WHICH COMPONENTS BELONG IN THE RESERVE STUDY?

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A Reserve Study's Component List

The Reserve Component List forms the foundation of every Reserve Study, detailing the scope and schedule of all anticipated Reserve projects. Reserve Fund Strength (also known as Percent Funded) and the Reserve Funding Plan are both calculated based on the repair & replacement projects that appear on the Reserve Component List. So it is very important 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 maintained by any one Reserve Study company to ensure that no components are "missed".

Building the Component List: National Reserve Study Standards

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 three of the tests:

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



RESERVE COMPONENT "THREE-PART TEST"

Component List Tests Explained

So, what does all this mean?

Test #1 means that your Reserve projects should not be derived from a generic master checklist. 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 excludes components with "very extended lives" (i.e., life of the property), components that can function indefinitely with only minor ongoing maintenance or repair, or projects where the need and replacement can't be reasonably identified.

Test #3 requires that the project be of a significant cost to the association (above what can be absorbed by the Operating Budget) and requires all associated costs to be included with the project (shipping, installation, disposal, permits, etc.). A significant cost is commonly above .5% to 1% of the association's annual budget, or above the signature authority of a manager or boardmember.

As a result, the level of significance will vary by Association. A $500 project may appear in the Reserve Study for a small 15-unit Association that wouldn't qualify as a Reserve budget line item for a large 350-unit Association. 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 monthly landscape maintenance contract, or if painting is done on an ongoing basis by in-house staff, the expense would be part of that Association's operating budget.

Required Reserve Components

Some State laws may include a specific short list of components 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 line items. All projects appropriate for Reserve designation (as defined by the three-part National Reserve Study Standard test) should appear in your Reserve Study.

In summary, make sure your Reserve planning partner relies on the three-part test to develop your Reserve Component List. This will ensure that the list is complete, accurate, and stable with a low probability of any overlooked components that need to be added in future years. Your Reserve Component List should include only common area expenses, that are reasonably predictable, that are of a significant cost to the association.