



Lummi Island Scenic Estates

2023 Reserve Study Presentation

We thank Alison for arranging this meeting. She was key to providing us with additional information about what to focus on so that we use our time efficiently.

Presenting today are Mahria Sooter and Denise Dana from Reserve Consultants.



WHAT IS A RESERVE
STUDY AND WHY IS
IT IMPORTANT?

Budgeting tool for the reserve fund
Provide enough funds over 30 years
Enforcement

Reserve study is a budgeting tool for the reserve fund.

- "Reserve component" means a common element whose cost of maintenance, repair, or replacement is infrequent, significant, and impractical to include in an annual budget.
- Goal is to provide funds for major maintenance for the next 30 years without the need for a special assessment or loans.
- Enforcement - annual updates are required by Washington State law. Also, when selling or securing a loan, banks and prospective buyers often look at the reserve study. A fully funded balance below 25% is seen as a red flag.



HOW IS A
MAINTENANCE
PLAN DIFFERENT
FROM A RESERVE
STUDY?

A roadmap for completing maintenance

Funds from the operating budget or reserves

A maintenance plan is a detailed roadmap for completing maintenance, regardless of whether it is funded from the operating budget or reserves.

A reserve study only deals with components that are maintained using funds from the reserve account.



FUNDING NEEDED
TO ADDRESS
EXPECTED AND
DEFERRED
MAINTENANCE

LUMMI ISLAND SCENIC ESTATES RESERVE FUND STATUS	
LUMMI ISLAND SCENIC ESTATES'S FISCAL YEAR	a calendar year
RESERVE ACCOUNT BALANCE ON APRIL 30, 2022	\$425,249 ¹
FULLY FUNDED BALANCE YEAR 2022	\$2,064,240 ²
PERCENT FUNDED AT TIME OF STUDY	21% ³
FUNDING STATUS - RISK OF ADDITIONAL SPECIAL ASSESSMENT	High Risk
2022 PLANNED OR IMPLEMENTED SPECIAL ASSESSMENT	\$271,150
COMPONENT INCLUSION THRESHOLD VALUE	\$4,201

The fully funded balance is calculated to estimate how much Lummi Island should have saved in relation to the depreciation of each reserve component.

The percent fully funded compares the reserve account balance to the fully funded balance to see how close Lummi Island is to keeping up with savings. 100% fully funded means that all funds required for the depreciated portion of anticipated maintenance has been saved.

A percentage below 25% fully funded is a that Lummi Island is at risk for not having enough funds for upcoming maintenance and will require a special assessment or bank loan to pay.

Lummi Island was at 21% fully funded at the time of the report in 2022.



ALTERNATIVE FUNDING STRATEGIES

Special assessments – additional lump-sum contributions to either cover the cost of anticipated expenses, or to help increase the reserve account balance.

Contribution accelerators – an additional increase to the annual reserve contribution above the applied inflation rate. Our system can accommodate up to two rates.

Contribution adjustments – stepped increase or decrease in the reserve contribution to provide appropriate funding over the 30-year span of the report.

In addition to an annual contribution to reserves that increases every year to keep up with inflation, a variety of funding strategies are available. These strategies are not typically employed but are options that provide additional flexibility in developing a custom funding plan to fit the unique needs of a community.



FUNDING NEEDED
TO ADDRESS
EXPECTED AND
DEFERRED
MAINTENANCE

LUMMI ISLAND SCENIC ESTATES CURRENT AND RECOMMENDED RESERVE CONTRIBUTIONS	
CURRENT BUDGETED ANNUAL CONTRIBUTION TO RESERVES	\$56,600
2023 RECOMMENDED ANNUAL CONTRIBUTION RATE	\$79,000
2023 RECOMMENDED CONTRIBUTION PER MONTH	\$6,583
2023 AVERAGE CONTRIBUTION PER UNIT PER YEAR	\$198
2023 AVERAGE CONTRIBUTION PER UNIT PER MONTH	\$16
2023 BASELINE FUNDING PLAN CONTRIBUTION RATE	\$40,100
2023 FULL FUNDING PLAN CONTRIBUTION RATE	\$92,100

FINANCIAL OVERVIEW FOR 2023		
\$721,988	29%	\$714,969
2023 Estimated Starting Balance	2023 Estimated Percent Funded w/the Recommended Funding Plan	2023 Estimated Reserve Expenditures

An annual \$56,600 reserve contribution was budgeted in 2022. The Recommended Funding Plan set the 2023 reserve contribution at \$79,000.

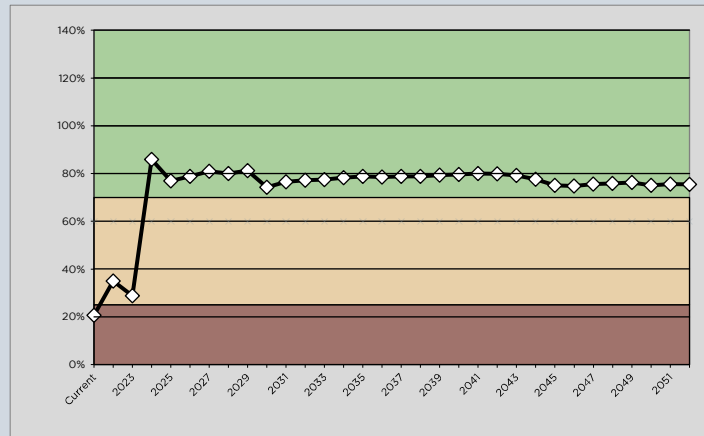
Per Washington State law, Baseline and Full Funding Plans also need to be included in the reserve study.

The Baseline Funding Plan is the least amount that can be contributed without the need of a special assessment over 30 years. This will not provide any financial buffer and puts the Association at risk of a special assessment if costs are higher than anticipated. The Baseline Funding Plan set the set the 2023 reserve contribution at \$40,100.

The Full Funding Plan provides funding that will have the Association 100% fully funded by the end of the 30 year scope of the report. The Full Funding Plan set the set the 2023 reserve contribution at \$92,100.



FUNDING NEEDED
TO ADDRESS
EXPECTED AND
DEFERRED
MAINTENANCE

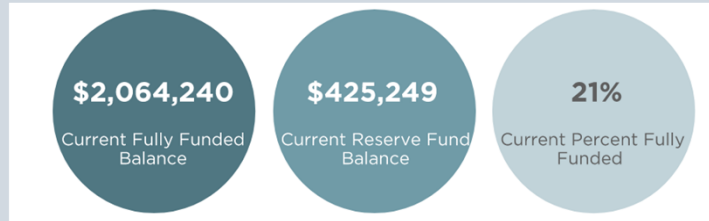


With the Recommended Funding Plan, the Association would have a percent funded between 70% - 80% after 2023. We typically recommend being around 80% fully funded.

This assumes that the annual reserve contribution will increase annually to stay in line with inflation.



FULLY FUNDED
BALANCE
CALCULATIONS



$$\text{FULLY FUNDED BALANCE} = \text{THE SUM OF } \frac{\text{REPLACEMENT COST X EFFECTIVE AGE}}{\text{USEFUL LIFE}} \text{ FOR ALL RESERVE COMPONENTS}$$

The following slides will break down how the fully funded balance is calculated.



HOW PERCENT FUNDED IS CALCULATED

Example: Dock Pilings

Maintenance Cycle - **50** years

Estimated Cost - **\$120,790**

Estimated Cost / Maintenance Cycle - **\$2,415.80**

Effective Age - **47**

2022 Fully Funded Balance - **\$113,543**

2023 FFB = \$113,543 + \$2,415.80 = **\$115,958.40** (+ inflation)

COMPONENT DESCRIPTION	QTY	UNIT	MAINT. CYCLE (USEFUL LIFE)	REMAINING USEFUL LIFE	EFFECTIVE AGE	CURRENT REPLACEMENT COST	FULLY FUNDED BALANCE
100% 2.9.3 Dock Pilings - Replace	1	LS	50	3	47	\$120,790	\$113,543

Example: Dock Pilings

Maintenance Cycle - 50 years to save for next maintenance

Estimated Cost - \$120,790 is how much money needs to be saved

Estimated Cost / Maintenance Cycle - \$2,415.80 how much needs to be saved each year

Effective Age - 47 the number of years that the Association should have been saving

Fully Funded Balance - \$113,543 the amount of money that should have been saved for this component up to this point in 2022

Now that we are in 2023, the Fully Funded Balance for the Dock Pilings would be \$113,543 + \$2,415.80 = \$115,958.40 (+ inflation)

The Fully Funded Balance changes every year since the remaining useful life of each component changes every year. Once maintenance on a component is complete, the cycle of savings starts over again.

For example, the year after the dock piling project has been completed, the Fully Funded Balance for the dock pilings will be \$2,415.80.



HOW PERCENT
FUNDED IS
CALCULATED

COMPONENT DESCRIPTION	QTY	UNIT	WEEKLY COST (\$/WEEK)	RESERVE (\$/WEEK)	PERCENT AGE	CURRENT REPLACEMENT COST	FULLY FUNDED BALANCE	
100% 2.2 Corropted Metal Storm Water System - Contingency	1	LS	5	3	2	\$5,000	\$2,000	
100% 2.6.1 Asphalt Pavement - Repair	1	LS	30	15	-	\$21,000	\$0	
100% 2.6.2 Asphalt Pavement - Major Repair	16000	SF	40	3	37	\$77,840	\$72,002	
100% 2.6.3 Asphalt Parking Lot - Overlay	14000	SF	40	8	32	\$50,780	\$40,624	
100% 2.7 Chain Link Fence - Replace	320	LF	30	11	19	\$9,480	\$6,004	
100% 2.8 Dock Replacement - Design	1	LS	3	3	-	\$7,500	\$0	
100% 2.9.2 Dock Work - Repair	1	LS	15	8	7	\$3,150	\$14,705	
100% 2.9.3 Dock Pillings - Replace	1	LS	50	3	47	\$100,790	\$18,541	
100% 2.9.4 Dock Walkway - Install/Replace	1	LS	10	8	2	\$10,000	\$2,000	
100% 6.1 Clubhouse - Repair Contingency	1	LS	10	11	-	\$33,000	\$0	
100% 6.1.2 Clubhouse Foundation - Restoration	1	LS	1	1	-	\$271,500	\$0	
100% 6.1.3 Common Buildings - Repair Contingency	1	LS	10	6	4	\$21,000	\$8,404	
100% 7.2.1 Sloped Metal Roofs - Replace	33	50	40	8	32	\$33,360	\$20,200	
100% 7.2.2 Low Sloped Roofs - Replace	17	50	20	14	6	\$32,700	\$713	
100% 8.3.1 Garage Doors - Replace	3	EA	20	16	4	\$5,340	\$1,048	
100% 9.1.1 Bathhous - Replace	1	EA	25	23	2	\$64,330	\$6,746	
100% 9.1.2 Truck - Replace	1	EA	10	2	8	\$10,320	\$8,256	
100% 9.1.3 Tractor Hower - Replace	1	EA	20	16	4	\$10,500	\$1,900	
100% 9.1.4 Road Sweeper - Maintenance	1	LS	5	5	-	\$3,200	\$0	
100% 9.1.1 Water Meters - Replace	218	EA	20	8	12	\$47,640	\$40,584	
100% 9.1.2 PRV Vaults - Maintenance	1	LS	5	2	3	\$10,500	\$6,300	
100% 9.1.3 Holiday Lake PRV - Replace	1	LS	40	36	4	\$5,760	\$1576	
100% 9.1.4 Mount Vista Drive PRV - Replace	1	LS	40	39	1	\$10,000	\$250	
100% 9.1.5 Island Drive PRV - Replace	1	LS	40	1	39	\$10,320	\$10,082	
100% 9.2.1 Water Towers - Circulation System	2	EA	30	24	6	\$26,830	\$5,366	
100% 9.2.2 Water Towers - Repair	2	EA	50	3	47	\$21,000	\$19,749	
100% 9.2.3 Reservoir & Dam - Maintenance	1	LS	10	4	6	\$21,000	\$12,600	
100% 9.2.4 Hilar Tank & Storage Tanks - Maintenance	1	LS	20	15	5	\$36,360	\$1,565	
100% 9.2.5 Clubhouse Water Lines - Repair	1	LS	10	9	1	\$2,700	\$770	
100% 9.3.1 Holiday Lake Overflow - Refurbish	1	LS	40	38	2	\$8,190	\$40	
100% 9.4.1 Water Treatment System - Phase 1	1	LS	50	0	50	\$68,000	\$68,000	
100% 9.4.2 Water Treatment System - Phase 2	1	LS	50	1	49	\$406,000	\$397,880	
100% 9.4.3 Water Treatment System - Phase 3	1	LS	50	2	48	\$1,200,000	\$1192,000	
100% 9.4.4 Treatment Plant - Repair	1	LS	20	22	-	\$77,840	\$0	
100% 9.5.1 Water Mains - Repair	17849	LF	10	10	-	\$19,000	\$0	
100% 9.5.1 Septic Systems - Maintenance	2	EA	15	6	9	\$28,200	\$16,982	
100% 9.5.1 Generator - Replace	1	EA	45	6	39	\$16,220	\$14,057	
FULLY FUNDED BALANCE							Total	\$2,064,240
CURRENT RESERVE BALANCE = \$425,249								
PERCENT FULLY FUNDED = 21%								

The same calculation is completed for each component and added to provide the total fully funded balance.



HOW PERCENT
FUNDED IS
CALCULATED

COMPONENT DESCRIPTION	QTY	UNIT	WEEK ORIG. ESTIM. UNIT	RESERVE ORIG. LIFE	PERCENT AGE	CURRENT REPLACEMENT COST	FULLY FUNDED BALANCE	
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100% 9.5.1 Generator - Replace	1	EA	15	6	9	\$100,000	\$10,000	
FULLY FUNDED BALANCE							Total	\$2,064,240
CURRENT RESERVE BALANCE = \$425,249								
PERCENT FULLY FUNDED = 79%								

The bottom of this chart shows how the percent funded is calculated.



HOW PERCENT
FUNDED IS
CALCULATED

FULLY FUNDED BALANCE	Total	\$2,064,240
CURRENT RESERVE BALANCE =	\$425,249	
PERCENT FULLY FUNDED =	21%	

The current reserve fund balance is divided by the fully funded balance to provide the percent fully funded.



HOW PERCENT
FUNDED IS
CALCULATED

FULLY FUNDED BALANCE	Total	\$2,064,240
CURRENT RESERVE BALANCE =	\$425,249	
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The current reserve fund balance...



HOW PERCENT
FUNDED IS
CALCULATED

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...is divided by the fully funded balance...



HOW PERCENT
FUNDED IS
CALCULATED

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...to provide the percent fully funded.

$$\$425,249 / \$2,064,240 = 21\%$$



RESERVE ACCOUNT
WITHDRAWALS PER
RCW 64.38.075

An association may withdraw funds from its reserve account to pay for unforeseen or unbudgeted costs that are unrelated to maintenance, repair, or replacement of the reserve components. The board of directors shall record any such withdrawal in the minute books of the association, cause notice of any such withdrawal to be hand delivered or sent prepaid by first-class United States mail to the mailing address of each owner or to any other mailing address designated in writing by the owner, and adopt a repayment schedule not to exceed twenty-four months unless it determines that repayment within twenty-four months would impose an unreasonable burden on the owners. Payment for major maintenance, repair, or replacement of the reserve components out of cycle with the reserve study projections or not included in the reserve study may be made from the reserve account without meeting the notification or repayment requirements under this section.

Note: We are not attorneys and cannot provide legal advice, but our understanding is that reserve funds are not allocated to specific components.

We are often asked about what can or cannot be paid for with funds from the reserve account. Above is what RCW 64.38.075 states.

The statement highlighted in gray points out that there is flexibility enabling the Association to use reserve funds for unexpected costs or components without the need to pay funds back to reserves. Remember that the reserve study is a budgeting plan to help avoid special assessments, not a maintenance plan nor does it prescribe what work the Association may or may not complete with funds from the reserve account.



HOW ARE THE
EXPECTED COSTS OF
CERTAIN PROJECTS
ESTIMATED?

RCL has been in business since 1992. We have an extensive database of average costs for maintenance experienced by our clients

We also conduct Construction Services which provides insight into current pricing

Keep in mind that many factors may influence the actual costs that may be experienced.

- ~ quality of replacement materials
- ~ timing between replacements
- ~ use of consultants
- ~ current economic climate
- ~ site conditions (ease of access)
- ~ permitting
- ~ code updates
- ~ 3 bids - 3 different prices

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We also complete Construction Services which provides insight into current pricing

Keep in mind that many factors may influence the actual costs that may be experienced.

We rely on the Association to provide specific information relating to their unique situation. The ability to recycle, salvage, etc. needs to be conveyed to RCL when we complete the report.

- If a component is no longer used by the Association (such as a vehicle), the Association needs to tell us.
- If the maintenance of a component is paid out of the operating budget, and not funded by the reserves, the Association needs to tell us.
- We also try to accurately capture the life cycle of each component. For example:
 - An association may purchase a new vehicle once every 5 years due to heavy use
 - Another association may purchase a used vehicle once every 20 years because it is lightly used and they are willing to complete major maintenance on the truck to keep it running