

Batten Down the Hatches: ***Reserves & Capital Spending***



Introduction



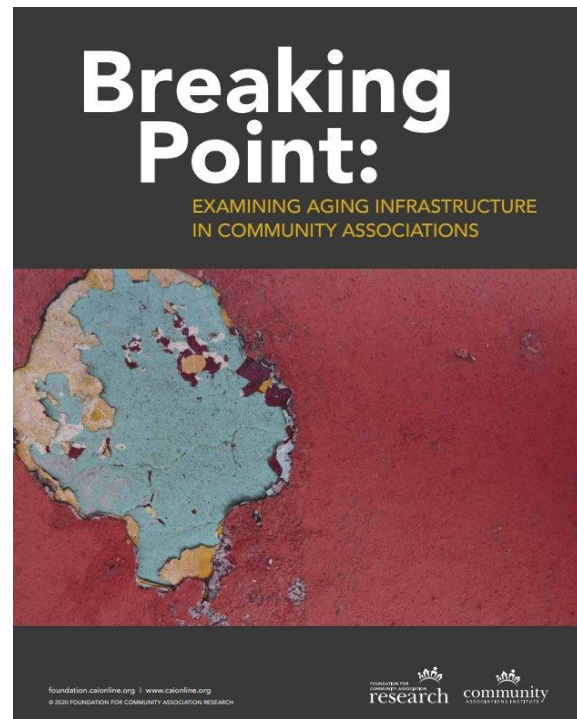
Eric Churchill
Executive Vice President,
Schernecker Property Services



Michelle Baldry
Regional Executive Director,
Reserve Advisors



- **80%** over a recent three-year period reported **encountering unanticipated and unplanned Infrastructure problems.**
- After encountering and facing aging infrastructure issues, more than **40%** of reporting communities increased their regular assessments.

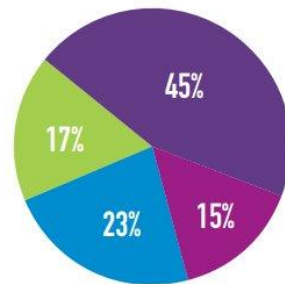


April 2024 Snap Survey Findings:

What best describes your community reserve fund?

- 26%** Fully funded for major structural components (roofs, plumbing, electrical systems, load-bearing walls or other primary structural members, floors, foundations, fireproofing & fire protection systems, waterproofing, exterior painting, windows)
- 11%** Fully funded (the funds will be saved once replacement of a major component is needed)
- 25%** 50% or more funded (we have about half of what we should have in planning for replacement of major components)
- 32%** Less than 50% funded (we have less than half of what we should have in planning for replacement of major components)
- 1%** We do not have a reserve fund
- 6%** Other

Will your community (building 3 stories or more), have funded your structural integrity reserve study by December 2024?

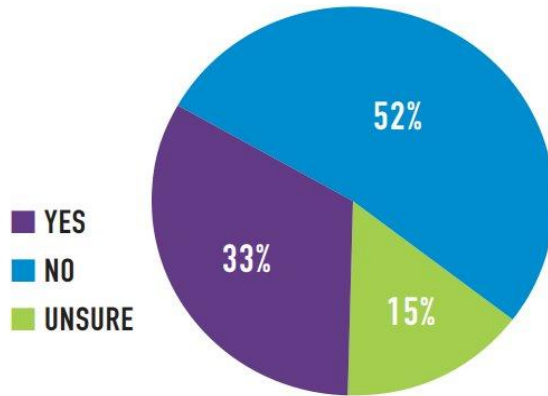


■ YES ■ NO ■ UNSURE ■ NOT APPLICABLE

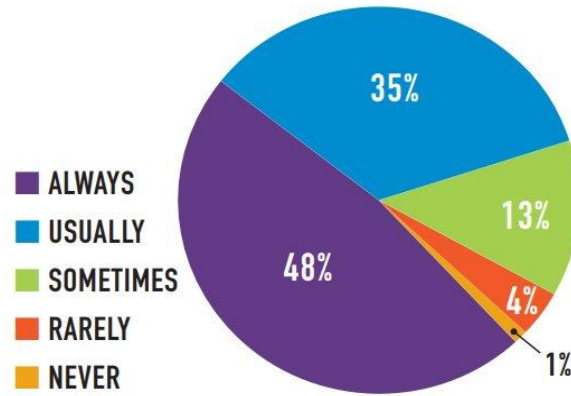
April 2024 Snap Survey Findings:

MAINTENANCE

Does your community have a maintenance manual?



Has regular maintenance of your community been conducted?



April 2024 Snap Survey Findings:

On a scale of 1 to 5 with 1 being minimal and 5 being significant, how much have the following issues negatively impacted your community association clients?

Lack of sufficient reserve funds



What is a Reserve Study?

RESERVE EXPENDITURES

Fairway
Townhome Association
Madison, USA

Explanatory Notes:

- 1) 3.3% is the estimated Inflation Rate for estimating Future Replacement Costs.
- 2) FY2024 is Fiscal Year beginning January 1, 2024 and ending December 31, 2024.

Reserve Component Inventory	RUL = 0 FY2024	1 2025	2 2026	3 2027	4 2028	5 2029	6 2030	7 2031	8 2032	9 2033	10 2034
Property Site Elements											
Asphalt Pavement, Crack Repair, Patch and Seal Coat											14,190
Asphalt Pavement, Mill and Overlay, Remaining, Phased				53,863	55,640						
Asphalt Pavement, Total Replacement, Phased											
Catch Basins, Inspections and Capital Repairs, Phased				6,090	6,291						
Concrete Curbs, Partial				12,236							
Concrete Sidewalks and Stoops, Partial						3,882					4,566
Irrigation System, Entrance											
Light Poles and Fixtures											
Mailbox Stations										7,233	
Pond, Aerator				10,472							
Pond, Erosion Control, Partial				4,101							
Pond, Sediment Removal, Partial											
Signage, Entrance Monument, Renovation								5,774			
Anticipated Expenditures, By Year (\$877,236 over 38 years)	0	0	0	86,761	61,931	3,882	0	19,964	0	7,233	4,566

Forecasted annual expense

Future long-term project

Near-term major project

Budgeting Tool



Project Prioritization



Community Roadmap



Limitations of a Reserve Study

A reserve study is like your yearly physical. If your heart is a concern, they refer you to a cardiologist, or in this case, a component-specific contractor.



Reserve Study



Component-Specific
Contractor

Board's Fiduciary Duty

"Ultimately, the role of the Board is to protect and increase property value. This is accomplished by operating the association, maintaining the common property, and enforcing the governing documents."



Duty of Care

Make informed decisions
Act in a prudent and reasonable manner
Sound business judgement



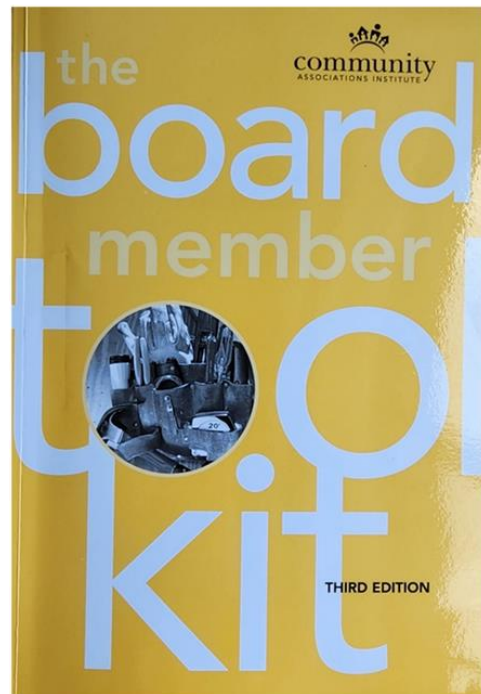
Duty of Loyalty

Act fairly & in good faith
Act in interest of and benefit of the HOA
Avoid conflicts of interest



Duty to Act

Perform obligatory duties
Act within scope of authority



Capital Planning & Spending

Where are we now?

Where do we want to get to?

What's the PLAN?

- Collect the data
- Understand data collection limitations
- Dig deeper....
- Define options
- Create an action plan



10% of monthly fees allocated to funding reserve study “projects?”

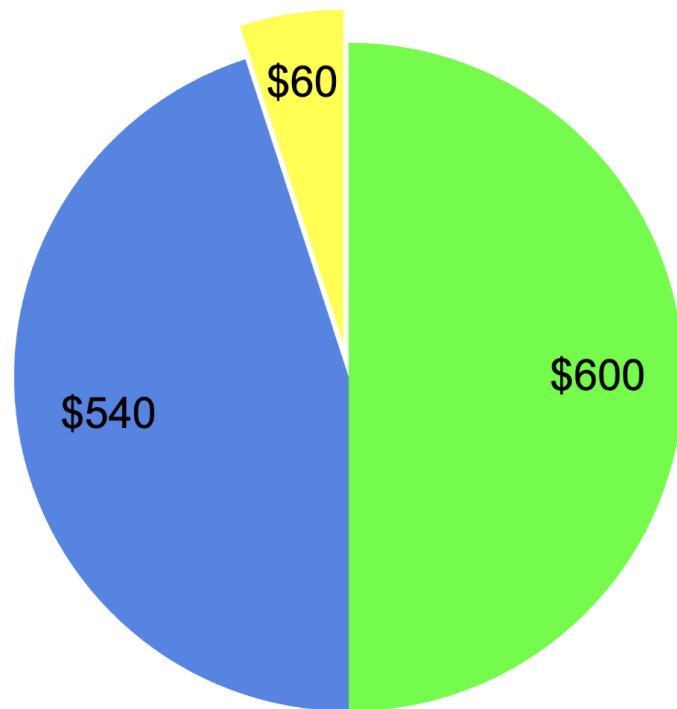
\$540: Operating Expenses

\$60: Reserve Contribution

\$600: Monthly Fee

Is this “guideline” correct as your community ages?

25-40%



● Revenue from Owner Fees ● Operating Expenses ● Contribution to Reserves

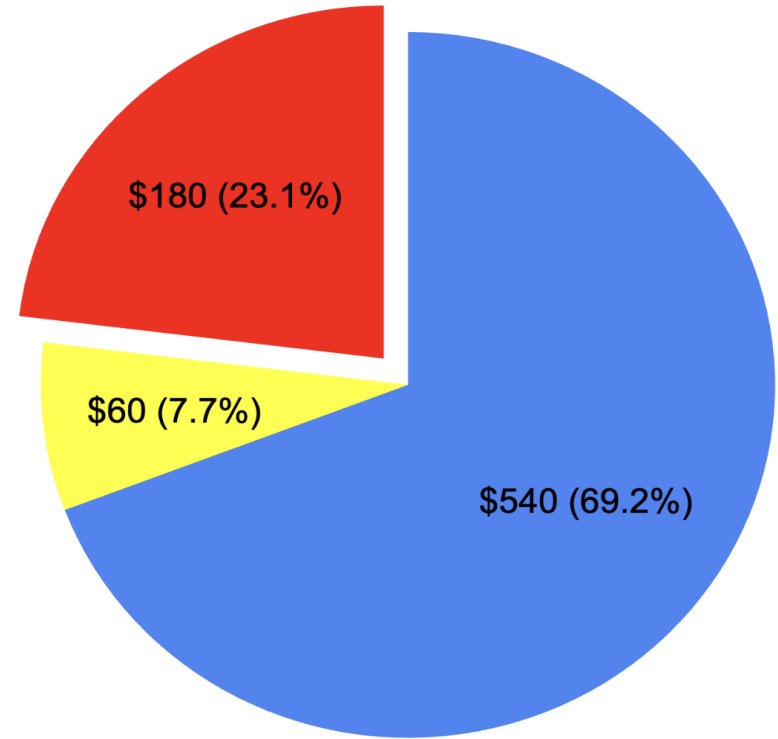
28% of monthly fees allocated to funding reserve study “projects”

\$540: Operating Expenses

\$60: Original Reserve Contribution

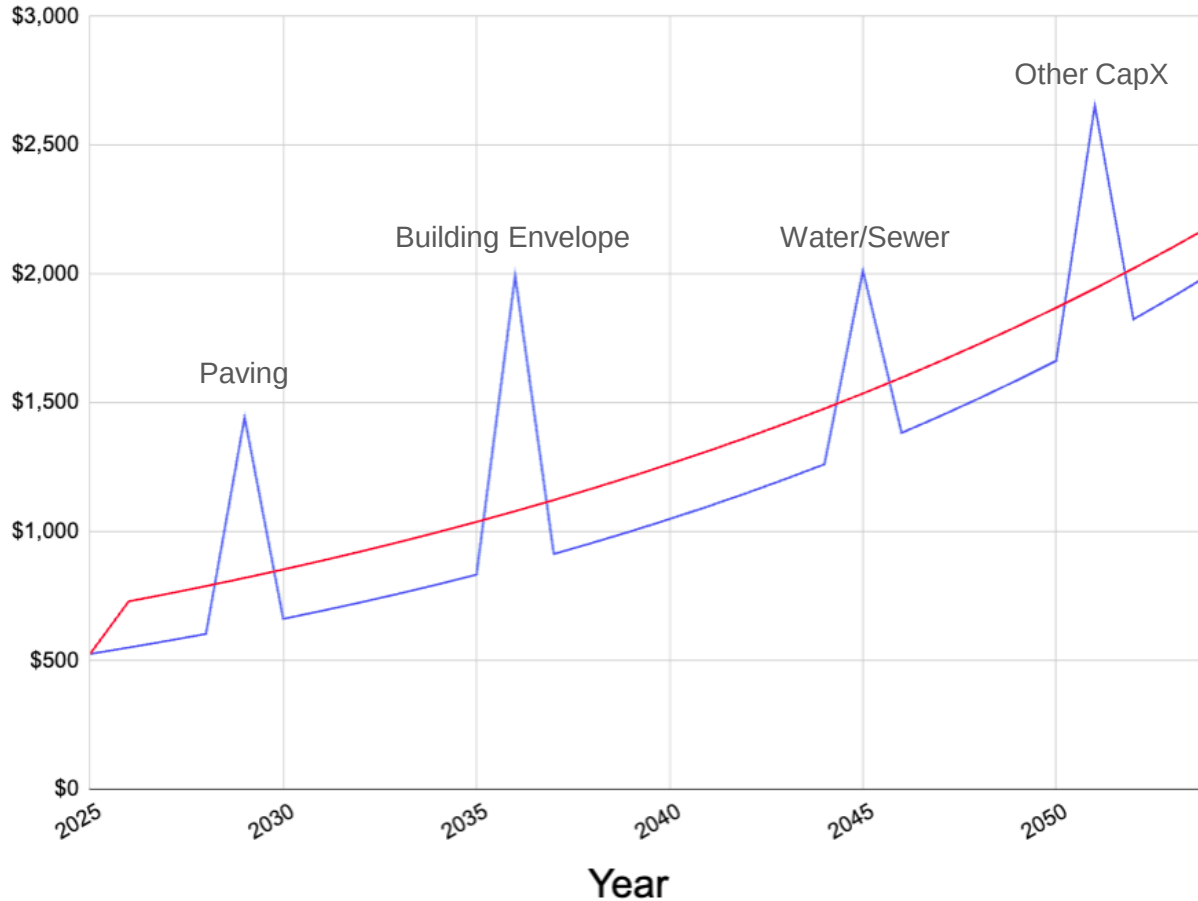
\$180: Additional Reserve Contribution

\$780: Monthly Fee



● Operating Expenses ● Contribution to Reserves ● Funding Gap

Adjusted Monthly Fee for Inflation and CapX Need

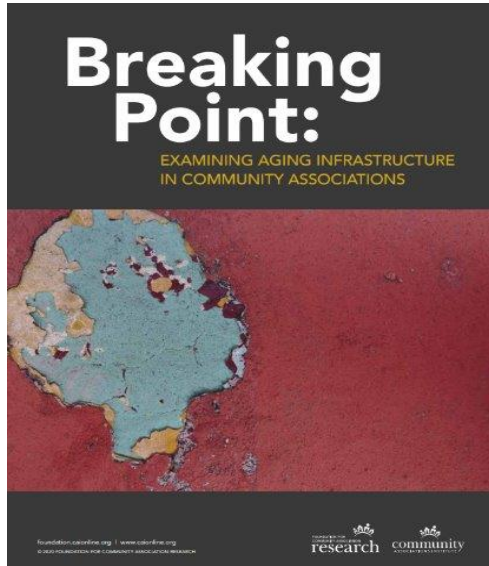


\$600/Month with
“spikes” to meet
reserve study needs

\$780/Month to
accumulate funds to
pay “cash” for reserve
study needs

Q&A

Resources



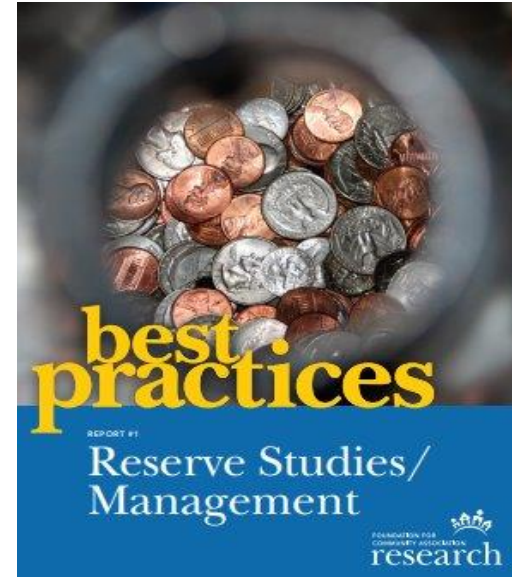
Understanding the True Needs of Your Community

We can't kick the can down the road forever



Preventative Maintenance

Develop a Preventative Maintenance Plan & conduct regular maintenance

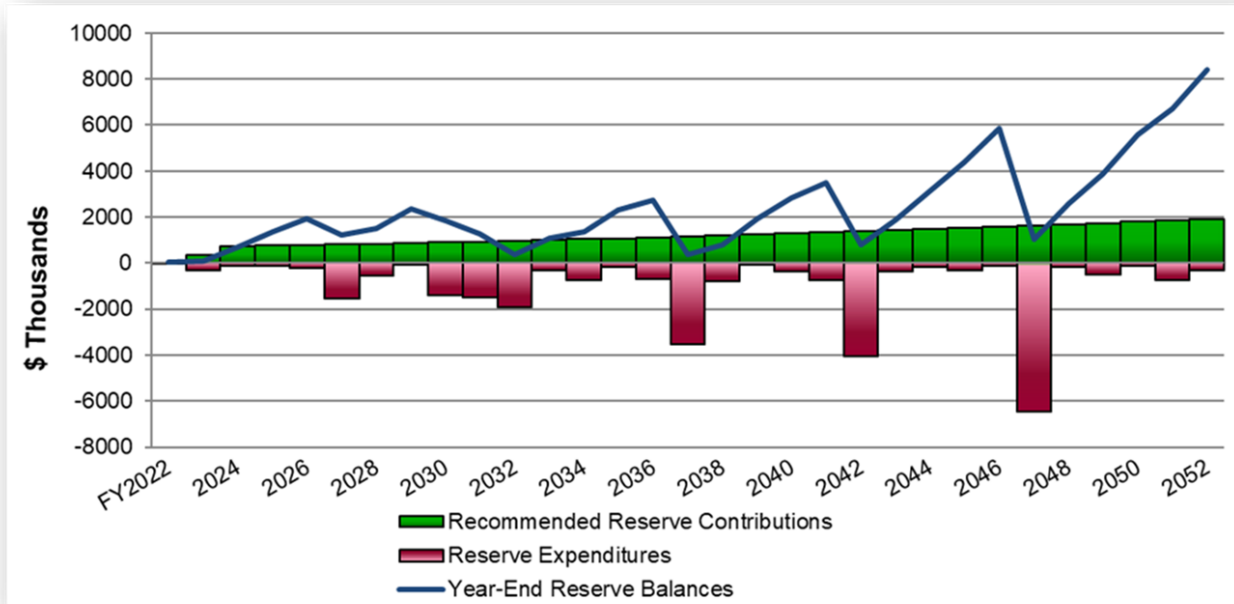


Conduct Reserve Studies Regularly & Follow Them

CAI best practices is every 3 years.

What is the Goal?

Not to save money, but to spend it wisely



Discretionary Item: Do we want to tackle this?

Reserve Advisors, LLC

*Refer to the Reserve Expenditures pages
for the full list of reserve elements

FIVE-YEAR OUTLOOK

Line Item	Reserve Component Inventory	RUL = 0 FY2022	1 2023	2 2024	3 2025	4 2026	5 2027
Exterior Building Elements							
1.160	Driveway, Expansion Joint			16,872			
1.529	Roofs, Thermoplastic, Capital Repairs						29,692
1.660	Walls, Concrete, Restorations		181,642				
1.665	Walls, Concrete, Coating Applications		58,684				
1.730	Walls, Curtain Wall, Partial Sealants and Capital Repairs, Ongoing		51,750	53,561	55,436	57,376	59,384
Building Services Elements							
3.025	Air Handling Unit, Capital Repairs (AHU-11)				49,892		
3.037	Air Handling Units, Heat Pumps, Building Service Rooms						313,549
3.170	Building Automation System						831,380
3.260	Cooling Tower, Capital Repairs			37,493			
3.555	Life Safety System, Control Panel (2022 is Panel Display Only)	5,000					
3.583	Lighting System						130,645
3.703	Pumps, Domestic Cold Water, 15-HP (Incl. Controls & VFDs)						76,606
3.704	Pumps, Heat Recovery, 7.5-HP (P-9 & 10) (Incl. Controls & VFDs)						45,132
3.705	Pumps, Sewage Ejector, 5-HP (Includes Controls)						33,255
3.706	Pumps, Storm Water Ejector, 5-HP (Includes Controls)						33,255
3.820	Security System, Access System, Phased					114,752	
3.821	Security System, Surveillance System, Phased					63,114	
Anticipated Expenditures, By Year (\$28,488,980 over 30 years)							
		5,000	292,076	107,926	105,328	235,242	1,552,898

Start exploring options with Specialists

Reserve Advisors, LLC

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Coordination of Projects

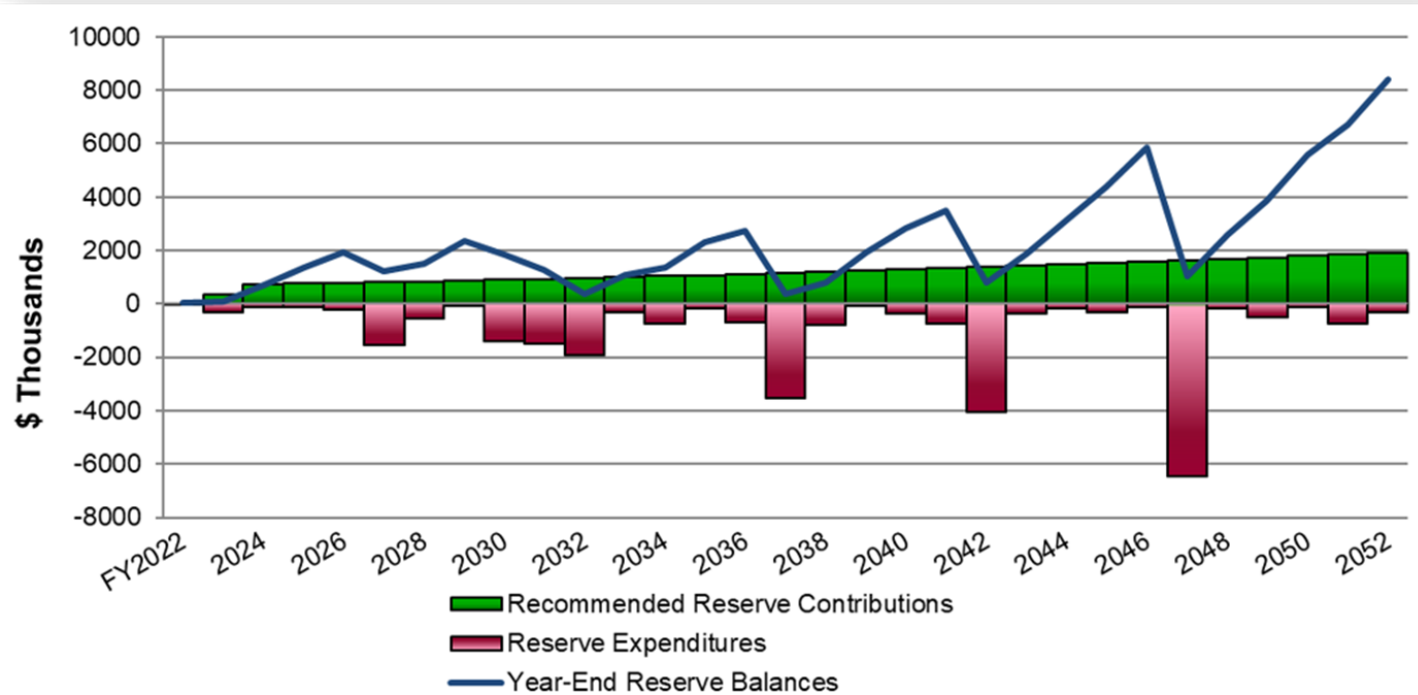
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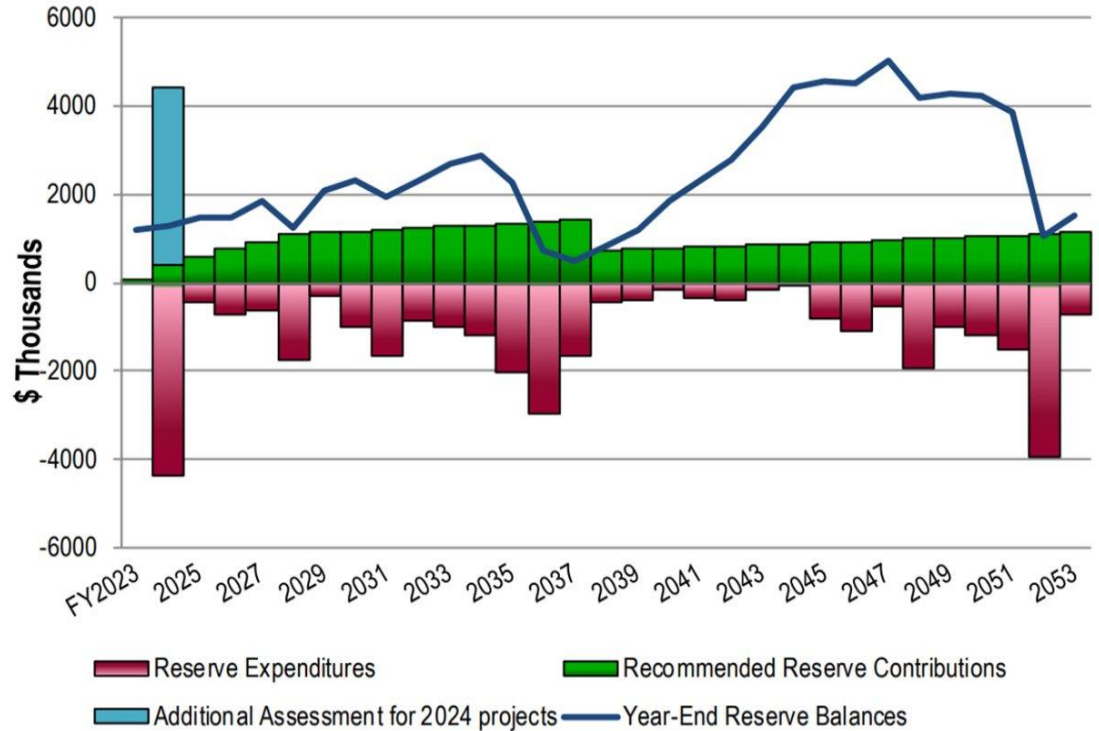
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Explaining the Reality to Homeowners



Recent Case Study

- » 8-story high-rise building
- » 60 units
- » Built in 1965 and converted in 1971
- » \$1.13M in reserves in 2023
- » \$4.4M in expenditures in 2024; \$7.9M in expenditures over the next 5 years.
- » \$35M in expenditures over the next 30 years



Case Study: The Reality of Underfunding

2016 Funding Recommendation

RESERVE FUNDING PLAN

CASH FLOW ANALYSIS

	FY2016	2017	2018	2019	2020	2021
Reserves at Beginning of Year (Note 1)	203,318	241,681	343,306	455,713	581,769	518,612
Total Recommended Reserve Contributions (Note 2)	37,115	99,100	109,100	119,100	129,100	139,100
Plus Estimated Interest Earned, During Year (Note 3)	1,248	3,922	5,357	6,956	7,378	7,940
Less Anticipated Expenditures, By Year	0	(1,397)	(2,050)	0	(199,635)	0
Anticipated Reserves at Year End	<u>\$241,681</u>	<u>\$343,306</u>	<u>\$455,713</u>	<u>\$581,769</u>	<u>\$518,612</u>	<u>\$665,652</u>

Phased Increases

\$10,000 per year, for five years

Modest Adjustment

\$3.50 per home, per month increase

Adequate Reserves

timely execution, no surprises

Case Study: The Reality of Underfunding

2019 Funding Recommendation

RESERVE FUNDING PLAN

CASH FLOW ANALYSIS

	FY2019	2020	2021	2022	2023	2024
Reserves at Beginning of Year (Note 1)	369,529	463,594	328,715	455,649	600,349	737,911
Total Recommended Reserve Contributions (Note 2)	85,000	101,700	118,400	135,100	151,800	168,500
Plus Estimated Interest Earned, During Year (Note 3)	9,065	8,621	8,534	11,490	14,561	18,088
Less Anticipated Expenditures, By Year	0	(245,200)	0	(1,890)	(28,799)	0
Anticipated Reserves at Year End	<u>\$463,594</u>	<u>\$328,715</u>	<u>\$455,649</u>	<u>\$600,349</u>	<u>\$737,911</u>	<u>\$924,499</u>

Phased Increases

\$17,000 per year, for five years

Higher Adjustment

\$6.00 per home, per month increase

Losing Time

Deferral of increase results in less time to get on track

Case Study: The Reality of Underfunding

