

PBV's Reserves Committee Interim Report

5/03/2019

The Reserves Committee continues to develop information toward recommending policies, practices, and actions to the BOD that will maximize the impact and quality of use of reserve fund dollars--while not having to raise owner fees and avoiding unplanned assessments. To date, we have developed several key findings, and we are continuing to explore new approaches to managing reserves--as detailed below. Also, as we develop information on current needed maintenance of assets covered by our reserves, and in our final report we will be making some specific recommendations for effective use of reserve funds. The committee wishes to acknowledge the help of Mike Gallagher (EM) in compiling information needed for this report.

Findings:

1. The Roofing and Paving Funds are underfunded relative to current costs:
 - Roofing Fund had its funding target increased from \$250,000 to \$400,000 in 2018. This is for replacement of shingles only.
 - A 2018 vendor quote for repaving PBVs was for \$129,000 vs. the current funding target of \$100,000.
2. Using reserves fund money for repairs and small replacement items has been a factor in current underfunding. BOD may wish to consider changes to this going forward.
 - In years 2011 to 2018: \$386,587 was put into reserves and \$256,136 was expensed out of reserves.
 - Only one major project was accomplished (re-painting in 2012). An unidentified \$52,376 Building Fund project was also expensed in 2012.
 - An average of only \$16,300/year was accrued for future projects--vs. a "needed accrual rate" of \$36,000/yr. Root causes for this are:
 - small items/repairs are not included in our current "100% Reserve Funding" calculations.
 - Funding targets have remained constant even though project costs have significantly increased.
3. Recreation fund should be raised to at least \$50,000.
 - When formed in 2008, this fund's funding target was set at \$50,000. It was lowered to \$25,000 in 2014.
 - A list of assets to be covered by this fund has been compiled. Replacement/repair costs for these items are estimated to be in excess of \$60,000.
4. Reserve funds have now been "laddered" into CDs. Absent unexpected major expenses, this will generate an additional:
 - \$7,000 in 2019; \$13,000 in 2020, \$15,000 in 2021
 - Progression continues until total reserve \$ reduced by major project
 - These dollars must stay in reserve funds, and they will reduce otherwise needed future assessments
5. Current funding levels will help restore adequate fund within 4-5 years:
 - 2019 assessments to reserves are ~\$60,000 vs. ~\$43,000 average assessment for 2011 to 2018.
 - BOD can manage how funds are distributed to individual reserve funds by managing "remaining lifetimes" in annual budgeting process. This has been a common practice in past years.
 - Compounding of CD interest will also help.
6. Smart spending for "Deferred Maintenance" can increase asset lifetimes thus saving reserve fund monies.
 - Paving: Repairing current center area problems (recent bid of \$16,914) will extend time to next repaving project by 3-4 years—saving \$30,000 to \$40,000 over next cycle.
 - Woodpecker damage to soffits has been a problem for many years—it appears that metal soffits can prevent this problem. EM currently has a work order for (~\$5000) to repair damage to two buildings.

Ongoing Research:

1. Roofing: Actively exploring current costs to replace current roof in kind (shingle and membrane) and also for replacing with metal/membrane or all metal. In 2018, PBV's was quoted \$400,000 to replace shingles (and membrane on flat areas?).
2. Painting: Actively seeking bid for repainting all buildings and new estimate of remaining life.
 - Buildings walls are nearing need for repainting, but may last 2-3 more years.
 - Windows may need to be re-caulked to maintain water tight integrity. This is normally done with re-painting, but doing sooner may help delay need to re-paint buildings—saving \$20,000+
3. Paving:
 - Working to define cost/benefit of fixing bad paving along center of driveways in order to extend life time of existing paving. Each year of extended life is worth ~\$6,500 based on new estimate.
 - Also working to evaluate new drainage options to prevent future damage to low lying center sections of driveways.
4. Recreation and Building Funds:
 - These funds are not simple large replacement projects, but rather are a compilation of diverse assets and infrastructure—each with their own lifetimes and replacement costs.
 - Currently documenting infrastructure and specific items to be covered in each fund, and historical data to develop realistic funding targets for these funds.
5. Quantify value of an alternative strategy for funding repairs from “Casualty Losses” (i.e. major storm damage).
 - New strategy: do not try to accrue reserve funds to cover major storm damage like loss of 3 or more roofs in a hurricane.
 - Instead, PBV's could plan to cover some or all of these losses via special assessments and have owner's individual insurance plans reimburse owners to the extent of their coverage.
 - We will need to evaluate cost of this insurance feature vs. potential rate increases if used.
6. Evaluating a new strategy for using interest being accrued in our collective reserve bank accounts
 - Per Mike Gallagher, reserve account interest can remain in the two bank accounts that hold our reserve accounts, without being assigned to a specific reserve fund.
 - This interest must remain in the reserve bank accounts, but could be assigned by the Board of Directors to any of our five reserve funds as needed at a future date. This effectively constitutes a “reserves contingency fund” with creating a new fund.
 - As total fund values increase, this interest will soon reach \$13,000 to \$15,000 per year. By not assigning interest to specific funds, the “100% Funding” calculation will continue to be ~\$60,000/yr level for the next 4+ years—until the Roofing fund reaches it's funding target in 2024.

Respectfully Submitted by Steve Croft

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