

2023 Reserve Study Discussion & Overview

Colony Biltmore Greens



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Colony Biltmore Greens – Current Status

- ✓ Most Recent Reserve Study
 - Completed May 16, 2023
 - Previous reports in 2017, 2013, and 2007
 - Advanced Reserve Solutions (ARS)
- ✓ General Information
 - 162 Units (two tiers of HOA payments)
 - Constructed in about 1977
 - Some components are reaching their estimated useful life (EUL)
- ✓ Financial Numbers (from the ARS study)
 - \$224,642.10 reserve fund balance on 1/1/2023
 - \$2,639 contributed to the reserve fund monthly (\$31,668 annually)
 - Approximately 53% funded (e.g. 53% of the recommended balance)
 - Per the ARS study

Criterion-Kessler Engineers Purpose

Review existing reserve study and perform basic analysis of the results to determine accuracy and completeness

Make suggestions, where appropriate, on components / assets that may be missing, underfunded, overfunded, or for where the EUL/RUL may not be in accordance with norms, and key financial inputs

Perform high level financial review based upon current information

Provide overview of the principals of reserve studies and results of analysis at open meeting

Does not Include a New Study

Purpose of a Reserve Study

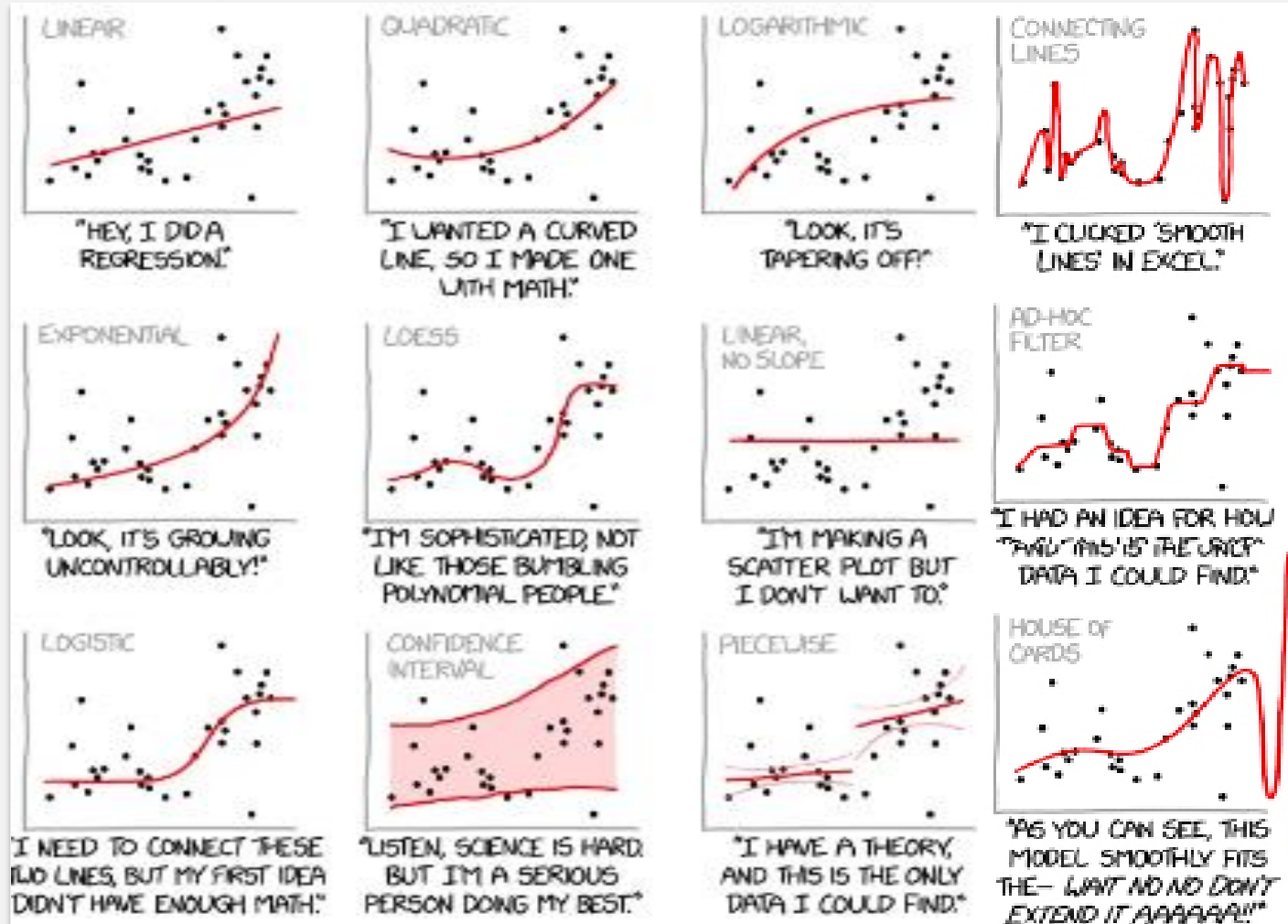
A reserve study is a financial planning tool designed to budget for the future repair and replacement of common assets in a homeowners association

This is one element of the monthly HOA fee (operations and reserve) paid by the homeowners

Keep in mind that whether money is spent from the reserve fund or the operations fund, the homeowner pays all the costs

An Accurate Reserve Study is Critical to Long-Term Financial Stability

Multiple Interpretations of Same Data



Everyone's Analysis of the Same Data Can Be Different

Common Terms

- ✓ EUL - Estimated Useful Life
 - How long should an item last?
- ✓ RUL - Remaining Useful Life
 - How much life remains (i.e., how much life has been used up)?
- ✓ Replacement or Maintenance Costs
- ✓ Percent Funded Methodology
 - Also called the "Component or Straight Line" Methodology
 - Most common methodology used for reserve studies
- ✓ Cash Flow Methodology
 - One of two primary methodologies to determine fund adequacy
 - More realistic methodology and in line with how money is spent

Common Terms

- ✓ Inflation and ROI Percentages
 - Data from the Board of Directors, not CKE
- ✓ Common Asset
 - Responsibility of the HOA to maintain and/or replace
 - Not the responsibility of a homeowner (condos have different rules)
 - All components have a limited life
- ✓ O&M vs Reserve Funding
 - O&M - annual funding, electricity, water, salaries, consumables, etc.
 - Reserve - asphalt, concrete sidewalks, sports facilities and equipment
 - Determination is a four-part test

Defining a Common Asset for Reserve Study Inclusion

Must be a Common Area
Maintenance Responsibility
of the HOA

Limited Life
(The asset eventually must be
repaired / replaced)

Predictable Remaining Life
(RUL)

Above a Minimum Threshold
Cost
(\$5,000)

Four-Part Test To Determine if an Asset Belongs in the Reserve Study

Funding Strategies

✓ Percent Funded Methodology

- Each line item (asset) has its own budget (100 small budgets)
- Each line item must be funded to an appropriate level based upon replacement cycle
 - \$10,000 item with 10-year EUL and 5-year RUL
 - Year 5 = \$5,000 saved (100% funded)
 - Year 5 - \$4,000 saved (80% funded)
- What happens if the asset fails in year 5?
 - Even if 100% funded, there is only 50% of the required replacement budget
 - Where does the money come from, how is it funded?
- What does 100% funded really mean?
 - Different understanding for different people
 - CAI even says, "over 75% is sufficient!" So why is 100% the goal?

Financial Analysis and Inventory / Expense Planning

SAMPLE DATA
NOT COLONY BILTMORE
GREENS

Component Inventory



Line Number	Cost Center	Capital Item	Actual Quantity	Units	Unit Cost	Actual EUL	Actual RUL
1	1 - Site Improvements						
2	1 - Site Improvements	Concrete Light Poles - Replace	82	Each	7,000.00	30	4
3	1 - Site Improvements	Copper Light Cover - Replace	82	Each	1,000.00	30	9
4	1 - Site Improvements	Concrete Curbing & Sidewalks - Repair	1	Allow	10,000.00	10	4
5	1 - Site Improvements	Speed Hump Signs - Replace	32	Each	1,000.00	10	1
6	1 - Site Improvements	Lighted Speed Signs and Monument Base - Refresh	4	Each	1,500.00	10	2
7	1 - Site Improvements	Lighted Speed Signs and Monument Base - Replace	4	Each	5,000.00	25	6
8	1 - Site Improvements	Doggie Stations - Replace	3	Each	550.00	10	1

Reserve Expense Planning



Line Number	Cost Center	Capital Item	Calc Quantity	Units	Unit Cost	Calc EUL	Calc RUL	Planning Notes	Total Cost for Replace
1	1 - Site Improvements								
2	1 - Site Improvements	Concrete Light Poles - Replace	82	Each	7,000.00	30	4	These fail periodically; replacement costs funded for several per year rather than complete replacement at one time.	\$ 574,000.00
3	1 - Site Improvements	Copper Light Cover - Replace	82	Each	1,000.00	30	9	These are a custom item; manager thinks these came from Italy. There is one remaining in storage. Failure will be periodically, and we have estimated full replacement in Year 10 since it would be difficult to match.	\$ 82,000.00
4	1 - Site Improvements	Concrete Curbing & Sidewalks - Repair	1	Allow	10,000.00	10	4	Provides for repairs, replacements as required throughout the community every 10 years.	\$ 10,000.00
5	1 - Site Improvements	Speed Hump Signs - Replace	32	Each	1,000.00	10	1	There are currently only about 15 remaining signs due to damage and theft; this provides for complete replacement	\$ 32,000.00
6	1 - Site Improvements	Lighted Speed Signs and Monument Base - Refresh	4	Each	1,500.00	10	2	Minimal budget to repair lighting, painting, general repairs	\$ 6,000.00
7	1 - Site Improvements	Lighted Speed Signs and Monument Base - Replace	4	Each	5,000.00	25	6	Includes a replacement of the signs to something more contemporary	\$ 20,000.00
8	1 - Site Improvements	Doggie Stations - Replace	3	Each	550.00	10	1	0	\$ 1,650.00

Financial Analysis and Inventory / Expense Planning

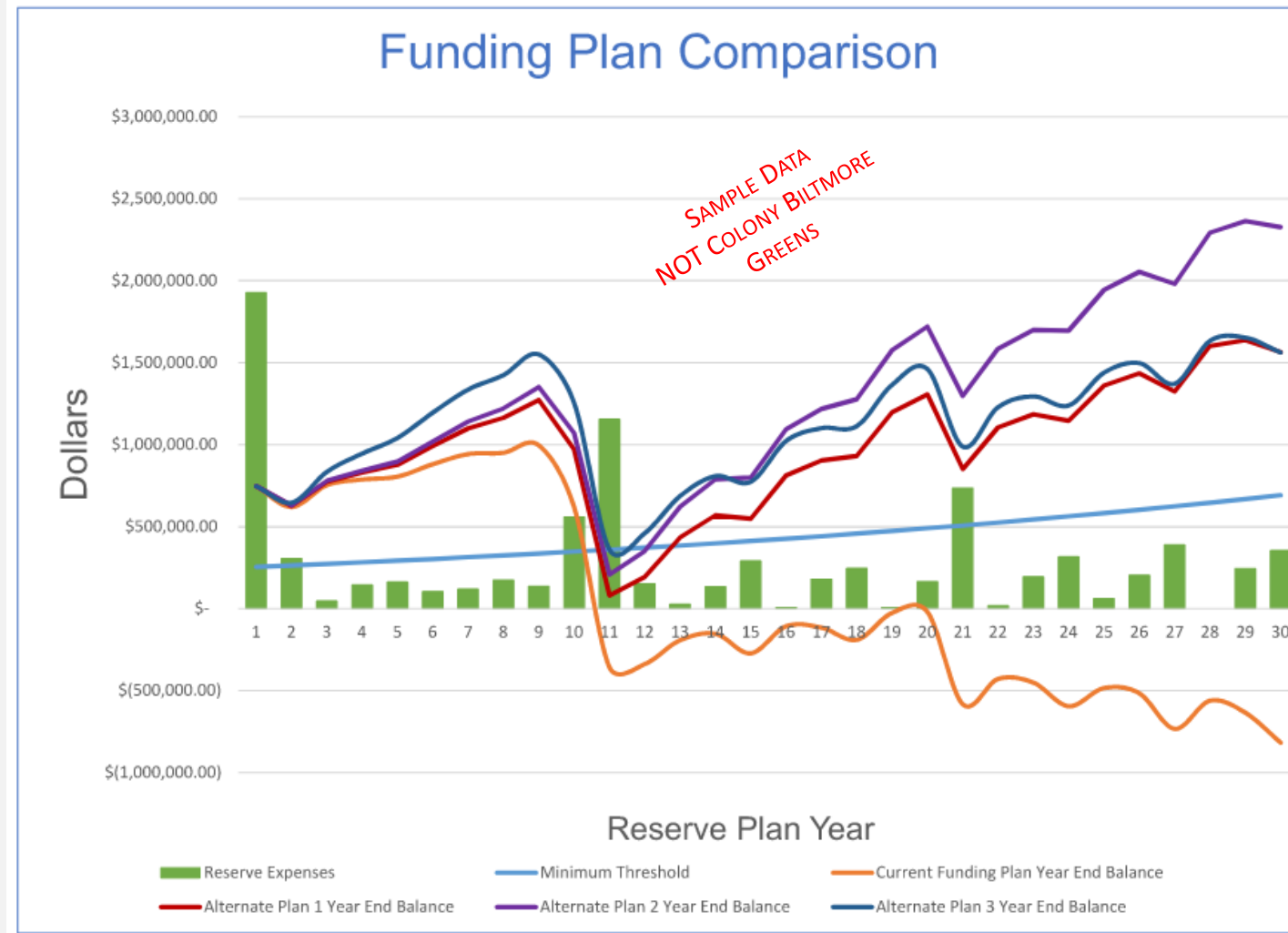
Annual Expenditures



Line Number	Cost Center	TOTAL ANNUAL RESERVE EXPENSE >>	\$1,926,555	\$305,383	\$45,166	\$144,314	\$161,427	\$103,864	\$118,506	\$172,664	\$135,631	\$558,618
Asset		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	
1	1 - Site Improvements											
2	1 - Site Improvements	Concrete Light Poles - Replace	-	3,500	37,132	30,596	-	-	-	-	-	-
3	1 - Site Improvements	Copper Light Cover - Replace	-	-	-	-	-	-	-	-	107,978	-
4	1 - Site Improvements	Concrete Curbing & Sidewalks - Repair	-	-	-	11,087	-	-	-	-	-	-
5	1 - Site Improvements	Speed Hump Signs - Replace	32,000	-	-	-	-	-	-	-	-	-
6	1 - Site Improvements	Lighted Speed Signs and Monument Base - Refresh	-	6,210	-	-	-	-	-	-	-	-
7	1 - Site Improvements	Lighted Speed Signs and Monument Base - Replace	-	-	-	-	-	23,754	-	-	-	-
8	1 - Site Improvements	Doggie Stations - Replace	1,650	-	-	-	-	-	-	-	-	-
9	1 - Site Improvements	Backflow Preventers - Replace	-	-	-	2,841	-	3,029	-	3,229	-	-
10	1 - Site Improvements	Irrigation Controllers - Replace	-	-	8,034	-	-	-	-	-	-	-
11	1 - Site Improvements	Irrigation - Repairs	-	2,588	-	-	-	-	3,073	-	-	-
12	1 - Site Improvements	Irrigation - Replacement	-	-	-	-	-	-	-	-	-	-
13	1 - Site Improvements	Stamped Concrete Crossover - Replace	5,000	-	-	-	-	-	-	-	-	-
14	2 - Asphalt Roads		-	-	-	-	-	-	-	-	-	-
15	2 - Asphalt Roads	Perform Asphalt Evaluation	15,000	-	-	-	-	-	-	-	19,752	-
16	2 - Asphalt Roads	North 24th Parkway - Seal Coat	8,775	-	-	9,729	-	-	10,787	-	-	-
17	2 - Asphalt Roads	North 24th Parkway - Crack Seal	2,000	-	-	2,217	-	-	2,459	-	-	-
18	2 - Asphalt Roads	North 24th Parkway - Asphalt Patching	5,500	-	-	6,098	-	-	6,761	-	-	-
19	2 - Asphalt Roads	North 24th Parkway - Mill & Overlay	-	-	-	-	-	-	-	-	-	99,662
20	2 - Asphalt Roads	Biltmore Estates Drive - Seal Coat	-	62,038	-	-	68,783	-	-	76,260	-	-
21	2 - Asphalt Roads	Biltmore Estates Drive - Crack Seal	-	14,490	-	-	16,065	-	-	17,812	-	-
22	2 - Asphalt Roads	Biltmore Estates - Asphalt Patching	-	39,330	-	-	43,606	-	-	48,347	-	-
23	2 - Asphalt Roads	Biltmore Estates Drive - Mill & Overlay	-	-	-	-	-	-	-	-	-	-
24	2 - Asphalt Roads	Oregon Avenue - Seal Coat	3,240	-	-	3,592	-	-	3,983	-	-	-
25	2 - Asphalt Roads	Oregon Avenue - Crack Seal	1,000	-	-	1,109	-	-	1,229	-	-	-
26	2 - Asphalt Roads	Oregon Avenue - Asphalt Patching	2,500	-	-	2,772	-	-	3,073	-	-	-
27	2 - Asphalt Roads	Oregon Avenue - Mill & Overlay	-	-	-	-	-	-	-	-	-	36,798
28	2 - Asphalt Roads	Colter Street - Seal Coat	-	12,352	-	-	13,695	-	-	15,183	-	-
29	2 - Asphalt Roads	Colter Street - Crack Seal	-	2,898	-	-	3,213	-	-	3,562	-	-
30	2 - Asphalt Roads	Colter Street - Asphalt Patching	-	6,728	-	-	7,459	-	-	8,270	-	-

SAMPLE DATA
NOT COLONY
BILTMORE GREENS

Financial Analysis and Inventory / Expense Planning





COLONY BILTMORE GREENS – NOVEMBER 2023

November 7, 2023

Slide



General Information

- ✓ Community is 46 years old (1977)
 - Current study runs through when community is 76 years old
 - Components must be considered through the lens of today & tomorrow
- ✓ 31 Line Items in current study to include:
 - Asphalt
 - Stamped Concrete
 - Tennis courts
 - Guard shack
 - Park equipment (benches, table)
 - Entrance gates and operating arms

Component Analysis

✓ Missing Items

- Asphalt remove and replace (+\$)
- Irrigation repair / replacement (+\$)
- HVAC in guard house (+\$)
- Mailbox kiosks (+\$)
- Block wall repairs (+\$)
- Tot lot (+\$)
- Median replacements (+\$)

✓ Concerns (EUL / Cost / Other)

- Long-term asphalt plan
- Pricing for benches / picnic tables
- EUL too long on gate operators, and other items
- Stamped concrete, not pavers - changes parameters significantly



Component Analysis

✓ Professional Studies

- Block wall structural evaluation
- Asphalt evaluation
 - Should be done soon - results rolled into reserve study update
- Irrigation evaluation (and make decisions)
 - Replace as is with new components
 - Elimination of some irrigation
 - New expenses (removal, artificial turf, desert cobble, etc.)
 - Requires a long-term decision

Financial Analysis – ARS Study

✓ Current Study Financials

- Parameters:
 - Inflation Rate: 3.0%
 - Investment Rate: 0.0%
- Recommends 63% increase in 2024
- Recommends 2.5% increases in 2025 - 2052
- Percent funding summary
 - Current funding is 39% (2023)
 - 63% average funding over 30 years
 - Seriously underfunded through at least 2038 (Year 15)
 - Not fully funded until 2052 (Year 30)
 - No special assessments planned
- Missing key components – creates further under-funding

Fiscal Year	Percent Funded
2023	39%
2024	46%
2025	45%
2026	45%
2027	36%
2028	45%
2029	40%
2030	34%
2031	34%
2032	47%
2033	48%
2034	44%
2035	46%
2036	51%
2037	59%
2038	67%
2039	62%
2040	70%
2041	62%
2042	71%
2043	77%
2044	84%
2045	87%
2046	89%
2047	91%
2048	93%
2049	95%
2050	97%
2051	99%
2052	100%

This is not a fiscally prudent plan – Very High Risk

Current Financial Status – With Updates

✓ Updated Analysis

- Adds missing components
- Updates some costs, EUL, RUL
- Inflation and ROI remains unchanged
- Starting balance and planned increases remain unchanged

✓ Current Study Financials

- Parameters:
 - Inflation Rate: 3.0%
 - Investment Rate: 0.0%
- Current funding is closer to 22% in 2023 (with additional components)
- Reserve fund becomes negative around Year 10 (2032)
- Average reserve funding over 30 years is negative

Suggestions

✓ Financials

- Parameters:
 - Inflation Rate: Increase to more realistic
 - Investment Rate: Apply realistic number
- Apply a reasonable percentage of the sales income to reserve fund
 - May offset future increases or apply to capital improvements

✓ Reserve Study

- Update reserve study with added components, financial parameters, etc.

✓ Increases

- Achieve full funding (100% as quickly as possible)
- Will require significant increases for the next 3 - 4 years
 - Depends upon the ability to increase and/or use of funds from home sales

Summary

- ✓ Community is Well-Maintained / Aging
- ✓ Board Committed to Funding Community
- ✓ Current Reserve Study Insufficient
- ✓ Suggested Changes
 - Achieve full funding quickly
 - Add missing items & update EUL/RUL
 - Implement realistic ROI & inflation rates
 - Significant increases the next several years
 - Potential supplement from home sales
 - Perform updated reserve study
 - Annual adjustments



Strong Financial Management and Robust Maintenance Plan



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Thank You!

