

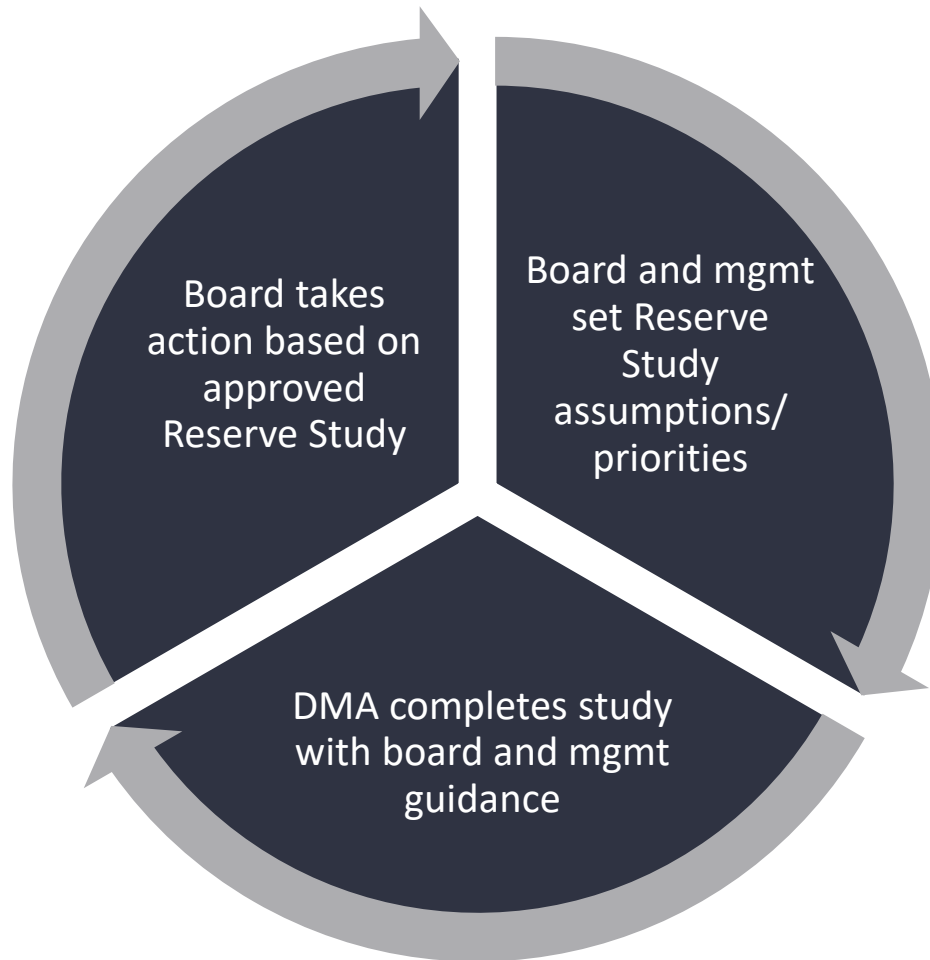


FINANCE COMMITTEE REPORT

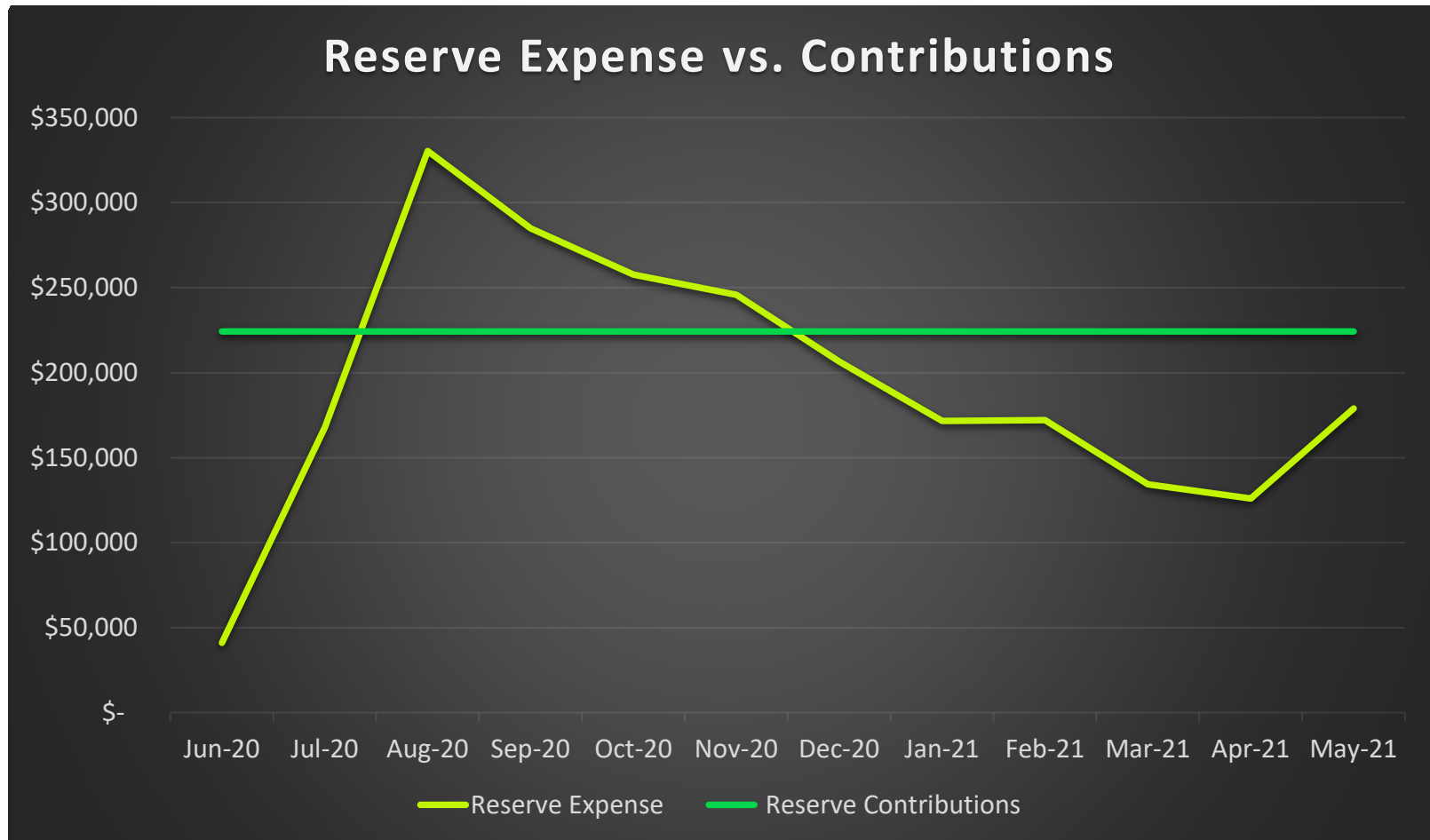
MEETING THE RESERVE STUDY

December 2021

RESERVE STUDY PROCESS

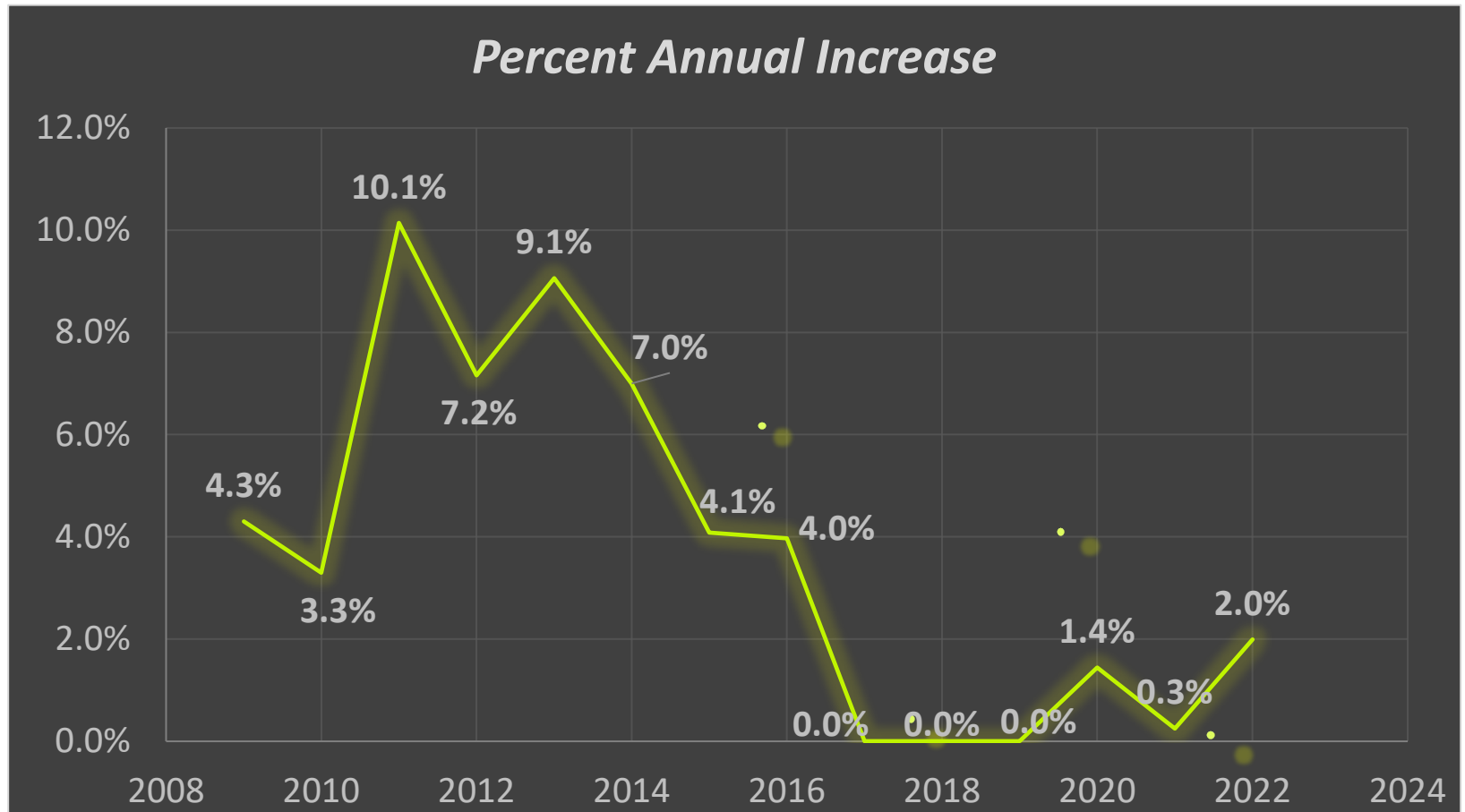


RESERVE EXPENSES ARE UNEVEN



Current reserve balance is \$3.3M.

CONDO ASSESSMENTS



BASE CASE

YEAR	% assessment increase	% operating budget increase	\$ impact on reserves	Reserve Balance
2022	1.99%	.77	-	\$3.7M
2023	2.0%	.8%	-\$1.0M	\$2.7
2024	2.0%	.8%	-\$1.2	\$1.5
2025	2.0%	.8%	-\$1.4	\$.1
2026	2.0%	.8%	-\$1.7	-\$1.6
2027	2.0%	.8%	-\$1.7	-\$3.3
2028	2.0%	.8%	-\$1.7	-\$5M

Notes:

- 2% assessment increase was used to reflect the 1.99% increase in FY 2021.
- .8% increase in operating budget was used to reflect the .77% increase in FY 2021

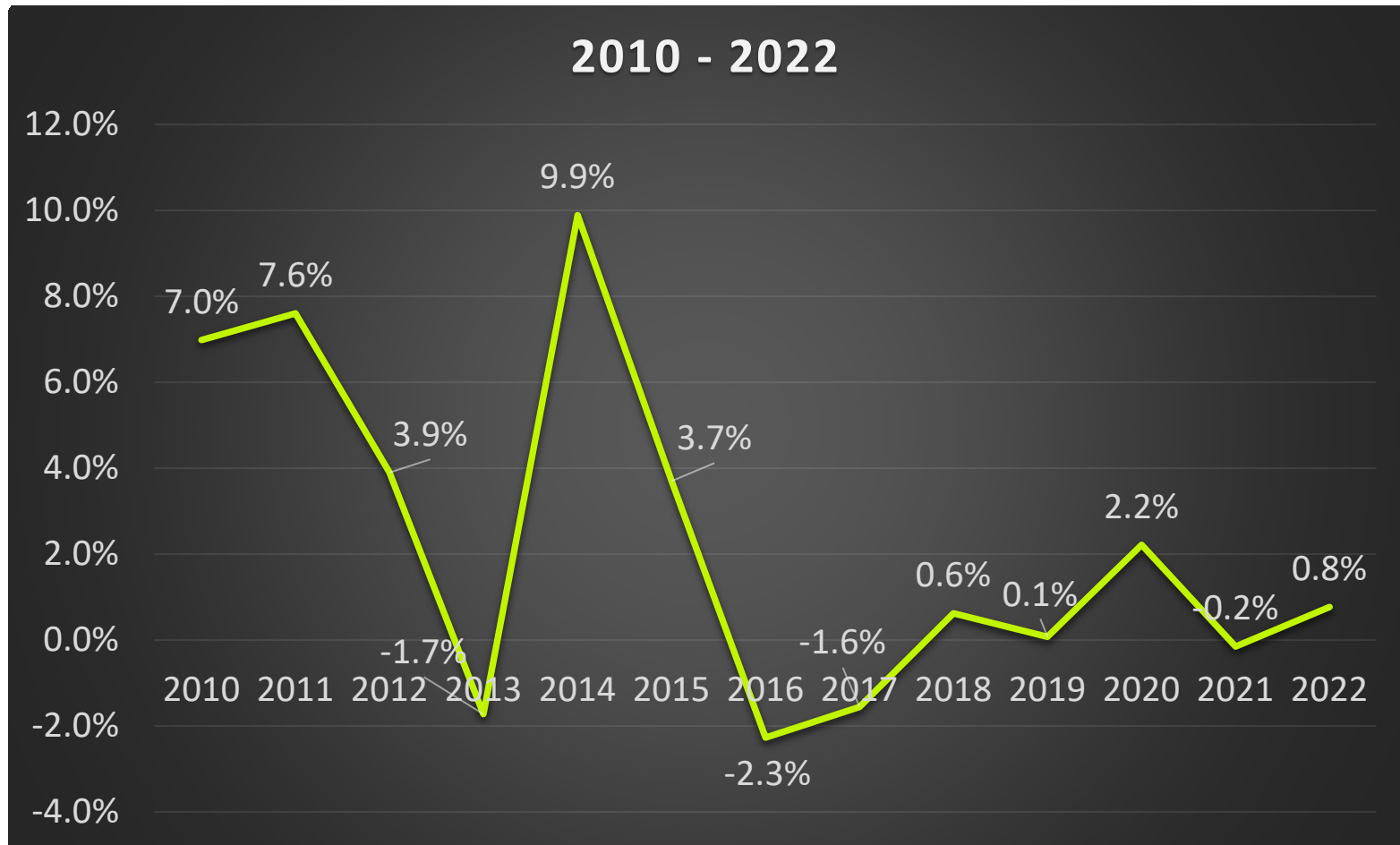
FILLING THE GAP: THE OPTION MIX

(rough feasibility and value)



- ~~Cut annual operating expense (+)~~
- ~~Accept some level of additional financial risk (+)~~
- ~~Increase or implement user fees for some services (+)~~
- ~~Charge a special assessment (++)~~
- Convert hard assets to liquid assets (sell property, vehicles, equipment, etc.) (++)
- Take on debt (mortgage property, line of credit, etc.) (++)
- Reduce or leverage “owner’s equity” (+)
- Increase the condo monthly assessment (+++)

CUT ANNUAL OPERATING EXPENSE (+)



IMPACT OF DEFERRED MAINTENANCE=SPECIAL ASSESSMENT



Auburn Village Condominiums, VA



Champlain Condominium S, Surfside, FL

INCREASE THE CONDO MONTHLY ASSESSMENT (++++)

SCENARIO A

<i>Year</i>	<i>Percent Increase</i>	<i>Average Monthly \$ Increase</i>
2023	9%	\$41
2024	9%	\$45
2025	7.5%	\$41
2026	6%	\$35
2027	5%	\$31
2028	4%	\$26
		\$219

Notes:

- Includes a 3.2% increase in operations expense
- Maintains a \$3M balance in the reserve fund.
- Meets the reserve study level of funding

SCENARIO B

Sell 5 units	+\$1.1
Decrease owners equity	+\$.4
<u>Reduce reserve balance</u>	<u>+\$1.7</u>
<i>Impact of actions</i>	+\$3.2M

Notes: Sell 5 units – 1 annually
 Move from 19% to 14% owners equity
 Reduce reserve balance from \$3.7M to \$2M

SCENARIO B

Prospective assessment increases for Scenario B:

<i>Year</i>	<i>% Increase</i>	<i>Average Monthly \$ Increase</i>
2023	8%	\$37
2024	6%	\$30
2025	6%	\$31
2026	5%	\$28
2027	5%	\$29
2028	4.5%	\$28

Notes:

- Increase operating expense by 3.2% annually
- Fully fund reserves
- Sell 5 units – 1 annually
- Move from 19% to 14% owners equity
- Reduce reserve balance from \$3.7M to \$2M
- Do not take a line of credit

\$182

SCENARIO C

High risk, this option is not recommended

Reduce owners equity	+\$\$.4
Reduce reserve balance	+\$2
Take out \$2M line of credit in 2026	+\$2
Pay back 3 of 5 years of line of credit	<u>-\$1.4</u>
	+1.6M

Notes:

- Increase operating expense by 3.2% annually
- Fully fund reserves
- Move from 19% to 14% owners equity
- Reduce reserve balance from \$3.7M to \$1.3M
- Take out a line of credit, \$2M principal, 7.5% interest rate, payback over 5 years
- Do not sell any condo units

SCENARIO C

High risk, this option is not recommended

Prospective assessment increases for Scenario B:

Year	% Annual Increase	Average Monthly \$ Increase
2023	6%	\$ 27
2024	5%	\$ 24
2025	4%	\$ 20
2026	8%	\$ 42
2027	8%	\$ 46
2028	8%	\$ 49
		\$210

Notes:

Increase operating expense by 3.2% annually

Fully fund reserves

Move from 19% to 14% owners equity

Reduce reserve balance from \$3.7M to \$1.3M

Take out a line of credit, \$2M principal, 7.5% interest rate, payback over 5 years

Do not sell any condo units

MULTI-YEAR BUDGET

To provide stability, growth and transparency **we recommend adopting a multiyear budget**. The budget should provide adequate resources to fund operations, multi-year capital projects and reserves as recommended by DMA.

This long-term budget will inform unit owners of their financial obligations beyond the current one-year horizon.

The budget should grow at a steady pace and the condo assessment should be predictable well in advance.

BOARD MEMBER RESPONSIBILITIES

- Develop and accomplish a strategy for the future
- Ensure the finances of the association are solid
- Establish, publicize, and enforce policies, rules and penalties
- Hire and supervise the general manager

DISCUSSION

Questions?

DISCUSSION

Appendix

CONVERT HARD ASSETS TO LIQUID ASSETS (SELL PROPERTY, VEHICLES, EQUIPMENT, ETC.) (++)

Sell 5 association-owned condo units:

Net profit from sales +\$1.1M

Assumes:

- Sell 1 unit annually, the largest ones first
- No improvements made prior to sale
- Realtor commissions of 5.5% total
- 20% capital gains tax paid on profit
- Does not include the operational expense increase of 4%

TAKE ON DEBT (MORTGAGE PROPERTY, LINE OF CREDIT, ETC.) (++)

Take out \$2M line of credit in 2026	+\$2.0
Pay back 3 of 5 years of line of credit in 2026 – 2028	<u>-\$1.4</u> +\$.6

Assumes:

- 7.5% interest rate
- Drawdown of reserves occurs in previous years
- Line of credit is not needed before 2026
- 5-year payback period starts in 2026 (may need to extend this horizon)

REDUCE OR LEVERAGE “OWNERS EQUITY” (+)

Move funds from owners equity to reserves: +\$.44M

Assumes:

- Owners equity would reduce from 19% to 14% of operational expenses. This is still within the range of acceptability according to best practices
- No additional spending from owners equity would occur over 5 years
- No capital improvement projects would occur in those 5 years unless there is a positive, short-term cost-benefit
- To maintain maximum flexibility, an actual move of funding from owners equity to reserves would not occur

POSSIBLE OBJECTIONS

Some unit owners cannot afford a large increase in assessments. They may be forced to move.

It is our responsibility to maintain the common element and services in order to provide a safe and sound place to live. By implementing a five-year budget current and prospective owners will understand the financial obligations of owning a unit in Parkfairfax.

High assessments will depress sales and property values.

Failing to maintain our property and services **WILL** depress property values and can lead to terrible outcomes. See Auburn Village and Surfside, Florida examples.