

Reserve Studies 101 for 2024

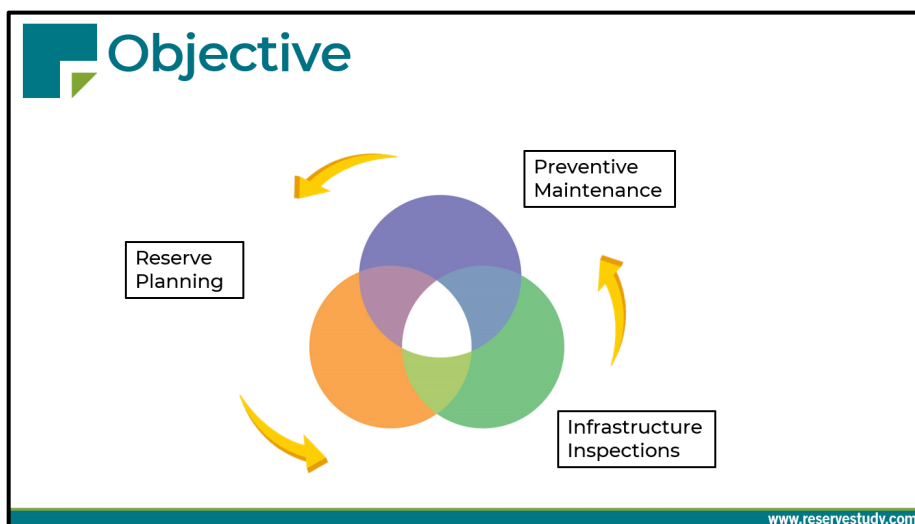
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Miss the webinar? Watch it [here](#).

See all of our other available recorded webinars (on related or more advanced topics) [here](#).

Components are the foundation of every Reserve Study. They define the expenses the Funding Plan is created to offset. But what are you trying to accomplish? How do you best care for your property over the long run? It is actually a combination of Reserve planning, expert structural evaluations, and ongoing preventive maintenance, as shown below.



In this webinar, we'll be focusing on Reserves, and how to properly identify what major projects to budget to accomplish. Understand that deterioration is inevitable and expensive, but fortunately it is predictable. To effectively offset deterioration at your association, you need a plan to offset that deterioration with Reserve funding. Insurance isn't going to help... that's for accidents, and deterioration is a normal, daily occurrence. Providing for the needs of the association is the responsibility of the board, it's not a "if we can afford it" issue.

Remember that nobody is funding Reserve for "future owners" or "future projects". Funding Reserves simply offsets the cost of ongoing, daily deterioration. So the question is... what is the monthly or annual "deterioration bill" at your association? It all depends on the components that are deteriorating, that require funding.

So which components should appear in your Reserve Study? It all boils down to the three-part test defined in 2023 updated national [Reserve Study Standards](#):



All your Reserve Components are determined by this three-part test. Your Reserve Study professional uses this test to select your components. All appropriate components should ideally appear in your Reserve Study. If not, they should be added. Expenditures not appearing in your Reserve Study, but meeting this three-part test are Reserve expenses. Spend Reserves on those projects, then update your Reserve Study for the next year to add those components and adjust the Funding Plan.

The Component List helps you see what's deteriorating and gives you the opportunity to take years (or decades) to prepare financially for those upcoming expenditures. The Component List is an important disclosure, reassuring homeowners that the board has a plan to maintain their property values by providing for the ongoing deterioration of key common area assets.

Look around your association for potential projects that are a common area maintenance responsibility, that can be reasonably anticipated, and that are a significant cost (typically above board or manager's signature authority, or often (but not always) above .5% to 1% of the association's total annual budget). Your Component List will likely look something like this:

Reserve Component List			
Description	UL	RUL	Cost
Pool Furniture - Replace	5	0	\$4,600
Pool - Resurface	10	5	\$10,000
Roof - Replace	20	18	\$80,000
Asphalt - Seal	5	2	\$5,000
Asphalt - Resurface	20	2	\$25,000
Building - Repaint	10	1	\$50,000
Elevator - Modernize	20	5	\$80,000
Hallways - Refurbish	8	6	\$24,000

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Note that Current Cost is presented (although an inflated “future cost” is commonly utilized in crafting the Funding Plan). Note some assets (asphalt) may have multiple components due to different projects (seal vs resurface). Similar projects but with different *timing* (different phases of roofing or decking, for instance), yielding different *Remaining Useful Life* expectancies, should be listed as different components.

Reality Check:



Can a component be a “maintenance project”? Yes, if it is a common area project, reasonably predictable, and a significant cost (like scheduled maintenance of a chiller or boiler).

Can funds be spent on repairs? Yes, if that specific project extends the Remaining Useful Life of the Reserve component or is a significant “corrective maintenance” project.

Can funds be spent on various scheduled (structural, fire sprinkler, etc.) inspections? Yes.

See the webinar for many more examples of how the Reserve Component List is created to help your association prepare for your own future.

Update your Reserve Study – since Reserve funding is very significant (15-40% of the typical association’s budget), and your assets are in a constant state of deterioration, expect to update your Reserve Study regularly. Best Practice is for a With-Site-Visit update every third year, with inexpensive annual No-Site-Visit updates in-between.



Updating

1	Full
2	Update With Site Visit
3	Update No Site Visit

*At 15-40% of total budget, review & update annually**

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Recommended Links:

Reserves vs Capital Improvement ([here](#)). Don't spend Reserves for Capital Improvement projects!

CAI's national [Reserve Study Standards](#) (updated 2023)

Association Reserves "[Reserve Component List](#)" eBook download

"Understanding Reserves" book (new in 2021). Order single copies or eBook on Amazon [here](#), or download chapter one for free [here](#).

Want an experienced professional to help with your Reserve Study update, ensuring appropriate component selection, life estimates, pricing, and development of an appropriate Funding Plan? Launch a free online proposal request by clicking [here](#).

Looking for local expertise?

Click [here](#) to see our network of offices across the country (serving clients in all 50 states!).



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RESERVES™

Planning For The Inevitable™

****Note: This course is approved for continuing education credit by:**

- **The Community Association Managers International Certification Board ([CAMICB](#)) to fulfill one CE credit for the CMCA® certification,**
- **the State of Florida Department of [Business and Professional Regulation](#) for licensed Community Association Managers for one CE credit related to the CAM certification**

Webinar Questions Asked by 2024 Attendees

GENERAL RESERVE QUESTIONS

Q: Our Association is considering adding sub-meters to each unit. We do not have enough funds in our Operational or Contingency accounts to pay for the purchase and installation of them. We recently paid for street and building maintenance from our Operations Account which totaled more than \$6,000. Can funds be transferred from Reserves to replace the funds used from the Operations account?

A: Were street and building maintenance, paid from Operating, legitimate Reserve expenses? If so, transfer the funds from Reserves to Operating so the funds are properly expended from Reserves. But adding new assets (sub-metering equipment) is not a legitimate Reserve expense, as it is not currently a common area maintenance responsibility. Don't spend Reserves on such a project. While you may wish to create a short term loan from Reserves (because due to lower utility bills the association will have some positive cash flow to refund the loan), installation of a new asset is not a legitimate Reserve expense.

Q: If we paid for maintenance (painting, landscaping, building repairs) that qualify under Reserve maintenance last year, how far back can we reconcile the funds from the Reserve Account (one or two years)?

A: That is a better question for your accounting staff. Generally it is best to pay for Operating expenses from Operating, and Reserve expenses from Reserves, and get that done all within the same year.

Q: We are a large, older townhome community. What credentials and experience should we look for in a Reserve provider? Do all the professionals in regional Association Reserves offices have these?

A: Look for someone to prepare your Reserve Study who has the initials "RS" (for Reserve Specialist) or "PRA" (Professional Reserve Analyst) behind their name, or supervising the preparation of Reserve Studies. Those are the credentials in the field, and you're doing your association a disservice to use anyone unqualified. All Reserve Studies prepared by Association Reserves are done by someone with the Reserve Specialist (RS) designation, or under the authority of a RS.

Q: If the board intentionally leaves out mandatory items, what are the ramifications for the community, the board, and the individual board members?

A: Oh wow. My mind skips to "fraud" with respect to the board and individual board members, but that's a better question for an attorney. The Reserve funding consequences are that the association will find itself without sufficient funds to accomplish necessary and predictable projects, so it will either suffer from deferred

maintenance and the inevitable suppressed property values, or special assessments, or both.

Q: What is a good way to convince the community to fund reserves with the recommended amount vs. the bare minimum?

A: Expenses are going to happen. Skimping on Reserve funding does not fool Mother Nature or Father Time. It's always easier to fund Reserves a little bit at a time, than in big catch-up special assessments. Do your homeowners a favor... set a budget that offsets ongoing deterioration, so their property values are maximized and they know the true cost of home ownership (paying their fair share a little bit at a time, each month).

Q: If the Board decides to complete a "Do it Yourself Study" what would be the best way to guide the Board?

A: I'd recommend one or a few of our webinars to get an understanding of appropriate components (and the consequences of leaving them out!), and plenty of patience to accomplish all the necessary research (online, or with local vendors) to find appropriate life and cost estimates.

Q: Where in a Reserve Study can you find documentation of the last repair or replacement? The management and/or BOD may either or both be new, Printed documentation would be clearer when it was done?

A: Generally that information appears in the "History" field for each component in the component inventory section of our Reserve Study. We do not have a single table that prints out a historical record of projects. We recommend our clients keep such a record in their budget file.

Q: What is the function/purpose of the corporate account vs the operational accounts?

A: I don't understand the question, but will presume you mean the Reserve account vs the Operating account. The Reserve account is where you accumulate Reserves for upcoming Reserve projects. The Operating account is typically considered the "checking" account, where daily/weekly/monthly transactions are handled, and into which homeowner assessments are initially deposited.

Q: What would the price be for something you'd consider funded via operations?

A: Typically the threshold for something best funded from Operating is in the range of .5% to 1% of the association's annual budget, or the "signature authority" of the board or manager.

Q: Would it be safe to say that any reserve expense that can be paid out of operations should be?

A: For a significantly underfunded association, trying desperately to protect and grow its Reserve Fund, yes. But Reserves and Operating each have their own budget, and you can unnecessarily deplete your Operating fund (leaving it unprepared for “normal” cash flow disruptions), if you’ve spent it all on Reserves.

Q: Describe your follow up as part of a Full reserve study.

A: After delivering the report, we support it with answers to questions and a revision at no charge within the first 60 days. Additional services such as a video summary of results or online presentation of results may also be available at no charge. There may be different protocols in our different offices across the country.

RESERVE COMPONENT QUESTIONS

Q: Please explain the “3-part test” for reserve study components - thanks

A: Straight from national [Reserve Study Standards](#) (see p8), components (projects) are appropriate for Reserve funding if they pass all elements of the following three-part test:

1. The association has the obligation to maintain or replace the existing element.
2. The need and schedule for this project can be reasonably anticipated.
3. The total cost for the project is material to the association, can be reasonably estimated, and includes all direct and related costs.

Q: Is there a way to get an exhaustive list of all types of HOA components to help with speaking to boards or vendors. It would be helpful to be able to eliminate items and add items not previously considered.

A: As explained in the webinar, there is no “master list”. There is only a master three-part test, through which all potential Reserve projects either pass or fail.

Q: We have a problem with the greens on our golf course. They are being invaded by grasses that are taking over parts. We just put new greens in 3 years ago and the grasses need to be removed and replaced with correct grass. It will cost approximately 75k to do. Is this maintenance that falls under our reserves?

A: That’s a good question. I presume your golf course is a common area maintenance responsibility, and I presume \$75k is “significant” to your association! So please consult with your golf course agronomist, to find out if this is a project that is reasonably predictable (test #2), or if it is an absolute surprise. If it is reasonably predictable, then it passes all three parts of the three-part test and it is a Reserve project.

Q: Our HOA has boilerplate CC&Rs. Unfortunately, there are contradictions in there. Previously, the board's interpretation has been that windows and doors are the HOA responsibility. The current HOA president thinks that these are part of "limited common areas" and thus is the owner's responsibility, with replacements coordinated through the board. The determination is based on whether something benefits a single unit or not. If so, as windows, doors, individual decks, that's not an HOA responsibility. If it is, such as a roof (there are 3-4 units per building), fence, pavement, it is. Thoughts?

A: Novel and creative thinking, but that is no way to run a not-for-profit multi-million dollar real estate holding company. Please obtain an informed legal opinion on the matter, and create a solid, well-documented multi-yr precedent to follow.

Q: Do the following qualify as a Reserve Component:

All my answers have to do with application of the three-part test.

- In the parking garage, where the lines and the numbers have deteriorated?
Generally yes, because common area paint is costly and its deterioration is predictable.
- Replacing landscaping in common areas? trees, shrubs, etc. *Quite often yes, because common area greenscape elements may have a predictable life expectancy and be costly to replant.*
- Plumbing? *When it is both common area and foreseeable, yes. Not random or infrequent/unrelated repairs here and there.*
- Maintenance of landscaping? *Generally no. Ongoing and normal landscape maintenance is generally funded through the Operational budget.*
- Insurance premiums? *No. That is an expense rooted in the cost to prevent consequences due to "surprises", not normal and predictable deterioration.*
- Insurance Deductibles? *No, as "paying the deductible" from an insurance loss is not reasonably predictable.*
- How would you handle our earthen dam that contains our 250 acre lake?
Presuming it is common area, when clients have had such common area elements we contact the lake management company to find out the needs of the body of water (stabilizing the perimeter landscape, dredging, repairing the liner or spillway, algae control, etc.).

- Grinding uneven sidewalks? Quite commonly yes. We often schedule an “allowance” for such projects in response to the association’s cost history, meaning a few thousand dollars every few years.
- Elevator upgrades? Elevator modernization is almost always a Reserve expense... the control system, lift mechanism, door controls, interior remodel, etc.
- A generator for our restaurant? Presuming the restaurant and its supporting assets are common area responsibilities, likely yes.
- Current lighting being upgraded? Lighting often has a limited life. They get old, inefficient, and unsightly. So lighting upgrades are commonly accomplished through Reserves.
- Electrical submetering? No. Submetering equipment is a capital improvement, not a Reserve project.
- Retaining walls? That depends. They may be “lifetime” components, but they also may be subject to deterioration and either partial repairs and replacements or total replacement over time.
- Septic System? Generally yes. That is a complex system with many mechanical components subject to failure due to age.
- Water and Electrical infrastructure? There are exceptions, but generally no, as those elements are difficult to anticipate with “reasonable certainty”.
- Gates access software? Depends on the cost and timing. If a minor cost, it’s an Operating expense. If done at the time the physical equipment is replaced, it can be folded into that project.
- A storm drain or Corrugated Metal Pipe drain under a road? I just completed a Reserve Study with some drainage elements embedded in concrete that we did not fund for because their deterioration was not reasonably predictable, yet down the road there was one not so sturdily constructed that was showing deterioration that we did fund for through Reserves. It all depends on the installation.
- Cast iron pipes in older condominiums? If we can get in touch with the association’s plumber and get some wise counsel with respect to what renovation might be necessary and when and for what cost, then yes. Please note that it is especially hard to have “reasonable certainty” about possible major plumbing (re-piping) projects in newer associations, so in those cases we might not fund for repiping as it is still just a “guess”.

Q: When it comes to asphalt/road resurfacing/overlays requirements, should annual traffic counts and types of vehicles driven on the roads be considered in the useful life calculation?

A: Yes. Heavy equipment significantly increases the wear on an asphalt roadway system. We have roadways in golf-cart communities that last an extended period of time. But let garbage trucks and deliver trucks in, and the life expectancy drops significantly.

Q: What's the recommended threshold time for remaining useful life to activate the replacement/upgrading of a component? Should you wait until the RUL reaches zero, or within a 10% to 15% variance buffed with a component inspection?

A: The repair or replacement is generally triggered when the project is “necessary”, or when it is no longer serving its original design purpose. This means you should replace things that are out of style or technologically outdated, even though they may still be physically “fine”. Sometimes we recommend replacement of major mechanical components “early” because newer equipment uses significantly less energy. Roofs and boilers and entry control systems are best to replace a bit “early”, because the consequences of failure are expensive or unpalatable. So it all depends.

Q: Prior to the collapse of Champlain Towers South in 2021 we did not reserve for long-life infrastructure elements like sewers or drains with extended UL's (50+ yrs). We would add them to the reserved study when the components started to reveal their wear & tear. What is today's standard regarding these unpredictable deterioration asset replacements? What do you recommend?

A: When it is unpredictable, it is unpredictable and by definition cannot be budgeted. Be diligent and look for the earliest signs of deterioration, so you can plan ahead for the significant expense with as much lead time as possible.

Q: I always thought that maintenance and repairs designed to extend the life of a major component were operational rather than reserve expenses. Same with professional inspections. Your presentation indicates otherwise. Am I interpreting it correctly?

A: Maintenance and repairs that extend the Useful Life or Remaining Useful Life of a Reserve component have always been legitimate Reserve expenses. Same with professional inspections. This position was clarified in the 2023 update of national [Reserve Study Standards](https://www.reservestudy.com).

Q: My association has missing components on our reserve study. Such as the Pressure Reducing Valve or Backflow device, or our main water pipe from the City & county. Why would items be missing on the reserves?

A: Due to human error, someone not following national Reserve Study Standards, or by the project not (yet) being “reasonably predictable”.

Q: When noting that 60-80% of expenses are typically related to a certain number of expenses, you mentioned "5" as the typical number of projects. Can you translate that into a typical percentage of components rather than a fixed number?

A: Five "significant" components out of a typical list of 35-50 components equates to 10-14% of the total # of components at the association. While all are important, not all have the same influence on your Reserve funding requirements.

Q: What is your methodology for establishing replacement costs in your analysis? Do you factor in regional cost variation?

A: Absolutely. All cost estimates should be local. The Reserve Study, after all, is for "your" association, not some "average" association. We gain most of our cost estimates from the actual experience of other clients of ours performing projects like yours, in your area.

Q: We had a reserve study and the study costs were only about 50% of what we are being quoted. Thoughts?

A: I cannot defend the quality of other Reserve Study providers. I also know that most of the time clients or prospects complain about low cost estimates it is because their Reserve Study is old and outdated. Inflation is real.

Q: We're a planned community with road maintenance our sole responsibility. There are alternate "fixes" for them - i.e. repaving or chip-sealing, for instance. Is it valid to setup twin Components (i.e. two for each road or road combinations) to have option of doing EITHER solution when we run our Reserve Analysis & Funding Plan?

A: I wouldn't do it that way. I would get wise counsel from an asphalt specialist to define a responsible path forward. Then make sure your Reserve Study provider is provided with that information. Planning for the future should not be a guessing game. If necessary, for competing strategies, two different Reserve plans could be created. But not one Reserve plan with multiple options. That would double the expenses!

Q: Our Bldgs are 6-7 yrs old. We have new insurance that wants inspection. We are finding our roofs were not installed properly in areas or caulked well. Can Reserves be used to do these maintenance and repairs in order to alleviate leaks and allow roofs to last longer?

A: Reserves are designed for the repair or replacement of "properly constructed" assets. If you are beyond the time period you can seek legal assistance to pursue a construction defect claim, then yes. "Restorative" or "corrective" maintenance projects are legitimate Reserve projects. It's still the three-part test: common area - check. Predictable - check (they need to be done now!). And expensive - check.

Q: Our social hall tile floor is a component on our reserve study with 14 years remaining on its 30 year life. We need to repair and replace a partial section of the tiles due to movement of the slab underneath. Can this tile repair be covered by our reserve or not?

A: That is unfortunate. The repair was previously unforeseen, but now it has reared its ugly head. If the projected cost to the association is significant, then yes.

Q: Do you have any recommendations for useful life and budget amount for EV Charging Stations?

A: Consider them technologically dependent, so no matter if the installer said they'd be good for "20-25 years" (physically), expect that economically they will have served a full life getting to the 8-10 yr range.

Q: What are some of the most missed components in a reserve study (by analysts and community managers/boards)?

A: Items where there was misinformation about who had the maintenance responsibility (windows a common culprit), or items that are on the verge of being "reasonably predictable" (or not) such as plumbing or retaining walls.

Q: You mentioned in the webinar regarding a motor and belt system (it had rust on the exterior) that the HOA continually maintains the item frequently and it would not be on the Reserve Study. Wouldn't this whole item need to be replaced at some point, not just maintenance repairs and this replacement included in the reserve study?

A: When one repairs a component as a minor expense piece by piece, it can serve its purpose to the community without ever hitting the Reserve cost threshold. That reminds me of a Johnny Cash song about a Cadillac [here](#).

Q: The association wants plumbing/pipes included now after it wasn't before. How do we get the value in the building of the pipes to add? Contact a plumber?

A: Your Reserve Study professional should be on top of this issue. If you're doing it yourself, then yes, you'll need to get the assistance of a plumber (and you may need to compensate them for their time).

Q: If a community was planning to add irrigation to a common area that the developer left without, could they use reserves for improvements?

A: Nope. That's a capital improvement. Reserves are for (existing) common area projects.

Q: What about items that have a very long life 50+ years?

A: Yep – there is no Useful Life limit to a component. If it is a common area responsibility, reasonably predictable, and significantly expensive to the association, it should be a Reserve component.

Q: One of my HOAs recently requested several bids from the Reserve Study providers in the area. The Board stated to me after all the bids came in that they preferred to use a (very) local company to do their study because they will know the local market prices and life expectancies better than someone from farther away. I am assuming that all of the companies that service an area all have the same database of figures or use the same percentages they use to figure in. At least within a reasonable range between each other. Am I correct?

A: Sounds like the “very” local provider wants to stake a claim for their services. But you’re right... prices and life expectancies don’t vary all that much, and (experienced) major providers know the appropriate adjustments. They may actually have more clients in that area than the small local provider.

RESERVE FUNDING QUESTIONS

Q: What is considered “the budget” when you describe Reserve funding as a “percentage of total budget” calculation?

A: Total association income. So if homeowner total income is \$410,000/yr, and misc (laundry, clubhouse rental...) income is \$5k/yr, total budgeted income is \$415,000/yr. In that case, 25%, which I mentioned is a good figure of merit for Reserve Funding, would be \$103,750/yr.

Q: We are currently about 11% funded- how often can we do a special assessment? Is there a recommended times per year?

A: Typically Reserve funding decisions are made once per year. There are of course exceptions. Consult an attorney to see if there are limitations found in your Governing Documents or State Law on passing special assessments multiple times per year. I’m sure your homeowners will frown on you “going to the well” too often.

Q: If the board extends asphalt repairs for 1 year beyond the recommended replacement year - when does the funding into reserves begin again?

A: It never stops. Those funds keep accumulating to Reserves, and are re-allocated among other Reserve components. In the cash flow method of calculating Reserve funding, the best choice for associations, there are no “assigned” funds. Reserve cash simply flows to where it is needed most. See our upcoming Reserve Studies 103 webinar later this year (or watch the recording from 2022 [here](#)).

Q: If a scheduled reserve allowance or expenditure is not done in a year, do we roll that cost to the following years, but increased by an inflation factor?

A: Yes.

Q: If large capital improvements are not part of the reserve, are they funded by special assessments?

A: Typically yes. Either that or surplus Operating funds.

Q: Case in point re: adopting “the bare minimum,” aka “baseline funding.” Our Reserve Study had \$34,500 every 10 years for fire sprinklers, but we just got a bill for just over \$108,000...and, in checking what limited past records I had, another \$100,000 was paid on this in the last 3 years. Obviously, operating at “the bare minimum” makes an HOA vulnerable to such unexpected expenses. According to the PM, fire standards/requirements change almost every year.

A: Excellent point. The world doesn't care that you are making optimistic plans. You need some margin or consideration for reality. Living life optimistically or “on the edge” is generally not a wise strategy for someone (a board) responsible to care for the assets of others.

Q: What is a good rule of thumb minimum funding of a reserve?

A: We find most associations need to be setting aside 15-40% of total budget to offset ongoing deterioration and have sufficient funds to care for the property. You find your association's specific funding recommendation in a Reserve Study.

FL SPECIFIC QUESTIONS

Q: Would you be able to complete structural reserve studies?

A: Yes, our Florida office prepares the product the FL legislature created called a “Structural Integrity Reserve Study”, or a “SIRS”.

Q: Piping is a SIRS item - can you use those funds for repairs to minor piping repairs inside unit walls?

A: Please consult with your local Reserve Study provider. Note that a minor repair expense on any common area component continues to be an operational maintenance project, not an appropriate expenditure from Reserves.

Q: What Components are required by FL law?

A: Roofing, painting, and roadway surfaces continue to be the primary required elements of a Reserve Study. In addition, funding is required for the following specifically mentioned “SIRS” projects if they are reasonably anticipated at the association:

- Roofing
- Structure
- Fireproofing/Fire-Protection
- Plumbing
- Electrical Systems
- Waterproofing and building painting
- Windows and Exterior Doors

See our FAQs on the SIRS legislation [here](#).

INSURANCE/ACCOUNTING/INVESTMENT/BANKING/ETC. QUESTIONS

Q: Are there any best practices for reserve spend accounting? Should accounting be classified to specific components for clear accounting and audit trails?

A: Work with your accountant on this issue. Note that there is no “best practice” to allocate funds to individual components, or fund components separately from one another.

Q: Today the Board is wrestling with helping homeowners keep home insurance policies. Farmers & State Farm are pulling out of states and/or canceling policies. Any suggestion on what a Board can do to assist beyond using their Reserve Fund?

A: Don’t spend Reserve funds on insurance premiums. Do your best to maintain the property (funding Reserves and performing timely Reserve projects and ongoing maintenance), as insurers don’t like to insure poorly maintained buildings.

Q: If reserve funds are invested in CDs, can the tax liability be charged to the reserve fund?

A: Not my area of expertise... please seek counsel from a tax expert. The answer depends on which tax form you file... the 1120, or the more popular 1120-H.

Q: Does the reserve funding plan presume financial investments that grow the reserve funds, such as short term CDs?

A: Yes, it is presumed that the association will invest their Reserves safely (no potential for loss of principal).

Webinar Questions Asked by prior year “RS-101” Attendees

RESERVE COMPONENT QUESTIONS

Q: Are there any special suggestions for component lists for an association where residents do not own their homes nor any of the community property but are responsible for all operating expenses?

A: I'm having a hard time imagining such a property, but I guess Governing Documents can state whatever they feel is “right”. If residents have no ownership interest in their dwellings or any other “common property”, some other entity must be responsible for upkeep and Reserves. So it sounds like no Reserve Funding requirements for this association!

Q: Our Siding has been handled on a Board-by-Board replacement for over 15 years at an average of \$25,000 per year for 46 condominium units. To the best of our knowledge our siding has never been completely replaced at one time since 1981. Would this method be able to be included in a Reserve Study? Several of our neighboring communities have elected to Special Assess to completely replace their Individual Boards with Hardie Board with a \$15,000/owner Special Assessment. We think we have handled this method for the long term. What are your thoughts?

A: There is no mandate to replace “all at once”. Phased replacement, as at your association, may be successful. Unfortunately, it commonly leads to “checkerboarding” when materials don't match over the years, and there is a harsh contrast between replaced siding and old siding. A Reserve Study can accommodate “complete replacement”, “phased replacement”, or “ongoing replacement”. Discuss with your Reserve Study provider to get some case studies of what it would cost for your association to migrate to a different strategy for handling siding replacement. And by the way, Hardie Board is generally more expensive, but with its very long life it offers a lower net overall cost/yr.

Q: Should all maintenance items be included in the reserve?

A: Only projects that pass the National Reserve Study Standards four-part test.

Q: What if it is something on private property but the association has agreed to pay for repairs?

A: Where something is located is not critical. What's important is if it is an association maintenance responsibility. That's test #1.

Q: How can the useful life of an inner harbor of a condo's marina be determined with an unknown rate of water level rise with global warming?

A: Sometimes you need to make estimates. We are, after all, making projections about the future. Encourage your Reserve Study professional to do their best, and then update it regularly.

Q: How is the cost of replacement determined?

A: Actual cost history at the association, actual cost history at relevant local properties, vendor research, or industry cost guides (generally in that order).

Q: Can deferred maintenance be on the component list?

A: Absolutely. Get it done! Plan ahead next time so that project gets done on time.

Q: Can a lake shoreline be a reserve component?

A: Absolutely, either a natural shoreline or a man-made shoreline, at a natural body of water or man-made body of water. Around humans, and with landscaping, shorelines regularly need maintenance or replacement.

Q: Do common area waste water lines and incoming potable water lines qualify for the Component List?

A: If the Useful Life, Remaining Useful Life, and Current Replacement Cost can be reasonably established, yes.

Q: Can the cost of a reserve study be put into reserves?

A: Generally the cost of a Reserve Study falls below the cost threshold of significance at an association, so seeing a Reserve Study project in a Reserve Component List is rare.

Q: How do we add what should be a reserve item to the component list if condo docs are silent, by Board motion or by member vote?

A: Don't worry about it. Your Reserve Study should be considered a fluid planning document, not something official that needs board authority. Your reserve study professional should establish and update your Reserve Component List as part of their work-product, including all projects that pass the National Reserve Study Standards four-part test. Projects appearing in the Component List are not subject to Board motion or member vote.

Q: Can pond erosion control be a reservable component? How does one determine the "useful life"?

A: Yes. Commonly ponds are the maintenance responsibility of the association, needing refurbishment on a regular, predictable basis, and erosion control is often not cheap.

If the association doesn't have a history on the matter, a Reserve Study professional would contact the association's landscape crew or their lake management company for wise counsel.

Q: Our reserve study does not take into account potential tree root damage eg. redwood trees proximity to buildings very close to buildings and pulling up streets and sidewalks. These can result in material costs, but aren't factored into the reserve study? Should they?

A: Point out this concern to your Reserve Study professional at your next update, and they will determine if such repair projects should appear in your Reserve Component List.

Q: Are the expenses for planned structural architectural/engineering studies appropriately included as a reserve component?

A: Absolutely. They pass the National Reserve Study Standards four-part test.

Q: In CA, we have a "balcony" inspection requirement every nine years (Civil Code 5551). Do you recommend putting the cost of this inspection in our reserve study?

A: Yes. Some of the resulting projects listed in that report, if they are cyclical projects (balcony sealing, stairway refurbishment, etc.), may also qualify to be included in the Component List if they previously didn't exist.

Q: We have road resurface and road sealing in our reserves because we can give a useful life. What about road pothole repair? Does that go into the reserves?

A: Best practice is to repair potholes as part of preparing the surface for a seal project (not randomly as-needed). It's just like prepping a surface to be painted. You still may need minor local repairs, but hopefully those will be minimal expenses easily handled by your operational budget.

Q: In the example photo of the underground parking garage, the parking spot numbers appeared significantly faded. But you said the underground garage, with proper building waterproofing, should last "practically forever" (failing NRSS #3 "Predictable remaining useful life"). Would you explain how this paint on concrete does NOT have a predictable useful life? Doesn't nearly everything have a predicted useful life?

A: Insightful question. The point being made by the slide was about the underground parking garage's structural condition. Regarding parking spot painting, it is quite common to have a Reserve Component for garage striping and numbering (a periodic paint project).

Q: Sump pumps can work for years then all of a sudden, they don't? If the life cycle is a 10 -15 year time frame but is still working beyond that life cycle, how do you gauge that useful life cycle?

A: Sump pumps often work rarely, so for those it is difficult to hear if the pump is running smoothly or if it is suffering from old age (bearing noise, etc.). So you make an estimate. That sets up the association with funds to handle the replacement. It may be best to replace the sump pump pre-emptively, to prevent expensive flooding and water damage in the garage.

Q: Our roofs are 18 yrs old (they have a 25 yrs anticipated Useful Life). According to an inspection, we are having to replace all the rubber plumbing pipe flashings and plastic flapper vents now to extend the life of the roof until full replacement is required. Are these 2 types of replacement roof components?

A: I don't know the cost, but it is typical to do maintenance on a roof (debris cleaning, gutter cleaning, local minor patching, etc.) on an ongoing basis. Depending on cost, this may be a Reserve component (and thus a Reserve cost) or a minor operational maintenance project.

Q: Should the cost of professional engineer or construction project manager for a roofing project be part of the Reserves or funded out of Operating?

A: It should be included in the "total cost" of the estimated upcoming Reserve project.

Q: Is input from individual associations relevant to determining replacement costs?

A: Yes, it is always helpful to hear from the association what projects have been costing at their property. It helps us to establish appropriate cost expectations for future projects.

Q: We are a single-family homeowners association. We are looking to start repairing our roadways. One way to go was sealing the asphalt but have been told we would be wasting our time and money. The roads don't need to be replaced but are starting to show wear and tear. What is your opinion regarding sealing?

A: Sealing is a very cost-effective project. It rejuvenates the asphalt, extending its Useful Life. Think of it like repainting wood. It will protect the wood and extend the service life of the wood.

Q: Are there items that may not qualify for being on that list of reserve?

A: Absolutely. Things that the management company (or landscape company) owns are not the maintenance responsibility of the association, things expected to last "forever", projects that where the timing is unknown (a large insurance deductible), and a project that is trivial in size (varies with budget size). There are plenty of projects that do not qualify to appear on the Component List!

Q: Our property was built 25 years ago, the plumbing contains CPVC pipe. We have had some broken pipe problems but no major failures. What is the best path to determine replacement cost for funding plan?

A: Commission an updated Reserve Study and expect that Reserve Study to incorporate the latest information from your plumber and other local buildings considering your particular piping material.

Q: How detailed should the components be? For example...bathroom renovation vs. tile floors, fixtures, lighting, etc.

A: As you suggest, there is a time when “more” is not better. We highly recommend projects that will be coordinated at the same time be combined into one project. A classic is a clubhouse remodel, which may involve flooring, furniture, and painting. Price it out individually, but there is a strong argument that it should be one component in the Reserve Study, not three.

Q: What are the basic criteria for determining capital expenditures vs. expense items? Is it the cost, useful life, depreciation? What's a good rule of thumb to use in this decision?

A: Let me reword your question to Reserve expense vs Operating expense. The difference is anything that passes the National Reserve Study Standards four-part test should be a Reserve expense.

Q: What are some guidelines for adjusting for the coastal environment when determining useful life?

A: A salt air environment shortens the Useful Life by 20-50%, depending on material, prevailing winds, and ongoing maintenance.

Q: You mentioned that a capital improvement could not be paid from a reserve funds. So does that mean a special assessment would be required or can you fund from operational expenses?

A: A capital improvement is an inappropriate use of Reserve funds (because it fails test #1 in that it is not a current maintenance responsibility). Special assess or use discretionary Operational funds to add the asset. After it has been installed, add the asset to the Component List in your Reserve Study for replacement next time around.

Q: Why are capital Improvements left out of reserves? If we replace something that is considered a capital improvement for tax purposes, shouldn't we still fund from reserves?

A: Tax issues are irrelevant. If you want to save up for a future capital improvement (a new paddle tennis court, for instance), by all means do. But don't use Reserves to add a new asset to the association. Reserves are funds designated to offset the

deterioration of existing assets, so the funds exist to repair or replace those assets when necessary.

Q: What about re-piping due to the aging infrastructure? This and sewer lines do not seem to be included in reserve studies. They appear to meet all Four Test questions and due to no mention of them, Boards do not know that these will become an unfunded issue.

A: Piping is more commonly found in Reserve Studies now than in prior years. In the past, their Useful Life and Remaining Useful life (tests #2 and 3) were generally considered indeterminate. But more recent experience and new diagnostic tools are allowing plumbers (and thus Reserve Study providers) to anticipate the timing and cost of these projects with reasonable certainty.

Q: We have mature trees and are finding we remove a significant number of trees every 3-5 years (\$25k). Should that be a reserve component?

A: Absolutely.

Q: Is it wise to wait until a component (other than the roof or piping) breaks or replace as recommended in the study?

A: There are five general failure modes. See more [here](#). “Inconsequential” and “Inspect and re-evaluate” projects can commonly be deferred. “Aesthetic” projects can be deferred for a while, but they begin to make the property look aged and tired. “Protection” projects (protecting the underlying material, such as asphalt sealing, deck sealing, or wood paint) should always be done on schedule, and “Catastrophic” projects (main entry gate, central water boiler, etc.) should be done on schedule or perhaps even a bit early.

RESERVE FUNDING QUESTIONS

(JOIN US FOR [RS 102](#) IN APRIL FOR MORE ON THIS TOPIC)

Q: For underfunded reserves, what sort of contribution strategies do you advise?

A: Balancing the [four Funding Principles](#): sufficient Reserves, Budget Stability, Equitable Distribution, and Fiscal Responsibility (from National Reserve Study Standards). Generally, we interpret this to mean being Fully Funded is in a property’s best interest, but not so valuable that the Funding Plan should include a special assessment or be unsettling to the owners. [Here’s](#) another idea.

Q: Our last Reserve Study showed that we were about 30% funded. This was in part due to unexpectedly having to do roofs ahead of time. However, a long-time Board member has consistently resisted funding the reserves more fully, concerned about the resistance of owners to the higher dues he says that would entail. The rest of the Board is fairly new, thus he holds great sway over them. Thoughts??

A: Funding the needs of the property is the board's job. The board incurs liability exposure when they try to guess what the homeowners might want (or not want)... that is not their job. Fundamentally, less in the Reserve Fund exposes those homeowners to special assessments. I'm sure they'd rather pay a few \$ more a month than get hit with a big special assessment for a known expense. Look after their interests by setting an accurate budget.

Q: Is inflation taken into consideration when determining cost?

A: Not when determining current cost, but inflation is factored when developing the Funding Plan that projects costs in future years.

Q: What is considered an acceptable funding percentage?

A: The 0-30% Funded range involves a high risk of special assessment, so it's good to stay out of that range. The "above 70% Funded" level puts the homeowners at low risk of special assessments, revealing the board has set assessments appropriately to take care of the needs of the building. See more [here](#).

Q: As your sample expenditure table shows, in certain years there are significant expenditures. Is there a minimum reserve funding balance that should be maintained? For example, our association always tries to maintain a \$100,000 minimum to address surprises without a special assessment.

A: That is part of the design of the Funding Plan. It is best practice to always have at least 10% of the last year's expenses left in Reserves (never drain it completely dry!) and pursuing a goal of being 100% Funded will also yield some "margin" when projects don't occur exactly as planned.

Q: Insurance Companies won't insure Condo Association in Florida with old roofs. Can we dip into roofing reserve to replace roofs in whole or in part early if insurance savings exceed return on reserve assets?

A: You can't blame an insurance company for not wanting to be "on the hook" to replace your 15-yr old roof with a brand new one, when its utility has almost totally expired. But you raise an interesting business decision question. Best to discuss that with your Reserve Study provider, to select the right strategy for your association.

GENERAL RESERVE STUDY QUESTIONS

Q: I am on a HOA Board. One member insists that our reserve balance should be a full year's assessment per unit. I cannot find anywhere where this is mandatory

A: It is not. That is an “old wives tale”. There is no merit to that metric.

Q: You mentioned we do an onsite visit for reserve study every 3 years and “can” do a financial update in the in between months. Is the financial update in the in between years mandatory? Or just recommended?

A: In some states the board is required to “review and revise” the Reserve plan on an annual basis, which means in-between the years a With-Site-Visit Update is prepared. So a No-Site-Visit Update is a great tool for that purpose. In addition, it is inexpensive and a great way to keep your budget from drifting. We note a measurable drop in special assessments among our clients that perform those No-Site-Visit updates in the interim years.

Q: California's Civil Code §5551 (the requirement to inspect all wood-based exterior elevated elements every 9 years...). What is needed? for the study? Just the written report saying 'passed' or do you need the photos that are sent too? Where do you list this need in the study for the future time that this study needs to be done? Have you started adding it to new ones already?

A: Hire a local inspection company far in advance so you have the report itself before the 1/1/25 deadline. See the legislative requirement [here](#). See a list of inspection companies [here](#). The cost of this “every 9 years” inspection should be a Reserve component, and many of the resulting projects (if cyclical) should be Reserve components. Provide the resulting report to your Reserve Study company.

Q: What are the main differences between Reserve Study I, II & III (Full, Update-With-Site-Visit, and Update No-Site-Visit)?

A: The amount of time invested in the project. “Full” Reserve Studies involve a site inspection and take the most time, because in that site inspection everything is measured, identified, and quantified. A “With-Site-Visit” Reserve Study involves a site inspection, but it goes faster because conditions are inspected (minimal re-measuring is accomplished). The No-Site-Visit Update takes even less time because a site inspection is not involved.

Q: In updating a reserve study, what are some alternatives to getting contractors to provide quotes? Are there reliable websites to obtain estimated labor and material costs for various projects? By region?

A: Sounds like you are trying to do it yourself. FYI, that is not the board's job, any more than updating the Governing Documents is the board's job. It is often best to hire a professional to “get it right”. But in answer to your question, contractor quotes

generally provide reliable cost estimates. It may cost you some \$ to get them to prepare estimates for work that does not need to be done at this time. Industry construction or remodel cost guidebooks can often put you in the right range.

Q: Our reserve study says the painting of the pool house has a five-year life remaining, but our current reserve plan is to repaint the pool house this year. Should we follow the reserve study's recommendations?

A: If it needs painting now, paint it. The Reserve Study is a budget and cash flow management tool to help your association have sufficient funds to do the projects when needed, not a hard-fast schedule for doing projects. Then update your Reserve Study to reflect your latest pricing for this project and its actual (not just projected) Useful Life.

Q: If a community does not have any amenities, or any large expenses, would you recommend doing a reserve study?

A: A useful guide is a clause in California Civil Code that says if your common area assets cumulatively total less than half of the annual budget, you don't need to do a Reserve Study. That's actually a very reasonable guide for if you have enough assets to warrant Reserve planning, or if what you have on site is trivial and none of those various scattered expenses would unsettle the association's financial picture.

MISCELLANEOUS QUESTIONS

Q: What is the approximate structural engineer inspection cost?

A: We're seeing those to be approximately 10x the cost of a Reserve Study.

Q: Can you make any comments pertaining to the Surfside collapse?

A: That pivotal event opened our eyes to the magnitude of tragedy that could come from deferred maintenance. Boards should not be casual about Reserve funding. Our industry was confronted with the news that accumulated deferred maintenance over the years can be deadly. See a short summary report [here](#), or you can see one of the many programs we've done on that topic on YouTube [here](#).

Q: How can the free e-book on components be obtained?

A: Click [here](#).

Q: Our HOA is renovating its clubhouse and pool house. Our last reserve study was completed in January 2015. About 90% of the furniture and fixtures will be replaced under the renovation plan. Few pieces will continue to be used. A reserve

study is planned for a short time after the renovation is completed. How will the new reserve study treat the old items as opposed to new ones?

A: Rather than memorialize the trivia of individual pieces replaced over different years, best to strike an average age at this time, and plan to replace all in the future for a uniform remodel in the future.

Q: What if an item was added to reserve study without partners input or Board approval?

A: Allow the Reserve Study professional to do their work applying National Reserve Study Standards. Of course, if you have questions, contact your Reserve Study professional to hear how/why the added component meets the National Reserve Study Standard [four-part test](#).

Q: If you have a large project and hire a company to oversee the project as a consultant, can you include that as the overall cost for the reserve project?

A: Absolutely! Remember, we are funding for projects and not “things”. If a consultant is part of that project, it is appropriate to include that cost in the funding plan.

Q: How would termite fumigation fit into the Study? Is that a valid Reserve Component?

A: Termite fumigation often passes the [four-part test](#), as a major project like fumigation is a common area expense, needs to be done regularly (is “life limited”), you can anticipate the need drawing closer (predictable remaining useful life), and is often above a threshold cost of significance.

Q: In CA, is a Level 3 (No-Site-Visit) update required in the years in-between a Level 2 (With-Site-Visit) update?

A: No matter where in the country, a No-Site-Visit update is designed so boards can get updated Reserve planning information for budget development in-between With-Site-Visit years. In CA specifically, the No-Site-Visit update meets the board’s Civil Code §5550(a) requirement to “review this study, or cause it to be reviewed, annually...”, and to provide the information necessary to prepare their annual Assessment and Reserve Funding Disclosure form (CA Civil Code §5570).

Q: Can Landscaping projects be funded from Reserves? How is this determined? Back east we didn't include it, but here in NM they do include it.

A: Minor landscape projects fail test #4 (they are often included in ongoing landscape maintenance). But larger regularly scheduled (budget-buster?) projects like tree trimming or major replanting (removing old vegetation to replace with new) regularly pass all four parts of the NRSS [four-part test](#).

Q: Can we reserve for costs associated with removing trees that are uplifting sidewalks?

A: Absolutely. You can have a regularly scheduled "tree removal" Component, or you could include tree costs as part of a regularly scheduled sidewalk refurbish component.

Q: Can you add a new component, such as solar panels or charging posts for electric car charging, to an existing reserve study? Or should it be a capital investment?

A: Reserve funds are to be used only to offset ongoing deterioration. If a component does not yet exist, it is not yet common area. Therefore, it does not pass part #1 of the 4-part test. Installation of new assets (that previously did not exist) should be funded through capital improvement funds. Once the new asset is installed (a new tennis court, or new solar panels...), one or more Components should be added to the Reserve Study for the future repair or replacement of that new asset.

Q: Explain why a capital improvement is not a component? When will it become an item on the component list?

A: An addition to the association fails NRSS [four-part test](#) #1 in that it is not (yet) a common area maintenance responsibility. It is just a (potentially great) idea. After it has been funded and installed, then it should likely appear as a component for future repair or replacement.

Q: Do you assume vinyl siding will need to be replaced at some point in the future or that it will last forever? We're in CT.

A: Vinyl siding has a Useful Life. That life expectancy depends on the thickness and quality of the material, the installation (and its exposure to damage), and its coloring. In addition to its gradual physical deterioration, sometimes it needs to be replaced

because its color or faded appearance “dates” the association and is not good for property values.

Q: I realize this may be covered in a future seminar, but can you give us a guideline as to how much of the reserve requirements should be on hand year to year (fractionally)?

A: Reserve component deterioration around the association is called the “Fully Funded Balance” (FFB). The comparison of your Reserve cash balance to the FFB is called Percent Funded. Weak is 0-30%, fair is 30-70%, and strong is over 70%. See more [here](#).

Q: Can full roof inspections fall under major maintenance?

A: Yes, if it passes the NRSS four-part test. Often roof inspections are a relatively minor cost and done annually, so they are commonly handled from the ongoing Operational Budget.

Q: What to look for in a reserve study company?

A: Go through the process you would for any professional you are adding to your association’s team – check to make sure they are credentialed (they have an RS or PRA designation), check references, and review samples of their work product.

Q: Is GIS a good place to list all assets then pull for reserve components?

A: “Geographical Information System” mapping may be a good idea for larger associations, trying to keep track of how many light poles, walking path bridges, waste containers, park benches, etc. they have scattered across their acreage. For budget purposes, they should appear in the Reserve Component List. It may be wise to “tag” all their locations on a map and cross-reference to their Reserve Component # (bridge #42, light pole #53, bench #13, etc.).

Q: Are spalling repairs a legitimate Reserve expense? Concrete is expected to last a long time, however the repair cost is crazy.

A: Spalling repairs are regularly a Reserve Component, or the cost of spalling repairs may be included within a regular repainting, waterproofing, or balcony resurface, etc. projects.

Q: How does the Required Insurance Appraisal support / work with the Reserve Study?

A: Reserve repair or replacement costs offset normal age-related deterioration. Insurance appraisal costs typically estimate the total cost of rebuilding. For instance, re-roofing will be a different cost than installing a new roof on a building that was lost due to fire. So, while the costs listed in the two documents may be different, the actual inventory of assets between the two lists should be consistent... e.g. 42 buildings, 2 pools, 135,000 Sq Ft of roofing, 8375 Linear Ft of perimeter wood fence, etc.

Q: Can we reserve for partial repair of our sewers versus full replacement?

A: Yes. When it is not possible to identify the timing of a full sewer replacement, it is often possible to identify and responsibly schedule partial replacement projects.

Q: 0.5% to 1.0% for threshold seems awfully low, especially for an HOA our size (\$65,000 dues annually). Comment?

A: That guideline is for a “typical” association and does not scale well for all associations. Find a number that helps you decide between what is trivial and what is significant at your association.

Q: Wouldn't UL change with time for reasons like improved technology?

A: Absolutely. With some assets, the UL increases over decades of improved technology (or material). With other assets, the UL decreases due to the rapid pace of technological advances or “great” materials used previously that we now know to be dangerous (asbestos, paint stabilizers, etc.).

Q: Are there standards for UL on things like trees and irrigation systems? If so, where do I find them?

A: There are “standards” (perhaps best characterized as “starting points”). Research with repair and replacement manuals or handbooks, or with your association’s service provider. Of course, these estimates are established by your local independent credentialed Reserve Study provider.

Q: Any further guidance on small associations would be helpful to me.

A: By nature of their small size, small associations require more involvement of their owners, and they fail to benefit from “economy of scale” lower costs that are found in larger associations. Expect that as a board member, you will have to be a lot more “hands on”. The benefit of this is that you will have a greater influence on the future of your Association.

Q: Would brickwork and pointing for sidewalks and stairs be considered annual maintenance or part of the reserves? It seems every spring after the winter we are repairing damage. So is this operating funds or partial replacement from reserves?

A: Significant annual projects may be Operational or Reserves. If the project passes the NRSS four-part test, it may boil down to tolerating a big lump cost in your monthly Operating budget (where you look way under-budget until you execute the project, then you look way over-budget after the project), or planning an annual expense in your Reserve Study (where larger projects may be less disruptive).

Q: Is the cost threshold the amount we predict will be needed annually as a partial replacement or the total amount which may never be needed.

A: The annual expense. If you are repairing sidewalks for \$1000/yr, and that has been working just fine for you, then that’s the figure to deal with, not the \$100,000 of “total sidewalk replacement” that you’ll never face (due to repairing the sidewalks locally for \$1000/yr!).

Q: If the sewer system was never part of the reserves, and now we are a 40 year old facility, can and how would we add to our reserves? This would be almost a \$4mil project if we did it all at once.

A: Check with your plumbing provider and Reserve Study professional. If a total replacement project is warranted and reasonably anticipated, get it in your Reserve Study ASAP to maximize the # of years available to plan ahead for this large project. But if smaller local or partial repairs are the wise course of action, get those projects

into your Reserve budget. Not all projects are readily predicable in the early years of an association's existence.

Q: I understand the difference between the Component (aka "straight line") and Cash Flow (aka "pooled") method of developing a Funding Plan. Is there an analytical way, algorithm etc. to calculate a Cash Flow method result? I've tried a simple - 3 component example, and can do a trial and error but cannot figure out an analytical way to calculate a Cash Flow result with an equation.

A: The nature of the two methodologies are different. The Component method relies on formulas, calculations done on each component and then the results added together. Cash Flow fundamentally relies on "trial and error", because it pitches a solution against a set of expenses through the years. See more about the differences, and many advantages of the Cash Flow method [here](#) and [here](#).

Q: How do you deal with components such as electrical & plumbing in reserve studies? Any projects that break into the walls where these are don't seem to be able to be done in our community.

A: Destructive testing (intrusive inspection involving penetration of existing surfaces) is not an expectation in component evaluation. Until a project becomes "realistically expected", it remains unknown. But that is no excuse for doing an incomplete job. Sometimes there are revealing "telltales" giving the board or Reserve Study preparer an idea that something is upcoming, warranting further inspection (a rising # of pinhole plumbing leaks, circuit breakers tripping at a more frequent interval, etc.).

Q: As a Board Member, why should I be billed now for a reserve item 20 yrs or more down the road when I won't be here?

A: No one is being billed for expenses far into the future. The nature of Reserve funding is to offset ongoing deterioration. Month by month, Reserve contributions are designed to offset the deterioration that occurred on Reserve Components that month. When you take care of the present like this, the future takes care of itself.

Q: We have fiber cement siding replacement as a component for our townhomes. If we need to make a siding repair rather than full replacement, how do we decide whether it should be a reserve expense or operational expense?

A: It is minor if it falls below the association's financial threshold cost of significance and should be funded from the Operational budget. It comes under consideration for a Reserve expense if doing the project extends the Useful Life or Remaining Useful Life of the component (in other words, if it changes the Reserve Study, use Reserve funds).

Q: We continually debate the inclusion of Storm Water Systems inclusion in a study. Our experience is that they do not have a useful life of 100 years. Failures can occur at any time depending on the quality of the install or joint failure due to roots from landscaping. We have over 50 miles of drainage pipes and structures installed over the past 30 years. We never know how much to budget or set aside for future years so we have decided to use a useful life of 1 year at \$50,000 per year. Then we use that amount as an individual bank account year to year. If we go negative for a couple years then we will bump up the yearly Reserve Study funding for future years. Do you endorse this approach?

A: That sounds like a very typical (normal?) Reserve "allowance" component. It is common area, it is life limited (you experience repeated costs), it has a predictable Remaining Useful Life (it is wise to do every year), and the cost is significant (I expect \$50k is significant to your association!). I'd simply consider it a Reserve component.

Q: Our fences have been installed as new over the past 30 years. Do we need to have 30 line items for fence since they all have a different remaining useful life?

A: That would be a mess. Presuming it is a wood fence with a Useful Life of 20 years, perhaps you divide it into four phases... doing ¼ of the fence every fifth year. You could do that with four line items (Phase I, UL=20, RUL = 15, then Phase II, UL =20, RUL = 10, etc.), or you could manage it as an allowance, ¼ of the fence being replaced every fifth year.

Q: Re: Future cost estimates. How great an impact is created by building code upgrades where older buildings are involved?

A: Generally not too much. Building code changes typically affect few components. Do your best to plan for what you know, so only true surprises will unsettle your budget.

Q: In between Reserve Study visits, do we just make a note of updates to the component list and present them to the visitor or how to get them onto our Reserve list officially?

A: It is best practice to keep a list, or log, or Reserve projects that are accomplished at your property. That information is very helpful should there be questions about what actually happened (what grade of roofing material was used and was that on only building A or building A and B?), when, cost, and who performed the work. All this is useful in updating Useful Life, Remaining Useful Life, and replacement cost estimates. Keep in your Reserve Study file, or with your budget materials.

Q: You showed a picture of pipes in a garage. How does that factor as a reserve item?

A: Major re-piping projects often qualify as a Reserve project if that project passes all four elements of the NRSS [four-part test](#).

Q: Going back to the parking garage example, why is the concrete not a Reserve component?

A: Because it fails test #2 and #3 of the NRSS [four-part test](#) (no well-defined Useful Life and no predictable Remaining Useful Life).

Q: Doesn't the replacement cost of a reserve item go up over time? Does the replacement cost in the study increase every year?

A: Yes, we have every expectation that costs will rise due to inflation. A Reserve Study is a budget preparation document for one year. It is able to give guidance for that one year by looking ahead 20 or 30 years. But it fundamentally needs to be updated regularly, as every year the costs change, the Reserve balance changes, and the economic environment changes. The Component List shows the expected current total cost for the project *in the year the Reserve Study was prepared*. Based on that starting set of costs, typically your Reserve Study provider will inflate those costs in the development of the multi-yr Funding Plan (so the right amount of funds will be ready in the right year at some point in time in the future).

Q: When do you begin accruing Reserves for a new asset? At the middle? At the end?

A: Reserve contributions are designed to offset ongoing deterioration. Reserves should begin being set aside for the component's eventual future replacement as soon as it is newly installed.

Q: What is considered a minimum cost?

A: That depends on the combination of the size of your association's annual budget, and your management style. We have smaller clients where the board (or manager) signature authority is \$500, so anything above that becomes "significant". We also have larger clients where the board (or manager) doesn't want to be bothered by anything under \$10,000. They feel that is the maintenance crew's job to handle such things. For most (but not all!) associations, that threshold of significance is around the .5% to 1% of total annual budget range. So, for an association with a \$250,000 annual budget, that threshold of significance might be found in the range of \$1250 - \$2500 (a thousand or two...).

Q: If you put in deadbolts due to security breaches can you use reserves even if not in last assessment?

A: You're forcing us to make some assumptions. If this is just a clubhouse door, we expect installing a new deadbolt would be a minor operational expense. But if this is new door hardware for all 100 units (for which the association has maintenance responsibility), consider it a "capital improvement" inappropriate for use of Reserve funds (it is new, it is not a replacement of something that existed). But... if all that door hardware is scheduled for replacement this year, and the deadbolts are part of that scheduled renovation project and can be considered the natural evolution of the asset (since the neighborhood has evolved to render deadbolts "appropriate"), then it could be an appropriate expenditure of Reserves. All that to say - "Check with your Reserve Study provider"!

Q: We have replaced appliances, and countertops, and flooring at various times for our clubhouse kitchen, but we want/need to update the whole kitchen including sink and cabinets which are not in the reserve study. How can we do this whole project through our reserve study?

A: Some projects are best handled as total renovation projects, not handled piecemeal as multiple separate projects. Fold them all into one "renovation" component and do what needs to be done.

Q: We have 200+ trees in our community on streets by sidewalks as well in tracts. We have in our reserve tree maintenance, what about tree replacement?

A: Look at your expense history, and perhaps consult with your arborist. It is likely tree replacement qualifies for partial replacement, a few trees every few years, as a legitimate Reserve Component.

Q: What would a UL (and RUL) be for refurbishment of landscaping perennial plants?

A: Consult with your landscape maintenance team. It may be wise to plan for replacement of an entry hedge, your turf, perhaps even refreshing your landscaping layout (installing plants that require less water...). It is not uncommon for such to be done on 10, 15, 20, or 25-yr UL intervals (with RUL based on installation date or current condition).

Q: If we identify a new component that is not in the reserve study but should be (it passes the NRSS four-part test), can we use reserves to pay for the project and then add it to the Reserve Component List next time our reserve Study is updated, or does it need to be in the reserve study first?

A: The definition of a Reserve component is if it passes the NRSS four-part test, not if it appears in your Reserve Study. Reserve Study preparers are fallible, and (I hate to admit it) my “crystal ball” doesn’t see all things in the future clearly. Look deeper in the report and see if it is captured somewhere in the study. Check with your Reserve Study provider of course, but you should feel comfortable performing the project with Reserve Funds, then updating your Reserve Study that year to add that project for next time, and to rebalance the Funding Plan now that your Reserve Fund is lower than expected.

Q: What does it cost to get a Reserve Study Updated?

A: While a Full Reserve Study is the most expensive Reserve Study product, most associations only face that expense once. All the rest are updates. Expect a With-Site-Visit Update to cost 50-80% of a Full Reserve Study, and most associations can expect a No-Site-Visit update to be significantly less, in the range of hundreds of dollars. Click [here](#) to launch a no obligation proposal request for your association to see your cost choices. If you are not sure which Level of Service is right for your association, watch [this](#) short video.

Q: With many properties looking into Solar, what assets related to Solar should be allocated?

A: Consider the cost of the system (which varies between flexible solar hot water tubing, and fixed solar hot water panels, and various solar electric systems), and consider the cost of the roofing on which it is mounted. The cost of that roof replacement will also likely be significantly more expensive than if the solar system had not been installed. Solar panels and inverters (For electric systems) and pumps (for hot water systems) have a useful life, a predictable remaining useful life and are often above the cost threshold of most associations.

Q: Please clarify your thinking on a project being a Reserve project or an Operating project.

A: Let's take a common example... pool-side furniture. The choice could come down to how you've been dealing with that furniture. If you've been replacing a piece here or there through the years, perhaps you've already decided to manage this asset from your Operating budget. If all pieces are in generally the same condition, then it could easily be a Reserve component. But... if yours is a large association and the cost of a few pieces of pool-side furniture is insignificant to your association, then it bounces back to the Operational budget.

Another example could be tree trimming. If your current landscaper manages your trees every year as part of their ongoing contract, it is clearly Operating. But if you change to a less expensive landscape maintenance company that does not manage trees, you may need to hire (budget for) a tree trimming project every year. That could easily pass the four-part test if you're talking about thousands of dollars for annual tree trimming.

Q: For the purpose of affordability, what percentage is reasonable for a Partially Funded Reserves?

A: The measurable risk of a special assessment rises significantly when an association's Percent Funded drops below 30%. On the other hand, the measurable risk of a special assessment is close to zero once the association's Percent Funded is above 70%. But in answer to your question, the difference between contributions that "Fully Fund" your Reserves and those that only barely cover upcoming costs (Baseline Funding) is only 13%. And remember, that's only the difference in Reserve contributions, which are already only a fraction of your total budget. So you don't save very much cash by lowering your Reserve contributions and inviting special assessments. Remember – the expenses will occur whether you have the cash in your Reserve Fund or not.

Q: We installed a metal roof that should last 60 years. Should our Reserve Study go out 60 years?

A: Most Reserve Studies only show income and expenses for 20 or 30 years (a minimum of 20 years is required in National Reserve Study Standards, or NRSS). But Funding Plans based on calculated deterioration (the Fully Funded Balance) anticipate expenses past the “window” being displayed. Whether it is a metal roof, seawall, or other “long life” component, ensure that your Reserve Funding Plan is preparing for that future expense so all owners enjoying that asset pay their fair share of its ongoing deterioration.

Q: Correcting quantity in component list (asphalt square feet)?

A: Asphalt is sometimes measured in Square Feet or Square Yards. The common convention varies by region in the country.

Q: When a common area component is destroyed by fire and was underinsured, should the uninsured costs be funded from the Reserve Fund?

A: No. Special Assessments are the vehicle to fund “surprise” expenses. Reserve expenses must meet the NRSS four-part test, and fire damage doesn’t meet that test.

Q: Can/should Insurance payments be included in the Reserve items?

A: No. Deductibles fail test #2 (Useful Life) and #3 (predictable Remaining Useful Life) of the NRSS four-part test, and premium payments fail test #2 (they are not related to anything with a Useful Life).

Q: It is difficult to determine lifespan of trees; would replacement of overgrown trees be one of components?

A: Yes. Pruning, thinning, or replacement of trees can pass the NRSS four-part test. Consult your arborist for insights.

Q: On the sump pump - the backflow check valve was recently replaced - did that come out of Reserves? And on the hall ventilation fan - it is "fixed" every year but the motor replacement is a Reserve component, correct?

A: Regarding examples in the webinar, we are presuming that minor expenses (remember that “minor” depends on the size of the association) are handled from the Operational Budget. So backflow check valves, sump pumps themselves, ventilation fan motors, all depend on the component expense and the “threshold” at the association.

Q: A high-rise building with a concrete barrier enclosing the balcony, how would you Reserve for spalling which starts cracking the concrete due to rusting rebar?

A: Unfortunate. Engage an appropriate repair specialist to establish a repair scope of work and estimated replacement cost. Figure that if it happened now at 32 years old, it will likely occur again in another approx 30 – 35 years. So give it a 30 year Useful Life, Remaining Useful Life of 0 or 1 (depending on what the specialist says), and add “Balcony – Concrete Repairs” to your Reserve Component List.

Q: We are 30 year old association of 2500 single family homes. Our common area landscaping (plantings) are old, outdated and overgrown. We are employing a professional landscape architect for a new design requiring total replacement (plants, lighting, irrigation). How many components would this require? And is it even a reserve component?

A: Quite possibly three or more. It may require one or more planting components, one for lighting, and one for irrigation. These are clearly common area issues, so with a Useful Life interval, and something at the end of its Remaining Useful Life (RUL=0), and with a cost provided by your professionals, you are set to add a few components to your Reserve Study.

Q: If we do a professional Reserve Study with you, is there an online update option?

A: Yes. We have a new tool being introduced in 2020 called uPlanIt. It is the same online Reserve calculator tool enjoyed by our clients, but we are also launching it on a subscription basis as a stand-alone easy-to-use (and inexpensive) “updating” product. But note that uPlanIt does not replace or produce a Reserve Study; it is a tool used to play with numbers and see updated calculations.

Q: One thing I've noticed is that fire sprinkler pipes (risers) and fire alarm panels are not added to the reserve study. Why is that?

A: Fire Alarm Panels (systems) regularly pass the four-part test. Because it is typically difficult to establish the Useful Life (or Remaining Useful Life) of fire sprinkler pipes themselves, they regularly do not appear in the Reserve Study.

Q: Can you reserve for landscape in an association HOA?

A: Yes. Landscape components regularly pass the four-part test.

Q: If you have repeated historical insurance claims could you not reserve for deductibles? i.e.: D&O deductibles

A: No. Insurance claims are by definition for “accidents”, not scheduled or budgeted events... and you can’t schedule your accidents! So deductibles, whether for Property damage or D&O claims, fail the four-part test and should not appear in your Reserve Study. And if you have repeated D&O claims, make some procedural changes to lower your risk of claims!

Q: Should we have multiple Components for our complex roofing system?

A: You should have separate Components for each aspect of your roofing system with a different Useful Life or Remaining Useful Life. This may mean different components for different phases, different components for different roof types/materials, or different components for different projects (replacing the roof, replacing the gutter, reseal, replace snow-melt, etc.).

Q: Should long-life infrastructure assets like storm drains, curbs and gutters, and sidewalks be included?

A: Yes, if they are the maintenance responsibility of the association, and if you have reasonable expectations for their Useful Life, Remaining Useful Life, and Repair/Replacement Cost. Otherwise, they are unknowns.

Q: In our community, history has shown that we like to improve our common areas (additional refrigerator, new cabinets, greenhouse), so we have a component called “Improvements” that we project with a 1-year useful life so we add the replacement value to the reserves every year. Do you see a problem with that?

A: Yes. Reserves should be for projects meeting the four-part test. New additions to the association fail test #1, as they are not (currently) common area maintenance responsibilities. Such expenditures should not be listed in your Component List, and be funded with Reserves. Have this line item in your Operating budget.

Q: One of the biggest issues affecting my HOA is how do we properly fund for the unknown, when there are so many other immediate needs each and every year?

A: You can’t predict the unknown. Reserves are the domain of major predictable common area expenses. Special assessments are for true surprises (unknowns). If you identify all the

predictable expenses, and there are plenty, then you limit the number of “unknowns” to which you have legitimate exposure.

Q: Is there any way to budget or account for plumbing? Specifically failing drain stacks and lateral lines.

A: Certainly. As soon as you have a “reasonable expectation” about the Useful Life, Remaining Useful Life, and Repair/Replacement cost of the project (the scope and schedule), include it as a Reserve component. Interview your plumber for insights.

Q: Our plumbing repairs are reaching \$50,000 per year... Although we cannot predict exactly where the repair need will occur, we know they will occur... Should we be adding this to our reserves?

A: With that much in expenses, it sounds like you have some real issues. Put your Reserve professional in touch with your plumbing vendor to establish a multi-yr plan.

Q: How do you identify components that are hidden beneath floors and in walls in high-rise building, whose existence is not very obvious?

A: Those are difficult to estimate. “Hidden” components are technically outside the scope of a Reserve Study. But often there are indicators... plumbing leaks, wiring beginning to be irregular, etc., or taking advantage of someone doing a remodel or an adjacent repair project to do some investigating.

Q: There was a mention about tree trimming every 3 years or something...could tree trimming be added into the reserve study to trim X amount every 3 years but also still have a line item in the operating budget for additional tree trimming that may come up within the year that the reserve study didn't have the trimming scheduled for?

A: Reserve components can be complementary to Operating budget line items. For instance, some associations will replace a piece of pool furniture from the Operating budget, while replacing the entire set every X years. Similarly, you can schedule tree trimming (for instance) every 3 yrs but have the arborist do some pruning/cleanups after a wind-storm as part of the Operational Landscape budget.

Q: What's the best method to account for the true cost of rolling items (i.e. irrigation controllers, tree trimming) where the entire cost will be spread out in both multiple years, and in irregular amounts each year?

A: Sounds like you are talking about complementary line items, one in the Operating budget and one in Reserves. In some cases, this is the best modeling.

Q: I'm looking at a study that shows a new component line for a major building renovation, where most if not all the individual elements of the renovation are already shown on the component list on individual lines. The new line item shows no life cycle. Is this a legitimate component? It has an associated cost on the new line and is planned and scheduled.

A: Sounds like a “section header”, not a component. Perhaps it is a summary of the individual line items shown in detail? Every Component should have a specific project description, Quantity/Description, Useful Life, Remaining Useful Life, and Current Replacement Cost.

Q: How do you predict useful life which is in conflict with national standards (due to local characteristics).

A: National Reserve Study Standards require there be an appropriate Useful Life, Remaining Useful Life, and Current Repair/Replacement Cost for every component. That is the national standard. The unique scope and schedule for your Reserve Components should be different, and more accurate, than something found in a national estimating guidebook. Those aren't “national standards”. Those are just starting point estimates.

Q: If components qualify and use current costs, should the costs be based on an average of multiple estimates? Should the annual update get new estimates?

A: Both are good ideas. In our Reserve Study we show high and low estimates to help bound the expected range of the expenditure. When just using one number, use an average. Update that expected cost every time you update your Reserve Study.

Q: A 30 year horizon would be safe, but how does one take into account of advances in technology that will take place? After all, 10 years ago there was not any iPhone.

A: For technologically sensitive items (access-control systems) or aesthetically sensitive items (lobbies, clubhouse), anticipate the frequency that new assets would be appropriate. It is reasonable to expect that technological improvements will continue, and styles will continue to change. It doesn't have to physically “fail” to need to be replaced. And to your point, you don't know exactly what will be “newer and better”, but you can reasonably anticipate the timing for such an expenditure.

Q: Can you repeat the statement about completing projects during some time frame (was it: in the initial year of the study)?

A: I'm not sure of what you're asking specifically, but the objective of a Reserve Study is to have the money ready so projects can be accomplished when they need to occur. Note that

when you expect a project to be done “now”, the Remaining Useful Life is zero. That is commonly called the “initial year” of the Reserve Study.

Q: Are decor & furnishings in common areas a component? If yes, how is useful life determined?

A: Yes. Useful Life and Remaining Useful Life are commonly cycled with other remodeling projects (hallway carpet and paint).

Q: Is repainting of a brick condo the responsibility of the board and should be a planned reserve item?

A: The answer lies in the four-part test. Look to your governing documents. Typically exterior building envelope issues on a condo are Reserve components.

Q: Could you comment on reserve items that are 50 years but money is only set aside for the last 30 years? Is that fair to all participants?

A: It is fair that everyone enjoying and using a component pay their fair share. Thus it is best practice to begin funding for a 50-yr component over all 50 yrs, not wait until the “last” 20 or 30 yrs to fund that project. Note that if the Useful Life & Remaining Useful Life are too far into the future to be “reasonably certain”, then it is appropriate to wait until the scope and schedule of the project begins to become clear.

Q: How do you ensure that the estimated cost is based on the last actual?

A: We ask the client for their cost history, and incorporate that information. That’s the value of keeping good records!

Q: We have a number of components that don’t seem to meet the minimum cost test. Should we work with our Reserve company to remove those items? Do we need to start using Operating funds to deal with those items once they’re removed?

A: Yes. You shouldn’t have trivia cluttering the Reserve Study, items that are most appropriately handled through the ongoing Operational maintenance budget. Anything in the Reserve Study should pass the four-part test.

Q: How do large-scale associations, with 50+ miles of underground, submerged, storm water drainage typically handle drainage pipes in the component list? As an allowance? Each drainage pipe listed individually?

A: Since the location is unknown, typically those types of items are handled as an allowance: presume an average of X \$ every Y yrs.

Q: What is the best approach if a special assessment or a loan is needed?

A: When confronted with the truth of the need for supplemental funds (special assessment or loan), present the situation to the members and outline your plan to care for the needs of the association. Sharpen your political and sales skills, you may need to convince a majority of owners that you have a good plan!

Q: What happens when roof replacement reserve is ½ of the actual cost?

A: Spend the necessary funds. Expect that the unused Reserves will be re-allocated as necessary, and update your expectations about roof replacement cost in your next Reserve Study update.

Q: How are replacement costs determined? I have found many reserve plans with underestimated items (we find out when it's time to solicit proposals).

A: Typically your Reserve professional is aware of current costs due to seeing them in other clients. Other resources are historical “actual” expenses at your property, the experience of neighboring properties, knowledgeable association vendors, and national estimating guidebooks.

Q: Is anyone talking about having to add an electric car recharger to the parking lot?

A: Yes. The addition of an EV recharging station will be a Capital Improvement, but once added it will likely pass the four-part test and become a Reserve component.

Q: Our operating expenses don't leave enough to put aside reserve savings. HOA members refuse to vote for a regime fee increase, we have no allowance for assessments in our governing docs. Where can we start saving to implore homeowners for future planning?

A: Raise assessments. Sounds like you need to increase association income. Build the case that it's either a little bit along the way (Reserve contributions), or a special assessment. The expenses will always occur. If dodged, a deteriorated property just drags down property values far in excess of what it would have cost to maintain the property.

Q: Is pooling reserves recommended for Condos? Should the switch to pooling be approved by membership?

A: We highly recommend Pooling (the “Cash Flow” method), as it more effectively uses Reserve funds through the years, allowing them to be used where needed without being held

in different separate “fund balances”. We address this subject in our Reserve Studies 103 webinar.

Q: We have an ongoing debate as to whether or not our tree pruning and palm tree pruning can be in the reserve vs operational budget. Does it make a difference whether we prune all palms every year or split them in half each year.

A: No more debate. If a project passes the four-part test, it is a Reserve component. The expense doesn't change... it is just handled more appropriately from Reserves if it is a Reserve component (because it is predictable, the funds are ready to execute the project and the expenditure doesn't unsettle the Operating budget when it occurs). Check with your arborist to see what is best for your trees/palms, and model the expense appropriately.

Q: Are there laws that restrict the use of Reserve funds to specific types of projects?

A: No. The definition of what you can/should spend Reserve funds on is defined by the National Reserve Study Standards ([NRSS](#)) four-part test. Some states require Reserve Studies address at least a short list of specific components (or disclose the reason for their omission). But those are minimum standards. You can and should create components for all items/projects that are appropriate for Reserve designation, and you should not spend precious Reserve funds on non-Reserve expenses. Note that some states have appropriate laws requiring Reserve funds be used only for Reserve projects, unless those funds can be repaid to Reserves within a stipulated period of time.

Q: Can we pay for a Reserve Study with Reserve Funds?

A: Typically the cost of a Reserve Study fails the NRSS 4-part test due to not being a common area maintenance responsibility and falling under the minimum cost threshold of significance. A Reserve Study is a professional service, more akin to accounting, tax, or legal services best handled in the ongoing Operational budget.

Q: Should we Reserve for entire building replacement in addition to component (roof, siding) replacement projects?

A: No, only individual projects that meet the NRSS 4-part test.

Q: Do you have and use a master component “punch list” with typical Useful Life expectancies and Replacement Costs?

A: We have company guidelines based on our experience, but each Reserve Study we prepare is a custom document, with the Component List based on the NRSS 4-part test, with Useful Life and Current Replacement Costs based on the local environment, weather, maintenance patterns of the association, owner usage patterns, economies of scale, quality of materials, etc. We have some competitors who quickly move through an association with a “punch list” and as quickly pop out a cookie-cutter Reserve Study, but it doesn't approach our accuracy and it's not considered “best practice” in our industry.

Q: Is it best to do a large project a piece (phase) at a time?

A: It depends on cost and the association's Reserve Fund. In many cases, doing a large project yields discounts due to economies of scale, but it requires the association have significant funds to get it all done at once. If cash is tight, a large project can be phased, but it often results in higher costs and longer periods of physical disruption at the association.

Q: If a credentialed Reserve Study provider is asked to perform a reserve study without viewing the property using only Assoc. provided data, should they accept?

A: A credentialed professional should not accept an assignment which they feel they cannot complete reliably and responsibly. The scope of work of a "Full" or "With-Site-Visit Update" Reserve Study requires a diligent visual site inspection. If the scope of work is a "No-Site-Visit" update to a Reserve Study prepared by another credentialed professional, lack of a site inspection should not be a problem.

Q: Once you have a reliable Reserve Study, can a different Reserve Study provider "update" that report?

A: If the initial report was based on NRSS, yes.

Q: In changing Reserve companies, how much information should be transferred from one to the other, or should a new "Full" Reserve Study be performed?

A: If the prior Reserve Study was prepared according to NRSS, then any credentialed Reserve Study professional should be able to perform an update as one of their normal engagements. Simply provide the new provider with a copy of the last Reserve Study (or two or three). There are enough disclosures required by NRSS that movement from one provider to another is quite possible.

Q: Is it in the best interest of the association to have one company consistently prepare/update the Reserve Study?

A: Consistency typically provides the association with efficiency, which often results in cost-savings. If there are quality concerns, or if the current provider is not credentialed or following NRSS, it may be wise to upgrade to a more capable provider.

Q: We've never had a Reserve Study performed, and don't think we have the funds to have one performed. What should we do?

A: Raise the funds to have one performed. It is part of the cost of running the association. Click [here](#) to get a free online proposal. I believe you'll be surprised how affordable it is.

Q: Can a board ask a credentialed Reserve Study provider to include tree maintenance and plumbing repairs as reserve components?

A: Yes. We welcome suggestions from our clients. We will evaluate including those suggestions on the basis of NRSS and our experience with the property.

Q: What do we do if re-piping does not appear on our Reserve Component List?

A: Check with your Reserve Study provider. It may be because the scope of the potential project, Useful Life, Remaining Useful Life, and Repair/Replacement cost has not reached the level of “reasonable certainty”. As long as it is still just a “guess”, it doesn’t belong in the Reserve Study. Remind your Reserve Study provider to re-evaluate the project for inclusion at the time of your next update.

Q: Does having a Reserve Study bind the Board to legally follow its recommendations?

A: No. A Reserve Study is a third-party professional’s recommendation. It is not binding, but the board should have a good reason to not follow its recommendations or there may be significant liability exposure based on “business judgment rule” exposure.

Q: If the association has a windfall of funds, should those funds be deposited in the checking (operating) account or Reserves?

A: Wherever the budget deficit is greater. If the association has a balanced budget (able to pay their Operational Budget bills), then the funds should go into the Reserve Fund. Additional funds are regularly welcome there, as most associations have underfunded Reserves (see article [here](#) on underfunded associations).

Q: What if you have a complicated facility like ours, with Resort/Conference and part fractional/residential? Are there software solutions?

A: Every ownership group should be funding to offset deterioration of the components they are responsible to maintain. This may mean for your association you may need two or more separate Reserve Studies (Resort/Conference, fractional/residential, etc.). No specialized software is needed. Just create separate Reserve Studies so each ownership group can see and understand its upcoming financial obligations.

Q: What do you do with very long life components, over 30 years away (concrete drain pipes, concrete seawall, etc.)?

A: If there is no reasonable or foreseeable end-of-life, the project doesn’t qualify for Reserve Funding. If there is deterioration due to wear and tear (or maintenance or abuse), there should be a Reserve Component for repairs or partial replacements so owners can offset the cost of deterioration over the (long) life of the component. There is no threshold limit to how far away one should plan for a Reserve project. As soon as the four-part test is satisfied with a reasonable certainty, you should begin planning for (and contributing towards!) that far away project.

Q: Our HOA is responsible for the water pipes and sewer pipes. Is it true that because the useful life is so long those are not part of our component list?

A: No. Remember that an asset must pass the NRSS 4-part test to be considered appropriate for Reserve Funding. If you can reasonably establish the Useful Life, Remaining Useful Life,

and Current Cost of a repair/replacement project, it should appear as Reserve Components no matter how long the Useful Life or Remaining Useful Life.

Q: What do you do about an “Insurance Reserve” budget line item?

A: Typically an “Insurance Reserve” is a set-aside from the monthly budget to pay for insurance premiums that are irregularly spaced through the year. Those are Operating budget cash flow issues, not Reserve Fund issues.

Q: Is it appropriate to Reserve for out of date finishes or aesthetics?

A: Absolutely. See an article [here](#) on different types of Reserve component “failures”, such as aesthetic obsolescence.

Q: What is deferred maintenance?

A: A project that is delayed past when it is due to be accomplished, typically due to inadequate funds or indecision. The typical result is a higher project cost due.

Q: What would a professional Reserve Study cost for our association?

A: Spend 3-5 minutes at your convenience providing us some basic information on our online [proposal request](#), and you’ll likely be pleasantly surprised how cost-effective a professional Reserve Study can be. Remember that most associations only need one “Full” Reserve Study (the most expensive Level of Service). After that, the association can enjoy one of two less expensive types of updates.

Q: You indicated in the fourth test for a Reserve Component, that it is often above the range of .5% - 1% of the association’s total annual budget (Reserve contributions included). Is that the same for an association with a tight budget?

A: Yes. All association budgets are tight.

Q: Do you have more content... more detailed information on calculating Reserve Fund Strength, or calculating an appropriate Reserve Funding Plan?

A: Yes. Please visit our [Resource Center](#) for articles on the above subjects, visit our [Webinars](#) page for recorded webinars on those topics, or download one of our [ebooks](#). I recommend our Reserve Study Basics webinar, Reserve Studies 102 (the Financial Analysis) or Reserve Studies 103 (the Funding Plan). All three of those recorded webinars compliment this program.

Q: How do you identify Current Replacement Cost?

A: Typically we have enough clients that we track a database of “actual” client projects, so we can apply those true “actual” costs to another local association. In the absence of that information, we research costs with trusted local vendors (those serving the association are

often very helpful), or as a last resort, national construction or remodeling estimating pricing guidebooks.

Q: How do you establish Useful Life and Remaining Useful Life?

A: Our experience, observed condition, level of maintenance, and age, to name a few considerations.

Q: When a component reaches a RUL=0, must you replace it? For example, a pool heater that has RUL=0 but is still working.

A: No, you don't automatically replace a component when the RUL hits zero. Please see [this](#) document. But be sensitive to how to treat [different types](#) of components when they approach or hit RUL=0.

Q: Our Reserve sub-accounts appear to be tailored to the Component List of an earlier Reserve Study. The accounts do not match the latest Component List. Can sub-accounts be eliminated and have just one account for all Funds?

A: We recommend every association consider their Reserve Fund as one pool of cash available to all Reserve projects, not subdivided it into different accounts or funds. See an article [here](#) on the subject.

Q: Should we Reserve for plumbing in the common area, possibly exclusive common area wall?

A: That may need some legal clarification depending on your type of association, but for condominium ownership, generally assets that join together with other common area assets [in common areas](#) (not just the drain trap under your sink, or your toilet, which are both [within your unit](#)), are the maintenance responsibility of the association. So if it passes the NRSS 4-part test, it should be included in the Reserve Study.

Q: If I find out something new about a component, or if something changes, should I update my Reserve Study mid-year?

A: No. A Reserve Study is an annual document. We recommend keeping a file of Reserve expenditures and suggested changes (additions or deletions), that would be used in the process of updating the Reserve Study for the next year.

Q: Here in Colorado we get a fair amount of hail and very rarely actually pay for a new roof. Should we therefore reserve for the insurance deductibles or the entire cost?

A: The entire cost. Set aside funds for projects that are appropriate for Reserve funding (per the NRSS four-part test). You may not be so lucky (?) to have a severe storm that yields new roofs paid by insurance proceeds (minus your deductible). Because a storm's timing can't be predicted, an insurance deductible fails NRSS test #3, so a large insurance deductible shouldn't appear in your Reserve Study. If a storm damage does happen, a proportion of your

Reserves that have already been collected for the purpose of roof replacement could be used to pay the insurance deductible.

Q: If you don't know the cost of a component, do you recommend asking a vendor?

A: Absolutely. Take advantage of the knowledge of the vendors who serve your association. Your roofer, painter, or elevator service company should have no problem giving you a rough figure for budget purposes.

Q: How often should you update your Reserve Study (including the comp list)?

A: Annually, because components and costs are continually changing. By the way – associations that update their Reserve Study every five years enjoy a 35.1% drop in special assessment frequency when they begin updating annually, and associations updating their Reserve Study every three years enjoy a 28.5% drop in special assessment frequency when they begin updating annually.

Q: Can our association choose to perform a Reserve Study in-house, and if so, what are the pitfalls to watch out for?

A: Can you do it yourself, absolutely. An Update is much easier to do in-house than the original “Full” Reserve Study. Presuming you use some commercial software compliant with NRSS (consider a subscription to our uPlanIt web-tool, available mid-2020), the pitfalls are getting all the right components, getting accurate information for those components (skills the Reserve Study professional provides naturally), and lack of independence and credibility that help Reserve Study results get adopted.

Q: How do you determine whether an asset is the responsibility of the association, the individual homeowner, or perhaps a neighboring property?

A: Check your Governing Documents. If that doesn't provide an answer, meet with your attorney and establish a well-documented precedent (commonly called a “maintenance matrix”) to answer that question from that point forward.

Q: Reserve study standards seem to say if you can't accurately predict a replacement cost/time, you should ignore it rather than risk being wrong. Common sense tells me that a best guess about replacement cost/life of an underground plumbing system is likely far fairer to owners and more prudent especially for costly items. Why not make a best guess?

A: If you have reasonable confidence of the Useful Life, Remaining Useful Life, and Current Replacement Cost as a “good estimate”, then include it in your Reserve Study. Don't feel you have to know things with “certainty”. Good estimates are welcomed in the Reserve Study. But the Reserve Component List is no place for guesses. Guesses only devalue the credibility of the other components by association. Besides – where do you stop with guesses? Anything that “could” happen? A Reserve Study is not perfect, it needs to be updated each year, but it should not contain guesses or wishful thinking.

Q: Should a Reserve Study have a contingency line item for unanticipated projects?

A: No. The Reserve Component List should be comprised of projects that meet the four-part test.

Q: What do you think of components that have been ascribed allowances - say a portion of the total cost?

A: Allowances are a great way to stay on top of repairs and replacements of some large association components.

Q: Should Special Assessment funds always be used for a reserve study item (i.e. Roof replacement)?

A: Special Assessments should be for surprises only, not a regular way to fund predictable Reserve projects where the Board irresponsibly failed to collect sufficient Reserves from the members on an ongoing basis. Special assessments are also sometimes used for unbudgeted Operational expenses or Operational budget overruns or surprises such as snow removal or repairs, insurance deductibles, legal bills, or unanticipated cost increases to major budget line items.

Q: If an HOA is in a deficit situation, unable to pay existing bills. Should we ever expend Reserves?

A: Questions like this will be addressed in Reserve Studies 102 and 103, but the quick answer is yes. If your association is down to a “survival” level, use the cash to keep the association from going into receivership. Spending Reserves on an Operating expense is a key indicator that your assessments need to be increased to a sustainable level – to pay for ongoing bills and to make appropriate Reserve contributions. Bottom line... raise your assessments.

Q: If an expense turns up that isn't listed on your Reserve Study, can you spend Reserve Funds on it?

A: Yes. If a project turns up that meet the NRSS 4-part test that doesn't currently appear on your Reserve Study, spend the funds from Reserves, and add the project to your Reserve Component List the next time the Reserve Study is updated. Note that this will likely result in an increase to your Reserve contribution rate.

Q: Could you comment on investment strategy of reserves from traditional "safe" investments versus moderate risk for a small percentage of our reserves.

A: This is covered in our Reserve Studies 103 curriculum, but the short answer is that your Reserve Funds should always and only be invested where there is Protection of Principal (POP) meaning no chance the value of the asset can go down.

Q: What is difference between statutory vs non-statutory reserves?

A: Statutory Reserves typically describe associations that are responsible to comply with state-required Reserve regulations (may depend on your type of association, when it was created, if the homeowners have voted to comply with state laws), often meaning a short list of components must appear in your Reserve Study. But whether a specific “short list” of components must appear in your Reserve Study by statute or not, components deteriorate. The board is responsible to provide for the needs of the association. Every association needs a Reserve Study and a Reserve fund, whether there are statutory requirements in place or not.

Q: What are the considerations for moving excess in the Operating fund over to the Reserve Fund?

A: Many responsible association accountants have taught me that a healthy Operating Fund balance is generally the size of two or three months income. Over that, it is prudent to consider transferring those “excess” funds into the Reserve Fund. Check with your tax preparer before doing so, as there may be some steps or resolutions involved in moving those funds.

Q: How do you convince a Board that a reserve study is necessary?

A: It is financially reckless to attempt to run a significant corporation like a community association without a Reserve Study, and such board members have a *significant liability exposure*. On a practical level, deterioration is ongoing. Lack of planning ahead results in a special assessment. Demand the board provide for the sustainability of the association (and your property values) by planning ahead for inevitable upcoming major expenses. Going without a Reserve Study is like attempting to pilot a ship into harbor on a foggy night without radar or a map. You’re going to hit the rocks!

Q: What experience do you have with Florida communities and how familiar are you with applicable Florida law ?

A: We have [14 offices scattered across the country](#), with one in [Florida](#) specializing in associations throughout the southeast.

Q: When it comes to plumbing (such as your garage example), is the current condition the determining factor in deciding if it is appropriate for Reserve funding even if it did not pass the four part test in the past?

A: The NRSS 4-part test is the determining factor for inclusion as a Reserve component.

Q: Who typically determines the preventive maintenance that must be done?

A: Preventive maintenance recommendations are beyond the scope of your Reserve Study. Appropriate, professional maintenance is presumed in the preparation of your Reserve Study. Preventive maintenance recommendations are typically provided by your knowledgeable manager or your association vendors.

Q: When good maintenance extends the life of a component more than stated in the Reserve Study, what do you do?

A: First, congratulate yourself. But make sure you are not extending the component's service inappropriately (optimistically!), which can get very expensive. But if the component is continuing to serve well, extend the Useful Life and Remaining Useful Life in the next update. There is no reason to replace something prematurely (just because the RUL hit zero). Read more [here](#) about how a component fails, and how to make appropriate replacement decisions.

Q: Do we need to document the good maintenance that is leading towards what we believe will be extended life, to “prove” it?

A: No “proof” is needed. Doing great maintenance is for your own benefit. Keep records, of course, so future boards are reminded to keep up this good practice, but there is no outside entity that you need to prove anything to.

Q: What is the typical percentage of total budget that associations typically need to set aside towards Reserves?

A: Almost all associations are need to be setting aside [15-40%](#) of their total budget towards Reserves to offset the cost of common area deterioration.

Q: Can you elaborate more on the minimum threshold cost?

A: Certainly. It is inappropriate to clutter your Reserve Study with components that are “trivial”... projects very capably handled through the ongoing operational maintenance budget. The threshold of significance is often in the range of .5%-1% of an association's total budget, or the board or manager “signature authority” to execute a project. Note that this “rule of thumb” does not scale well for very large or very small associations.

Q: Can we have a component with a Useful Life of one year?

A: Absolutely. There is no minimum or maximum Useful Life limit in NRSS. If it is reasonably anticipated and meets the four-part test, a one-time expense each year for an annual project (drain cleaning, gutter cleaning, tree trimming, etc.) may fit better into the annual Reserve budget than 12 months of the operating budget.

Q: Can/should all members see the complete Reserve Study?

A: Since most members don't care and the typical Reserve Study may be voluminous, it is best to not put so much paper into an annual mailing to the members. In some states it is required that the board send out a summary of the Reserve Study, and doing so is just plain good practice. Most credentialed Reserve Study providers have an “Executive Summary”

suitable for distribution to the homeowners. You can make the complete Reserve Study available to those homeowners who wish to see it.

Q: How do we know how the quantities appearing in the Reserve Study were established?

A: Ask your Reserve Study provider. Common methods are on-site measurements (as done by Association Reserves), satellite mapping tools, reports or invoices from vendors, or “takeoffs” from blueprints.

Q: We have enclosed balconies and our hidden damage only became apparent when the balcony above started leaking onto the balcony below. Further testing revealed all balconies needed a total rebuild, something not included in our Reserve Study. What do we do?

A: Just like any other “missing” project, swallow hard, and evaluate the project according to the NRSS four-part test. If it passes the test, spend the \$ from Reserves, with a close eye on cash flow. Contact your Reserve Study provider for a consultation, as you may need a special assessment before increased contributions from the addition of the project to the Reserve Component List can begin to generate sufficient cash flow to keep your Reserve Fund solvent.

Q: How long should a reserve study take to prepare and deliver to a new client in a 33 unit condominium?

A: At Association Reserves we offer different turnaround time options to fit the budget and timing requirements of each client. The most popular is our eight week “economy” turnaround, but it can be done in as fast as two weeks (for a higher price point).

Q: Is removal of concrete tile roof after say 20 years to replace the underlayment common?

A: Yes. The underlayment loses its waterproofing characteristics over 20-30 years and will need to be replaced. In most cases, the vast majority of tiles can be re-used (85% or so). Tile roof systems need to be replaced not due to tile failure, but due to underlayment failure.

Q: If you pay taxes due to interest gain from the reserves, can you pay the taxes from the reserve funds?

A: I’ve seen it done both ways (paying taxes from Operating or Reserves). Check with your tax professional for advice specific to your association.

Q: Is entrance lighting a component for the reserve study?

A: If it passes the four-part test, yes. Simple entry lighting often only passes the “threshold of financial significance” test for small associations, unless there are many entryways and many sets of lighting.

Q: Do you serve the TX Gulf Coast (or the Florida panhandle, or...)

A: Yes, we have clients in all regions, in all 50 states, served very capably from our network of [14 regional offices](#).

Q: Do you serve commercial condominiums?

A: Yes, and other types of organizations (worship facilities, municipalities and commercial properties, camp/retreat centers, private clubs and recreation centers, private schools, timeshares and fractionals, etc.) See our website under the heading “who we serve”.

Q: How do we handle a situation where we are responsible for 75% of the cost of an asset (25% is the responsibility of a different organization)?

A: Make a component planning for 75% of the total replacement cost. That way you’ll have your portion of the funds ready when it is time to execute the project.