



RESERVE FUNDING WITHOUT SURPRISES

How Boards Can Plan for Major Repairs, Reduce Special Assessments, and Keep Reserve Planning Current

A practical guide to reserve studies, long-term capital planning, funding decisions, deferred maintenance, and keeping tomorrow's projects from becoming tomorrow's surprises.

A reserve study should be a living financial plan - not a report that sits on a shelf.

Good reserve planning connects the physical condition of the community with a funding strategy that can change as projects, costs, conditions, and priorities change.

Because Communities Deserve Better!

Community Association Management, Limited

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Reserve Funding Is Long-Term Planning - Not Just a Line in the Budget

Every association has major components that will eventually need repair or replacement. Roofs wear out. Pavement deteriorates. Elevators, mechanical systems, pools, siding, balconies, drainage systems, and other common elements age whether the Board plans for them or not.

The purpose of reserve planning is to turn those future obligations into a manageable financial plan. A current reserve study helps the Board understand what is likely to need work, when that work may occur, what it may cost, and how much the association should set aside over time.

The standard

A reserve study should help the Board make decisions today about expenses the association knows are coming tomorrow.

What this guide covers

- What a reserve study does - and what it does not do
- Why reserve funding is about fairness as well as finance
- How inflation, deferred maintenance, and changing project schedules affect the plan
- Why a static reserve study can become outdated quickly
- How special assessments and borrowing fit into responsible planning
- What the 2027 condominium lending changes mean for reserve funding
- How a Living Reserve Study keeps the plan current as conditions change
- Questions every Board should ask about reserves

1. Understand What Reserves Are For

Reserve funds are money intentionally set aside for major future repair and replacement of common components. They are different from operating funds used for recurring expenses such as management, landscaping, utilities, insurance, routine maintenance, and administrative costs.

The reserve study connects the physical assets to the financial plan. It inventories major components, estimates remaining useful life and replacement cost, and projects future expenditures and recommended contributions.

A reserve study is not a guarantee

No study can predict the exact year every roof will fail, the exact price of asphalt ten years from now, or every emergency the community may face. Its value is in giving the Board a disciplined planning framework that can be updated as better information becomes available.

Reserves are not "extra money."

They represent costs the association expects to incur in the future. Funding them gradually allows current and future owners to share those costs more fairly instead of shifting the entire burden to whoever owns a home when the project finally becomes unavoidable.

2. Underfunding Often Looks Affordable - Until the Bill Arrives

Keeping assessments artificially low can feel responsible in the short term. It can also transfer today's cost to tomorrow's owners. If a component is being consumed every year but the association is not setting aside a reasonable share of its future replacement cost, the funding gap does not disappear. It accumulates.

The real cost of underfunding

- Larger future assessment increases when the Board finally begins catching up
- Special assessments when a major project arrives before adequate cash is available
- Deferred projects that may become more expensive as deterioration continues
- Borrowing costs if the association must finance work it could not fund from reserves
- Greater conflict among owners when a predictable capital need becomes an unexpected bill
- Potential lending or resale consequences for condominium communities with inadequate reserve funding

A Board does not need to pursue the most aggressive possible reserve balance. It should understand the funding path it has chosen, the risk that path carries, and who will bear the cost if assumptions prove too optimistic.

3. The Reserve Study and the Funding Plan Are Different Decisions

The physical analysis estimates what the association owns, how long major components may last, and what they may cost to replace. The financial analysis translates those needs into a funding plan.

Boards may encounter different funding approaches. The terminology can become technical, but the practical question is straightforward: will the planned contributions provide enough cash, at the right times, to complete expected capital projects without creating unnecessary financial shocks?

Board-friendly questions matter more than funding jargon

- What major projects are expected in the next five years?
- How much cash is projected to be available when each project occurs?
- What assumptions are being made about inflation and future replacement costs?
- How sensitive is the plan if a project happens earlier or costs more than expected?
- What level of annual contribution is recommended, and what happens if the Board funds less?

Do not approve a contribution number without understanding the consequence.

A lower contribution may be appropriate in some circumstances, but the Board should see what that choice does to future cash balances, project timing, and special-assessment risk.

4. A Reserve Study Starts Aging the Day It Is Finished

A traditional reserve study is a point-in-time analysis. The moment a project is completed, delayed, repriced, expanded, or removed from scope, part of the plan has changed. Inflation, labor costs, material prices, insurance conditions, contractor availability, and the physical condition of components can also change faster than the next formal study cycle.

Common reasons the plan changes

- A roof replacement planned for 2029 is deferred to 2031 after inspection
- A paving project is completed for substantially more or less than the study estimate

- A component reaches the end of its useful life earlier than expected
- A major repair extends a component's useful life and delays replacement
- The Board changes the scope or phases a project over multiple years
- Actual reserve balances differ from what the prior study projected

When these changes are not reflected in the reserve plan, the Board may be making current decisions using assumptions that no longer describe the community.

5. Deferred Maintenance Can Change Both the Physical and Financial Risk

Deferring a project can be a reasonable decision when the component remains serviceable and the Board has reliable information supporting the delay. Deferral becomes dangerous when the decision is driven only by the lack of money or when the condition of the asset is not being monitored.

The Board should distinguish between a planned extension of useful life and simply postponing work because the association is underfunded. The first can improve the capital plan. The second can increase repair costs, shorten the life of related components, and create a larger funding problem later.

The lesson from Champlain Towers South

The 2021 partial collapse of Champlain Towers South in Surfside, Florida, was a catastrophic structural failure that killed 98 people. In June 2026, the National Institute of Standards and Technology reported that the collapse began with punching-shear failures at two garage-column connections beneath the pool deck. Reserve funding was not identified by NIST as the cause of the collapse.¹

The broader governance lesson is still important: physical condition and financial planning cannot be treated as separate conversations. When serious building conditions are identified, the Board needs both qualified technical advice and a credible way to fund the work.

1 National Institute of Standards and Technology, "NIST Releases Technical Findings on What Caused the 2021 Partial Collapse of Champlain Towers South," June 22, 2026.

6. Special Assessments and Loans Are Tools - but They Should Not Be the Default Plan

A special assessment is not automatically evidence of poor governance. Unexpected failures, natural disasters, major code changes, construction defects, insurance deductibles, or a significant change in project scope can create legitimate needs that were not reasonably predictable.

Borrowing can also be appropriate when the association needs to complete an important project now but wants to spread the cost over time rather than impose an immediate assessment large enough to create hardship for owners.

Why they should usually be the last resort for predictable projects

- Special assessments concentrate years of cost into a short payment period
- Loans add interest and financing costs to the underlying project
- Both can create affordability problems for owners
- Emergency financing reduces the Board's negotiating leverage and planning flexibility

For predictable replacement needs, steady reserve contributions are generally the more orderly approach. Special assessments and borrowing should remain available when circumstances justify them, but they should not substitute for routine long-term planning.

7. Condominium Lending Is Raising the Reserve-Funding Standard

Reserve funding can affect more than the association's ability to complete projects. For condominium communities, it can also affect whether units are eligible for financing through major secondary-market programs.

Fannie Mae and Freddie Mac have both announced increases in their minimum replacement-reserve allocation requirements for certain condominium project reviews. For mortgage applications dated on or after January 4, 2027, the minimum annual budgeted reserve allocation increases from 10% to 15% of annual budgeted assessment income under the applicable full-review requirements.^{2 3}

A reserve study can matter even more than the percentage

Both enterprises also allow qualifying reserve studies to be used in certain circumstances instead of relying only on the standard budget percentage. Their 2026 updates tightened how those studies are evaluated: when a lender relies on a reserve study, funding must follow the applicable study recommendation, and baseline funding that merely allows the reserve balance to approach zero is no longer accepted for those exceptions.^{2 4}

What this means for Boards

A condominium budget that appears balanced to the Board may still create financing issues if reserve funding does not meet current project-review standards. Reserve planning should therefore be reviewed during budget season - not after a buyer discovers a financing problem.

² Fannie Mae, Lender Letter LL-2026-03, March 18, 2026. The 15% requirement applies to Full Review for loan applications dated on or after January 4, 2027; reserve-study alternatives remain subject to separate requirements.

³ Freddie Mac, Seller/Servicer Guide update, "Increase replacement reserve requirements," effective for Mortgages with Application Received Dates on or after January 4, 2027.

⁴ Freddie Mac, Condominium Unit Mortgage FAQ, 2026 reserve-study guidance; baseline funding is not permitted when relying on a reserve study for applications received on or after August 3, 2026.

8. Keep Reserve Investments Aligned With the Plan

Reserve funds are often held for projects that may be years away, but some portion may also be needed soon. The Board should consider safety, liquidity, maturity dates, deposit insurance, and the timing of upcoming capital needs when deciding where reserve cash is held.

The objective is not to chase the highest possible yield. It is to earn a reasonable return without creating a situation where money needed for a project is unavailable, subject to unnecessary risk, or locked into a maturity schedule that conflicts with the capital plan.

Investment decisions should follow the governing documents, applicable law, and advice from qualified banking, investment, tax, or legal professionals when appropriate.

9. From a Static Report to a Living Reserve Study

Community offers managed clients access to the Living Reserve Study®. A full new study includes an on-site assessment by an engineer. When an association already has a usable reserve study, Community can convert and update that existing study without another site visit unless the association requests an on-site review or conditions warrant additional inspection.

What changes when the study becomes living

- Component inventory, costs, useful-life assumptions, and supporting information remain accessible in one system
- Actual projects can be reflected as they are completed instead of waiting years for the next static report
- Boards can model funding scenarios and see how different contribution strategies affect future cash
- Project timing and cost assumptions can be updated when bids, inspections, or actual conditions change
- Long-term expenses can be viewed alongside the association's funding plan
- Board-ready reports can be generated from the current plan rather than an outdated PDF

Our Living Reserve Study as a continuously updated capital-planning platform rather than a one-time static document. Its tools include component inventory management, long-term expense projections, scenario modeling, project tracking, and funding analysis.⁵

A living study does not eliminate professional judgment.

Technology helps keep the plan current. Engineers, reserve specialists, contractors, managers, accountants, and the Board still provide the inspections, decisions, bids, project information, and professional judgment that make the data meaningful.

10. Questions Every Board Should Ask About Its Reserves

- When was our last full reserve study or on-site update?
- Does the current plan reflect projects completed since that study?
- Have replacement-cost assumptions been updated for current pricing?
- Which major projects are expected in the next five years?
- Are we actually contributing the amount assumed in the reserve plan?
- If we are funding less than recommended, what does that do to future cash balances?
- Have any projects been deferred because of condition - or because we do not have the money?
- What happens to the plan if a major project occurs two years early or costs 20% more?
- Are reserve funds available when expected projects come due?
- For a condominium, does the current budget and reserve plan support likely lender-review requirements?
- Can a future Board understand why today's assumptions and funding decisions were made?

The most useful reserve question is not "How much money do we have?"

It is "Will the money we have - plus the money we plan to contribute - be available when the projects in front of us actually need to be completed?"

How Community Keeps Reserve Planning Current

Community Association Management, Limited is an independently owned, AAMC-accredited community association management company serving North Carolina and South Carolina. Reserve planning is available across Community's Partner Plus, Partner Basic, eManageSuite, and Accounting Only service relationships for managed clients.

A more active approach to reserve planning

- Living Reserve Study® access powered by SmartProperty®
- Full new studies with an on-site engineering assessment
- Conversion of an existing study into a living plan when a new on-site inspection is not needed
- Optional on-site review when the association wants or needs a physical reassessment
- Ongoing updates as projects, timing, costs, and Board priorities change
- Scenario modeling to help Boards see the long-term effect of different funding decisions
- Reserve information that can support annual budget planning instead of being revisited only every few years

The goal is fewer surprises

No reserve plan can eliminate every special assessment or predict every future failure. The objective is to give the Board earlier visibility, better information, and more time to make thoughtful funding decisions before a predictable capital need becomes an emergency.

Make the Reserve Study Part of the Board's Financial Plan

A reserve study has the most value when the Board uses it throughout the year - not only when the report is delivered or the annual budget is prepared. Every completed project, material cost change, inspection finding, and funding decision is new information that can improve the plan.

Visit communityassociationmanagement.com to learn more about Community's Living Reserve Study approach or request a conversation about your association's long-term capital planning needs.

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Educational Notice: This white paper is intended for general educational discussion. It is not legal, tax, investment, engineering, insurance, lending, or accounting advice. Reserve requirements, lender standards, funding methodologies, and association obligations may vary by governing documents, community type, project condition, contracts, and applicable law. Boards should consult qualified professionals regarding specific circumstances.