DO WE RESERVE FOR DOMESTIC WATER LINES IN THE GROUND?

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The three-part test for determining if a component is appropriate for Reserve Funding is as follows:

1. The project is a common area maintenance responsibility
2. The need and schedule can be reasonably anticipated
3. The total cost for the project is significant to the association, and can be reasonably estimated

As you can see, the question is not just simply "Is the Association responsible for the component?" The item must pass two more tests to qualify for Reserve funding. If reasonable estimates for Useful Life (UL), Remaining Useful Life (RUL), and Replacement Cost cannot be established, then the item in question cannot be reserved for. Any repair expenses associated with that item would fall in the category of a true maintenance emergency that could not have been anticipated.

For most Associations, domestic water Lines and other utilities (drainage systems, etc.) are "life of the property" items, so they fail Part 2 of the 3-part test and are not appropriate for Reserve funding.

If it's determined that an item is life-limited, the third part of the test involves the cost of the repair. It is appropriate in some circumstances to make a reasonable estimate that can be updated and adjusted in future years as more is learned about deterioration rates and repair/replacement costs. It is not necessary to have all the right answers right now!

Another successful way of handling an indeterminate item like domestic water lines is to reserve for a "repair allowance". The allowance can be reserved on an annual basis (e.g., $5000/year) or less frequently (e.g., $5000 every 5 years). This is what we call "bookmarking" a project, where a line item is added to the Component List with money set aside towards a periodic repair, until more definitive information is available about a possible future replacement.