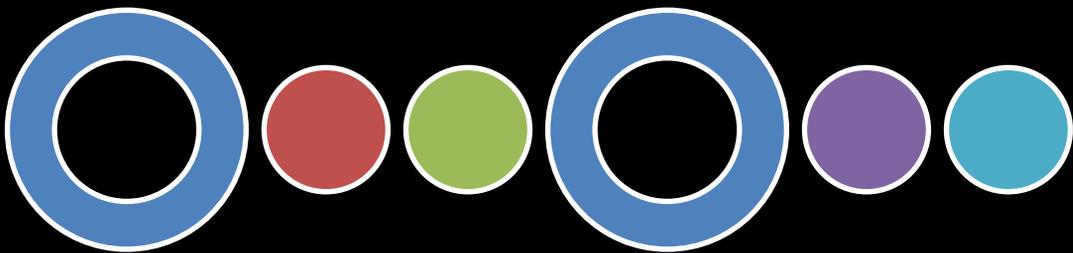


All you need to know about

Reserve Component Lists



A publication of:



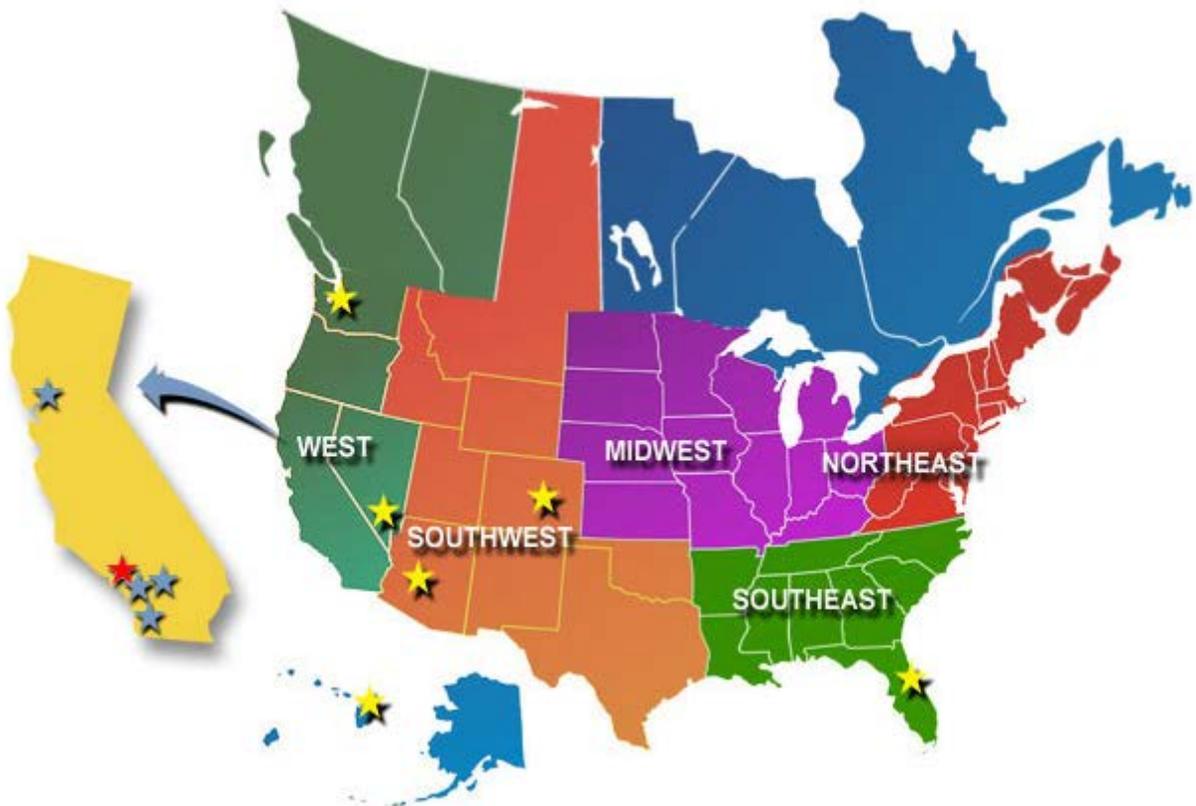
AUTHOR PAGE:

Robert M. Nordlund, PE, RS

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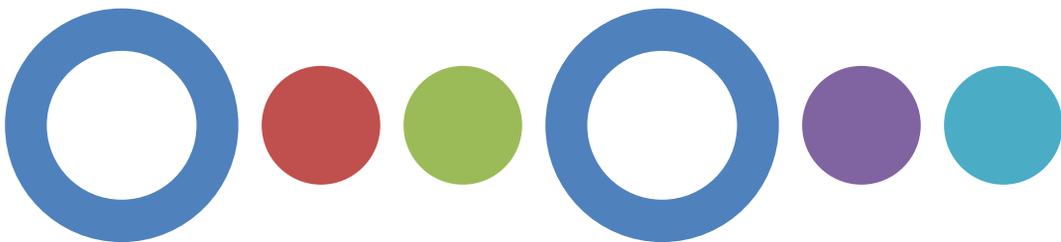
Robert M. Nordlund, PE, RS is the Founder/CEO of Association Reserves, Inc. Established in 1986, Association Reserves is a professional Reserve Study company serving Association-governed communities of all shapes and sizes. Robert's organization performs approximately 3,000 Reserve Studies each year, with a staff of 19 Reserve Specialists in 11 regional offices throughout the United States.



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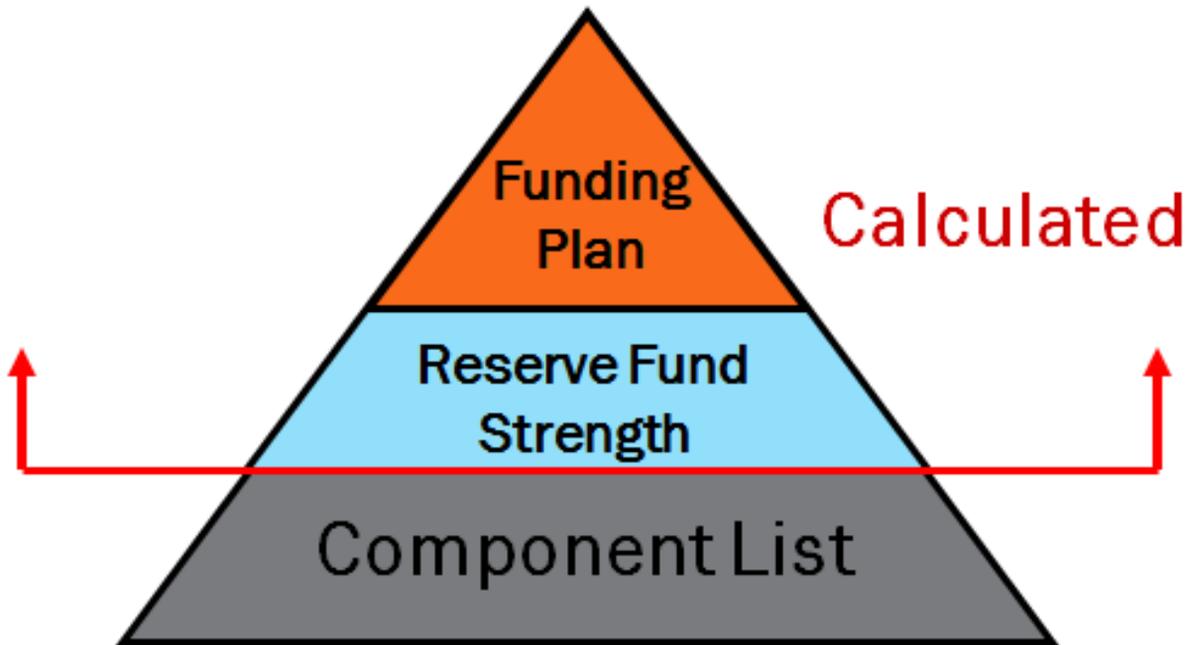


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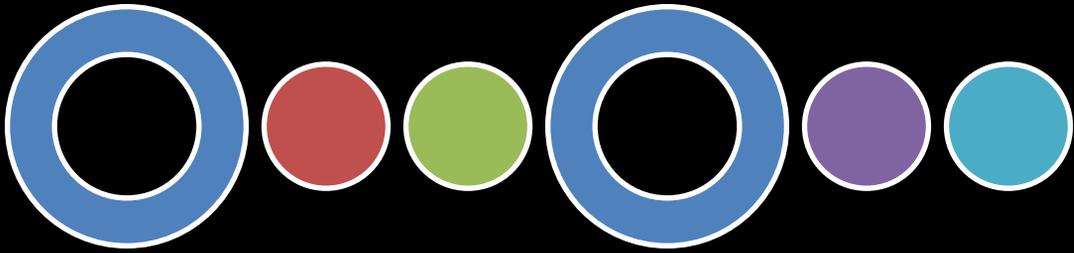
Reserve Component Lists

This pyramid represents the relationship of the three key elements of a Reserve Study.



- The **“Component List”** serves as the foundation by spelling out the scope & schedule of all necessary repairs & replacements.
- **“Reserve Fund Strength”** is a calculated ratio that compares the actual amount in Reserves to the current value of Reserve Component deterioration.
- The **“Funding Plan”** is a calculated plan of regular monthly assessments and/or special assessments necessary to perform the repairs & replacements in a timely manner.

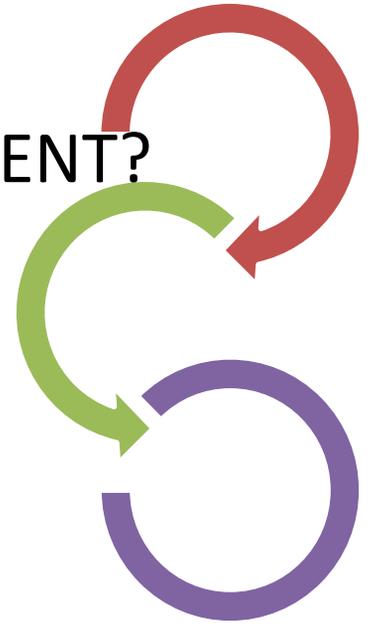




SECTION 1:
COMPONENT
LIST 101

WHAT IS A RESERVE COMPONENT?

A Reserve Component is any asset (fence, pool, roof, asphalt, etc.) the Association is obligated to maintain that will ultimately need to be repaired or replaced. The Reserve Component List is designed to help an Association prepare for its own significant and predictable future expenses.



WHY CREATE A RESERVE COMPONENT LIST?

The Component List forms the foundation of every Reserve Study, detailing the “scope” and “schedule” of all anticipated Reserve projects so that a fair Funding Plan can be established to allow for timely repairs & replacements.



WHAT INFORMATION IS INCLUDED IN THE LIST?

1

A clear identification of each Reserve Component:

Components that are similar may need to be identified as separate line items.

Examples:

Fence- Repaint and Fence- Replace

Garage Gate and Pedestrian Gate

Roof Phase I- Replace and Roof Phase II- Replace

2

Descriptive information:

Typically this means the quantity (# of mailboxes, linear feet of fencing, square feet of asphalt, square yards of carpeting, etc.) but it could also mean the size (like the BTU rating of a boiler or the horsepower of a pump). Details like this help identify the scope of the Reserve project.



3

Useful Life (UL) in years:

The estimated amount of years it should last from the time it is brand new.

**Remaining Useful Life (RUL)
also in years:**

The estimated amount of years from now until the Component will need to be repaired or replaced.

*(Based on the Component's "condition"-
not necessarily the Component's "age"!)*

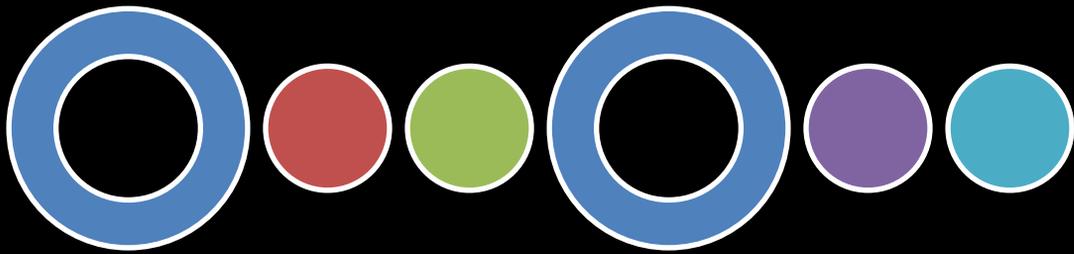


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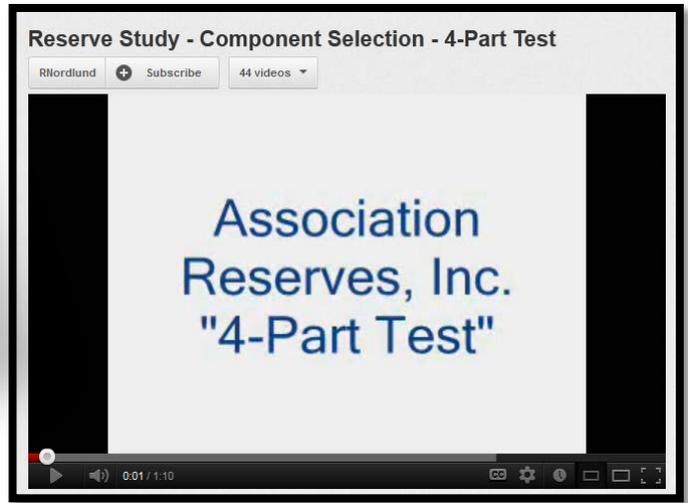
Current Replacement Cost:

The amount it would cost to repair or replace the Component at this time.





SECTION 2:
Components
to Include



“ It is crucial that the Component List is complete, accurate, and stable. ”

Fortunately, what should (or should not) qualify as a Reserve budget line item is not a matter personal preference. It is also not based on a secret or proprietary checklist.

Reserve Component List decisions rely on a four-part test defined in National Reserve Study Standards. To qualify for reserve budget funding, a Component needs to pass all four of the four tests.



4-Part TEST

✓ **TEST 1: Component must be the Association's maintenance responsibility**

Test #1 means that Reserve line items should be established based on a thorough understanding of the Association's common area assets and maintenance responsibilities, as defined in the association's governing documents or a well-established Association precedent.

✓ **TEST 2: Component must have a limited Useful Life**

Test #2 excludes Reserve line items with "very extended" lives (i.e., life of the property) or components that can function indefinitely with only minor ongoing maintenance or repair.

✓ **TEST 3: Component must have a predictable Remaining Useful Life (RUL).**

Test #3 rules out any unpredictable or random Reserve line items. A future expenditure needs to be reasonably anticipated in order to be defined and incorporated into a Funding Plan.



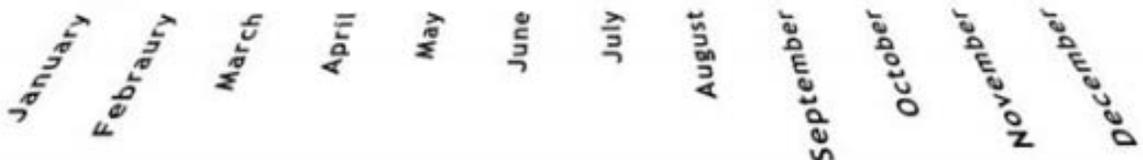
✓ **TEST 4: Component cost must be above a minimum threshold cost.**

Test #4 rules out Reserve line items where the cost falls below a minimum threshold. It is inappropriate to clutter the Component List with expenses that are insignificant or are more appropriately handled in the ongoing Operating budget.

This threshold is often related to the signature authority of a Boardmember or Manager (i.e., the maximum \$ amount they are authorized to spend without Board approval), typically in the range of .5% to 1% of the Association's annual budget.



The threshold amount will vary by Association. A \$500 project may appear in the Reserve Study for a 25-unit condominium, but wouldn't qualify as a Reserve Component for a 350-unit condominium. Projects such as tree trimming or painting may be appropriate Reserve projects at one Association, but not another. For example, if tree trimming is included in the landscape maintenance contract, or if painting is done on an ongoing basis by in-house staff, the expense would be accounted for within that Association's monthly Operating budget.

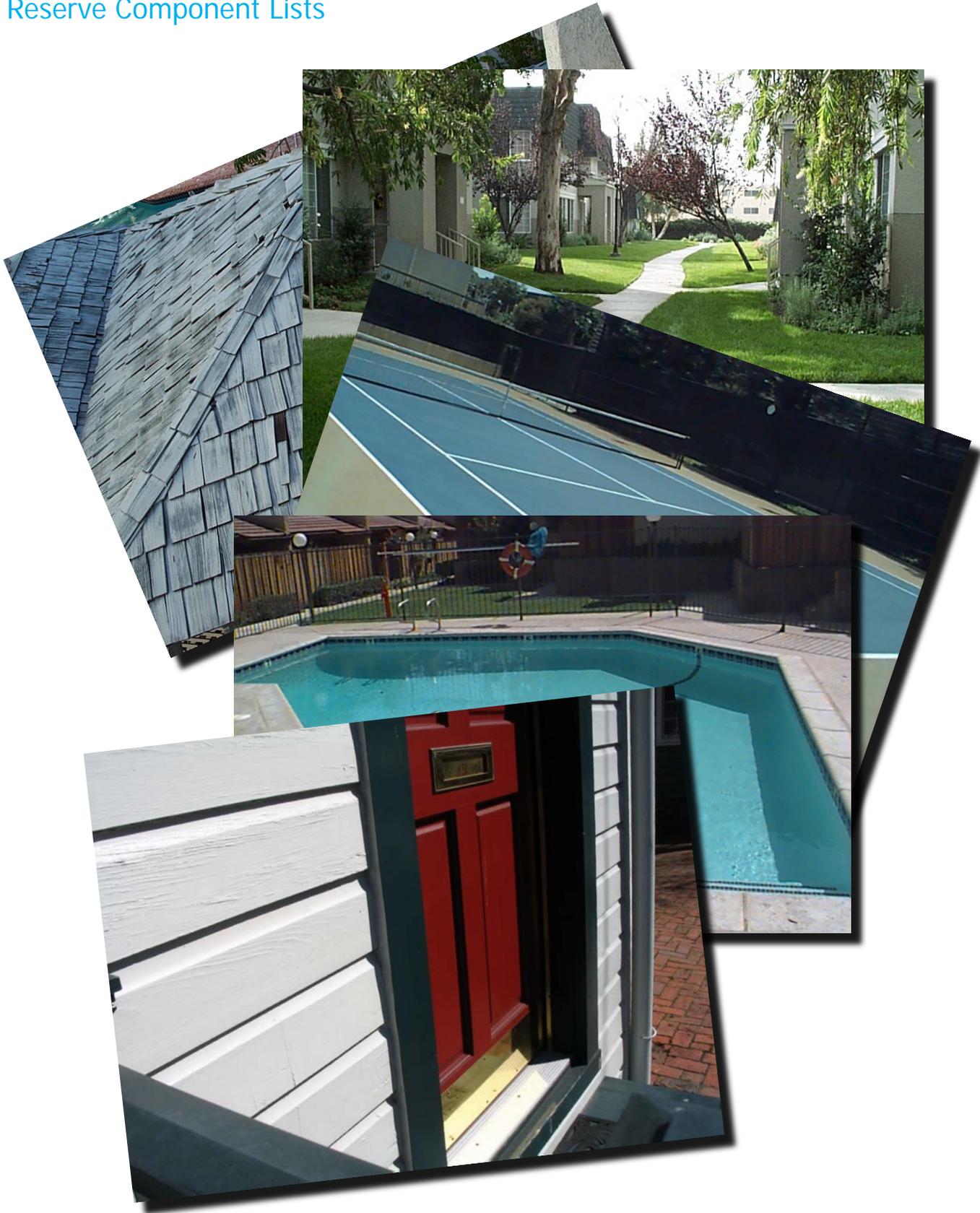


STATE LEGISLATION

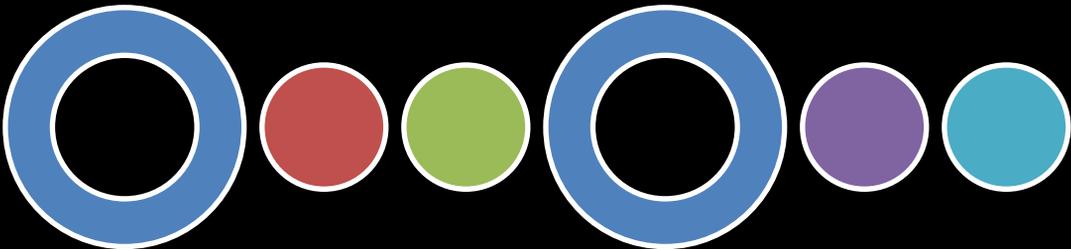
Some State laws define a specific short list of Components to be addressed in the Reserve Study. But mandates of this nature were intended as a minimum guideline and not as permission to exclude other appropriate Reserve items. All projects appropriate for Reserve designation (as defined by the four-part National Reserve Study Standard test) should appear in your Reserve Study.



Reserve Component Lists



SECTION 3: USEFUL LIFE & COST INFORMATION



Reserve Component Lists

The Component List details the **Schedule** (based on UL & RUL) and **Scope** (based on Current Cost) of every projected Reserve project. Line items where RUL= 0 (zero) years have reached the end of their Useful Life.

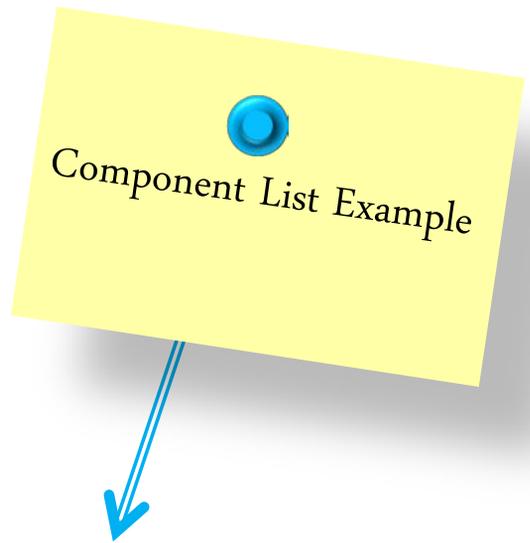


Table 2: Reserve Component List Detail				9999-0LX	
# Component	Quantity	Useful Life	Rem. Useful Life	Current Cost	
103 Concrete Deck/Walk - Repair	Extensive GSF	2	0	\$4,000	
104 Balcony Deck - Resurface	Approx 5750 GSF	20	10	\$57,500	
105 Balcony - Reseal	Approx 5750 GSF	5	1	\$14,400	
201 Asphalt - Remove/Replace	Approx 121,200 GSF	30	6	\$303,000	
202 Asphalt - Seal/Repair	Approx 121,200 GSF	3	0	\$18,200	
206 Stamped Concrete - Partial Repair	Approx 53,100 GSF	10	0	\$25,000	
320 Pole Lights - Replace	Approx (126) fixtures	20	15	\$113,000	
322 Bollard Lights - Replace	Approx (74) fixtures	20	15	\$33,300	
324 Wall Lights - Replace	Approx 919 fixtures	20	10	\$91,900	
401 Awnings - Replace	(161) 4 ft x 5 ft canvas	8	1	\$48,300	
403 Mailboxes - 25% Replace	(161) Individual boxes	5	1	\$2,200	

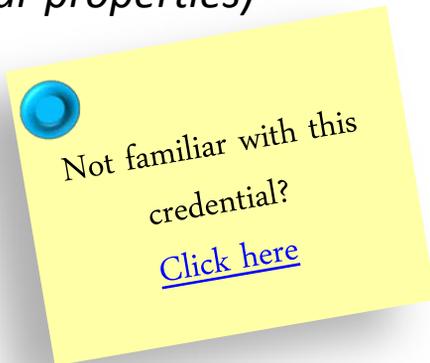
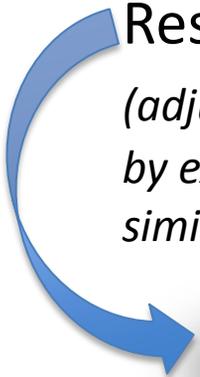


From the moment the last shingle on a new Association is nailed into place, that shingle (and all the other Association assets) began a slow, steady, relentless process of deterioration which starts afresh after each new cycle of repairs & replacements.

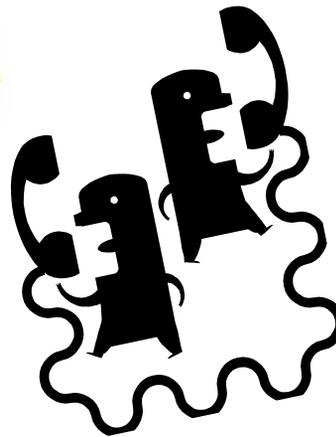


3 WAYS to establish the Information

1. Observations at the property by a trained Reserve Specialist™
(adjusted or influenced by experience with similar properties)

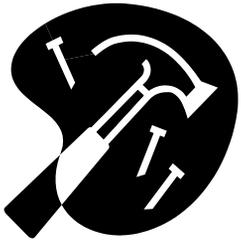


2. Vendor interviews



3. Industry guidebooks





Useful Life:

The best UL estimates are based on the experience of comparable Components at actual properties. Other factors to consider: assumptions or observations regarding quality of material, workmanship, rate of wear & tear, expected normal maintenance, and weather exposure.



Remaining Useful Life:



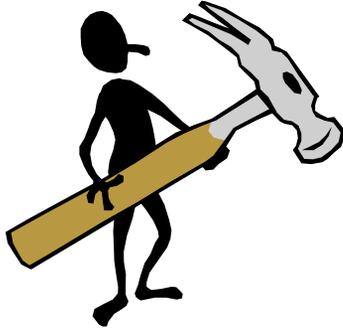
RUL is established primarily by the Component's condition. This means the "effective age" of the component may or may not equal its actual "chronological age" due to accelerated wear or low usage.

For components where condition is not readily observable (i.e., elevators, chillers, security electronics, etc.), the Association's service vendor can often be relied upon to provide a RUL recommendation.



Replacement Cost:

Prior repair & replacement costs provide the most valuable benchmark from which to make current replacement cost projections.



However, should an Association's "actual" cost fall outside the range of normal expectations (due to unusual circumstances unlikely to be repeated), it would be inappropriate to base future estimates on that experience.

In the absence of recent "actual" costs at an Association, comparisons can be made to Reserve projects that were recently accomplished at similar Associations.

For Components that require a particular expertise (major roof or roadway systems, elevators, etc.) or Components that are unique to an Association, suitable cost factors can be obtained through interviews with the Association's vendors or outside experts.



"I know nothing about the subject, but I'm happy to give you my expert opinion."



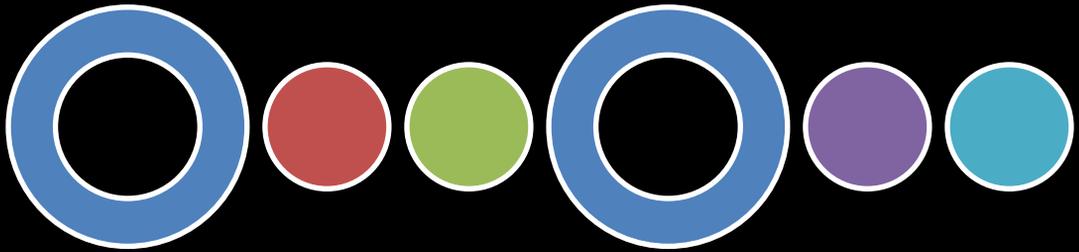
ASSOCIATION RESERVES LOYALTY UPDATE PLAN

Makes sure your **Reserve Study** is never out-of-date with a 3-year series of engagements .

- ✓ Lock in a fixed price
- ✓ Stabilize the budget
- ✓ Save time & energy
- ✓ Maintain continuity through Board transitions

[Learn More](#)

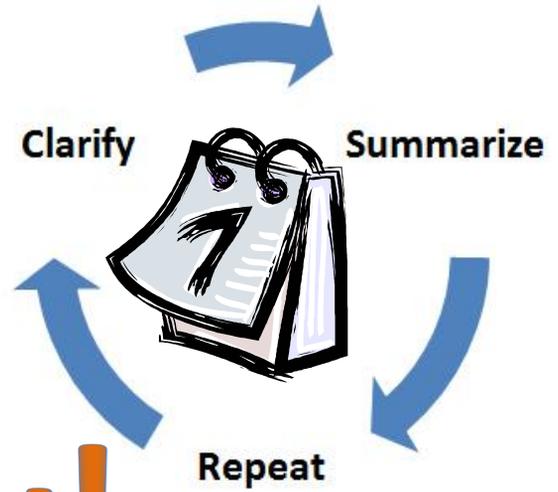




SECTION 4:

DON'T FORGET TO UPDATE

Adjust Annually!



Component List instability, economic factors, quality of materials, quality of workmanship, changing usage patterns, deferred maintenance, failure to make planned reserve contributions, extreme weather, unplanned expenses, special assessments, or any of a number of other factors will affect the accuracy of the Reserve Study.



3 Reasons...

to Update a Reserve Study **ANNUALLY**

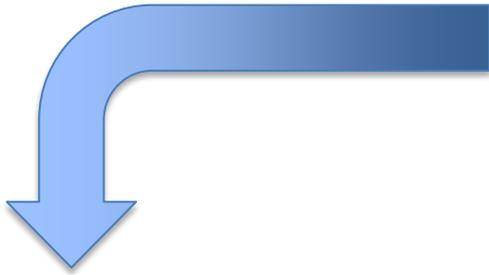
Reason #1. ACCURACY- The Reserve Study should accurately reflect the current physical condition of every Component. If the Association roof has recently been replaced, the Reserve Study should reflect it's full Remaining Useful Life. An outdated Reserve Study would inaccurately indicate an old roof nearing the end of its Useful Life!

Reason #2. FAIR PLAY- Any expenditure of funds outside of the Reserve Study projections will change the Funding Plan necessary to assure timely repairs & replacements. It would be unwise (and unfair to future homeowners!) to allow several years of under-reserving to take place before adjusting the Reserve contributions to rebuild the Reserve Fund accordingly.

Reason #3. DISCLOSURE- Every expenditure of funds affects the strength (% Funded) of the Reserve Fund. % Funded is measure of how well the Reserve Fund is keeping pace with the deterioration of the common area assets. This calculated ratio is an important disclosure that should be made annually to the current membership as well as prospective homeowners.



Reserve Component Lists



Reserve Studies 101

**Components:
Foundation of the
Reserve Study**

ASSOCIATION
OF RESERVES, INC.

25 YEARS
Still rolling along

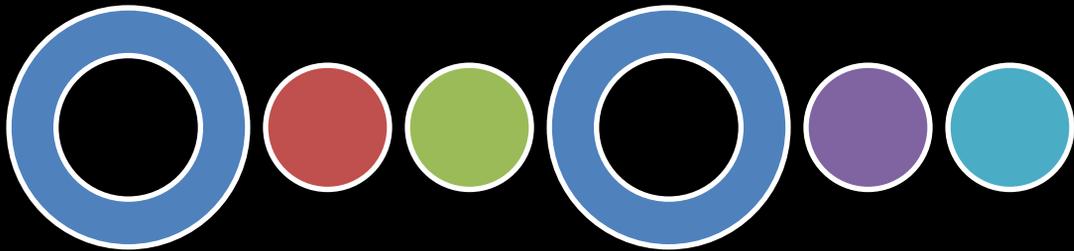
www.ReserveStudy.com

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420 views

(just click on the image)





SECTION 5:

WHY RESERVE FOR EXPENSES 30 YEARS AWAY?

“ All physical assets are gradually deteriorating every day. ”

As the physical condition of a Reserve Component moves from “new” to “old”, there needs to be an offsetting growth in the Reserve Fund to cover timely repairs & replacements.



Associations are exposed to serious liability if they choose to not reserve for a legitimate reserve Component, ignore a Reserve Study that has accurately quantified the reserve funding needs of the Association, or underfund Reserves.



Request a Reserve Study Proposal Now!

Make sure your
Component List and
Reserve Study is up-
to-date. Visit our
[website](#) or call our
office to request a
proposal!





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Coming Soon!

All you need to know about
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