



Reserve Studies 101 for 2025

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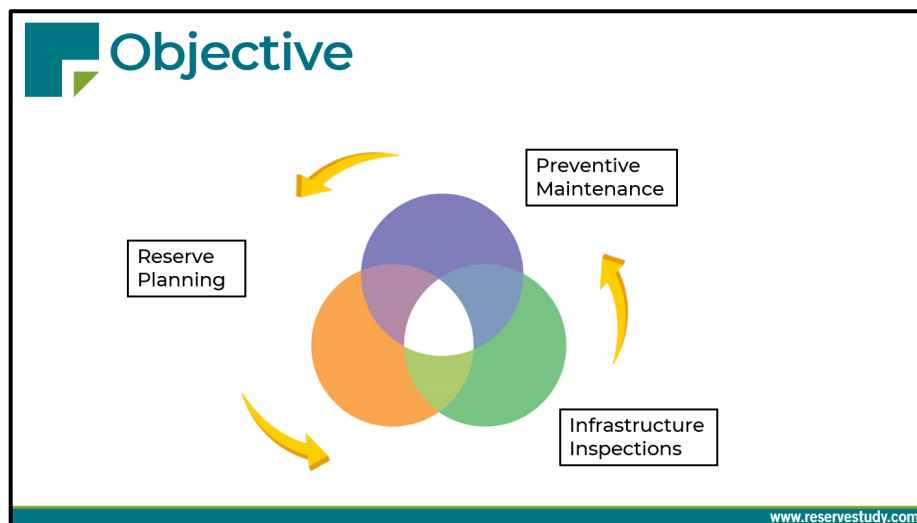
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Components are the foundation of every Reserve Study. They define the expenses the Funding Plan is created to offset. But which expenses? How does one plan for all the “right” ones and care for the property, without overburdening the homeowners? Ish? 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 which major projects to budget to accomplish through Reserve planning. Deterioration is inevitable and expensive, but fortunately it is predictable. Reserve funding is how you effectively offset the very real cost of deterioration at your association. Insurance isn't going to help... that's for accidents. Deterioration is a normal, predictable, daily occurrence. Providing for the needs of the association is the responsibility of the board, it's not an “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 proper selection of Reserve components that are deteriorating (not too many, not too few, but “just right”).

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 projects satisfying this three-part test should appear in your Reserve Study. If you believe an expenditure not appearing in your Reserve Study meets this three-part test, it's a Reserve expense. Spend Reserves on the project, then update your Reserve Study for the next year to add those components and adjust the Funding Plan accordingly.

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:

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

The table is titled 'Reserve Component List'. The columns are 'Description', 'UL', 'RUL', and 'Cost'. The 'UL' and 'RUL' columns are circled in green in the original image. The website address 'www.reservestudy.com' is visible in the bottom right corner of the table's border.

Note that Current Cost is presented (although an inflated "future cost" is commonly utilized in crafting the Funding Plan). Note also that some physical 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 meets the three-part test by being 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 (meaning it meets the three-part test).

Can funds be spent on various scheduled (structural, fire sprinkler, etc.) inspections? Yes, because they meet the three-part test.

See the webinar for many more examples of how the Reserve Component List is created to help your association prepare for its 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 at least every third year, with inexpensive annual No-Site-Visit updates in-between.

Reality

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 (**updated for 20251**). Order single copies 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!).



ASSOCIATION RESERVES[®]

Planning For The Inevitable

Webinar Questions Asked by 2025 Attendees

GENERAL RESERVE QUESTIONS

Q: Please clarify whether something should be funded from Reserves or Operating. I understand the 3-part rule, but something was said if the cost of the project is a certain percentage of your annual budget, it moves to a different category (capital project or capital improvement?).

A: The third test is that the cost must be material (as in significant) to the association, meaning: of a magnitude that is not readily absorbed/funded via misc. operating funds. That threshold is commonly measured as .5% to 1% of your annual budget. If something is common area, reasonably expected, and significant in magnitude, it should appear on your Reserve Component List to be funded through Reserves.

Q: We have a bid to resurface driveways and walkways and a separate bid for the roads. Each bid is roughly equivalent to 10% of our annual income. Should the resurfacing be considered as an operating expense or something we should make as part of the reserve.

A: Scheduled common area projects, well in excess of a trivial cost that could be readily absorbed by the Operating Budget, should be anticipated and funded over years through the Reserve Fund. That is the Reserve Fund's fundamental purpose. I'm surprised that common area resurfacing, whether driveways or roadways, is not an obvious Reserve project appearing in your Reserve Study. Discuss with your Reserve Study professional for further clarification.

Q: What is the distinction between a capital improvement and a capital project? Please clarify.

A: A "capital improvement" is the creation of a new asset that previously did not exist (a second tennis court or tot lot, when there previously was only one, or a significant entry fountain when one previously did not exist). A "capital project" is an IRS term used for tax purposes, irrelevant to Reserve planning.

Q: Can a portion of a specific reserve be taken out for maintenance to extend the replacement life of that item? Ie: roofs, pavement?

A: Yes. Any expenditure to repair or maintain a Reserve project that affects (extends) its Useful Life or Remaining Useful Life is generally a legitimate Reserve expense. The limitation is when the expenditure exceeds the scheduled repair or replacement cost divided by the Useful Life. Please check with your Reserve Study professional for limitations. Minor ongoing maintenance for normal care ("preventive maintenance") should be handled through the ongoing Operational Budget

Q: I know you are not lawyers and I will not take this as legal advice. Will the study recommend how to convert to straight line reserves to pool reserves.

A: Straight Line (Component Method) and Pooled (Cash Flow Method) are simply two different mathematical tools to calculate the recommended Reserve transfer rate. The Cash Flow method is always advantageous to the association, providing more flexibility and a fairer distribution of Reserve funding over the years. Join us for our Reserve Studies 103 webinar to see the advantages

of the Cash Flow Method clearly articulated. In FL, check with your legal counsel for the steps to officially make a change from “straight line” to “pooled”.

Q: As a new board member can you explain the Reserve process and any or all interaction with board members. Is there a form sent to the HOA relative to maintenance? Who initiates the Reserve and is it conducted on an annual basis? How often should the study be performed?

A: Please review our Reserve Study Basics webinar [here](#). Fundamentally Reserves are the way an association offsets the cost of ongoing deterioration, so the funds will be ready at a future date when those major projects need to be accomplished. A Reserve Study is a budget and cash flow guide, part of the annual budgeting process. Best Practice is to have a site-visit-based Reserve Study at least every third year. Most boards commission outside help to prepare the Reserve Study, providing independent expertise to their budget planning decisions (which are often in the range of 15-40% of the association’s total budget).

Q: Often mature communities that have large tree coverage want to have tree removal and trimming added into the reserve study due to costs. How do you feel about that?

A: Great! Tree care regularly meets the national Reserve Study Standard three-part test and is funded through Reserves.

Q: Is adding trees to an existing landscaped area a reserve item, or not?

A: No, adding trees is a new capital improvement, not a replacement of an existing component. Reserves are designated for the repair or replacement of current assets, not adding new ones.

Q: Our building was built like a “puzzle” and the pipes are very “zig-zaggy”, not linear. How is it determined if a broken pipe is within a common area or the Homeowners responsibility. We cannot find a clear answer to this.

A: The governing documents define ownership and responsibility. Generally, the separation point for a condo unit is the finished interior wall surface. So, for instance the grease trap under the kitchen sink is your responsibility as a homeowner, but if the clog is six feet from your drain (back in the wall somewhere), that is “common area” and an association responsibility. Consult your association’s attorney to establish clarity on this matter.

Q: Who owns the Reserve Study information? You posed an illustration where you defined a component one way, and the client wanted it another way. What are the general rules here?

A: The client has hired the Reserve Study provider to give their best counsel on the matter. It is the Reserve Study provider’s company logo on the cover, they carry the liability for their results, and they deliver that report to the client (the association) to use for budgeting and cash flow planning purposes. The client association can sit on it (not recommended), use it (highly recommended), and distribute it to homeowners (Executive Summary highly recommended). If a client has a “cleanup” request (whoops – we were wrong... we replaced the roof in 2015, not 2014, and it was done for \$100,000, not \$110,000, or a misstatement about the property’s zip code or the starting balance...), the Reserve Study provider simply incorporates that information, makes the appropriate changes, and (voila!) the result is a better Reserve Study. If the client asks for a change that is met with resistance by the Reserve Study provider (“we believe our roof will last 100 years,

not 25, please adjust our Reserve Study accordingly”, or it conflicts with national Reserve Study Standards “we want you to remove balcony decks from the Reserve Study even though they are a common area maintenance responsibility”), expect such a request will not be incorporated. It is the job of the Reserve Study provider to prepare a report based on their independent experience and expertise that prepares the client for their future. Reserve Study providers are not in the “making clients happy” business.

Q: We are getting ready to complete a reserve study this year... What are the top tips you have for the board and management to best prepare for the site visit? Should we loosely schedule time with key personnel or leave it up to the professional? Anything would be helpful to know how we can do what's needed.

A: Discuss in advance with your Reserve Study provider. Typically, a kick-off meeting is scheduled to discuss building issues and provide access to restricted areas (the locked clubhouse, pool equipment room, mechanical rm, etc.). The kick-off meeting may be done in advance as an online meeting, while access may be provided by one designated party (board member, manager, or building engineer) on the day of the site inspection. The more information that can be provided to the Reserve Study site inspector (maintenance concerns, project history, months the pool is used, etc), the better.

Q: Is it important to read the deed restrictions which impose limits on reserve fund use, e.g., "only for repair and replacement of capital items, such as re-asphalting streets, fence replacement, gate replacement and the like."?

A: Two answers. Yes, Governing Documents matter. But if your Governing Documents limit what the board can do to maintain the common areas, get your Governing Documents revised ASAP. Board members need a free hand to care for the property, and Reserve Study professionals need freedom to craft a custom multi-year solution for the association (without their hands being tied by outdated and counterproductive Governing Docs).

Q: If you have a reserve asset (say community mailbox kiosks) which is insured under the HOA policy, should the reserve plan allocated cost be the replacement cost or insurance deductible?

A: The reserve allocation should reflect the full replacement cost. Insurance is for accidents; Reserves are for the scheduled replacement due to age & deterioration. If the asset is destroyed by an accident, insurance gets it replaced quickly, and Reserve funding expectations are reset based on that new (full) life expectancy. So, they are related, but Reserve for full replacement cost, not just the insurance deductible. Hopefully you won't have an accident requiring insurance to replace your asset!

Q: (We are a new condo) We will be developing the Reserve accts. Do we include expected repairs along with the total replacement?

A: No. Minor repairs (routine maintenance projects) are to be handled from the ongoing Operational budget, not Reserves. The Reserve Fund is for projects that pass the three-part test... where the third test is that the repair/replacement cost is “material” to the association, not minor. Proper maintenance extends the lifespan of reserve components, so make sure you have money in the Operating budget to get that done.

RESERVE COMPONENT QUESTIONS

Q: What do we do if we believe the Reserve Study is missing a significant component (or two or three)?

A: Reach out to your Reserve Study provider and challenge them with that perceived shortcoming. Perhaps they were misinformed about the definition of common area maintenance responsibilities, or the # of buildings/phases involved in the community, or maybe it was just human error. Every Reserve Study should be prepared according to the National Reserve Study Standards, with all component projects that pass the three-part test appearing in the Reserve Component List.

Q: Should we have an entirely separate category for “deferred maintenance” – things that we never got around to doing (e.g.: siding that was not painted on schedule and now needs to be replaced, soil erosion exposing building structural elements and A/C platforms to deterioration, etc.)? We are having a hard time just keeping up with new projects.

A: All component projects that pass the three-part national Reserve Study Standards test should appear in your Reserve Study. New projects and old. That is the board’s legal responsibility as fiduciaries responsible for the care and sustainability of the association. Unfortunately, it sounds like it will soon be (significantly?) more expensive to own a home in your association due to the high cost of “catch-up” projects (siding replacement, structural repairs, soil stabilization, etc.). Ignoring the effects of Mother Nature and Father Time for several years and “under-reserving” has no effect on the “deterioration bill” that sounds like has finally come due. Time to “pay the piper”.

Q: I manage a condo association with 40 units. If the item the board wants to pay out of the reserves does not appear in the Reserve Study, can they still do the project and pay for it out of the reserves?

A: If the project meets the national Reserve Study Standards three-part test, yes. Discuss with your Reserve Study provider, and make sure that the Reserve Study is then updated in a timely manner to incorporate the lower Reserve balance due to the expenditure, and the higher expectation for future costs due to the addition of a new component.

Q: Roofmaxx is a technology that sprays oil on asphalt shingle roofs with a guarantee to extend usable life for 5 years. It sounds reasonable to me since we spray oil on asphalt pavement to seal and extend life. Is it worth doing? Note that our roof is 9 yrs old and we’ve already had a couple minor shingle repairs this year.

A: Roof Maxx is a promising product. It is effective in many situations, but it is neither a magical solution nor can I give it a blanket seal of approval. It generally slows down deterioration, promising to extend the Useful Life of the roof. But if deterioration has already taken hold, or in your case the Roof Maxx application doesn’t extend the Useful Life “enough”, it may not be right for your association. Speak to a local roofing consultant for advice particular to your association.

Q: How do you handle an asset which has reached the end of its expected useful life but still has more useful life?

A: There are some projects best to be done on a proactive basis before they fail (a central water boiler, front entry gates, etc.). There are some projects best done right on schedule (before failure – like deck sealing, wood painting, asphalt sealing, etc.). There are some projects that can be readily delayed (a little water heater for the pool bathrooms... who cares if it fails and you have to wait a week until a replacement can be installed?). And there are some projects that can be readily delayed after a minor expenditure. Bottom line - please consult with your local Reserve Study professional. Your Reserve Study is a guide. Note that if the project is delayed, the funds are simply redistributed to other projects.

Q: Do you include EVERY (known) component the Association is responsible for within the component list, projected RUL, and costs in your Reserve Studies even if the component's RUL exceeds the term of the RS?

A: Yes, expect your credentialed professional to include all component projects that pass the national Reserve Study Standards three-part test. “Reasonably expected” significant projects beyond the typical 30-yr display of income and expenses found in a Reserve Study should be funded, so everyone enjoying/using that asset pays their small fair share.

Q: If an asset has a useful life of 10 years but the community (board) desires to replace it in 5 years (to modernize it), would you change the useful life in the study to 5 years?

A: No. We’d probably change the Remaining Useful Life to 5 years, but retain the normal service life of the asset (e.g.: 20 yrs) because once replaced, that’s how long we would expect it to serve the needs of the association.

Q: What is a good source(s) for useful life? (we are a CA condo)

A: Manufacturer recommendations, industry standards, historical data, interviews with your regular service providers, and your own real-world observations specific to your climate and maintenance practices. Or... you could simply hire a credentialed Reserve Study professional. You have no obligation as a volunteer to do Reserve planning yourself. There’s no shame in hiring a professional to guide a budget line item that is commonly 15-40% of an association’s total cash flow.

Q: What about a gated community? What are the major components?

A: Major reserve components typically include roads, perimeter fencing, and recreational assets (trails, clubhouse, golf course, tennis courts, etc.).

Q: Should plumbing systems be included in reserve plans?

A: Yes, but only for major common-area plumbing systems where a project can be “reasonably expected”. If a “potential” project is still too vague in timing or cost, it doesn’t yet belong in the Reserve Study. You or your Reserve Study professional may need to consult with your plumber on this matter.

Q: Some Boards do not track or check the condition of Reserve Components, and just do maintenance or replacement when things break down, fall over, etc. Shouldn't there be an effort to track the conditions of our Reserve Components/Common Elements through regular maintenance schedules and inspections?

A: Absolutely. The Component List of the Reserve Study identifies the major common area projects facing the association. Regular maintenance and inspections should be part of your monthly maintenance plan, accomplished through the ongoing Operational Maintenance budget.

Q: We just had every roof inspected and had major work on almost every building. The roofer stated that we should now have a few more years of roof life. How does this information get to the Reserve Study?

A: Provide your roofer's contact information to your Reserve Study professional, so that information can be incorporated in your updated Reserve Study. Regular roof maintenance does indeed maximize roof life.

Q: If the roof is new and has a 60 warranty, should we use 60 years for useful life?

A: Not necessarily. Warranties typically don't offer full replacement, they may require annual inspections and compliance, and they are for "average" conditions. The actual useful life of your roof will depend on installation quality, weather conditions, and maintenance. A more realistic expectation of a 60-yr roofing material might be 30-40 years, depending on your environment and maintenance.

Q: We have a lot of sidewalks within our community, none of which appear in our Reserve Study. Given the inevitability of unevenness and cracking, what does one do for repair/replacement?

A: It depends on the scope. Minor repairs belong in the operating budget, but it is common to fund an allowance for periodic scheduled local repairs throughout the association every x years through the Reserve budget (ensuring all your sidewalks are smooth, uniform, and hazard-free). Please discuss with your local Reserve Study professional.

RESERVE FUNDING QUESTIONS

Q: Our Reserves are underfunded. Our owners are financially "strapped" (we doubled our Reserve funding rate two years ago, and are still hearing about it). Is a goal to be 70% Funded too high? Can we back it down a bit?

A: Join us for our upcoming [Reserve Studies 103 webinar](#) where we discuss this in detail. It starts with understanding that owning and maintaining Real Estate is expensive. With respect to Reserves, the majority of Reserve funding goes to paying the cost of actual projects. Just a little is added to provide some "margin". 100% Funded is technically when your Reserve Fund is keeping up with deterioration. So, 70% is already "backed down" a bit, to rely on the probabilities that multiple major projects will not happen in the same year. So, at 70% Funded, you are already relying on good fortune. Getting down into the 50% Funded range or 30% Funded range usually doesn't save

homeowners any money, because they'll pay it all back via special assessments when the cash just plain isn't there.

Q: For pooled reserves, what is the proper way to keep track of funds needed/used for the components?

A: Simply track your expenditures from Reserves. Keep a file of projects done, the service provider, and the cost. You have an annual budget for expenditures. Track your actuals vs budget, showing the YTD variance, just like you do for the Operating budget.

Q: In North Carolina, there are no laws in place that limit what a Board can spend Reserve funds on. How do you dissuade Boards from spending Reserve funds on projects that they should be utilizing operating funds for?

A: Education is key. A Reserve Study guides collecting and spending Reserves. Spending funds meant for other purposes leads to future financial shortfalls.

Q: We have 3 elevators due at the same time for replacement. Is there an issue with separating the three at least one year?

A: It would be wise to not have all three "down" at the same time. Please consult with your elevator service company to stage the replacements to minimize downtime and maximize your cash flow, keeping your Reserve Study provider "in the loop" to manage this big cash flow bump. You will wish to take advantage of economies of scale (doing all three in the same contract or project), but perhaps the work can be stretched to 18 months or 24 months, alternating work on one before the other, and spreading out the cost burden over two fiscal years.

Q: When we use funds from Reserves to repair the component, do we need to restore those funds?

A: Reserve Funds should generally be used as planned in the study. However, if a significant repair extends a component's life, that is an appropriate Reserve expenditure. Just make sure to update your Reserve Study to show the new expectation for Remaining Useful Life!

Q: If a reserve study suggests a large special assessment to perform a big essential project, should this be revealed and discussed at an upcoming board meeting, or only in a budget meeting?

A: A project deemed essential enough to drive a special assessment recommendation should not be taken lightly. Of course, discuss it. A Reserve Study summary should never be hidden from your homeowners. So, discuss it and develop a plan to take care of your association. Burying a special assessment recommendation will not look good when (eventually) it is revealed.

UPLANIT QUESTIONS

Q: The roofs in our very small association are badly deteriorated and perhaps should have been replaced years ago. It has been suggested that we phase out this project on a priority basis over

a number of years. Then a Reserve Study could be conducted, and the Reserve Specialist would be told to base the Study on the assumed numbers. After that, we could use uPlanIt to adjust the Reserve Study findings. Wouldn't it be best to have a roofer or home inspector check the roofs' conditions first and make recommendations about RUL, and then schedule a Reserve Study and share the recommendations with the Reserve Specialist?

A: I like your thinking – kind of. It sounds like you have a big roof project coming up. By all means hire a roofing consultant to lay out a plan. Then commission a Reserve Study to figure out how to manage your cash flow for the roofing project amidst all other projects at your association (I bet roofing is not the only thing deteriorated at your association). Once that Reserve Study is done, you can use uPlanIt to tweak the plan or see the cash flow differences between funding it via a loan instead of a special assessment.

INTEREST/INFLATION QUESTIONS

Q: What metric should we be using to consider inflation

A: For you do-it-yourself types, consider the Consumer Price Index (CPI) and something like the Mortensen Construction Cost Index. Remember that your Reserve Study is a 30-yr plan, so use a decades-long average value for Reserve planning, not a short term value.

Q: Have you seen lumber prices go down since Covid? We need to replace the cedar fence. Reserve study recommended \$65,000. (pre Covid) Estimate during Covid was \$105,000!

A: Lumber prices have indeed gone down since COVID-19 in many geographical areas. If you are facing a significant lumber-related project, commission a Reserve Study update to get fresh planning figures. National Best Practice is a With-Site-Visit Reserve Study update at least every three years, for exactly this reason.

Q: How do you expect the natural disasters that have recently occurred will impact cost estimates?

A: Natural disasters regularly cause spikes in material and labor costs due to increased demand. So for instance, we expect higher structure-related prices over the next few years in the Los Angeles metropolitan area. Make sure to update your Reserve Study to ensure accurate planning. Likely your Reserve funding recommendation will increase.

FL SPECIFIC QUESTIONS

Q: Should an Association have one or two reserve funds, one for SIRS required components and one for non-SIRS components?

A: While compliance can be accomplished with one fund (combining the funds held for upcoming mandatory and non-mandatory projects), common practice is to separate these two funds. This enhances clarity, and more readily demonstrates compliance to homeowners and anyone in a regulatory role.