



MEMORANDUM

RESERVE BUDGET CONSIDERATIONS

Background. Reserve funding for certain common element items is required for condominium associations under Florida law.

For several years, the B3/5 Association has funded reserves at 100% based on the component method assumptions made solely by the Property Manager. Beginning in 2019, and together with the other two Condominium Associations, the B3/5 Association undertook a capital reserve study to give us a sound basis for reserve planning. Karins engineering provided that study (the same firm that did the Community Association Reserve Study) late this summer. At the November 2019 Members meeting, members voted to change the reserve accounting method from *component* to *pooled*.

Our Process. After receiving the study your board reworked the information in Excel spreadsheet form, held discussions with Karins to clarify a number of points, met with representatives of other boards and Karins to assure our common understanding of the study, and finally met with representatives from other Associations to fine-tune reserve expense needs.

What we found. The Karins study was thorough and listed virtually every component of our infrastructure that we might conceivably have to account for in reserves. A *partial* list of those components is below.

Structure	
Cementitious Coating Repair(Estimate) Walkways and Stairs Repair (Estimate)	
AC Unit Concrete Structures Replacement	
	Cornice Exterior Trim Replacement
	Soffit Replacement
Garage	
	Bollards
	Concrete Repair (Estimates)
	Resealing
Roofing	
	Architectural Shingle Replacement
	Gutter Replacement Downspout Replacement
Common Mechanical - Elevator	
	Deferred Maintenance Hydraulic Jack Unit Replacement
	Passenger Cab Replacement
	Replacement Passenger Doors Replacement
	Pumping Unit Replacement Elevator Phone / Intercom
	Controller Equipment and Wiring Replacement Elevator Disconnects / Safety Switches

Items in blue above are those we must consider for replacement on a schedule; items in tan can be adjusted. Replacement of many elements (for example, AC Unit Concrete Structure Replacement under "Structure" above) in the study we found very likely would not need actual replacement at the end of their estimated life and, in fact, could be repaired as needed. Adjusting costs in this way results in a more realistic estimate.

After agreeing to the adjustments we needed to make, we entered them into a planning spreadsheet and calculated our reserve costs for the next 20 years.

		2019	2020	2021
	Reserve Expense	\$0	\$67,345	\$20,570
These rows shows balances from realistic reserve expenses only	Starting Reserve Balance	\$293,000	\$343,000	\$325,655
	Reserve Contribution	\$50,000	\$50,000	\$50,000
	Ending Reserve Balance	\$343,000	\$325,655	\$355,086

We then looked at our total reserve amounts and the amounts we would need to contribute to keep our reserve balance positive as required by Florida Statute. The reserve needs over the entire 20 year period are summarized thus:

Starting Reserve Balance (end 2019)	\$ 293,000
Average Annual Contribution (TBD)	\$ 50,000
Total Expenditures	\$2,204,502
Total Contributions	\$1,100,000
Reserve Shortfall	\$ -811,502

On a year-by-year basis, we would start to see negative balances in 2036 assuming a steady \$50,000 per year reserve contribution and our current projected expenses.

	2034	2035	2036	2037
Expense	\$1,643	\$258,626	\$194,664	\$471,224
Begin Reserve	\$234,314	\$282,671	\$74,045	-\$70,619
End Reserve	\$282,671	\$74,045	-\$70,619	-\$491,843

The Caveats. Representatives from all three Condo Associations identified three areas of reserve expense for which we did not have sufficient information for accurate planning. Those included the elevators, the electrical infrastructure and the fire suppression infrastructure. Independent engineers with expertise in these three areas are needed to evaluate what we have in more depth to determine our exact needs.

Pending those studies, we thought it prudent to plan for 2020 as if the full amounts provided to us by Karins will be required.

Recommendation. Based on the Karins study and the hours of additional work and investigation, we think it prudent to increase the reserve contribution in 2020 from \$40,000 to \$50,000. This will result in an increase in association fees of \$50 per quarter for owners. We also recommend placing in the budget line items for the engineering studies referred to on the previous page.