



# RESERVE STUDIES AND FUNDING RESOURCES

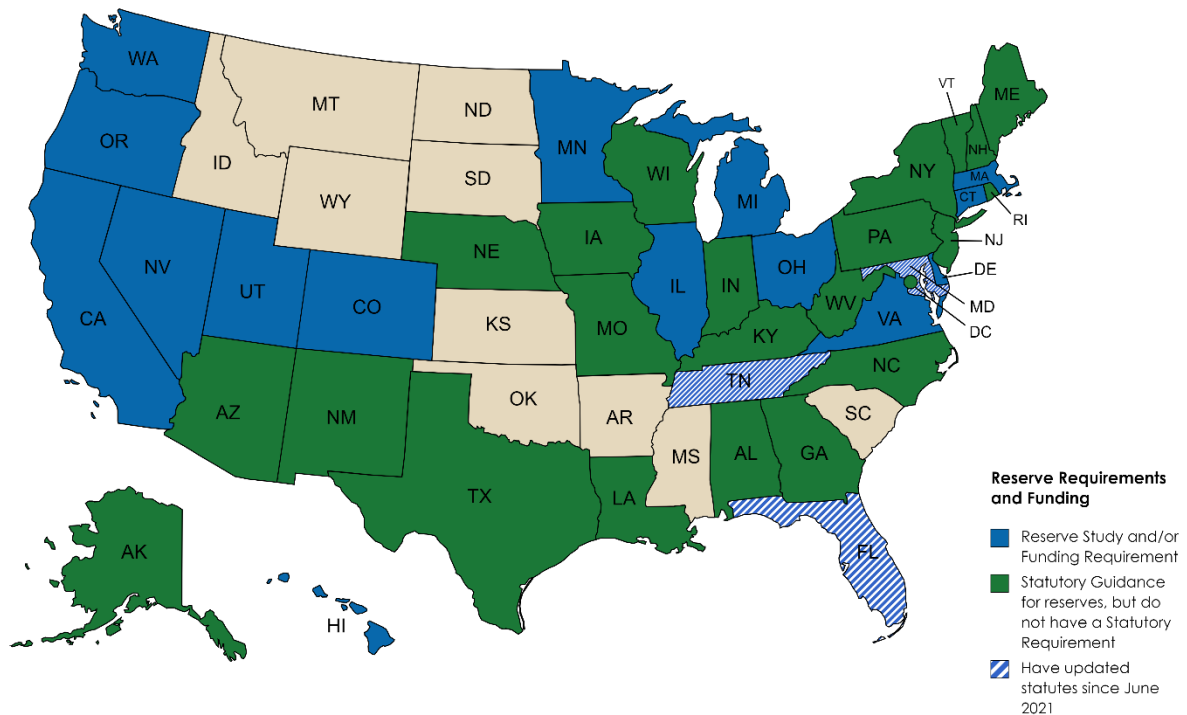


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Summary of State Reserve Fund Laws  
(As of October 2023)



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Many states have enacted legislation dealing with community association reserve and operating funds to protect owners from fiscal problems and financial hardship. More states may enact similar legislation as community associations continue to gain popularity. The following is a summary of each state reserve fund law.

Reserve studies or a reserve schedule for condominium associations are required in the following 12 states: **California, Colorado, Delaware, Florida, Hawaii, Maryland, Nevada, Oregon, Tennessee, Utah, Virginia, and Washington State**. Washington statutorily encourages associations to have a reserve study performed every three years unless doing so would impose an unreasonable hardship.

Reserve funding for condominium associations is required in the following 12 states: **Connecticut, Delaware, Florida, Hawaii, Illinois, Maryland, Massachusetts, Michigan, Minnesota, Nevada, Ohio, and Oregon**.

Reserve studies for developers are required in the following 5 states: **California, Delaware, Florida, Nevada, and Oregon**. In Oregon, the declarant, on behalf of a homeowners association, shall conduct an initial reserve study, prepare an initial maintenance plan, and establish a reserve account.

Reserve funding for developers is required in the following 6 states: **Arizona, Delaware, Florida,**

**Nevada, Oregon, and Wisconsin.** In Wisconsin, the developer of a condominium that is created on or after November 1, 2004, shall establish a statutory reserve account when the condominium is created and shall execute a statutory reserve account statement. The declarant shall determine the annual amount to be assessed unit owners for reserve funds.

The following 3 states have seen changes to state law following the collapse of Champlain Towers South in Surfside, FL in June 2021: **Florida, Maryland, Tennessee**. Note that the names of these states are in italics in the document.

Please remember that community associations are governed by state law, which can vary widely from state to state. This information is intended for general educational and informational purposes only; it may not reflect the most recent developments, and it may contain errors or omissions. The publisher does not warrant or guarantee that the information contained here complies with applicable law of any given state. It is not intended to be a substitute for advice from a lawyer, community manager, accountant, insurance agent, reserve professional, lender, or any other professional.

### **ALABAMA**

The unit owners' associations may adopt and amend budgets for revenues, expenditures and reserves and impose and collect assessments for common expenses from unit owners. [Section 35-8A-302\(2\)](#). Sellers must present buyers with an offering statement of the amount, or a statement that there is no amount, included in the budget as a reserve for repairs and replacement, and a statement of any other reserves. [Section 35-8A-403\(5\)](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

### **ALASKA**

The unit owners' associations may adopt and amend budgets for revenues, expenditures, and reserves and impose and collect assessments for common expenses from unit owners. [Section 34.08.320 \(2\)](#). A public offering statement must include assumptions concerning the calculation of the amount of reserves certified by a certified architect or engineer; the amount included in the budget as a reserve for repairs and replacement including the estimated cost of repair or replacement cost and the estimated useful life of the asset to be repaired or replaced; and a statement of any other reserves. [Section 34.08.530\(5\)](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

### **ARIZONA**

For condominiums, unit owners' associations may adopt and amend budgets for revenues, expenditures, and reserves and impose and collect assessments for common expenses from unit owners. [Section 33-1242\(2\)](#). The resale disclosure statement must include the total amount of money held by the association as reserves. The purchaser must also receive a copy of the most recent reserve study of the association, if any. [Section 33-1260](#).

For planned communities, resale disclosure statement must include the total amount of money held by the association as reserves. The purchaser must also receive a copy of the most recent reserve study of the community, if any. [Section 33-1806](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

[Section 10-3830](#) requires directors of nonprofit corporations to discharged duties in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances, and in a manner the director reasonably believes to be in the best interests of the corporation.

## **ARKANSAS**

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

## **CALIFORNIA**

On a quarterly basis common interest development boards of directors must review reserve accounts and compare reserves to the previous year. At least once every three years, boards must conduct a competent and diligent visual inspection of the property that the association is obligated to repair, replace restore or maintain as part of a study of the reserve account requirements. The board is to annually review this study to consider and implement necessary adjustments to the board's analysis of the reserve account requirements. The required reserve study shall at minimum include identification of the major components that the association is obligated to repair, replace, restore, or maintain that, as of the date of the study, have a remaining useful life of less than 30 years, identification of the probable remaining useful life of the components identified in the study as of the date of the study, an estimate of the cost of repair, replacement, restoration, or maintenance of the components identified in the study, an estimate of the total annual contribution necessary to defray the cost to repair, replace, restore, or maintain the components identified in the study during and at the end of their useful life, after subtracting total reserve funds as of the date of the study, and a reserve funding plan that indicates how the association plans to fund the contribution identified in the study. See more detailed information in [California Civil Code Section 5550-5520](#).

There is no statutory requirement to fund reserves.

## **COLORADO**

The unit owners' associations may adopt and amend budgets for revenues, expenditures, and reserves and impose and collect assessments for common expenses from unit owners. [Section 38-33.3-302](#).

When the association has a reserve study prepared for the portions of the community maintained, repaired, replaced, and improved by the association; whether there is a funding plan for any work recommended by the reserve study and, if so, the projected sources of funding for the work; and whether the reserve study is based on a physical analysis and financial analysis. An internally conducted reserve study shall be sufficient. [Section 38-33.3-209.5](#)

There is no statutory requirement to fund reserves.

## **CONNECTICUT**

Condominium associations shall provide in the proposed budget for the condominium adequate reserves for capital expenditures. [Section 47-88e](#). Common interest community executive boards, at least annually, shall adopt a proposed budget for the common interest community for consideration by the unit owners. Not later than thirty days after the adoption of a proposed budget, the executive board shall provide to all unit owners a summary of the budget, including a statement of the amount of any reserves, and a statement of the basis on which such reserves are calculated and funded. [Section 47-261e](#). Resale disclosure statement must include the total amount of money held by the association as reserves. [Section 47-264\(5\)](#).

There is no statutory requirement to conduct a reserve study.

## **DELAWARE**

Condominiums must contain within their declaration provisions that mandate that the association create and maintain, in addition to any reserve for contingencies, a fully funded repair and replacement reserve based upon a current reserve study. [Section 81-205\(14\)](#). Minimum contributions to reserves vary based on the Reserve Study or a statutory formula based on number of common area components. [Section 81-315](#). Condominium disclosure statement must include the current balance in reserves and the most recent reserve study. [Section 81-409](#). Condominiums and cooperatives must contain a line item in their annual budget funding any replacement and repair reserve. [Section 81-324](#).

## **DISTRICT OF COLUMBIA**

The unit owners' associations may adopt and amend budgets for revenues, expenditures, and reserves and impose and collect assessments for common expenses from unit owners. [Section 42-1903.08](#). Disclosure statement shall include the amount, or a statement that there is no amount, included in the projected budget as a reserve for repairs and replacement. [Section 42-1904.04](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

## **FLORIDA**

Accounting records must include, but are not limited to, all audits, reviews, accounting statements, structural integrity reserve studies, and financial reports of the association or condominium Structural integrity reserve studies must be maintained for at least 14 years after the study is completed. [Section 718.501\(1\)\(c\)](#).

Condominium financial reporting rules must include, but not be limited to, standards for presenting a summary of association reserves, including a good faith estimate disclosing the annual amount of reserve funds that would be necessary for the association to fully fund reserves for each reserve item based on the straight-line accounting method. [Section 718-111\(13\)](#). Annual budgets shall include reserve accounts for items such as, but not limited to, roof replacement, pavement, painting and other items with a replacement cost exceeding \$10,000. The amount to be reserved for an item is determined by the association's most recent structural integrity reserve study that must be completed by December 31, 2024. If the amount to be reserved for an item is not in the association's initial or most recent structural integrity reserve study or the association has not completed a structural integrity reserve study, the amount must be computed using a formula based upon estimated remaining useful life and estimated replacement cost or deferred maintenance expense of the reserve item. The association may adjust replacement reserve assessments annually to take into account any changes in estimates or extension of the use life of a reserve item caused by deferred maintenance. Funding for the accounts can be waived by a majority vote at a duly called meeting until December 30, 2024. Effective December 31, 2024, the members of a unit-owner controlled association may not determine to provide no reserves or less reserves than required. [Section 718.112\(f\)\(2\)](#).

Homeowner associations may adopt a budget that includes reserve accounts for capital expenditures and deferred maintenance for which the association is responsible. If reserve accounts are not established, funding of such reserves is limited to the extent that the governing documents limit increases in assessments, including reserves. Associations may waive reserves with proper notification in their financial statement. [Section 720.303\(6\)](#).

## **GEORGIA**

Condominium resale disclosure statement must include the estimated or actual operating budget for the condominium for the current year's reserves. [Section 44-3-111](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

## **HAWAII**

Condominium budgets shall include the amount of money in reserve, future reserve estimates based on a reserve study performed by the association, an explanation of how reserves are computed and the amount to be collected for reserves in the year ahead. *A condominium's reserve study must be reviewed by an independent reserve study preparer and updated every three years.* The association shall compute the estimated replacement reserves by a formula that is based on the estimated life and the estimated capital expenditure or major maintenance required for each part of the property. *Cash flow plans must be based on thirty year projections.* The estimated replacement reserves shall include: adjustments for revenues which will be received and expenditures which will be made before the beginning of the fiscal year to which the budget relates; and separate, designated reserves for each part of the property for

which capital expenditures or major maintenance will exceed \$10,000. Parts of the property for which capital expenditures or major maintenance will not exceed \$10,000 may be aggregated in a single designated reserve. [Section 514B-148](#). *Italicized text effective 1/1/23 per [HB 2272](#)*.

## **IDAHO**

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

## **ILLINOIS**

The Common Interest Community Act requires the board to give each owner a copy of the proposed annual budget which shall provide for reasonable reserves for capital expenditures and deferred maintenance for repair or replacement of the common elements. [765 ILCS 160/1-45](#).

The Condominium Act requires the board of managers to adopt a budget that provides for reasonable reserves for capital expenditures and differed maintenance for repair or replacement of the common elements. To determine the amount of reserves appropriate, the board shall take into consideration the any independent professional reserve study which the association may obtain. Any association without a reserve requirement in its condominium instruments may elect to waive in whole or in part the reserve requirements by a vote of 2/3 of the total votes of the association. [760 ILCS 605/9](#).

Disclosure statement shall include a statement of the status and amount of any reserve or replacement fund and any other fund specifically designated for association projects.

There is a requirement for the inclusion of any reserve studies performed in an association's records, as outlined by the Condominium Act. [765 ILCS 160/1-30, 1-90](#).

There is no statutory requirement to conduct a reserve study.

## **INDIANA**

All sums assessed by the association of co-owners shall be established by using generally accepted accounting principles applied on a consistent basis and shall include the establishment and maintenance of a replacement reserve fund. The replacement reserve fund may be used for capital expenditures and replacement and repair of the common areas and facilities and may not be used for usual and ordinary repair expenses of the common areas and facilities. [Section 32-25-4-4](#).

There is no statutory requirement to conduct a reserve study.

## **IOWA**

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

## **KANSAS**

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

## **KENTUCKY**

The Horizontal Property Law requires all co-owners to contribute toward the expense of maintaining a replacement reserve fund for repairs and maintenance of the general common elements. [Section 381.870](#).

Condominium unit owners' associations may adopt and amend budgets for revenues, expenditures, and reserves and impose and collect assessments for common expenses from unit owners. [Section 381.9167](#). The resale disclosure statement must include the total amount of any reserves for capital expenditures, if any, and of any portions of those reserves designated by the association for any specified projects. [Section 381.9203](#).

There is no statutory requirement to conduct a reserve study.

## **LOUISIANA**

Associations may adopt and amend budgets for revenues, expenditures, and reserves and make and collect assessments for common expenses from unit owners. [Section 9:1123.102](#). Public offering statements shall include an indication of the amount, or a statement that there is no amount, included in the budget as a reserve for repairs and replacement. [Section 9:1124.102](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

## **MAINE**

Unit owners associations may adopt and amend budgets for revenues, expenditures and reserves and collect assessments for common expenses from unit owners. [Section 1603-102](#). Public offering statements must contain a statement of the amount, or a statement that there is no amount, included in the budget as a reserve for repairs and replacement and a statement of the amount and purpose of any other reserves. [Section 1604-103](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

## **MARYLAND**

If the governing body of a condominium has had a reserve study conducted on or after October 1, 2018, the governing body shall have an updated reserve study conducted within 5 years after the date of that reserve study and at least every 5 years thereafter. [Section 11-109.4](#). If the governing body of a condominium has not had a reserve study conducted on or after October 1, 2018, the governing body shall have a reserve study conducted on or before October 1, 2023, and an updated reserve study at least every 5 years thereafter. [Section 11-109.4](#).

Councils of unit owners have the power to adopt and amend budgets for revenue, expenditures, and reserves and collect assessments for common expenses from unit owners. [Section 11-109](#). The level of reserves is required to be included in the annual budget; and shall be funded in the amount recommended in the most recent reserve study completed. If the most recent reserve study was an initial reserve study, the governing body shall, within 3 fiscal years following the fiscal year in which the initial reserve study was completed, attain the annual reserve funding level recommended in the initial reserve study. [Section 11-109.2](#). Resale certificate must contain the current operating budget of the condominium including details concerning the reserve fund for repair and replacement and its intended use, or a statement that there is no reserve fund. [Section 11-135](#).

## **MASSACHUSETTS**

All condominiums shall be required to maintain an adequate replacement reserve fund, collected as part of the common expenses and deposited in an account or accounts separate and segregated from operating funds. [Section 183A-10\(i\)](#). Managing agents shall be responsible for rendering, in no case less frequently than quarterly, a written report to the trustees or the managing board of the organization of unit owners detailing all receipts and expenditures on behalf of the organization, including beginning and ending balances and copies of all relevant bank statements and reconciliations for the replacement reserve fund, and maintain a separate and distinct account for the replacement reserve fund. [Section 183A-10\(f\)](#).

There is no statutory requirement to conduct a reserve study.

## **MICHIGAN**

Condominiums must have a reserve fund for major repairs and replacement of common elements shall be maintained by the associations of co-owners. The administrator may by rule establish minimum standards for reserve funds. [Section 559.205](#).



The state administrative code requires the co-owners' association to maintain a reserve fund which, at a minimum, shall be equal to 10% of the association's current annual budget on a noncumulative basis. The funds shall only be used for major repairs and replacement of common elements. Additionally, the following statement shall be contained in the bylaws: "The minimum standard required by this section may prove to be inadequate for a particular project. The association of co-owners should carefully analyze their condominium project to determine if a greater amount should be set aside, or if additional reserve funds should be established for other purposes." [Rule 559.511](#).

There is no statutory requirement to conduct a reserve study.

#### **MINNESOTA**

The common interest ownership act requires an association to include in its annual budgets replacement reserves projected by the board to be adequate, together with past and future contributions to replacement reserves, to fund the replacement of common elements. The act also requires the association to reevaluate the adequacy of its budgeted replacement reserves at least every third year after the recording of the declaration creating the common interest community. [Section 515B.3-1441](#). Unit owners associations have the power to adopt and amend budgets for revenues, expenditures and reserves and collect assessments for common expenses from unit owners. [Section 515B.3-101](#). Communities must distribute an annual report with a statement of the association's total replacement reserves, the components of the common interest community for which the reserves are set aside, and the amounts of the reserves, if any, that the board has allocated for the replacement of each of those components. [Section 515B.3-106](#). Disclosure statements must include the amount in the budget as replacement reserves and a statement of any other reserves.

There is no statutory requirement to conduct a formal reserve study.

#### **MISSISSIPPI**

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

#### **MISSOURI**

Unit owners associations may adopt and amend budgets for revenues, expenditures, and reserves and collect assessments for common expenses from unit owners. [Section 448.3-102.1](#). Resale certificates must provide the amount of any reserves for capital expenditures and of any portions of those reserves designated by the association for any specified projects. [Section 448.4-109.1](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

#### **MONTANA**

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

#### **NEBRASKA**

Unit owners associations may adopt and amend budgets for revenues, expenditures, and reserves and collect assessments for common expenses from unit owners. [Section 76-860](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

#### **NEVADA**

The common interest ownership act requires an association to establish adequate reserves, funded on a reasonable basis, for the repair, replacement and restoration of the major components of the common elements. [Section 116.3115](#). Additionally, the executive board of an association is required to conduct a study of reserves at least every five years, review the study to determine if reserves are sufficient, and adjust reserves, if necessary. The statute specifies how the study is to be conducted. [Section](#)

[116.31152](#). A public offering statement must include a budget which has a statement of the amount included in the budget as reserves. [Section 116.4103](#).

#### **NEW HAMPSHIRE**

Public offering statement must include the status and amount of any reserve for the major maintenance or replacement fund and any portion of such fund earmarked for any specified project by the board of directors. [Section 356-B:58](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

#### **NEW JERSEY**

The association may levy and collect assessments duly made by the association for a share of common expenses or otherwise, including any other moneys duly owed the association, upon proper notice to the appropriate unit owner, together with interest thereon, late fees and reasonable attorneys' fees, if authorized by the master deed or bylaws. All funds collected by an association shall be maintained separately in the association's name. For investment purposes only, reserve funds may be commingled with operating funds of the association. Commingled operating and reserve funds shall be accounted for separately, and a commingled account shall not, at any time, be less than the amount identified as reserve funds. [Section 46:8B-15](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

#### **NEW MEXICO**

Unit owners associations may adopt and amend budgets for revenues, expenditures, and reserves and collect assessments for common expenses from unit owners. [Section 47-7C-2](#). Disclosure statements must state the amount or a statement that there is no amount included in the budget as a reserve for repairs and replacement and a statement of any other reserves. [Section 47-7D-3](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

#### **NEW YORK**

Condominium bylaws may contain provisions governing the payment, collection and disbursement of funds, including reserves, to provide for major and minor maintenance, repairs, additions, improvements, replacements, working capital, bad debts and unpaid common expenses, depreciation, obsolescence and similar purposes. [RRP Section 339-V](#). Co-operative corporation directors must periodically set aside reasonable sums for reserves. [CCO Section 72](#).

There is no statutory requirement to conduct a reserve study.

#### **NORTH CAROLINA**

Unit owners associations may adopt and amend budgets for revenues, expenditures, and reserves and collect assessments for common expenses from unit owners. [Section 47C-3-102](#) and [47F-3-102](#). Public offering statements must include the amount, or a statement that there is no amount, included in the budget as a reserve for repairs and replacement and a statement of any other reserves. [Section 47C-4-103](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

#### **NORTH DAKOTA**

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

#### **OHIO**

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Unless otherwise provided in the declaration or bylaws, the condominium unit owners association,

through the board of directors, shall adopt and amend budgets for revenues, expenditures, and reserves in an amount adequate to repair and replace major capital items in the normal course of operations without the necessity of special assessments, provided that the amount set aside annually for reserves shall not be less than 10% of the budget for that year unless the reserve requirement is waived annually by the unit owners exercising not less than a majority of the voting power of the unit owners association. [Section 5311.081.](#)

Planned community owners associations, unless otherwise provided in the declaration or bylaws, through its board of directors, shall annually adopt and amend an estimated budget for revenues and expenditures. Any budget shall include reserves in an amount adequate to repair and replace major capital items in the normal course of operations without the necessity of special assessments, unless the owners, exercising not less than a majority of the voting power of the owners association, waive the reserve requirement annually. [Section 5312.06.](#)

There is no statutory requirement to conduct a reserve study.

### **OKLAHOMA**

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

### **OREGON**

The declarant, on behalf of a homeowners association, shall conduct an initial reserve study, prepare an initial maintenance plan and establish a reserve account. A reserve account shall be established to fund major maintenance, repair or replacement of all items of common property which will normally require major maintenance, repair or replacement, in whole or in part, in more than one and less than 30 years. The board of directors of the association annually shall conduct a reserve study or review and update an existing study to determine the reserve account requirements. After review of the reserve study or reserve study update, the board of directors may, without any action by owners adjust the amount of payments as indicated by the study or update and provide for other reserve items that the board of directors, in its discretion, may deem appropriate. [Section 94.595](#) and [100.175](#). Following a turnover of power from the declarant to the association, the board of directors at least annually shall adopt a budget for the planned community and include moneys to be allocated to the reserve account. [Section 94.645](#) and [100.483](#). However, the board of directors, with the approval of all owners, may elect not to fund the reserve account for the following year. [Section 94.595](#) and [100.175](#).

### **PENNSYLVANIA**

Unit owners associations may adopt and amend budgets for revenues, expenditures, and reserves and collect assessments for common expenses from unit owners. [Chapter 33 Section 3302](#) and [Chapter 53 Section 5302](#). Disclosure statements must statement of the amount or a statement that there is no amount included in the budget as a reserve for repairs and replacement and a statement of any other reserves. [Chapter 33 Section 3402](#) and [Chapter 53 Section 5402](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

### **RHODE ISLAND**

Unit owners associations may adopt and amend budgets for revenues, expenditures, and reserves and collect assessments for common expenses from unit owners. [Section 34-36.1-3.02](#). Public offering statements for condominiums must disclose a budget detailing the amount of reserves sufficient for painting exterior surfaces, replacing roofing, resurfacing roadways or other items subject to declaration. Must also disclose itemized life spans for common elements and expected impact on assessments. [Section 34-36.1-4.03](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

## **SOUTH CAROLINA**

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

## **SOUTH DAKOTA**

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

## **TENNESSEE**

Unit owners associations may adopt and amend budgets for revenues, expenditures, and reserves and collect assessments for common expenses from unit owners. [Section 66-27-402](#). Disclosure statements must include the amount, or a statement that there is no amount, included in the budget as a reserve for repairs and replacements, and whether any study has been done to determine their adequacy, if a study has been done, where the study will be made available for review and inspection, and a statement of any other reserves. [Section 66-27-503](#).

If the condominium board of directors has had a reserve study conducted on or after January 1, 2023, the board shall have an updated reserve study conducted within five (5) years after the date the reserve study was conducted, and at least every five (5) years thereafter, for purposes of assessing the condition of and planning for repair and maintenance of the common elements critical to structural integrity and safety. If the board of directors has not had a reserve study conducted on or after January 1, 2023, the board shall have a reserve study conducted on or before January 1, 2024, and the study must be updated every five (5) years for purposes of assessing the condition of and planning for repair and maintenance of the common elements critical to structural integrity and safety. [Section 66-27-403](#).

There is no statutory requirement to fund reserves.

## **TEXAS**

Unit owners associations may adopt and amend budgets for revenues, expenditures, and reserves and collect assessments for common expenses from unit owners. [Section 82.102](#). Resale statements must include the amount of reserves, if any, for capital expenditures and of portions of those reserves designated by the association for a specified project. [Section 82.157](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

## **UTAH**

Condominium management committees must cause a reserve analysis to be conducted no less frequently than every six years and review and, if necessary, update a previously conducted reserve analysis no less frequently than every three years. [Section 57-8-7.5](#). The management committee may conduct a reserve analysis itself or may engage a reliable person or organization, as determined by the management committee, to conduct the reserve analysis. An association of unit owners shall annually provide unit owners a summary of the most recent reserve analysis or update. [Section 57-8a-211](#). In formulating the association's budget each year, an association shall include a reserve fund line item in: (a) an amount the board determines, based on the reserve analysis, to be prudent; or (b) an amount required by the governing documents, if the governing documents require an amount higher than the amount determined under Subsection (6)(a).

There is no statutory requirement to fund reserves.

## **VERMONT**

Unit owners associations may adopt and amend budgets for revenues, expenditures, and reserves and collect assessments for common expenses from unit owners. [Section 27A-3-102](#). Public offering statement must include the amount, or a statement that there is no amount, included in the budget as a reserve for repairs and replacement and statement of any other reserves. [Section 27A-4-103](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

## **VIRGINIA**

Associations must conduct a reserve study at least once every five years to determine the necessity and amount of reserves required to repair, replace and restore the common elements or capital components. The board of directors must review the study at least annually and make adjustments as the board determines to keep the funding of reserves sufficient. The statutory provisions on reserves also include requirements for the contents of the association budget if reserves are determined to be a necessity. [Section 55.1-1965](#). Resale certificates must include the current reserve study report or a summary thereof, a statement of the status and amount of any reserve or replacement fund and any portion of the fund designated for any specified project by the association. [Section 55.1-1991](#).

## **WASHINGTON**

Unit owners associations may adopt and amend budgets for revenues, expenditures, and reserves and collect assessments for common expenses from unit owners and establish and administer a reserve account and prepare a reserve study. [Section 64.34.304](#) and [64.38.020](#). The decisions relating to the preparation and updating of a reserve study must be made by the board of directors of the association in the exercise of the reasonable discretion of the board. Such decisions must include whether a reserve study will be prepared or updated, and whether the assistance of a reserve study professional will be utilized. [Section 64.34.388](#). Associations are encouraged to establish a reserve account to fund major maintenance, repair, and replacement of common elements, including limited common elements that will require major maintenance, repair, or replacement within 30 years. Unless doing so would impose an unreasonable hardship, an association with significant assets shall prepare and update a reserve study. The initial reserve study must be based upon a visual site inspection conducted by a reserve study professional. Unless doing so would impose an unreasonable hardship, the association shall update the reserve study annually. At least every three years, an updated reserve study must be prepared and based upon a visual site inspection conducted by a reserve study professional. [Section 64.34.380](#) and [64.38.065](#). The public offering statement shall include copies of the association's current reserve study, if any. If the association does not have a reserve study, the public offering statement shall contain the following disclosure: "This association does not have a current reserve study. The lack of a current reserve study poses certain risks to you, the purchaser. Insufficient reserves may, under some circumstances, require you to pay on demand as a special assessment your share of common expenses for the cost of major maintenance, repair, or replacement of a common element." [Section 64.34.410](#). Any association created after 2018, must prepare and update a reserve study in accordance with this chapter. An initial reserve study must be prepared by a reserve study professional and based upon either a reserve study professional's visual site inspection of completed improvements or a review of plans and specifications of or for unbuilt improvements, or both when construction of some but not all the improvements is complete. An updated reserve study must be prepared annually. An updated reserve study must be prepared at least every third year by a reserve study professional and based upon a visual site inspection conducted by the reserve study professional. [Section 64.90.545](#). An association required to obtain a reserve study pursuant to RCW 64.90.545 must establish one or more accounts for the deposit of funds, if any, for the replacement costs of reserve components. Any reserve account must be an income-earning account maintained under the direct control of the board, and the board is responsible for administering the reserve account. [Section 64.90.535](#).

All common interest communities (condominiums, cooperatives, and planned communities) created within Washington after the effective date of July 1, 2018, must have an updated reserve study prepared annually. An updated reserve study must be prepared at least every third year by a reserve study professional and based upon a visual site inspection conducted by the reserve study professional. [RCW 64.90.545](#).

**WEST VIRGINIA**

Unit owners associations may adopt and amend budgets for revenues, expenditures, and reserves and collect assessments for common expenses from unit owners. [Section 36B-3-102](#). Public offering statement must include the amount, or a statement that there is no amount, included in the budget as a reserve for repairs and replacement and statement of any other reserves. [Section 36B-4-103](#).

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

**WISCONSIN**

The declarant of a condominium that is created on or after November 1, 2004, shall establish a statutory reserve account when the condominium is created and shall execute a statutory reserve account statement. The declarant shall determine the annual amount to be assessed unit owners for reserve funds. The declarant may elect not to establish a statutory reserve account at the time the condominium is created or, at any time thereafter, may elect to terminate a statutory reserve account during the period of declarant control. If a declarant has elected not to establish a statutory reserve account or to terminate an account, establishment of a statutory reserve account shall be addressed at the first annual meeting of the association held after, or at a special meeting of the association held within one year after, the expiration of any period of declarant control under. An association may, with the written consent of a majority of the unit votes, create or terminate a statutory reserve account. [Section 703.163](#).

There is no statutory requirement to conduct a reserve study.

**WYOMING**

There is no statutory requirement to conduct a reserve study and no statutory requirement to fund reserves.

*Note: This information is for informational purposes and is not intended to provide legal advice.*



## Reserve Study/Funding Laws for Condominium Associations

State	Relevant State Condominium Statute	Public Offering statement requirement	Reserve “study” requirement for declarant	Reserve funding requirement for declarant	Reserve “study” requirement for condominium association under homeowner control	Budget disclosure requirement for condominium association	Resale disclosure requirement for condominium association	Funding requirement for condominium association
Alabama	<a href="#">Alabama Uniform Condominium Act of 1991</a> (applies to condominiums established after 1/1/1991)	Yes	No	No	No	Yes	Yes	No
Alaska	<a href="#">Alaska Uniform Common Interest Ownership Act</a> (applies to all CICs – condos, planned communities or coops established after 1/1/1986)	Yes	No	No	No	Yes	No	No
Arizona	<a href="#">Arizona Condominium Act</a> (applies to all condominiums)	No	No	Yes	No	Yes	Yes	No
Arkansas	<a href="#">Arkansas Horizontal Property Act</a>	No	No	No	No	No	No	No

State	Relevant State Condominium Statute	Public Offering statement requirement	Reserve “study” requirement for declarant	Reserve funding requirement for declarant	Reserve “study” requirement for condominium association under homeowner control	Budget disclosure requirement for condominium association	Resale disclosure requirement for condominium association	Funding requirement for condominium association
California	<a href="#">Davis-Stirling Common Interest Development Act</a>	No	Yes	No	Yes, once every three years	Yes	Yes	No
Colorado	<a href="#">Colorado Common Interest Ownership Act</a> (CCIOA – applies to condominiums established after 7/1/1992)	Yes	No	no	Yes, adoption of a policy regarding reserves is required	No	No	No
Connecticut	<a href="#">Connecticut Common Interest Ownership Act</a> (applies to condominiums established after 1/1/1984)	Yes	No	No	No	Yes	Yes	Yes
Delaware	<a href="#">Delaware Uniform Common Interest Ownership Act</a> (applies to condominiums established after 9/30/2009)	Yes	Yes	Yes	Yes, every five years	Yes	Yes	Yes, annual budget must include Reserve contributions “sufficient” to achieve the level of funding in the reserve study
District of Columbia	<a href="#">District of Columbia Condominium Act</a> (applies to condominiums established after 3/29/1977)	Yes	No	No	No	Yes	Yes	No



State	Relevant State Condominium Statute	Public Offering statement requirement	Reserve “study” requirement for declarant	Reserve funding requirement for declarant	Reserve “study” requirement for condominium association under homeowner control	Budget disclosure requirement for condominium association	Resale disclosure requirement for condominium association	Funding requirement for condominium association
Florida	<a href="#">Florida Condominium Act</a>	Yes	Yes	Yes	Yes. Milestone inspections to be performed every 10 years starting from when the building reaches age 25. Building must have at least 3 floors above ground. If defects are identified, a second phase milestone inspection is required within 180 days of receipt of written notice. Repairs must commence within 365 days of the second phase milestone inspection.	Yes	Yes	Yes, requires full funding reserves. Annual budgets shall include reserve accounts for items with a replacement cost exceeding \$10,000, determined by the association's most recent reserve study, or based on an estimated remaining useful life and estimated cost of replacement.
Georgia	<a href="#">Georgia Condominium Act</a> (applies to condominiums established after 10/1/1975)	No	No	No	No	Yes	Yes	No
Hawaii	<a href="#">Hawaii Condominium Property Act</a>	No	No	No	Yes, required annually	Yes	Yes	Yes, baseline funding, or a threshold minimum 50% funded. Full funding is encouraged, but not required.

Idaho	<a href="#">Idaho Condominium Property Act</a>	No	No	No	No	No	No	No
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State	Relevant State Condominium Statute	Public Offering statement requirement	Reserve “study” requirement for declarant	Reserve funding requirement for declarant	Reserve “study” requirement for condominium association under homeowner control	Budget disclosure requirement for condominium association	Resale disclosure requirement for condominium association	Funding requirement for condominium association
Illinois	<a href="#">Illinois Condominium Property Act</a>	No	No	No	No	Yes	Yes	Yes, law requires establish and maintain a reasonable reserve account however, association may waive if not in instruments
Indiana	<a href="#">Indiana Condominium Act</a>	No	No	No	No	No	No	No
Iowa	<a href="#">Iowa Horizontal Property Act</a>	No	No	No	No	No	No	No
Kansas	<a href="#">Kansas Uniform Common Interest Owners’ Bill of Rights Act</a>	No	No	No	No	No	No	No
Kentucky	<a href="#">Kentucky Condominium Act</a> (applies to condominiums established after 1/1/2011)	No	No	No	No	Yes	No	No
Louisiana	<a href="#">Louisiana Condominium Act</a>	Yes	No	No	No	Yes	Yes	No
Maine	<a href="#">Maine Condominium Act</a> (applies to condominiums established after 1/1/1983)	Yes	No	No	No	Yes	Yes	No

State	Relevant State Condominium Statute	Public Offering statement requirement	Reserve “study” requirement for declarant	Reserve funding requirement for declarant	Reserve “study” requirement for condominium association under homeowner control	Budget disclosure requirement for condominium association	Resale disclosure requirement for condominium association	Funding requirement for condominium association
Maryland	<a href="#">Maryland Condominium Act</a>	Yes	No	No	Yes, replacement reserve studies must be updated at least once every five years for all associations.  <i>* the requirement to obtain and fund replacement reserve studies applicable to condominiums, cooperatives and homeowners associations statewide, effective October 1, 2022. Community associations who have not obtained a replacement reserve study (or update) since October 1, 2016, will be required to do so within one year of the effective date of the statute.</i>	Yes	Yes	Yes, any increased funding recommendations made in the updated reserve studies must be fully funded in the first budget cycle following receipt of the updated study.
Massachusetts	<a href="#">Massachusetts Condominium Statute</a>	No	No	No	No	No	No	Yes, annual budget requires associations to provide an adequate portion toward reserves funds, but 2/3 vote of

State	Relevant State Condominium Statute	Public Offering statement requirement	Reserve “study” requirement for declarant	Reserve funding requirement for declarant	Reserve “study” requirement for condominium association under homeowner control	Budget disclosure requirement for condominium association	Resale disclosure requirement for condominium association	Funding requirement for condominium association
								owners can opt out of this requirement at annual meetings
Michigan	<a href="#">Michigan Condominium Act</a>	No	No	No	No	Yes	No	Yes, must be at least 10% of total budget
Minnesota	<a href="#">Minnesota Uniform Condominium Act</a> (applies to condominiums established after 8/1/1980)	No	No	No	No	Yes	yes	Yes, annual budget required to provide for ‘adequate’ reserves
Mississippi	<a href="#">Mississippi Condominium Law</a>	No	No	No	No	No	No	No
Missouri	<a href="#">Missouri Uniform Condominium Act</a> (applies to condominiums established before 9/28/1983)	Yes	No	No	No	Yes	Yes	No
Montana	<a href="#">Montana Unit Ownership Act</a>	No	No	No	No	No	No	No
Nebraska	<a href="#">Nebraska Condominium Act</a> (applies to condominiums established 1/1/1984)	Yes	No	No	No	Yes	Yes	No

State	Relevant State Condominium Statute	Public Offering statement requirement	Reserve “study” requirement for declarant	Reserve funding requirement for declarant	Reserve “study” requirement for condominium association under homeowner control	Budget disclosure requirement for condominium association	Resale disclosure requirement for condominium association	Funding requirement for condominium association
Nevada	<a href="#">Nevada Uniform Common-Interest Ownership Act</a>	Yes	Yes	Yes	Yes, at least every five years	Yes	Yes	Yes, must establish adequate reserves, funded on a “reasonable basis”
New Hampshire	<a href="#">New Hampshire Condominium Act</a> (applies to condominiums established after 9/10/1977)	Yes	No	No	No	Yes	Yes	No
New Jersey	<a href="#">New Jersey Condominium Act</a> (applies to condominiums established after 1/7/1970)	No	No	Yes - requires a <i>letter of adequacy</i> from the preparer of the study	No	No	No	No
New Mexico	<a href="#">New Mexico Condominium Act</a> (applies to condominiums established after 5/19/1982)	Yes	No	No	No	Yes	Yes	No
New York	<a href="#">New York Condominium Act</a>	No	No	No	No	No	No	No, but board must disclose reserve components
North Carolina	<a href="#">North Carolina Condominium Act</a> (applies to condominiums)	Yes	No	No	No	Yes	Yes	No

State	Relevant State Condominium Statute	Public Offering statement requirement	Reserve “study” requirement for declarant	Reserve funding requirement for declarant	Reserve “study” requirement for condominium association under homeowner control	Budget disclosure requirement for condominium association	Resale disclosure requirement for condominium association	Funding requirement for condominium association
	established after 10/1/1986)							
North Dakota	<a href="#">North Dakota Condominium Ownership of Real Property</a>	No	No	No	No	No	No	No
Ohio	<a href="#">Ohio Condominium Property Act</a>	No	No	No	No	No	No	Yes, board shall adopt and amend reserves in the amount adequate to repair and replace major capital items in the normal course of operations without necessity of special assessments, provided that the amount set aside annually for reserves shall not be less than 10% of the budget for that year unless the reserve requirement is waived annually by the unit

State	Relevant State Condominium Statute	Public Offering statement requirement	Reserve “study” requirement for declarant	Reserve funding requirement for declarant	Reserve “study” requirement for condominium association under homeowner control	Budget disclosure requirement for condominium association	Resale disclosure requirement for condominium association	Funding requirement for condominium association
								owners exercising not less than a majority of the voting power of the unit owners association.
Oklahoma	<a href="#">Oklahoma Unit Ownership Estate Act</a>	No	No	No	No	No	No	No
Oregon	<a href="#">Oregon Condominium Act</a>	Yes	Yes, the declarant, on behalf of a homeowners association, shall conduct an initial reserve study, prepare an initial maintenance plan and establish a reserve account.	Yes	Yes, annually conduct a study or review the current one	Yes	No	Yes, however, the board of directors, with the approval of all owners, may elect not to fund the reserve account for the following year.
Pennsylvania	<a href="#">Pennsylvania Uniform Condominium Act</a> (applies to condominiums established after 7/2/1980)	Yes	No	No	No	Yes	Yes	No



State	Relevant State Condominium Statute	Public Offering statement requirement	Reserve “study” requirement for declarant	Reserve funding requirement for declarant	Reserve “study” requirement for condominium association under homeowner control	Budget disclosure requirement for condominium association	Resale disclosure requirement for condominium association	Funding requirement for condominium association
Rhode Island	<a href="#">Rhode Island Condominium Act</a> (applies to all condominiums established after 7/1/1982)	Yes	No	No	No	Yes	Yes	No
South Carolina	<a href="#">South Carolina Horizontal Property Act</a>	No	No	No	No	No	Yes	No
South Dakota	<a href="#">South Dakota Condominium Law</a>	No	No	No	No	No	No	No
Tennessee	<a href="#">Tennessee Condominium Act of 2008</a> (applies to condos established after 1/1/2009)	No	No	No	Yes, no less than every 5 years. Mandatory studies by Jan 1, 2024 if no reserve study was conducted on or after Jan 1, 2023.	No	No	No
Texas	<a href="#">Texas Uniform Condominium Act</a> (applies to condos established after 1/1/1994)	Yes	No	No	No	Yes	Yes	No
Utah	<a href="#">Utah Condominium Ownership Act</a>	No	No	No	Yes, no less than every 2 years	Yes	Yes	No
Vermont	<a href="#">Vermont Condominium Ownership Act</a>	Yes	No	No	No	Yes	Yes	No
Virginia	<a href="#">Virginia Condominium Act</a> (applies to condominiums)	Yes	No	No	Yes, every 5 years	Yes	Yes	No, board should review funds annually to determine if sufficient

State	Relevant State Condominium Statute	Public Offering statement requirement	Reserve “study” requirement for declarant	Reserve funding requirement for declarant	Reserve “study” requirement for condominium association under homeowner control	Budget disclosure requirement for condominium association	Resale disclosure requirement for condominium association	Funding requirement for condominium association
	established after 7/1/1974)							
Washington	<a href="#">Washington Condominium Act</a> (applies to condominiums established after 7/1/1990)	Yes	No	No	Yes, unless doing so would impose an unreasonable hardship, the association shall update the reserve study annually. At least every three years, an updated reserve study must be prepared and based upon a visual site inspection conducted by a reserve study professional.	Yes	Yes	No
West Virginia	<a href="#">West Virginia Uniform Common Interest Ownership Act</a> (applies to condos established after 7/1/1986)	Yes	No	No	No	Yes	Yes	No
Wisconsin	<a href="#">Wisconsin Condominium Ownership Act</a>	No	No	Yes, the declarant of a condominium that is created on or after November 1, 2004, shall establish a statutory reserve account when the condominium is	No	Yes	Yes	No, but reserve accounts must be established

State	Relevant State Condominium Statute	Public Offering statement requirement	Reserve “study” requirement for declarant	Reserve funding requirement for declarant	Reserve “study” requirement for condominium association under homeowner control	Budget disclosure requirement for condominium association	Resale disclosure requirement for condominium association	Funding requirement for condominium association
				created and shall execute a statutory reserve account statement. The declarant shall determine the annual amount to be assessed unit owners for reserve funds				
Wyoming	<a href="#">Wyoming Condominium Ownership Act</a>	No	No	No	No	No	No	No

Disclaimer: Please remember that community associations are governed by state law, which can vary widely from state to state. This information is intended for general educational and informational purposes only; it may not reflect the most recent developments, and it may contain errors or omissions. The publisher does not warrant or guarantee that the information contained here complies with applicable law of any given state. It is not intended to be a substitute for advice from a lawyer, community manager, accountant, insurance agent, reserve professional, lender, or any other professional.

## **RESERVE STUDY AND FUNDING PUBLIC POLICY**

**Summary:** Reserve studies are useful financial tools to help community associations understand and prepare for the restoration and replacement of common elements. A reserve study includes a physical review, a review of the community's financials and a recommendation plan made by a reserve professional.

CAI supports policy that requires reserve studies to be prepared in compliance with National Reserve Study Standards. CAI supports mandated reserve studies and funding for new community developments and periodic reserve studies for communities with major shared components.

### **About the Community Association Housing Model**

While community associations come in many forms and sizes, all associations share three basic characteristics: (1) membership in the association is mandatory and automatic for all property owners; (2) certain legal documents bind all owners to defined land-use requirements administered by the community association; and (3) all property owners pay mandatory lien-based assessments that fund association operations.

The community association housing model is actively supported by local government as it permits the transfer of many municipal costs to the association and homeowners. Today, many community associations deliver services that once were the exclusive province of local government.

Community associations are governed by a board of directors or trustees elected by their members. This board guides the association in providing governance and other critical services for the community usually funded by property taxes.

### **Background:**

Community associations are responsible for what is often considerable maintenance and upkeep of shared common elements. Typically, these costs are determined during the annual budget process and funded by annual association assessments charged to owners in the community. Special services or amenities may be funded through user fees. It is particularly important that developers create an initial budget that adequately provides for operating expenses and reserves, notwithstanding the lack of history related to a particular association. While each community association is unique, reference to similar associations in the same geographic area will typically provide a basis upon which to estimate expenses with reasonable adequacy.

### **Policy:**

Community association boards should always understand their communities' financial and physical state and be preparing for the future. However, reserve studies provide an in-depth, unbiased perspective from a reserve specialist, reserve professional, or other qualified professional (e.g., engineer or architect).

### **When are Reserve Studies Appropriate?**

CAI supports legislation that mandates preliminary reserve studies (before or during the construction of a community), and again at the time of developer turnover to the community association, including condominiums, housing cooperatives, and planned communities with major shared components for the member's unit or dwelling or significant infrastructure/site improvements (i.e. roads, street lighting, accessory buildings, etc.) CAI also supports legislation mandating periodic reserve studies for communities with significant infrastructure and/or shared components whose aggregate replacement costs exceed \$10,000.

### **Disclosing Findings**

CAI supports legislation that mandates disclosure of all reserve study findings be included in the Purchase and Sale agreements when the development is turned over from developer control (if applicable) and reserve study findings and funding plan to any new buyers as part of a standardized disclosure. Disclosure should also be mandated during the annual budgeting and include a summary of reserve financial condition, and the funding plan.

### **Legislating Reserve Funding**

CAI supports legislation which mandates reserve funding for community associations, including condominiums, housing cooperatives, and planned communities with major shared components in buildings containing dwellings. Include practical legislative process for community associations to comply with funding requirements. CAI understands the need for communities to maintain a certain amount of money in reserve funds but that it may not be

feasible for some communities to immediately procure those funds. Therefore, CAI supports and recommends mandates for community associations to comply with any funding requirements resulting from a reserve study legislation, while still allowing communities to slowly catch up to that amount.

CAI opposes legislation that would allow owners to waive and/or opt-out of reserve funding requirements. CAI also opposes legislation that would prohibit including structural and/or engineering inspections by appropriate professionals and the financial impact of said inspections in the reserve study and funding plan. Finally, CAI opposes legislation that restricts the borrowing from reserves for other purposes.

### **Emergencies**

Safety is the most important factor in any community. In the wake of any issue which arises that would threaten the life and/or safety of the community members or the association itself, CAI supports the ability of association government boards to collect a special assessment and/or borrow funds without a membership vote to correct these issues.

CAI resources that may be helpful for understanding reserves and reserve studies, include the following:

- [CAI Reserve Study Standards](#)
- [Explanation of Reserve Study Standards](#)
- [Best Practices: Reserve Studies/Management](#)

### **Policy History:**

Adopted by the Board of Trustees, April 10, 1983

Amended and Approved by the Public Policy Committee, 1993

Adopted by the Board of Trustees, October 9, 1993

Amended and Approved by the Public Policy Committee, May 11, 1996

Adopted by the Board of Trustees, May 11, 1996

Amended and Approved by the Public Policy Committee, October 22, 1997

Approved by the Public Affairs Council, October 22, 1997

Amended and Approved by the Public Policy Committee, April 22, 1998

Approved by the Public Affairs Council, April 22, 1998

Adopted by the Board of Trustees, April 25, 1998

Amended and approved by the Government and Public Affairs Committee, July 5, 2012

Adopted by the Board of Trustees, August 23, 2012

Amended and Approved by the Government and Public Affairs Committee, October 12, 2021

Adopted by the Board of Trustees, October 28, 2021



# RESERVE STUDY STANDARDS



# Reserve Study Standards<sup>®</sup>™

RSS - RS052023

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## Foreword

One of the primary responsibilities of the board of directors of a community association is to protect, maintain, and enhance the assets of the association. To accomplish this objective, associations must develop multiyear plans to help them anticipate and responsibly prepare for ongoing preventive maintenance, periodic structural inspections, as well as for the timely repair and replacement of common area components such as roofs, roads, mechanical equipment, and other portions of the community's common elements.

## Acknowledgements

Following the tragic partial collapse of Champlain Towers South condominium in Surfside, Fla., CAI convened working groups to discuss public policy solutions that would result in safer and more financially sound buildings. The working groups developed CAI's *Condominium Safety Public Policy Manual*, found at [www.condosafety.com](http://www.condosafety.com). Following the development and advocacy of these public policy initiatives, CAI convened a task force to review and update the *Reserve Study Standards* to incorporate maintenance and structural integrity into the reserve study process. The task force worked for nearly one year, spending hundreds of volunteer hours to update the standards. The task force also engaged all members in surveys and townhall-style meetings to provide input.

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## Scope and Intent of Standards

The intent of these standards is to provide guidance and methodology in the preparation of reserve studies for all varieties of community association ownership types and physical configurations. These standards establish the procedures from conceptual development through report preparation. Consistent application of these standards will minimize the difference in component selection and funding recommendations by different [reserve study providers](#), with the result that association leaders will receive consistent, credible, and defensible reserve studies.

*Note: Since studies involve practitioner judgment and contain factors that cannot be readily defined and standardized, guidance for reserve study preparation is included throughout and is shown as **italicized**.*

## Purpose and Background

The purpose of the *Reserve Study Standards* is to inform and guide the reserve study provider, such as a Reserve Specialist® (RS), with the minimum requirements necessary for the preparation of a reserve study. A reserve study can be prepared for several reasons throughout the life cycle of a community, beginning prior to construction and initial sales through community maturity. At each stage, the reserve study recommends the funding necessary to sustain the community.

Originally published in 1998, these *Reserve Study Standards* provide a consistent set of terminology, calculations, and expectations so reserve study providers and those they serve together can build a safe and successful future for millions of community association homeowners.

It is recognized that, in addition to the reserve study, a proactive preventive maintenance plan and ongoing periodic structural inspections should be incorporated into the community's long-term planning to properly evaluate and budget for the ongoing care of the common area [components](#) as well as the structural safety of the community. To keep the reserve study current and reflect the ongoing changes to the components and the financial needs of the community, the reserve study should be updated on a regular basis.

## Reserve Study

A reserve study is a budget planning tool that identifies the components a community association is responsible for maintaining or replacing, the status of the reserve fund, and a stable and equitable [funding plan](#) to offset the anticipated future major [common area](#) expenditures.

This limited evaluation is conducted for budget and cash flow purposes. Tasks outside the scope of a reserve study include, but are not limited to, design review, construction evaluation, intrusive or destructive testing, preventive maintenance plans, and structural or safety evaluations.

## Reserve Study Levels of Service

The following four levels of service describe the various types of reserve studies. In each case, minimum requirements are provided; definitions for each term are included within the “Terms and Definitions” section below.

### Level I, Full

A reserve study in which the following five tasks are performed. This type of study includes the preparation of all five portions of the study based on both the [reserve study provider’s](#) on-site evaluation and on information provided by the client and other subject matter experts, as applicable:

- [Component inventory](#)
- [Condition assessment](#)
- Life and valuation estimates
- [Fund status](#)
- [Funding plan](#)

### Level II, Update, With Site Visit/On-Site Review

A reserve study update in which the following five tasks are performed, based on both the reserve study provider’s on-site evaluation and on information provided by the client and other subject matter experts, as applicable:

- Component inventory
  - *This does not require quantities to be re-established, but it does require a review for a general conformance of the quantities in the study being updated to match the as-built conditions observed as part of the [site visit](#).*
  - *Components are to be added that were not previously included within the study being updated and which now are anticipated to occur within 30 years.*
  - *Long-life components are to be recognized as described within the definition of long-life components provided within this document.*
- Condition assessment
- Life and valuation estimates
- Fund status
- Funding plan

### Level III, Update, No-Site-Visit/Off Site Review

A reserve study update with no on-site visual observations, in which the following three tasks are performed based on both the reserve study provider’s experience, as well as information provided by the client and other subject matter experts as applicable:

- Life and valuation estimates
- Fund status
- Funding plan

### Level IV, Preliminary, Community Not Yet Constructed

A reserve study prepared before construction that is generally used for budget estimates. It is based on design documents such as architectural and engineering plans. The following three tasks are performed to prepare this type of study:

- Component inventory
- Life and valuation estimates
- Funding plan

### Supplemental Reports

In addition to the four levels of service for the preparation of the reserve study, two supplemental reports are recommended in recognition that the [life cycle costs](#) of a community association are not only limited to reserve [components](#), and that incorporating these supplemental items will minimize the life cycle costs of the community, improving safety of the [structural system\(s\)](#) in the community. The reserve study provider should ask the client for a copy of the most current preventive maintenance manual to confirm that no overlap exists. The study also should be prepared to confirm that preventive maintenance is being performed. If preventive maintenance is not being performed, this should be disclosed within the report and be reflected, if necessary, in the remaining useful lives of the components included.

1. **A Preventive Maintenance Manual** is recommended for all associations. Although not a requirement for inclusion in the reserve study, disclosures are required regarding whether a preventive maintenance schedule is in place and being used.

Note: Some preventive maintenance projects may meet the definition of a reserve component and thus should be funded through reserves.

2. **Periodic Structural Inspections** are recommended as outlined in the CAI Building Inspection and Maintenance Public Policy (reference [www.condosafety.com](http://www.condosafety.com)). Specifically, CAI supports policy that requires both initial and recurring inspections for buildings and other major structural elements owned or maintained by the association. It is a critical part of monitoring the condition of the building's structural system on an ongoing basis. The reserve study should include the estimated cost and frequency of these inspections and any others that are required by law or ordinance. If these inspections require that corrective maintenance be performed, the cost and timing for this work should be included within the reserve study.

## Reserve Study Preparation Procedure

The process for preparing a reserve study consists of assembling and systematically analyzing information and data regarding the components comprising the physical assets of the community association which are to be included. A general procedure for conducting a reserve study is included in the figure below. The precise procedure for the preparation of the study shall be determined by the qualified [reserve study provider](#) and based on one of the levels of services described within this standard. This standard does not preclude the use of other procedures.



## Establish Components Included in the Reserve Study

### Component Inventory

The task of selecting and quantifying reserve components.

### Components

The individually listed projects within the physical analysis which are determined for inclusion using the process described within the component inventory. These components form the building blocks for the reserve study. **Components are selected to be included in the reserve study based on the following 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 material to the association, can be reasonably estimated, and includes all direct and related costs.

### Component Selection Guidelines

*In selecting the components to be included within the reserve study, the following guidelines, although not exclusive of the [reserve study provider's](#) expertise, are provided:*

1. *Association maintenance/replacement responsibility is generally established by a review of governing documents as well as established association precedent.*
2. *When a project becomes "reasonably anticipated" will vary based on building age, construction type, and the judgment of the reserve study provider. This test means that component definitions should be based on some degree of certainty.*
3. *The community's budget should be reviewed, to establish the amount of maintenance planned and which projects are being funded from the operating account.*
4. *The amount and types of maintenance occurring at the community.*
5. *The community's historical pattern of expenses, helping to determine which projects in the past have been funded from the operating account, as well as to establish their inclusion within the reserve study.*
6. *Any work performed on the reserve components since the prior study was performed.*
7. *All available reports and information regarding the physical components within the community.*
8. *All maintenance contracts in place for the physical components within the community*
9. *Component definitions are not constrained by capital or non-capital state or Internal Revenue Service definitions. If desired at reserve study provider's discretion, all non-capital (per IRS or other tax authority definitions) items may be categorized separately.*
10. *Components are not restricted to physical items. Components may be projects that do not particularly involve the repair or replacement of a physical asset. In many cases, "components" may not be tangible objects or visually observable yet but should still be considered for inclusion in the study based on the expertise of the reserve study provider, a review of any available design drawings, or other subject matter experts.*
11. *Professional inspections, evaluations, or related building services qualify as reserve components if they otherwise meet the definition of "component."*

12. Common area preventive or corrective maintenance projects qualify as reserve components if they otherwise meet the definition of “component.” In other words, a “component” does not need to be a cyclical repair or replacement of a tangible physical item.
13. A reserve component is not required to be a cyclical replacement. An example may be corrective maintenance required per a periodic structural inspection.
14. In certain jurisdictions, there may be statutory requirements for or limitations to including components or groups of components in the reserve study. Those statutory requirements are to be respected with this standard, representing the minimum requirements in all cases.
15. A component replacement is not required to be with a similar component. Logical upgrades to an existing asset or system that is obsolete, inefficient, or no longer effectively serves the needs of the association can be accomplished as a reserve project. These upgrades also can be based on ongoing preventive maintenance costs and an evaluation of energy costs based on higher efficiency equipment.
16. There is no minimum or maximum limit to useful life or remaining useful life estimates used in a reserve study.
17. Selection of components, or selection of useful life and remaining useful life, may consider energy usage and ongoing maintenance costs which have an impact on total budgetary expenses and total life cycle costs.
18. No destructive testing is included in the scope of a reserve study.

### **Long-Life Component**

Those components with an estimated remaining life of more than 30 years from the date of the study being prepared.

The reserve study provider, in coordination with the client, will determine the methodology for including these components in the study. Typical evaluation techniques for consideration include:

- Inclusion of long-life components with funding in the study.
- Addition of long-life components with funding at the time when they fall within the 30-year period from the date of study preparation.
- Identification of long-life components in the component inventory, even when they are not yet being funded in the 30-year funding plan.

### **Key Terms Related to Components**

#### **Establish Physical Attributes and Condition of Components/Condition Assessment**

The task of evaluating the current condition of the component based on observed or reported characteristics. The assessment is limited to a visual, non-invasive evaluation.

#### **Establish Budgetary Replacement Costs of Components/Valuation Estimates**

The task of estimating the current repair or replacement costs for the reserve components.

#### **Establish Estimated Remaining Useful Life of Each Component /Life Estimates**

The task of estimating useful life and remaining useful life of the reserve components.

## Develop a Funding Plan

### Funding Goals

Reserve studies shall be developed based on one of the following funding goals. The funding goal shall be determined by the reserve study provider in consultation with their client to reflect the community's risk tolerance, as well as other variables explained by the reserve study provider.

Adequate funding (or adequate reserves) is defined as a replacement reserve fund and stable and equitable multiyear [funding plan](#) that together provide for the reliable and timely execution of the association's major repair and replacement projects as defined herein without reliance on additional supplemental funding.

The three funding goals listed below range from the most aggressive to the most conservative.

#### Baseline Funding

Establishing a reserve funding goal of allowing the reserve cash balance to approach but never fall below zero during the cash flow projection. This is the funding goal with the greatest risk of being prepared to fund future repair and replacement of major components, **and it is not recommended** as a long-term solution/plan. Baseline funding may lead to project delays, the need for a [special assessment](#), and/or a line of credit for the community to fund needed repairs and replacement of major components.

#### Threshold Funding

Establishing a reserve funding goal of keeping the [reserve balance](#) above a specified dollar or [percent funded](#) amount. Depending on the threshold selected, this funding goal may be weaker or stronger than "[fully funded](#)" with respective higher risk or less risk of cash problems. In determining the threshold, many variables should be considered, including things such as investment risk tolerance, community age, building type, components that are not readily inspected, and components with a [remaining useful life](#) of more than 30 years.

#### Full Funding

Setting a reserve funding goal to attain and maintain reserves at or near 100 percent funded. Fully funded is when the actual or projected reserve balance is equal to the fully funded balance.

*It should be noted that, in certain jurisdictions, there may be statutory funding requirements that would dictate the funding requirements. In all cases, these standards are considered the minimum to be referenced.*



## Reserve Study Report and Contents

The following is a list of the minimum contents to be included in the reserve study:

1. A summary of the association's separate interests (number of units/lots), physical description, and current (or projected) reserve fund balance.
2. A tabular listing of the [component inventory](#), including for each component, quantities or identifying descriptions, sources utilized, [useful life](#), [remaining useful life](#), and current [replacement cost](#).

*The component and useful life shall reflect all identified "Long Life Components," though the funding for components beyond a 30-year useful life does not need to occur until the remaining useful life drops to 30 years.*

3. A description of methods and objectives utilized in computing the [fund status](#) and development of the [funding plan](#):
  - a) Methodology used in developing the funding plan.
  - b) Funding goal(s) used in developing the funding plan, and if threshold, the threshold goal (cash or [percent funded](#)) chosen.
  - c) Fiscal year for which the reserve study is prepared.

4. Summary of any discussion of preventive maintenance with association representatives including a description of the extent of preventive maintenance being employed.

*If preventive maintenance is not being performed, the remaining useful life of components should be reduced, if applicable.*

5. Summary of any discussion about periodic structural inspection reports or the lack thereof.

*If a periodic structural inspection and report has been performed, a copy should be requested to include any corrective maintenance or repair and associated timing and costs into the reserve study.*

6. A description of the level of service by which the reserve study was prepared.

## Disclosures

The following are the minimum disclosures to be included in the reserve study:

1. General: Description of the other involvement(s) with the association, which could result in actual or perceived conflicts of interest.
2. Physical analysis: Description of how thorough the on-site observations were performed: representative samplings versus all common areas, field measurements versus drawing take-offs, etc.
3. Recommended subject matter experts to be consulted to evaluate issues outside the scope of the [reserve study provider's](#) expertise or business model.
4. [Financial analysis](#): Description of assumptions utilized for interest and inflation, tax, and other outside factors.
5. Personnel credentials: State or organizational licenses or credentials carried by the individual responsible for reserve study preparation or oversight.
6. Update reports: Disclosure of how the current work is reliant on the validity of prior reserve studies.
7. Completeness: Material issues which, if not disclosed, would cause a distortion of the association's situation.
8. Reliance on client data: Information provided by the official representative of the association regarding financial, physical, quantity, or historical issues will be deemed reliable by the consultant and assembled for the association's use, not for the purpose of performing an audit, quality/forensic analysis, or background checks of historical records.
9. [Reserve balance](#): The actual or projected total presented in the reserve study is based upon information provided and was not audited.
10. Component quantities: For update with site visit and update with no site visit levels of service, the client is considered to have deemed previously developed component quantities as accurate and reliable.
11. Reserve projects: Information provided about reserve projects will be considered reliable. Any on-site inspection should not be considered a project audit or quality inspection.
12. Periodic building inspections: Structural integrity evaluations are not included in the reserve study unless otherwise noted.
13. Maintenance:
  - A. Preventive maintenance is a critical aspect affecting a community's [life cycle costs](#) and structural safety. It is encouraged that every association have a preventive maintenance plan prepared in conjunction with the reserve study (if required). The reserve study shall include a disclosure regarding the community's preventive maintenance planning. The preventive maintenance plan should incorporate all applicable common elements, not just those components included within the reserve study.
  - B. Any information provided by the client regarding ongoing maintenance or repair being performed with any component shall be included within the notes for that component in every full or with site-visit reserve study.
  - C. The reserve study provider can only be aware of preventive maintenance plans or programs that have been disclosed by the client.

*Note that an audit or evaluation of any maintenance plans or maintenance contract is outside the scope of services performed by a Reserve Specialist.*

- D. The reserve study provider lacks information to incorporate necessary corrective maintenance costs and timing unless they have been provided with a copy of the most recent periodic structural inspection report. A disclosure to this effect shall be included.
- 14. Disclosure of dollar value below which projects are handled through the operational budget. Exceptions may be made for projects falling below this threshold which materially extend the [useful life](#) or [remaining useful life](#) of a component.
- 15. Disclosure of long-life but unfunded components.
  - A. *Unless specifically noted, the components included within this study have an anticipated remaining useful life within 30 years from the time the field observations used in preparing the study was performed.*
- 16. Liability disclosure: The Reserve Specialist shall incur no civil liability for performing the physical or financial portions of a reserve study performed in accordance with these standards.
- 17. Scope limitation disclosures: Clear recommendations appear within the reserve study where the association has been advised to retain outside expertise to supplement the evaluation of the Reserve Specialist.
- 18. Independence disclosure: The Reserve Specialist or other reserve study provider for this project has no familial or marital relationship with the client, no ownership interest in the client, and no ongoing business relationship with the client.
- 19. The study should include the dates that field observations were performed for use in preparing the study.
- 20. The study should include the source of all information provided to the reserve study provider of the study, including their name and relationship to the client.

## Updating the Reserve Study

To keep the reserve study current and reflect the ongoing changes to the [components](#) and the financial needs of the community, the reserve study should be updated on a regular basis. Best practice is for a site inspection-based reserve study update at least every third year.

*Note: Preventive maintenance evaluations and periodic structural inspections should be updated prior to the reserve study so they may be incorporated into the reserve study update.*

## Reserve Study Provider

Reserve studies should be prepared by a qualified professional.

- Reserve Specialist® (RS) designation. An individual with a RS designation **is the most qualified** individual to conduct reserve studies. They have prepared at least 30 reserve studies within the past three years, have the appropriate level of education and experience, and have committed to a high level of ethical and professional standards.

Other qualifications may include:

- A professional who carries nationally recognized professional credentials for reserve study providers.
- A professional with construction, accounting, architecture, engineering, community association management, or specific subject matter expertise with direct experience preparing reserve studies for community associations.

## Agreements

The scope of services for the reserve study shall be defined by the qualified [reserve study provider](#) and all conditions, applicable standards, and services shall be mutually agreed upon by the client and the reserve study provider.

## Standard of Care

In providing a reserve study based on these standards, the Reserve Specialist shall perform in a manner consistent with that degree of care and skill ordinarily exercised by members of the same profession practicing under similar circumstances at the same time and the same or similar locality. The Reserve Specialist further agrees that the work performed shall conform to the requirements of these standards.

As different community types present different challenges and levels of complexity, a Reserve Specialist should only accept engagements where they are qualified to prepare the reserve study within their experience and expertise, unless assisted by one or more subject matter experts or more qualified Reserve Specialists, as necessary.

## Terms and Definitions

**Adequate Reserves:** A replacement reserve fund and stable and equitable multiyear [funding plan](#) that together provide for the reliable and timely execution of the association's major repair and replacement projects as defined herein without reliance on additional supplemental funding.

**Capital Improvements:** Additions to the association's common area that previously did not exist. While these components should be added to the reserve study for future replacement, the cost of construction or installation cannot be taken from the reserve fund.

**Cash Flow Method (also known as pooling):** A method of developing a reserve funding plan where funding of reserves is designed to offset the annual expenditures from the reserve fund.

*To determine the selected funding plan, different reserve funding plans are tested against the anticipated schedule of reserve expenses until the desired funding goal is achieved.*

**Common Area:** The areas identified in the community association's master deed or declarations of covenant easements and restrictions that the association is obligated to maintain and replace or based on a well-established association precedent.

**Community Association:** A nonprofit entity that exists to preserve the nature of the community and protect the value of the property owned by members. Membership in the community association is mandatory and automatic for all owners. All owners pay mandatory lien-based assessments that fund the operation of the association and maintain the common area or elements, as defined in the governing documents. The community association is served and lead by an elected board of trustees or directors.

**Components:** The individually listed projects within the physical analysis which are determined for inclusion using the process described within the component inventory. These components form the building blocks for the reserve study. **Components are selected to be included in the reserve study based on the following 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 material to the association, can be reasonably estimated, and includes all direct and related costs.

**Component Inventory:** The task of selecting and quantifying reserve components. This task can be accomplished through on-site visual observations, review of association design and organizational documents, review of association precedents, and discussion with appropriate representative(s) of the association.

The Reserve Specialist, in coordination with the client, will determine the methodology for including these components in the study. Typical evaluation techniques for consideration include:

- Inclusion of long-life components with funding in the study.
- Addition of long-life components with funding at the time when they fall within the 30-year period from the date of study preparation.

- Identification of long-life components in the component inventory even when they are not yet being funded in the 30-year funding plan.

**Component Method** (also known as Straight Line): A method of developing a reserve funding plan where the total funding is based on the sum of funding for the individual components.

**Condition Assessment:** The task of evaluating the current condition of the component based on observed or reported characteristics. The assessment is limited to a visual, non-invasive evaluation.

**Effective Age:** The difference between [useful life](#) and estimated [remaining useful life](#). Not always equivalent to chronological age since some components age irregularly. Used primarily in computations.

**Financial Analysis:** The portion of a reserve study in which the current status of the reserves (measured as cash or [percent funded](#)) and a recommended reserve funding plan are derived, and the projected reserve income and expense over a period of time are presented. The financial analysis is one of the two parts of a reserve study. A minimum of 30 years of income and expense are to be considered.

**Fully Funded:** 100 percent funded. When the actual (or projected) [reserve balance](#) is equal to the fully funded balance.

**Fully Funded Balance (FFB):** An indicator against which the actual (or projected) reserve balance can be compared. The reserve balance that is in direct proportion to the fraction of life “used up” of the current repair or [replacement cost](#). This number is calculated for each component, and then summed for an association total.

FFB = Current Cost X Effective Age/Useful Life

*Example: For a component with a \$10,000 current replacement cost, a 10-year useful life, and effective age of 4 years, the fully funded balance would be \$4,000.*

**Fund Status:** The status of the reserve fund reported in terms of cash or [percent funded](#).

## Funding Goals:

The three funding goals listed below range from the most aggressive to most conservative:

### Baseline Funding

Establishing a reserve funding goal of allowing the reserve cash balance to approach but never fall below zero during the cash flow projection. This is the funding goal with the greatest risk of being prepared to fund future repair and replacement of major components, **and it is not recommended** as a long-term solution/plan. Baseline funding may lead to project delays, the need for a [special assessment](#), and/or a line of credit for the community to fund needed repairs and replacement of major components.

### Threshold Funding

Establishing a reserve funding goal of keeping the [reserve balance](#) above a specified dollar or percent funded amount. Depending on the threshold selected, this funding goal may be weaker or stronger than “fully funded” with respective higher risk or less risk of cash problems. In determining the threshold, many variables should be considered, including things such as

investment risk tolerance, community age, building type, components that are not readily inspected, and components with a [remaining useful life](#) of more than 30 years.

### **Full Funding**

Setting a reserve funding goal to attain and maintain reserves at or near 100 percent funded. Fully funded is when the actual or projected reserve balance is equal to the fully funded balance.

*It should be noted that, in certain jurisdictions, there may be statutory funding requirements that would dictate the funding requirements. In all cases, these standards are considered the minimum to be referenced.*

**Funding Plan:** An association’s plan to provide income to a reserve fund to offset anticipated expenditures from that fund. The plan must be a minimum of 30 years of projected income and expenses.

**Funding Principles:** A funding plan addressing these principles. These funding principles are the basis for the recommendations included within the reserve study:

- Sufficient funds when required.
- Stable funding rate over the years.
- Equitable funding rate over the years.
- Fiscally responsible.

**Initial Year:** The first fiscal year in the financial analysis or funding plan.

**Life Estimates:** The task of estimating [useful life](#) and [remaining useful life](#) of the reserve components.

**Life Cycle Cost:** The ongoing cost of deterioration which must be offset in order to maintain and replace common area components at the end of their useful life. Note that the cost of preventive maintenance and corrective maintenance determined through periodic structural inspections (if required) are included in the calculation of life cycle costs and often result in overall net lower life cycle costs.

**Maintenance:** Maintenance is the process of maintaining or preserving something, or the state of being maintained. Maintenance is often defined in three ways: preventive maintenance, corrective maintenance, and deferred maintenance. Maintenance projects commonly fall short of “replacement” but may pass the defining test of a reserve component and be appropriate for reserve funding. Maintenance types are categorized below:

**Preventive Maintenance:** Planned maintenance carried out proactively at predetermined intervals, aimed at reducing the performance degradation of the component such that it can attain, at minimum, its estimated useful life.

**Deferred Maintenance:** Maintenance which is not performed and leads to premature deterioration to the common areas due to lack of preventive maintenance.

*This results in a reduction in the remaining useful life of the reserve components and the potential of inadequate funding. Typically, deferred maintenance creates a need for corrective maintenance.*

**Corrective Maintenance:** Maintenance performed following the detection of a problem, with the goal of remediating the condition such that the intended function and life of the component or system is restored, preserved, or enhanced.

*Many corrective maintenance projects could be prevented with a proactive, preventive maintenance program. Note that when the scope is minor, these projects may fall below the threshold of cost significance and thus are handled through the operational budget. In other cases, the cost and timing should be included within the reserve study.*

**Percent Funded:** The ratio, at a particular point in time clearly identified as either the beginning or end of the association’s fiscal year, of the actual (or projected) [reserve balance](#) to the fully funded balance, expressed as a percentage.

*While percent funded is an indicator of an association’s reserve fund size, it should be viewed in the context of how it is changing due to the association’s reserve funding plan, in light of the association’s risk tolerance and is not by itself a measure of “adequacy.”*

**Periodic Structural Inspection:** [Structural system](#) inspections aimed at identifying issues when they become evident.

*Additional information and recommendations are included within the Condominium Safety Public Policy Report. [www.condosafety.com](http://www.condosafety.com)*

**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.

**Preventive Maintenance Schedule:** A summary of the preventive maintenance tasks included within a maintenance manual which should be performed such that the useful lives of the components are attained or exceeded. This schedule should include both the timing and the estimated cost of the task(s).

**Remaining Useful Life (RUL):** Also referred to as “remaining life” (RL). The estimated time, in years, that a component can be expected to serve its intended function, presuming timely preventive maintenance. Projects expected to occur in the initial year have zero remaining useful life.

**Replacement Cost:** The cost to replace, repair, or restore the component to its original functional condition during that particular year, including all related expenses (including but not limited to shipping, engineering, design, permits, installation, disposal, etc.).

**Reserve Balance:** Actual or projected funds, clearly identified as existing either at the beginning or end of the association’s fiscal year, which 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 information provided and not audited.*

**Reserve Study:** A reserve study is a budget planning tool which identifies the components that 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 the 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, but are not limited to, design review, construction evaluation, intrusive or destructive testing, preventive maintenance plans, and structural or safety evaluations.

**Reserve Study Provider:** An individual who prepares reserve studies. In many instances, the reserve study provider will possess a specialized designation such as the Reserve Specialist® (RS) designation administered by Community Associations Institute (CAI). This designation indicates that the provider has shown the necessary skills to perform a reserve study that conforms to these standards. In some instances, qualifications in excess of the RS designation will be required if supplemental subject matter expertise is required.

**Reserve Study Provider Firm:** A company that prepares reserve studies as one of its primary business activities.

**Responsible Charge:** A Reserve Specialist (RS) in responsible charge of a reserve study shall render regular and effective supervision to those individuals' performing services that directly and materially affect the quality and competence of services rendered by the Reserve Specialist. A Reserve Specialist shall maintain such records as are reasonably necessary to establish that the Reserve Specialist exercised regular and effective supervision of a reserve study of which he or she was in responsible charge. A Reserve Specialist engaged in any of the following acts or practices shall be deemed not to have rendered the regular and effective supervision required herein:

1. The regular and continuous absence from principal office premises from which professional services are rendered; except for performance of field work or presence in a field office maintained exclusively for a specific project;
2. The failure to personally inspect or review the work of subordinates where necessary and appropriate;
3. The rendering of a limited, cursory or perfunctory review of plans or projects in lieu of an appropriate detailed review; and
4. The failure to personally be available on a reasonable basis or with adequate advance notice for consultation and inspection where circumstances require personal availability.

**Site Visit:** A visual assessment of the accessible areas of the components included within the reserve study.

*The site visit includes tasks such as, but not limited to, on-site visual observations, a review of the association's design and governing documents, review of association precedents, and discussion with appropriate representative(s) of the association.*

**Special Assessment:** A temporary assessment levied on the members of an association in addition to regular assessments. Note that special assessments are often regulated by governing documents or local statutes.

*Special assessments, when used to make up for unplanned reserve fund shortfalls, may be an indicator of deferred maintenance, improper reserve project planning, and unforeseen catastrophes and accidents, as well as other surprises.*

**Structural System:** The structural components within a building that, by contiguous interconnection, form a path by which external and internal forces, applied to the building, are delivered to the ground. This is generally a combination of structural beams, columns, and bracing and is not included within the reserve study, although it is reviewed as part of the recommended periodic structural inspections.

*It is important to recognize that individual structural components which are not a part of the structural system, such as decks, balconies, and podium deck components may be included for reserve funding if they otherwise satisfy the three-part test.*

**Useful Life (UL):** The estimated time, in years, that a reserve component can be expected to serve its intended function if properly constructed presuming proactive, planned, preventive maintenance.

*Best practice is that a component's Useful Life should reflect the actual preventive maintenance being performed (or not performed).*

**Valuation Estimates:** The task of estimating the current repair or [replacement costs](#) for the reserve components.



# best practices

REPORT #1

## Reserve Studies/ Management



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# best practices

REPORT # 1

## Reserve Studies/ Management

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# best practices

*Community Associations Institute (CAI) and the Foundation for Community Association Research are dedicated to conducting research and acting as a clearinghouse for information on innovations and best practices in community association creation and management.*

## **What are Best Practices?**

The Foundation for Community Association Research is proud to offer function-specific Best Practices Reports in the community association industry. The Foundation has developed best practices in select topic areas using a variety of sources, including, but not limited to, 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; and
- the development of a showcase on community excellence.

The benefits of benchmarking and developing best practices include: improving quality; setting high performance targets; helping to overcome the disbelief that stretched goals are possible; strengthening cost positions; developing innovative approaches to operating and managing practices; accelerating culture change by making an organization look outward rather than focusing inward; and bringing accountability to the organization because it is an ongoing process for measuring performance and ensuring improvement relative to the leaders in the field.

The Foundation's entire catalog Best Practices Reports is available at [www.cairf.org](http://www.cairf.org) as a free download and for sale in CAI's bookstore.

# Overview

Community associations come in all sizes. They vary in age, amenities provided, and maintenance obligations. Careful planning for future repairs and replacements is not only in the best physical and fiscal interests of the community association, it is required by law in some states. Maintaining a reserve fund not only meets legal, fiduciary and professional requirements, it also minimizes the need for special assessments and enhances resale values.

Every community association requires a different amount of cash in reserves to complete repair or replacement projects on schedule without special assessments or loans. How does an association properly determine and compile adequate reserves to fund necessary repair and replacement costs? By conducting reserve studies.

## Definition of Reserve Studies

There are two components of a reserve study—a physical analysis and a financial analysis. During the physical analysis, a reserve provider evaluates information regarding the physical status and repair/replacement cost of the association's major common area components. To do so, the provider conducts a component inventory, a condition assessment, and life and valuation estimates. A financial analysis assesses only the association's reserve balance or fund status (measured in cash or as percent funded) to determine a recommendation for an appropriate reserve contribution rate (funding plan).

## Types of Reserve Studies

Reserve studies fit into one of three categories: *Full*; *Update, With-Site-Visit/On-Site Review*; and *Update, No-Site-Visit/Off Site Review* (listed from exhaustive to minimal).

- In a *Full* reserve study, the reserve provider conducts a component inventory, a condition assessment (based upon on-site visual observations), and life and valuation estimates to determine both a fund status and a funding plan.
- In an *Update, With-Site-Visit/On-Site Review*, the reserve provider conducts a component inventory (verification only, not quantification), a condition assessment (based on on-site visual observations), and life and valuation estimates to determine both a fund status and a funding plan.
- In an *Update, No-Site-Visit/Off Site Review*, the reserve provider conducts life and valuation estimates to determine a fund status and a funding plan.

## Contents of a Reserve Study

A reserve study should include the following:

- A summary of the association, including the number of units, physical description, and the financial condition of the reserve fund.
- A projection of the reserve starting balance, recommended reserve contributions, projected reserve expenses, and the projected ending reserve fund balance for a minimum of 20 years.
- A tabular listing of the component inventory, component quantity or identifying descriptions, useful life, remaining useful life, and current replacement cost.
- A description of the methods and objectives utilized in computing the fund status and in the development of the funding plan.
- Source(s) utilized to obtain component repair or replacement cost estimates.
- A description of the level of service by which the reserve study was prepared and the fiscal year for which the reserve study was prepared.

## Disclosure

Experts recommend the following items be included in a comprehensive reserve study:

- A statement disclosing other involvement(s) with the association that could result in actual or perceived conflicts of interest.
- A narrative description of the physical analysis that details how the on-site observations were performed, i.e. representative sampling vs. all common areas, destructive



- testing or not, field measurements vs. drawing take-offs, etc.
- A description of the assumptions utilized for interest and inflation, tax and other outside factors for the financial analysis.
  - A written explanation of the credentials (state or organizational licenses/credentials) held by the individual who prepared the reserve study or oversight.
  - A report on how the current work is reliant on the validity of prior reserve studies.
  - Discussion of material issues which, if not disclosed, would cause a distortion of the association's situation.
  - Reliable information provided by the association's official representative regarding financial, physical, quantity or historical issues. The reserve study will be a reflection of information provided to the consultant and assembled for the association's use, not for the purpose of performing an audit, quality/forensic analyses, or background checks of historical records.
  - The actual or projected reserve balance total presented in the reserve study based upon information provided.
  - Accurate reserve components as determined in the *Update With-Site-Visit* and *Update With No-Site-Visit* levels of service.
  - A description of reserve projects which is considered reliable. Any on-site inspection should not be considered a project audit or quality inspection.

## **Determining a Reserve Schedule**

A reserve schedule is the financial summary of the reserve study. Its format depends on the funding method used (see "Selecting a Funding Plan" section). During the development of a reserve schedule, the association and its reserve specialist should follow the steps detailed in Figure 1 on the opposite page.

## **Establishing a Preventive Maintenance Schedule**

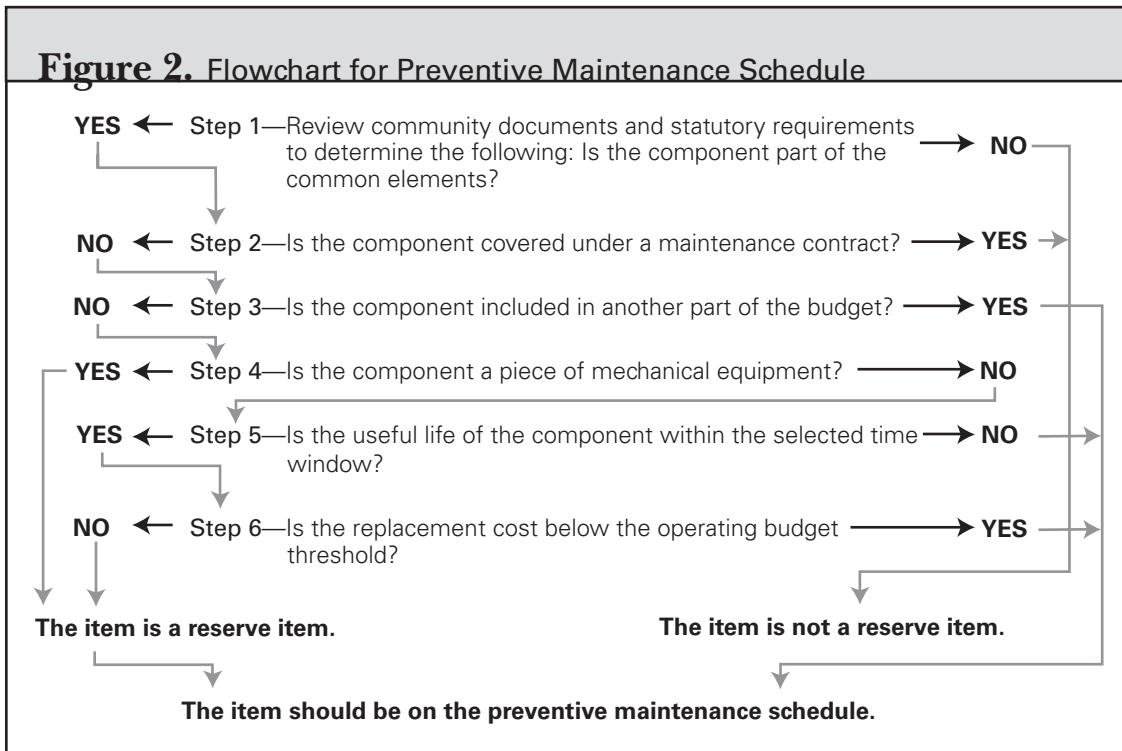
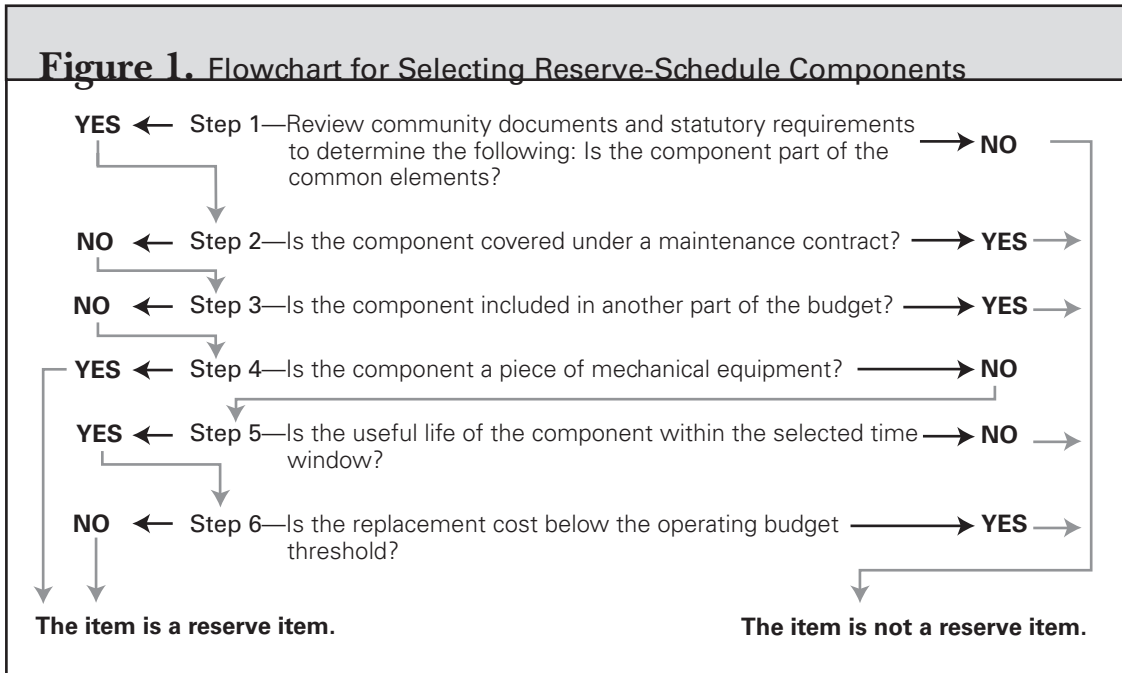
Once you've determined which items are reserve components, it's time to establish a preventive maintenance schedule. Associations should establish a preventive maintenance schedule for two primary reasons:

1. If associations do not maintain the components on the reserve schedule, they will not attain their full useful life. Consequently, the components will need to be replaced earlier and the replacement cost will need to be collected over a shorter period of time. This could result in possible special assessments.
2. If associations do not maintain the components that are not included in the reserve schedule, they may require replacement whereas if they were maintained, they would not. For example, wood siding, when maintained properly, will last indefinitely. Without proper maintenance, it may need to be completely replaced in the future.

Figure 2 on the opposite page is a flowchart to assist you in developing a preventive maintenance schedule.

## **Selecting a Funding Plan**

Once your association has established its funding goals, the association can select an



appropriate funding plan. There are four basic strategies from which most associations select. It is recommended that associations consult professionals to determine the best strategy or combination of plans that best suit the association's need. Additionally, associations should consult with their financial advisor to determine the tax implications of selecting a particular plan. Further, consult with the American Institute of Certified Public Accountants (AICPA) for their reporting requirements (see Financial Reporting section on page 7). The four funding plans and descriptions of each are detailed below. Associations will need to update their reserve studies more or less frequently depending on the funding strategy they select.

- **Full funding**—The goal of this funding strategy is to attain and maintain the reserves at or near 100 percent. For example, if an association has a component with a 10-year life and a \$10,000 replacement cost, it should have \$3,000 set aside for its replacement after three years ( $\$10,000 \div 10 \text{ years} = \$1,000 \text{ per year} \times 3 \text{ years} = \$3,000$ ). In this case, \$3,000 equals full funding.
- **Baseline funding**—The goal of this funding method is to keep the reserve cash balance above zero. This means that while each individual component may not be fully funded, the reserve balance does not drop below zero during the projected period. An association using this funding method must understand that even a minor reduction in a component's remaining useful life can result in a deficit in the reserve cash balance. Associations can implement this funding method more safely by conducting annual reserve updates that include field observations.
- **Threshold funding**—This method is based on the baseline funding concept. The minimum reserve cash balance in threshold funding; however, is set at a predetermined dollar amount.
- **Statutory funding**—This method is based on local statutes. To use it, associations set aside a specific minimum amount of reserves as required by statutes.

## Developing an Investment Policy

Developing an investment policy is suggested to set a standard and procedure for investing reserve funds. It also allows boards to make consistent choices and brings structure and continuity to the decision. When developing an investment policy, the board should discuss and evaluate the following topics: general policy, goals and objectives, investment strategy, investment securities' selection criteria, and review and control policies.

Additionally, many states have laws protecting community associations from making what some would consider risky investments. It is suggested that associations review state laws related to reserves; review association documents regarding reserves; consult with service providers such as an attorney, an accountant and a community association manager; and conduct yearly reserve policy reviews.

See the sample investment policy on the opposite page.

### sample investment policy

#### *The XYZ Condominium, Rockville, Maryland*

BE IT RESOLVED that the replacement reserves shall be invested in such amounts as may be authorized by the Board of Directors in accordance with the following policy:

- A. No funds shall be deposited or invested except in authorized investments. Authorized investments are those that are in accordance with the Maryland Condominium Act and with the declaration and bylaws of the XYZ condominium and that are obligations of, or fully guaranteed by, the U.S. government.
- B. All accounts, instruments, and other documentation of such investments shall be subject to the approval of, and may from time to time be amended by, the board of directors as appropriate, and they shall be reviewed at least annually.
- C. Investments shall be guided by the following goals, listed in decreasing order

of importance:

- a. *Safety of principal.* The long-term goal is safety of the replacement reserves.
- b. *Liquidity and accessibility.* Funds should be readily available for projected or unexpected expenditures.
- c. *Minimal costs.* Investment costs (redemption fees, commissions, and other transaction costs) should be minimized.
- d. *Professional management.* Funds should be invested with professional managers who have good reputations and sound credentials.
- e. *Return.* Funds should be invested to seek the highest level of return that is consistent with preservation of the purchasing power of the principal and accumulated interest.

Approved by the XYZ Condominium Board of Directors, (insert date)

## Financial Reporting

In the early 1990s, the AICPA developed the *AICPA Audit and Accounting Guide: Audits of Common Interest Realty Associations (CIRA)* to establish accounting standards for accountants to use when composing the financial statements for common interest realty associations. The guide outlines what needs to be included in the financial statements and has requirements for information pertaining to future repairs and replacements.

The following should be included (see the AICPA's guide for a comprehensive list):

- Requirements, if any, in state statutes or association documents to accumulate funds for future major repairs and replacements and the CIRA's compliance or lack of compliance with them.
- A description of the CIRA's funding policy, if any, and compliance with it.
- A statement that funds are accumulated based on estimated future (or current) costs, that actual expenditures may vary from these estimates and that the variations may be material.
- Amounts assessed for major repairs and replacements in the current period, if any.
- A statement indicating whether a study was conducted to estimate remaining useful lives, future major repairs and/or future replacement costs.
- Information regarding special assessments if associations fund major repairs and replacements using them.

# case study #1

## RR Community Association

*Size:* 312 units

*Location:* South Orange County, California

RR Community Association ("RRCA") is a condominium association located in South Orange County, California. RRCA, which was constructed from the mid- to late-1980s, consists of 312 units contained in 39 nearly identical 8-unit buildings. There are private roadways, two pool areas and extensive landscaped areas. The association's reserve components include the following:

- Roadways (asphalt and concrete)
- Roofs (flat and pitched composition shingle)
- Paint (stucco, woodwork, and tubular steel)
- Fencing, Walls and Gates
- Lighting (buildings, walkways, streets and pool areas)
- Two Pool Areas (each with pool, spa and restroom building)
- Tot Lot
- Deck Surfaces (entrance stairways and balconies)
- Doors (garage and utility closets)
- Landscaping (irrigation system, slopes, tree trimming)
- Miscellaneous Components (awnings, rain gutters, etc.)

Steve Jackson, RS, started working with RRCA in the early-1990s. His first analyses concluded that while the association had a significant reserve fund, it was underfunded by approximately 40 percent. Based on his analyses and recommendations, the association contributed to their reserve fund to cover the normal deterioration of reserve components and also to correct their underfunded reserve position through time. With 312 units contributing to the reserve fund, the total reserve fund grew rapidly. However, everything is relative. With 312 units, the association also faced significant reserve expenditures in the future to properly maintain the community.

During the early- to mid-1990s, deterioration of the reserve components occurred at a more rapid rate than had been estimated. The association was becoming increasingly underfunded. Investigation found that the association had significant construction defects. Now, not only was the association faced with funding their reserve for normal deterioration of components and to correct their underfunded position, they also had to finance litigation against the community's developer.

During the investigation and litigation, which lasted approximately 2 years, the association's board of directors had a legal duty (according to California Civil Code) to analyze and disclose to the homeowners the association's reserve fund status on an annual basis. Contrary to the opinion of some in the legal community, this duty cannot be put on hold due to ongoing litigation. Each year, upon direction from the association's legal counsel, a reserve analysis was prepared that showed the reserve fund status *as if* the reserve components were designed and constructed properly. These analyses made it possible for the association to develop budgets based on normal circumstances with the anticipation

## case study #1, continued

that additional expenses or accelerated expenses caused by defective conditions would be awarded to the association through litigation. Each year the association developed their budget based on this analysis and disclosed to the homeowners the assumptions used.

As the investigation progressed, the association's construction experts formulated a repair plan and estimated the total cost to correct construction deficiencies at roughly \$3.5 million. Negotiations with the community's developer lead to a proposed settlement of \$3.75 million to be paid over a one-year timeframe. Sounds great, right? Wrong. After paying accumulated legal and expert fees as well as repaying a line of credit, the association would be left with a net settlement of \$3 million, resulting in a shortfall of approximately \$500,000. How would the association make the necessary repairs with such a settlement?

The reconstruction, which would last approximately 18 months, called for repairs, modification or replacement of many reserve components. However, the association's board of directors had only a vague idea with regard to what the impact would be to the reserve components and subsequent changes to the reserve fund status. At this time, the association had approximately \$300,000 in their reserve fund and was funding their reserves at a rate of approximately \$15,000 per month.

The association's board of directors embarked on a series of analyses addressing the big picture, not just the defective conditions and proposed settlement. RRCA's property manager and legal counsel put together a panel of experts. The board of directors relied on the analyses and recommendations of their construction experts, reserve analyst, investment advisor, management firm and legal counsel. Here's what each party did:

**Manager/Legal Counsel**—Coordinated efforts of the experts and provided information as required.

**Construction Expert**—Identified most likely reconstruction schedule including cash flow requirements. Worked with reserve analyst to determine what the impact of the reconstruction plan would be to the reserve components.

**Investment Advisor**—Developed an investment strategy that would maximize interest income during the reconstruction period and provide necessary cash flow for reconstruction activities.

**Reserve Analyst**—Developed *pro forma* reserve analysis that projected the reserve fund status post reconstruction. Determined what information was critical to this analysis and collected it from management, legal counsel and the other experts. Performed analysis (described on page 10) and reported results to the board of directors.

**Board of Directors**—Listened to the advice of management, legal counsel and experts. The board asked the right questions and did their own due diligence to confirm what they were being told.

The experts concluded that the only way this reconstruction could be completed was if the association was willing to use not only the proposed settlement, but also the association's entire reserve fund (including reserve contributions to be made during the

## case study #1, continued

reconstruction period).

The question for the reserve analyst became, "what will the impact to the membership be if the existing reserve funds are spent on the reconstruction project?" The board of directors relied on the reserve analyst to determine if the settlement would be sufficient to make the association whole again...both *physically and fiscally*. The board of directors was confident that the repair plan would make the association whole *physically*. Ultimately, the board of directors wanted to know if the existing reserve funds were spent on the reconstruction project, would the reserve contribution (and likely the assessments) need to be increased. If the reserve contribution did not require an increase after the reconstruction, the board would feel that this settlement would make them whole fiscally as well.

The reserve analyst found that the following would occur:

1. By the end of the reconstruction period, the association would spend nearly all of their reserve funds to finance the reconstruction. This would bring the reserve fund status from approximately 60 percent funded down to nearly zero.
2. Most of the major reserve components, which had been scheduled in previous reserve analyses to be addressed in the near future (i.e., flat roofs, painting, deck maintenance, etc.), would be addressed during the reconstruction period.
3. While the association's reserve fund status would be "weak" post reconstruction, the association would be able to pay for reserve expenses as they occurred and rebuild their reserve fund to a suitable level within approximately three years. After approximately five years, the association would be approaching "ideal" reserve fund status (i.e., 90% to 100% funded). All of this would be accomplished with no initial increase to the reserve fund contribution and only minimal increases through time.

During 1998, based on the analyses of their experts, the board of directors accepted the proposed settlement on behalf of the association. The reconstruction of the community was completed (ahead of schedule and within budget) during 1999. Almost the association's entire reserve fund was used to finance the reconstruction.

As of January 2000, the association's reserve fund was 22 percent funded. As planned, the 2000 fiscal year budget called for only a modest increase (consistent with the cost of living) to the reserve fund contribution. By the end of 2000, the association will be 36 percent funded. By the end of 2002, the association expects to be near 60 percent funded and by the end of 2005, they expect to be approaching an ideal reserve fund status.

*Submitted by Steve Jackson, RS, Advanced Reserve Solutions, Inc.*

## case study #2

### “ABC” Community Association

*Size:* 134 units

*Location:* Kauai, Hawaii

Located in Kauai, Hawaii, this 134-unit large resort condominium (apartment style) property was built in 1976. The association was originally designed to be a timeshare tennis club. However, that concept did not appeal to buyers and the plan was adjusted to present units in the association for sale as homes. It has experienced its share of trials through the years. The original developer took its time withdrawing from the association and turning it over to homeowner control. There were threats of converting the association to timeshare. There was the major rebuilding effort after Hurricane Iniki in September 1992. On the bright side, the community is now under a new management organization that has its roots in hotel and vacation ownership management and an appreciation for quality, cost-effective maintenance rather than a continuation of band-aid projects. Currently, there are 48 owners—47 individual owners and one large owner who operates their portfolio of units in a vacation club (timeshare) concept.

This association has had a mixture of reserve studies over the years. The first reserve study was a professional *Full* reserve study done in 1995 for fiscal year (FY) 1996. It found that the association was 17 percent funded and recommended monthly reserve contributions (MRC) of \$17,700.

In 1996, the association performed a Do-It-Yourself Reserve Study Kit, in which they assembled the physical information on the property and obtained professional assistance in crunching the numbers and generating a report. In this report for FY 1997, they were found to be 29 percent funded and an effective MRC was computed to be \$12,700. In 1997, a professional *No-Site-Visit Update* reserve study was done for FY 1998. That reserve study found them to be 45 percent funded and recommended a MRC of \$12,600.

In 1998, the association had a professional *No-Site-Visit Update* reserve study done for FY 1999. That reserve study found them to be again 45 percent funded, and recommended a MRC of \$13,000. In 1999 they also had a professional *No-Site-Visit Update* reserve study done for FY 2000, which found them to be 47 percent funded and recommended a MRC of \$14,500. In 2000 they had a professional *With-Site-Visit Update* reserve study done for FY 2001. That reserve study found them to be 44 percent funded and again recommended a MRC of \$14,500.

Despite starting at a weak 17 percent funded and even through the expenditures of many large repainting, asphalt resurfacing, and repair projects, the community association has increased its reserve fund strength to the 40-50 percent range over the last few years. Their expectation is continued growth in the strength of their reserve fund, judicious use of their maintenance budget, wise expenditures of reserves, and a strong reserve contribution rate. The association has never experienced a special assessment.

*Submitted by Robert M. Nordlund, P.E., RS, Association Reserves, Inc.*



## case study #3

### **The Woodlands at West Orange Condominium Association**

*Size:* 174 units

*Location:* West Orange, New Jersey

Since transition from developer control, the board of directors at The Woodlands at West Orange Condominium Association has funded the reserves in accordance with the recommendations in the initial capital reserve study and subsequent bi-annual updates. This strong belief in adequate reserves recently helped the association through a major roof replacement. Like many communities built in the 1980's, the roofs at The Woodlands contained fire-retardant treated (FRT) plywood that was subsequently found to be unsuitable for the construction of roofs. In 1996, within the statutory limit of ten years since construction, the association began procedures to prepare the necessary back-up to file a claim for reimbursement of replacement costs with the State of New Jersey. In 1998, the State awarded the association \$254,000 toward the cost of the roof replacement project, which was anticipated to cost approximately \$1.2 million including approximately \$150,000 in roof-related enhancements.

The board of directors then faced the challenge of informing the unit owners that they were going to spend \$1.2 million. To do so, the board president called a special meeting of all unit owners on April 30, 1998—a meeting that drew the largest attendance of any meeting ever held at The Woodlands. Under the guidance of the president and the Reserve Specialist, the project was analyzed for the owners. The association had \$114,000 in available cash, of which \$60,000 would be used toward the roof project. In addition, \$606,000 was to be borrowed from the capital reserve fund and \$78,000 was to be utilized from the escrow fund. Combined with the award from the state, the association was still facing a deficit of more than \$221,000. To cover that deficit, a one-time assessment of \$1,500 per unit was levied. To ease the burden, the assessment was made payable over a twelve-month period.

Luckily, the roof replacement project was completed ahead of schedule and at a cost savings of \$61,000. The association was then faced with rebuilding its reserves and repaying the money borrowed from the capital reserve fund. At this time, the Reserve Specialist conducted another reserve analysis and found that a smaller contribution to the capital reserve fund would be sufficient to meet the association's needs. Prior to the roof project, the association was spending \$30,000 a year in repairs. Since the new roofs were installed, that expenditure was added to the annual contribution to the reserve fund. The decision to continue to make contributions to the reserve fund at the higher rate was key to the association's ability to fully restore both the reserve fund and the escrow fund in an acceptable time frame.

Thanks to a true team effort by the association board members, the Reserve Specialist, the investment consultant, and the accountant, the association is once again fully funded—with a current reserve fund of \$900,000—and the escrow fund completely restored. Moreover, the association has not had an increase in maintenance fees in seven years. This ongoing focus on reserves and quality maintenance of property has resulted in an extremely high demand for homes in The Woodlands at West Orange Condominium Association.

*Submitted by Jerome M. Fien, President, The Woodlands at West Orange Condominium Association*

## Common Terms

For those not trained to perform reserve studies, some of the terminology may seem daunting. Here are some commonly used terms:

**Cash Flow Method:** A method of developing a reserve funding plan where contributions to the reserve fund are designed to offset the variable annual expenditures from the reserve fund. Different reserve funding plans are tested against the anticipated schedule of reserve expenses until the desired funding goal is achieved.

**Component Inventory:** The task of selecting and quantifying reserve components. This task can be accomplished through on-site visual observations, review of association design and organizational documents, a review of established association precedents, and discussion with appropriate association representative(s).

**Component Method:** A method of developing a reserve funding plan where the total contribution is based on the sum of contributions for individual components. See "cash-flow method."

**Condition Assessment:** The task of evaluating the current condition of the component based on observed or reported characteristics.

**Current Replacement Cost:** See "replacement cost."

**Deficit:** An actual or projected reserve balance less than the fully funded balance. The opposite would be a surplus.

**Effective Age:** The difference between useful life and remaining useful life. Not always equivalent to chronological age, since some components age irregularly. Used primarily in computations.

**Financial Analysis:** The portion of a reserve study where the current status of the reserves (measured as cash or percent funded) and a recommended reserve contribution rate (reserve funding plan) are derived, and the projected reserve income and expense over time is presented. The financial analysis is one of the two parts of a reserve study.

**Component Full Funding:** When the actual or projected cumulative reserve balance for all components is equal to the fully funded balance.

**Accrued Fund Balance (AFB):** The total accrued depreciation. It's an indicator against which the actual or projected reserve balance can be compared to identify the direct proportion of the "used up" life of the current repair or replacement cost. This number is calculated for each component, and then summed together for an association total. The following formula can be utilized.  $AFB = \text{Current Cost} \times \text{Effective Age/Useful Life}$

**Fund Status:** The status of the reserve fund as compared to an established benchmark such as percent funding.

**Funding Goals:** Independent of methodology utilized, the following represent the basic categories of funding plan goals:

- *Baseline Funding:* Establishing a reserve funding goal of keeping the reserve cash balance above zero.

- *Component Full Funding*: Setting a reserve funding goal of attaining and maintaining cumulative reserves at or near 100% funded.
- *Statutory Funding*: Establishing a reserve funding goal of setting aside the specific minimum amount of reserves of component required by local statutes.
- *Threshold Funding*: Establishing a reserve funding goal of keeping the reserve balance above a specified dollar or percent funded amount. Depending on the threshold, this may be more or less conservative than component full funding.

**Funding Plan:** An association's plan to provide income to a reserve fund to offset anticipated expenditures from that fund.

**Funding Principles:**

- *Sufficient Funds When Required*
- *Stable Contribution Rate over the Years*
- *Evenly Distributed Contributions over the Years*
- *Fiscally Responsible*

**Life and Valuation Estimates:** The task of estimating useful life, remaining useful life, and repair or replacement costs for the reserve components.

**Percent Funded:** The ratio, at a particular point of time (typically the beginning of the fiscal year), of the actual (or projected) reserve balance to the accrued fund balance, expressed as a percentage.

**Physical Analysis:** 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.

**Remaining Useful Life (RUL):** Also referred to as remaining life (RL). The estimated time, in years, that a reserve component can be expected to continue to serve its intended function. Projects anticipated to occur in the initial year have "zero" remaining useful life.

**Replacement Cost:** The cost of replacing, repairing, or restoring a reserve component to its original functional condition. The current replacement cost would be the cost to replace, repair, or restore the component during that particular year.

**Reserve Balance:** Actual or projected funds as of a particular point in time that the association has identified for use to defray the future repair or replacement of those major components which the association is obligated to maintain. Also known as reserves, reserve accounts, cash reserves. Based upon information provided and not audited.

**Reserve Component:** The individual line items in the reserve study developed or updated in the physical analysis. These elements form the building blocks for the reserve study. Components typically are the association responsibility, have limited useful life expectancies, have predictable remaining useful life expectancies, are above a minimum threshold cost, and are as required by local codes.

**Reserve Provider:** An individual that prepares reserve studies.

**Special Assessment:** An assessment levied on the members of an association in addition to regular assessments. Governing documents or local statutes often regulate special assessments.

**Surplus:** An actual or projected reserve balance greater than the fully funded balance.

**Useful Life (UL):** Total useful life or depreciable life is the estimated number of years that a reserve component can be expected to serve its intended function if it is properly constructed in its present application and/or installation.

## **Additional Resources**

### **Books available from CAI**

*Accounting for Managers*, by William H. Webster, 2004.

*Community Association Finances, Common Sense from Common Ground: A Collection of Articles from CAI's Award-Winning Magazine*, 2005.

*Condos, Townhomes & Homeowners Associations: How to Make Your Investment Safer*, by Patrick Hohman, 2010.

*Reserve Funds: How & Why Community Associations Invest Assets*, by Mitchell H. Frumkin, P.E., CGP, RS and Nico F. March, CFM, RRP, editors, 2009.

*Tips for Protecting Association Finances*

**For more information or a CAI Press catalog, please call (888) 224-4321 (M-F, 9-6:30 ET) or visit [www.caionline.org](http://www.caionline.org).**

### **Best Practices Reports (*available at [www.cairf.org](http://www.cairf.org)*):**

*Community Harmony & Spirit*

*Community Security*

*Energy Efficiency*

*Financial Operations*

*Governance*

*Green Communities*

*Reserve Studies/Management*

*Strategic Planning*

*Transition*

## About the Foundation for Community Association Research

The Foundation provides authoritative research and analysis on community association trends, issues and operations. Our mission is to inspire successful and sustainable communities. We sponsor needs-driven research that informs and enlightens all community association stakeholders—community association residents, homeowner volunteer leaders, community managers and other professional service providers, legislators, regulators and the media. Our work is made possible by your tax-deductible contributions.

Your support is essential to our research. Visit [www.caif.org](http://www.caif.org) or e-mail [foundation@caionline.org](mailto:foundation@caionline.org).



## About Community Associations Institute (CAI)

Community Associations Institute (CAI) is an international membership organization dedicated to building better communities. With more than 32,000 members, CAI works in partnership with 60 chapters, including a chapter in South Africa, as well as with housing leaders in a number of other countries, including Australia, Canada, the United Arab Emirates and the United Kingdom. CAI provides information, education and resources to the homeowner volunteers who govern communities and the professionals who support them.

CAI members include association board members and other homeowner leaders, community managers, association management firms and other professionals who provide products and services to associations. CAI serves community associations and homeowners by:

- Advancing excellence through seminars, workshops, conferences and education programs, most of which lead to professional designations for community managers and other industry professionals.
- Publishing the largest collection of resources available on community association management and governance, including website content, books, guides, *Common Ground*<sup>™</sup> magazine and specialized newsletters.
- Advocating on behalf of common-interest communities and industry professionals before legislatures, regulatory bodies and the courts.
- Conducting research and serving as an international clearinghouse for information, innovations and best practices in community association development, governance and management.

We believe homeowner and condominium associations should strive to exceed the expectations of their residents. We work toward this goal by identifying and meeting the evolving needs of the professionals and volunteers who serve associations, by being a trusted forum for the collaborative exchange of knowledge and information, and by helping our members learn, achieve and excel. Our mission is to inspire professionalism, effective leadership and responsible citizenship—ideals reflected in associations that are preferred places to call home. Visit [www.caionline.org](http://www.caionline.org) or call (888) 224-4321.





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[www.cairf.org](http://www.cairf.org)

## 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, but not limited to, 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 in specific areas.
- A showcase on community excellence.



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## RESERVE SPECIALIST (RS)

Are you seeking to expand your clientele and enhance your career? Community associations rely on qualified reserve specialists to assist them in extensive reserve planning to keep their communities running smoothly. Gain the confidence of board members by obtaining the Reserve Specialist® (RS®) designation.

The RS designation is awarded to qualified reserve specialists who, through years of specialized experience, can help ensure that community associations prepare their reserve budget as accurately as possible.

### How do you earn the RS designation?

- Prepare at least 30 reserve studies within the past three full calendar years.
- Hold a bachelors degree in construction management, architecture, or engineering (or equivalent experience and education).
- Comply with strict rules of conduct outlined by the Professional Reserve Specialist Code of Ethics (next page).
- Pay the application fee.
  - Member: \$320 (Business Partner Membership)
  - Nonmember: \$590

### How do you maintain the RS designation?

- Pay annual maintenance fees (due August 1st of each year).
  - Member: \$110 (Business Partner Membership)
  - Nonmember: \$335
- Redesignate every three years on August 1st by submitting the redesignation application and required client listing.

CAI is pleased to provide this directory of credentialed professionals which lists those who have earned one of our credentials: <https://www.caionline.org/Pages/Credentials-Directory.aspx>



## COMMUNITY ASSOCIATIONS INSTITUTE PROFESSIONAL RESERVE SPECIALIST (RS) CODE OF ETHICS

The Reserve Specialist shall:

1. Comply with current standards and practices as may be established from time to time by CAI, subject to all federal, state and local laws, ordinances and regulations, if any, in effect where the RS designee practices.
2. Participate in continuing professional education through CAI and other industry related organizations as required.
3. Act in the best interests of the client; refrain from making inaccurate or misleading representations or statements; and not knowingly misrepresent facts to benefit the Specialist.
4. Undertake only those engagements that he/she can reasonably expect to perform with professional competence.
5. Exercise due care and perform planning and supervision as specified in the written client engagement agreement.
6. Disclose all relationships in writing to the client regarding any actual, potential or perceived conflicts of interest between the Specialist and other parties, including, but not limited to, management companies, insurance carriers, contractors and legal counsel.
7. Provide written disclosure of any compensation, gratuity or other form of remuneration from individuals or companies who act or may act on behalf of the client.
8. Conduct himself or herself in accordance with the Reserve Specialist requirements.
9. Not represent to anyone as being a Reserve Specialist designee until such time as he or she receives written confirmation from the Reserve Specialist Designation Review Board or CAI of receipt of the designation;
10. Recognize that the original records, files, plats and surveys held by the Reserve Specialist are the property of the client and are to be returned to the client at the end of the Specialist's engagement; maintain the duty of confidentiality to all current and former clients.
11. Refrain from criticizing competitors or their business practices; act in the best interests of his/her employers; maintain a professional relationship with peers and industry related professionals.
12. Conduct himself/herself in a professional manner at all times when acting in the scope of his/her employment.
13. Not engage in any form of price fixing, anti-trust, or anti-competition.
14. Not use the work products of colleagues or competing reserve study firms that are considered proprietary without the expressed written permission of the author or the reserve study firm.
15. Abide by the re-designation policy of CAI.

Compliance with the Professional Reserve Specialist Code of Ethics is further amplified in the Code Clarification Document provided by Community Associations Institute.

*Revised 2008*

# CODE CLARIFICATION DOCUMENT

Last revised 2016

## A. Authority

The Code derives its authority from Community Associations Institute (CAI). CAI's Board of Trustees has established a minimum standard of professional ethical performance for those individuals who receive recognition or designations from CAI. Those individuals that have received the Reserve Specialist (RS) designation from CAI are subject to this Code.

## B. Definitions

The Code shall apply in any Reserve Specialist-client relationship where the RS designee receives some form of compensation for professional services offered or provided to the client.

1. **Reserve Specialist (RS)**—a singular term which shall apply to all of the following persons or entities providing or offering some form of reserve studies, transition warranty inspections, construction defect reports and other facility inspection reports or consulting services to one or more clients:
  - a. A single practitioner functioning as a client employee, or
  - b. A single practitioner employed by a firm contracted by one or more clients, or
  - c. A principal or supervisory staff member for a firm which is contracted by one or more clients, or
  - d. A firm, which is contracted by one or more clients, whether it is organized as a corporation, partnership or other entity.

Because the Code is designed to establish a standard of conduct for the practice of preparing and providing the services and products mentioned above to community association clients, it is equally applicable to individuals and firms. An individual who agrees to abide by this Code shall also be responsible for seeing that any other person or firm under his/her supervision complies with the Code.

2. **Client**—a singular term applying to one or more community association properties (condominium, homeowners association, cooperative, PUD, PRD, etc.) and their governing body. The client may employ the Reserve Specialist directly or be under some form of independent contract with the Reserve Specialist.

## C. Amplification

CAI, to further explain and define the Code of Ethics, provides the following information.

The following explanations correspond to the numbered paragraphs  
in the Reserve Specialist Code of Ethics

1. **Current standards or practices** are those numbered one through 15 in the Code. Reserve Specialists who practice in states with legislative requirements must comply with those laws. Reserve Specialists shall not discriminate in any relationship, with any individual or firm, based upon race, color, religion, sex, national origin, familial status, or handicap and shall comply with all federal, state and local laws concerning discrimination.
2. **Continuing professional education** requirements are consistent with the Reserve Specialist designation. While CAI membership is not mandatory, the Reserve Specialist must satisfy the designation requirements in order to use said designation. Additionally, the Reserve Specialist has a duty to remain informed on relevant matters affecting the industry.

3. **Act in the best interests of the client; not make any inaccurate or misleading representations or statements to a prospective client; not knowingly misrepresent facts to benefit the Reserve Specialist.** The Reserve Specialist has a fiduciary duty/responsibility to the client and should at all times act in the best interests of the client. Reserve Specialists should avoid exaggeration, misrepresentation, concealment and knowingly distributing misinformation.
4. **Undertake only those engagements that he/she can reasonably expect to perform with professional competence.** The Reserve Specialist shall provide accurate information within his/her area of expertise and refrain from the unauthorized practice of other professions. No Reserve Specialist should provide any service or advice that is outside of his/her field of competence, which includes dispensing of professional advice that falls under the auspices of other disciplines such as legal representatives and contractors. The Reserve Specialist should not undertake engagements that he/she cannot perform in the required time-frame and with professional competence.
5. **Exercise due care and exhibit planning and supervision as specified in the written client engagement agreement.** The intent of this statement is for the Reserve Specialist to make a good faith effort to operate within the framework of the applicable engagement agreement and to abide by the terms of said agreement. The Reserve Specialist must plan his or her own work and adequately supervise his or her employees' work to ensure the work is performed with professional competence.
6. **Disclosure of any possible conflict of interest is the key here.** An example may be of assistance. A Reserve Specialist (individually or through a company) may have financial interest in a service contractor, supplier, or professional firm that is being considered by that Reserve Specialist's client. Disclosure must be in writing and sufficiently in advance of the selection process to allow full consideration of the possible conflicts and any alternatives. The fact that the client may still choose the Reserve Specialist's related entity is not a violation of the Code, provided ample disclosure was given.
7. **Provide written disclosure to the client of any compensation, gratuity or other form of remuneration from individuals or companies who act or may act on behalf of the client.** Written disclosure shall be made to the client by the Reserve Specialist, confirming receipt of all commissions, rebates, discounts, payments, or other benefits received in excess of \$200.00 annually by the Reserve Specialist from any vendor or vendor related client.
8. **Conduct himself/herself in accordance with the Reserve Specialist requirements.** Self-explanatory.
9. **Not represent to anyone as being a Reserve Specialist designee until such time as he or she receives written confirmation from the Reserve Specialist Designation Review Board or CAI of receipt of the designation.** Self-explanatory.
10. **Original records, files, plats, plans and surveys** are those items that were given to the Reserve Specialist at any time prior to, during or at the conclusion of his or her engagement or were developed by the Reserve Specialist and/or the client during the period of the Reserve Specialist's engagement. This definition may be further expanded by the engagement agreement. Return of these items should be consistent with the timeline established for payment in full for services rendered or the completion of the engagement. Unless provided in such an agreement or otherwise, the Reserve Specialist has no obligation to provide the client with client-related computerized data unless the client owns the computer and software, and such data can be separated from that data and software which are proprietary to the Reserve Specialist. Those items that the Reserve Specialist brought to and used during the engagement, such as operation or procedure manuals, remain the property of the Reserve Specialist.

While the Specialist must return all records, files, plats, plans and surveys, he/she may retain photocopies of those key materials that might be necessary for the Specialist in dealing with post-engagement client-related matters. The Reserve Specialist shall maintain **a duty of confidentiality to all current and former clients**, commencing the effective start date of the relationship and continuing through infinity.

11. **Refrain from criticizing competitors or their business practices; act in the best interests of their employers; maintain a professional relationship with peers and industry related professionals.** Self-explanatory.
12. **Shall conduct himself/herself in a professional manner when acting within the scope of his/her employment.** Self-explanatory.
13. **Shall not engage in any form of price fixing, anti-trust or anti-competition with other Reserve Specialists or Vendors.** Subject to all federal, state and local statutes, laws and ordinances.
14. **Shall not use the work products of colleagues or competing reserve study firms that are considered proprietary without the expressed written permission of the author or the reserve study firm.** Work products that are posted on the internet, e-mailed or presented as part of an education session or industry related networking exchange are not considered proprietary unless they are clearly labeled as proprietary documents or subject to further protection under a copyright or registration. Lists of clients and their contact and confidential contract information that are maintained by a Reserve Specialist or engineering firm are considered proprietary. *This provision does not pertain when updating previous reserve studies prepared by another individual or firm.*

#### D. Future

The Board of Trustees may expand application of this Code, and CAI reserves the right to update or amend both the Reserve Specialist Code of Ethics and Code Clarification Document. Any such revisions, updates or amendments shall be promulgated to CAI Reserve Specialist designees and, after due notice, will apply to all designees that are subject to the Code.

#### E. E-mail as Official Correspondence

The Board of Trustees establishes e-mail as official correspondence in matters relating to alleged violations of CAI RS Code of Ethics. The CAI Designation Ethics Committee, Chief Executive Officer, or CAI staff designee, may elect to notify and or update a designee of a complaint that has been filed against their designation by e-mail, and upon doing so will make effort in tracking delivery of correspondence to ensure the designee has the opportunity to respond.

#### F. Disciplinary Action

After an internal investigation and hearing, as provided in CAI's Code of Ethics Enforcement Procedures, a Reserve Specialist found to be in violation of this Code shall face a sanction in accordance with the enforcement policies adopted by the CAI Board of Trustees. The extent of such sanction shall be commensurate with the nature, severity and intent of the violation. In a situation where a firm, principal(s) or supervisory staff are involved, sanctions may be imposed on more than one individual or the firm itself.

**Please answer the following questions.**

Have you ever been involved in reorganization for the benefit of creditors or in bankruptcy as a debtor? *If yes, attach a detailed explanation.*  Yes  No

Have you ever been convicted of a felony or misdemeanor (or equivalents thereof) or imprisoned under sentence for any felony or misdemeanor (except traffic violations)? *If yes, attach a detailed explanation.*  Yes  No

Have you ever been found liable or had a judgement or consent decree entered against you in civil court related to any business or professional matter or in any other civil case (with the exception of any domestic or family law, e.g., divorce or child custody)? *If yes, attach a detailed explanation.*  Yes  No

Have you ever been convicted of fraud, misrepresentation, misappropriation of funds or property? *If yes, attach a detailed explanation.*  Yes  No

Do you know of any reason why you would be unable to obtain bonding? *If yes, attach a detailed explanation.*  Yes  No

Have you ever been subject to disciplinary action by any professional organization? *If yes, attach a detailed explanation.*  Yes  No

**G. Signature**

By signing below, I agree to abide by the CAI Reserve Specialist Code of Ethics and to be subject to disciplinary action as adopted by the Board of Trustees. All of the information provided by me is complete and correct to the best of my knowledge and belief. If I made or at any time make statements with knowledge of its falsity, I understand that it shall be cause for denial or revocation of the RS designation.

Further, if any circumstance changes my answer to any of the questions above, I will notify CAI Education/Designations Department by providing a written statement and detailed explanation within 30 days. I will address the statement and detailed explanation to: CAI Designations Department, 6402 Arlington Blvd., Ste. 500 Falls Church, VA 22042 or [info@caionline.org](mailto:info@caionline.org).

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Printed Name Signature

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Firm Name *(if employed by a firm or you are a principal or supervisory staff member of the firm)*

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Printed Name and Signature of an Officer of that Firm, *if applicable*

## Additional Links

Are you a Reserve Provider looking to further your professional education, or a board member looking to hear what industry experts have to say about reserve studies and proper financial planning? Check out CAI's dedicated reserve study webinars, covering everything you need in the post-Surfside world of reserve studies.

<https://cai.mycrowdwisdom.com/diweb/catalog/c/35/t/1950/o/n>



Are you a Reserve Provider looking to enhance your career? Why not check out CAI's Reserve Specialist accreditation program? Reserve Specialist accreditation lets your clients know that you follow CAI's nationally recognized Professional Reserve Specialist Code of Ethics, have prepared at least 30 reserve studies within the past 3 years, and have the education needed to give communities the best possible level of service.

<https://www.caionline.org/LearningCenter/credentials/Pages/RS.aspx>



Purchase CAI's GAP Report Reserve Funds How & Why Community Associations Invest Assets! This vital publication is your one-stop-shop on the ins and outs of how associations plan and spend reserve funds, and how to best utilize a reserve study to keep your community safe and healthy for years to come.

<https://cai.caionline.org/eweb/DynamicPage.aspx?site=CAI&WebCode=storeItemDetail&parentKey=40d7a2c9-c272-481c-be71-9d219cb8f9bc>



Looking for a Spanish-language version of the Reserve Study Standards? CAI has you covered!  
<https://www.caionline.org/HomeownerLeaders/Documents/NormasParaElEstudioDeReservas.pdf>





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(888) 224-4321

[www.caionline.org](http://www.caionline.org)



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Community Associations Institute



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