

339 Ocean Blvd Condominium Homeowners' Association

Reserve Fund Plan

Date: February 1, 2020

Reference:

339 Ocean Boulevard Condominium Capital Replacement Study, prepared by True North Property Management, dated December 1, 2018.

Purpose:

The purpose of this plan is to:

1. Identify and prioritize the capital mechanical and non-mechanical building systems for which replacement planning should be accomplished.
2. Determine if sufficient funds are being contributed to the Association's reserve funds.
3. Recommend solutions where problems are noted.

Scope:

1. This plan, based on information contained in the referenced study, shall: (1.) determine the priority of importance of the various 339 Ocean Boulevard Condominium mechanical and non-mechanical building systems; (2) confirm the expected cost and life expectancies of these systems; (3) designate which systems should be placed into the reserve fund category, and which should be considered for replacement as special assessments; and (4) designate amounts (in today's dollars) that the Association should place into the reserve category each year.
2. Analyze the results of above actions, and make recommendations concerning specific Association situations.
3. It is expected that this plan will be reviewed by the Association Board of Directors annually to confirm that the information is still valid, verify that the priorities are still the same, and confirm that the amounts being budgeted for the Association's reserve fund are applicable.

Assumptions:

1. All systems were placed into service in 2014.
2. Replacement costs and life expectancies of all systems have not changed since 2019.

Discussion:

Table 1, below, identifies the mechanical and non-mechanical building systems, in priority order (as determined by the Board of Directors), indicates the replacement cost for each system, identifies the life expectancy of each system, and indicates if the system will be placed into the reserve fund (yes) or special assessment category (no).

Table 1. Identification, Priority, Replacement Cost, Life Expectancy, and Reserve Fund Designation of Mechanical and Non-Mechanical Building Systems.

<u>Priority</u>	<u>System</u>	<u>Replace Cost</u>	<u>Life Expectancy</u>	<u>Reserve Fund</u>
1	Ethylene Propylene Diene Monomer (EDPM) Roof System	\$126K	25 Years	Yes
2	Asphalt Parking Area	\$79K	40 Years	Yes
3	Lift System	\$27K	20 Years	Yes
4	Elevator System	\$175K	50 Years	Yes
5	Fire Prevention	\$7K	15 Years	Yes
6	Sprinkler Systems	\$285K	20 Years	No
7	Doors	\$147K	30 Years	No
8	Windows	\$133K	40 Years	No
9	Decks and Railings	\$102K	30 Years	No
10	Vinyl Siding	\$71K	50 Years	No
11	Electrical House	\$20K	30 Years	No
12	Lamp Posts	\$5K	30 Years	No
TOTALS		\$1,177K	15 to 50 Years	

Replacement cost of all condominium systems, with varying life expectancies, is \$1,177K, a formidable amount. Further, the expected life of the systems ranges from 15 to 50 years. Following the above guidelines, five of 12 systems, totaling \$414K, have been placed in reserve for replacement, while the remaining systems, totaling \$763K, will be replaced via special assessments at the appropriate time.

It should be noted that some of the systems have numerous components that may not all have to be replaced at one time. To the extent possible, some of these components could be replaced using maintenance operational funds, or excess reserve funds, thus lowering the overall cost of replacement at the end of the system’s life expectancy. For example, the sprinkler system consists of everything in the pump room. Already one component (a motor) that failed early has been replaced using maintenance funds.

Another example is the EDPM roof. The roof is inspected twice annually for rips, tears, wear, etc. Where problems are noticed repairs/patches are made immediately. These proactive measures can most likely extend the life expectancy of the roof.

A third example could be replacement of the lamp posts in the parking areas. This is a low cost system that could possibly be replaced as a maintenance expense at the appropriate time.

Requirements:

Based upon the priorities established in Table 1, the reserve requirements are as shown in Table 2. This table reveals that the amount that should be placed into the reserve category on an annual basis is currently \$12,365.

Table 2 Reserve Requirements for systems placed into service in 2014.

<u>System</u>	<u>Cost</u>	<u>Life</u>	<u>Cost/Year</u>	<u>Replace</u>
EDPM Roof	\$126K	25 Years	\$5,040	2039
Asphalt Parking	\$79K	40 Years	\$1,975	2054
Lift System	\$27K	20 Years	\$1,350	2034
Elevator System	\$175K	50 Years	\$3,500	2064
Fire Prevention	\$7K	15 Years	\$500	2029
TOTAL Reserves Per Year (Current \$)			\$12,365	

Table 3, below, is an end-of-year comparison which shows the annual required amount that should be placed in reserves versus the amount that was actually designated as reserve funds. Upon establishment of the 339 Ocean Blvd Condominium HOA in October 2015, the developer placed \$5,000 in the reserve category. Subsequently since 2016, the HOA has annually allocated \$15,000 from its budget to reserves. Thus at its inception, the HOA did not place enough in its reserve category to cover the annual reserve requirements. As shown, this reserve shortfall continued through 2017. In 2018 an overage was achieved. Based upon this comparison, the reserve fund overage will continue in the future

Table 3. Reserve Comparison.

<u>End Of Year</u>	<u>Reserve Required</u>	<u>Actual Reserve</u>	<u>Over (+)/Short (-)</u>
2015	\$12,365	\$5,000	-\$7,365
2016	\$24,730	\$20,000	-\$4,730
2017	\$37,095	\$35,000	-\$2,095
2018	\$49,460	\$50,000	+\$540
2019	\$61,825	\$72,105	+\$10,280
2020	\$74,190	\$87,105	+\$12,915

Analysis:

The developer did not place sufficient funds into the reserve category initially. Consequently it took some time for the HOA to make up the deficit. In 2018 the previous shortfall was eliminated. Current reserve category funding is satisfactory.

The primary source of reserve funding is the annual HOA operating budget; however, there are other possible sources available. These typically include “windfall” payments to the Association through various opportunities, sale of Association assets, **required payment by buyer upon sale of a condominium unit**, and designation of other payments to the Association to the reserve fund category.

Board of Directors Actions 2019

1. During planning for the 2019 Association budget it was decided to continue the \$15,000 annual contribution to the reserve fund. Further, it was decided that up to an additional \$15,000 would be added, if possible, due to additional income expected to be received by the association from the Green Parking Dispute Arbitration and the sale of Parking Space #24. The process to determine the actual additional amount was to evaluate Association actual 2019 income and expenses, and based upon that analysis, up to \$15,000 additional could be placed in reserve. At year end it was determined that only \$7,105 additional would be added, as there were several unexpected expenses during the year. Thus, reserve contributions for 2019 totaled \$22,105

2. The Association’s Declaration of Condominium was changed to require that upon the sale of any residential unit, the buyer must pay an amount equal to one quarterly fee payment which is to be placed in the reserve funds. This change was approved by all members of the HOA during the April, 2019 annual meeting. One unit was sold after the change went into effect, and this payment was placed in the reserve fund. The payment of \$1,395 is included in the \$7,105 amount reflected above.

3. During planning for the 2020 Association budget it was decided to place \$15,000 into the reserve fund during 2020.

4. At year end, each system described in the plan was reviewed with respect to its total replacement cost and life expectancy. It was determined costs for replacing the systems have not appreciably increased since last year, and the life expectancies of the systems remain the same. Based upon this review it was decided to keep the total replacement costs and life expectancies the same for the next year. This decision was reflected in the assumptions at the beginning of the plan.

Board of Directors 2020 Recommendations:

1. Continue to place \$15,000 into reserves annually. As this overage continues to grow, consider placing other systems into the funded reserve. Alternatively, consider reducing amount of owner fees allocated to reserves.
2. Periodically review each system with regards to its total replacement cost and life expectancy. As appropriate, make adjustments.

Note: The Below Paragraph will be deleted.

3. Consider other methods for funding reserves:

- a. Place money received in payment for the sale of Parking Space #24 into the reserve category to increase surplus.
- b. Place money received in reimbursement of HOA legal fees from the Green Parking dispute in 2018 into the reserve category in 2019.
- c. Upon the sale of any residential unit require that the buyer or seller pay an amount equal to one quarterly fee payment which would be placed in the reserve category. This will require a change to the HOA's Declaration of Condominium.