SADDLEBROOKE TWO VILLAS ASSOCIATION 35/35A (SBVA)

RESERVE ANALYSIS WORKING SESSION 4/28/21

Revised 4/24/21

WHAT IS A RESERVE ANALYSIS?

- Tool to assist the Board in evaluating the current and future financial condition related to reserve components.
- There is a fine line line between “not enough”, “just right” and “too much”.
- Full Funding (100%) is an ambitious goal and the safest position for an Association to be in, but may not be practical.
- Takes into consideration the items needing future repair/replacement and the time frame for action.

WHAT IS A RESERVE ANALYSIS?

- Can be viewed as a roadmap for future expenditures.
- Takes into consideration inflation of services and need to match costs with dues. A “fair share” concept.Useful life of reservable services need to be reviewed for accuracy.
- A guide not an absolute.
- The Preface found in the front of the Analysis contains a great deal of information related to reserves.

PURPOSE OF THE MEETING

- Board to review the analysis as presented by Advanced Reserve Solutions (ARS).
- Determine if other scenarios should be performed by ARS.
- Discuss issues or concerns with analysis.
- Allow for homeowner comments or questions.

RECOMMENDATION FROM 2/24/21 WORKING SESSION

- Use Advanced Reserve Solutions to perform 2021 analysis.
- Analysis to include two scenarios.
- Reserve items to include:
    - Tile roof underlayment replacement.
    - Flat roof replacement. (138 villas)
    - Painting.

USEFUL LIFE GUIDELINES

RESERVE ITEM	2017	2021 (1)	2021 (2)
TILE ROOF	35 YEARS	25 YEARS	25YEARS
FLAT ROOF	15 YEARS	15 YEARS	20 YEARS
PAINTING	10 YEARS	8 YEARS	10 YEARS

2021 RESERVE STUDY

USE OF 25 YEAR LIFE CYCLE FOR TILE ROOFS

- Exterior Committee indicates recent roof repairs have required more square footage of repair. Pull up of tiles and new underlayment.
- Underlayment used was single layer low level shingle tar paper.
- None of our villa tile roofs have had complete refurbishing.
- HOA1 villas refurbished all roofs in 2018.
- Prior use of 35 year life is is no longer considered accurate.

2021 RESERVE STUDY

USE OF 25 YEAR LIFE CYCLE FOR TILE ROOFS

- 2006 Reserve Study included estimating size of roofs. This measurement has been used for subsequent Reserve Studies.
- Villas have 529,540 square feet of tile roofs.
- Current estimated cost of refurbishing is $4.00 per square foot.
- Current replacement cost $2,118,160 for all of the villas.
- The new Unit 50 villas are using a 23 year life for roofs.

2021 RESERVE STUDY USE OF 25 YEAR LIFE CYCLE FOR TILE ROOFS

- Average area of a roof is 2,486 sq feet.
- At today’s cost of $4.00 /sq foot replacement average is $9,944 per roof. Not factored for inflation.
- Study starts roof replacement in 2023.

ADEQUACY OF RESERVES

- 2017 Study: 80.87%
- 2021 Study (1); 67.70%
- 2021 Study (2): 68.42%

Saddlebrooke HOA 2 Villas

Executive Summary

Directed Cash Flow Calculation Method

2017

Client Information:

Account Number	3358
Version Number	003
Analysis Date	07/19/2017
Fiscal Year	1/1/2018 to 12/31/2018
Number of Units	213
Phasing	1 of 1

Global Parameters:

Inflation Rate	2.50 %
Annual Contribution Increase	1.25 %
Investment Rate	0.45 %
Taxes on Investments	0.00 %
Contingency	0.00 %

Community Profile:

This community was built in phases between 1999 and 2005. Refer to the Component Detail section of this report for the dates used to age each reserve component. The projected reserve balance calculation follows:

Current Reserve Balance as of 2/28/2017: $866,642

Remaining 2017 Contribution to Reserves: $127,800 ($12,780 x 10 months remaining)

Less Irrigation System Allocation: $35,000

Projected 1/1/2018 Reserve Balance: $959,442

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Adequacy of Reserves as of January 1, 2018:

Anticipated Reserve Balance	**$959,442.00**
Fully Funded Reserve Balance	**$1,186,372.20**
Percent Funded	**80.87%**

Recommended Funding for the 2018 Fiscal Year:	Annual	Monthly	Per Unit Per Month
Member Contribution	**$151,060**	**$12,588.33**	**$59.10**
Interest Contribution	**$4,362**	**$363.53**	**$1.71**
Total Contribution	**$155,422**	**$12,951.87**	**$60.81**

Saddlebrooke HOA 2 Villas

Projections

Directed Cash Flow Calculation Method

2017

Fiscal Year	Beginning Balance	Member Contribution	Interest Contribution	Expenditures	Ending Balance	Fully Funded Ending Balance	Percent Funded
2018	$959,442	$151,060	$4,362	$61,200	$1,053,664	$1,250,406	84%
2019	$1,053,664	$152,948	$4,635	$95,838	$1,115,410	$1,282,964	87%
2020	$1,115,410	$154,860	$5,148	$44,652	$1,230,767	$1,371,291	90%
2021	$1,230,767	$156,796	$5,692	$40,276	$1,352,979	$1,468,861	92%
2022	$1,352,979	$158,756	$6,164	$58,707	$1,459,192	$1,552,592	94%
2023	$1,459,192	$160,740	$6,576	$74,569	$1,551,939	$1,624,838	96%
2024	$1,551,939	$162,750	$7,075	$57,412	$1,664,352	$1,719,223	97%
2025	$1,664,352	$164,784	$7,797	$10,748	$1,826,184	$1,866,613	98%
2026	$1,826,184	$166,844	$8,579	$0	$2,001,607	$2,031,591	99%
2027	$2,001,607	$168,929	$9,375	$0	$2,179,911	$2,203,650	99%
2028	$2,179,911	$171,041	$9,830	$78,341	$2,282,441	$2,302,744	99%
2029	$2,282,441	$173,179	$10,097	$122,680	$2,343,036	$2,361,974	99%
2030	$2,343,036	$175,344	$10,670	$57,158	$2,471,892	$2,493,031	99%

Saddlebrooke HOA 2 Villas

2021 8/15

Executive Summary

Directed Cash Flow Calculation Method

Client Information:

Account Number	3358
Version Number	004
Analysis Date	03/22/2021
Fiscal Year	1/1/2021 to 12/31/2021
Number of Units	213
Phasing	1 of 1

Global Parameters:

Inflation Rate	2.45 %
Annual Contribution Increase	3.00 %
Investment Rate	1.45 %
Taxes on Investments	0.00 %
Contingency	0.00 %

Community Profile:

This community was built in phases between 1999 and 2005. Refer to the Component Detail section of this report for the dates used to age each reserve component.

We have been advised that the 1/1/2021 reserve balance was $1,361,134.59 and that the 2021 budgeted reserve contribution is $166,140. We have set the 2021 reserve contribution equal to the 2021 budgeted amount. Our recommendations begin in 2022. We have calculated an estimated 1.45% investment rate of return based on the budget.

Completed Reports: 2010, 2013, 2017, 3/2021 (updated with site visit)

Adequacy of Reserves as of January 1, 2021:

Anticipated Reserve Balance	**$1,361,134.59**
Fully Funded Reserve Balance	**$2,010,411.04**
Percent Funded	**67.70%**

Recommended Funding for the 2021 Fiscal Year:	Annual	Monthly	Per Unit Per Month
Member Contribution	**$166,140**	**$13,845.00**	**$65.00**
Interest Contribution	**$20,104**	**$1,675.32**	**$7.87**
Total Contribution	**$186,244**	**$15,520.32**	**$72.87**

Saddlebrooke HOA 2 Villas

2021 8/15

Projections

Directed Cash Flow Calculation Method

Fiscal Year	Beginning Balance	Member Contribution	Interest Contribution	Expenditures	Ending Balance	Fully Funded Ending Balance	Percent Funded
2021	$1,361,135	$166,140	$20,104	$59,799	$1,487,579	$2,145,427	69%
2022	$1,487,579	$171,124	$21,962	$61,193	$1,619,473	$2,287,391	71%
2023	$1,619,473	$176,258	$18,506	$432,222	$1,382,015	$2,057,219	67%
2024	$1,382,015	$181,546	$12,009	$642,304	$933,265	$1,610,350	58%
2025	$933,265	$186,992	$10,737	$283,143	$847,851	$1,524,150	56%
2026	$847,851	$192,602	$8,921	$324,740	$724,633	$1,396,829	52%
2027	$724,633	$198,380	$5,902	$410,968	$517,948	$1,181,674	44%
2028	$517,948	$204,331	$2,498	$440,239	$284,538	$934,811	30%
2029	$284,538	$210,461	$1,209	$297,927	$198,281	$831,620	24%
2030	$198,281	$216,775	$2,357	$135,890	$281,523	$896,297	31%

Saddlebrooke HOA 2 Villas

Executive Summary

Directed Cash Flow Calculation Method

2021 10/20

Client Information:

Account Number	3358
Version Number	004
Analysis Date	03/22/2021
Fiscal Year	1/1/2021 to 12/31/2021
Number of Units	213
Phasing	1 of 1

Global Parameters:

Inflation Rate	2.45 %
Annual Contribution Increase	2.45 %
Investment Rate	1.45 %
Taxes on Investments	0.00 %
Contingency	0.00 %

Community Profile:

This community was built in phases between 1999 and 2005. Refer to the Component Detail section of this report for the dates used to age each reserve component.

We have been advised that the 1/1/2021 reserve balance was $1,361,134.59 and that the 2021 budgeted reserve contribution is $166,140. We have set the 2021 reserve contribution equal to the 2021 budgeted amount. Our recommendations begin in 2022. We have calculated an estimated 1.45% investment rate of return based on the budget.

Completed Reports: 2010, 2013, 2017, 3/2021 (updated with site visit)

Adequacy of Reserves as of January 1, 2021:

Anticipated Reserve Balance	**$1,361,134.59**
Fully Funded Reserve Balance	**$1,989,513.65**
Percent Funded	**68.42%**

Recommended Funding for the 2021 Fiscal Year:	Annual	Monthly	Per Unit Per Month
Member Contribution	**$166,140**	**$13,845.00**	**$65.00**
Interest Contribution	**$20,104**	**$1,675.32**	**$7.87**
Total Contribution	**$186,244**	**$15,520.32**	**$72.87**

Saddlebrooke HOA 2 Villas

2021 10/20

Projections

Directed Cash Flow Calculation Method

Fiscal Year	Beginning Balance	Member Contribution	Interest Contribution	Expenditures	Ending Balance	Fully Funded Ending Balance	Percent Funded
2021	$1,361,135	$166,140	$20,104	$59,799	$1,487,579	$2,115,460	70%
2022	$1,487,579	$170,210	$22,128	$49,407	$1,630,512	$2,258,531	72%
2023	$1,630,512	$174,381	$18,668	$431,293	$1,392,267	$2,016,733	69%
2024	$1,392,267	$178,653	$12,264	$633,739	$949,445	$1,564,188	61%
2025	$949,445	$183,030	$10,776	$294,843	$848,408	$1,450,953	58%
2026	$848,408	$187,514	$9,879	$257,349	$788,452	$1,376,650	57%
2027	$788,452	$192,108	$8,583	$288,290	$700,853	$1,272,105	55%
2028	$700,853	$196,815	$4,750	$465,376	$437,043	$986,767	44%
2029	$437,043	$201,637	$2,681	$345,522	$295,839	$820,786	36%
2030	$295,839	$206,577	$4,821	$59,963	$447,275	$947,307	47%

ADEQUACY SHORTFALL

2017 STUDY	**$226,930**
2021 STUDY (1)	**$649,277**
2021 STUDY (2)	**$628,379**

Difference between Fully Funded Reserve Balance and Anticipated Reserve Balance

ACTION OPTIONS

- Do nothing. This would put Association in a very precarious position by 2028/2029.

- Impose a special assessment. To bring to a fully funded position would require an assessment of about $3,000 per villa.

- Increase dues. Each $10 increase in monthly dues equals $25,560 in annual reserve contribution. This will be part of the 2022 budget planning considerations in the fall.

ACTION OPTIONS

- If roof failures can be efficiently managed, delay the start of the roof replacement to 2024. This has a risk factor.

- There were seven phases used in the study for the roofs and painting. Painting cycles had been previously leveled to reduce the impact of the large number of villas in Phase 2. Roofing was not leveled, as the impact risk of a failing roof is much higher than a painting failure.

- If the number of roofs being replaced in Phase 2 could safely be extended into Phase 3, and a similar type of rolling could be accomplished in the subsequent phases, the cash flow out of Reserve Funds would be tempered. There are two risks, failing roofs and cost of inflation.

THINGS TO CONSIDER

- Concept of reserves is a fair share or pay as you go.
- If you have enjoyed the benefits of your villa for 20 years, you should have paid into reserves for 20 years of expenses.
- While many buyers may not consider reserves, a strong reserve position can be a positive selling point.
- Decisions related to reserves are not simple or easy.
- Reserves must have some fluidity to match reality.