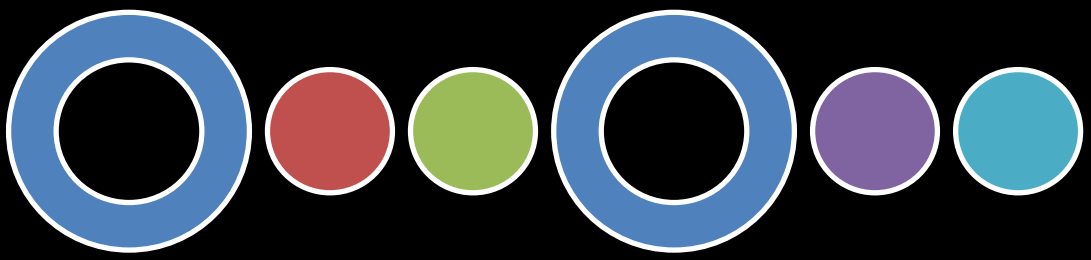
All you need to know about

Reserve Component Lists



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ASSOCIATION RESERVES®

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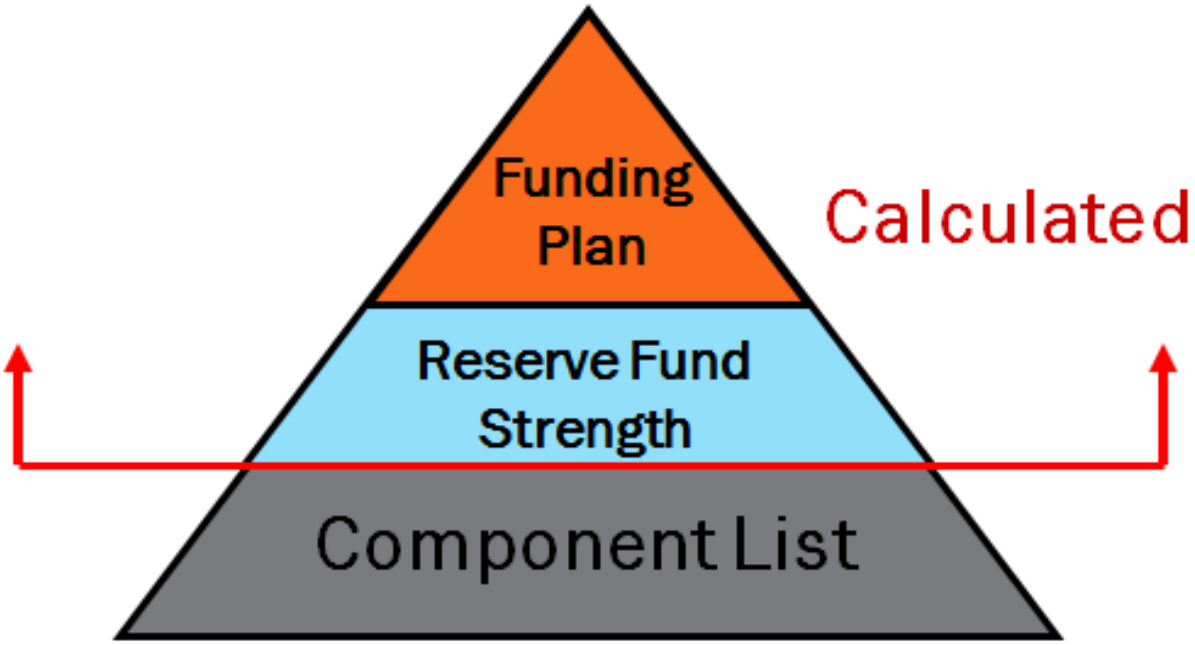
Reserve Component Lists

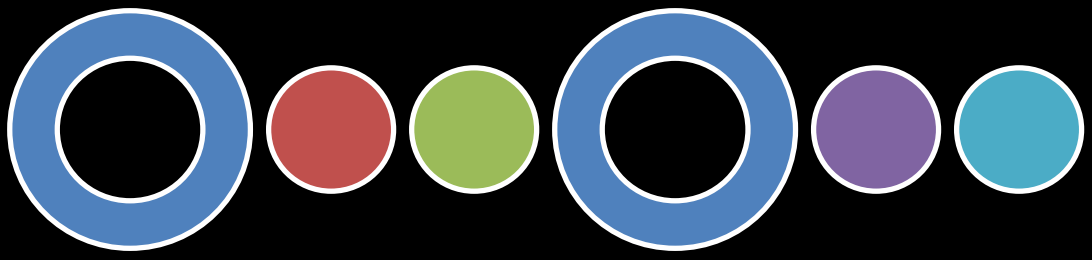
This pyramid represents the relationship of the three key elements of a Reserve Study.



- The **"Component List"** serves as the foundation by spelling out the scope & schedule of all necessary repairs & replacements.

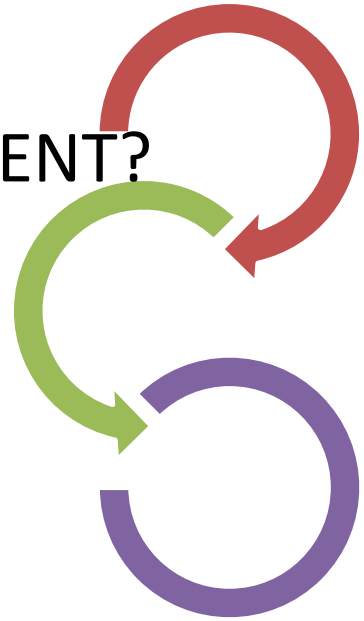
- **"Reserve Fund Strength"** is a calculated ratio that compares the actual amount in Reserves to the current value of Reserve Component deterioration.

- The **"Funding Plan"** is a calculated plan of regular monthly assessments and/or special assessments necessary to perform the repairs & replacements in a timely manner.



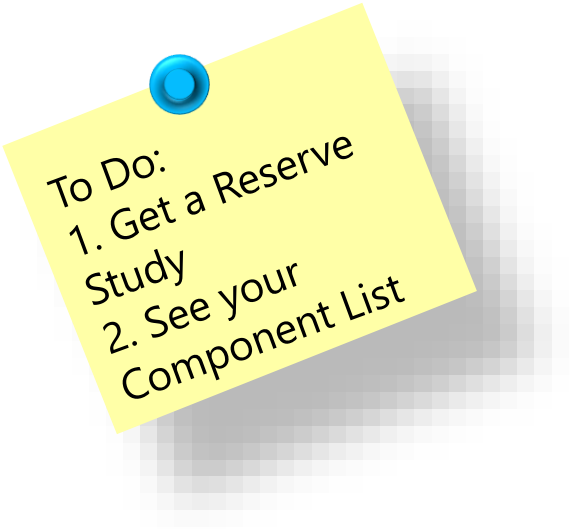
SECTION 1:
COMPONENT LIST 101

WHAT IS A RESERVE COMPONENT?



A Reserve Component is any asset or project (Fence – Replace, Pool-Resurface, Asphalt-Seal, Elevator-Modernize, Infrastructure-Inspect, etc.) the Property is obligated to maintain or replace that will ultimately need to be accomplished. The Reserve Component List is designed to help the property anticipate and prepare for its own significant and predictable upcoming expenses.

WHY CREATE A RESERVE COMPONENT LIST?



The Component List forms the foundation of every Reserve Study, detailing the “scope” and “schedule” of all anticipated Reserve projects so that a fair Funding Plan can be established to allow for timely repairs & replacements.

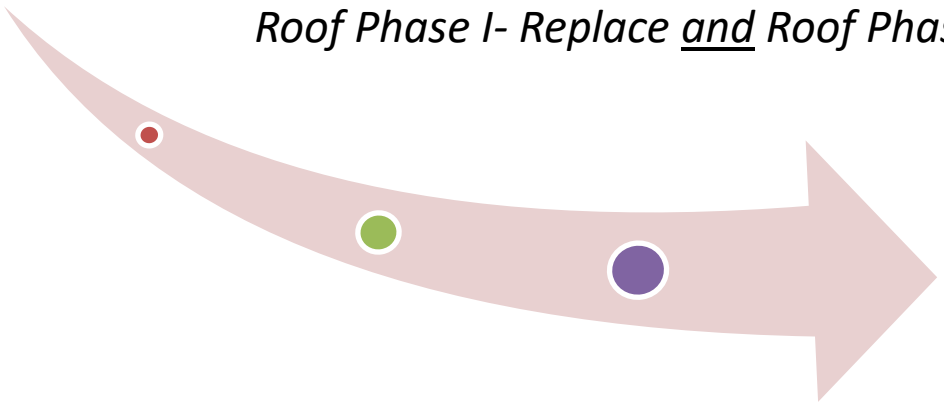
WHAT INFORMATION IS INCLUDED IN THE LIST?

1

A clear identification of each Reserve Component:

Components that are similar but on different schedules need to be identified as separate line items.

Examples: *Fence- Repaint and Fence- Replace*
Garage Gate - Repaint and Pedestrian Gate - Repaint
Roof Phase I- Replace and Roof Phase II- Replace



2

Descriptive information:

Typically this means the quantity (# of mailboxes, linear feet of fencing, square feet of asphalt, square yards of carpeting, etc.) but it could also mean the size (like the BTU rating of a boiler or the horsepower of a pump). Details like this help identify the scope of the Reserve project.

3

Useful Life (UL) in years:

The estimated time in years between recurring instances of this project.

Remaining Useful Life (RUL) also in years:

The estimated time in years until the project next needs to be performed.

(Based on the Component's "condition"- not necessarily the Component's "age"!)

4

5

Current Replacement Cost:

The cost to replace, repair, restore, or perform the project (including all related costs) <u>at this time</u>.

SECTION 2:

Components to Include

“It is crucial that the Component List is complete, accurate, and stable.”

Fortunately, what should (or should not) qualify as a Reserve budget line item is not a matter personal preference. It is also not based on a secret or proprietary checklist.

Reserve Component List decisions rely on a three-part test defined in National Reserve Study Standards. To qualify for reserve budget funding, a Component needs to pass all three of the three tests.

3-Part TEST

✓ TEST 1: Component must be the Association's maintenance responsibility

Test #1 means that Reserve line items should be established based on a thorough understanding of the Association's common area assets and maintenance responsibilities, as defined in the association's governing documents or a well-established Association precedent.

✓ TEST 2: Component must be Reasonably Anticipated

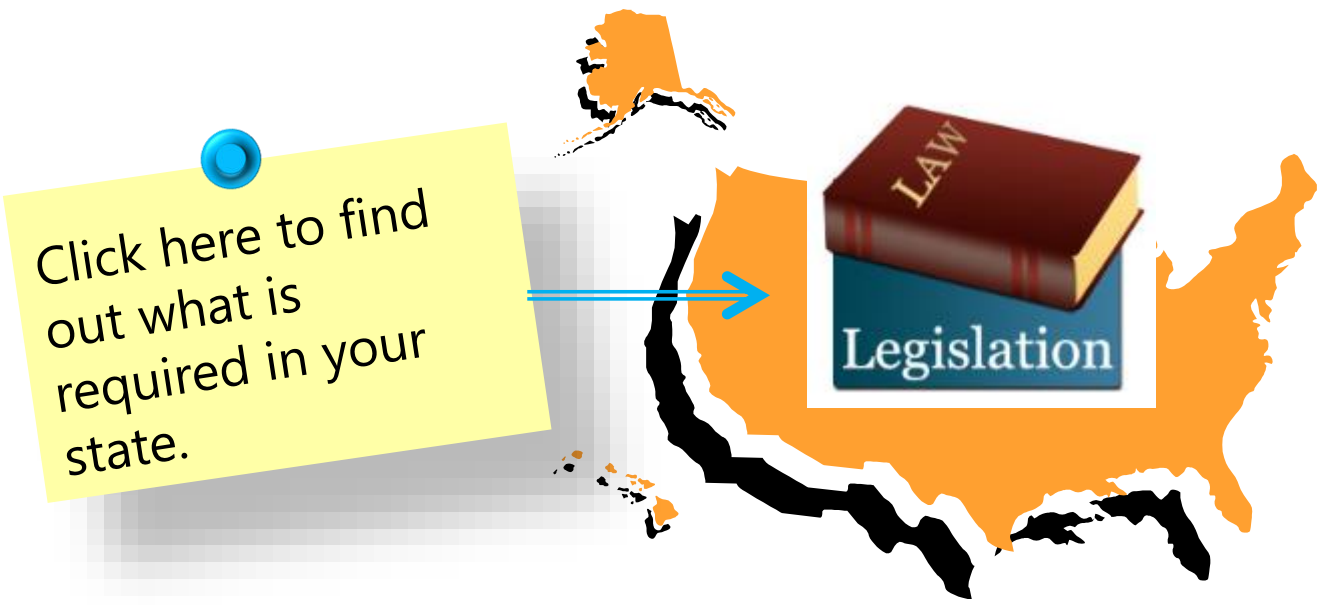
"Test #2 excludes "possible" or even "likely" projects until the time its need and schedule can be reasonably anticipated.

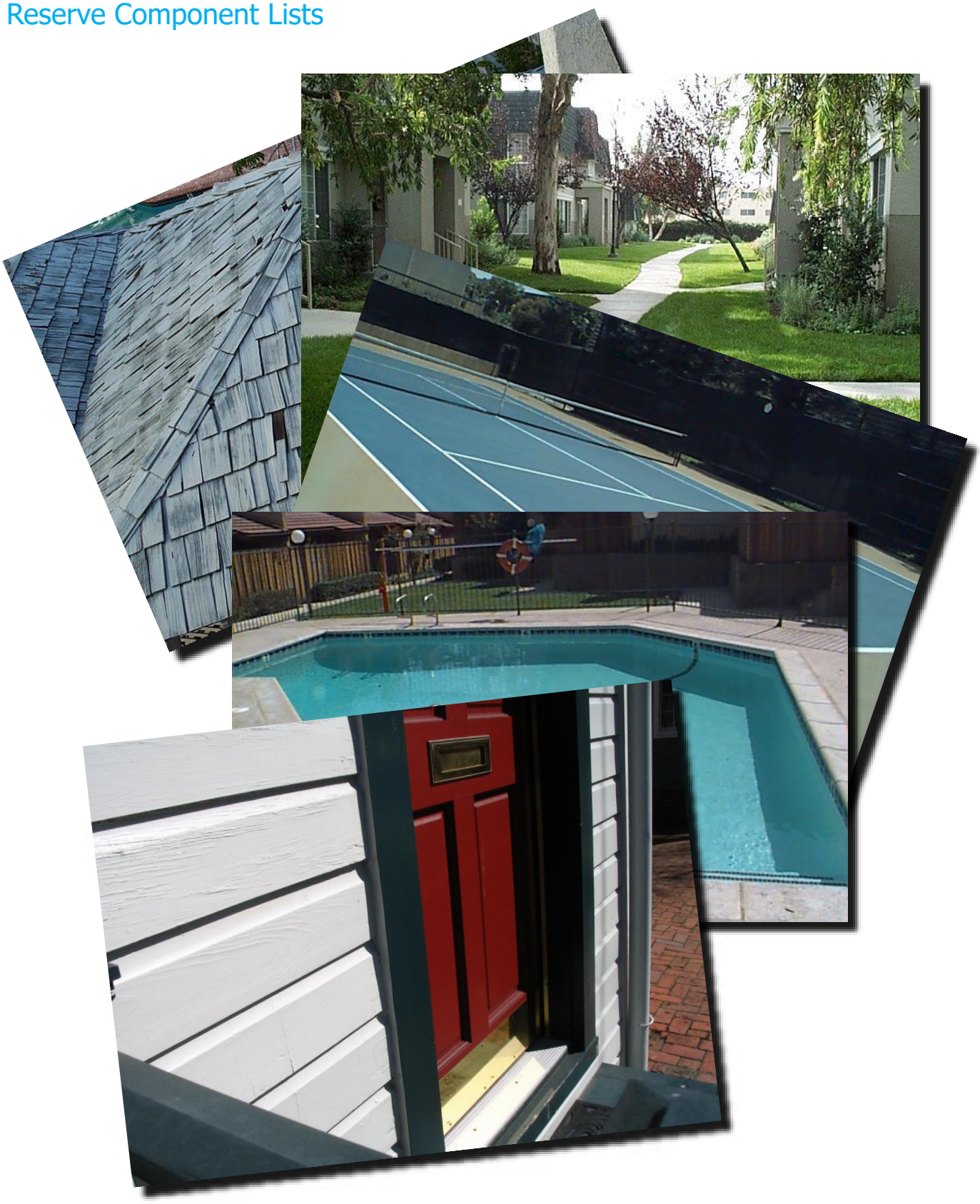
✓ TEST 3: Component project cost must be "material" to the association

Test #3 eliminates smaller cost projects (often under .5% to 1% of the association's annual budget) that can be more appropriately handled in the Operating Budget, and requires that the cost can be "reasonably estimated" and that it includes all direct and related costs of performing the project.

STATE LEGISLATION

Some State laws define a specific short list of Components to be addressed in the Reserve Study. But mandates of this nature were intended as a minimum guideline and not as permission to exclude other appropriate Reserve items. All projects appropriate for Reserve designation (as defined by the three-part National Reserve Study Standard test) should appear in your Reserve Study.





SECTION 3:
USEFUL LIFE & COST INFORMATION

Reserve Component Lists

The Component List details the **Schedule** (based on UL & RUL) and **Scope** (based on Current Cost) of every projected Reserve project. Line items where RUL= 0 (zero) years have reached the end of their Useful Life.

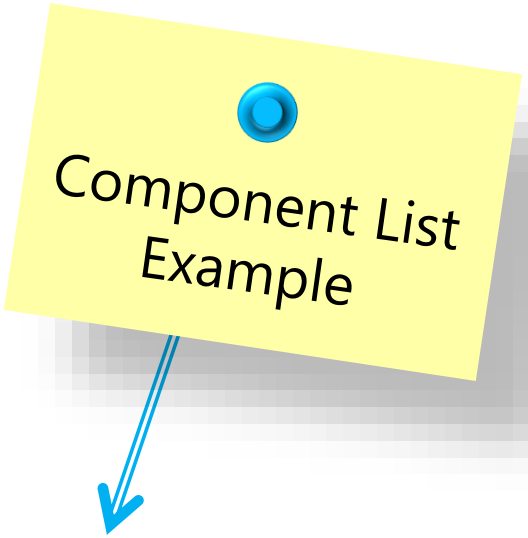


Table 2: Reserve Component List Detail **9999-0LX**

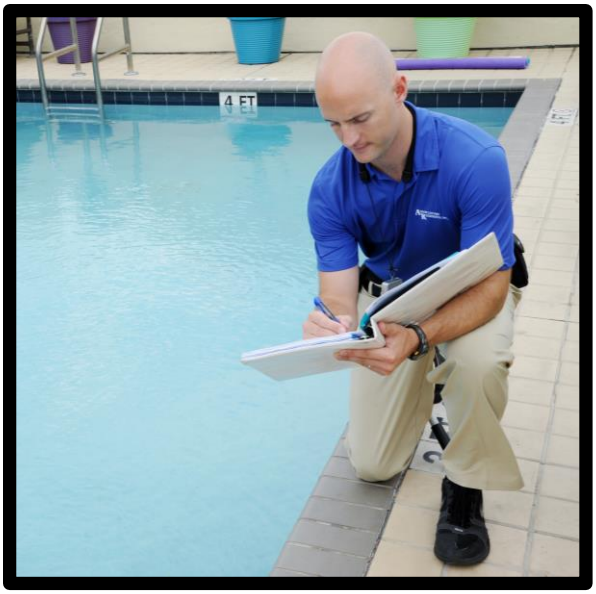
#	Component	Quantity	Useful Life	Rem. Useful Life	Current Cost
103	Concrete Deck/Walk - Repair	Extensive GSF	2	0	$4,000
104	Balcony Deck - Resurface	Approx 5750 GSF	20	10	$57,500
105	Balcony - Reseal	Approx 5750 GSF	5	1	$14,400
201	Asphalt - Remove/Replace	Approx 121,200 GSF	30	6	$303,000
202	Asphalt - Seal/Repair	Approx 121,200 GSF	3	0	$18,200
206	Stamped Concrete - Partial Repair	Approx 53,100 GSF	10	0	$25,000
320	Pole Lights - Replace	Approx (126) fixtures	20	15	$113,000
322	Bollard Lights - Replace	Approx (74) fixtures	20	15	$33,300
324	Wall Lights - Replace	Approx 919 fixtures	20	10	$91,900
401	Awnings - Replace	(161) 4 ft x 5 ft canvas	8	1	$48,300
403	Mailboxes - 25% Replace	(161) Individual boxes	5	1	$2,200

From the moment the last shingle on a new Association is nailed into place, that shingle (and all the other Association assets) began a slow, steady, relentless process of deterioration which starts afresh after each new cycle of repairs & replacements.

3 WAYS to establish the Information

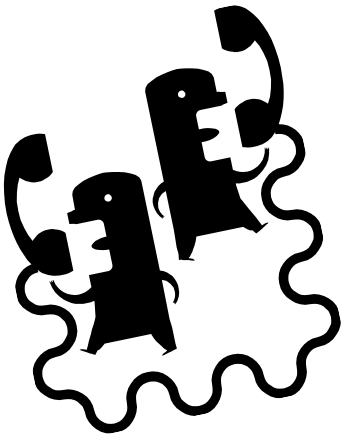
1. Observations at the property by a trained Reserve Specialist™

   (adjusted or influenced by experience with similar properties)



Not familiar with this credential? Click here

2. Vendor interviews



3. Industry guidebooks

Useful Life:

The best UL estimates are based on the experience of comparable Components at actual properties. Other factors to consider: assumptions or observations regarding quality of material, workmanship, rate of wear & tear, expected normal maintenance, and weather exposure.

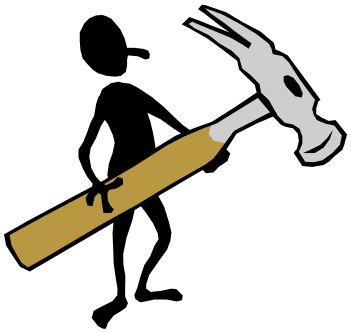
Remaining Useful Life:

RUL is established primarily by the Component's condition. This means the "effective age" of the component may or may not equal its actual "chronological age" due to accelerated wear or low usage.

For components where condition is not readily observable (i.e., elevators, chillers, security electronics, etc.), the Association's service vendor can often be relied upon to provide a RUL recommendation.

Replacement Cost:

Prior repair & replacement costs provide the most valuable benchmark from which to make current replacement cost projections.



However, should an Association's "actual" cost fall outside the range of normal expectations (due to unusual circumstances unlikely to be repeated), it would be inappropriate to base future estimates on that experience.

In the absence of recent "actual" costs at an Association, comparisons can be made to Reserve projects that were recently accomplished at similar Associations.

For Components that require a particular expertise (major roof or roadway systems, elevators, etc.) or Components that are unique to an Association, suitable cost factors can be obtained through interviews with the Association's vendors or outside experts.

"I know nothing about the subject, but I'm happy to give you my expert opinion."

ASSOCIATION RESERVES
LOYALTY UPDATE PLAN

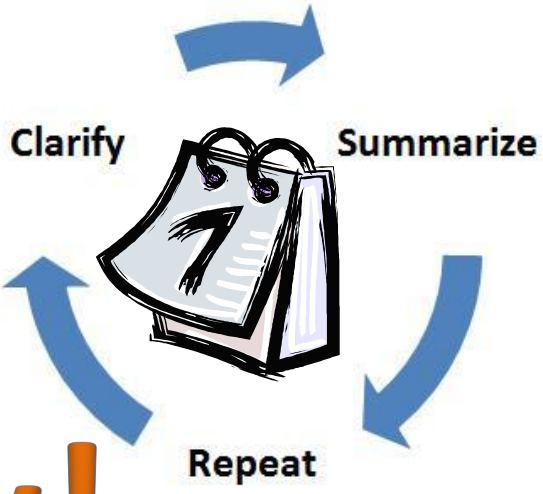
Makes sure your **Reserve Study**
is never out-of-date with a
3-year series of engagements .

- ✓ Lock in a fixed price
- ✓ Stabilize the budget
- ✓ Save time & energy
- ✓ Maintain continuity through Board transitions

SECTION 4:

DON'T FORGET TO UPDATE

Adjust Annually!



Component List instability, economic factors, quality of materials, quality of workmanship, changing usage patterns, deferred maintenance, failure to make planned reserve transfers, extreme weather, unplanned expenses, special assessments, or any of a number of other factors will affect the accuracy of the Reserve Study.

That's because every year the Cost of the project, the Condition of the project, and the Cash in reserves change.

3 Reasons…

to Update a Reserve Study **ANNUALLY**

Reason #1. ACCURACY- The Reserve Study should accurately reflect the current condition of every Component on its way from “new” to “needs to be accomplished”. In addition, every year the cost of that project changes due to inflation and other economic factors. An outdated reserve study (more than two years old) no longer provides accurate guidance.

Reason #2. FAIR PLAY- Any expenditure of funds outside of the Reserve Study projections will change the Funding Plan necessary to assure timely repairs & replacements. It would be unwise (and unfair to future homeowners!) to allow several years of under-reserving to take place before adjusting the Reserve transfers to rebuild the Reserve Fund accordingly.

Reason #3. DISCLOSURE- Every expenditure of funds affects the strength (% Funded) of the Reserve Fund. % Funded is measure of how well the Reserve Fund is keeping pace with the deterioration of the common area assets. This calculated ratio is an important disclosure that should be made annually to the current membership as well as prospective homeowners.

To Do:
Listen to our webinar on YouTube!

SECTION 5:

WHY RESERVE FOR EXPENSES 30 YEARS AWAY?

“All physical assets are gradually deteriorating every day.”

As the physical condition of a Reserve Component moves from “new” to “old”, there needs to be an offsetting growth in the Reserve Fund to cover timely repairs & replacements.

Associations are exposed to serious liability if they choose to not reserve for a legitimate reserve Component, ignore a Reserve Study that has accurately quantified the reserve funding needs of the Association, or underfund Reserves.

Besides, nobody is making estimates about things 30 years away. Every update of the Reserve Study, as those projects approach, allows us to continually refine our estimates.

Request a Reserve Study Proposal Now!

Make sure your Component List and Reserve Study is up-to-date. Visit our website or call our office to request a proposal!

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