



Building a Financial Foundation:

A Guide to Reserve Funds and Capital Planning
for Community Boards

ejf

REAL ESTATE
SERVICES



RESERVE™

ADVISORS

Long-term thinking. Everyday commitment.

Role of the Board

“

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 governing documents.

Community Associations Institute - Board Member Toolkit

”

Board's Fiduciary Duty



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

Purpose of a Reserve Study

Budgeting Tool



Project Prioritization



Community Roadmap



Funding Major Capital Projects



Reserves

- Regular assessments – part of annual operating budget
- Funds acquired over time
- Owners pay for annual use of each component
- Fair and partial to current and future owners



Special Assessments

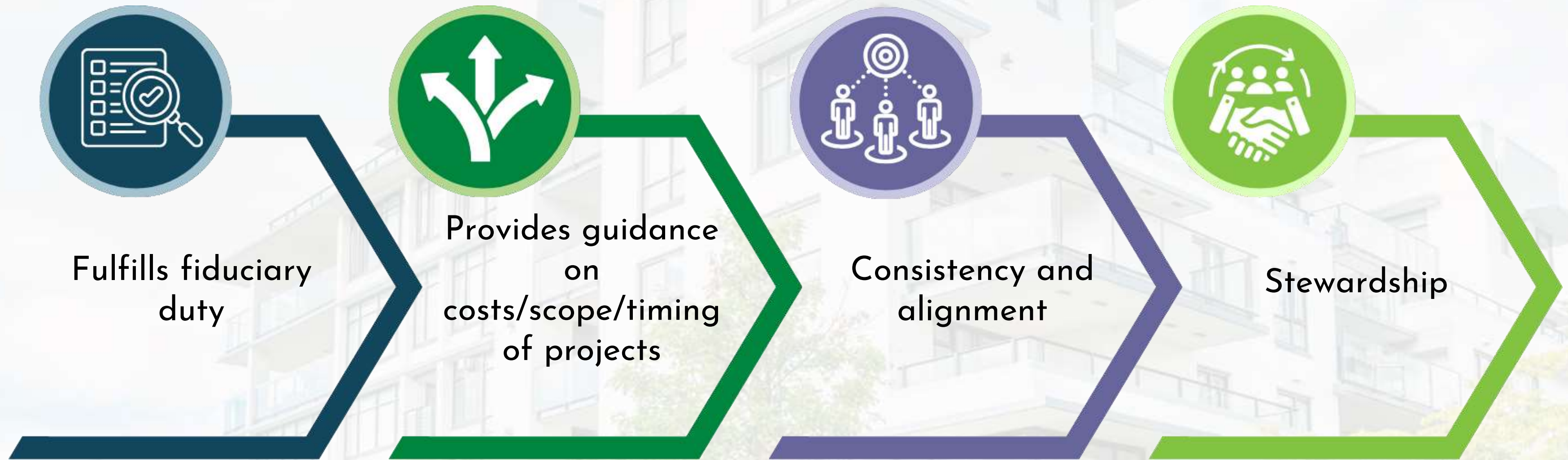
- Typically result of lack of reserve funds
- Usually unexpected
- Burdensome, financial pressure on residents
- Might require ownership vote



Bank Loans

- Immediate cash flow to cover urgent expenses
- Added expense of loan interest

Importance of Reserves - The Board



Importance of Reserves - Managers



Fewer surprises
and complaints



Saves time with
decision-making
and projects



Compliance with
laws and accounting
requirements

Importance of Reserves - Owners

Maintains eligibility for mortgage financing



Preserves community appearance



Safety and security



Protects investment

Mitigates special assessments


Reduces maintenance costs

Equity

What is a Reserve Study & What Do They Entail?


FULL RESERVE STUDY

Scenic Ridge Association



Madison, USA
July 1, 2021

Representative client photograph



Long-term thinking. Everyday commitment.

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EXECUTIVE SUMMARY

Recommended Reserve Funding Table and Graph

Year	Reserve Balance (\$)	Year	Reserve Balance (\$)	Year	Reserve Balance (\$)	Year	Reserve Balance (\$)
2020	115,269	2024	125,858	2028	136,447	2032	147,036
2021	115,269	2025	125,858	2029	136,447	2033	147,036
2022	115,269	2026	125,858	2030	136,447	2034	147,036
2023	115,269	2027	125,858	2031	136,447	2035	147,036
2024	115,269	2028	125,858	2032	136,447	2036	147,036
2025	115,269	2029	125,858	2033	136,447	2037	147,036
2026	115,269	2030	125,858	2034	136,447	2038	147,036
2027	115,269	2031	125,858	2035	136,447	2039	147,036
2028	115,269	2032	125,858	2036	136,447	2040	147,036
2029	115,269	2033	125,858	2037	136,447	2041	147,036
2030	115,269	2034	125,858	2038	136,447	2042	147,036
2031	115,269	2035	125,858	2039	136,447	2043	147,036
2032	115,269	2036	125,858	2040	136,447	2044	147,036
2033	115,269	2037	125,858	2041	136,447	2045	147,036
2034	115,269	2038	125,858	2042	136,447	2046	147,036
2035	115,269	2039	125,858	2043	136,447	2047	147,036
2036	115,269	2040	125,858	2044	136,447	2048	147,036
2037	115,269	2041	125,858	2045	136,447	2049	147,036
2038	115,269	2042	125,858	2046	136,447	2050	147,036
2039	115,269	2043	125,858	2047	136,447	2051	147,036
2040	115,269	2044	125,858	2048	136,447	2052	147,036
2041	115,269	2045	125,858	2049	136,447	2053	147,036
2042	115,269	2046	125,858	2050	136,447	2054	147,036
2043	115,269	2047	125,858	2051	136,447	2055	147,036
2044	115,269	2048	125,858	2052	136,447	2056	147,036
2045	115,269	2049	125,858	2053	136,447	2057	147,036
2046	115,269	2050	125,858	2054	136,447	2058	147,036
2047	115,269	2051	125,858	2055	136,447	2059	147,036
2048	115,269	2052	125,858	2056	136,447	2060	147,036
2049	115,269	2053	125,858	2057	136,447	2061	147,036
2050	115,269	2054	125,858	2058	136,447	2062	147,036
2051	115,269	2055	125,858	2059	136,447	2063	147,036
2052	115,269	2056	125,858	2060	136,447	2064	147,036
2053	115,269	2057	125,858	2061	136,447	2065	147,036
2054	115,269	2058	125,858	2062	136,447	2066	147,036
2055	115,269	2059	125,858	2063	136,447	2067	147,036
2056	115,269	2060	125,858	2064	136,447	2068	147,036
2057	115,269	2061	125,858	2065	136,447	2069	147,036
2058	115,269	2062	125,858	2066	136,447	2070	147,036
2059	115,269	2063	125,858	2067	136,447	2071	147,036
2060	115,269	2064	125,858	2068	136,447	2072	147,036
2061	115,269	2065	125,858	2069	136,447	2073	147,036
2062	115,269	2066	125,858	2070	136,447	2074	147,036
2063	115,269	2067	125,858	2071	136,447	2075	147,036
2064	115,269	2068	125,858	2072	136,447	2076	147,036
2065	115,269	2069	125,858	2073	136,447	2077	147,036
2066	115,269	2070	125,858	2074	136,447	2078	147,036
2067	115,269	2071	125,858	2075	136,447	2079	147,036
2068	115,269	2072	125,858	2076	136,447	2080	147,036
2069	115,269	2073	125,858	2077	136,447	2081	147,036
2070	115,269	2074	125,858	2078	136,447	2082	147,036
2071	115,269	2075	125,858	2079	136,447	2083	147,036
2072	115,269	2076	125,858	2080	136,447	2084	147,036
2073	115,269	2077	125,858	2081	136,447	2085	147,036
2074	115,269	2078	125,858	2082	136,447	2086	147,036
2075	115,269	2079	125,858	2083	136,447	2087	147,036
2076	115,269	2080	125,858	2084	136,447	2088	147,036
2077	115,269	2081	125,858	2085	136,447	2089	147,036
2078	115,269	2082	125,858	2086	136,447	2090	147,036
2079	115,269	2083	125,858	2087	136,447	2091	147,036
2080	115,269	2084	125,858	2088	136,447	2092	147,036
2081	115,269	2085	125,858	2089	136,447	2093	147,036
2082	115,269	2086	125,858	2090	136,447	2094	147,036
2083	115,269	2087	125,858	2091	136,447	2095	147,036
2084	115,269	2088	125,858	2092	136,447	2096	147,036
2085	115,269	2089	125,858	2093	136,447	2097	147,036
2086	115,269	2090	125,858	2094	136,447	2098	147,036
2087	115,269	2091	125,858	2095	136,447	2099	147,036
2088	115,269	2092	125,858	2096	136,447	2100	147,036
2089	115,269	2093	125,858	2097	136,447	2101	147,036
2090	115,269	2094	125,858	2098	136,447	2102	147,036
2091	115,269	2095	125,858	2099	136,447	2103	147,036
2092	115,269	2096	125,858	2100	136,447	2104	147,036
2093	115,269	2097	125,858	2101	136,447	2105	147,036
2094	115,269	2098	125,858	2102	136,447	2106	147,036
2095	115,269	2099	125,858	2103	136,447	2107	147,036
2096	115,269	2100	125,858	2104	136,447	2108	147,036
2097	115,269	2101	125,858	2105	136,447	2109	147,036
2098	115,269	2102	125,858	2106	136,447	2110	147,036
2099	115,269	2103	125,858	2107	136,447	2111	147,036
2100	115,269	2104	125,858	2108	136,447	2112	147,036
2101	115,269	2105	125,858	2109	136,447	2113	147,036
2102	115,269	2106	125,858	2110	136,447	2114	147,036
2103	115,269	2107	125,858	2111	136,447	2115	147,036
2104	115,269	2108	125,858	2112	136,447	2116	147,036
2105	115,269	2109	125,858	2113	136,447	2117	147,036
2106	115,269	2110	125,858	2114	136,447	2118	147,036
2107	115,269	2111	125,858	2115	136,447	2119	147,036
2108	115,269	2112	125,858	2116	136,447	2120	147,036
2109	115,269	2113	125,858	2117	136,447	2121	147,036
2110	115,269	2114	125,858	2118	136,447	2122	147,036
2111	115,269	2115	125,858	2119	136,447	2123	147,036
2112	115,269	2116	125,858	2120	136,447	2124	147,036
2113	115,269	2117	125,858	2121	136,447	2125	147,036
2114	115,269	2118	125,858	2122	136,447	2126	147,036
2115	115,269	2119	125,858	2123	136,447	2127	147,036
2116	115,269	2120	125,858	2124	136,447	2128	147,036
2117	115,269	2121	125,858	2125	136,447	2129	147,036
2118	115,269	2122	125,858	2126	136,447	2130	147,036
2119	115,269	2123	125,858	2127	136,447	2131	147,036
2120	115,269	2124	125,858	2128	136,447	2132	147,036
2121	115,269	2125	125,858	2129	136,447	2133	147,036
2122	115,269	2126	125,858	2130	136,447	2134	147,036
2123	115,269	2127	125,858	2131	136,447	2135	147,036
2124	115,269	2128	125,858	2132	136,447	2136	147,036
2125	115,269	2129	125,858	2133	136,447	2137	147,036
2126	115,269	2130	125,858	2134	136,447	2138	147,036
2127	115,269	2131	125,858	2135	136,447	2139	147,036
2128	115,269	2132	125,858	2136	136,447	2140	147,036
2129	115,269	2133	125,858	2137	136,447	2141	147,036
2130	115,269	2134	125,858	2138	136,447	2142	147,036
2131	115,269	2135	125,858	2139	136,447	2143	147,036
2132	115,269	2136	125,858	2140	136,447	2144	147,036
2133	115,269	2137	125,858	2141	136,447	2145	147,036
2134	115,269	2138	125,858	2142	136,447	2146	147,036
2135	115,269	2139	125,858	2143	136,447	2147	147,036
2136	115,269	2140	125,858	2144	136,447	2148	147,036
2137	115,269	2141	125,858	2145	136,447	2149	147,036
2138	115,269	2142	125,858	2146	136,447	2150	147,036
2139	115,269	2143	125,858	2147	136,447	2151	147,036
2140	115,269	2144	125,858	2148	136,447	2152	147,036
2141	115,269	2145	125,858	2149	136,447	2153	147,036
2142	115,269	2146	125,858	2150	136,447	2154	147,036
2143	115,269	2147	125,858	2151	136,447	2155	147,036
2144	115,269	2148	125,858	2152	136,447	2156	147,036
2145	115,269	2149	125,858	2153	136,447	2157	147,036
2146	115,269	2150	125,858	2154	136,447	2158	147,036
2147	115,269	2151	125,858	2155	136,447	2159	147,036
2148	115,269	2152	125,858	2156	136,447	2160	147,036
2149	115,269	2153	125,858	2157	136,447	2161	147,036
2150	115,269	2154	125,858	2158	136,447	2162	147,036
2151	115,269	2155	125,858	2159	136,447	2163	147,036
2152	115,269	2156	125,858	2160	136,447	2164	147,036
2153	115,269	2157	125,858	2161	136,447	2165	147,036
2154	115,269	2158	125,858	2162	136,447	2166	147,036
2155	115,269	2159	125,858	2163	136,447	2167	147,036
2156							

Two Core Elements: Schedule of Expenditures

RESERVE EXPENDITURES

Scenic Ridge
Association
Madison, USA

Explanatory Notes:

- 1) 3.3% is the estimated Inflation Rate for estimating Future Replacement Costs.
- 2) FY2025 is Fiscal Year beginning January 1, 2025 and ending December 31, 2024.

Total Quantity	Per Phase Quantity	Units	Reserve Component Inventory	Estimated 1st Year of Event	Life Analysis, Years		RUL = 0 FY2025	1 2026	2 2027	3 2028	4 2029	5 2030	6 2031	7 2032	8 2033	9 2034	10 2035	11 2036
					Useful	Remaining												
Exterior Building Elements																		
4,500	1,500	Square Feet	Balconies, Composite, Phased	2031	20 to 25	6 to 8							91,130	94,138	97,244			
75	75	Each	Light Fixtures	2037	to 20	12												
1,000	500	Squares	Roofs, Asphalt Shingles, Phased	2029	15 to 20	4 to 5					284,670	294,064						
150	75	Squares	Roofs, Flat, Phased	2029	15 to 20	4 to 5					85,401	88,219						
9,000	4,500	Linear Feet	Sealants, Windows and Doors, Phased	2029	to 20	4 to 14					17,934							
37,500	37,500	Square Feet	Walls, Masonry, Inspections and Repairs	2031	8 to 12	6							36,452					
75,000	25,000	Square Feet	Walls, Stucco, Paint Finishes and Capital Repairs, Phased	2026	8 to 10	1 to 3		38,738	40,016	41,336								53,596
100	33	Units	Walls, Trim, Soffits and Fascia, Paint Finishes, Phased	2026	4 to 6	1 to 3		17,215	17,783	18,370			20,249	20,917	21,608			23,818

Two Core Elements: Funding Plan



Different assets, conditions, & reserve balances drive specific needs



3 funding strategies commonly utilized



Alternative funding methods can be incorporated

Reserve Advisors, LLC

CASH FLOW ANALYSIS

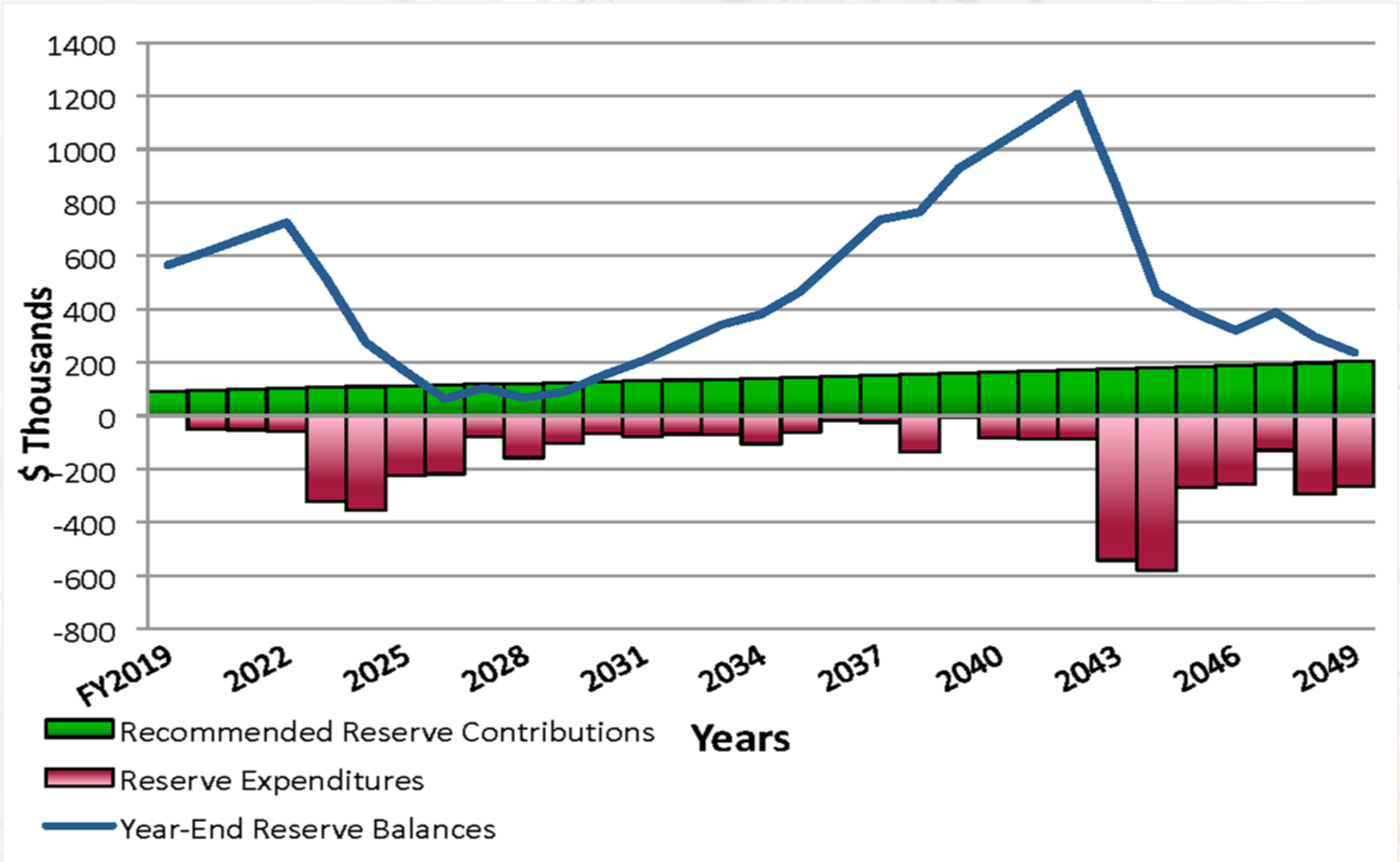
Scenic Ridge Association

Madison, USA

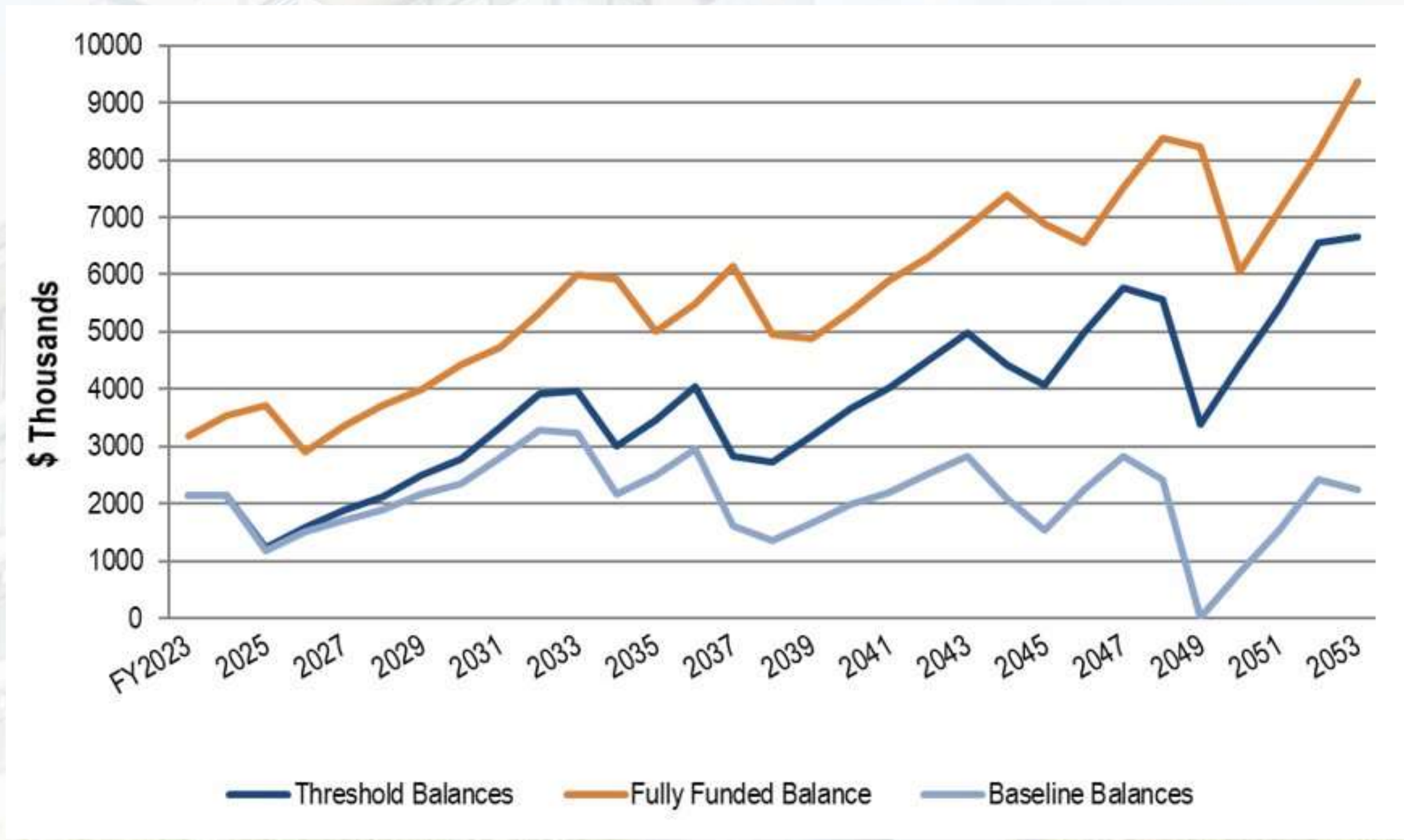
	Individual Reserve Budgets & Cash Flows for the Next 30 Years											
	FY2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Reserves at Beginning of Year	555,000	663,227	726,790	799,319	876,526	623,983	337,040	198,966	55,207	84,415	34,756	51,733
Total Recommended Reserve Contributions	92,000	101,000	110,000	119,000	128,000	137,000	141,500	141,500	146,200	151,000	156,000	161,100
Estimated Interest Earned, During Year	16,227	18,515	20,328	22,323	19,987	12,801	7,140	3,386	1,860	1,587	1,152	2,527
Anticipated Expenditures, By Year	0	(55,952)	(57,799)	(64,115)	(400,530)	(436,744)	(286,714)	(288,645)	(118,852)	(202,246)	(140,175)	(77,415)
Anticipated Reserves at Year End	<u>\$663,227</u>	<u>\$726,790</u>	<u>\$799,319</u>	<u>\$876,526</u>	<u>\$623,983</u>	<u>\$337,040</u>	<u>\$198,966</u>	<u>\$55,207</u>	<u>\$84,415</u>	<u>\$34,756</u>	<u>\$51,733</u>	<u>\$137,945</u>

Critical Year

Funding Plan Graph



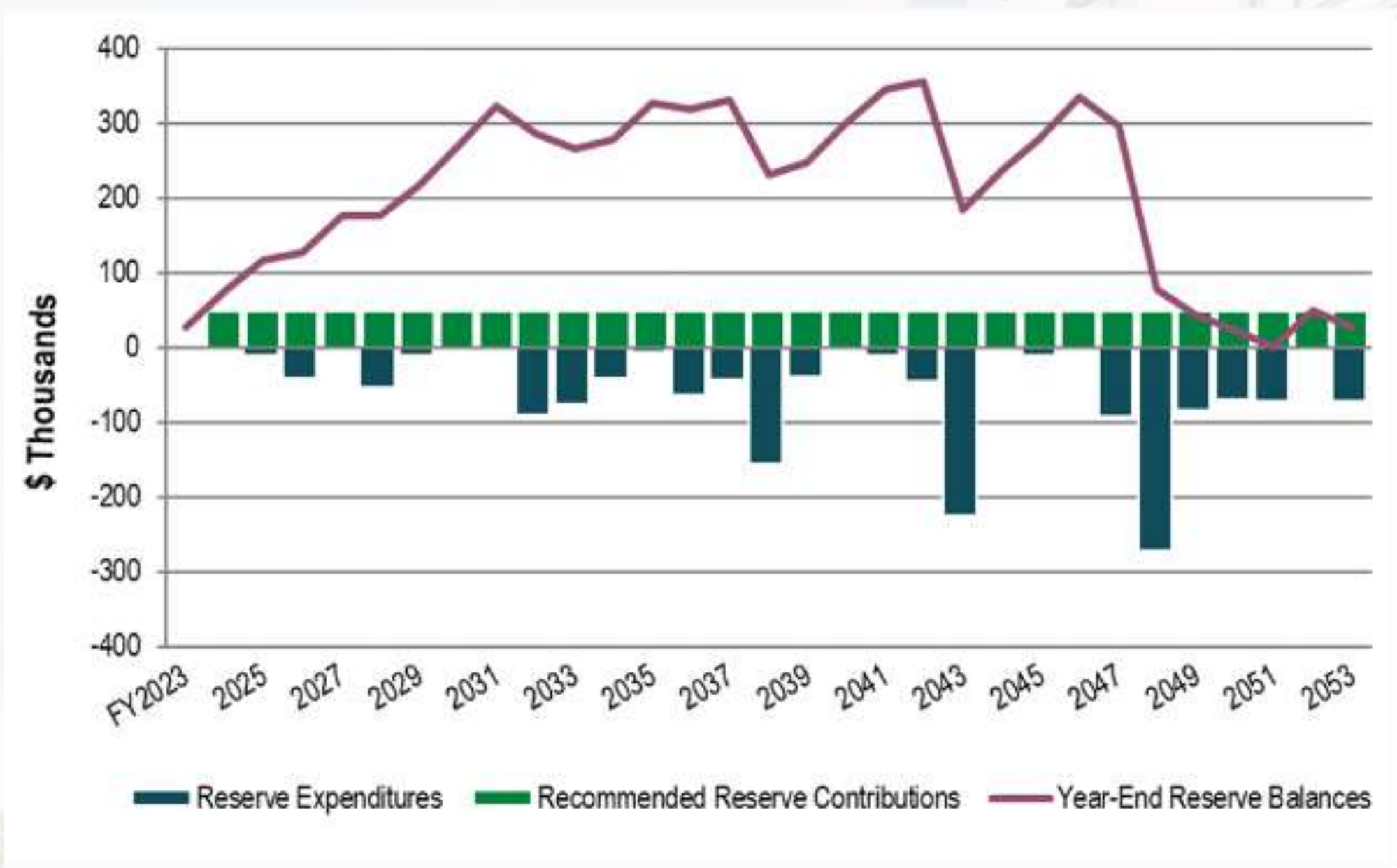
Funding Strategies



Funding Strategies Comparison

	Risk Level	Cost to Fund	Annual Funding	Owner Contrib.	30 Year Funding
Baseline Funding	Highest	Lowest	?	?	?
Threshold Funding	↑	↓	?	?	?
Full Funding	Lowest	Highest	?	?	?

Baseline Funding



\$1.46M

30 yr. Funding



\$49k

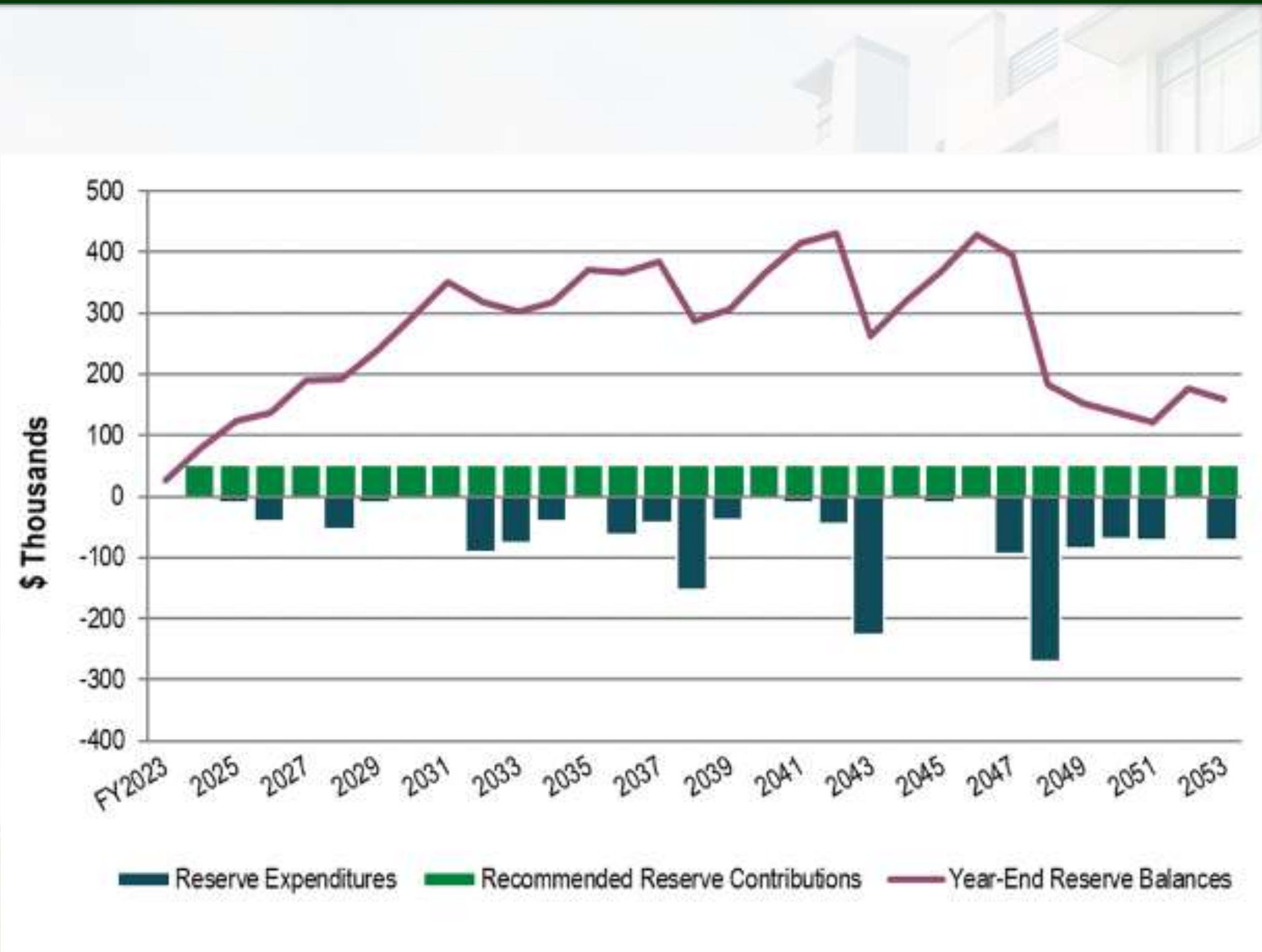
Annual Funding



\$132

Annual Owner Contribution

Threshold Funding





\$1.56M

30 yr. Funding



\$52k

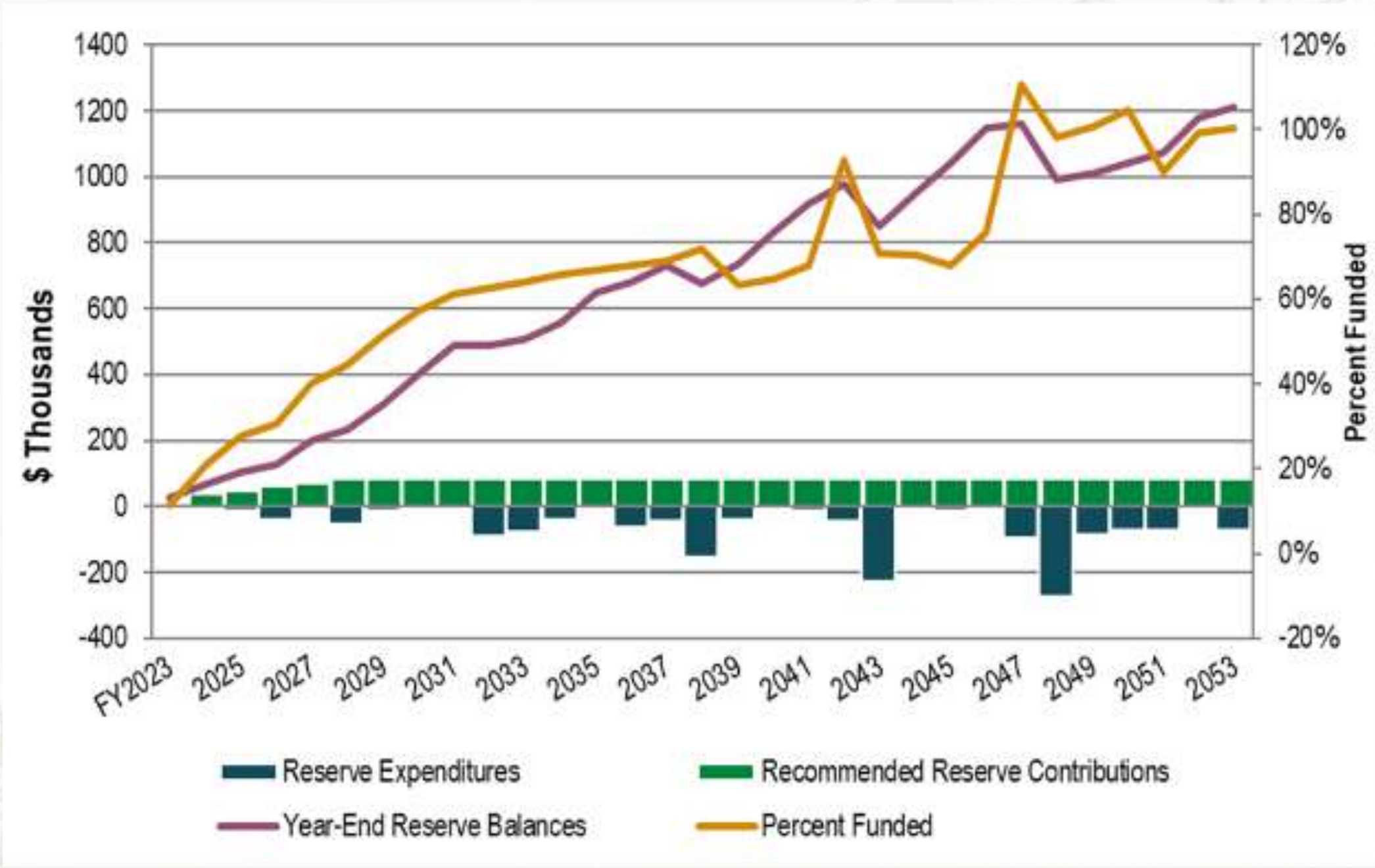
Annual Funding



\$141

Annual Owner Contribution

Full Funding





\$2.36M

30 yr. Funding



\$79k

Avg. Annual Funding



\$213

Annual Owner Contribution

Funding Strategies



	Risk Level	Cost to Fund	Annual Funding	Owner Contrib.	30 Year Funding
Baseline Funding	Highest	Lowest	\$48.8k	\$132	\$1.464m
Threshold Funding			\$52k	\$141	\$1.560m
Full Funding	Lowest	Highest	\$78.8k	\$213	\$2.364m

What if Reserves Aren't Enough?



Special
Assessments



Loans &
Financing



Do nothing!

Special Assessments



Check documents to ensure Board can levy without owner approval



Administrative fees, collections, and delinquent payments



Early communication is key

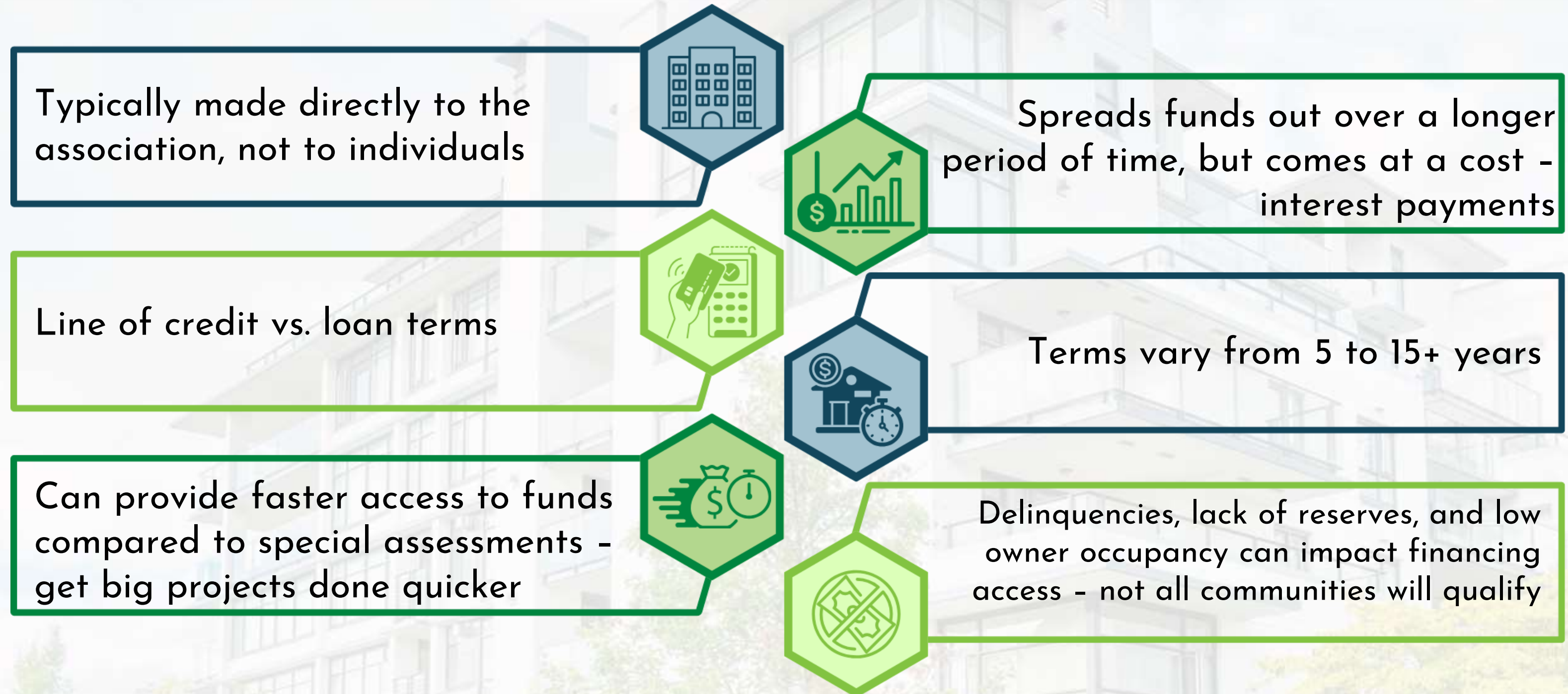


Good for unexpected expenses, but can be a sign of poor management



Repeat assessments can impact property values

Loans and Financing



A \$600,000 loan over 7 years at 5% interest costs \$712,000 + fees

What happens next?

How EJJ's team works with Boards to meet their construction and financial goals.

- Current Reserve Studies are used as a guide to develop a plan of action for completing capital projects (CapEx).
- If urgent issues arise that will use reserve funds earmarked for a different project, the CapEx team can help the Board strategically plan and prioritize projects and plan for funding.
- New regulations make deferring projects or maintenance items far more costly than funding reserves correctly as advised.
- Once you have your Reserve Study, having a conversation with your community manager and financial manager and the CapEx team will ensure your Association is on the right path to executing your financial and project goals.

The logo for EJJ Real Estate Services, featuring the letters 'ejf' in a large, dark blue, serif font.

REAL ESTATE
SERVICES

Summary



There is no one
size fits all
approach to
funding



Unique to each
association



The reserve
study is a
starting point



Subsequent
updates help
guide to a
sustainable
future