

REPLACEMENT RESERVES & FINANCIALLY SUSTAINABLE COMMUNITIES

AUGUST 29TH, 2016



Housekeeping Note:

This is a “green” presentation.
Paper handouts are not provided.

This presentation is available as a color PDF upon request. Please feel free to download and share with other members of your team.

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FIRST PRINCIPAL:

I am not a “vendor”!

I am a Business Partner

I am your Business Partner!

SECOND PRINCIPAL:

- A Good Reserve Study versus a Great Reserve Study!
- A good Reserve Study provides accurate numbers...
- A great Reserve Study **also** accurately reflects the community's desires and aspirations!

Done through process of review and exchange of information

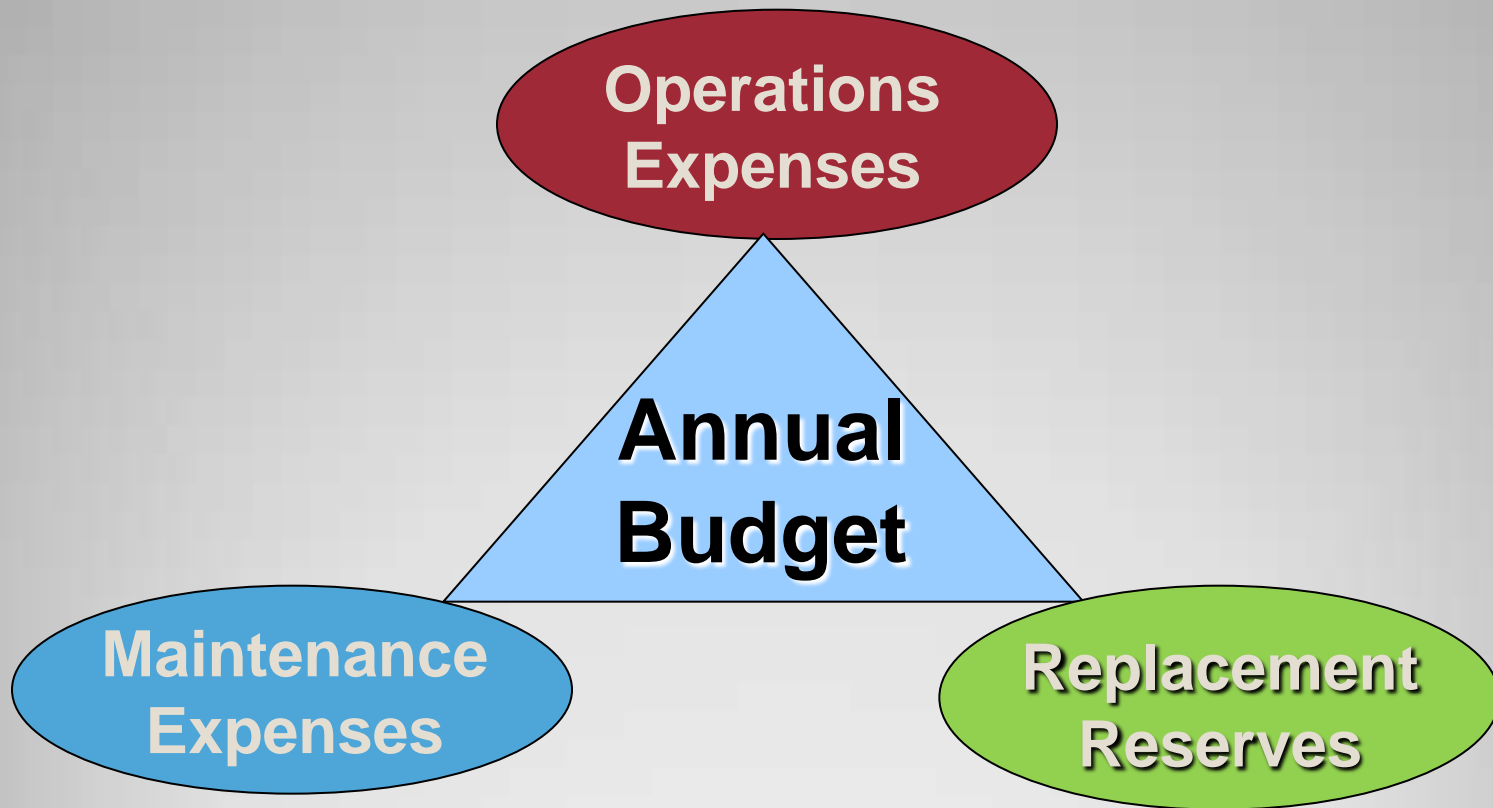
THIRD PRINCIPAL:

- It has to be easy to read and understand! Why?
- If they can't understand it... they're not going to use it!
- And if you can't understand it... you can't explain it!

FOURTH PRINCIPAL:

- **Financially Sustainable Communities!**
- It's not just "Do you have enough Reserves?"
- The whole budget needs to be work toward that goal of being Financially Sustainable!

Annual Budget



“Perhaps the greatest
Duty of the Board of
Directors is to **Protect,
Preserve and Enhance**
the value of the homes
within the community!”



Robert Lyles, Esq. Charleston, SC

Meet Mrs. Jones...

- Retired school teacher,
- Lives on a fixed income,
- Has lived in your HOA for 20 years,
- She is the ideal neighbor!
- As a member of the HOA Board of Directors...

you are foreclosing on her home!



How Could This Happen?

Lack of Planning!

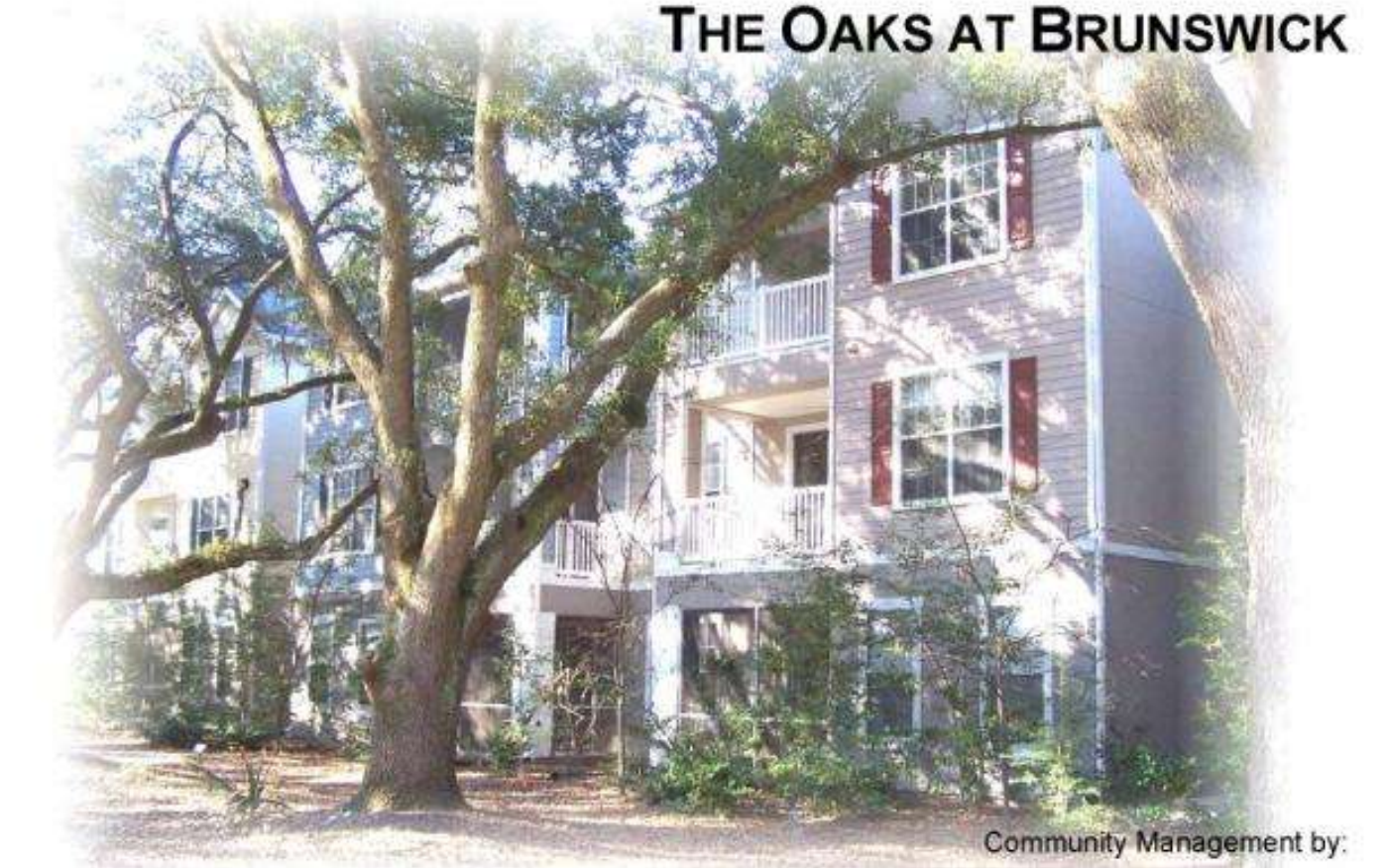
- Resulted in a Special Assessment, or
- Resulted in large increases in Normal Assessments!

Lack of Planning?

- **Inadequate Operations budget** did not plan for or allow for use of professional consultants!
- **Inadequate Maintenance budget** resulted in premature deterioration!
- Lack of planning by the Board resulted in **inadequate Reserves!**

Sample Reserve Study

REPLACEMENT RESERVE REPORT FY 2015
THE OAKS AT BRUNSWICK



Community Management by:



**Townhouse Condo
216 Units
Built in 2007**

Current Reserve Funding: \$90,000

GENERAL SITE IMPROVEMENTS**PROJECTED REPLACEMENTS**

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST (\$)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST (\$)
1	Asphalt road and parking area	sf	157,053	\$1.30	20	15	\$204,169
2	Seal coat asphalt	sf	157,053	\$0.16	5	none	\$25,128
3	Concrete curb & gutter (20%)	lf	1,072	\$34.00	54	6	\$36,448
4	Concrete flatwork (6%)	sf	817	\$8.50	60	8	\$6,945
	Repoint masonry entrance feature	sf	20				
5	Sandblasted wood signage	ls	1	\$1,200.00	15	10	\$1,200
6	Segmental retaining wall, 30%	sf	697	\$45.00	40	35	\$31,361
7	Mailboxes	ls	1	\$18,000.00	25	15	\$18,000
8	Dumpster pad	sf	816	\$10.00	25	20	\$8,160
9	Dumpster enclosure stucco repair	sf	805	\$12.75	50	45	\$10,264
10	Dumpster trellace	ls	1	\$1,500.00	20	15	\$1,500
11	Dumpster gates	pr	1	\$1,000.00	10	5	\$1,000
12	Site lighting	ea	26	\$2,100.00	30	25	\$54,600
13	Sanitary sewer - mains (10%)	unit	216	\$155.00	20	15	\$33,480
14	Domestic water - mains (10%)	unit	216	\$95.00	20	15	\$20,520
15	Storm water - structure & pipe (10%)	unit	216	\$185.00	20	15	\$39,960
16	Storm water pond dredging	ls	1	\$50,000.00	20	15	\$50,000
GENERAL SITE IMPROVEMENTS - Replacement Costs - Subtotal							\$542,734

CONDOMINIUM BUILDING EXTERIORS, Con't (CB)
PROJECTED REPLACEMENTS

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST (\$)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST (\$)
34	CB Windows, 20%	sf	2,232	\$35.00	30	21	\$78,120
35	CB Windows, 20%	sf	2,232	\$35.00	30	23	\$78,120
36	CB Windows, 20%	sf	2,232	\$35.00	30	25	\$78,120
37	CB Windows, 20%	sf	2,232	\$35.00	30	27	\$78,120
38	CB Windows, 20%	sf	2,232	\$35.00	30	29	\$78,120
39	CB Window shutters	pr	160	\$100.00	15	10	\$16,000
40	CB Doors, 20%	ea	43	\$950.00	25	18	\$41,040
41	CB Doors, 20%	ea	43	\$950.00	25	19	\$41,040
42	CB Doors, 20%	ea	43	\$950.00	25	20	\$41,040
43	CB Doors, 20%	ea	43	\$950.00	25	21	\$41,040
44	CB Doors, 20%	ea	43	\$950.00	25	22	\$41,040
45	CB Patio doors, 20%	ea	12	\$1,470.00	25	18	\$17,640
46	CB Patio doors, 20%	ea	12	\$1,470.00	25	19	\$17,640
47	CB Patio doors, 20%	ea	12	\$1,470.00	25	20	\$17,640
48	CB Patio doors, 20%	ea	12	\$1,470.00	25	21	\$17,640
49	CB Patio doors, 20%	ea	12	\$1,470.00	25	22	\$17,640

CONDOMINIUM BUILDING EXTERIORS, Con't (CB) - Replacement Costs - Subtotal **\$700,000**

**SWIMMING POOL
PROJECTED REPLACEMENTS**

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST (\$)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST (\$)
66	Swimming pool - structure	sf	990	\$70.00	45	40	\$69,300
67	Swimming pool - finish	sf	990	\$3.50	10	4	\$3,465
68	Swimming pool - waterline tile	ft	135	\$40.00	15	10	\$5,400
69	Swimming pool pump (2 - 5 hp)	ea	1	\$3,200.00	10	5	\$3,200
70	Swimming pool filter/chlorinator	sf	990	\$4.00	20	15	\$3,960
71	Swimming pool valves & plumbing	sf	990	\$2.00	20	15	\$1,980
72	Swimming pool - concrete deck, 25%	sf	480	\$10.25	30	5	\$4,920
73	Swimming pool - concrete deck, 25%	sf	480	\$10.25	30	10	\$4,920
74	Swimming pool - concrete deck, 25%	sf	480	\$10.25	30	15	\$4,920
75	Swimming pool - concrete deck, 25%	sf	480	\$10.25	30	20	\$4,920
76	Swimming pool deck coating	sf	1,920	\$10.00	10	6	\$19,200
77	Swimming pool furniture (50%)	ls	1	\$1,950.00	8	1	\$1,950
78	Swimming pool furniture (50%)	ls	1	\$1,950.00	8	3	\$1,950
79	Spa structure	sf	50	\$100.00	45	40	\$5,024
80	Spa finish	sf	50	\$10.00	10	4	\$500
81	Spa waterline tile	lf	25	\$40.00	15	10	\$1,005
82	Spa filter/chlorinator	ls	1	\$2,500.00	20	15	\$2,500
83	Swimming pool lighting	ea	7	\$900.00	30	25	\$6,300
84	Pool perimeter fence - 6' (metal)	ft	186	\$55.00	30	25	\$10,230
85	Swimming pool retaining wall	sf	165	\$40.00	35	30	\$6,600
SWIMMING POOL - Replacement Costs - Subtotal							\$162,244

PROJECTED REPLACEMENTS - YEARS 4 TO 6

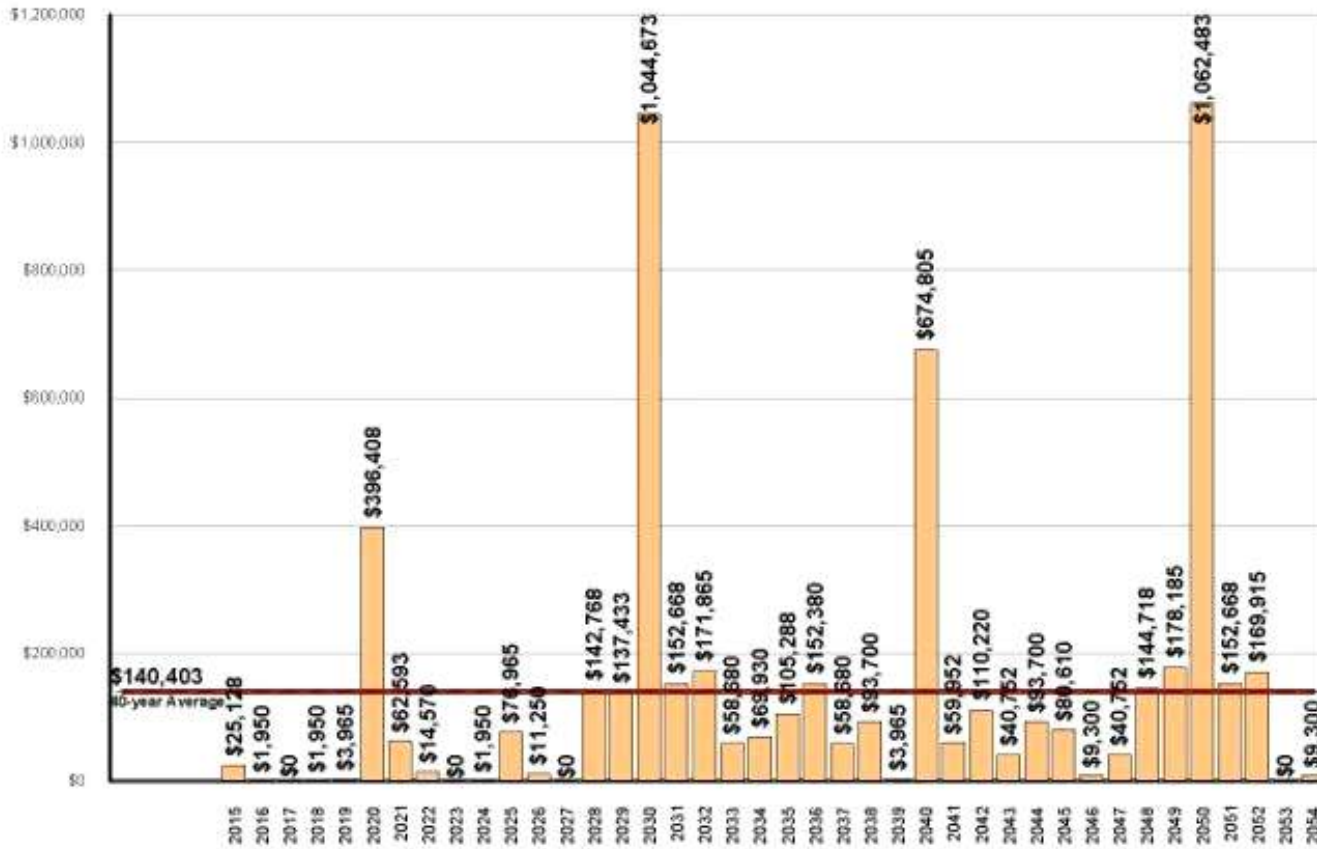
Item	2018 - YEAR 4	\$	Item	2019 - YEAR 5	\$	Item	2020 - YEAR 6	\$
78	Swimming pool furniture (50	\$1,950	67	Swimming pool - finish	\$3,465	2	Seal coat asphalt	\$25,128
			80	Spa finish	\$500	11	Dumpster gates	\$1,000
						27	CB EIFS coating	\$344,960
						69	Swimming pool pump (2 - 5	\$3,200
						72	Swimming pool - concrete d	\$4,920
						88	CO EIFS coating	\$10,836
						95	FC EIFS coating	\$3,864
						99	FC HVAC system	\$2,500
Total Scheduled Replacements		\$1,950	Total Scheduled Replacements		\$3,965	Total Scheduled Replacements		\$396,408

PROJECTED REPLACEMENTS - YEARS 25 TO 27

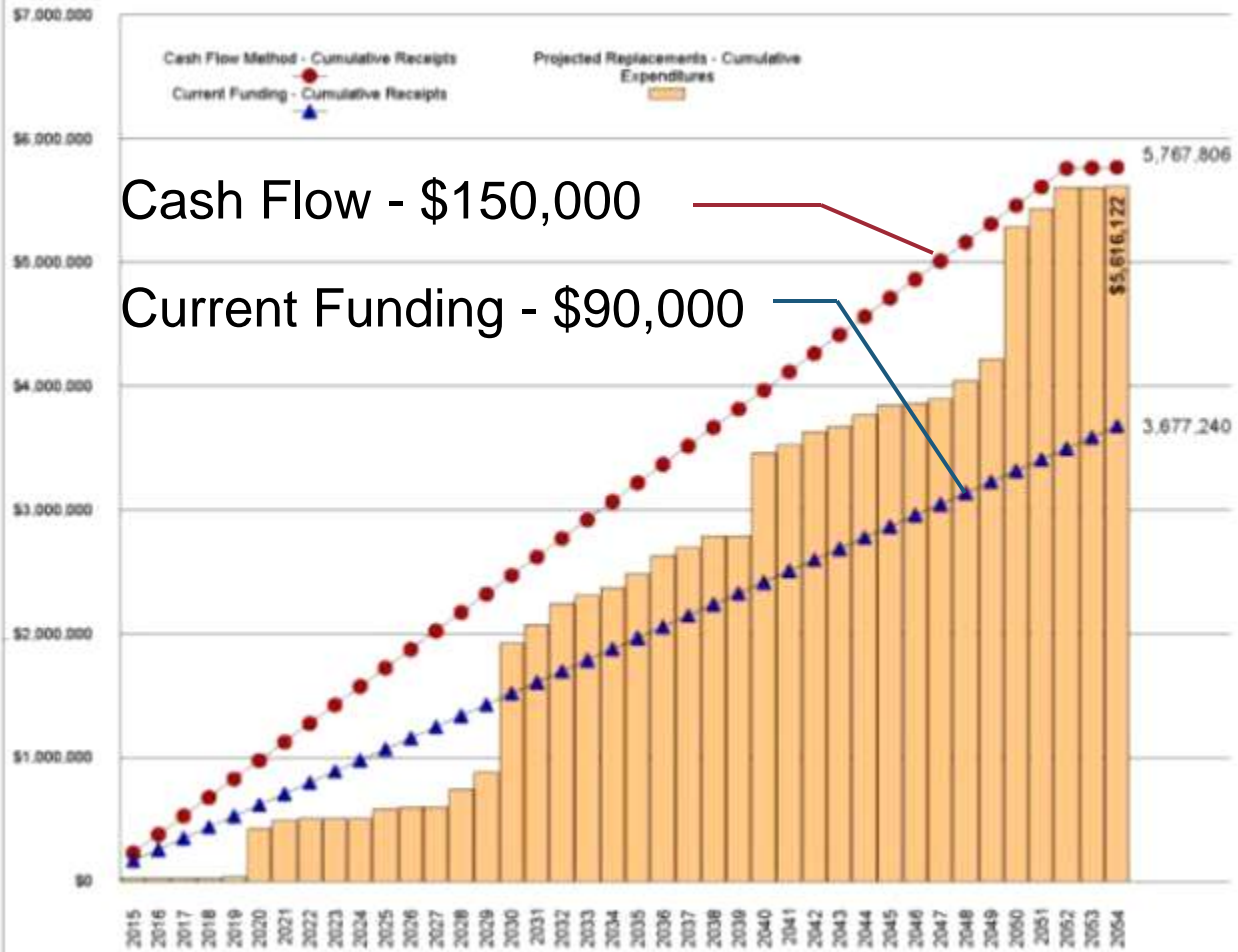
Item	2039 - YEAR 25	\$	Item	2040 - YEAR 26	\$	Item	2041 - YEAR 27	\$
87	Swimming pool - finish	\$3,485	2	Seal coat asphalt	\$25,128	29	CB Vinyl siding, 20%	\$40,752
80	Spa finish	\$500	5	Sandblasted wood signage	\$1,200	76	Swimming pool deck coating	\$19,200
			11	Dumpster gates	\$1,000			
			12	Site lighting	\$54,600			
			27	CB EIFS coating	\$344,960			
			36	CB Windows, 20%	\$78,120			
			39	CB Window shutters	\$16,000			
			55	CB Balcony structure	\$58,800			
			56	CB Balcony surface	\$21,112			
			60	CB Stairs, 20%	\$15,580			
			65	CB Exit lights	\$4,500			
			68	Swimming pool - waterline ti	\$5,400			
			69	Swimming pool pump (2 - 5	\$3,200			
			77	Swimming pool furniture (50	\$1,950			
			81	Spa waterline tile	\$1,005			
			83	Swimming pool lighting	\$6,300			
			84	Pool perimeter fence - 6' (m	\$10,230			
			88	CO EIFS coating	\$10,836			
			90	CO Windows	\$8,820			
			91	CO Window shutters	\$1,000			
			95	FC EIFS coating	\$3,864			
			100	FC HVAC condensing unit	\$1,200			
Total Scheduled Replacements		\$3,985	Total Scheduled Replacements		\$674,805	Total Scheduled Replacements		\$59,952

#2 - Annual Expenditures for Projected Replacements Graph

This graph shows annual expenditures for Projected Replacements over the 40-year Study Period. The red line shows the average annual expenditure of \$140,403. Section C provides a year by year Calendar of these expenditures.



#1 - Cumulative Replacement Reserve Funding and Expenditures Graph



Cash Flow - \$150,000

Current Funding - \$90,000

OK! Now What?

- You as the Manager...
- You as a Board Member...
- You as a Finance Committee Member...

What's the Next Step?

You were just handed this report!

It says to increase the Reserve Funding
from \$90K to \$150K!

Holy Cr@p!

That's a \$60K annual increase!

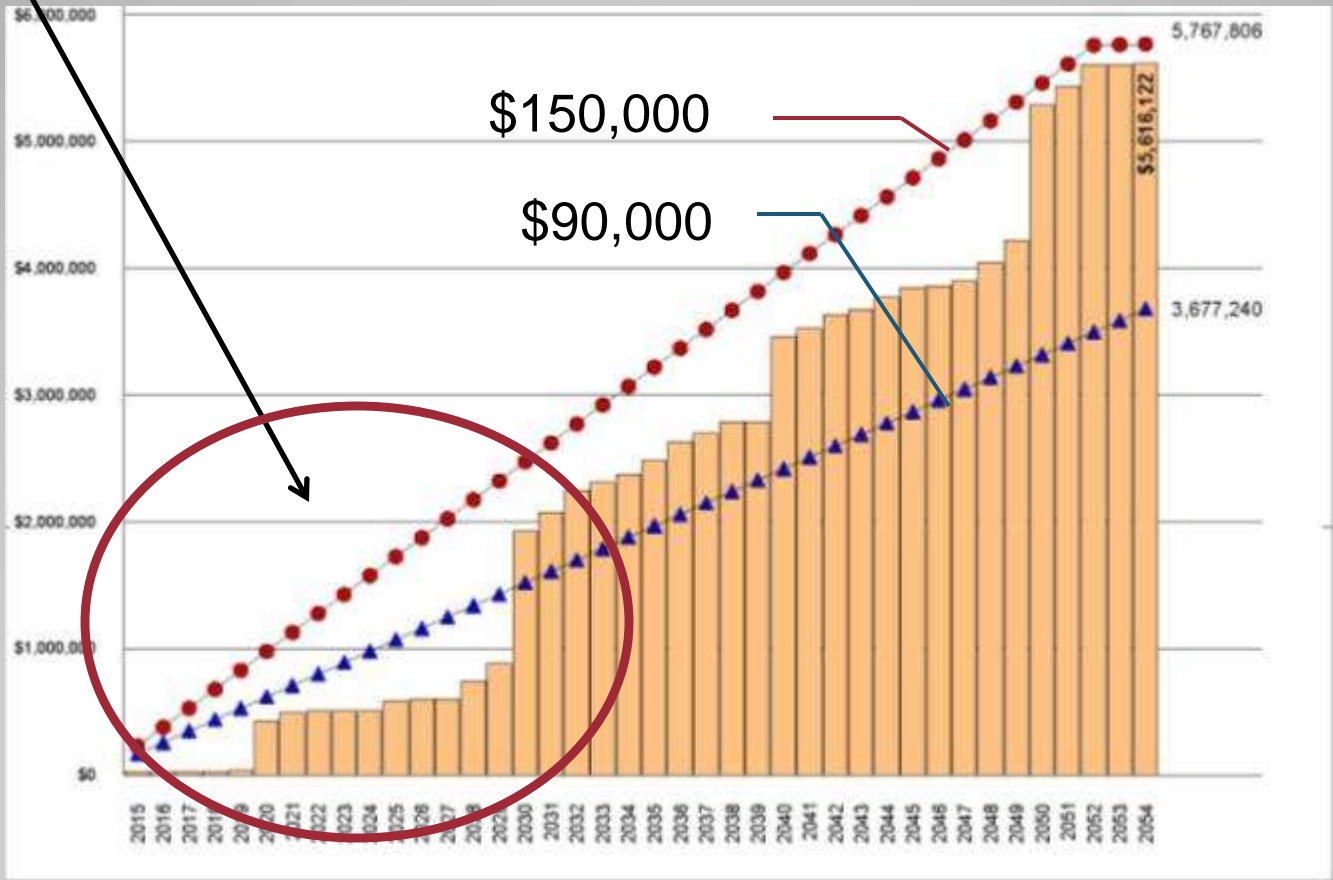
What Are Your Alternatives?

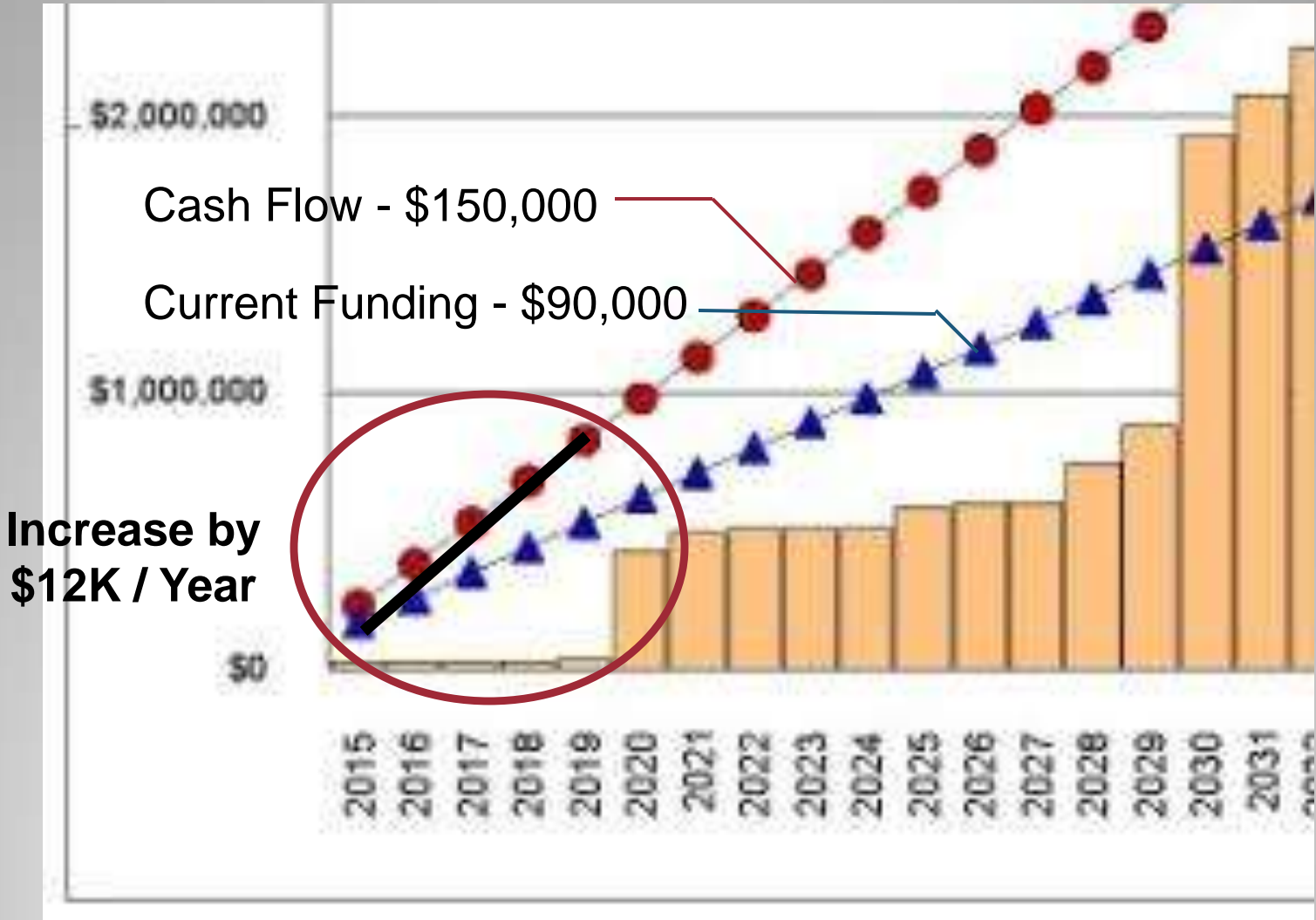
- **Increase Normal Assessments**
- **Special Assessment**
- **Commercial Bank Loan**

Next Steps in this process:

1. Review inventory data.
2. Re-think replacement priorities.
3. Check Cash Flow margins.
4. Develop **Strategic Funding Plan.**

This association has the leeway to “ramp up” rather than have one large increase





Strategic Funding Plan #1

Ramp Up Annual Funding over five years:

Year 1: \$90K to \$102K

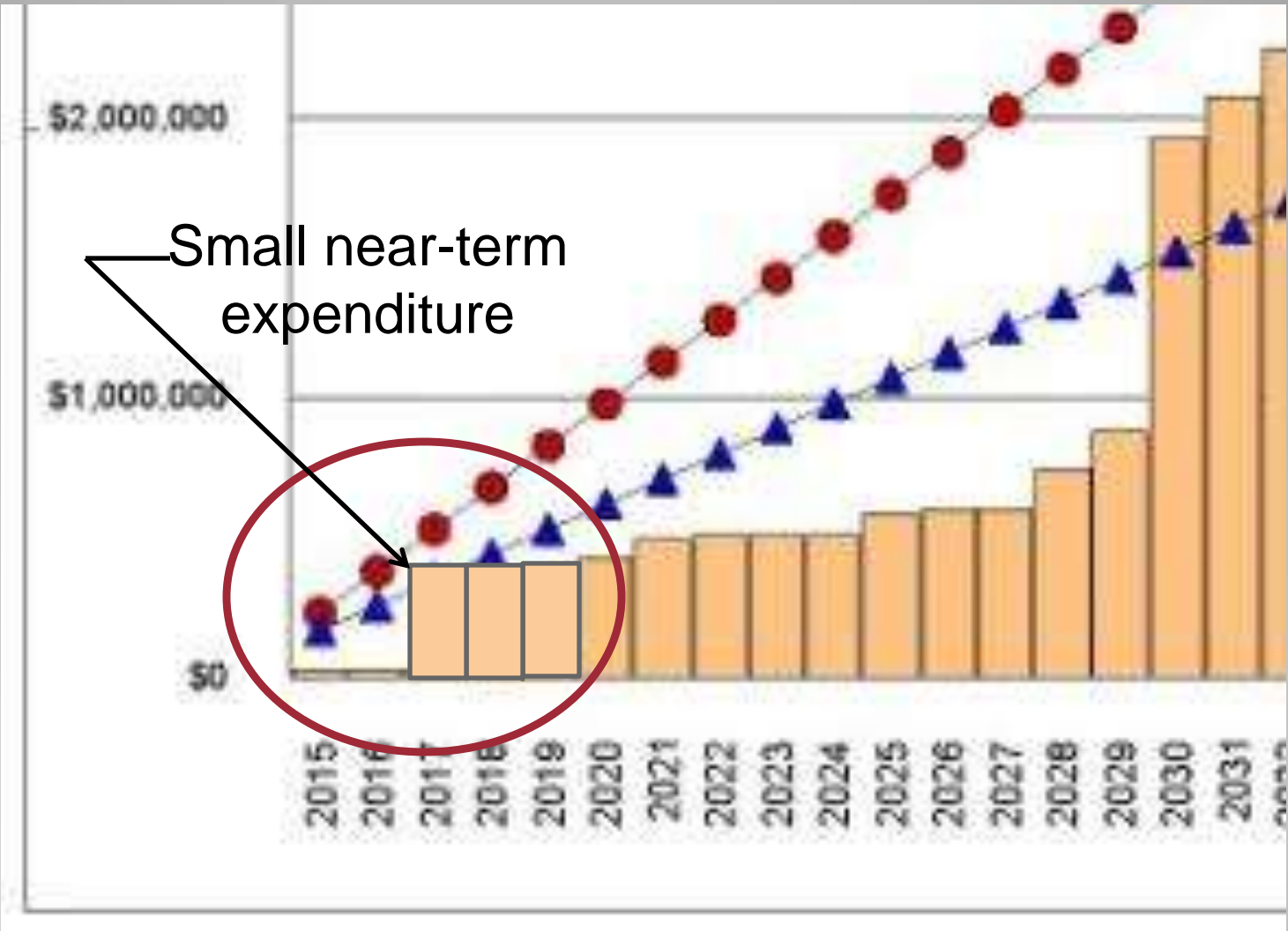
Year 2: \$102K to \$114K

Year 3: \$114K to \$126K

Year 4: \$126K to \$138K

Year 5: \$138K to \$150K *

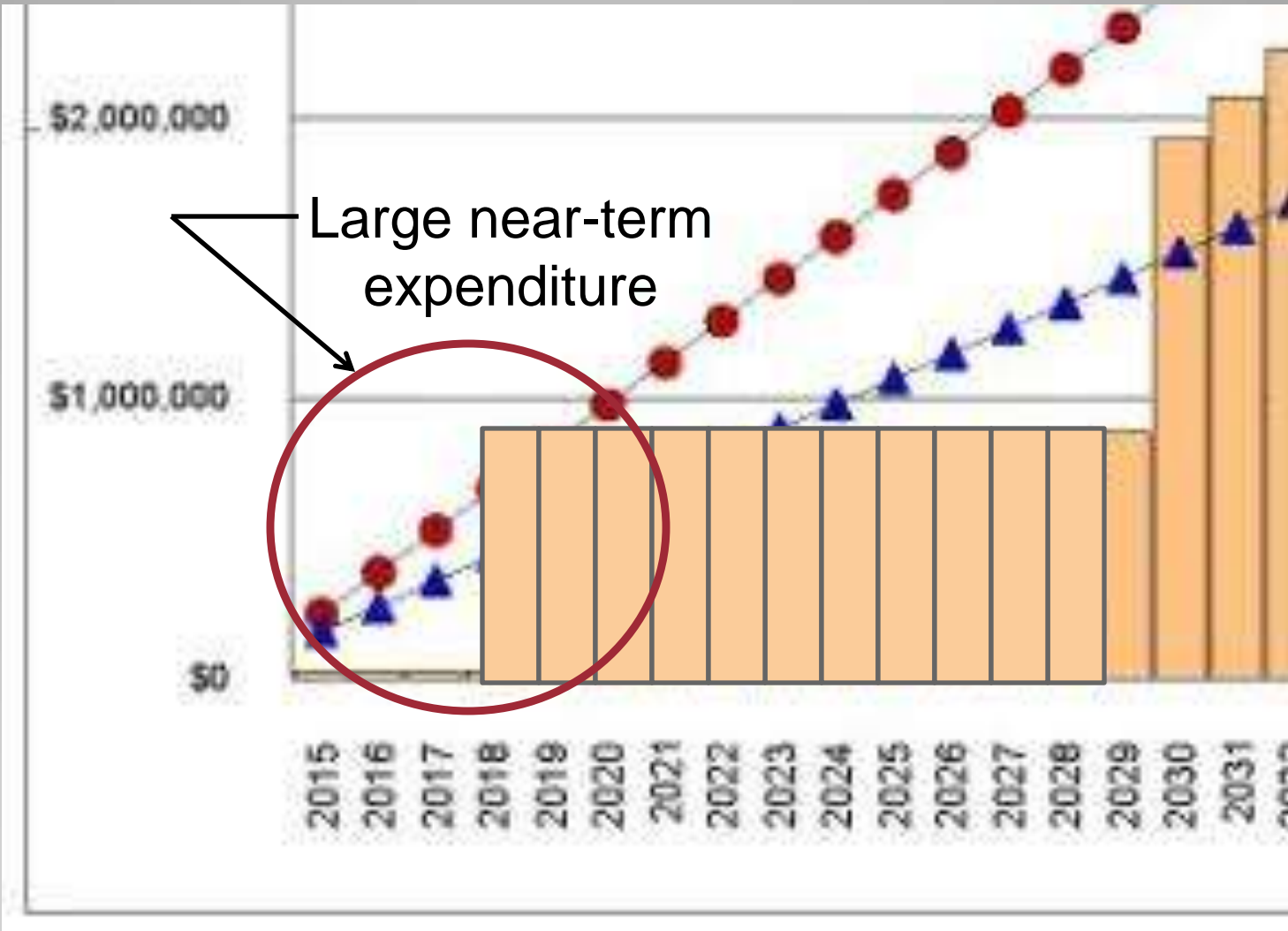
*Year 5 would bring Reserve Study update and would adjust for inflation, underfunding, changed conditions.



Strategic Funding Plan #2

Small Near-term Expenditure

- Increase Normal Assessments as planned,
- Plan for a Special Assessment,
- Combine Special Assessment with Bank Loan..
 - Pay up front, or
 - Pay with interest from bank loan



Key Thoughts:

- Financial crises result not from an event, but from lack of planning!
- The Great Reserve Study is one that is produced through a process of review and input, and that **Accurately reflects the community's desires and aspirations!**
- **Financially Sustainable Communities!**

Questions?