Why Contribute to Reserves?

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Boardmembers and Managers often get themselves into a situation where they need to “sell” the value of regular Reserve contributions to their homeowners. It’s often a simple matter of fighting for budget dollars… Reserve contributions don’t keep the lights on, they don’t keep the Association properly insured, and they don’t pay the Management company’s bill. They are often perceived as funds for “far out in the future, when I might not live there”. So what are the main arguments to incorporate regular Reserve Contributions into the budget?

- **Fairness**. While the repair or replacement expense of a Reserve component may only occur every few years, the deterioration that causes the expense happens every day. An expensive roofing project is the culmination of years of advance warning and daily deterioration. Each day brought the association a little bit closer to that roofing expense! It is not fair to enjoy years of service of a watertight roof (or good paint, or smooth asphalt, or a functioning elevator) without setting aside funds to cover the ongoing deterioration of that asset. Future owners should not be forced to pay for something current owners “used up”.

- **Responsibility.** The primary job of a Boardmember is to maintain and protect the assets of the corporation. With deterioration occurring on a daily basis, the corporation’s assets are dropping in value if offsetting contributions to Reserves are not being set aside. Boardmembers expose themselves to serious liability when they failing to act in the Association’s best interests.

- **Investment.** One of the fundamental investment rules is to “pay yourself first”, meaning to make it a priority to set aside a small amount of savings on an ongoing basis. This applies directly to Reserves. Adequate Reserve contributions are generally not a substantial amount of cash. They amount to just a few dollars a day per unit, typically less than a premium coffee. But accumulating month after month, year after year, with compounding interest earnings, they grow big enough to pay for the Association’s major repair & replacement expenses in a timely manner. And this is not money that is “spent and gone”. Reserve expenditures support your own property values. And some projects, like exterior repaint, are estimated to improve home value by one to three times the cost of the project! Missing an opportunity to maximize your home value through timely Reserve projects is just plain foolish.

- **Legislative Requirements.** Most Governing Documents give Boardmembers the responsibility to collect an appropriate amount of Reserves to maintain the common areas. And 30 states now have some form of Reserve funding legislation. The bottom line is that at your Association, there is a good chance that collecting appropriate Reserve contributions is not an option. It’s a legal requirement.