# The Reserve Study

Late in 2021 the Board authorized a Reserve Study to be conducted by a well-qualified firm named Reserve Professionals, a firm that specializes in conducting reserve studies for HOA's. Under the oversight of Tom Duckett and Willy Morgan, the study was completed in April of this year. The Board has met several times to discuss the study's results and how it could potentially impact our budget. To help familiarize you with HOA's reserve study, here are several thoughts in the form of a Q&A.

## 1. What is the purpose of a Reserve Study?

A Reserve Study provides a current estimate of the costs of repairing and replacing major common area HOA assets over the long term. Of course, each asset has a different life expectancy, for example, the stone pillars at our gate may have a life expectancy of 45 years while the gate mechanism may only have a life expectancy of 5 to 10 years. Ideally, all major repair and replacement costs will be covered by funds set aside by our association as reserves, so that funds are there when needed.

A Reserve Study consists of both a Physical and a Financial Analysis. The Physical Analysis assesses the physical condition of our community's assets while the Financial Analysis studies our association's financial health, such as our revenues, expenses, and reserve fund balance.

When we think of Village Park HOA assets I'm sure our roads immediately come to mind, but we have numerous other assets including: signage and stone pillars at the 74A entrance, signage at the Meadows and throughout the community, the entrance gate and associated equipment, storm drains and associated piping originally installed by the developer, the pergola located in Meadows, the various low voltage electric systems, irrigation systems, and associated hydrants located both in the Meadows common areas and the Village Park entrance ROW.

The purpose of the Reserve Study was to look at the physical condition of these assets, their individual life expectancy, and the cost to replace them in terms of today's dollars.

## 2. What were the results of our Reserve Study?

Village Park has two separate budgets: one called the Main Account, which covers common property costs that we all share in, and the other the Meadows Account, which covers

additional common property costs that pertain strictly to townhome owners. Consequently, we need to look at each account separately. Here is a snapshot from the Reserve Study report of what a Fully Funded Reserve Balance would amount to versus what we currently have in our reserve account. A Fully Funded Reserve Balance or ideal reserve balance is not the total current value of our assets but rather an accepted accounting calculation that tries to approximate the amount of reserve funds needed to replace and maintain aging assets over an extended period of time with a funded revenue stream.

| Account | Anticipated Reserve Balance (as of 1/1/23) | Fully Funded Reserve Balance | Percent funded |
|---|---|---|---|
| Main | $64,000 | $193,000 | 33% |
| Meadows | 0 | $12,000 | 0% |

So currently in the Main Account our reserve balance is 33% of the desired Fully Funded Reserve Balance, and we have yet to fund the Meadows Account Reserve. Industry guidelines for HOA reserve funding is -- to be about 70% funded, so you can see we have a ways to go. The good news is we don't have to be at 70% funded right away, but we need to reflect this in our budgeting approach.

### 3. What did we learn from the study?

We learned that Village Park has significantly more assets than just our roads, both in the Main and in the Meadows accounts. But our roads were the only asset that we were specifically putting aside money for.

The original budget accounting for our community was set up by the developer and focused on maintaining and eventually replacing our major asset: the network of roads in our community. The assumption being that the other assets would not need to be replaced for a long period of time (in some instances well beyond 30 years) and therefore no monies were required to be put in reserve. Remember the motivation of a developer building a planned community is to sell properties and therefore the motivation is to keep the annual Association dues to a minimum. Now as an aging community, we realize monies need to be put aside for the eventual replacement of all of our assets, each of which have different life expectancies.

### 4. How will the reserve study influence current and future HOA budgets?

The reserve study serves as a financial road map for the Association and has helped your Board come to terms with how future replacement needs should be incorporated in the current and future budgets.

First, we recognize in the Main Account that the existing Road Reserve account concept needed to be expanded to cover the eventual replacement of all of our common property assets. Those that I had previously described. Then looking at the collective life expectancy of these various assets, increase the amount of funding into the account. The 2023 budget for the Main Account reflects a $5,000 increase, from $9000 to $14,000.

Second, we recognize that in the Meadows account except for Meadows Paint, Deck, Stain Reserves, we did not have any reserve account established for the other common property assets that are aging, so we needed to create that line item in the budget called Meadows Asset Reserve and initiate funding with $2000, basically starting with zero and going to $2000.

**5. Will there be more significant increases in the amount of reserve funding needed for the future?**

Your board believes that the amount of funding placed in our reserve accounts in the 2023 Village Park budget reflects the funding needed to repair and eventually replace the various assets in our community. Barring something unforeseen to a major asset, for example a portion of our roads collapsing because of a deteriorated culvert, we will only need to generally escalate our Main Asset Reserve Account funding by inflation, while initially the Meadows Asset Reserve Account will need to be escalated at a rate greater than inflation considering we are starting out at a lower asset reserve funding level.

**6. What are the Boards' thoughts regarding future reserve funding increases versus an HOA special assessment?**

As I previously mentioned we believe the current level of reserve funding will be adequate to meet our community's requirements, assuming it is increased by inflation annually. In general, we do not believe HOA special assessments are a prudent way to finance our community's needs, unless there are unexpected costs that the reserves can't account for. HOA special assessments can place a difficult burden on association member personal finances as they can result in a large annual increase for one or more years and then drop back to a reduced level. We believe predictable and reoccurring but fluctuating expenses are best managed by reserves, avoiding year-to-year peaks and valleys in HOA member fees. You can be assured that the Board will only resort to special assessments in emergencies, such as in the case of unexpected large-scale damage, or if the HOA membership votes to create and fund a new major asset.