

# Building a Safer Tomorrow: Understanding the Updated Reserve Study Standards

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[www.ReserveStudy.com](http://www.ReserveStudy.com)

**Miss the webinar? Watch it [here](#).**

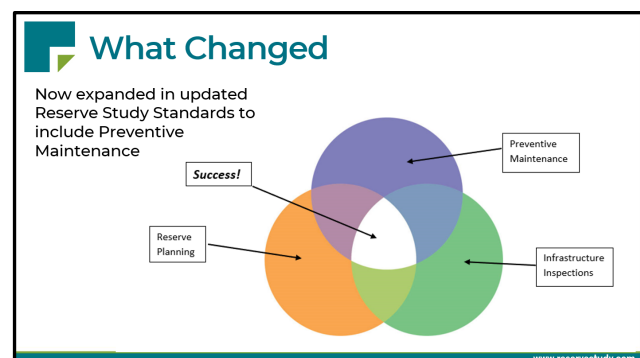
**See the updated standards [here](#).**

It's your association. As a manager or board member, your job is to lead the association forward. To do so, you retain the services of a Reserve Study provider to recommend how much needs to be set aside in order to have sufficient funds to perform timely inspection, repair, and replacement projects at your association. But what guides this Reserve Study professional, telling them what to do and how?

National Standards provide the “rules of the game” for how a Reserve Study is to be prepared. Preparing for the future of your association is a big responsibility, and your Reserve Study provider relies on guidance from National Standards.

Much has changed in the Reserve Study business in the last two years since the tragic collapse of Champlain Towers South, where it is believed that approximately 40 years of lack of maintenance on the building was a contributing factor to the collapse. So, in addition to Reserve Studies providing budget guidance, Reserve Studies are now viewed as part of the board's life-safety responsibilities. These new Standards reflect this new understanding of the consequences of poor, or ignored, Reserve funding and Reserve spending. Reserve Study providers are still here to guide associations just like yours safely and successfully into the future, making the present less stressful and the future more secure. But there will be some changes in the next Reserve Studies you see, and that's what we covered in this webinar.

Expect future Reserve Studies to more effectively incorporate Preventive Maintenance plans and Infrastructure inspection recommendations.



That means more recommendations to get Preventive Maintenance schedules, more encouragement to follow those Preventive Maintenance schedules, and more recommendations to get specific subject matter expert reports (like infrastructure inspections).

Expect the broader three-part test will incorporate inspections and one-time corrective repairs into Reserve Studies.

Expect to see more “long life” components in your Reserve Study, as the minimum standard for years considered in the plan was expanded from 20 years to 30 years. In addition, it is now recommended (but not required) that projects in excess of 30 years also be incorporated into Reserve planning efforts. But remember that Reserve Funding is not “for the future”. Reserve Funding offsets only ongoing deterioration... so every owner pays their fair share along the way.

These new standards also clarify that the “sweet spot” between the time and expense of Reserve planning and the consequences of lack of planning is to have a site-inspection Reserve Study update at least every three years. This is even though some jurisdictions only require such an update every five years. Do what’s best for your association.

**What Changed**

Component Selection & Funding:

New Three-part test

1. Association has the obligation
2. Need & schedule can be reasonably anticipated
3. Total cost for the project is material, can be estimated, and includes all direct and related costs

ASSOCIATION'S OBLIGATION  
REASONABLY ANTICIPATED  
SIGNIFICANT COST

RESERVE COMPONENT "THREE-PART TEST"

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**What Changed**

"Best Practice" is a site-inspection based Reserve Study at least every three years.

[www.reservestudy.com](http://www.reservestudy.com)

Homework for the audience – watch [Part 1](#) of the sobering interview with Scott Stewart, manager of Champlain Towers South at the time of its collapse. Learn the importance of learning the building’s needs, and addressing those needs.

Don’t feel the need to forge ahead all by yourself. Get an expert on your side to provide you with the information you need to make the wise decisions that guide you and your association toward an improved future! We can help by preparing your Reserve Study update, ensuring your Reserve Fund Strength is calculated correctly and a Funding Plan is custom prepared for your association.

Enlist the support of a team who has prepared over 70,000 Reserve Studies for clients in all 50 states over the last 35+ years! Launch a free online proposal request by clicking [here](#). Or click [here](#) to see our network of offices across the country (serving clients in all 50 states!).



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*Planning For The Inevitable™*

*Over 70,000 Reserve Studies Nationwide*

# Webinar Questions Asked By Attendees

## NRSS UPDATE QUESTIONS

**Q: What is the main difference between the former 4-part test and the current 3-part test as it relates to estimating the remaining useful life? It appears that "reasonably anticipates" seems to cover both that and estimating the total useful life.**

A: The new (broader) 3-part test allows Reserve funding for non-cyclical projects, such as critical (often expensive) restorative one-time projects that are revealed by infrastructure inspections, and it emphasizes that Reserve components don't need to be tangible "things" – they can be inspections or tests.

**Q: Please talk more about the change from 4 part to 3 part test. It appears the "limited remaining useful life" item was eliminated, or do you consider it is incorporated into the "reasonably anticipated?"**

A: Limited Remaining Useful Life was eliminated, so now the test is just if the project can be reasonably anticipated (doesn't even have to be cyclical).

**Q: There are a lot of types of engineering, what is the best type of engineering company to have complete an engineering report for a community?**

A: A structural engineer.

**Q: It appears that these changes apply to all associations not just high-rise HOAs or multistory. Correct?**

A: Correct. Assembling subject matter expert reports is a prudent idea, and that applies to an inspection on a second story clubhouse balcony or miles of asphalt in a HOA as well as it does to complicated issues at a high-rise. Having and following preventive maintenance schedules, and obtaining subject matter expert reports on various common area components or systems is just plain a good idea.

**Q: When we receive our next reserve study, will there be some simple materials available to explain to homeowners why the reserve study standards have changed?**

A: Likely not. The bottom line is that the Reserve Study continues to be your budgeting and cash flow management document. Future Reserve Studies will be better, drawing from more subject matter experts, but we do not feel this "difference" will be necessary to *explain*.

**Q: What is the implementation schedule for Reserve Studies based on the updated Standards?**

A: There is no set date for implementation. This means implementation will follow the Reserve Specialist's renewal schedule, as that individual will need to provide a sample work product in order to have their designation successfully renewed. Thus expect a 2-3 yr rollout across the country.

**Q: Can you include some samples of the supplemental reports 'Preventative Maintenance Manual' and 'Periodic Structural Inspection'.**

A: Sorry, these are private documents prepared specifically for individual properties, so they are not appropriate for sharing. Please contact specialists in your region to see if they have marketing "samples" they can share.

**Q: Will Reserve Specialists need to be trained and certified on the new supplemental reports?**

A: No. Reserve Study providers remain budget and cash flow specialists. We will be incorporating the insights and recommendations from these other subject matter experts. We do not expect to be replacing them.

**Q: Is there any planned effort to better coordinate with independent auditors to include a better description of an association's reserve study and its financial impact on the association?**

A: No. One purpose of updating the Standards was to help make Reserve Studies prepared by different Reserve Study providers more consistent, thus minimizing headaches experienced by independent auditors trying to wrap their heads around how Reserve Studies could be done so differently by different individuals/companies.

**Q: Are these standards you refer to are really recommendations in that there is no legislation backing them?**

A: No. I, and all other professionals with the "Reserve Specialist" designation are bound professionally to follow the "standards" of our industry. Legislation is not required. The standards are for the providers.

**Q: How do the differing state/legislative elements factor into this? Weren't the Florida regulations a factor in the looser structure in the building collapse?**

A: Legislation in FL allowing homeowners to waive the Reserve Funding proposed by the board has always been viewed as reckless. Generally states require that Reserve Studies be performed on various schedules or sometimes require a minimum list of components. The greater "how" the Reserve Study is to be prepared, including the consistent use of terminology and computations, and standard disclosures, are controlled by these Reserve Study Standards.

**Q: Will there be an analysis of the new Reserve Standards similar to what was done for the old standards?**

A: That was the purpose of this webinar.

**Q: Have the new standards been released?**

A: Yes. See [here](#)

**Q: Will the new standards take cognizance of safety-related changes to building codes where local government is not actively enforcing them?**

A: No. Reserve Study Standards guide the preparation of Reserve Studies. They are not an enforcement arm of local building codes.

**Q: We just had a Reserve Specialist do our on-site visit earlier this month. Will these differences be incorporated in their report (out next month)?**

A: Possibly. Expect the influence of a broader definition of Reserve components (“projects”, not just tangible “replacements of things”), an expansion to minimum 30-yr planning, and encouragement of preventive maintenance and subject matter experts (such as infrastructure reports) to be more and more prevalent. It will take time for all the influence of these updated standards to be completely rolled out among Reserve Study providers.

## **RESERVE FUNDING QUESTIONS**

**Q: How do you evaluate whether an HOA is adequately funded?**

A: See our webinar ([here](#) or on [YouTube](#)) called Reserve Studies 102, where we discuss Percent Funded, the National Reserve Study Standard way to measure Reserve fund size. It is the comparison of Reserve cash to Reserve needs (deterioration) at the association. Simply stated, over 70% is good, under 30% is weak.

**Q: What is your recommended reserve level as a percent of the fully funded amount?**

A: We recommend our clients pursue the Full Funding Goal (to achieve and stay in the range of being 100% Funded).

**Q: Can you clarify what you mean by 25% of the annual budget going to reserves? Is that both income and expenditures?**

A: Hopefully with a balanced budget the income equals the expenditures! So yes, a good starting point is that 25% of your total income should be transferred to the Reserve Fund. That means the remaining 75% of your income goes to the Operating Fund (checking account) to pay for daily, weekly, and monthly bills.

## RESERVE COMPONENT QUESTIONS

- Q: Is it appropriate to fund Firewise wildfire mitigation work from Reserves?**
- A: It is common that brush clearing passes the three part test to be funded through Reserves.
- Q: Are railings on balconies usually considered a common expense & a cost for the entire association, or a limited common expense that can be charged to the owner(s) appurtenant to the balcony?**
- A: Common area is common area – the association’s financial responsibility. Limited common area classically means use of that “common area” is limited to that unit owner (whether a parking space or a balcony or...). It is still “common area”, funded by the association.
- Q: Our lake-centered association has (6) 50-year old earthen dams, with the largest approximately 100 feet high x 1000 feet long. Earthen dams are generally considered to have a 75-to-100 useful life but can last for centuries with proper maintenance. To date, no reserve funds have been saved in part because the useful life and repair-&-replacement cost "cannot be reasonably determined." Can you comment on this situation?**
- A: Yes. Find and hire a subject matter expert on dams to give you an informed opinion. In our experience, that commonly results in a recommendation for ongoing maintenance to care for that dam.
- Q: Are amounts shown on the Reserve Study the only funds that can be spent on that component (repair, maintenance, replacement, and maybe including improving it), or are those estimates that allow you to spend more or less depending on the circumstances?**
- A: Component costs in the Reserve Study are estimates. They are not meant to be limitations. They guide the funding of Reserves, so that sufficient funds exist so the project can be accomplished when necessary. As you suggest, actual costs are often higher or lower than “exactly” the amount estimated in the Reserve Study.
- Q: Deciding the appropriate useful life for non-residential buildings is huge challenge for our HOA. The Board is split on what's appropriate. Several believe common use buildings (e.g., community center, post office, administration building, maintenance facility) will last 100 years with appropriate programmed replacements (e.g., savings for all periodic replacements such as roof, windows, siding), so therefore fall outside of the 30-year funding window. No need to save to replace the building itself, just for its main components. Three questions: (1) Is there a nationally recognized recommended useful life for buildings and other common assets? (2) When should**

**a 100-year building now be included in the new long-life funding window concept?  
(3) What are your thoughts on using a 100 year useful life in general?**

A: Thank you for your question.

1. No, there is no effective database of “building life.”
2. Any project should be included in Reserve Funding as soon as that (significant, common area) expense can be “reasonably anticipated”.
3. Even projects projected 30 years into the future are very “fuzzy”. That’s why we drew a soft line at the 30-yr mark in National Standards. Projects more than 30 years into the future have so many unknowns that the value of including them for planning purposes is often limited.

**Q: I called attention to the costs listed on our reserve study update with our RS expert. He was surprised at the cost of one item that I pointed out as being too high - and another as being too low. I got the impression that they had just “carried the costs forward” from our last Reserve Study, and didn’t examine them individually. Is this common?**

A: Every Reserve Specialist should be comfortable with all their cost projections. It’s their name on the report, after all. Thank you for inserting yourself, pointing out ways to adjust the costs and make the Reserve Study better. I don’t have statistics, but hope that the vast majority of Reserve Study professionals review all the costs appearing in the Reserve Study for appropriateness.

**Q: Our Board has Reserves for existing assets but they are looking to build new amenities and want to use some of the reserve. I’m not able to find anything that substantiates reserve money should only be used for existing maintenance of assets. I thought there might be a SC law, but not able to find anything.**

A: See National Reserve Study Standards [here](#), p15, where in the definition of Capital Improvements it states that use of Reserve Funds is inappropriate.

**Q: Can the hiring of an engineer to inspect the property come out of reserves?**

A: Absolutely, as such an expense regularly passes the three part test that defines a project appropriate to be funded through Reserves.

**Q: Can we officially “reserve” the additional windstorm deductibles? i.e. ours is going from 5% to 10%, \$25k to \$50k!**

A: No, as insurance deductibles regularly fail test #2 in that the expense is not “reasonably anticipated”. Insurance is fundamentally for accidents, which don’t occur on a regular (budget-able) schedule. Reserve funding is for planned/predictable expenses.



**Q: Why does plumbing require a structural inspection? If it has a useful life, should it not be included in the reserve study?**

A: Piping material, joint quality, water quality, age, etc. all are factors. Just because a building next to yours needed to be repiped after 30 years does not mean that is when your building will need to be repiped. A plumbing expert is necessary to guide appropriate budget planning, establishing the potential timing and cost of that project.

**Q: Where do plumbing systems fit into the new reserve study world?**

A: There is no significant change in the handling of plumbing in the updated standards. If that project can be reasonably anticipated, and if the cost of that project can be reasonably estimated, it should appear in your Reserve Study. Plumbing projects have been included in Reserve Studies for years whenever they could be identified as upcoming projects, passing the old four-part test.

**Q: At what point in the asset life do you recommend major projects such as underground piping (water, sewer) and condominium plumbing potable water line replacements be funded through Reserves?**

A: As soon as a plumbing expert can identify the timing and potential cost of such a project.

**Q: When making a reserve expenditure is the labor cost to install, repair or maintain included as a reserve cost, or are only parts/materials included?**

A: All related costs are to be budgeted (funded and paid) through Reserves... labor, permits, equipment rentals, materials, disposal, shipping, etc.

## **GENERAL RESERVE QUESTIONS**

**Q: Pressure Regulating Valves (PRVs) do not appear in our Reserve Component List. Why would they not appear? Our president says they're found under "large valves".**

A: Check with your Reserve Study provider. Commonly PRVs are estimated to have either too low of a cost or their lives are too indeterminate for planning purposes, making it difficult for them to pass the three-part test to be a Reserve Component.

**Q: How important is the reserve study to put the accurate month a project was done? Our study always has January & the year it was done.**

A: Reserve Studies are fundamentally budget estimate documents. Trying to nail down a month within a year is typically beyond the accuracy to be expected from a Reserve Study. National Reserve Study Standards only speak to Useful Life (and Remaining Useful Life) in years, not years and months.

**Q: Last year my president said that a law was passed that the board is not required to show owners the financial dollar amount that is in the reserves for the following year. Is this true?**

A: Please speak to a local community association attorney about what the law in your State does or does not say about Reserve disclosures. Generally, laws require disclosures (for the good of the owners in the community), they generally don't specify what can be hidden from the owners.

**Q: When should a brand new HOA (in California) hire a company like yours to conduct a Reserve Study? The developer did not provide the HOA with a Reserve Study.**

A: As soon as the board has control. Get started funding ongoing deterioration early in the life of an association. This way you won't have to play "catch-up" in later years!

**Q: Reserves have been thought to care for "existing components to align more with association CC&Rs". All other budgets should be the board's job via operational, correct?**

A: Check your Governing Documents (CC&Rs). Typically they say the board is responsible to set assessments so that the association can pay all costs necessary to sustain the association. Learning the ongoing cost of major component deterioration is yet just another bill that needs to be paid, no different from the board's responsibility to pay for insurance, management, utilities, etc. (things commonly funded from the Operating Budget).

**Q: What can you do if your dues are at the high-end of similar properties and yet we are only contributing 10% to reserves? Owners refuse to go up?**

A: The board's job is to lead. Just because other neighboring associations are digging themselves into a special assessment hole doesn't mean you should follow. Raise your assessments to provide sustainability for the association, do the projects, maximize your home values, and your homes will soon be the envy of other "similar properties".

**Q: Must a reserve study be performed by an outside expert firm like yourselves or by financial types on the board? Is it Florida law?**

A: In FL, the recently passed SB 154 provides a short list of professionals able to prepare the "once every 10 year" Structural Integrity Reserve Study" (SIRS). Outside of that state and that interval, Reserve Study updates are best prepared by a qualified outside independent expert with a proven ability to provide that service. A few boards or individuals take that task on themselves, even though they lack the time, expertise, insurance coverage, etc.

**Q: Is a reserve study required when an association only has 1) mail box 2) two vacant tracts 3) an access small road?**

A: Interesting question. In CA, the law (Civil Code §5550(a)) exempts associations from Reserve budgeting requirements when the sum total of their common area assets is less than 50% of the association's annual budget. In other words, an association with little to no "common areas" doesn't need to waste their time in a formal planning effort. That is a fair test that can be applied elsewhere. It is not wise to spend money or time on a Reserve Study planning effort that is not worth the time or money invested in that effort!

## **FL SPECIFIC QUESTIONS**

**Q: How does the structural reserve study (SIRS) differ from the other reserve studies we have done in the past? Our current study includes both structural and non-structural line items.**

A: The Structural Integrity Reserve Study (SIRS) stipulates a few specific components be included (the "Section G" components), and it will outline how much funding is needed for those specific components. Those specified components may likely have appeared in prior Reserve Studies, but you'll now need that new "amount funding for those components" information because the owners will not have the power to waive that portion of the association's Reserve funding.

**Q: Some board members think that due to the \$\$\$ spent on Hurricane Ian, reserve requirements were relaxed. Are they?**

A: No. Reserve requirements were tightened as a consequence of the tragic collapse of Champlain Towers South in Jun of 2021 which revealed clearly that lack of timely care of the building can have deadly consequences. Hurricane Ian in 2022 had no bearing on the FL Condo Safety legislative process that began in 2021 to shore up Reserve Study standards throughout the state.

**Q: Are available SIRS studies required to be part of all reserve studies or just a best practice from Association Reserves?**

A: SIRS reports are required in FL every 10 years. These are the same types of Reserve Studies we have been preparing for years, and will continue to prepare on a regular basis (updating them much more commonly than the "every 10 years" minimum standard). We will be adding two additional tables to handle the additional disclosures that are required for the specific "Section G) components.

**Q: How do you incorporate the Milestone Inspection Report results into the Reserve Study?**

A: If or when those Milestone Inspection Reports reveal a reasonably anticipated (expensive) upcoming common area project, we add that project to the Reserve Component List.

**Q: What components must be included in the Florida SIRS?**

A: Per SB 154, specifically 718.112(2)(g), the components that must be included are roof, structure, fireproofing or fire safety equipment, plumbing, electrical, waterproofing/painting, and any other project in excess of \$10,000 that would negatively affect the performance of the prior listed assets/equipment (unless the Useful Life and estimated repair/replacement cost cannot be determined, or if the Remaining Useful Life is estimated to be greater than 25 years).

**Q: Will reserve funding for SIRS require those funds be straight line or can they be pooled?**

A: Per common sense and the Florida Department of Business and Professional Regulation (see [here](#)), they can be pooled. Pooling is always in the best interests of an association.

## **INFLATION QUESTIONS**

**Q: How to handle inflation when estimating costs?**

A: Current costs form the foundation of every Reserve Study. That's one huge reason to regularly update your Reserve Study... to get a new baseline of "current costs". Those current costs are then projected over a 30-yr future using a stable multi-yr inflation rate, not a short term high (or low) inflation rate.

## **LEGAL/INSURANCE/BANKING QUESTIONS**

**Q: Any discussions with insurance companies on this subject? What sort of influence/pressure will they put on associations to submit engineering infrastructure reports?**

A: Insurance companies have been watching this process closely and supporting our efforts. They have been pressing for more preventive maintenance and additional subject matter expert reports to broaden the guidance provided by Reserve Studies and help boards make better decisions. These updated standards will do both.

**Q: Our governing documents specify that upon the inception of our Association, we were to have a special reserve account for our Wetlands Maintenance, starting with a fixed amount and increasing every two years. Maintenance was accomplished (20 years later) with no legal voting, by a board member's company. When the manager was asked about the Wetlands Maintenance reserve account, they said it was co-mingled with the general reserve account, but there is no line item. As a board member, I am refused any documentation when the co-mingling occurred. Is this legal?**

A: Sorry, please ask legal questions of the association's attorney.

## **MISCELLANEOUS QUESTIONS**

**Q: How can we be sure that the site & management company is actually doing their job? We have a water leak under our building that we paid over \$700,000 to fix and it is still leaking. Now site management is saying we need to consult a specialist & look into a leak detection company.**

A: First priority is to get the issue fixed. Second priority is to figure out why it wasn't originally fixed in a timely manner. Sometimes problems are just plain hard to resolve even with the best efforts and intentions.

**Q: How can an HOA get a subject matter expert's honest opinion without having them insert their possibly overly cautious and thus self-serving opinion?**

A: Hire an appropriate, experienced expert. If they know their field, they can provide accurate answers. "Self-proclaimed" experts commonly pad their answers or paint with a broader brush. Remember – the expert has been hired to keep the client away from trouble. So even the best expert regularly guides the client down the center of the path, not close to the edge.