

Cove HOA Capital Reserves Study (August 2020)

Updated November 2021

In the past few months, the **Cove HOA Board has revisited our Capital Reserve Study**. It appears the last one was done back in 2007-08. So it was time to take a good hard look at it again.

What is a capital reserve study? You probably already know, in which case I invite you to skip this paragraph. According the all-knowing internet, it is *“a 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”*. Said more understandably, we put money aside on a regular basis in anticipation of rather large expenses, and we estimate the future cost of those expenses and when they might be required. That way, when it is going to cost the homeowners \$5,000 to do something that is only required occasionally, we have already put the money aside by gathering small amounts over time in anticipation of that expense. You know – like a college savings plan, only hopefully much smaller.

A reserve study is a tool that helps us all prudently manage long term expenses in a fiscally responsible manner. We don't want to fall short of funds and suddenly have a large, necessary expenses we have not properly financially planned for. But we also don't want to pay more than we need to into some sort of fund for future expenses that may or may not be warranted. Balancing these is the purpose of the tool.

What did we find when we investigated our plan? Fortunately, the Board found that the last plan served us all well, and the HOA has some funds set aside for anticipated capital expenses. We also found that there were a lot of items on the 'Capital Reserves List' that were pretty minor expenses already being included in the annual Operating Budget. Those included items like trees, shrubs, a light for the entrance sign, etc. Those are very real and important expenses, but their costs are small enough that they don't really represent an item that needs to go on a long-term reserve plan. Even path rocking, which is not an insignificant sum we commit to every year, is included in our annual Operating Budget.

So, what should be included in a long-term reserve plan? After a lot of discussion and deliberation, the Board has established there are really only a few items that currently need to be addressed through reserve funding. Those are the master timer for the sprinkler system, the fence along 1st Street, and the sewage pump station.

The sprinkler timer was replaced this summer, and we anticipate the next replacement will be needed in about 10 years. Anticipate cost at that time is around \$1,200.

The vinyl fence along 1st Street has a life expectancy of 100 years! Crazy as that might sound, that is what our research shows. So, accumulating funds for that replacement now seems a little unnecessary.

The sewage pump house is the little square building on Cape Dory that houses the pumps and controls needed to move the sewage from our neighborhood to the city's wastewater treatment plant. It also serves the Springs, the next neighborhood to the West. They pay a 27% portion of the cost of upkeep for that structure, that arrangement having been established years ago.

Any costs associated with the pumping equipment itself is the responsibility of the City. But the little house is the joint responsibility of the Cove and the Springs. And that building currently needs a new roof. So, we plan to have the structure re-roofed using funds from the Reserve. Our Property Manager has received competitive bids for that, and the Board is ready to move forward.

The Cove's share of the roof cost will be \$2,336 and the Springs share will be \$864. Since the Springs has already contributed \$270 over time, we will need to collect \$594 from them, and pay \$2,606 from our current reserve funds, which totaled \$7,490 on July 31. After the work is done, the new roof should not have to be replaced for another 15 years, and we will be accumulating reserve funds for that purpose.

We will also accumulate funds for eventually painting of the pump house, and for siding replacement at some point. The paint and siding are both in reasonably good condition at this time, and we don't envision them needing any attention soon.

Additionally, the 2007-08 Reserve Study established that it would be financially prudent to maintain a \$2,000 balance for contingencies. The current Board agrees with that.

All that to say the Board has revisited the past Capital Reserve Study and updated it to reflect today's situation. Future budgets will incorporate more detailed financial information regarding the Reserve Funds as a matter of inclusion in the overall Cove annual budget. We are committed to balancing our reserves collection with the future financial needs associated with the Cove Homeowners' long-term assets.

The 2021 Cove HOA Board would like to address a concern that will likely have an impact on the Cove Reserve Funds. Trees and landscaping are frequently identified by homeowners as some of our neighborhood's greatest assets. However, most trees are fairly aged, and a great many of them are essentially of the same age. While they are lovely, and the mature nature of our foliage presents the neighborhood beautifully, there is a financial risk associated with this. For example, if we were to get a serious wind event, or a tree-damaging insect or disease, we could find the community in need of funds on an emergency basis for clean-up and replacement of damaged trees. An occurrence like that might damage the sprinkler system, too. And additional water might be needed for the new trees.

General estimates for removing a damaged mature tree and replacing it with even a small new tree fall in the range of \$800 each. Landscaping other than trees requires funds as well. While our annual operating budget includes funds for general maintenance of trees

and landscaping, the Board expresses the desire to maintain enough money in the Reserve Fund to cover a great deal of the potential cost of repairing landscaping and replacing trees, if necessary.

The walking path, sprinkler systems, and pump house are identified as other assets that, because of age, may require more funds for upkeep than in past years.

The projected Reserve Balance at the end of 2021 is anticipated to be approximately \$13,000.

We have a new Property Management company, *OnSite Property Managers*. They will bring new eyes and different experience to the conversation about establishing the proper Reserve amounts specifically for our neighborhood. The Board welcomes that, and we agree that for now the Reserve Fund balance should not be reduced, even if that decision results in a modest increase in HOA dues.