

## **V2 Reserve Study January 2022 Versus Previous Reserve Study September 2017**

Villas II previous Reserve Study was completed in September 2017 by Reserve Advisors. They used an assumed annual rate of return on invested reserves of 1.2% and an inflation rate of 2.2% on estimating future replacement costs. They used 11 components with a then current replacement cost of \$2,019,150 and a 30 year replacement cost of \$2,541,1738.

The Cash Flow Method was used to compute the Reserve Funding Plan. The recommendation was to increase the budget in 2018 by \$8,535 (14.38% increase), and each of the next 4 years by \$8,500. Then starting in 2023, yearly increases of the assumed inflation rate of 2.2%. This resulted in a 30 year goal in 2047 of accumulating reserves (less expenses) of \$2,033,361.

I found that a 4.5% yearly increase from 2018 through 2047 yielded the same accumulated reserve result in 2047. Reserve Advisors agreed, but said that it was unfair to owners in the later years. We thought that their method was unfair to owners in the early years, so we used the 4.5% yearly increase of reserve contributions.

Our current reserve study dated January 5, 2022 by Becht Engineering gave us three funding options using a Component Method, a 5% Threshold Model and a 10% Threshold model. Each method assumed an annual rate of return on invested reserves of 1% and a 3% inflation rate on estimating future replacement costs. Compared to the previous study, we are earning less on our reserve accounts and paying more for the replacement costs.

Becht also used 11 components, that were slightly different than the previous study with a current replacement cost of \$2,338,808 and a 30 year replacement cost of \$4,656,436. The study starts with the year 2023, the next opportunity we have to change the budget.

The Component Method is the most conservative approach, assuming that the reserve funds received for each component will only be used to replace that component. We would end up with 11 Reserve Accounts instead of one.

The three options for yearly reserve contributions for the year by Becht are shown in the table.

<b>Becht 2022 Reserve Study</b>	<b>Component Method</b>	<b>Threshold Method 5%</b>	<b>Threshold Method 10%</b>
<b>Year 2022 Baseline</b>	\$74,000	\$74,000	\$74,000
<b>Year 2023</b>	\$153,482	\$81,006	\$83,554
<b>2023 Increase in Dollars</b>	\$79,482	\$7,006	\$9,554
<b>2023 Increase in Percent</b>	107.41%	9.47%	12.91%
<b>Dollars/Homeowner/Month</b>	\$83.84	\$7.39	\$10.08

We are planning on proceeding with a slightly higher version of the 5% Threshold Method. We will use a 10% increase for year 2023, with a yearly contribution of \$81,400, and then a 3% inflation increase each following year. The Year 2023 contribution will be \$85.86 per homeowner per month, an increase of \$7.80 from the 2022 contribution of \$78.06. We can adjust the inflation rate yearly based on actual data.

We would need a new reserve study by 2026.

The following table shows the yearly plan we are projecting to use.

<b>Year</b>	<b>Yearly Contribution</b>	<b>Percent Increase</b>	<b>Dollars per Homeowner per Month</b>
<b>Year 2022 Baseline</b>	\$74,000		\$78.06
<b>Year 2023</b>	\$81,400	10%	\$85.86
<b>Year 2024</b>	\$83,842	3%	\$88.44
<b>Year 2025</b>	\$86,357	3%	\$91.09
<b>Year 2026</b>	\$88,948	3%	\$93.83

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