

**PROTECTING, PRESERVING AND  
ENHANCING PROPERTY VALUES**

**REPLACEMENT RESERVE STUDIES!**

**HOA Management Services**

**DECEMBER 15, 2015**

# Housekeeping Note ...

**Please view, download, and share this  
presentation at**

**[www.millerdodson.com](http://www.millerdodson.com)**

# Topics

- Financial Planning (or lack thereof)
- Reserve Funding Pitfall
- Reasons to Maintain Reserves
- Understanding Your Reserve Study
- Developing Strategic Funding Plan

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



**Robert Lyles, Esq.** Charleston, SC 2015

# Meet Mrs. Jones...

- Retired school teacher,
- Lives on a fixed income,
- Has lived in her HOA for 20 years,
- She is the ideal neighbor!
- As a member of the Board of Directors,
- **you are foreclosing on her home!**

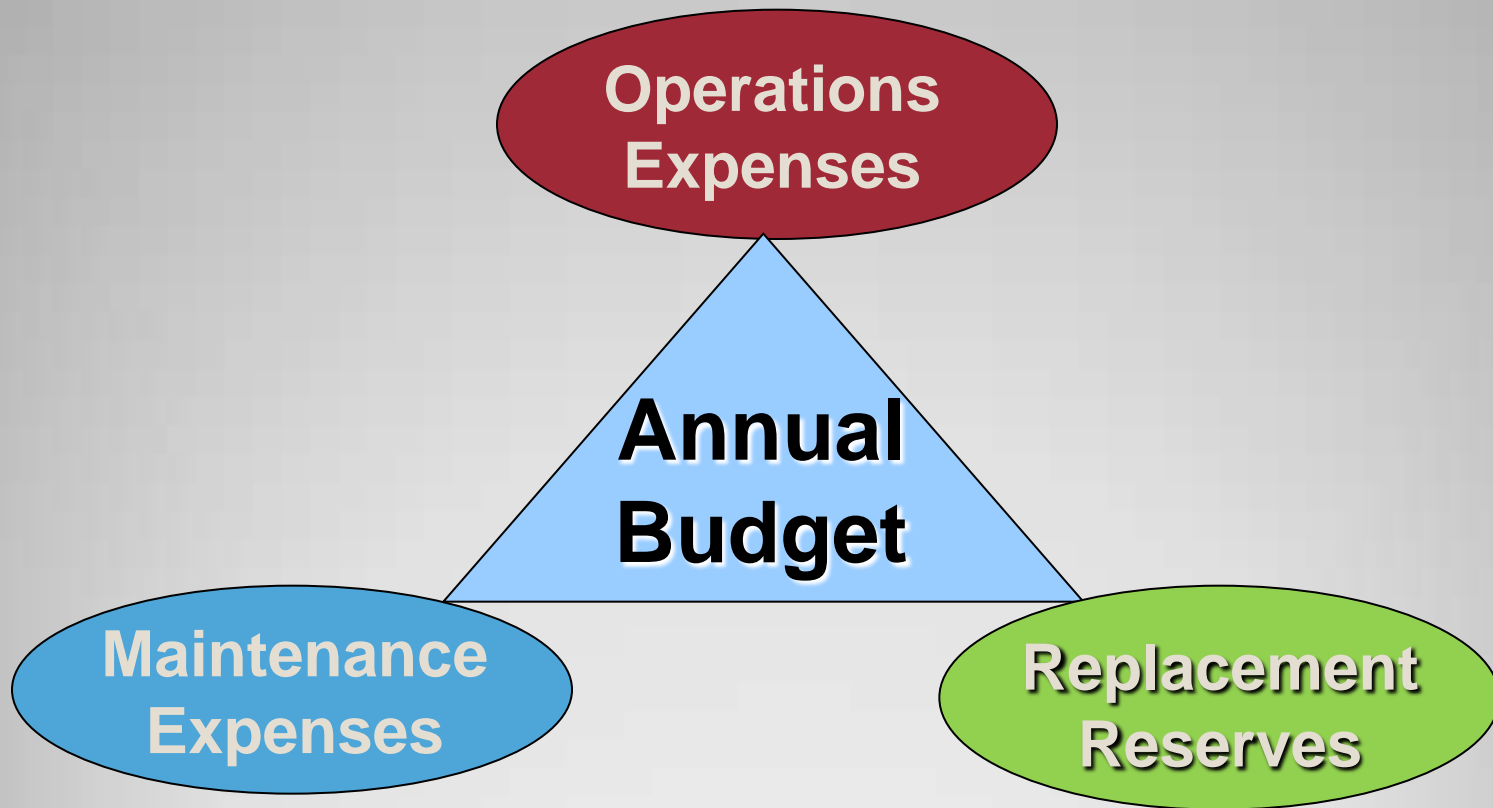


# How Could This Happen?

## Lack of Planning!

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

# Annual Budget



# Lack of Planning?

- **Inadequate Operations budget** did not plan and allow for use of professional consultants!
- **Inadequate Maintenance budget** resulted in early replacement needs!
- Inadequate planning by the Board resulted in **inadequate Reserves!**



# Reserve Funding Pitfall Cycle

- **Lack of Adequate Reserve Funding** will result in **higher future assessments.**
  - **Higher Future Assessments** (or special assessments) will result in **financial hardship for some owners.**
  - **Financial Hardship** result in **more delinquencies.**
  - **More Delinquencies** mean **less annual revenue!**
  - **Less Annual Revenue** means **higher future assessments** for others!
- 

# Reasons for a Reserve Study

- **Legal Aspects**
- **Financial Aspects**
- **Ethical Aspects**

# Legal Aspects

- **State Law**, where applicable;
- **Fiduciary Duty of Board**;
- **IRS Guidelines**;
- **FHA Compliance Guidelines** (Condo Mortgages)

# Financial Aspects

- **Vital data for budgeting process;**
- **Independent professional opinion**
- **Institutionalizes decisions**

# Ethical Aspects

- **Protect, Preserve and Enhance**
  - Property values in the community;
  - Investment of Owners;
- Ensure that everyone pays their fair share for the period of time that they live there!
- Protect Owners from unduly high assessments or Special Assessments!

She has spent **\$9,000** on condo  
association fees over **five years.**

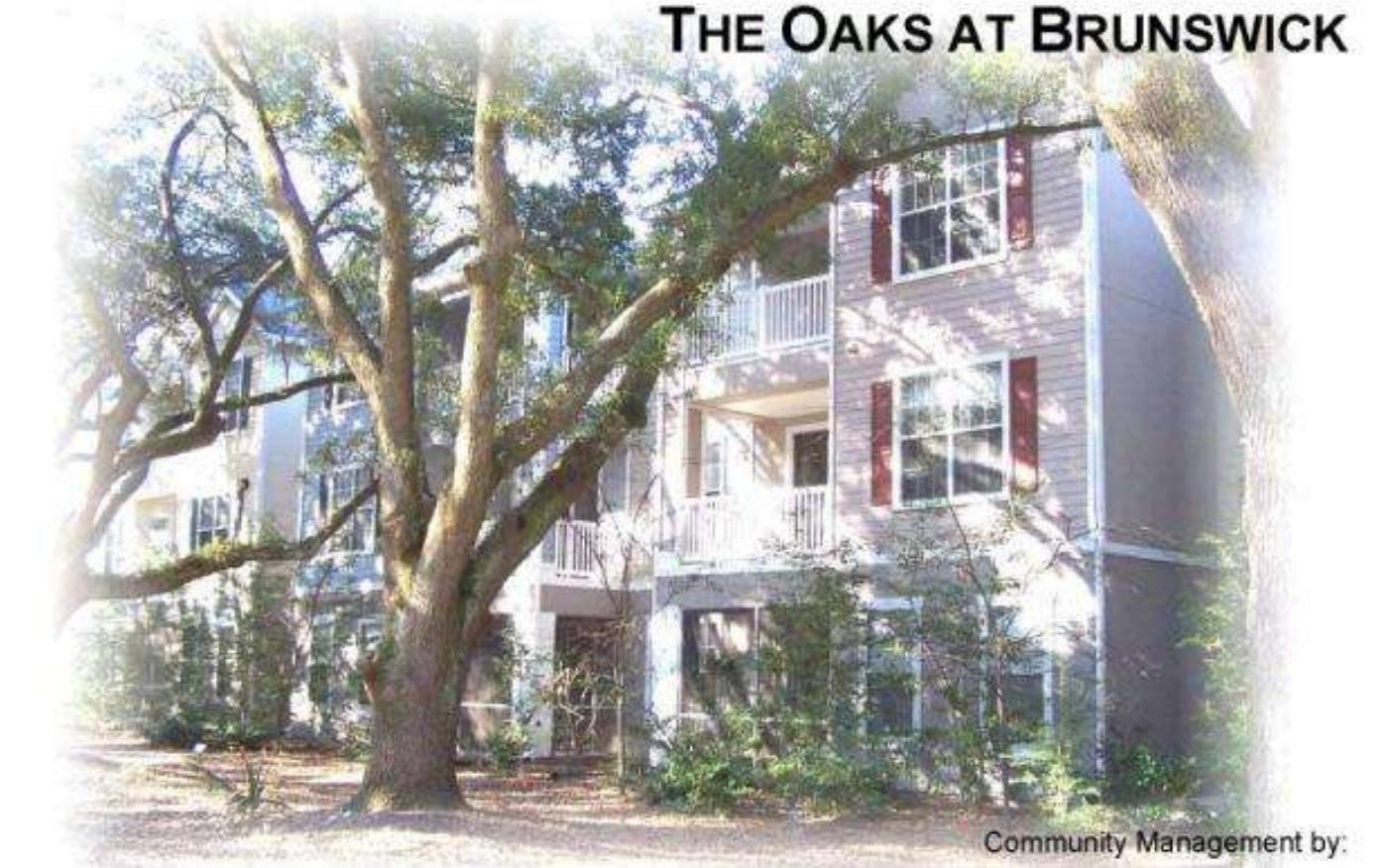


She had to come up with **\$12,000**  
more in **three months.** She couldn't.

# 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	6	\$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
<b>GENERAL SITE IMPROVEMENTS - Replacement Costs - Subtotal</b>							<b>\$542,734</b>

**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
<b>SWIMMING POOL - Replacement Costs - Subtotal</b>							<b>\$162,244</b>

**PROJECTED REPLACEMENTS - YEARS 4 TO 6**

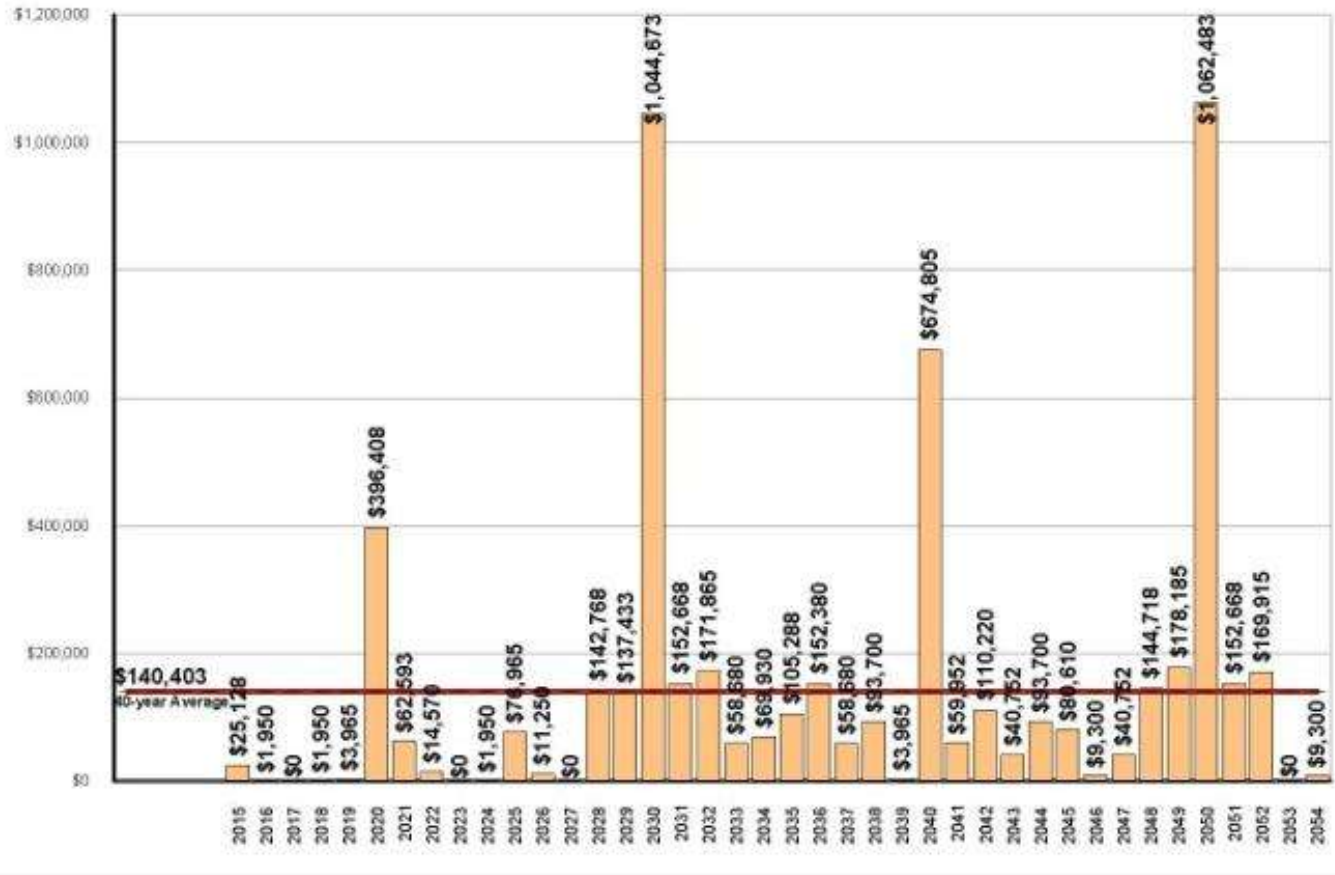
Item	2018 - YEAR 4	\$	Item	2019 - YEAR 5	\$	Item	2020 - YEAR 6	\$
78	Swimming pool furniture (50	\$1,950	67	Swimming pool - finish	\$3,465	2	Seal coat asphalt	\$25,128
			80	Spa finish	\$500	11	Dumpster gates	\$1,000
						27	CB EIFS coating	\$344,960
						69	Swimming pool pump (2 - 5	\$3,200
						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
<b>Total Scheduled Replacements</b>		<b>\$1,950</b>	<b>Total Scheduled Replacements</b>		<b>\$3,965</b>	<b>Total Scheduled Replacements</b>		<b>\$396,408</b>



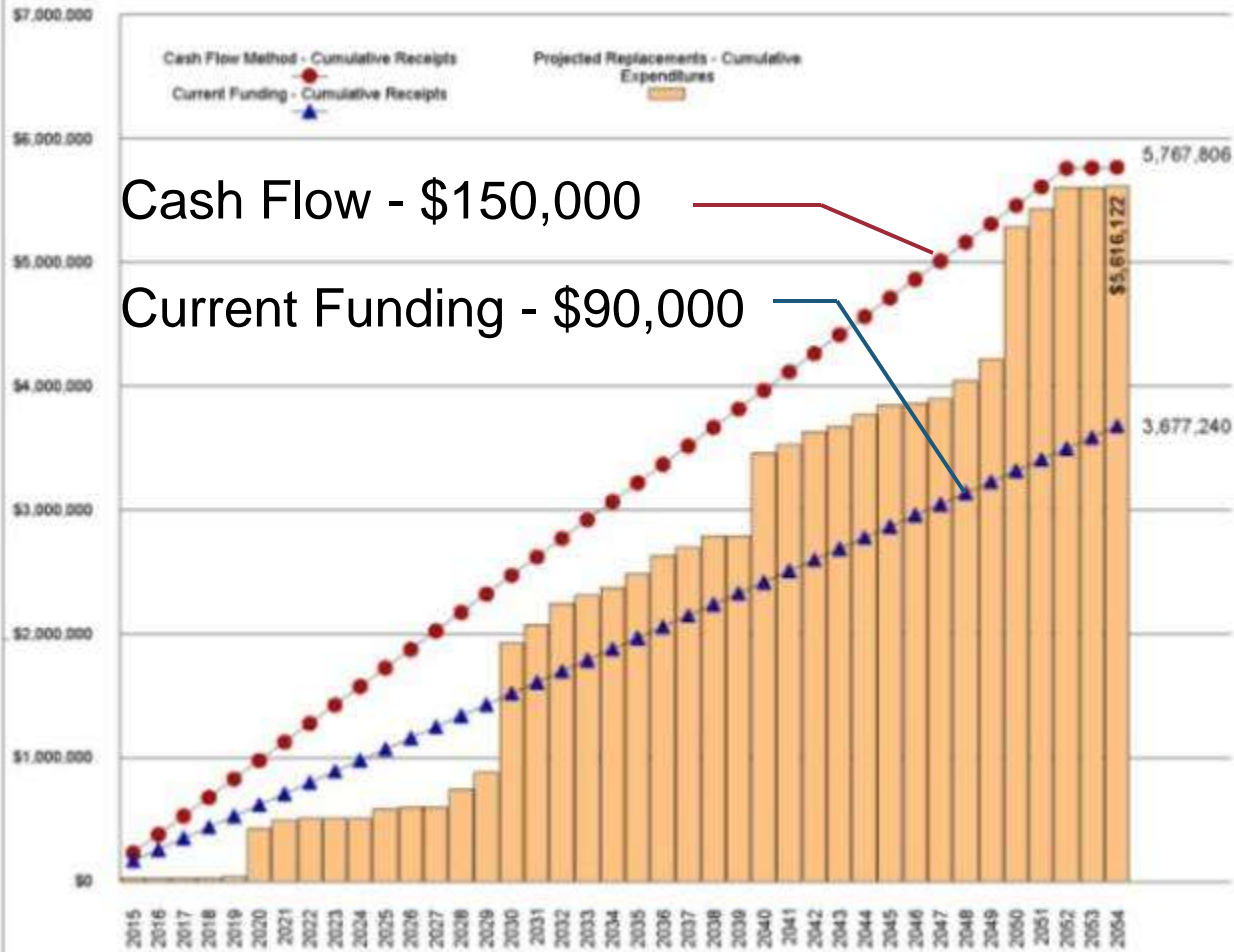


## #2 - Annual Expenditures for Projected Replacements Graph

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!

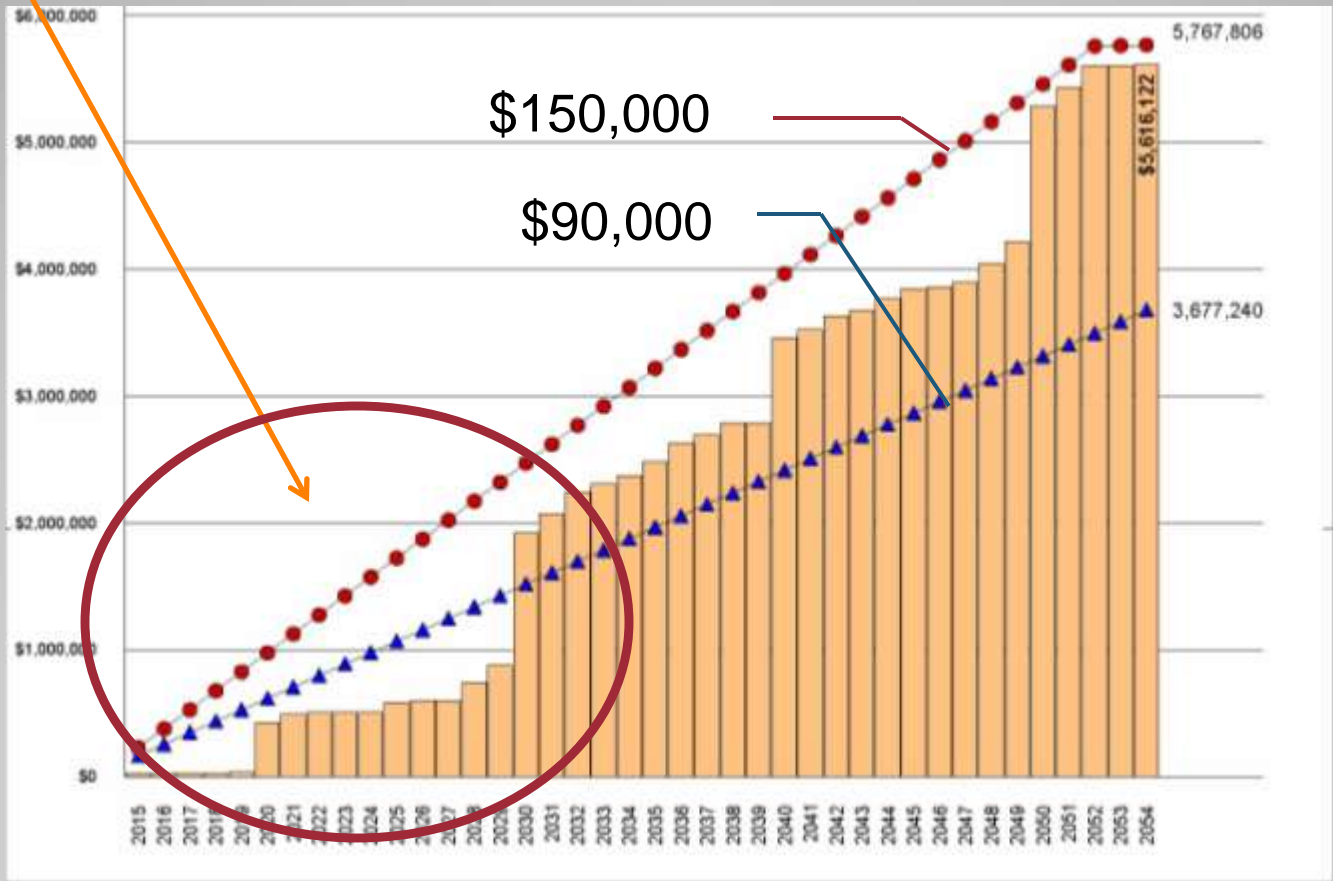
# What Are Your Alternatives?

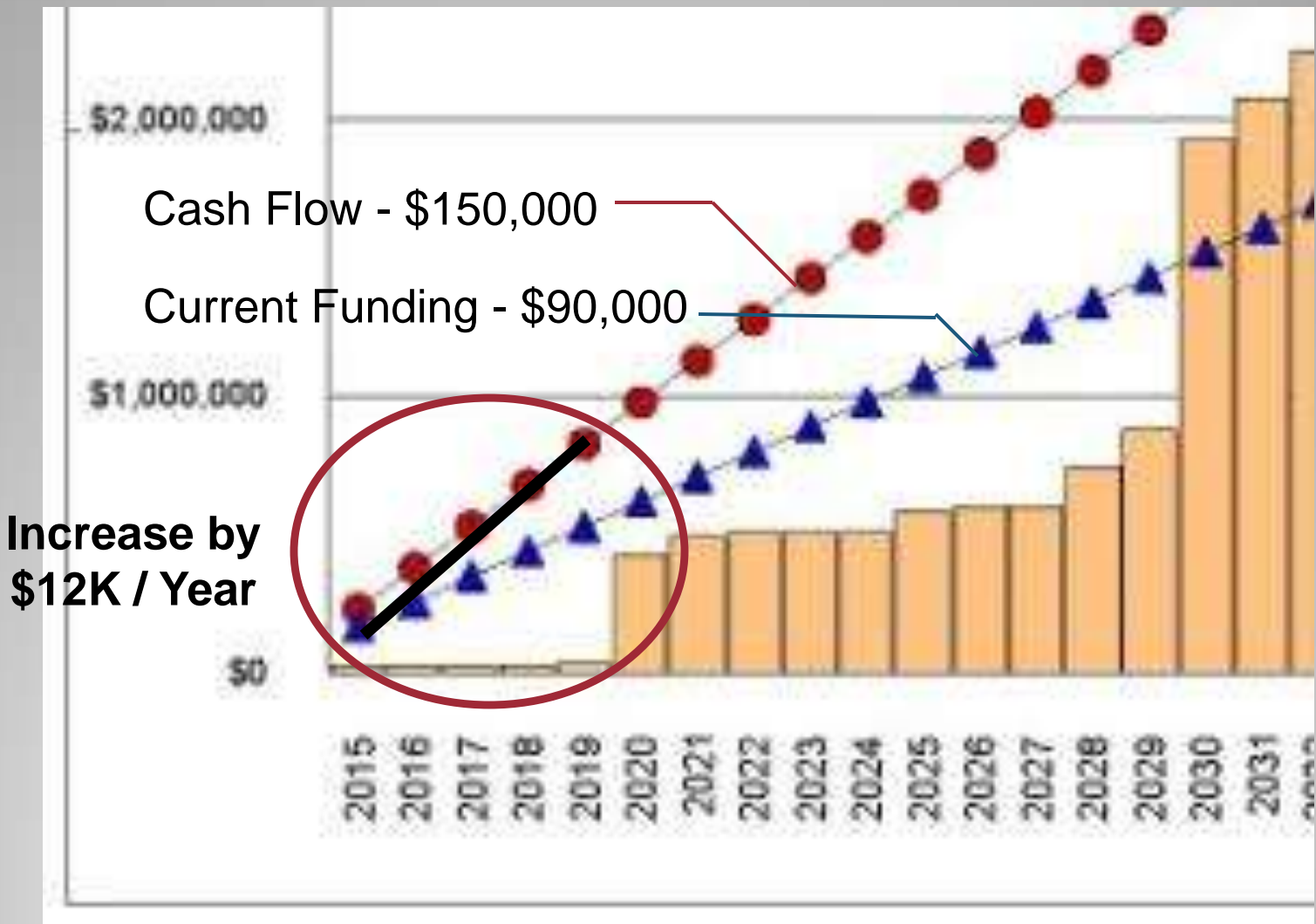
- Increase Normal Assessments
- Special Assessment
- Commercial Bank Loan

# 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

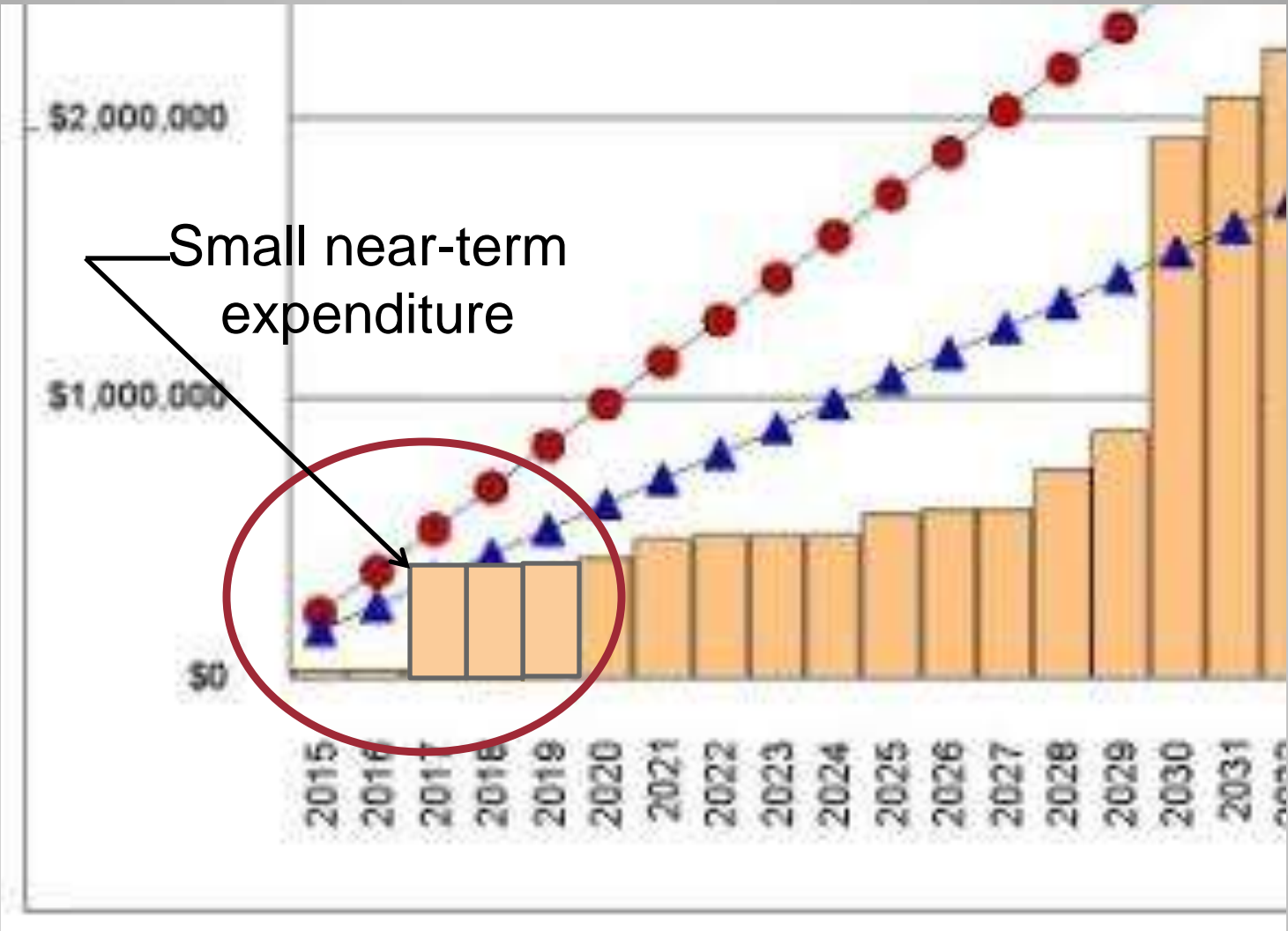
Year 2: \$102K to \$114K

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.

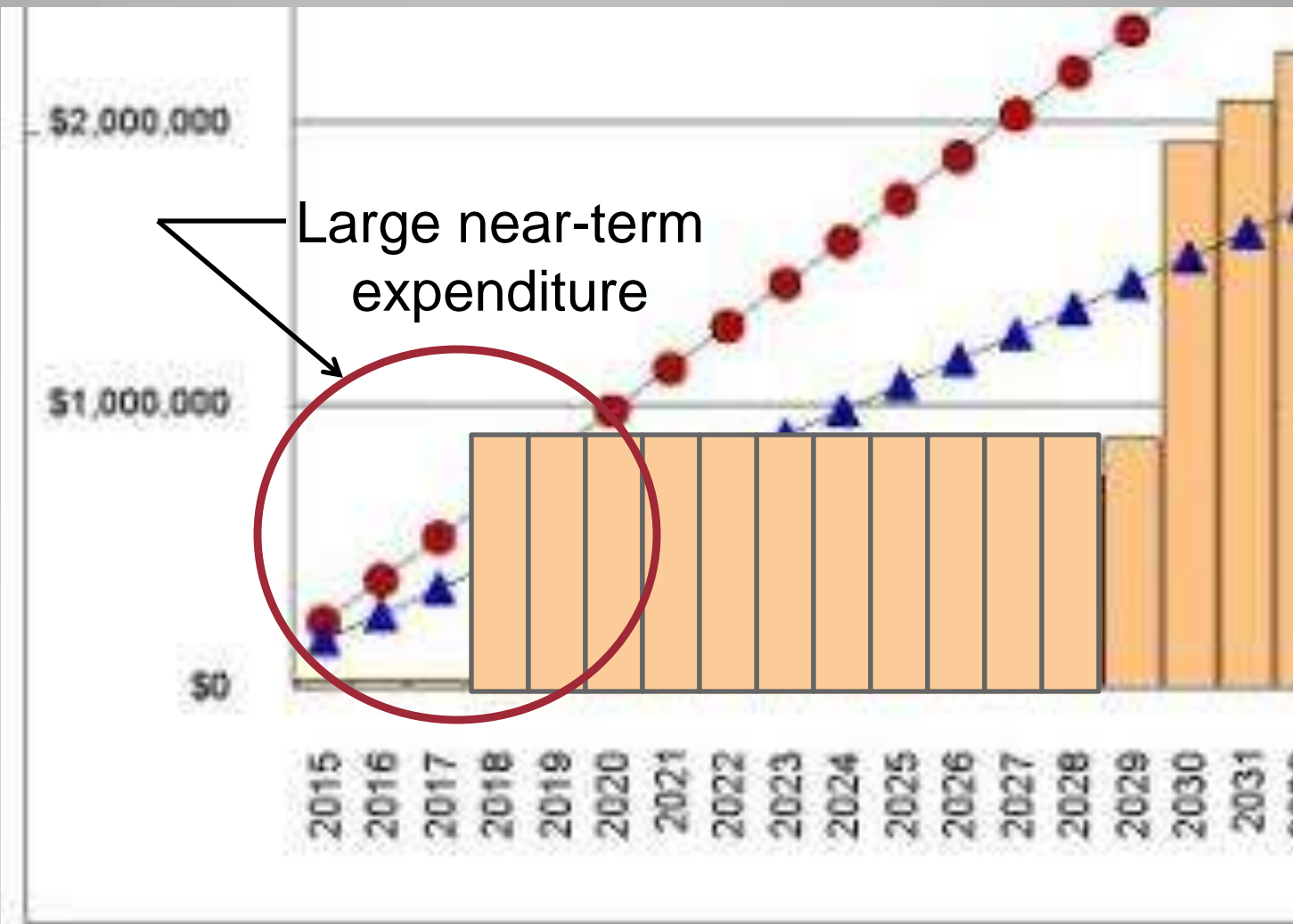




# Strategic Funding Plan #2

## Small Near-term Expenditure

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



# Strategic Funding Plan #3

## Large Near-term Expenditures

- Increase Normal Assessments as planned,
- Fund large expenditure with Bank Loan.
  - Bank Loan term can be 3 to 10 years

# Final Thoughts:

- Most financial crises result not from an event, but from lack of planning!
- Adjust and revise the Reserve Study to meet the community's needs and desires!
- Use one or more funding alternatives to develop a **Strategic Funding Plan** that works for the community!

# Questions

**Thank You!**