

## **EXECUTIVE SUMMARY**

### **2023 Reserve Study \***

#### **Introduction**

A reserve study is a state mandated long-term capital budget planning tool which identifies the current status of the reserve fund and a stable and equitable funding plan to offset ongoing deterioration, resulting in sufficient funds when those anticipated major common area expenditures actually occur. The reserve study consists of two parts: the physical analysis and the financial analysis. The physical analysis consists of a list of capital items, their useful life, remaining life, and current replacement cost. The financial analysis is a projection of available funds and future replacement costs at the end of life of each asset. Assumptions in the financial analysis are the average long-term interest rate and the average inflation rate.

Although a Reserve Study is required by law to be updated annually and more completely every 3 years, there is no required level of Replacement Reserves. The most conservative level of funding is called “fully funded” and consists of having an amount of money on hand equal to the depreciation of the assets. A less conservative funding approach is “baseline” funding where funds are only sufficient to maintain a positive balance. This level of funding can result in special assessments if any of the assumptions in the plan turn out to be overly optimistic. In between these two approaches is “threshold” funding in which a percentage of fully funded (e.g. 70%) is the goal.

The Board has determined that Sierra Bonita Village should target a fully funded level. Unlike most homeowner associations, Sierra Bonita Village is blessed with current reserves which will exceed fully funded levels for several more years without additional contributions, and that maintaining full funding into the distant future should not be financially difficult. Beyond about 11 years from now, additional funds must be regularly added to the Replacement Reserves to maintain any given target level.

#### **Changes since 2022**

- Curb painting was done.
- There have not been any significant long term changes from 2022.

#### **Summary of Results**

The study covers the period from 2023 through 2052. The results shown largely replicate the 2022 Reserve Study performed for the Association. The study assumed a long-term average inflation rate of 3% and a long-term average interest rate on replacement reserve funds also of 3%. While interest rates remained below 3% during 2022, current rates exceed that.

As of 12/31/2023, the replacement reserve balance is projected to be \$38,159. Replacement Reserves would be fully funded at a level of \$27,987, resulting in a funding level of 136%. With no additional funding, replacement reserves are projected to remain near or above full funding levels through 2034, dropping below 0 in 2045 and becoming increasingly negative beyond

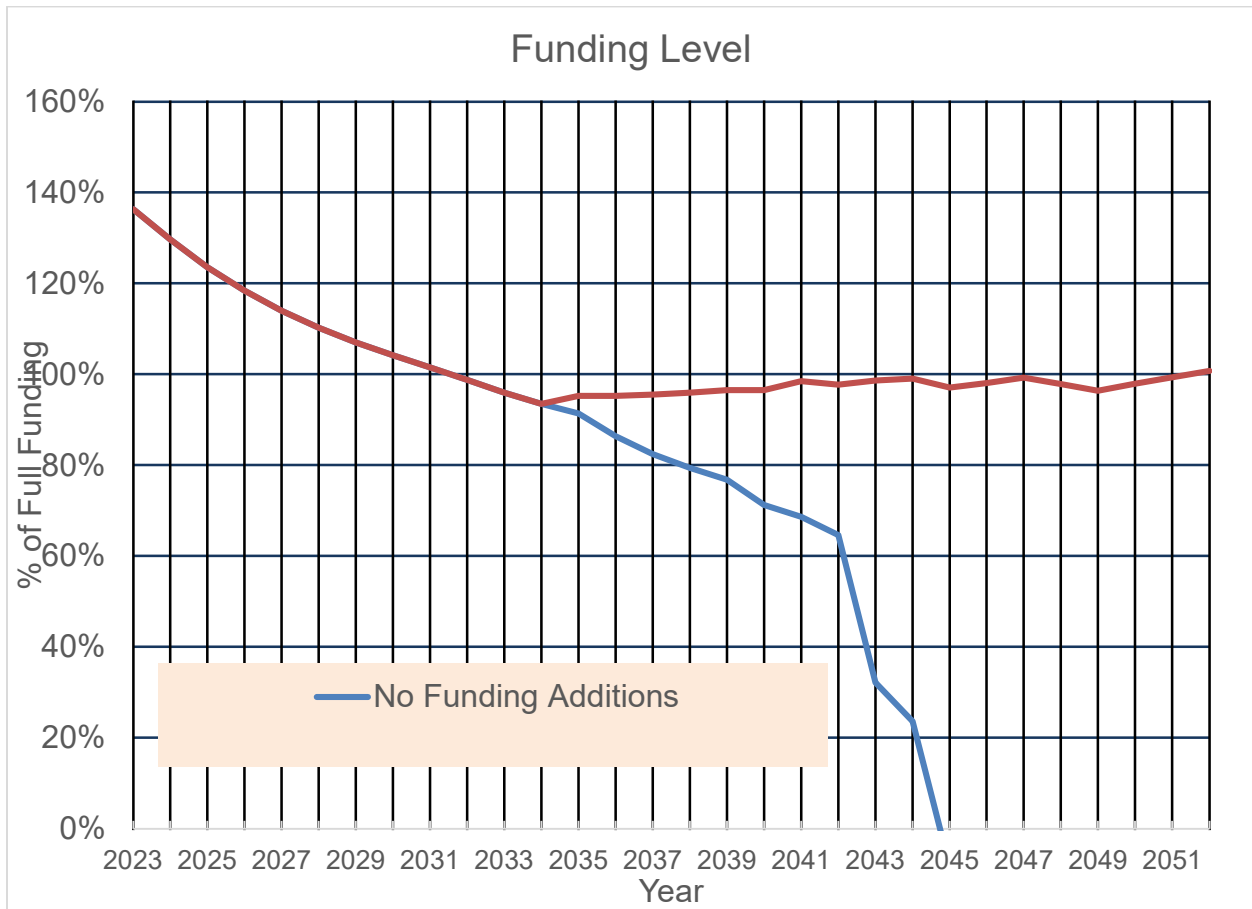
that. Chart 1 below shows projected funding as a percent of full funding level for no additions and for the recommended alternative for achieving a nominal 100% of full funding.

### Recommendations

The recommended approach is to add funds to the reserve account at the rate of \$2,000/Year beginning in 2035, increasing to \$3,000/Year in 2041, \$4,000/Year in 2043, \$5,000/Year in 2046 and to \$6,000/year in 2048. No addition to replacement reserves is recommended in the 2024 budget.

It should be noted that 40% of our total replacement reserves are for the stone bases supporting our signs. While they have been assigned a 50 year life with the first due to be replaced in 2035, I expect that they will considerably outlive that estimate and our likely need for additional replacement reserve funding will be less than projected.

Chart 1 Projected Replacement Reserve Funding Level



- An Excel spreadsheet is available for any who wish the detailed calculations resulting in the chart.

## Replaceable Assets

**Current Year: 2023**

**Interest Rate: 3%**

Asset	Purchased Year	Useful Life (Yrs)	Remaining Life	2023 Replacement Cost	Replacement Year	Replacement Cost
Stone Base for SBV sign	1985	50	12	5000	2035	7129
Stone Base for SBV sign	1994	50	21	5000	2044	9301
Stone Base for SBV sign	1997	50	24	5000	2047	10164
Bulletin Board	2015	20	12	450	2035	642
Bulletin Board	2015	20	12	450	2035	642
Bulletin Board	2015	20	12	450	2035	642
Bulletin Board	2003	20	0	450	2023	450
SBV Sign	2012	30	19	3000	2042	5261
SBV Sign	2012	30	19	3000	2042	5261
SBV Sign	2012	30	19	3000	2042	5261
SBV Sign	2012	30	19	3000	2042	5261
Turtle Creek Sign	2012	30	19	3000	2042	5261
Turtle Creek Park Sign	2014	30	21	1500	2044	2790
Computer System	2022	7	6	1100	2029	1313
Curb Painting: Address	2023	8	8	3800	2031	4814