



# REPLACE ON SCHEDULE, OR WAIT?



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When the condition of one of your Reserve components has gone all the way from Good/New to Poor/Old and now has a Remaining Useful Life (RUL) of zero, the component should be repaired or replaced immediately, right?

Well... not necessarily. A roof that leaks has clearly failed and certainly needs to be repaired or replaced right away. But that ancient gold shag carpet and dusty pool table that nobody uses anymore in the Recreation Room are still clean and functional. Should you replace them? Should the replacement of a functioning pool heater that has reached the end of its useful life be handled differently from replacing an old boiler that provides hot water to the entire Association?

Let's review some basic concepts: An Association needs to accurately disclose the condition of its common area components to its members. It does this in the Reserve Study's Component List. The Component List serves as the backbone of a Reserve Study and details the scope and schedule of repairs & replacements. The "scope" is communicated by the current replacement cost (\$) and the "schedule" is communicated by a combination of Useful Life (UL) and Remaining Useful Life (RUL). A component has reached the end of its UL (a fixed # of years) when the RUL (a decreasing # of years) hits "zero".

The Reserve Study serves as the Association's cash flow management plan, crafted to allow for "timely" repairs & replacements. Timeliness in a Reserve Study means the year that a component's RUL reaches zero. The important question is whether the Association should always allow RUL = 0 to trigger a reserve expenditure, or if it is okay, in some cases, to delay the repair or replacement.

There are five general ways components reach the end of their Useful Life (UL). Understanding these differences will help you make a wise and appropriate decision about executing the project per the Reserve Study schedule, or deciding to wait:

## **Inconsequential to the homeowners**

This category includes non-critical reserve components such as pool heaters or a rarely used clubhouse air conditioner. Even though the RUL may have reached zero, waiting for the component to actually fail is not a problem. This is because the failure will not have a serious impact on the homeowners and everyone can survive a few days while the failed item is being repaired or replaced. There is no good reason to be proactive with this type of component.

Recommendation: Delay the repair or replacement until the component fails.

## **Inspect and Re-evaluate**

Roofing and fencing are the typical components in this category. Based on observed age and deterioration, the component may be at the end of its Useful Life, so it could fail “at any time”. But if upon inspection and re-evaluation the component is still serving its intended function (due to mild weather, low use, enhanced maintenance, or simply good fortune), there is no reason to automatically execute the project. If the Association decides to put off the repair or replacement for a year, the Reserve Study should still reflect a RUL = 0.

Recommendation: It’s a gamble, but if the asset has been inspected and is still intact, be cautiously optimistic and delay the repair or replacement by one year.

## **Obsolescence (technological or aesthetic)**

Projects in this category have Useful Lives that outlast their “value” to the Association. The shag carpet or the old stove in the clubhouse, the dated appearance of the elevator interior, and the ancient message board with press-on lettering are good examples. While the Association can generally get away with deferring these projects after the RUL has hit zero, it would not be acting in the best interests of the Association. In general, these are relatively low cost projects that yield a high impact to the well-being, style, and “curb appeal” of the Association.

Recommendation: Make the repair or replacement on schedule. If you do delay a year, don’t make it a habit.

## **Protection of Underlying Materials**

Components in this category include projects like wood painting and deck or asphalt seal coating where the repairs or replacements protect the underlying construction material. It is crucial that these projects be completed on a timely basis. Delays may void a warranty or cause the Association to face significantly increased future repair or replacement expenses.

Recommendation: Make the repair or replacement on schedule.

## **Catastrophic Consequences to the Homeowners**

These are the projects where their function is essential to the operation, enjoyment, or health & safety of the homeowners. Based on observed age and deterioration, the central hot water system or the entry gate system may be “near” failure, but still serving its intended function. However, failure of these components will cause significant expense, disruption, or liability exposure to the Association.

Recommendation: Make the repair or replacement on schedule.

In summary, understanding the different ways a component serves the Association and the implications of its eventual failure will help an Association Board make wise decisions about whether or not to allow a RUL of zero to trigger a repair or replacement.

Be aware of all the components approaching RUL = 0 and make wise, informed decisions about when (or when not!) to schedule them.