

Fairwood Village
Reserves Analysis and Recommendations
October, 2019

History: As many of you know, we did not have a reserves analysis to analyze the cost of maintaining/replacing our HOA's common area assets until I became Treasurer 2 ½ years ago. At that time I did a non-professional analysis and came up with five areas that I felt needed to have funds built up for their eventual costs to repair or replace:

Streets/Paving; Storm Water System; Irrigation Systems; Entry Signs and Lighting; Mail Boxes

I updated this yearly as new information became available about costs and techniques. I calculated that we would need to begin setting aside additional reserve funds starting with FY 2019 – 2020 (our current year). In the meantime, the State of Washington implemented new rules that mandated HOAs to have a professional reserves analysis performed every three years and have reviews on alternate years (2 & 3).

With this in mind, the FVA Board voted to have a professional reserves analysis performed this year. We signed a contract with Reserves Data Analyst to perform this first professional one, with follow-up reviews in mid-2020 and -2021.

Reserves Analysis Results: We received the report in August of this year. There were no major surprises versus my non-professional study. However, components were broken down into much more detailed portions/tasks which allowed for more accurate cost estimates. And there were two changes which while they did not affect set-aside amounts significantly, did alter where the funds would go:

1. Street Maintenance: We should have been sealcoating our two streets every 5 years since new. It is standard maintenance and doubles the life of the paving to more than 45 years. We may need to do an asphalt overlay in 2025 as a result of not doing this in the past.
2. Storm Water System: Unlike streets, if we maintain the system we will not need any major repairs for the life of the development. A \$6,000 inspection and cleanout every 5 years is needed.

I have presented RDA's (Reserve Data Analyst) listing of our "Site Components" in Figure 1 of this commentary. This information is directly from RDA's report delivered to us. (If you would like to review the report, please e-mail me and I will forward you the Acrobat Document electronic file.) Figure 2 shows that street maintenance is more than 50% of our reserves needed.

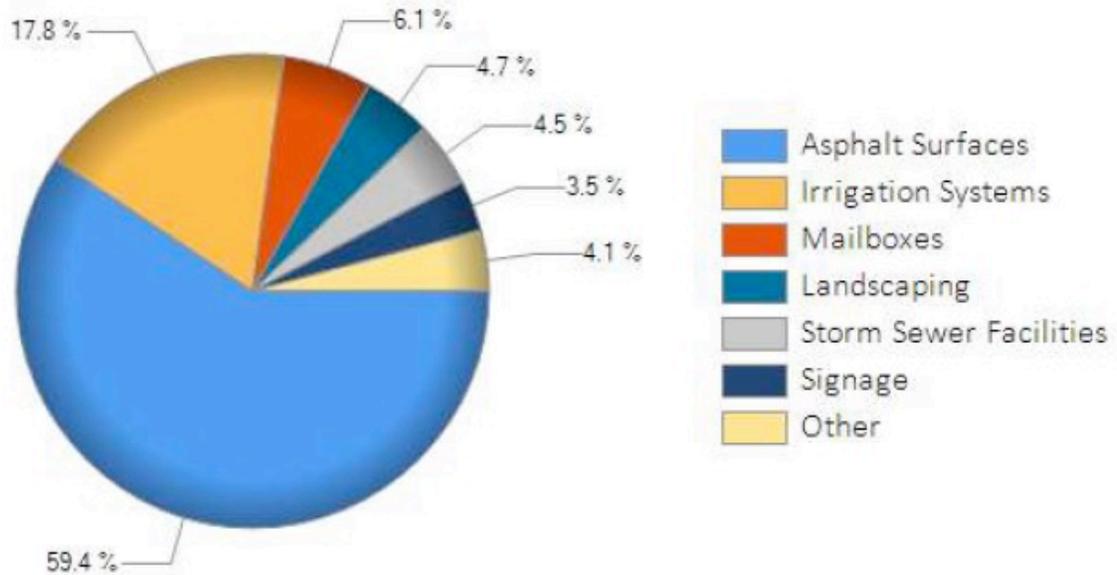
In order to understand funding needs, Figure 3 was generated by RDA. It shows the amount of funding that is projected to be needed by year moving forward from today. The largest item is the potential street repair- asphalt overlay at a cost of over \$60,000- in 2025. The funding model assumptions are:

1. Inflation at an average of 3% per year
2. Interest rate on our deposits is 2% per year
3. Any taxes payable to the IRS are included in the interest rate
4. We start with a reserve balance of \$17,851, which is currently in two CDs

Figure 1: RDA Components for Reserves Funding:

	Year in Service	Report Year	Life	Repair Cycle	Quantity	Cost/Qty	Current Cost
Site Components							
Asphalt - Overlay	94-95	24-25	30	0	5 28,688 sf	2.10	60,245
Asphalt - Sealcoat	04-05	19-20	5	0	0 28,688 sf	0.22	6,311
Backflow Valve - (irrigation) - Refurbish	94-95	19-20	25	0	0 1 ea	500.00	500
Backflow Valve - (irrigation) - Replace	94-95	39-40	45	0	20 1 ea	1,200.00	1,200
Bench - Replace	99-00	24-25	25	0	5 1 ea	450.00	450
Concrete Surfaces - Replace	07-08	32-33	25	0	13 28 sf	13.15	368
Electrical Panel - Replace	94-95	29-30	35	0	10 1 ea	1,000.00	1,000
Irrigation Controllers - Replace	09-10	24-25	15	0	5 1 ea	500.00	500
Irrigation Piping - Replace	94-95	34-35	40	0	15 8,640 sf	2.25	19,440
Landscaping - Refurbish	04-05	24-25	20	0	5 1,624 sf	3.25	5,278
Lights (landscape) - Replace	94-95	19-20	25	0	0 3 ea	125.00	375
Mailbox Cluster - Replace	07-08	32-33	25	0	13 2 ea	1,600.00	3,200
Newspaper Structures - Refurbish	94-95	19-20	25	0	0 2 ea	500.00	1,000
Newspaper Structures - Replace	94-95	44-45	50	0	25 2 ea	1,300.00	2,600
Parking Posts (wood) - Replace	94-95	20-21	25	1	1 10 ea	75.00	750
Sign (entry monument) - Refurbish	94-95	34-35	40	0	15 2 ea	750.00	1,500
Signs (road) - Replace	11-12	31-32	20	0	12 2 ea	200.00	400
Signs (wood - community) - Replace	14-15	34-35	20	0	15 2 ea	1,000.00	2,000
Storm Drain System - Local Repairs	94-95	24-25	5	25	5 1 Lump Sum	5,000.00	5,000
Site Components - Total							\$112,117

Figure 2. Reserves Allocations



Funding Models Descriptions: Figure 3, generated by RDA, presents the level of funds in our reserve account based on four different funding models. I will discuss these four models plus an additional one in the following paragraphs.

100% Funding Model- All projected costs are covered from Reserves; 3% yearly contribution increase; No owner assessments; reserves never dip below \$35,000. Cost per owner: \$979 per quarter.

Recommended Funding Model- Again, all projected costs are covered from reserves; 3% yearly contribution increase; higher contribution for first six years to cover street repair in 2025; contribution drops after 2025; reserve fund dips to \$0 in 2025 but stays positive after that. Cost per owner: \$208 per quarter (2020 thru 2025) then drops to \$169 per quarter.

Baseline Funding Model- Again, all expenditures are covered from reserves; 3% yearly contribution increase; higher contribution for first six years to cover street repair in 2025; contribution drops after 2025 to lower level to just cover future repairs (no positive balance). Cost per owner: \$161 per quarter.

Current Funding Model- The only new funding for reserves account is through transfers from operating funds surpluses; zero funds have been transferred over the last 4 years; Capital repairs must be covered through owner assessments if current funds are depleted; Cost per owner: \$0 per quarter plus assessments for each project (examples: \$3,162 in 2025 for streets; \$300 for storm drain inspection and cleaning in 2025; \$1050 in 2031 for irrigation system repair & replacement)

Mixed Funding Model- (The above four models are from RDA; this one is an alternate I generated.) This model builds up reserve funds such that all projected costs are covered from reserves except for the major street maintenance (currently projected for 2025); 3% yearly contribution increase; There would be a single assessment of each owner (in 2025) for \$2,421, the balance needed for the street repair. The reserve fund would be \$0 at that point but would build up again to cover remaining projected expenses. Cost per owner: \$75 per quarter plus one-time \$2.4k assessment in 2025.

Conclusion- Table I presents a tabular summary of the above funding models. The FVA Board makes no recommendation of which model and funding plan the owners will choose. They are presented for your information and discussion with other owners prior to your vote in the coming months. Do not hesitate to contact me with any questions or further information.

Sincerely,

Rob Hamilton, Treasurer

Fairwood Village Homeowners' Association

Figure 3. Projected Reserve Account Balance; Three Models

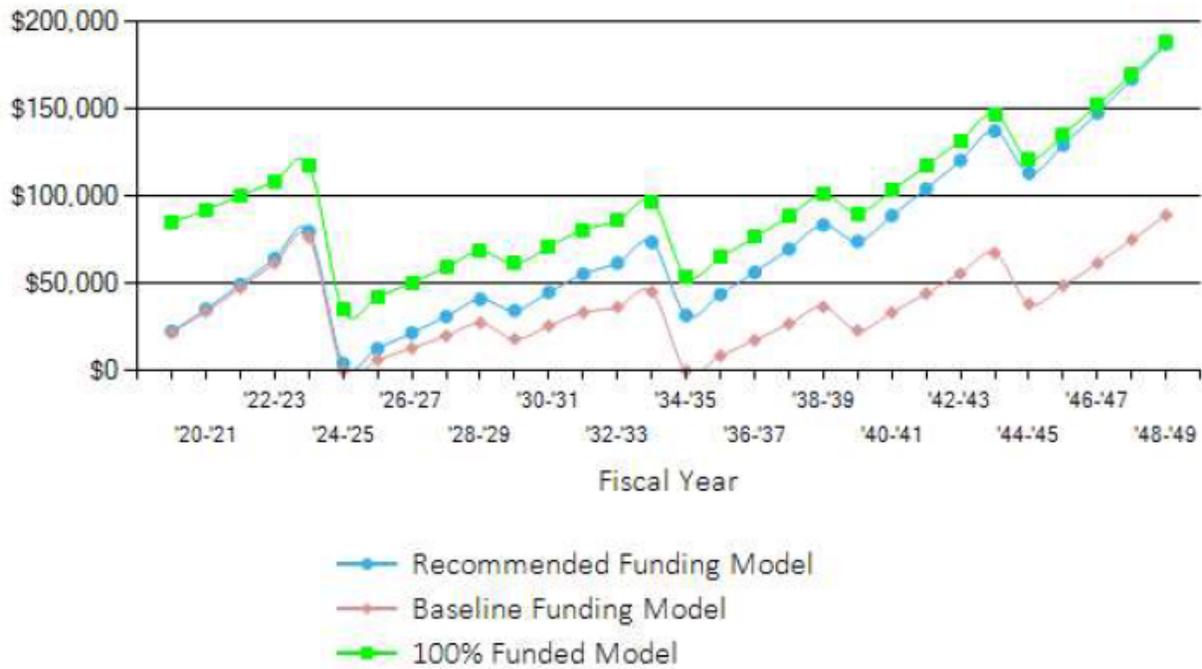


Table I. Dues and Assessments for Various Funding Models

Funding Model:	Dues per owner		Assessments per owner			Minimum Reserves Balance
	Quarterly Increase	Change in 2025	2025	2030	2035	
100%	\$ 979	\$ 1,135	\$ -	\$ -	\$ -	\$ 40,000
Recommended	\$ 208	\$ 169	\$ -	\$ -	\$ -	\$ 30,000 (beyond 2025)
Baseline	\$ 161	\$ 186	\$ -	\$ -	\$ -	\$ - (2025 & 2035)
Current	\$ -	\$ -	\$ 3,200	\$ 140	\$ 1,400	\$ - (always)
Mixed	\$ 75	\$ 87	\$ 2,400	\$ -	\$ -	\$ - (2025)

(Includes 3% Annual increase)