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Understanding Components – a Deep Dive

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Components are the foundation of every Reserve Study. They define the expenses that the Funding Plan is created to offset, and are selected based on a national standard three-part test. But what flexibility do we have (should we have)? And how do we decide between two or more options? How can it be less expensive when you spend money to maintain something?

In this webinar, we discuss how to use the concept of the "annual cost of deterioration", which is the cost of the project divided by its Useful Life. Simply speaking, Reserve funding needs to offset the ongoing cost of deterioration. So to reduce your Reserve funding requirements, reduce the ongoing cost of deterioration at your association. By looking at the cost of deterioration closely, it is possible to see how the cost of maintaining a component, when it extends the life expectancy of the component, actually results in a lower $/yr cost to the association (and by extension, your Reserve funding requirements).

Preventive Maintenance, Reserve Planning, and regular Infrastructure Inspections work together to maximize owner enjoyment of your property, maximize property values, and minimize the life-cycle cost of being an owner in the association.

Examples:

In three example, we show the use of strategic planning, wise decision-making, and the flexibility possible. The three examples are setting when and how to modernize the two elevators at an older mid-rise condo, evaluating if it is cost-effective to replace a wood fence (that requires regular painting) with a vinyl fence, and planning well in advance to more realistically model a huge re-roofing project in multiple phases, rather than doing all roofs in the same year.

Summary:

Spending money on maintenance is often wise, resulting in lower Reserve funding requirements (and good for property values!). Identifying all your Reserve projects can yield a physically safer property that lowers your insurance premiums, and it prevents an insurance company threatening to "non-renew" your insurance due to hazards on-site.

Recommended Links:

Reserves vs Capital Improvement (here). Don't spend Reserves on Capital Improvement projects!

CAI's national Reserve Study Standards (updated 2023)

Association Reserves "Reserve Component List" eBook download

"Understanding Reserves" book (**updated for 2025**). 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 custom designed for the needs of your association? Launch a free online proposal request by clicking here.

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Webinar Questions Asked by 2025 Attendees

General Reserve Questions

Q: **We are deciding to replace the roof on our laundry building & pool bath building because it is old and about to leak. Our roofer is recommending we replace the roof, but we do not yet have any leaks, and it's not to to the point of being unsightly. Should we wait till we have a leak or problem?**

A: No**.** A roof nearing the end of life doesn't always mean it's time for immediate replacement, but leaking roofs get very expensive to replace. If your roofer, whom you trust, recommends replacement due to deterioration, it's usually best to replace it. You're going to have a hard time explaining the re-roofing of that building going over budget because you didn't take the advice of your professional.

Q: **What is the recommended % of HOA fees that should be allocated to reserves, and how can we determine the appropriate total reserve fund level for a community of our size?**

A: Great question! In general, we find that most associations need to set aside 15-40% of their budget towards Reserves in order to offset ongoing deterioration and prepare for future projects. The appropriate Reserve balance for an association is called its "Fully Funded Balance", and is the deteriorated $ value of its Reserve components. These are two of the three standard results you'll find in your updated Reserve Study (in addition to the development of the Component List). Join us for our upcoming Reserve Studies 102 webinar, or search for the latest version of it on our website or on YouTube, where we'll discuss these two Reserve Study financial results.

Q: **If the base of the parking lot has cracked, is resurfacing still recommended?**

A: Cracks in the base indicate structural issues. Resurfacing without addressing base problems is a short-term fix, like painting rotted wood or putting lipstick on a pig. If the base is failing, a full-depth repair is likely warranted at this time. Check with your asphalt professional or local credentialed Reserve Study professional.

Q: **Does a reserve study include the cost of maintenance of real (living) turf vs replacing real turf with artificial turf?**

A: Reserve Studies focus on major repairs and replacements, not maintenance. Care for "real turf" is usually handled through the landscape maintenance budget. Installing artificial turf is likely a capital improvement (thus an inappropriate use of Reserve funds), but after installation the ongoing care and future replacement could be Reserve projects. Check with your local credentialed Reserve Study professional for your specific situation.

Q: **We have a front gate that seems to chronically need repair. Any ideas on how these costs can be kept to a minimum?**

A: Chronic repairs often signal a component nearing the end of its useful life. At some point, repeated repairs become more expensive than a full replacement. Check if the gate system is a reserve component and check with your local credentialed Reserve Study professional if it's now time to be replaced.

Q: **Do you encourage Boards to implement a Preventive Maintenance schedule?**

A: Absolutely! Preventive maintenance extends component life, reduces unexpected failures, and saves money. A Reserve Study is only one part of smart financial planning—proper maintenance helps delay costly replacements and improves overall association financial health.

Q: **I like the idea of phasing projects when there isn't enough in reserves. My HOA did this with roofs a few years ago. At our annual meeting last November, I floated the idea of doing something similar with painting, which is coming up in a few years. A former board member stated that all the 39 buildings were painted at the same time and must be painted together. Obviously, "need" and "finances" are in play here. Please name some examples of items that have been phased (in addition to roofing).**

A: Roofing, painting, and asphalt work are commonly phased projects. Instead of replacing everything at once, work can be done in sections over multiple years. Remember that "economies of scale" are also a factor, sometimes tipping the decision towards doing projects "all at once". Sometimes disruption is a factor, believing it best to get the work done at once very efficiently, rather than dragging out projects over multiple years. Discuss with your local credentialed Reserve Study professional to develop a "best fit" for your association.

Q: **How do you determine whether to repair or replace - I understand that if it costs more than it's worth, then replace. But what's the formula for what it is worth now?**

A: The formula is pretty simple: The fraction of life left (e.g.: two years left out of a total 10 yr life = .2) multiplied by the current replacement cost.

Q: **How do we get on track to get maintenance started, do you recommend in-house maintenance or outside contractors?**

A: Start with a professional Reserve Study to establish a master plan, then ask your current service providers (painter, roofer, pool service, etc.) for what can be done to better maintain your existing assets. Then go from there. , it depends on your staff's expertise. If in-house staff can add preventive maintenance projects to their workload, great! Otherwise, get outside help. Then in subsequent years tune your Reserve Study and preventive maintenance planing to maximize life and minimize costs.

Q: **What is the best approach to initiating a Reserve Study, if your HOA has never done one?**

A: Step one: Hire a qualified Reserve Specialist (a firm that uses "Reserve Specialists" – abbreviated "RS", or "Professional Reserve Analysts – abbreviated "PRA"). The goal is to identify all major components, estimate useful life and costs, and develop a long-term funding plan that evenly spreads out the cost of ongoing deterioration over all the owners.

Q: **When should an HOA consider a "one time" special assessment versus using reserves. For example, if reserves are below 50%, should a "one time" assessment be considered?**

A: Special assessments should always be your last option, as they are so unfair (making one set of owners shoulder the financial burden that should have been spread out over many years). Work with your local credentialed Reserve Study professional to develop a wise plan that complies with the national Reserve Study Standards Four Funding Principles: Sufficient funds when needed, Budget Stability, Equitable Distribution over the owners over the years, and Fiscally Responsible. should be the first choice.

Q: **A roofing company has provided a 10-year labor/leak warranty and a 25-year manufacturer's material warranty. In addition, they offer a $5,000 annual 2-visits per year maintenance contract. Is it worth having a maintenance contract?**

A: Depends on the cost of your roof! Regular inspections and maintenance extend roof life and prevent expensive failures. Evaluate the contract details and discuss with your local credentialed Reserve Study professional. If it prevents a $50,000 or $100,000 premature replacement, it could be a good investment.

Q: **How can we decide between limping through expensive elevator repairs, or a painful special assessment? They are old and recently have been unreliable. Our elevator maintenance company says staff knowledgeable of our equipment have been retiring. We have been saving, holding off on other reserve projects because of the cost. How do we navigate this?**

A: If elevators are failing, this is a health and quality of living issue (people unable or reluctant to handle stairs become home-bound) forcing your hand. Remember that it is the board's job to provide for the proper function and sustainability of the common areas. Elevator modernization is expensive, but very predictable. It is unfortunate that prior boards didn't set funds aside appropriately. Discuss with your local credentialed Reserve Study professional. It may be time to bite the bullet, pass a special assessment, and get it done.

Q: **We've had a Reserve Study completed a couple years ago and we're due for a new one. I wasn't on the board at the time of the last one so this is all new to me. Do you provide recommendations for companies/contractors that can complete repairs/maintenance? If not, how are the estimated costs determined?**

A: No, to maintain their independence Reserve Study professionals do not provide contractor recommendations. Local trade organizations (the Community Associations Institute, or "CAI") are great places to meet and interview potential companies/contractors to actually perform work on your association. Cost estimates appearing in your Reserve Study are regularly based on costs for similar projects performed on similar associations to yours, and market trends.

Q: **What strategies are being used to invest reserve funds responsibly?**

A: Low-risk, interest-bearing accounts like CDs, treasury bonds, or money market funds are the best options. Safety (protection of principle… meaning no possibility of loss) and sufficient liquidity to perform scheduled Reserve projects in a timely manner are key. Consult with a community association investment professional to develop a plan for your association.

Q: Should we be adjusting our Reserve Study as projects are completed throughout the year? How else could the Board or manager keep a running total of overall Percent Funded throughout the year without having to wait for the analyst to provide that information in their annual updates?

A: Actually, annual Reserve planning is national "Best Practice". It gives you regular data points once a year to "mark your trail" forward. "Work the plan" during the year, and get your new benchmark #s in your updated Reserve Study to guide your association forward the subsequent year. Micromanaging your Reserve Percent Funded throughout the year is not recommended.

Reserve Component Questions

Q: We are a new, theoretically low-cost association (35 units and a common bldg) with long life assets. We have special triple pane windows. We also have long-life James Hardie fiber-cement siding. We've been told the siding life cycle is "forever". Do we just maintain the components with monthly budgets and have "special assessments" when some will need replacement? All should not be at the same time and one window as it needed replaced.

A: Nothing lasts forever. Siding, windows, and roofing may have long life expectancies, but because they do, you'll want to spread out the cost of replacement over all the owners who enjoyed living in your association. Everyone should pay their fair share. Get a Reserve Study prepared by your local credentialed Reserve Study professional, and enjoy your low Reserve funding recommendation!

Q: Please give an example of a maintenance that can be charged as a reserve expense. Our Property Manager insists that maintenance costs should never be charged to reserves. The expense in question was cleaning and adding a moss treatment to the roof, which technically extends the life of the roof.

A: Fixing shingles or roof vents, cleaning and checking the integrity of your boiler, chiller, heat exchanger, a 5-yr load test on your elevator, etc. Many regularly scheduled projects pass the national Reserve Study Standards 3-part test (that it be a common area responsibility, that it be reasonably predictable, and above a cost threshold that is significant to the association. Trivial maintenance should be handled from the Operating Budget (fixing a gate), but scheduled maintenance or projects that extend the Remaining Useful Life of a component regularly qualify as Reserve projects. Discuss with your local credentialed Reserve Study provider (your manager is not the authority in this matter).

Q: We are an HOA regulated by FL Chapter 720, but act like a condominium in that the HOA (per our documents) is responsible for all exterior maintenance, including building repairs, painting, and roof replacement and repairs. Those three are by far the largest components of our reserve plan.

Planned repainting and roof replacement clearly qualify as reserve items, being significant in cost, HOA responsibility and having a predictable schedule. We have a good handle on forecasting those costs and assessing reserves accordingly.

Unplanned expenses are less obvious. Building repairs, associated repainting and roof leaks are smaller and not insignificant, but are unpredictable. Do we maintain a reserve account for each category with a balance goal of average spending, maybe on the high side, and replete it each year? Or is it not part of reserves at all, because there's not a predictable schedule?

A: Discuss with your local (FL) credentialed Reserve Study professional. That person will help you discern between Operating budget projects and legitimate Reserve projects. Bottom line… likely you'll need a healthy Operational Maintenance budget to complement your Reserve funding.

Q: Our Reserve Study has the replacement of windows and sliding doors as components. The cost to fully replace these has escalated sharply in the last two years. For at least a few years, the board has been replacing these on a "need-to" basis, e.g., a window breaks or leaks for whatever reason. The current HOA president and a past board member claim that these items don't fail and that they should be removed from the RS, which would improve our weak Percent Funded. Our RS Project Manager says they should remain in the RS because they appear to be HOA responsibility per the Governing Docs. What should we do?

A: Remember – your goal is not a "high Percent Funded". Your goal is a well maintained property with maximized owner enjoyment and property values. Perhaps get a legal opinion to clarify maintenance responsibility (owner or association… you don't want to rely on a Reserve Study professional interpreting Governing Documents!). Clearly, windows and sliding doors are failing, so that is a real issue. Presuming they are indeed "common area", work with your Reserve Study professional to properly fund for the ongoing repairs and replacements of these assets.

Q: What are your thoughts on including significant administrative projects to the Reserve Study? For example, governing documents should be updated periodically, especially with statute changes and updates, perhaps every 10 years. The cost with legal fees is significant and it could potentially be predictable and should probably be considered something the association is responsible for.

A: Yes, such a project could comply with the national Reserve Study Standards three part test: association responsibility, predictable, significant cost.

Q: So, are elevators part of reserve components?

A: Yes. Elevator modernization regularly passes the national Reserve Study Standards three part test and thus is funded through Reserves.

Q: I have noticed in many Reserve Studies that some of the long-term components are electrical panels, waste lines, balcony repairs/inspections and preventive maintenance. Can these be added to a Reserve Study?

A: Yes, if your Reserve Study professional feels they pass all three portions of the national Reserve Study Standards three-part test. Many of the projects you list regularly appear in Reserve Studies.

Q: I assume UL stands for "Useful Life" so does RUL mean realistic life?

A: Sorry to not be more clear on this matter. RUL = Remaining Useful Life.

Q: **For our driveway, the UL is 25 years, and the maintenance (sealing) is every 5 years. Why not assume the maintenance will be done as stated and start with RUL as 30 or 35 years?**

A: Likely your Reserve Study professional is assuming that the sealing will be done per the plan. Without regular sealing, the Useful Life of the driveways might be only 15 or 20 years.

Q: **Can the repair or replacement of an item (say bollard lights) due to vandalism come out of reserve funds?**

A: No, a single light fixture replacement typically is too small a cost to be a Reserve component. Fix it (or replace it) as an Operational Maintenance expense, and move on. Reserves are for scheduled projects. Breakage or vandalism is typically handled from the Operational budgetg.

Q: **If a board decides to remove trees due to fire safety reasons, is that considered a capital improvement expense, reserve expense, or operating expense?**

A: Typically an operating expense. Check with your local credentialed Reserve Study provider to ensure that the national Reserve Study Standards three-part test is properly applied.

Q: **It seems to me that most reserve studies are too conservative, meaning the useful lives are not calculated for as long as most associations get out of them. How do you determine useful life?**

A: We prepare our Reserve Studies as decision-making guides for our board/manager clients based on our experience observing, day-in and day-out, all through the year, how fast things deteriorate. From our perspective, "it seems to me" that our clients often try to squeeze more life out of a component than they readily have, resulting in deteriorated appearances, lower owner enjoyment, and possibly lower property values.

Q: **In your example of choosing to repair or replace an 18-yr old asset that is only "worth" $20,000 at that time (by straight-line depreciation), you said it wouldn't be good to spend $30,000 just to fix it. I understand. But what if that "fix" would extend the life by 5 years? Would that be a good expenditure?**

A: In that example, the (roof) asset was deteriorating at the rate of $10,000/yr over 20 years. If the "fix" would just get it to its original failure in two more years, that would be $30,000/2 = $15,000/yr, or a net bad decision. But if the "fix" of $30k would add 5 years of life, that would mean an investment of $30,000 for 5 more years of life = $6,000/yr. Since that is less than the original $10,000/yr deterioration rate, it appears that "fix" would be a cost-effective way to get a few more years out of the asset.

Q: **I understand the rate of deterioration formula is the current replacement cost divided by the useful life. Is there another formula for calculating how the rate of deterioration is affected when there is preventative maintenance in place or does that depend on the component?**

A: Same formula. One recalculates that new cost/yr of deterioration for the presumed extended life of the component and the cost/yr of periodic maintenance projects, to that original deterioration cost/yr. That's how you learn if the cost of regular maintenance that yields a longer Useful Life is actually cost effective.

Q: **When doing the annual reserve study, does the replacement cost increase each year according to the CPI?**

A: Generally, yes. Costs increase over time. Associations need to increase Reserve Funding on a regular basis to keep up.

Q: **What does the term "Extended cost" mean under the component details of a reserve study?**

A: That is not a term defined in national Reserve Study Standards, I would have to see that term used in context in order to respond.

Q: **My metal benches are covered in vinyl. The UL is 30 years, with 10 RUL. But the vinyl is cracking, and the metal is rusting. Should we consider maintenance or repair to extend the life or move to replace it?**

A: If repairs are a temporary fix, replacement is the better long-term financial decision. It seems to me that the true Useful Life that you are experiencing for this component at your association is 20 years, not 30!

Q: **As a manager, we commonly review the component details and explain replacement costs and those without any remaining life. How do we explain this as it relates to the rate of deterioration? As in, do we recommend they anticipate the replacement cost plus the annual rate of deterioration?**

A: The "Deterioration rate" is another (better) way for boards and managers to understand the cost of life at the association, and thus their responsibility to make properly sized Reserve transfers. The cost of deterioration is not "in addition to" the cost of repair or replacement. The cost of deterioration helps you understand that a $100,000 project spread over 20 years is effectively "costing" the association $5,000 per year.

Reserve Funding Questions

Q: **Is it okay to utilize the reserve funds for a reserve item when its useful life was less than expected?**

A: Yes. Reserve funds exist to cover planned replacements, even the timing does not occur exactly according to plan.

Q: **We recently experienced a once-in-10-year snow and ice event and the bill was totally unanticipated ($17k+). Can reserve funds be used for that? There was no snow removal budget because we hadn't paid for such in over 10 years.**

A: No, reserves are not for unpredictable events or accidents. This should have been an operating expense. You may need to pass a quick special assessment or raise assessments mid-yr to ensure your association remains cash-positive.

Q: **What percentage of your total cost of assets should you keep in your reserve fund? We have much debate in our community regarding how much money we need saved in the reserve fund.**

A: Total cost of assets is not a significant figure to Reserve planning. What's important is the association's Fully Funded Balance (FFB), which is the current deteriorated value of all your Reserve components. That's what you want cash on hand in Reserves to offset… with your Reserve Fund growing as the FFB grows, and dropping as it shrinks (as it does after a major project). We'll go over this in our upcoming Reserve Studies 102 webinar (or you can search for last year's presentations of this material on YouTube).

Interest/Inflation Questions

Q: If a project is expected to be $600,000 now, and is 25 years into its useful life, how do you account for 25 years of anticipated inflation?

A: What we care about is the Remaining Useful Life… how many more years it will grow with inflation until the project needs to be accomplished. We don't care about what that project cost "new" 25 years ago. That's water under the bridge. Most Reserve Studies include inflation adjustments, ensuring that the Funding Plan (with interest compounding on Reserves on-deposit) meets the anticipated cost of that project (x yrs into the future as inflation compounds on that $600,000 current-yr project).