

Townhouse VI Reserve Fund – An Explanation

What is a Reserve Fund, how is it used, how is it funded, and why is it important? The following will give you answers on these questions:

The Reserve Fund is a savings account designed for funding the repair and replacement of important assets, like the roads in our community. Homeowners fund the Reserve Fund by paying their annual dues. Road expenses are predictable but do not occur annually. Thus, the need for a separate savings account. The Reserve Fund builds up over time to meet the repair and replacement expenses of the roads.

It is the board's responsibility to predict the stream of road expenses over the life of the roads and match that with money available in the Reserve Fund. This money should not be used for other purposes. Having a well thought out Reserve Fund has several advantages:

- The roads will always be in useable condition
- The value of THVI homes will be enhanced due to having decent roads
- Prospective buyers will see that THVI is planning ahead
- Every homeowner will pay their fair share
- Expensive special assessment will not be required

THVI CC&R's 3.6.2 says that to the greatest extent possible, the Reserve Fund shall be funded by annual dues, not special assessments. It is far easier to pay for our roads a little at a time rather than all at once.

Here are some historic details about expenses related to roads. In the time period from 2016 to 2022 all THVI roads were resealed and replaced at a cost of \$340,000. If the reserve fund were not available to pay for the bulk of these expenses, special assessments of over \$3,700 would have been charged to each homeowner. Again, it is easier to pay into a Reserve Fund annually than be charged with large bills.

Future Planning

How is the amount of money needed in the Reserve Fund determined? One needs to evaluate the current condition of the asset, estimate its remaining life and determine the repair and replacement expenses. Then assume a rate of related inflation and a rate of return on invested money. Once that is done, calculations will show the amount of money needed in the Reserve Fund to cover the expenses over time.

Experts can help with this type of evaluation by conducting a Reserve Study. In that light, THVI hired Capital Reserve Analysts in January and formed a study team of homeowners to look at our situation. The team took a broad look at all our assets and

determined that there were two small areas that should be included with roads in the Reserve Fund. These are: minimizing common area sand erosion (driving on sand wears the roads), and tool shed replacement. These two areas amount to around 8% of the overall Reserve Fund.

Then the Reserve Study team made the following assumptions: road life of 30 years, road resealing every 4 years, common area erosion repairs every 10 years, tool shed life of 30 years, inflation rate of 3% and an investment rate of return of 3%. These conditions change and the assumptions need to be periodically reviewed. As an example, inflation has been much higher in the past few years than the assumed rate of 3%. So, the inflation rate will be closely monitored in the future to determine if the assumed 3% rate is reasonable over the life of the assets.

The fully funded balance of a reserve is a function of the estimated future repair and replacement costs, the total estimated useful life of the assets, and the percentage of useful life that has been “used up”. This figure is viewed as a measure of the financial health of an HOA. The amount of money currently in the reserve fund is \$39,000. The fully funded amount in 2024 is \$120,000, so the HOA is 32% fully funded. The goal is to be close to 90% fully funded when road resurfacing starts in 2047. To reach this goal annual funding increases will be needed.

In 2024 the amount added to the reserve fund from member dues was \$24,000. The Reserve Fund also increases each year by investment returns on the funds in the reserve. In 2025 the proposal before the Board is for the member funded amount to be reduced to \$22,400 to make room for increases in other budgeted areas (primarily landscaping). This shortfall must be made up in future years. Note: Details of the Reserve Study expense and funding plan are available on the web site on the Governance page under Board Projects.

Summary

The THVI Reserve Fund was successful in providing almost all the necessary funds for recent road maintenance and replacement without burdening homeowners with large, unexpected bills. Looking into the future, a Reserve Study was conducted with an experienced firm to evaluate THVI's current situation. Reasonable assumptions were made, and a detailed plan of future expenses and funding calculated. This planning showed that routine increases in Reserve Fund funding will be necessary to meet THVI funding goals, to properly maintain its assets, to protect property values and to ensure fair contribution from all homeowners.