserve funding plan. While reserve studies may present multiple funding scenarios, boards should select a defined strategy and align budgets accordingly. With evolving federal requirements, a clearly adopted plan supports compliance, financial stability, and lender confidence.
- Reviewing insurance coverage, deductibles, and alignment between master and unit owner policies.
- Retaining recent engineering reports, inspection records, and building condition assessments.
- Responding promptly and accurately to lender questionnaires and documentation requests.
- Directing technical or engineering questions to qualified professionals such as engineers, architects, or reserve providers.
- Establishing procedures for releasing information, including indemnification protocols when appropriate.

SUMMARY

Regulatory requirements, lending standards, and insurance expectations increasingly influence how associations establish their reserve funding plans.

Reserve studies must now do more than project capital needs—they must support financial transparency, demonstrate compliance with evolving lending standards, and position the community to maintain access to mortgage financing.

These external factors should be considered during reserve study preparation and updates to ensure funding strategies support long-term asset sustainability, regulatory compliance, and continued marketability.

RESERVE STUDY PREPARATION & REVIEW

WHO PREPARES THE STUDY & THEIR RESPONSIBILITIES

While boards of directors retain ultimate fiduciary responsibility for the association's financial health, they are generally not well served by preparing their own reserve studies. Although some of the mathematical and accounting elements of a reserve study may appear straightforward, the process requires specialized professional judgment. Accurately identifying reserve components, establishing realistic replacement costs, evaluating existing conditions, and estimating remaining useful life all demand technical expertise that extends well beyond basic budgeting skills.

A professionally prepared reserve study brings together construction knowledge, cost estimating, condition assessment, and long-term financial modeling. Attempting to perform this work without appropriate training and experience increases the risk of underfunding, overfunding, or overlooking critical components that can expose the association to financial strain and operational disruption.

Reserve Specialist

One of the most important responsibilities of any board and its management team is the thoughtful selection of qualified professional partners including the reserve professional. Because this relationship often spans multiple years and directly informs major financial decisions, the hiring of a competent, well-seasoned reserve professional should be a deliberate and methodical process.

PROFESSIONAL INSIGHT:

Given the need to affirm board and management fiduciary responsibilities, CAI recommends the use of a professional holding the Reserve Specialist (RS™) designation.

A qualified reserve professional provides independent analysis, informed judgment, and recommendations grounded in industry standards and real-world experience. Shortcomings in the selection or performance of a reserve professional can have serious consequences including inadequate reserve balances, unexpected special assessments, reliance on costly loans, and potential erosion of property values.

To properly execute a reserve study and develop a defensible long-term funding strategy for the community, the reserve professional must possess a broad range of technical skills including component evaluation, unit pricing, condition assessment, and sophisticated financial modeling. While professional managers and volunteer board members bring valuable operational insight and institutional knowledge, they do not typically have the specialized expertise required to prepare a reserve study.

For this reason, best practice encourages every association to engage a reserve professional who holds the RS designation as a minimum qualification. Doing so helps ensure that reserve recommendations are credible, consistent with established standards, and capable of withstanding scrutiny from lenders, regulators, insurers, and homeowners.

Issues to consider when narrowing your choice of a reserve professional:

1. Have they earned the RS designation with CAI? What other designations and credentials do they hold?
2. Does the firm have other professional licenses or credentials, such as professional engineer, general contractor, architect, or other qualifications demonstrating competency?
3. Will all work in the study be completed by employees of the firm?
4. In what other professional organizations is the reserve company involved?
5. What type of insurance does the reserve study specialist carry? Do they have errors and omissions insurance?
6. Can you view a sample study from the firm?
7. What level of study is offered?
8. Does the study conform with CAI's Reserve Study Standards as well as any statutory requirements?
9. What deliverables will be received?
10. Will the provider allow the manager and board to participate in the development of the study? To what extent?
11. Are you able to revise the report?
12. What support/services will you receive beyond the report?

To find individuals with the RS designation, visit CAI's Directory of Credentialed Professionals at https://www.caionline.org/directory-of-credentialed-professionals and search for RS.

HOW TO PREPARE THE STUDY

Accurate reserve funding projections depend on the reliability of the data supplied to the reserve professional. Community associations and their managers play a critical role in providing clear, complete, and timely information. The reserve specialist also carries an essential responsibility to evaluate that information, verify it where appropriate, and alert the client to inconsistencies or gaps.

This Venn diagram highlights the best outcome achieved when the board sets clear priorities, management provides essential operational insight, and reserve specialists translate both into a sound, long-term funding plan that aligns vision, day-to-day realities, and financial strategy for the community's success.

Reserve Study Components

A reserve study is built on two interrelated components: a physical evaluation and a financial analysis. Together, these elements translate the condition of the association's assets into a long-term funding plan that supports informed decision-making and fiscal sustainability.

Physical Evaluation

The most critical decision in conducting a reserve study is selecting which components to include. This requires analysis of the association's governing documents, application of CAI's Reserve Study Standards' three-part test, and applicable state statutes and civil codes in addition to the physical inspection of each component.

PHYSICAL EVALUATION: The portion of the reserve study where the component inventory, condition assessment, and life and valuation estimate tasks are performed. This represents one of the two parts of the reserve study.

Preparation of the Physical Evaluation

As part of the preparation of the reserve study, the association should provide the reserve specialist with:

1. Date-in-service information for the components when available.
2. Contracts for recent capital projects, quotes for future work, and inspection reports such as engineering and turnover reports when available.
3. Any available engineering reports, specialty studies, or invasive inspection results for components that are not readily visible during a reserve study inspection such as piping, electrical wiring, and stormwater pond bathymetric surveys. Since reserve studies are based primarily on visual observations, these supplemental evaluations can help improve the accuracy of component condition assessments, remaining useful life estimates, and funding recommendations.

THREE-PART TEST:

1. The association has the obligation to maintain or replace the existing element.
2. The need and schedule for this project can be reasonably anticipated.
3. The total cost for the project is relevant to the association, can be reasonably estimated, and includes all direct and related costs.

As part of the preparation of the reserve study, the reserve specialist should:

1. Work with the association to agree on reserve study components utilizing the three-part test.
   - *If the study is an update to an existing study, the previous inventory should be reviewed and discussed.*
2. Review all supplied information to uncover any potential inconsistencies, omissions, or values that appear outside industry norms.
   - *If the study is an update, review all assumptions from the previous study as part of the update.*
3. Apply professional judgment when discrepancies arise, including comparing information to prior studies, known construction standards, or reasonable expectations for similar communities.

4. Request clarification or additional documentation whenever the data appears incomplete, inaccurate, or contradictory.
5. Encourage association participation during the site inspection to answer questions in real time.

REVIEW AND FINALIZATION OF THE PHYSICAL EVALUATION

Associations should review the reserve study to evaluate the accuracy of the information presented. Associations should periodically review the reserve study and update as needed to ensure it remains accurate.

During this process, it's important to consider:

1. Does the component inventory accurately reflect ownership/maintenance responsibilities?
2. Does the reserve component inventory align with the association's operations?
   - *If an association funds sidewalk repairs from the reserve account, ensure that sidewalks are included as a reserve expense. If an association funds sidewalk repairs from the operating budget annually, ensure that sidewalks are not included as a reserve expense.*
3. Does the reserve study consider the association's preventative maintenance practices?
   - *If an association is performing preventative maintenance on its clubhouse HVAC unit, you can anticipate a longer useful life than an association that isn't performing preventative maintenance.*
4. If you perform periodic inspections or repair projects that satisfy the three-part test, does the reserve study include these projects as a reserve expenditure?
   - *Examples include structural inspections, pond surveys, tree surveys, electrical thermoscans, and pipe studies.*
5. Does the reserve study disclose all reserve components regardless of age?
   - *If a condominium was built five years ago, you likely don't need to begin funding for pipe replacements. However, the useful life and cost should be listed for awareness as a long-life component.*
6. Is the starting reserve balance accurate?
7. Are current year reserve contributions accurate?
8. Is the history of the components accurate?
   - *If the pipes were replaced 10 years ago, ensure it is reflected in the study.*

KEY CONSIDERATIONS:

1. The inspection is limited to a visual, noninvasive inspection. Preventive maintenance evaluations, periodic structural inspections and more invasive inspections and testing should be updated prior to the reserve study so they may be incorporated into the reserve study update.
2. The replacement costs are estimates that incorporate inflation projections. If you are aware of unique pricing circumstances such as rare equipment, difficult access, utilization of interior designers, or construction observation for your projects, make sure to inform the reserve specialist.
3. Freeze–thaw cycles, coastal conditions, high UV exposure, and humidity all influence deterioration and will affect the components' useful lives.
4. Capital improvement vs. reserve expense.
   - *The initial construction cost of a new capital addition that did not previously exist should not be*

a reserve expenditure. Once a first-time capital addition has progressed beyond concept and the association has established a clear obligation for its future maintenance or replacement, reserve funding can be incorporated for future projects. Each project should have a defined scope, a planned timeframe, and a cost that can be reasonably estimated.
- *For example, if an association has formally approved construction of a new clubhouse, funding should be obtained outside of reserves for the initial construction of that clubhouse. However, once the project specifications, including details and design, are finalized and a target construction year has been confirmed, reserve funding for future projects such as painting, roof replacement, HVAC, interior remodeling, etc., can be incorporated accordingly.*
- *If the community is updating a component to a different material or equipment type without changing its usage, this is not considered a capital improvement and can be a reserve expense.*

PREPARATION OF THE FINANCIAL ANALYSIS

Reserve Study Standards define adequate reserves as a replacement fund. It's a stable and equitable multiyear funding plan that provides for the reliable and timely execution of the association's major repair and replacement projects without reliance on supplemental funding.

While Reserve Study Standards recognize multiple funding methodologies and funding goals as capable of producing adequate reserves, evolving lender requirements, insurance considerations, and regulatory expectations may limit the practical applicability of certain approaches and increasingly favor higher levels of reserve funding.

Associations should evaluate reserve funding methodologies in light of their governing documents, risk profile, lending considerations, insurance requirements, and long-term financial objectives when selecting a funding plan.

FINANCIAL ANALYSIS: The portion of a reserve study where current status of reserves (measured as cash or percent funded) and a recommended reserve funding plan are documented and projected reserve income and expenses are presented. The financial analysis is one of the two parts of a reserve study. Funding plans should extend a minimum of 30 years into the future.

KEY FUNDING METHODOLOGY TERMS

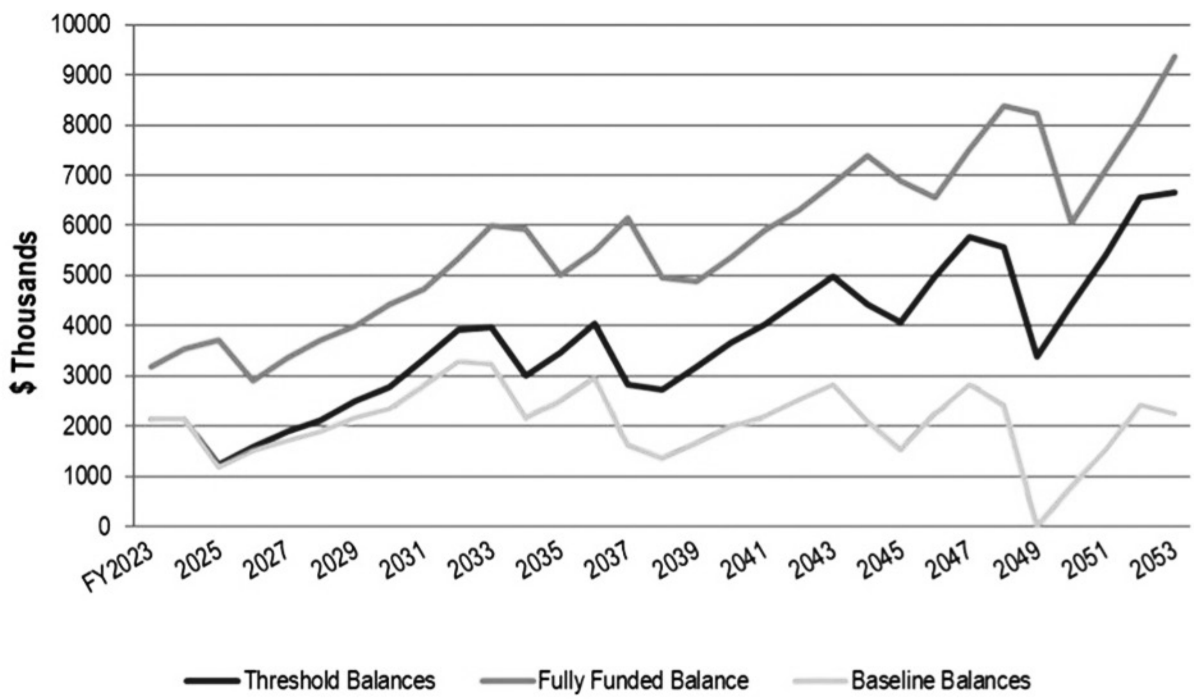
- **Cash flow method (also known as pooling).** A method where funding of reserves is designed to offset future expenditures from the reserve fund. *This can be prepared to accomplish any of the three funding goals.*
- **Component method (also known as straight line).** A method where total funding is based on the sum of funding for individual components.

FUNDING GOALS

- **Full funding.** Setting a reserve funding goal to attain and maintain reserves at or near 100 percent funded. *Risk assessment: Generally, this is the most conservative.*
- **Threshold funding.** Establishing a goal of keeping the reserve balance above a specified dollar or percent funded amount. *Risk assessment: Risk varies.*
- **Baseline Funding.** Establishing a goal allowing the reserve cash balance to be at or near zero during the cash-flow projection. *Risk assessment: Greatest risk.*

FUNDING PLAN EXAMPLES

While percent funded is an indicator of an association's reserve fund size, it should be viewed in the context of how it changes due to the association's reserve funding plan and risk tolerance. It is not itself a measure of adequacy. This graph highlights how account balances vary across different funding methodologies.



REVIEW AND FINALIZATION OF THE FINANCIAL ANALYSIS

Associations should review the reserve study before acceptance to evaluate the accuracy of the information presented. Associations should periodically review the reserve study and update as needed to ensure the reserve study remains accurate.

During this process, it's important to consider:

1. Is the starting reserve balance accurate?
2. Are current-year reserve contributions accurate?
3. Do you understand the funding methodology?
4. Do you agree with the funding strategy, or does the community prefer to be more or less risk-averse?

KEY CONSIDERATIONS:

1. The association needs to provide accurate financials so the reserve specialist has a clear understanding of the starting reserve balance, current operating budget, and current reserve contributions.
2. The cash flow method is typically preferred. With large variances in component costs and differences in useful and remaining lives, it is not necessary to fully fund each component as long as an adequate threshold is maintained. The fund balance is often compared to the **total replacement cost** of all reserve components. Some reserve professionals use **5%–10% of total replacement costs** as the cash balance threshold. This provides a simple measure of financial exposure that boards can easily understand.
3. Adequacy can be addressed by using available funding goals. For example, a funding goal could be a fixed number developed by the board and analyst, threshold dollar amount relative to the expenses, or a minimum percent funded number.
4. Percent funded is a helpful indicator of reserve fund status, but it is not a stand-alone measure of adequacy. While percent funded measures the ratio of current reserves to the fully funded balance, it should be considered in the context of the association's reserve funding plan, risk tolerance, and agreed-upon minimum reserve threshold. The association and reserve specialist should establish this minimum threshold based on factors such as building characteristics, long-life components, environmental exposure, concealed-system uncertainty, contingency needs, and the board's overall tolerance for financial risk.
5. If the association has an unexpected event such as major repairs, insurance losses, or construction defects and receives or spends funds outside the study recommendations, the study should be updated to incorporate the unexpected event. This can be an unanticipated expenditure such as hail damage to roofs or financial change such as receiving a construction defect lawsuit payment.
6. If your reserve study provides multiple funding option recommendations, the association should select one funding plan to ensure clarity and consistency.

COMMUNICATING THE RESERVE STUDY

MAKING RESERVE STUDY FINDINGS CLEAR AND ACCESSIBLE FOR RESIDENTS

A reserve study is a vital roadmap for maintaining community assets and financial health. It outlines a plan for major repairs and replacements that ensures fairness, stability, and property value protection. A study is only effective if homeowners understand its purpose and findings. The association should collaborate with the reserve specialist to develop a communication strategy to:

1. Explain the reserve study's purpose.
2. Address common questions about funding and assessments.
3. Emphasize long-term benefits for all residents.

Here are suggestions to consider for a communication strategy:

1. Provide a Clear Executive Summary

Instead of sharing a lengthy technical report, create a one-page overview highlighting:

1. Total reserve balance.
2. Key projects and timelines.
3. Reserve study funding recommendations and the board's funding recommendation.

2. Use Visual Aids

Graphs, charts, and infographics make complex data easier to digest. Examples include:

1. A timeline of upcoming projects.
2. Pie charts showing how funds are allocated.
3. Visuals of reserve funding levels.

3. Explain Expenditures in Everyday Terms

Homeowners want to know what the money is for and why it matters. Provide short descriptions like:

1. Roof replacement ensures structural integrity and prevents costly water damage.
2. Pool resurfacing maintains safety and aesthetics.

4. Address Concerns with Transparency

Prepare guidance for handling questions or resistance:

1. Explain that the purpose of establishing and maintaining adequate reserve funds is to ensure an association can afford capital projects when needed and minimize the risk of additional financial assessments as the community ages.
    - Emphasize fairness and predictability.
    - Show how reserves prevent large special assessments.
    - Share case studies from other communities. Ask your reserve specialist or management professional for examples.

KEY CONSIDERATIONS:

1. By improving communication, every homeowner understands how the reserve study benefits their community today and in the future.
2. Consider having the reserve specialist attend a board meeting to explain the findings.
3. Reserve specialists can potentially offer communication strategy templates and scripts.
4. Ensure homeowners have access to the reserve study findings through the association website or other portals.

Utilizing Your Reserve Study

The most successful associations utilize reserve studies as a starting point and continually assess changing needs to attain long-term success by:

1. Reviewing it annually to determine if scheduled projects need to be completed.
    - If the project is structural in nature, seek a professional opinion before deferring.
2. Reach out for clarification as you embark on a reserve project.
3. Minor adjustments to the plan can be handled internally via the workable file provided by the reserve specialist. Complex changes might indicate the need for an updated reserve study.
    - Begin by updating the current year's expenditures and reserve contributions. Next, review each deferred project and determine whether it needs to be completed in the upcoming year. Update the timing of any deferred expenditures. Once complete, the updated expenditure tables and funding plan can guide next year's budget process.
    - Updated numbers enable associations to evaluate changing needs and address potential shortages in advance.

TRENDS IN RESERVES AND RESERVES MANAGEMENT

Reserve studies and reserve funding practices have evolved significantly over the past decade as community associations confront aging infrastructure, rising replacement costs, and increasing expectations from owners, lenders, insurers, and regulators. Reserve planning is now widely recognized as a strategic financial tool that supports risk management, asset preservation, and long-term community sustainability.

This section examines the key trends shaping reserve management today. They include aging infrastructure challenges; sustainability and energy efficiency investments; curb appeal and project staging considerations; emerging technologies and analytical tools; expanding statutory, lending, and insurance requirements; and the integration of fire hardening, wildfire mitigation, and flood-proofing into planning decisions.

TRENDS: AGING FACILITIES AND INFRASTRUCTURE

Much has been written about the impact of aging residents and how their communities are adapting to meet a graying demographic. The same type of evolution also is underway with the association's physical components. In *Breaking Point*, a report prepared by the Foundation for Community Association Research, nearly half (40%) of those surveyed considered deteriorating infrastructure a top-ranked concern.

For example, an association built in the late 1970s is approximately 50 years old as of 2026. With reserve studies having a prospective term of 30 years, this 1970s-era community now has component maintenance obligations for items projected to be between 40–70+ years old. A 1970s-era community's funding obligations may look entirely different from a component inventory of a community association built in 2020. This expanded component list might contain infrastructure items that are starting to show signs of failure such as storm drain systems, domestic water systems, irrigation piping, and electrical systems. There may be safety issues with retaining walls or balconies and cantilevered decking areas requiring further inspection by engineers or other specialists to augment the reserve study.

Research shows homeowners and residents are more receptive and supportive of major infrastructure repairs when they can learn in advance about the scope and costs of the project from experts like the engineers and contractors with specific knowledge of the damage and how to fix it. They are more willing to authorize assessment increases and agree to allocating a larger portion of the association's budget to reserves.

A clear example of this dynamic occurred at University Towers Condominiums in New Haven, Conn., where a 238-unit building faced widespread resident complaints about noise and energy inefficiency from its original 1958 windows. What began as a feasibility review evolved into a $10 million, multi-phased replacement project after asbestos and structural complications were discovered. With 80% homeowner approval, the board secured financing for two phases, ultimately completing the project under budget. Management credited consistent communication and education that explained the scope, costs, and long-term implications as critical to gaining owner support for loans, assessment increases, and significantly higher reserve funding levels moving forward.

PROFESSIONAL INSIGHT:

The association should work with its reserve specialist to confirm the component inventory reflects the aging of components over 30 years. For communities more than 30 years old, the board should consider investigating the possibility that other experts such as a structural engineer may be needed for the long-term viability of the reserve components. As communities age, this review should be performed during reserve updates to confirm any previously long-life components are included in the funding plan.

TRENDS: RESERVE STUDY UTILIZATION

Banking and Lending Requirements

Associations that lack current reserve studies, have inadequate reserve funding, or demonstrate significant deferred maintenance risk being deemed ineligible for many types of loans or mortgages. This has placed new pressure on boards to maintain adequate reserves to preserve mortgage eligibility and protect home values.

Insurance Market Pressures

Insurance carriers also have become more demanding. In many regions, insurers now require documentation of structural integrity, waterproofing conditions, or major system maintenance before underwriting or renewing policies. Some carriers ask directly whether the association follows reserve study recommendations or whether adequate funding is in place to address foreseeable repairs. Associations with outdated reserve studies or inconsistent funding patterns may face significantly higher premiums, exclusions, or nonrenewal.

Reserve studies and reserve funding are increasingly becoming essential indicators of the association's financial and physical stability. The external pressures are accelerating the adoption of more rigorous, frequent, and realistically funded reserve study programs.

TRENDS: INNOVATION AND ENERGY

Reserve studies are an excellent tool for bringing innovation, energy savings, technological advances, cost savings, and environmental benefits to community associations. Drought conditions in many areas of the country have led to increased government regulation of watering and turf reduction. Using innovative techniques when replacing reserve components can help associations comply with regulations while generating a return on investment for their operating and reserve budgets.

PROFESSIONAL INSIGHT:

The association should work with its business partners, contractors, and reserve specialists to adapt the reserve study components to incorporate innovation and technology, such as conducting an energy audit and reflecting those findings in the reserve study. It can be beneficial to evaluate replacement costs and energy usage so budgeted component costs can be weighed against energy savings and potential incentives.

TRENDS: CURB APPEAL AND PROJECT STAGING ARE APPEALING TO EVERYONE

Community associations often miss opportunities to renovate facilities in ways that improve curb appeal and property value. It costs the same to paint a home the wrong color as the right color. The same principle applies to roofing and siding materials, colors, and other design elements in common areas. If the community is planning several building exterior skin projects in the near future, why not hire a consultant to help coordinate the various projects into a cohesive aesthetic? Commercial building owners do this, and so do apartment building owners who rely on first impressions of prospective tenants and buyers. Spending $5,000 on professional design services can be money well spent when the board is engaging contractors. Coordinating these major projects can transform a 1980s-era community into a modern showcase that increases home resale prices and makes members proud of their community.

Reserve specialists also should help stage major component work so projects occur in the proper order. For example, if drainage work needs to be done in the roadway, perform that work before asphalt sealing and repairs. If the underground loops at a vehicle gate are starting to fail, replace the loops before dealing with the asphalt surface covering the loops. Community associations can rely on reserve specialists to assist with this coordination.

While beneficial, design professionals, engineering services, and construction observation services come at a cost and should be discussed during preparation of the study and incorporated accordingly.

PROFESSIONAL INSIGHT:

1. The association should investigate the use of design professionals when spending large sums on reserve projects.
2. The reserve study should be consulted so major projects are staged in the correct order and no harm is done to components.
3. Community associations should consider working with a project engineer on how to coordinate execution of the various projects.

TRENDS: UTILIZATION OF STRATEGIC PLANS

Community associations increasingly recognize the value of maintaining a formal strategic plan to guide long-term decision-making. A well-developed strategic plan helps boards articulate priorities, anticipate future needs, and align financial resources with the community's long-term goals.

When a strategic plan exists, it should be discussed during the preparation of the reserve study and considered as part of the broader planning context. Strategic objectives such as major capital improvements, sustainability initiatives, amenity enhancements, or shifts in service expectations may influence component selection, timing of replacements, and funding assumptions within the reserve study.

While a reserve study is not a substitute for a strategic plan, the two documents are most effective when aligned. Integrating strategic planning insights into the reserve study process promotes consistency between long-range vision and financial planning. That coordination helps boards avoid conflicting priorities and supports more informed, transparent decision-making over time.

TRENDS: NEW TECHNOLOGIES

Advances in technology are reshaping how reserve studies are prepared, maintained, and used by community associations. These tools expand the role of the reserve study from a static planning document into a more dynamic, continuously referenced financial and asset-management resource. While adoption levels vary widely across communities and providers, several technological trends increasingly influence best practices in reserve management.

Manager-Side Tech Trends

One of the most significant shifts in reserve management is the move toward online access through secure portals or cloud-based platforms. When reserve information is readily accessible year-round, boards and managers are better positioned to reference component data, funding projections, and assumptions when making capital planning, maintenance, and budgeting decisions.

Collaboration tools and digital workflows also are facilitating closer coordination between community managers, reserve specialists, engineers, and other building professionals. This integration supports more informed decision-making, particularly when evaluating aging infrastructure, complex building systems, or project sequencing. Leveraging expert input alongside reserve data helps ensure that useful life assumptions and replacement timing reflect real-world conditions.

Visual communication tools like dashboards, charts, and simplified summaries are becoming increasingly important for improving board and homeowner understanding. These tools help translate long-range projections and funding concepts into clear, actionable information that supports transparency and more productive discussions around reserve adequacy and capital priorities.

Despite these advances, integration between reserve study data and association budgeting or accounting software remains uneven. Greater alignment between reserve planning tools and financial systems represents a key opportunity to improve forecasting accuracy, scenario analysis, and long-term financial coordination. Similarly, virtual and hybrid presentation tools have the potential to enhance education, engagement, and clarity during board deliberations.

It is important to recognize that technology adoption across associations is not uniform. Some communities continue to rely on traditional formats and processes that limit their ability to fully leverage reserve study data. Boards and managers should evaluate technology investments as tools that support better understanding, communication, and implementation of reserve planning decisions.

Provider-Side Tech Trends

Reserve study providers also are rapidly incorporating new technologies into their practice. The widespread use of specialized reserve study software with interactive dashboards represents a fundamental shift away from static, report-only deliverables. These platforms allow associations to explore multiple funding scenarios, visualize long-term projections, and remain actively engaged between study updates.

Inspection and data-collection technologies also are evolving. Drone imaging and three-dimensional modeling are increasingly used to assess roofs, facades, and other difficult-to-access components, improving safety and accuracy. Mobile inspection tools such as tablets and structured field data capture systems streamline onsite evaluations and support more consistent documentation.

Another notable trend is the growing availability of editable and interactive reserve models. By providing associations with flexible data tools, providers support greater transparency, adaptability, and integration with management workflows.

Artificial intelligence-assisted tools also are beginning to emerge in reserve study practices. These technologies may support functions such as cost benchmarking, component analysis, drafting, and quality control. While still developing, AI-based tools have the potential to improve efficiency and consistency when used in alignment with professional standards.

More specialized diagnostic technologies such as infrared scanning and moisture detection remain less common in reserve study preparation. Their limited use reflects the specialized expertise required and the fact that reserve study standards do not require invasive or highly technical inspections. These tools may be more appropriately deployed in targeted engineering evaluations rather than standard reserve study components.

Overall, technology is transforming reserve studies into more interactive, data-driven planning tools. As these innovations continue to evolve, associations and providers should focus on using technology to enhance accuracy, transparency, communication, and long-term financial decision-making.

TRENDS: FIRE HARDENING AND WILDFIRE MITIGATION

Wildfire exposure is an increasingly significant risk factor for community associations, particularly in regions where changing climate patterns have intensified the frequency and severity of fire events. For existing communities, fire hardening and mitigation efforts are critical tools to reduce the likelihood of catastrophic loss, improve long-term resilience, and maintain access to increasingly limited and costly property insurance. These measures also intersect directly with a community's reserve planning responsibilities.

Fire-mitigation projects often involve capital components with substantial costs and predictable life cycles. Fire-resistant roofing, siding, windows, and doors; ember-resistant vents; community wide alarm or detection systems; and defensible-space infrastructure represent long-term assets that associations must maintain or eventually replace. Because these components exceed routine operational budgets, they belong within the reserve study as part of a community's long-range funding strategy.

When included in the reserve schedule, these measures can be planned, prioritized, and funded over time rather than through unanticipated special assessments. Associations in wildfire-prone regions are increasingly expected by statute or insurers to demonstrate proactive risk-mitigation efforts. Reserve planning provides a structured pathway to meet these expectations.

Property insurance availability and affordability have become major challenges in many high-risk regions. Associations that implement recognized fire-hardening practices may:

1. Qualify for otherwise unavailable coverage.
2. Reduce premium increases.
3. Avoid nonrenewal.
4. Improve the insurability of older or higher-risk buildings.

For existing communities, a cost–benefit analysis is essential. Some upgrades such as converting to Class A fire-rated roofing or hardening building envelopes are expensive yet may yield meaningful insurance savings or reduce the likelihood of total loss. Other measures such as enhanced vegetation management or ember-resistant vent retrofits are comparatively low-cost and can significantly improve resilience. Reserve planning allows communities to evaluate these tradeoffs and fund upgrades over time.

Communities in fire-prone regions may need to adjust component useful lives to account for accelerated deterioration, regulatory changes, or insurer mandates. Associations also should review their reserve schedules regularly to identify new or emerging fire-mitigation requirements and incorporate them before they become urgent and unfunded.

TRENDS: FLOOD PROOFING

As associations increasingly face flooding risks resulting from severe weather events, rising sea levels, king tides, and changing precipitation patterns, questions frequently arise regarding whether flood-mitigation measures should be included in reserve studies. In many cases, they should be. However, flood-protection projects can be costly and, like all reserve components, must satisfy the three-part test for reserve inclusion.

Boards should recognize that many flood-mitigation projects involve improvements or upgrades intended to reduce future risk rather than the replacement of existing reserve components. As a result, associations should work closely with qualified reserve professionals, engineers, and legal counsel to determine whether specific projects are appropriately included in reserves, funded through special assessments, incorporated into capital improvement plans, or addressed through a combination of funding sources.

While many reserve studies already include stormwater management infrastructure, associations in flood-prone regions may need to consider additional strategies to reduce flood risk, protect critical building systems, and preserve long-term property values.

Flood-mitigation measures may include physical improvements, equipment upgrades, and structural modifications designed to reduce damage from heavy rainfall, storm surge, tidal flooding, or elevated groundwater conditions.

Typical Flood-Mitigation Components Included in Reserves (as applicable):

1. Drainage System Rehabilitation
- *Storm drains, swales, catch basins, and underground piping.*
- *Includes cleaning, rehabilitation, and eventual replacement.*

2. Flood Barriers and Protection Systems
- *Deployable flood panels for doors, garages, and mechanical rooms.*
- *Inflatable barriers for driving aisles and loading zones.*

3. Flood Vents and Garage Modifications
- *FEMA-compliant flood vents in garage or storage areas.*
- *Breakaway wall sections in coastal properties.*

4. Mechanical and Electrical Elevation Projects
- *Elevation of electrical panels, HVAC equipment, generators, communication systems, and pool equipment.*
- *Protection of elevator pits through float switches, sump systems, or similar safeguards.*

5. Waterproofing and Sealant Systems
- *Exterior waterproof coatings, joint sealants, and penetration sealing systems.*

6. Pump Systems and Dewatering Equipment
- *Installation, replacement, or major rehabilitation of sump pumps, lift pumps, and emergency pumping systems.*

7. Shoreline Protection and Seawall Improvements (if applicable)
- *Replacement or reinforcement of seawalls, riprap, bulkheads, and erosion-control systems.*

Associations should periodically engage a qualified civil engineer to evaluate flood exposure, drainage capacity, and compliance with applicable building codes and local regulatory requirements. Communities located within FEMA-designated Special Flood Hazard Areas (SFHAs) or identified as repetitive-loss properties should place heightened emphasis on these assessments and ensure reserve funding reflects their elevated risk profile.

In some regions, associations must simultaneously prepare for both drought and flood conditions. Balancing these competing environmental challenges adds complexity to long-term infrastructure planning and underscores the importance of integrated reserve planning, capital investment, and risk-management strategies.

CONCLUSION

Community associations today have access to a growing range of methodologies, tools, and strategies to strengthen their long-term financial sustainability. For both new and established communities, the reserve study remains one of the most valuable tools available to support informed budgeting, capital planning, and responsible stewardship of association assets.

A reserve study helps boards evaluate the adequacy of existing reserve funding, identify potential funding deficiencies, and plan for future repair and replacement obligations. Regular updates also provide an opportunity to reassess maintenance practices, operating expenditures, energy consumption, and infrastructure needs. While reserve studies are fundamentally budgeting tools, they also support broader decision-making related to major capital projects, risk management, and long-term community sustainability.

Reserve funds should not be viewed as a financial safety net for unexpected failures, emergencies, or uninsured losses. Rather, reserve assessments are intended to fund predictable repair and replacement projects over time. Helping homeowners understand this distinction is essential to building support for responsible reserve funding. Engaging a qualified reserve professional, such as a CAI-credentialed Reserve Specialist (RS™), can help boards obtain reliable information and make informed funding decisions.

Across all data sources and stakeholder perspectives, the message is clear: reserve studies are becoming less discretionary and more foundational. Funding adequacy is emerging as one of the most important indicators of an association's long-term financial stability, lending eligibility, insurability, regulatory readiness, and overall resilience.

As lending standards, insurance requirements, building safety expectations, and regulatory obligations continue to evolve, associations that proactively plan for future capital needs will be better positioned to protect property values, maintain infrastructure, and avoid costly financial disruptions. The continued evolution of reserve practices reflects a maturing industry that recognizes well-maintained assets, adequate reserves, and informed decision-making as essential elements of responsible community governance.

CASE STUDIES

WHY THESE CASE STUDIES MATTER

Reserve studies are most effective when they inform real decisions about priorities, funding, timing, and risk. The following case studies illustrate how communities of varying sizes, ages, and structures have applied reserve study best practices to navigate common challenges from deferred maintenance and funding shortfalls to governance transitions and owner engagement. These examples demonstrate that while no two communities are alike, disciplined reserve planning, clear communication, and ongoing updates consistently lead to more sustainable outcomes and stronger long-term stewardship of shared assets.

Case Study: The Long-Term Value of Periodic Reserve Study Updates

COMMUNITY PROFILE

- **Property Type: High-rise condominium**
- **Location: Baltimore**
- **Structure: 15-story building**
- **Year Constructed: 1960s**
- **Initial Reserve Study: 1992**
- **First Update: 1997**

CHALLENGE: DEFERRED AWARENESS AND GROWING RISK

This mature high-rise condominium had a long history of reserve planning with an initial reserve study completed in 1992 and an update conducted in 1997. However, after the 1997 update the association did not commission another reserve study for 14 years.

During that extended gap, the property continued to age, and several major building systems were approaching the end of their useful lives. By the time the next update was completed in 2011, the board faced a convergence of escalating risks:

- Multiple key building systems were nearing failure.
- The plaza deck membrane began to deteriorate.
- Reserve funding levels were approximately 25 percent below target due in part to deviations from prior funding recommendations.

The board recognized that without a clear action plan the association risked deferred maintenance, loss of financial flexibility, and the potential need for special assessments or external financing.

WHY UPDATES MATTER

Had the association performed more frequent reserve study updates, the early signs of plaza deck membrane failure could have been identified when the scope of work was smaller, costs lower, and funding options more flexible.

This case illustrates a common challenge in older communities: reserve studies conducted too infrequently can limit a board's ability to proactively manage deterioration, forcing decisions under compressed timelines and financial pressure.

THE RESERVE STRATEGY AND COURSE CORRECTION

Following the 2011 reserve study update, the age and condition of the property revealed the need for approximately $4.2 million in critical capital projects. Given the reserve shortfall, the board worked closely with its reserve study provider to develop a phased and prioritized funding and repair strategy.

Key elements of the approach included:

- Performing limited repairs to the failing plaza deck membrane to safely defer full replacement for seven to eight years.
- Redirecting available reserve funds toward other critical infrastructure needs.
- Establishing a more realistic reserve funding baseline aligned with the property's actual condition and the useful lives of remaining components.

Just as importantly, the board committed to treating reserve studies as an ongoing planning tool rather than a one-time exercise. After 2011, reserve study updates were commissioned again in 2018 and 2023.

These subsequent updates allowed the board to:

- Engage a building envelope specialist to monitor deterioration and refine scope, timing, and cost projections.
- Integrate evolving repair strategies directly into the reserve funding plan.
- Prioritize remaining building service elements in coordination with the eventual plaza deck replacement.
- Restore adequate reserve funding levels by 2023.

RESULTS AND OUTCOMES

By committing to regular reserve study updates and aligning funding decisions with professional recommendations, the association achieved several important outcomes:

- Regained control over its long-term financial planning.
- Improved the quality and timing of capital project decisions.

- Reduced the risk of deferred maintenance, special assessments, and bank loans.
- Entered the next decade with a clear, defensible roadmap for capital planning.

KEY TAKEAWAYS FOR BOARDS AND MANAGERS

- Reserve studies should be treated as a living planning tool, not a compliance formality.
- Long gaps between updates increase the risk of costly surprises and limit response options.
- Periodic updates support earlier intervention, better prioritization, and greater financial flexibility.
- Mature properties benefit from more frequent reassessment as systems age and conditions evolve.

Case Study: Building a Foundation for Long-Term Asset Management in a Small Association

COMMUNITY PROFILE

- **Property Type: Townhome community**
- **Location: Big Sky, Mont.**
- **Size: 32 units**
- **Age: Over 20 years**
- **Reserve Study History: No reserve study prior to 2024**

CHALLENGE: MAJOR CAPITAL NEEDS WITHOUT A PLANNING FRAMEWORK

This small townhome association operated for more than two decades without ever completing a reserve study. During that time, the community relied heavily on special assessments and reactive decision-making to address major repair needs.

Immediately prior to commissioning its first reserve study, the association completed a $2 million deck and balcony replacement funded through special assessments. Despite this significant investment, the community continued to experience unresolved roof issues even though the roofs were replaced between 2018 and 2020.

Without a reserve study or long-term capital plan, the board faced several foundational challenges common to associations lacking structured reserve planning:

- No established reserve fund or understanding of reserve principles.
- No formal maintenance schedule.
- Unclear distinction between operating expenses and reserve expenditures.
- Deferred maintenance affecting critical components.
- Ongoing reliance on emergency funding to address major repairs.

These conditions left the board vulnerable to financial shocks and limited its ability to plan proactively.

EVALUATION: ESTABLISHING BASELINE KNOWLEDGE AND ASSET AWARENESS

When the reserve study process began in 2024, it was clear the association needed more than a funding model. It required foundational education about reserves, asset lifecycles, and long-term planning.

As part of the physical and financial analysis, the reserve specialist worked closely with the board to:

- Explain the purpose and mechanics of reserve funding.
- Clarify the differences between operating budgets and reserves.
- Review component useful lives and local environmental impacts.
- Establish a comprehensive inventory of common area assets.

This initial evaluation created a shared understanding among board members and set the stage for more informed decision-making.

RESERVE STRATEGY AND PRIORITIZATION

During early discussions, ongoing roof failures caused by ice damming emerged as a significant concern. Although the roofs had been replaced relatively recently, the reserve study identified the need for a cold roof system better suited to the region's climate.

Given the higher cost of this system, the initial reserve plan scheduled roof replacement for 2027. However, the board expressed concern about its ability to fund such a large project so soon.

In response, the reserve specialist worked with the board to adjust the strategy:

- Critical repairs were prioritized between 2024 and 2026.
- Full roof replacement was deferred to 2036, allowing time to build adequate reserves.
- Multiple funding scenarios were developed and evaluated.
- A realistic, phased funding plan was selected.

Additional guidance included:

- Comparing materials and costs for components such as siding with climate-specific recommendations.
- Shifting priorities away from aesthetic projects toward critical infrastructure needs.
- Educating the board on the long-term risks of deferred maintenance.

OWNER ENGAGEMENT AND COMMUNICATION

After years of special assessments, residents were understandably cautious about a new reserve funding approach. To build trust and transparency, the reserve specialist participated in a town hall meeting to explain:

- How predictable reserve contributions reduce financial shocks.
- Why long-term planning protects property values.
- How the new funding plan differed from past reactive approaches.

This direct engagement helped align owners and the board around a sustainable, long-term strategy.

RESULTS AND OUTCOMES

Following completion of the reserve study and adoption of the funding plan, the association achieved several important outcomes:

- Established a clear understanding of its assets and maintenance needs.
- Adopted an actionable and realistic reserve funding plan.
- Recognized the importance of regular reserve study updates.
- Created a stable foundation for long-term capital planning.

KEY TAKEAWAYS FOR BOARDS AND MANAGERS

- Even small associations face large-scale capital projects and require structured reserve planning.
- Reserve studies provide financial guidance and foundational education for boards.
- Climate-specific conditions must be reflected in component selection and funding strategies.
- Proactive planning reduces reliance on special assessments and emergency funding.
- Owner engagement is critical when transitioning from reactive to sustainable funding models.

Case Study: How Engagement and Collaboration Produce Actionable Reserve Studies

COMMUNITY PROFILE

- **Property Type: High-rise condominium with adjoining garage association**
- **Location: Urban Midwestern metropolitan area**
- **Structure: 36-story residential tower and separate garage association**
- **Age: More than 20 years old**
- **Reserve Study History:**
  - First reserve study completed in 2022.
  - New reserve study provider engaged in 2025.

CHALLENGE: A RESERVE STUDY THAT COULD NOT BE USED

By 2025, this high-rise condominium association was approaching a critical planning period with several large-scale capital projects anticipated within the next decade. Management recognized the need for an updated reserve study to guide future budget decisions.

However, the board lacked confidence in the association's existing reserve study completed in 2022. That study left the board unable to effectively apply its findings due to several significant shortcomings:

- Assets were misclassified between the condominium association and the adjoining garage association.
- A major roofing project was underestimated by approximately $360,000.
- Little to no post-study support was provided to help the board interpret or apply the results.

As a result, the reserve study failed to function as a practical planning tool, limiting its value in budgeting and long-term decision-making.

SELECTING A NEW APPROACH

Recognizing the issue was not simply the numbers, but the process behind them, the board focused on finding a reserve study provider that could deliver both technical accuracy and ongoing engagement.

In 2025, the association selected a new reserve study firm with an emphasis on collaboration, education, and post-study support.

COLLABORATIVE EVALUATION AND STUDY DEVELOPMENT

At the outset of the engagement, the reserve specialist worked closely with the board and management to understand the shortcomings of the prior study and tailor the new process accordingly.

Key elements of the revised approach included:

- **Accurate asset allocation.** The reserve specialist reviewed ownership responsibilities and corrected asset classifications between the condominium and garage associations, ultimately assigning 50% ownership to each where appropriate.
- **Refined project scoping and costing.** Given the prior underestimation of the roofing project, the new study established a clearer scope of work and educated the board on methodologies used to forecast project timing and costs.
- **Board-focused communication.** The reserve specialist partnered with management to present the findings in a customized format designed for board use. This included:
  - Highlighting near-term, capital-intensive projects.
  - Explaining how the recommended funding plan supported short- and long-term needs.
  - Providing a framework for incorporating the reserve study into annual budgeting decisions.

OUTCOMES AND RESULTS

Through education, clarity, and collaboration, the board gained a renewed ability to use its reserve study as an effective planning tool. As a result, the association:

- Entered the next budgeting cycle with a clear understanding of asset allocation and funding responsibilities.
- Adopted a realistic and actionable reserve funding plan.
- Regained confidence in reserve studies and their value in long-term financial planning.

KEY TAKEAWAYS FOR BOARDS AND MANAGERS

- An accurate reserve study must also be usable to be effective.
- Clear asset classification is critical, particularly in communities with shared or related associations.
- Post-study engagement and explanation improve board understanding and confidence.
- Reserve studies are most valuable when integrated directly into budgeting and governance processes.

BEST PRACTICES IN ACTION

This case study reinforces that reserve study best practices extend beyond inspection and calculations. Effective reserve planning requires:

- Collaboration between the reserve specialist, board, and management.
- Clear communication of assumptions, scope, and funding methodology.
- Ongoing support to ensure the study informs real-world decisions.

ADDITIONAL RESOURCES

CAI provides many guides, articles, and resources on reserve studies including:

- *Reserve Study Standards:* https://www.caionline.org/getmedia/e3e50317-779f-4e88-98d5-9db5b827c561/cai-reserve-study-standards-july-2023-final.pdf
- *Explanation of Reserve Study Standards:* https://www.caionline.org/getmedia/7b5f1422-d10b-4cad-87b7-d1339c0f0ee8/explanation-of-reserve-study-standards-2025-final.pdf
- Reserve Specialist Resources: www.caionline.org/professional-credentials/reserve-specialist/
- *Built-to-Last: Strategies for Extending the Economic Life of Community Associations*, published by the Foundation for Community Association Research: https://foundation.caionline.org/publications/built-to-last/
- Foundation for Community Association Research Aging Infrastructure Research Project: foundation.caionline.org/publications/aging-infrastructure/
- Foundation for Community Association Research Snap Surveys: https://foundation.caionline.org/research/snap-surveys/
- CAI's library of on-demand webinars includes many reserve-specific programs. To review the catalog, visit www.caionline.org/webinars
- CAI education courses, including M-206: *Financial Management* and M-201: *Facilities Management*, provide an overview and analysis of association reserves. To learn more or register, visit www.caionline.org/education-for-managers/.

Books available from CAI

- *Best Practices: Financial Operations* by the Foundation for Community Association Research.
- *Best Practices: Maintenance* by the Foundation for Community Association Research.
- *The Board Treasurer: Roles and Responsibilities in Community Associations* 2nd Ed., by Howard Goldklang.
- *Capital Projects: A Case Study* by Roger J. Minch.
- *Delinquencies: How Community Associations Collect Assessments* by Loura K. Sanchez, ESQ., and Thomas J. Hindman, ESQ.
- *How to Draft a Budget: A Guide for Community Associations* by Community Associations Institute.
- *Reserve Studies and Funds*, 3rd Ed. by Mitchell H. Frumkin, PE, RS, and Nico March, CFM, RRP.

To place an order or request the CAI Press catalog, call 888-224-4321 or visit CAI's online bookstore: www.caionline.org/shop.

Best Practices Reports

Best Practices Reports published by the Foundation for Community Association Research cover the following topics and are available for sale at www.caionline.org/shop and as a free download at foundation.caionline.org/publications/best-practices.

- *Community Harmony & Spirit*
- *Community Security*
- *Energy Efficiency*
- *Ethics*

- *Financial Operations*
- *Governance*
- *Green Communities*
- *Maintenance*
- *Natural Disasters*
- *Reserve Funding*
- *Strategic Planning*
- *Transition*

Condominium Lending Eligibility and Reserve Funding Resources

For associations seeking additional information regarding reserve funding requirements and condominium project eligibility for mortgage financing, the following resources provide the most current guidance from Fannie Mae and Freddie Mac:

Fannie Mae

- Project Eligibility Requirements (B4-2.2) – Overview of condominium project review and eligibility requirements.
- Full Review Process (B4-2.2-02) – Includes guidance regarding reserve funding requirements and the calculation of the 10% reserve contribution threshold, including certain income categories that may be excluded from the calculation.

Freddie Mac

- Guide Section 5701.5 – Condominium Project Requirements – Eligibility requirements for established condominium projects.
- Guide Section 5701.6 – Condominium Project Review Requirements – Requirements and review standards for condominium project eligibility.

Important Note: Fannie Mae and Freddie Mac periodically update their selling and servicing guides. Associations, reserve study professionals, managers, and lenders should consult the current versions of these documents to ensure compliance with the latest requirements.

This report is intended to provide industry guidance and best practices and should not be interpreted as legal, lending, or underwriting guidance. Associations should consult qualified legal, reserve, lending, and financial professionals when evaluating compliance with Fannie Mae, Freddie Mac, state statutory requirements, or lender-specific eligibility standards.

About the Foundation for Community Association Research

Our mission—with your support—is to provide research-based information for homeowners, association board members, community managers, developers and other stakeholders. Since the Foundation's inception in 1975, we've built a solid reputation for producing accurate, insightful and timely information. We are proud to continue to build on that legacy. Visit foundation.caionline.org.

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About Community Associations Institute (CAI)

Since 1973, Community Associations Institute has been the leading provider of resources and information for homeowners, volunteer board leaders, professional managers, and business professionals in 375,000 community associations, condominiums, and cooperatives in the United States and millions of communities worldwide. With more than 51,000 members, CAI works in partnership with 65 affiliated chapters within the U.S., Canada, United Arab Emirates, and South Africa, as well as with housing leaders in several other countries including Australia, Spain, Saudi Arabia, and the United Kingdom.

COMMUNITY ASSOCIATIONS INSTITUTE

A global nonprofit 501(c)(6) organization, CAI is the foremost authority in community association management, governance, education, and advocacy. Our mission is to inspire professionalism, effective leadership, and responsible citizenship—ideals reflected in community associations that are preferred places to call home. Visit us at www.caionline.org and follow us on X and Facebook @CAISocial.

DEVELOPING FUNCTION-SPECIFIC BEST PRACTICES in the community association industry has been a goal of Community Associations Institute and the Foundation for Community Association Research for several years. The Foundation has developed best practices in select topic areas using a variety of sources including recommendations from industry experts and industry-related publications.

The outcomes of the *Best Practices* project include:

- Documented criteria for function-specific best practices.
- Case studies of community associations that have demonstrated success in specific areas.
- A showcase on community excellence.

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