

RESERVE BUDGETS FOR CONDOMINIUM ASSOCIATIONS



PRECEDENT

SETTING THE HIGHEST STANDARD

HOSPITALITY & PROPERTY MANAGEMENT



TODAY'S OBJECTIVES

Reserve Budget

- What Is It?
- Who Requires It?
- How Is It Determined?

Why Bother to Reserve

- It Depends On Your Perspective

Who Decides What & How Much to Fund



FLORIDA STATUTE 718.112 (2) f

What is a Reserve Budget and Who Requires We Have One?



“...the budget shall include reserve accounts for capital expenditures and deferred maintenance. These accounts shall include, but are not limited to, roof replacement, building painting, and pavement resurfacing, regardless of the amount of deferred maintenance expense or replacement cost, and for any other item for which the deferred maintenance expense or replacement cost exceeds \$10,000.”

Florida Administrative Code Definitions

Capital Expenditure - Purchase or replacement of an asset with life of more than one year, or addition to existing asset to extend its life more than one year

Deferred Maintenance - Any maintenance or repair that will be performed less frequently than yearly and will result in maintaining the useful life of an asset



Methods of Calculating Reserves

How is the Reserve Budget Determined?



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COMPONENT METHOD (Straight Line)

Estimates the remaining life of a component and funding is determined by dividing the total replacement cost by the number of years of remaining life.

POOLED METHOD

Estimates remaining life just like Component, but only requires the existing balance plus projected cash inflow be equal or greater than projected cash outflows.

Florida Administrative Code

61B-22.005 Reserves (3)

Who Says So?



Reserves for deferred maintenance and capital expenditures required by Section 718.112(2)(f), Florida Statutes, shall be calculated using a formula that will provide funds equal to the total estimated deferred maintenance expense or total estimated replacement cost for an asset or group of assets over the remaining useful life of the asset or group of assets. **Funding formulas for reserves required by Section 718.112(2)(f), Florida Statutes, shall be based on either a separate analysis of each of the required assets or a pooled analysis of two or more of the required assets.**

Florida Administrative Code 61B-22.005 Reserves (3) (cont.)



- The reserve funding formula shall not include any type of balloon payments. *(It is against the code to fund via deferred special assessment.)*
- ...the amount of the contribution to the pooled reserve account ... shall be not less than that required to ensure that the balance ... plus projected annual cash inflows ... are equal to or greater than the projected annual cash outflows over the remaining estimated useful lives of all of the assets that make up the reserve pool, based on the current reserve analysis.

What the Heck???



This provision of the administrative code effectively describes a *Straightline Method/Component*, with the only difference being the requirement to ensure proper cash flow to meet the timing needs.

COMPONENT METHOD



Reserve Funding	Projected 12/31/18 Balance	Replacement Cost	Estimated Useful Life Expectancy	Estimated Remaining Life Expectancy	Required Budget
Painting	\$30,000.00	\$300,000.00	10	9	\$270,000.00
Paving	\$0.00	\$100,000.00	15	1	\$100,000.00
Pool	\$6,500.00	\$20,000.00	15	9	\$1,500.00
Roofing	\$50,000.00	\$450,000.00	25	10	\$40,000.00
Total	\$86,500.00				\$411,500.00

Why Bother to Reserve at All? It Just Depends on your Perspective



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HOMEOWNERS



PROS

- Maintains Property on a Schedule
- Protects Property Values
- Increases Marketability (Lending)
- Reduces Additional Costs (Maint.)
- Better Overall Appearance

CONS

- Increased Monthly Maint. Fees
- Ties Up Investment Income
- High Fees Impact Marketability
- Lack of Control of Large Sums



PROS

- Fulfillment of Fiduciary Duty
- Predetermined Maintenance
- Reduces Decision Making
- Simplifies Board's Role

CONS

- Defending Higher Main. Fees
- Limited Flexibility
- Lack of Control
- Educational Requirements



PROPERTY MANAGER



PROS

- Better Maintained Property
- Save Time Budgeting
- Simple Compliance w/ Law
- Easier Accounting

CONS

- Complaints about High Fees
- More Time Budgeting
- More Required Repairs

Who Determines What & How Much?



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Reserves Requirements = Reserve Study (Engineers)

Age, Life Expectancy, Remaining Life & Replacement Costs

Full Funding Requirement = Required by Statute

Waiver Only By Vote of the Membership (51%+) or Majority
Where Quorum is Established

Partial Funding = Membership

Recommended by Board and Approved by Members at
Budget Meeting

Basic Budget Process



➤ **Manager Gathers Data**

Historical Data, Bids/Information from Vendors, Utility Information, Reserve Study & Appraisal Information

➤ **Manager Prepares Draft Budget w/ Full Funded Reserves**

Delivers Budget to Board for Review & Feedback

➤ **Board Budget Workshop**

Board Conducts Open Workshop & Finalizes Budget Presentation

➤ **Meeting Notice to Members w/ Operating & Reserve Budget**

Members Provided with both Full Funded Reserve Budget and Optional Reserve Funding for Membership Consideration and Vote

➤ **Budget Meeting of Membership Conducted**

Includes Vote to Waive Reserves and Vote to Approve Budget and Could Include Votes to Carry Forward Excess Funds & Waiver of Annual Audit Requirement

Who Approves the Budget?



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QUESTIONS.....



THANK YOU