Comparison of the 2017 and 2024 Reserve Studies for Millbrook HOA

Summary of Millbrook Townhomes HOA - Assoc. ID # - 07780-16

Reported Starting Balance as of January 1, 2017 -	**$322,831**
Ideal Reserve Balance as of January 1, 2017 -	**$1,201,570**
Percent Funded as of January 1, 2017 -	**27%**
Recommended Reserve Allocation (per month) -	**$14,200**
Minimum Reserve Allocation (per month) -	**$13,150**
Recommended Special Assessment (2017) -	**$210,000 ($1,500 per unit)**
Recommended Special Assessment (2018 and 2019) -	**$119,000 ($850 per unit)**

This report is an update to an existing Reserve Study that was prepared for the association 8 years ago for the 2009 fiscal period. An observation of the property's common area elements took place on June 10, 2016 to verify the information from this previous report. In addition, we obtained information by contacting local vendors and contractors, as well as communicating with the property representative. To the best of our knowledge, the conclusions and suggestions of this report are considered reliable and accurate insofar as the information obtained from these sources.

This property contains 140 townhome units contained within 32 buildings (ranging from 4 units to 6 units per building). The majority of the community (25 buildings) was constructed approximately 33 years ago, while the remaining buildings were built approximately 21 years ago. The association's maintenance responsibilities include building exterior surfaces, private streets/driveways, a pool area and clubhouse, perimeter fencing, and landscaping. Please refer to the *Projected Reserve Expenditures* table of the Financial Analysis for a detailed listing of when projects are programmed to be addressed.

In comparing the projected balance of $322,831 versus the ideal Reserve Balance of $1,201,570, we find the association Reserve fund to be in a less than ideal financial position (approximately 27% funded of ideal) at this time. Associations in this position are typically susceptible to Special Assessments and/or deferred maintenance, which can lead to lower property values. Based on the information contained within this report, we find no alternative but to recommend a multi-year Assessment for the next 3 years (ranging from $850 - $1,500 per unit per year). In addition, the current budgeted Reserve allocation is less than adequate in funding the Reserve fund to address future projects. Therefore, we suggest increasing the Reserve contribution to $14,200 per month (representing an increase of $33.68 per unit), followed by nominal annual increases of 2.75% thereafter to help offset the effects of inflation. By following the recommendation, the plan will maintain the Reserve account in a positive manner, while gradually increasing to a fully funded position within the thirty-year period.

In the percent Funded graph, you will see that we have also suggested a minimum Reserve contribution of $13,150 per month. If the Reserve contribution falls below this rate, then the Reserve fund will fall into a situation where Special Assessments, deferred maintenance, and lower property values are possible at some point in the future. The minimum Reserve allocation follows the "threshold" theory of Reserve funding where the "percent funded" status is not allowed to dip below 30% funded at any point during the thirty-year period. This was provided for one purpose only, to show the association how small the difference is between the two scenarios and how it would not make financial sense to contribute less money (approximately 7% in this case) to the Reserve fund to only stay above a certain threshold. As you can see, the difference between the two scenarios is considered to be extremely minimal, and based on the risk involved, we strongly suggest the recommended Reserve Allocation is followed.

Reserve Study Executive Summary — Full

Millbrook Homeowners Association
Littleton, CO
Level of Service: **"Full"**

Report #: **43766-0**
\# of Units: 140
January 1, 2025 through **December 31, 2025**

Findings & Recommendations — as of January 1, 2025

Starting Reserve Balance	$246,237
Fully Funded Reserve Balance	$4,719,063
Annual Rate (Cost) of Deterioration	$232,621
Percent Funded	5.2 %
Recommended 2025 Annual "Fully Funding" Reserve Transfers	$339,900
Alternate/Baseline Annual Minimum Transfers to Keep Reserves Above $0	$258,800
Recommended 2025 Special Assessments for Reserves	$2,380,000
Most Recent Annual Reserve Transfer Rate	$30,000

Reserve Fund Strength: 5.2% — Weak | Fair | Strong

< 30% | < 70% | > 130%

Risk of Special Assessment: — High | Medium | Low

Economic Assumptions:

Net Annual "After Tax" Interest Earnings Accruing to Reserves	**1.50 %**
Annual Inflation Rate	**3.00 %**

• This "Full", (original, created "from scratch"), is based on our site inspection on 6/21/2024.

• The Reserve Study was reviewed by a credentialed Reserve Specialist (RS).

• Your Reserve Fund is currently 5.2 % Funded. This means the client's special assessment & deferred maintenance risk is currently High.

• Based on this starting point and your anticipated future expenses, our recommendation is to budget the Annual Reserve transfers at $339,900 with 3% annual increases in order to be within the 70% to 130% level as noted above. 100% "Full" transfer rates are designed to achieve these funding objectives by the end of our 30-year report scope.

• The goal of the Reserve Study is to help the client offset the inevitable annual deterioration of the common area components. The Reserve Study will guide the client to establish an appropriate Reserve transfer rate that offsets the annual deterioration of the components and 'keeps pace' with the rate of ongoing deterioration. No assets appropriate for Reserve designation were excluded. See the appendix for component details; the basis of our assumptions.

• We recommend that this Reserve Study be updated annually, with a With-Site-Visit Reserve Study every three years. Clients that update their Reserve Study annually with a No-Site-Visit Reserve Study reduce their risk of special assessment by ~ 35%.

• Please watch this 5-minute video to understand the key results of a Reserve Study - https://youtu.be/u83t4BRRIRE

1. Overview of Reserve Fund Health

2017 Reserve Study

- **Starting Reserve Balance:** $322,831
- **Fully Funded Balance (FFB):** $1,201,570
- **Percent Funded:** 27% (considered "weak").
- **Annual Reserve Contribution Recommendation:** $14,200 per month ($170,400 per year) with incremental increases of 2.75% annually.
- **Special Assessment Recommendations:**
    - 2017: $210,000 ($1,500 per unit).
    - 2018–2019: $119,000 annually ($850 per unit).

2024 Reserve Study

- **Current Reserve Balance:** $246,237
- **Fully Funded Balance (FFB):** $4,719,063
- **Percent Funded:** 5.2% (critically low).
- **Annual Reserve Contribution Recommendation:** $339,900 with annual increases of 3%.
- **Special Assessment Plan:**
    - 2025: $2,380,000 ($17,000 per unit).

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2. Deferred Maintenance and Infrastructure Needs

2017 Study: Identified Needs

- Grading and drainage issues.
- Siding, roofing, and concrete repairs.
- Reserve allocation priorities focused on maintaining structural integrity and aesthetic appeal while mitigating liability risks.
- Budgeting was based on maintaining a "minimum" 30% funded status to avoid financial shocks.

2024 Study: Updated Needs

- Significant escalation in repair costs due to years of deferred maintenance:
    - Grading and Drainage Repairs (2025): $375,000.
    - Building Exterior Refurbishment (2025): $425,000.
    - Roof Shingle Replacement Phase 1 (2025): $577,900.
    - Wood Deck Rebuild (2025): $425,000.
- The study includes a 30-year funding plan but warns of financial instability if special assessments are not implemented.

3. Key Observations

1. Severe Deterioration of Financial Health

The reserves dropped from 27% funded in 2017 to 5.2% in 2024, despite clear recommendations for regular reserve contributions and special assessments. This steep decline indicates:

- **Underfunding:** The HOA failed to meet the recommended contributions from the 2017 study, resulting in compounding deferred maintenance costs.
- **Escalation of Financial Risk:** A critically low funding level significantly increases the likelihood of financial shocks, legal exposure, and declining property values.

2. Ineffectiveness of Prior Recommendations

- The 2017 study's recommendations for incremental reserve contributions and annual special assessments were either ignored or insufficiently implemented.
- Failure to follow these recommendations resulted in a larger repair backlog and a dramatic increase in financial burden for homeowners.

3. Overwhelming Future Costs

- The 2024 reserve study anticipates a $2.38 million special assessment for 2025, equivalent to $17,000 per unit, highlighting the cumulative impact of deferred maintenance.
- Additional future assessments may be required, as a reserve fund at 5.2% provides no cushion for unexpected costs.

4. Lack of Transparency and Planning

- Both reserve studies emphasize the need for regular updates and homeowner engagement, yet the 2024 study highlights a lack of detailed financial planning or communication with homeowners in prior years.
- The board's failure to act on the 2017 recommendations demonstrates governance deficiencies and contributes to ongoing mistrust among homeowners.

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4. Conclusion and Analysis

The comparison of the 2017 and 2024 reserve studies reveals a clear trajectory of financial decline due to inadequate planning, poor governance, and deferred maintenance. The failure to implement the 2017 recommendations compounded problems, resulting in:

1. **A near-collapse of reserve funding:** Dropping from 27% to 5.2%.

2. **Significant increases in homeowner costs:** $17,000 per unit for the 2025 assessment, with higher dues likely.
3. **Major reputational damage:** The association's mismanagement is now evident to both homeowners and potential buyers.

Final Thoughts

The 2024 reserve study reflects the consequences of years of neglect and mismanagement by the HOA board. While the 2017 study offered a roadmap for financial stability, the board's failure to follow through created a crisis. Moving forward:

- The board must strictly adhere to the 2024 funding recommendations and avoid further deferred maintenance.
- Greater transparency and homeowner involvement are crucial to rebuilding trust and addressing systemic governance issues.
- Failure to act decisively will likely lead to further financial hardship, legal exposure, and erosion of property values.
