

Capital Reserve Study Requirements and Implementation for Community Associations Meeting Presentation by PS&S, October 2025

Overview

This meeting focused on explaining the purpose, legal requirements, and practical implementation of reserve studies for community associations, particularly in New Jersey. The discussion covered the process, funding strategies, compliance issues, cost considerations, and the impact on homeowners, with multiple examples drawn from experience managing and consulting for associations.

Meeting Type

Informational Session / Q&A with Reserve Study Consultant

Audience: Board members and residents of a retirement community with multiple condo associations.

Key Topics & Details

1. What is a Reserve Study?

- **Definition:**
A reserve study is a financial planning tool for associations to budget for the repair and replacement of common elements (e.g., roofs, clubhouses, paving).
- **Purpose:**
Ensures funds are available when needed, avoids sudden special assessments or loans, and smooths out annual contributions.
- **Example:**
A 20-year-old reserve study listed a boiler replacement at \$8,000, but the actual cost turned out to be \$44,000 due to inflation and outdated estimates.

2. Legal Requirements

- **New Jersey Law:**
Community associations must conduct a reserve study every five years if common elements exceed \$25,000 in value.
 - **Compliance:**
Many communities are currently out of compliance.
 - Example: This community had never completed a reserve study.

- **Disclosure:**

Recent regulations require disclosure of the latest reserve study when selling a unit, affecting mortgage approvals and buyer confidence.

3. Reserve Study Process

- **Component Listing:**

Identify all common elements (e.g., clubhouse, pool, parking lot) and their replacement schedules.

- **Funding Analysis:**

- **Full Funded Balance:** Amount needed if every component was perfectly funded for its useful life.
- **Percent Funded:** Ratio of current reserve funds to full funded balance (e.g., 59% funded means the community is behind).

- **Annual Contributions:**

Calculated to meet future expenses, with options to phase in increases.

- **Inflation Handling:**

Consultant recommends funding based on current prices, adjusting yearly for inflation rather than prepaying for future cost increases.

4. Implementation & Funding Strategies

- **Threshold Funding:**

Most associations set a minimum reserve balance (e.g., \$400,000) and adjust contributions to maintain it.

- **Phased Increases:**

Gradually raise contributions to avoid large, sudden increases.

- **Special Assessments:**

Can occur if funding falls short, especially if only 85% of recommended contributions are made (requires member notification and projection of future assessments).

- **Example:**

If a community is contributing \$115,000/year but needs \$170,000, the deficit will eventually require higher increases or special assessments.

5. Cost and Logistics

- **Reserve Study Cost:**
 - Full study: ~\$3,000 per association (varies with size and complexity).
 - Paper (off-site) update: ~\$1,500 but does not meet legal requirements.
- **Process Timeline:**
 - 60 days to complete report after site visit.
 - 60 days for board review and adjustments.
- **Site Visits:**

Inspect and quantify all common elements; photos and notes taken for accuracy.
- **Customization:**

Each association receives its own accounting and recommendations based on its unique components and funding.

6. Board & Member Roles

- **Board Authority:**

Boards make decisions on reserve expenditures and study implementation; no need for full member votes unless required by governing documents.
- **Member Impact:**

HOA fees will rise to meet funding needs; spreading costs over time is fairer and more predictable for all residents.

7. Challenges and Considerations

- **Inflation & Rising Costs:**

Construction and replacement costs have risen sharply post-2020, making it harder for underfunded associations to catch up.
- **Fairness Issues:**

Disparities in unit types (e.g., large townhomes vs. small flats) can create perceived inequities in fee structure.
- **Market Impact:**

Non-compliance or underfunding can affect property sales, restrict mortgages, and lower property values.

- **Component Lifespans:**

Actual replacement timing can be adjusted based on condition and association plans, but must remain reasonable.

8. Compliance and Consequences

- **State Oversight:**

No enforcement agency yet, but mortgage companies and buyers are increasingly demanding compliance.

- **Disclosure:**

Lack of a current reserve study must be disclosed, potentially limiting sales to cash buyers or reducing sale prices.

9. Consultant's Approach

- **Collaboration:**

Works closely with boards, customizes funding strategies, and provides options for implementation.

- **Verification:**

Even if associations have their own 30-year plans, the consultant must verify components and conditions for accuracy and liability.

- **Ongoing Support:**

Offers electronic tools (e.g., Excel sheets) and is available for follow-up and adjustments.

Notable Examples & Anecdotes

- **Old Boiler Replacement:**

Reserve study severely underestimated cost due to age; actual replacement much higher.

- **Large Community Experience:**

A 1,300-home community faced resident pushback on rising fees, but those who were well-funded in 2020 weathered inflation better.

- **Delayed Increases:**

A community ignored recommendations, resulting in a need to double annual contributions after three years.

- **Market Impact:**

A sale was delayed when a bank requested a reserve study and found it missing or inadequate.

Action Steps for Associations

- **Complete Questionnaires:**
To detail all common elements and components.
- **Obtain Proposals:**
Each association receives a tailored proposal and cost estimate.
- **Board Approval & Scheduling:**
Boards approve the study, pay deposits, and schedule site visits.
- **Implement Recommendations:**
Use the report to plan phased fee increases and maintenance schedules.
- **Maintain Compliance:**
Update the study regularly and follow funding recommendations to avoid future issues.

Closing Points

- **Reserve studies are essential for financial health, legal compliance, and property value protection.**
- **Timely, incremental funding is less painful than sudden assessments.**
- **Boards should act proactively, leveraging expert guidance to ensure sustainability for current and future residents.**