

## SCMA Reserve Study Study Report As of 9/30/2015

Prepared by Dianne Dalessandro 11/14/2015

### Highlights of the Reserve Study and Recommendations.

The Level 1 Reserve Study, commissioned by the SCMA Board in 2015, conforms to all standards of the Revised Code of Washington, RCW 64.38.045>>64.38.050. The study was completed by Association Reserves, 5050 S. 336th St., Suite 620, Federal Way, WA. It includes: Sun Country Estates major assets; the estimated total useful life of each asset; the remaining useful life of the asset; and a projection of the cost of the repair or replacement of that asset at the end of its useful life.

Following the assessment of assets is an estimate of each owner's daily use cost for assets such as roads and water system. Building an adequate reserve fund for these inevitable expenses is the fairest way to deal with the maintenance and replacement of community infrastructure. Without an adequate reserve fund, owners are at high risk for large unexpected assessments when an asset wears out or needs major repairs down the road. This is no different from receiving a monthly water bill in any city we live in. Unexpected assessments in communities like ours are notorious for causing financial crisis and resulting in depressed property values. Fortunately the majority of the largest expenses predicted for our community are many years in the future and our reserve funding is at 59% funded at present time with a medium level risk for special assessments. The reserve study ends with two suggested proposals that the Home Owner Association may adopt to fund reserves over 30 years. The proposals are rated by high, medium, and low risk for unexpected assessments over the study period.

- At our present level of reserve funding we will fall from 59% reserve funding to below 10% (high risk) funding of anticipated needs by 2022 and we will deplete reserve funds by 2031 because projected expenses will exceed reserve funds. (See appendix A-Percent Funded >Current Budget.) This has consequences. Reserve funding levels below 10% fall below present FHA criteria for funding home owner association loans. It will negatively impact property values because the RCW requires that Reserve Study findings and home owner association funding plans be disclosed to prospective buyers.
- The study proposal option for **Full** Funding, with virtually no risk for large assessments, would rapidly bring our community to 100% funding of estimated predicted reserve fund expenses for the foreseeable future.
- A middle option of **Alternate** (minimum) Baseline funding results in gradual decline in reserve funding from the present 59% funded down to 20-30% funded in 2022 thru 2033. This 20 - 30% range is within a medium risk for major assessments. The long range ideal is to achieve funding at the 60 - 75% level that has a low risk of reserve cash flow problems. (See appendix A-Percent Funded>Alternate (Minimum) Funding).

#### Our situation:

We are presently paying off a \$3 million assessment financed by a DWSRF (Drinking Water State Revolving Fund, US EPA) loan for our modern water system installed 6 years ago. The loan principal and interest of \$187,000 annually puts pressure on our budgetary resources until 2034 when the loan will be paid off. It is the largest budget line item in our budget. This burden makes the reserve study Full Funding option unrealistic. We will have to accept some level of risk for special assessments until 2034.

#### SCMA Board recommendations:

1. Allocate an Alternative/Baseline minimum funding until the present DWSRF Loan is paid off in 2034. Implement the increase in reserve fund assessments over two years. Limit subsequent annual increase in reserve funding to \$12 per lot until 2034. Our goal is a range of 20-30% of full reserve funding with a Medium Risk for special assessments thru 2033. When the DWSRF loan is paid off, dedicate those budgeted funds to the reserve fund to build and maintain reserve funding within 60-75% funded from 2034 thru the foreseeable future (this level of funding would have a low risk of special assessments).
2. Perform a Level 2 reserve study every 3 years to track/monitor our progress and make adjustments if needed. Next reserve study will be scheduled for 2018, preferably with the same company for continuity.

#### Summary of recommendations for annual reserve funding based on 300 lots in Sun Country.

2015 Annual Reserve Fund Assessment per Lot	2016 Annual Reserve Fund Assessment per lot. (\$49.92 included)	2017 Annual Reserve Fund Assessment per lot (\$70.92 included)	2018 - 2034 Annual increase in Reserve Fund Assessment
\$49.92 per year \$14,976/yr total	\$70.92 per year \$21,276/yr total	\$91.92 per year \$27,576/yr total	Will increase \$1/month per lot annually ( \$12 per year)

This report was prepared in consultation with Association Reserves consultant. Ph: 253 661-5437