

Reserve Funding & Reserve Studies for Associations

Implementation & Updates

Learning Objectives

- By the end of the presentation, attendees should be able to...
 1. Learn about the legal requirements to have a reserve fund and understand where to look to find the specific requirements for their association.
 2. Understand the basics of a reserve study and the important outcomes and benefits of conducting a study.
 3. Learn about 3 lesser discussed areas of capital planning which will help to strengthen the long term financial position of the association.
- 1 Continuing Education Hour

Who Am I?

- Principal of Village Reserve, LLC
- Professional Engineer (civil/structural) and CAI Reserve Specialist
- 6 Years as Board Member for Village of Westclay Owners Association, serving most recently as Board President.
- Matt prides himself on devising solutions that are equitable to past, present, and future residents.





What's the Function of an Association

Governing Documents

CONDOMINIUM ASSOCIATION COMMUNITY RULES AND REGULATIONS

APPROVED BY THE BOARD OF DIRECTORS ON NOVEMBER 30, 2005.
REVISED AND APPROVED MAY 23, 2006

Amended by the Board of Directors as follows:

Amended by addition of paragraphs 11 & 12 to Section IV, Chapter G on 10/23/2007
Amended by addition of paragraph 6 to Section III, Chapter A on October 14, 2008.
Amended by the revision of paragraphs 1 & 2 of Section V, paragraph B on 1/20/2009
Amended by addition of paragraph 4 of Section III, Chapter C & changes to paragraph 5, Section III, Chapter A on 11/17/2011
Amended by changes to paragraph 1, Section III, Chapter A on 1/1/8/2012
Amended by changes to paragraph 1, Section III, Chapter A on 10/17/2013
Amended by changes to paragraph 2, Section III, Chapter A 5/21/2015
Amended by changes to paragraph 6, Section III, Chapter A on 6/18/2015
Amended by changes to paragraph 2, Section III, Chapter A & deletion Of paragraph 4, Section III, Chapter B on 9/17/2015
Amended by changes to paragraph 2, Section III, Chapter A & paragraph 3 Section IV, Chapter A on 10/15/2015
Amended by changes to Introduction, Section III A, B & C, and Section IV A & C on 1/19/2017
Amended by Adoption of Resolution and Lien & Fine Structure for Section V A&B on 1/19/2017
Amended by changes to Section III A and Section V B on 1/19/2019
Amended by changes to Article IV, Section G (2) on 4/15/2021

DECLARATION OF COVENANTS AND RESTRICTIONS OF WATERS EDGE AT SPRINGMILL TRAILS

This Declaration of Covenants and Restrictions of Waters Edge at Springmill Trails "Community" is made this 21 day of December, 2012 by M/I Homes of Indiana L.P., an Indiana limited partnership (the "DECLARANT").

WITNESSETH:

(RECITALS)

WHEREAS, DECLARANT is the Owner of real estate in Hamilton County, State of Indiana, more particularly described in Exhibit "A" and Exhibit "B" attached and made a part hereof, with Exhibit "A" comprised of approximately 18.114 acres to be known as Waters Edge at Springmill Trails and also designated as "Initial Tract" and "Real Estate" in this Declaration.

WHEREAS, DECLARANT desires and intends to create on the Real Estate a residential community with public streets, with possible identification signage, and complimentary landscaping at the entranceway and landscaping with open spaces and amenities and with detention ponds for surface water management while also serving as open space, all for the benefit of such residential community, to be known as "Waters Edge at Springmill Trails" (Exhibit "A");

WHEREAS, DECLARANT desires to provide subject to this Declaration a common interest community which addresses commonly owned real estate, their maintenance and other maintenance obligations and the finances to honor these and other community obligations. To this end, DECLARANT desires to subject the Initial Tract to certain rights, privileges, covenants, restrictions, easements, assessments, charges and liens, each and all to the extent herein provided, for the benefit of the Initial Tract and each Owner of all or part thereof; and

WHEREAS, DECLARANT deems it desirable, to accomplish these tasks in said Initial Tract, to create an agency to which shall be delegated and assigned the powers of supervising, maintaining and administering any common areas and maintenance expense areas detailed in the Initial Tract, administering and enforcing the covenants and restrictions contained in this Declaration, collecting and disbursing the assessments and charges imposed and created hereby and hereunder, and promoting the common interest of the Owners of the Initial Tract, and all parts thereof; and

WHEREAS, DECLARANT has caused, or will cause, to be incorporated under the Indiana Code § 23-17-1, et seq., under the name "Waters Edge at Springmill Trails Homeowners Association, Inc.", or a similar name, as such agency for the purpose of exercising such functions:

NOW THEREFORE, DECLARANT, as Owner of the Initial Tract hereby declares that the Exhibit "A" Real Estate is and shall be held, transferred, sold, conveyed, hypothecated, encumbered, leased, rented, used, improved and occupied subject to the provisions, agreements,

- 1 -

2013001183 DECL \$89.00
01/07/2013 11:06:08A 39 PGS
Mary L. Clark
HAMILTON County Recorder IN
Recorded as Presented

Draft: 05/18/99
Revised: 08/14/00
Revised: 04/18/01
Revised: 06/26/01
Revised: 04/01/05
Revised: 07/20/11
Revised: 12/15/17
Revised: 05/07/18
Revised: 08/06/18
Revised: 11/04/19
Revised: 07/06/20
Revised: 09/14/20
Revised: 11/01/21
Revised: 3/7/22
Revised: 11/7/22

VILLAGE OF WESTCLAY BUILDING GUIDELINES AND REQUIREMENTS FOR RESIDENTIAL CONSTRUCTION

Sections to Reference in Governing Documents

Areas to Review

1. **Statute Governing the Association**
2. **Definitions: What Does the Association Own?**
 - *Common Areas / Common Expenses*
 - *Limited Common Areas*
 - *Unit*
3. **And What Does the Association Maintain?**
 - *Maintenance Responsibilities of the Association*
 - *Maintenance Responsibilities of the Owner*



Maintenance of Community Owned Assets





What's the Reserve Fund & Why's it Important?

What is a Reserve Fund?

The portion of the Association's Assessment that is set aside each year and allocated to capital projects.

Reserves are **not** a “rainy day fund” and should not be used to offset operating shortfalls.

Reserves are **not** a “budget surplus”.

Where do we Find Reserve Funds?

On the P&L Statement

Total Income

Expense

Administrative

8000 - Accounting / Audit

8005 - Admin/Copies/Postage

8020 - Management Fee

8030 - Legal Fees - Collections

8040 - Social Expense

8045 - Clubhouse Management

8050 - Website

8065 - Security/Patrol Service

8090 - Reserve Transfer

Total Administrative

On the Balance Sheet

Assets

Cash - Operating

1000 - CAB Operating - 2

Cash - Operating Total

Cash - Reserve

1060 - CAB Reserve - 27

Cash - Reserve Total

Assets Total

Is My Association Required to have a Reserve Fund?

Indiana State Statute Requirements

- Homeowners Association – No requirements
- Condominium Association – 1963 Horizontal Property Regime (HPR Act)
 - IC 32-25-4-4 Sect. 4 (c) *All sums assessed by the association of co-owners shall be established by using generally accepted accounting principles applied on a consistent basis and shall include the establishment and maintenance of a replacement reserve fund. The replacement reserve fund may be used for capital expenditures and replacement and repair of the common areas and facilities and may not be used for usual and ordinary repair expenses of the common areas and facilities...*

The HPR Act does not require that the amount be sufficient

Is My Association Required to have a Reserve Fund?

Governing Documents (Three Question Process)

- 1) Establishment of fund (capital fund, replacement fund, reserve fund).
- 2) Definition of what the fund is used for (capital replacements, general expense, general elements, limited common areas, limited common expenses, etc).
- 3) Defined amount to be put into the fund (amount adequate)

Is My Association Required to have a Reserve Fund?

Declaration Examples

- *...the establishment and maintenance of a replacement reserve fund for capital expenditures and replacement and repair of the Common Area that must be repaired and replaced on a periodic basis...*
- *...an amount deemed adequate by the Board to maintain a reserve fund for the cost of unexpected repairs and replacements of capital improvements and for the repair and replacement of major improvements for which cash reserves over a period of time in excess of one year out to be maintained;...*

Is My Association Required to have a Reserve Fund?

Other entities requiring or requesting to review Reserve Funding & Reserve Studies

- Property Transactions (buyers & mortgage originators)
- Insurance Companies
- Banks
- Federal Agencies (Fannie Mae & Freddie Mac)



What is a Reserve Study?

What is a Reserve Study

- A reserve study is THE PLAN for repairing, replacing, and enhancing community-owned assets.
- The long-term (30 plus years) capital plan for a community.
- Mechanism by which reserve dollars are allocated to future projects.

What is a Reserve Study

The reserve study framework is five steps:

1. Determine the assets which are the maintenance responsibility of the Association.
2. Determine the components (capital projects) that are associated with the assets.
3. Evaluate the components condition (good, fair, poor) to determine when the project should be conducted.
4. Estimate replacement cost and service life to determine how much funding should be available and how often.
5. Repeat for each identified component, combine results, and determine revenue to support program.

Expense

Way to track upcoming expenses.

Method to estimate future costs.

Revenue

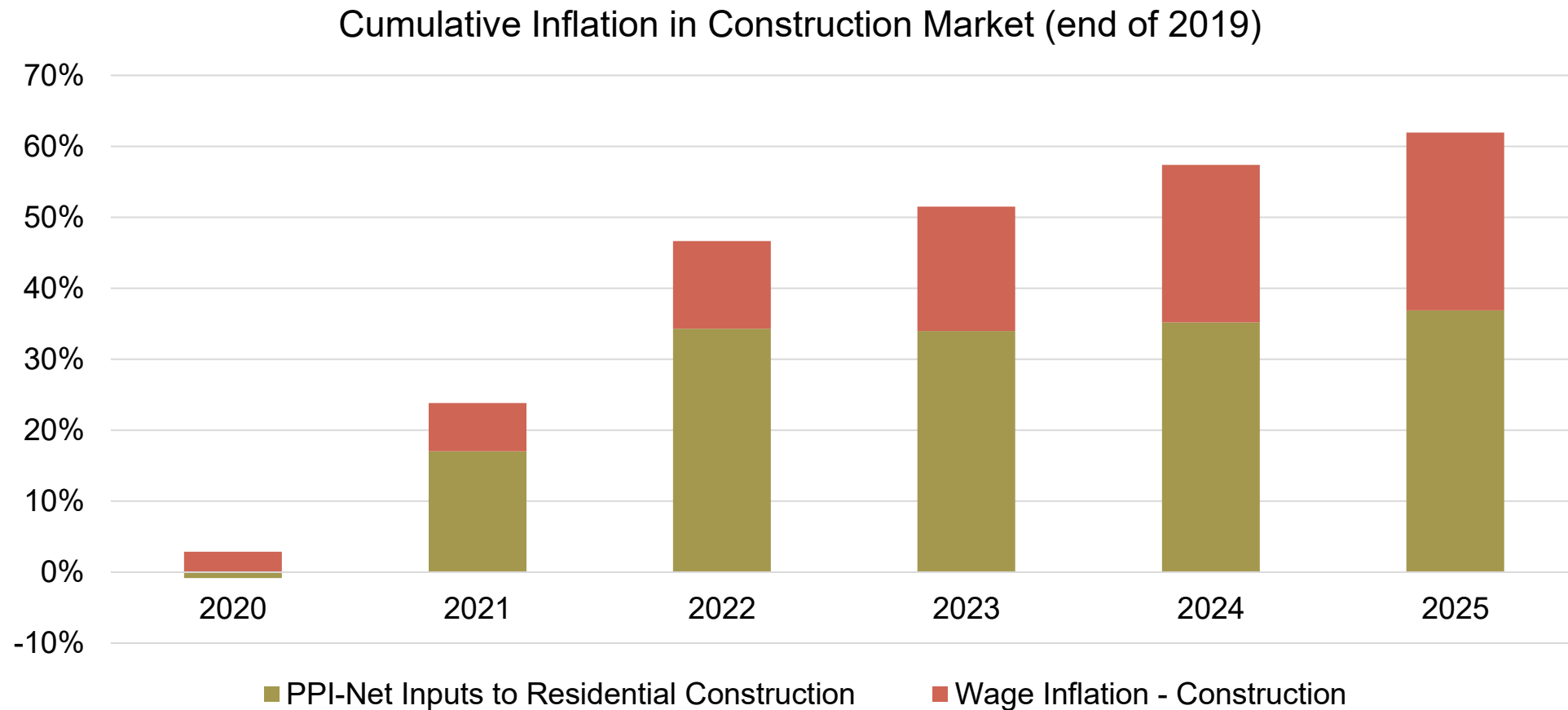
Method to estimate assessment adjustments.

Benchmark future reserve balances.



Why do Associations Conduct Reserve Studies?

Buying Power Continues to Diminish



*source: FRED Data – Net Inputs to Residential Construction & Average Hourly Earnings of All Employees, Construction

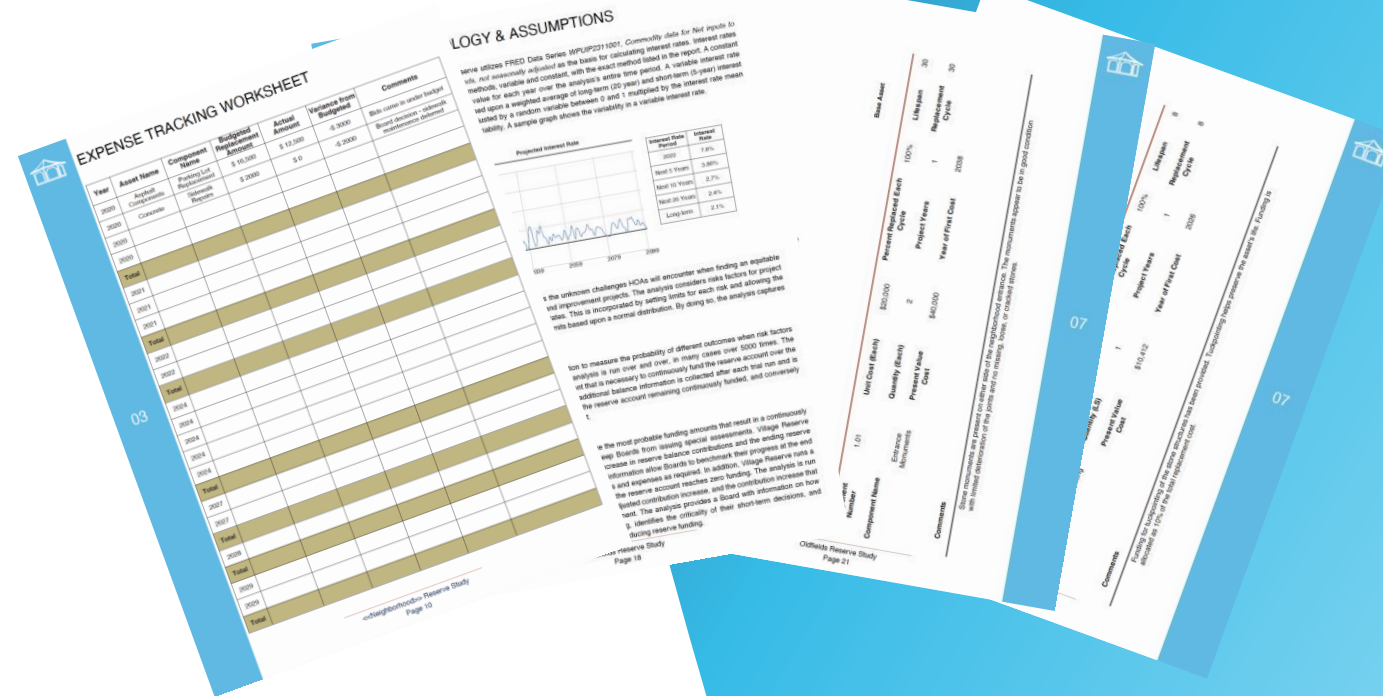
Benefits of a Reserve Study

- Takes the guess-work out of long-term planning.
- Provides a framework for justifying assessments and the need for fee adjustments.
- Provides for timely repair and replacement of common assets.
- Protects the Board in the performance of their fiduciary duties.
- Improves home value and enhances the community.



Reserve Studies Answer Questions Related to...

- How much money the Association should have in the bank?
- How much money should the Association put in the bank each year?
- What are the assets the Association owns?
- How much does it cost to maintain the Association's assets?
- When will assets need repair, preservation, or replacement?
- Can the Association afford to enhance the community assets?





Principles and Goals of a Reserve Study

CAI Funding Principles

- Sufficient funds when required.
- Stable funding rate over the years.
- Equitable funding rate over the years.
- Fiscally responsible.

Funding Goals

- **Baseline Funding** - Establishing a reserve funding goal of allowing the reserve cash balance to approach but never fall below zero during the cash flow projection.
- **Threshold Funding** - Establishing a reserve funding goal of keeping the reserve balance above a specified dollar or percent funded amount.
- **Full Funding** - Setting a reserve funding goal to attain and maintain reserves at or near 100 percent funded.

Asset / Component Assessment

07



SAMPLE Asset Table

Revisions From Previous
Study (If Applicable)

Asset Number	1						
Asset Name	Asphalt Components						
Component Number	01	Unit Cost (units)	\$5.50	Percent Replaced Each Cycle	50%	Lifespan	20
Component Name	parking lot restoration	Quantity (units)	3000 sq-ft	Project Years	1	Replacement Cycle	10
		Present Value Cost	\$16,500	Year of First Cost	2021		

Comments

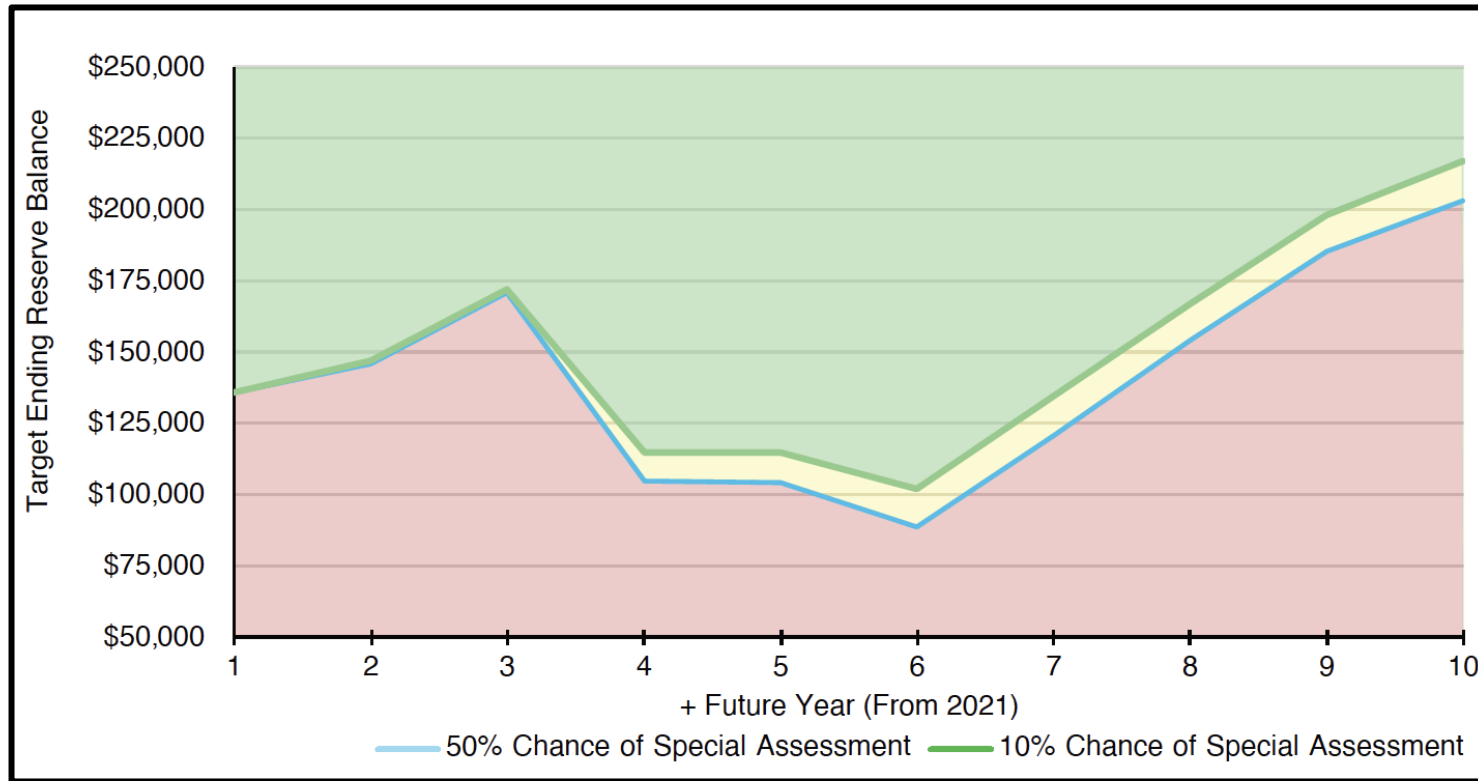
Parking lot is in poor condition. Appears a finish coat of asphalt was never applied, causing premature deterioration

Future Project List

Year	Asset Name	Component Name	Budgeted Replacement Amount	Actual Amount	Variance from Budgeted	Comments
2020	Asphalt Components	Parking Lot Replacement	\$ 16,500	\$ 12,500	-\$ 3000	Bids came in under budget
2020	Concrete	Sidewalk Repairs	\$ 2000	\$ 0	-\$ 2000	Board decision - sidewalk maintenance deferred
2020						
2020						
Total						
2021						
2021						
2021						
Total						
2022						
2022						
Total						
2024						
2024						
2024						
2024						
2024						
Total						

Financial Analysis

Target Ending Reserve Balance



Green = Doing Great!

Yellow = On Target

Red = Starting to Fall Behind

What Makes for Success?

Input and Feedback Drives Success

- A reserve study is 80% qualitative assumptions ("feel") and 20% quantitative metrics.
- A reserve study shouldn't try to estimate (guess) the correct bid price. It should seek to ensure sufficient funds are available, and do so without overly overestimating each project.

	Asphalt Repaving	Roof Replacement (EPDM)	Railing Paint
Bidder 1	\$52,554	\$24,981	\$3,700
Bidder 2	\$70,000 (33% Higher)	\$27,940 (12% Higher)	\$3,961 (7% Higher)
Bidder 3	\$95,814 (82% Higher)	\$42,800 (71% Higher)	\$6,800 (84% Higher)



Overlooked Areas of Capital Planning

Maintenance Checklist

- A well-defined maintenance checklist is the optimal method for defining maintenance responsibilities.
- Tips
 - Keep separate from governing documents.
 - Reference in governing documents but allow Board to “amend from time to time”
 - Work with reserve consultant to develop list and define responsibilities.

Maintenance Checklist

- Who Needs One and Why?
- All Associations where maintenance of the of individuals units is shared with Association.
- This keeps the Association from paying for repairs that should have been the resident's to fix. Doing so incurs an unallocated expense, probably paid from the reserve fund.
- Better ensures the Association doesn't expand "benefits" beyond what the Association is required.

EXHIBIT D
KOSSUTH STREET CONDOMINIUM
Chart of Maintenance Responsibilities

ITEM OF MAINTENANCE	ASSOCIATION RESPONSIBILITY	UNIT OWNER RESPONSIBILITY
Grounds	Within Common Elements	Within Limited Common Elements
Foundations	All	None
Building Exteriors	All	None
Roofs	All	None
Landscaping	Within Common Elements	Within Limited Common Elements
Snow Removal	Within Common Elements	Within Limited Common Elements
Patios	None	All
Fireplaces	None	Routine cleaning
Chimneys	All Exterior	None
Windows	None	All
Exterior Doors	None	All
Stoops	All, except routine cleaning	Routine Cleaning
Porches	All, except routing cleaning	Routine Cleaning
Furnace	None	All
Hot water heaters	None	All
Plumbing	Water & Sewer lines within Common Elements, except Limited Common Elements	Within Unit and Limited Common Elements
Electric	Within Common Elements, except Limited Common Elements	Within Unit and Limited Common Elements
Window Frames	None	All
Door Frames	None	All
Interior of Units	None	All
Drywall within Unit	Casualty loss replacement	Painting; repair and replacement due to owner damage

Unallocated and Unforeseen Expenditures

Infrastructure repairs are the largest unallocated and unforeseen expenditure that will keep an association from accumulating the projected amount of reserve funds.

- Stormwater Drainage Repairs - \$20k to \$30k
- Sinkholes - \$5k - \$15k
- Domestic Water & Sewer Repairs – \$50k to over \$250k

Send a camera or pressure test the pipe network to determine the condition.

Retention Ponds

- Functional components of overall stormwater management.
- Used to slow rainfall runoff into natural creeks (prevent erosion) and filter pollutants.
- Should be kept in good condition. Periodic inspections should be conducted.
 - Operation and Maintenance Manual will tell association what to look at.
- Two largest expenditures – Pond Bank Stabilizations (\$25k to over \$100k) and dredging (\$15k to over \$200k).





If the Association can't afford a reserve study then they can't afford their assets.

A study costs on average between \$2500 and \$4500.



QUESTIONS?

Village Reserve LLC

Building Equitable Funding Solutions

www.villagereserves.com

mshergalis@villagereserves.com