

# HI-2's 2014 Financial History



## *Sean's Understanding of HI-2 Finances for the Board & Owners to Use as Discussion Tools*



Originally for 23 Apr 2015 meeting  
(cancelled due to president's illness)  
Updated through 19-May-2015  
(cancelled due to board resignations)  
Rescheduled to: 20 Aug 2015

Sean Stapf  
Owner, Unit #1223

## QUICK 10-min/15-Slide Version:

SUMMARY: We're an 18-Year-old Condo (released from developer in 1997), in GREAT financial shape. We're only ~20% behind schedule (“~80% funded”) in “Reserve” savings for our upcoming big expenses (roofs, paint, pavement, etc. i.e. The Florida statute-required “Reserves”) – and that ~20% deficit is almost fixed. New efficiencies are also expected to keep ongoing costs at or below our current budget.

DETAILS will show:

- HI-2 INCOME (Quick preview: It's 97% our “maintenance fee”)
- HI-2 EXPENSES (Biggest increase was our ~2014 Brighthouse Cable rate)
- HI-2 “Special Assessment” History (Preview: We're VERY low; virtually an “assessment-free condo” – pretty rare. Only ~\$2800 in special assessments over 18 years – most of which was the 2004, even-more-rare “triple-hurricane” season.)
- HI-2 “Reserve” (Our history, %-funding, i.e. Florida Statute's requirement, etc. HINT: “Reserves” aren't “Emergency Funds” – they're multi-year PLANNED costs, for aging/depreciated asset replacements – like roofs, asphalt, etc.... i.e. Every \$-in becomes a \$-out, after ~20 years.)
- HI-2 Monthly Fee (What's in it, how it compares, how it's changed, effect from assessments, etc)

# Review of 2014 Budget

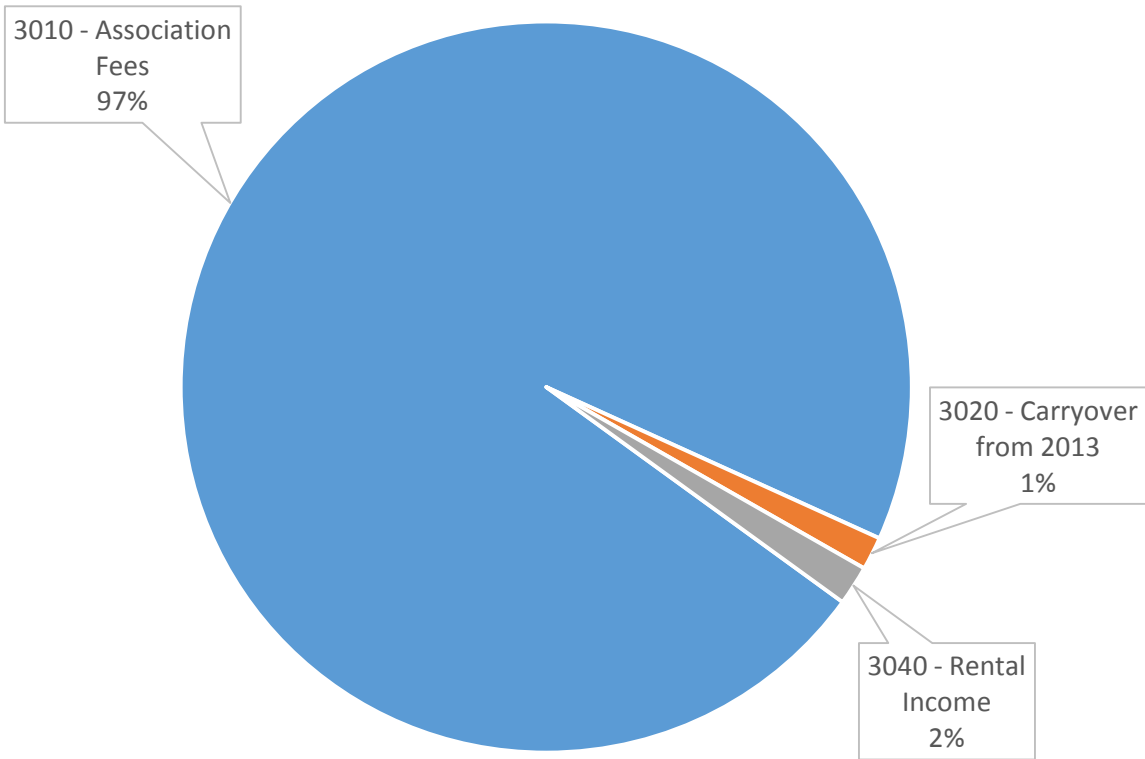
(The most recent year that's already "in the books")



Our TOTAL INCOME & OUTFLOW OF MONEY: Most income is "maintenance fee" (no oil wells, ha)...

INCOME for HI2

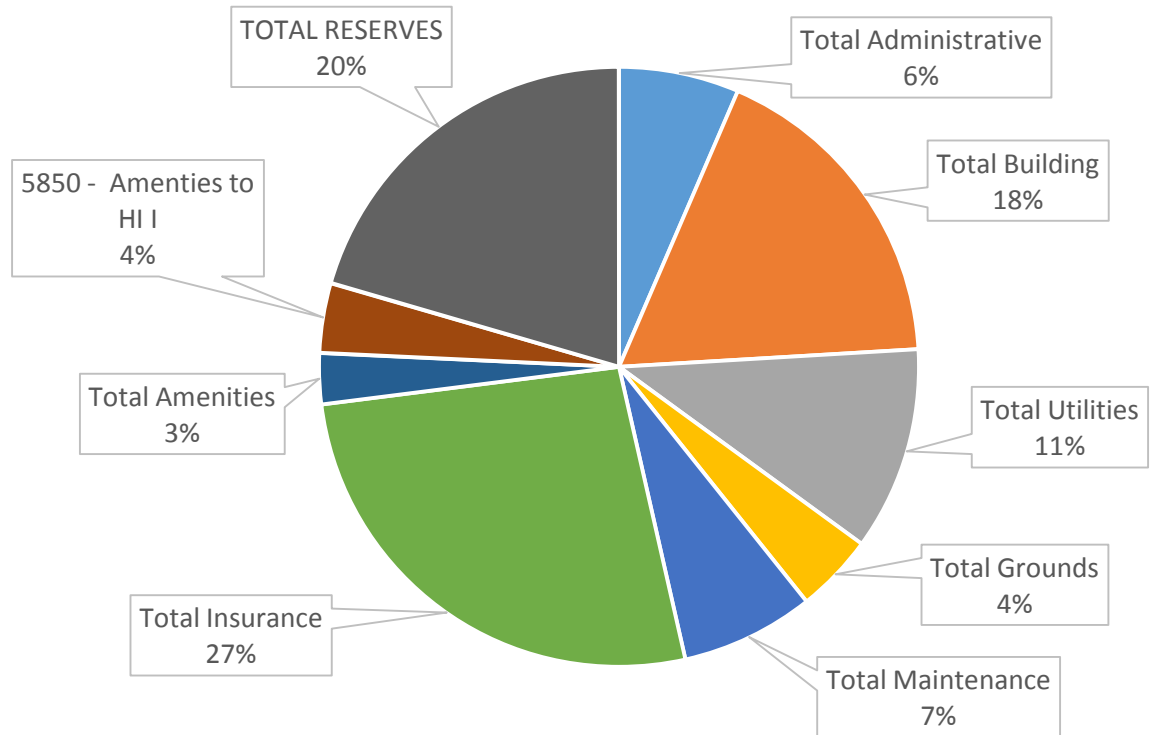
(2014-Budgeted; Total \$617,928 which is mostly the monthly Association fees of ~\$445 x 112 units)



■ 3010 - Association Fees   ■ 3020 - Carryover from 2013   ■ 3040 - Rental Income

EXPENSES for HI2

(2014-Budgeted; Total \$617,928 Actual costs generally ran within ~1-20% for each category – and within 4%, overall)



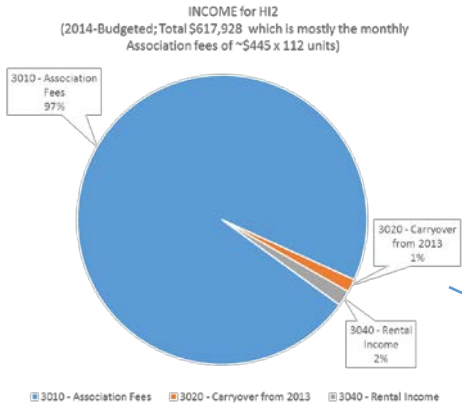
■ Total Administrative   ■ Total Building   ■ Total Utilities  
 ■ Total Grounds   ■ Total Maintenance   ■ Total Insurance  
 ■ Total Amenities   ■ 5850 - Amenities to HI I   ■ TOTAL RESERVES

# Review of 2014 Budget "Forecast" (We're pretty accurate...)

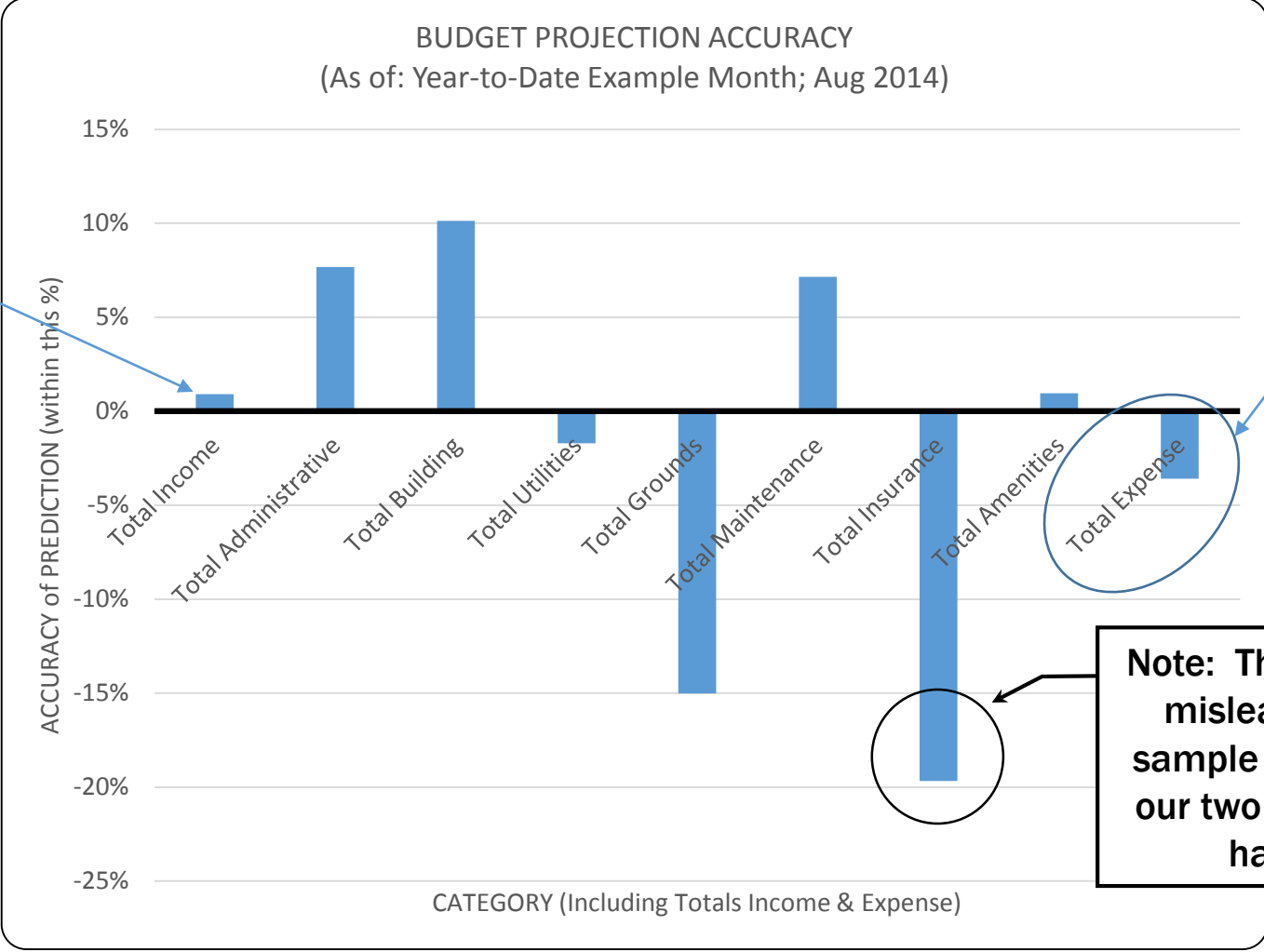
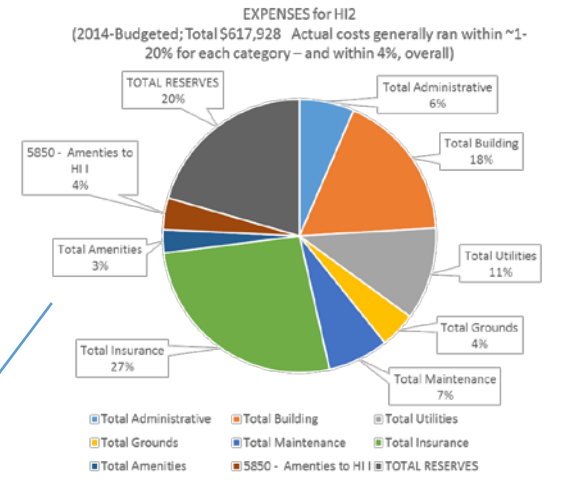


Accuracy of Projection, for our TOTAL INCOME & OUTFLOW OF MONEY...

## INCOME



## EXPENSES



**Note: This "under budget" rating may be misleading; In August (the time this sample was taken) we HAD paid ONE of our two insurance policies (in June), but had not yet paid a 2<sup>nd</sup> policy.**

# History of “Special Assessments”

For HI-2, very low: Since the 1997 Developer Turnover (~18 Years Ago)

HI-2 ASSESSMENT HISTORY

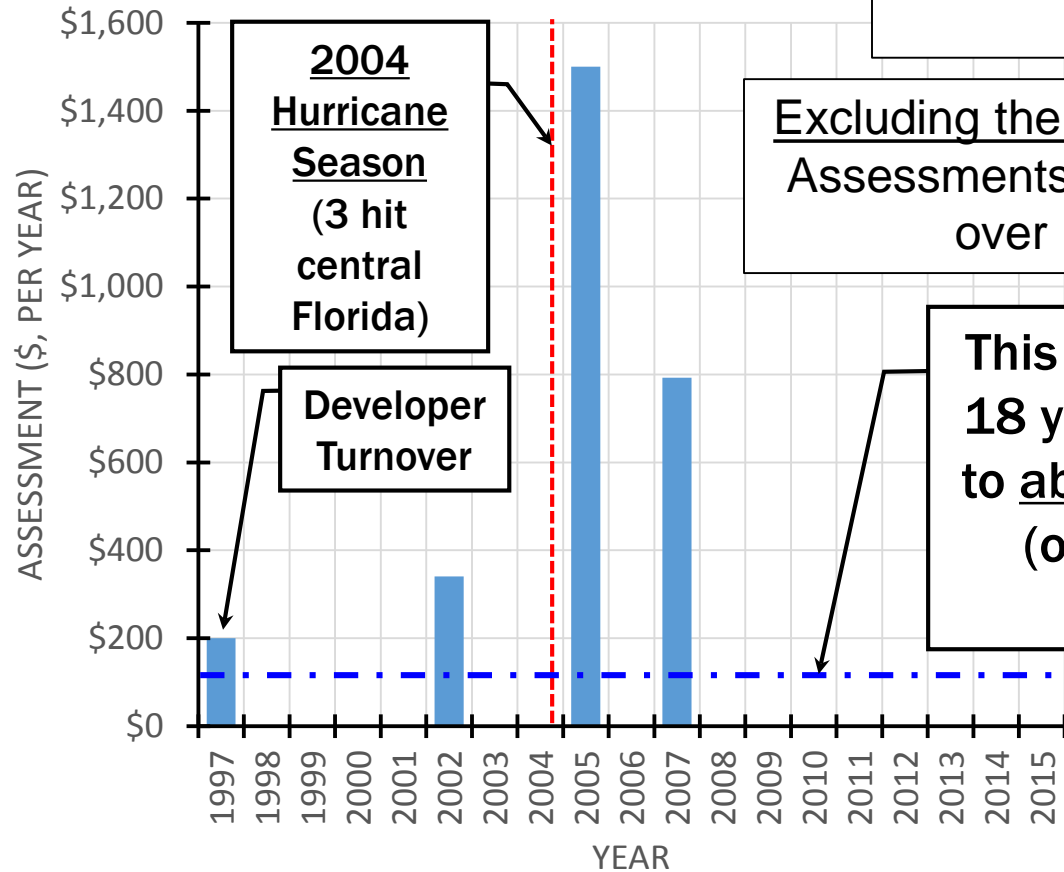
YEAR	\$	Cause
1997	\$200	Lawyer; Initial Developer Turnover
1998		
1999		
2000		
2001		
2002	\$341	Insurance Premium
2003		
2004		
2005	\$1,500	Post-2004 Hurricane Damage & Premium Increase
2006		
2007	\$793	Insurance Premium
2008		
2009		
2010		
2011		
2012		
2013		
2014		
2015		

TOTAL: \$2,834

over 18 years since developer turnover

or... \$13.12 per month, average (=\$2834/18years/12)

HI-2 Assessment History



**TOTAL (over 18 Years):**  
**\$2,834**

**Excluding the 2004 Hurricanes:**  
Assessments were \$541, total over 18 years.

**This total (\$2,834 over 18 years) averages out to about \$157 per year (or *about \$13 per month*)**

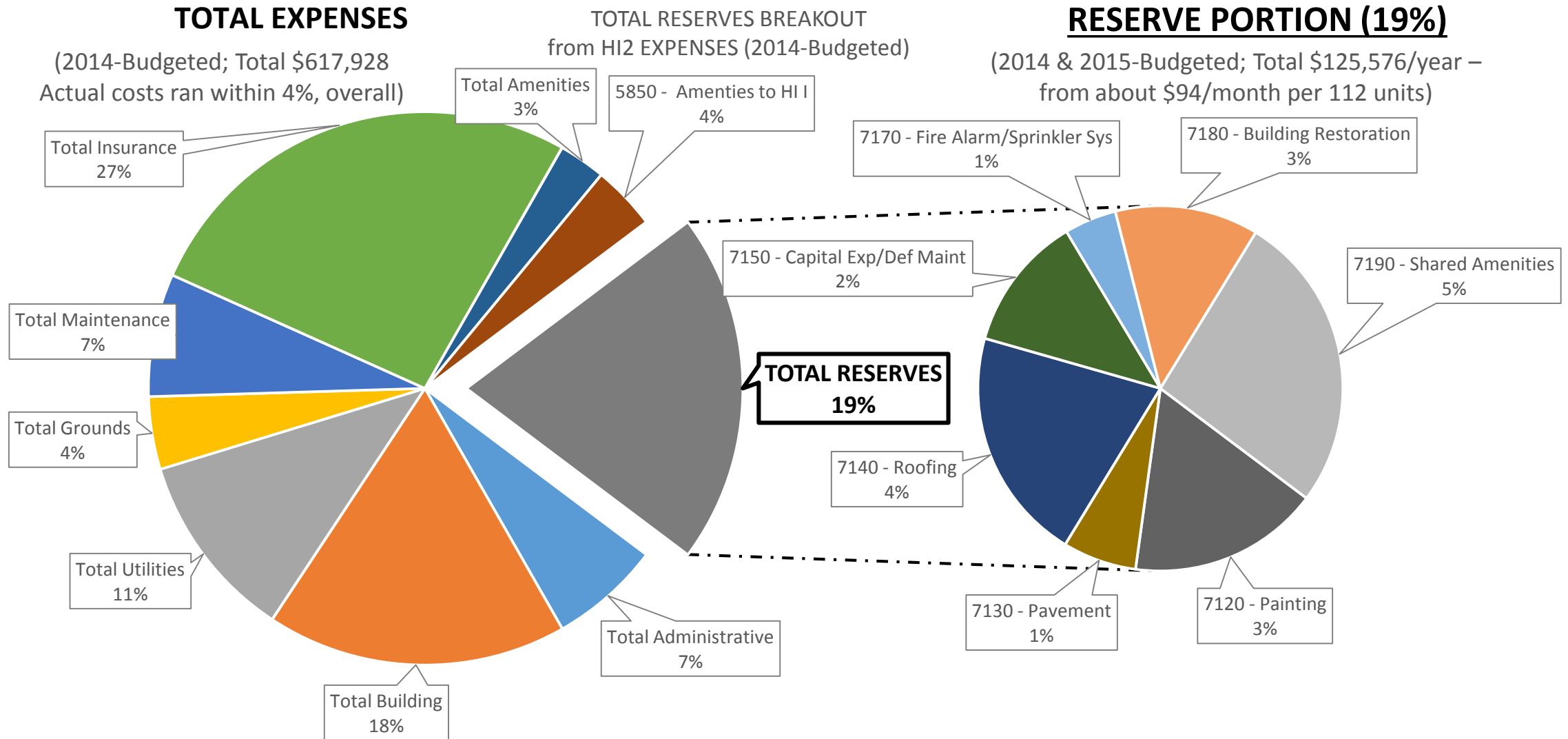
■ Lawyer; Initial Developer Turnover Insurance Premium Post-2004 Hurricane Damage & Premium Increase Insurance Premium

# BREAKOUT of RESERVES

## (~19% of our Budget)



Florida statute-required "Reserves" are set-asides for LONG-term replacements (roofs, paint, asphalt, etc)



# Two Hypothetical "RESERVE" Examples

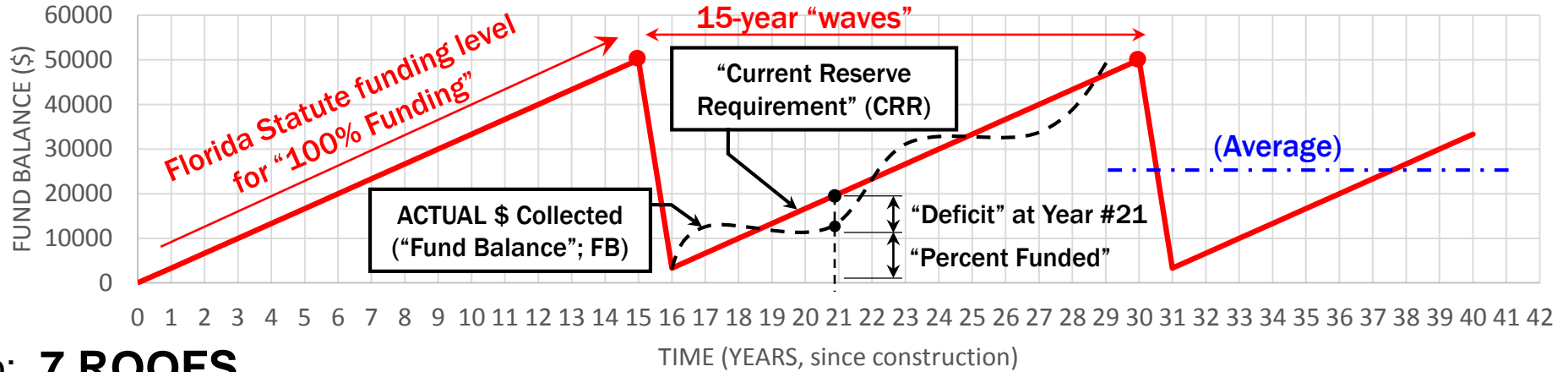
(Showing: Balances are complex, and take ~20 years to "see")

## (1) World's Simplest Condo: **ONE ROOF**

(No pool, no tennis courts, no lamp posts, etc)



EXAMPLE #1: This is what the RESERVE FUND BALANCE might look like (Assuming the World's Simplest Condo: One roof; \$50k every 15 years)

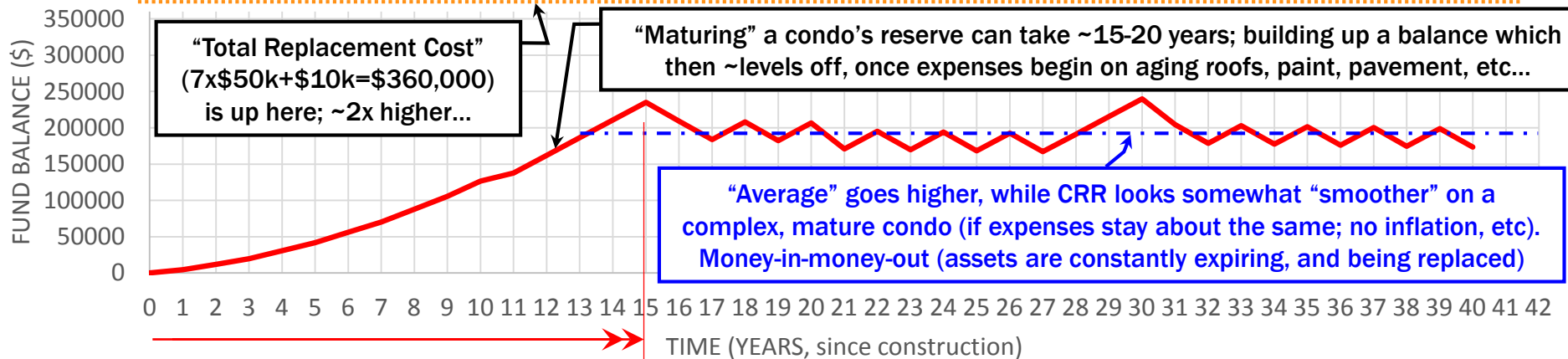


## (2) A Medium-complex Condo: **7 ROOFS**

(plus a new set of \$10k lamp posts every 10 years)



EXAMPLE #2: RESERVE FUND BALANCE shows complex cycles of deposits & withdraws... (Superimposing: 7 roofs, 2-yr staggered, and a new set of lamp posts for \$10k every 10 years)



# RESERVES: The formulae

(Management follows this, to meet FL Florida Statute 718.112(f) [2] )

In theory, these equations convert the “lampposts” all the way to your wallet (monthly reserve fee)...

$$\text{Total Replacement Cost (TRC)} = \sum_1^n \text{IndividualItemReplacementCost}$$

Individual Item Replacement Cost (IRC) = Cost to replace one item (roof, lamppost, etc) at the end of its Individual Normal Lifespan (INL)

Individual Remaining Life (IRL) = INL – Currently Expired Years

$$\text{Normal Annual Contribution (NAC)} = \sum_1^n \frac{IRC}{INL}$$

$$\text{Current Reserve Requirement (CRR)} = \sum_1^n \frac{IRC}{INL} * \text{ExpiredYears}$$

Fund Balance (FB) = current cash stores (sum of bank accounts, CDs, etc)

$$\text{Deficit} = \text{FB} - \text{CRR}$$

$$\text{“Percent Funded” (PF)} = \text{FB}/\text{CRR} = \text{ratio of your fund to the “expired \$”}$$

Harbor Isles II Condominium Association, Inc.  
660 S. Brevard Avenue, Cocoa Beach, Florida 32931

**2013 RESERVE SUMMARY**

RESERVE CATEGORY	REPLACEMENT COST	NORMAL LIFE (YEARS)	REMAIN LIFE (YEARS)	NORMAL ANNUAL CONTRIBUTION	CURRENT RESERVE REQUIREMENT	FUND BALANCE 4-31-13	FUND (DEFICIT) OVERAGE	Yr. 2014 CONTRIBUTION	Yr. 2014 Monthly
Roofing	\$371,275	7-35	1-17	\$25,978	\$266,285	\$251,905	(\$14,380)	\$25,978	\$2,164.83
Paving	108,174	4-18	2-3	8,221	88,888	97,632	8,744	8,221	685.08
Painting	159,249	7-14	1-12	21,257	81,622	45,802	(35,820)	21,257	1,771.42
Deferred Maintenance	343,525	4-32	1-17	15,068	170,935	120,901	(50,034)	15,068	1,255.67
Fire Alarm/Sprinkler Sys.	134,079	20-26	1-18	5,784	86,255	78,901	(7,354)	5,784	482.00
Building Restoration	242,233	2	7	11,535	161,489	123,604	(37,885)	15,985	1,332.08
Shared Amenities	506,598	5-40	1-32	27,385	237,030	120,161	(116,869)	27,385	2,282.08
<b>TOTAL</b>	<b>\$1,865,133</b>			<b>\$115,228</b>	<b>\$1,092,504</b>	<b>\$838,906</b>	<b>(\$253,598)</b>	<b>\$119,678</b>	<b>\$9,973</b>

Range of years for summary purpose, see actual estimated years in detail pages

## CONCLUSION:

Nominal Monthly Reserve Fee (NMRF) = NAC / (# units) / 12months... (i.e. this NMRF has no adjustment down or up, for fund overage or deficit)

Adjusted Monthly Reserve Fee (AMRF) = NMRF +/- ADL, where...

ADL = An additional amount to drive the long-term average Deficit higher or lower; typically to zero: ADL = Deficit/(20years)/(# of units)/(12months)



# RESERVES: a “Study”

## Specific Example: *THE BILLIARD TABLE...*



2012 RESERVE ANALYSIS							
Harbor Isles II Condominium Association, Inc., 660 S. Brevard Avenue, Cocoa Beach, Florida 32931							
SHARED AMENITIES	QUANTITY	UNIT	REPLACE	NORMAL	REMAINING	NORMAL	100%
RESERVES	UNITS	COST	COST	LIFE	LIFE	ANNUAL	RESERVE
(continued)	(SHARE 44.4%)	\$	\$	(YEARS)	(YEARS)	CONTRIBUTE	REQUIREMENT
<b>Clubhouse Pool Area (continued):</b>							
clubhouse roof (4400)	1,936	3.50	6,776	15	2	\$452	\$5,873
clubhouse ext. paint (1660)	730	0.82	599	7	5	\$86	\$171
clubhouse int. paint (6848)	3,013	0.78	2,350	10	8	\$235	\$470
clubhouse siding (1350)	594	3.40	2,020	20	8	\$101	\$1,212
restroom restorations	0.44	26,000	11,440	30	2	\$381	\$10,677
electrical & plumbing	0.44	12,400	5,456	30	5	\$182	\$4,547
security system	0.44	1,000	440	10	1	\$44	\$396
interior carpeting (380)	167	30.00	5,010	10	8	\$501	\$1,002
ceramic tile (500)	263	8.75	2,301	30	24	\$77	\$460
office furniture	0.44	now managers furniture				\$0	\$0
decorating & furniture	0.44	15,000	6,600	20	18	\$330	\$660
fitness equipment	0.44	6,700	2,948	15	13	\$197	\$393
fitness equipment	0.44	14,000	6,160	15	7	\$411	\$3,285
billiard table	0.44	6,500	2,860	30	4	\$95	\$2,479
billiard room furniture	0.44	1,900	836	30	28	\$28	\$56
fire sprinkler repairs (2968)	1,306	2.32	3,030	26	1	\$117	\$2,913
chemical feeders (3 pools)	0.44	3,600	1,584	10	4	\$158	\$950
paint entry monuments 06	0.44	900	396	7	1	\$57	\$339
* All above cost are based upon Harbor Isles 112/252 shared portion.							
<b>SUB-TOTAL</b>			250,354	5-40	1-32	13,240	122,991

So, we apparently have a 26-yr-old pool table, with 4 years remaining on its life, and it will cost \$6,500 to replace (and HI2 owns 44.4% of the table, HI1 owns the remaining 55.6%... of what seems to be a pretty pricey pool table. Hopefully we got the top half).

This means – for each of the 30 years – HI2 needs to collect \$95, so we’ll be able to contribute our \$2860 (=\$95x30) to HI1 for them to replace the pool table.

This means – dividing over the HI2 community – our Monthly Reserve Fee (MRF) includes...

$$\text{MRF\_BilliardTable} = \frac{\$95/\text{year}/112\text{units}/12\text{months}}{1} = \$0.07$$

**SO: Each of us pays about 7 cents,** every month... so HI1+2 will be able to have a new pool table every 30 years (with no assessments, no financing, etc).

# RESERVES: The HISTORY & CURRENT

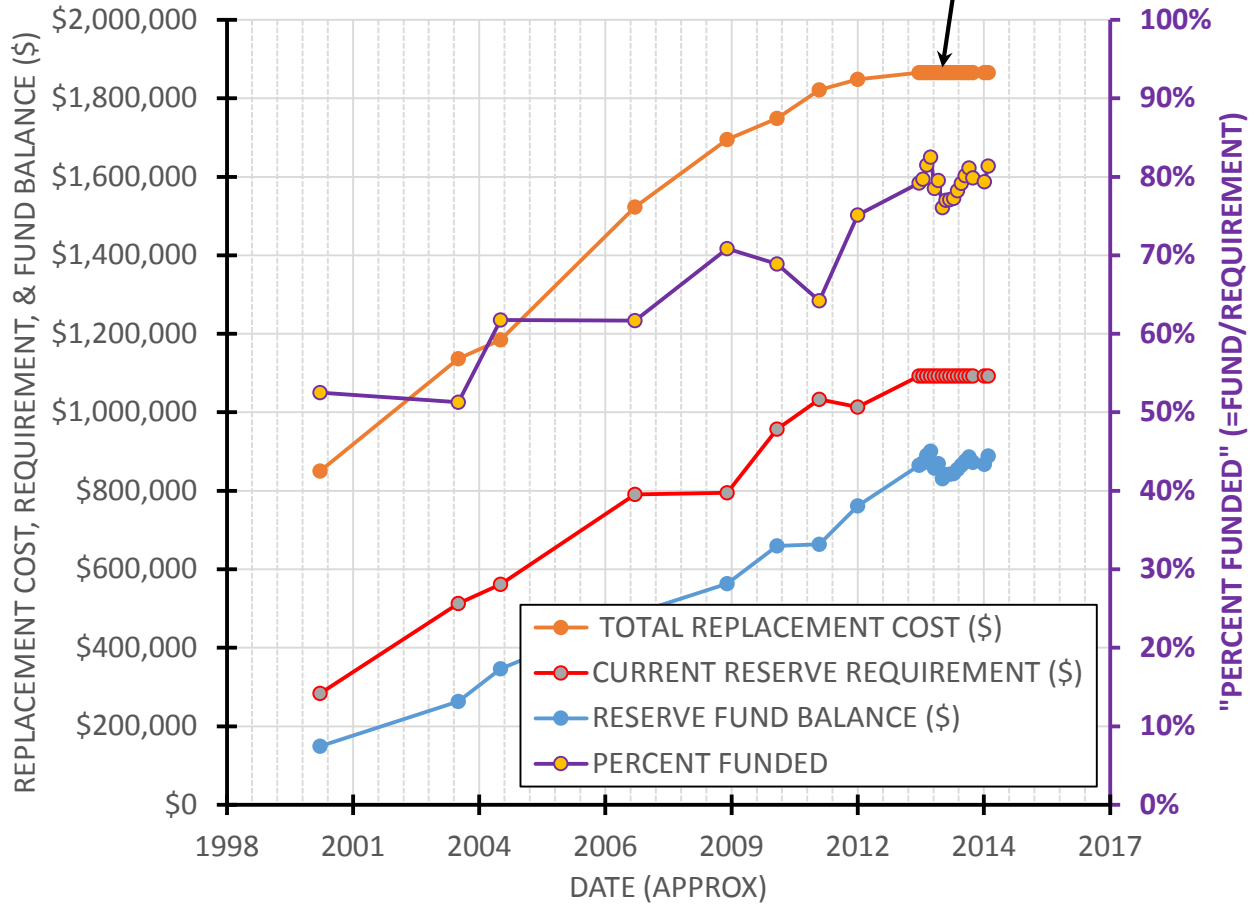


Things were ~rough until ~2008, as we found new needs for the Reserve.  
But, we've leveled out, now (and need ~\$1.1 million, for savings to be "on schedule")...

## ~15-YEAR LOOK BACK...

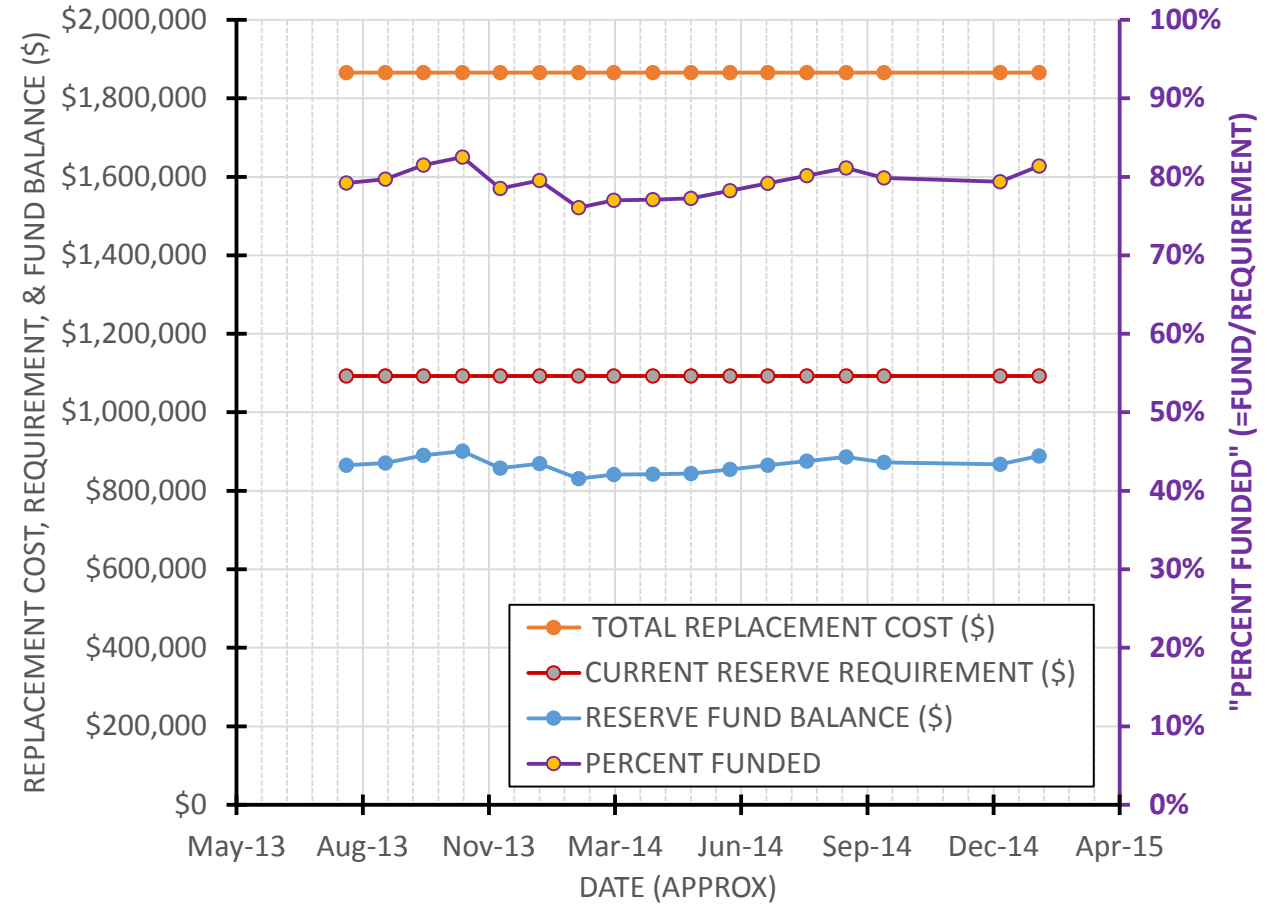
HI-2 RESERVE FUND: ~15-YEAR HISTORY

Appears to be "leveling out" - and if our Total Replacement Costs stay flat (or drops), our fees do, too.



## CURRENT...

HI-2 RESERVE FUND: ~18-MONTH HISTORY



**RESERVES: YOUR \$ GOES TO...** Of our ~\$94/month "Reserve" payment... about \$86 goes into expenses, every day (i.e. how much we depreciate, every month). The other \$8 goes into saving up more – to compensate for being "behind schedule" ("~80%") in our savings.

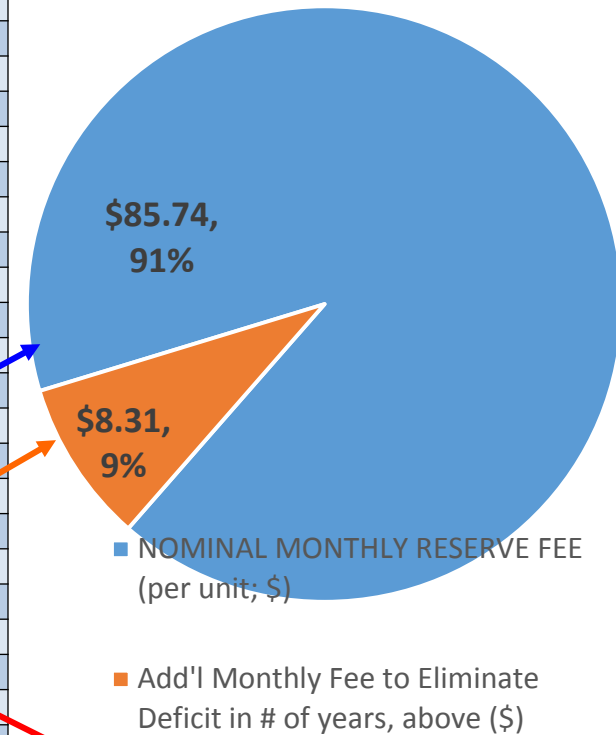


COMPARE

Deficit Elimination Time (Years Forward): **20**

DATE (approx)	TOTAL REPLACEMENT COST (TRC; \$)	CURRENT RESERVE REQUIREMENT (CRR; \$)	RESERVE FUND BALANCE (FB; \$)	Funding Overage or Deficit (\$)	PERCENT FUNDED (PF)	NORMAL ANNUAL CONTRIBUTION (NAC; \$)	NOMINAL MONTHLY RESERVE FEE (per unit; \$)	Add'l Monthly Fee to Eliminate Deficit in # of years, above (\$)	Total "100%-Funding" Monthly Reserve Fee (\$)
Aug-00	\$850,777.00	\$283,992.00	\$149,130.00	-\$134,862.00	52.51%	\$62,619.00	\$46.59	\$5.02	\$51.61
Aug-03	\$1,136,700.00	\$512,741.00	\$262,976.00	-\$249,765.00	51.29%	\$80,777.00	\$60.10	\$9.29	\$69.39
Jul-04	\$1,184,942.00	\$561,827.00	\$346,916.00	-\$214,911.00	61.75%	\$85,377.00	\$63.52	\$8.00	\$71.52
Jun-07	\$1,522,668.00	\$790,463.00	\$487,691.00	-\$302,772.00	61.70%	\$106,212.00	\$79.03	\$11.26	\$90.29
Jun-09	\$1,694,743.00	\$794,773.00	\$563,261.00	-\$231,512.00	70.87%	\$110,834.00	\$82.47	\$8.61	\$91.08
Jul-10	\$1,748,887.00	\$957,473.00	\$659,543.00	-\$297,930.00	68.88%	\$114,321.00	\$85.06	\$11.08	\$96.14
Jun-11	\$1,821,119.00	\$1,033,128.00	\$663,526.00	-\$369,602.00	64.22%	\$118,576.00	\$88.23	\$13.75	\$101.98
Apr-12	\$1,848,320.00	\$1,013,814.00	\$761,776.00	-\$252,038.00	75.14%	\$114,015.00	\$84.83	\$9.38	\$94.21
Aug-13	\$1,865,133.00	\$1,092,504.00	\$865,437.09	-\$227,066.91	79.22%	\$115,228.00	\$85.74	\$8.45	\$94.18
Sep-13	\$1,865,133.00	\$1,092,504.00	\$870,722.74	-\$221,781.26	79.70%	\$115,228.00	\$85.74	\$8.25	\$93.99
Oct-13	\$1,865,133.00	\$1,092,504.00	\$890,457.73	-\$202,046.27	81.51%	\$115,228.00	\$85.74	\$7.52	\$93.25
Nov-13	\$1,865,133.00	\$1,092,504.00	\$901,336.15	-\$191,167.85	82.50%	\$115,228.00	\$85.74	\$7.11	\$92.85
Dec-13	\$1,865,133.00	\$1,092,504.00	\$857,776.84	-\$234,727.16	78.51%	\$115,228.00	\$85.74	\$8.73	\$94.47
Jan-14	\$1,865,133.00	\$1,092,504.00	\$869,089.73	-\$223,414.27	79.55%	\$115,228.00	\$85.74	\$8.31	\$94.05
Feb-14	\$1,865,133.00	\$1,092,504.00	\$830,929.19	-\$261,574.81	76.06%	\$115,228.00	\$85.74	\$9.73	\$95.47
Mar-14	\$1,865,133.00	\$1,092,504.00	\$841,440.08	-\$251,063.92	77.02%	\$115,228.00	\$85.74	\$9.34	\$95.08
Apr-14	\$1,865,133.00	\$1,092,504.00	\$842,333.77	-\$250,170.23	77.10%	\$115,228.00	\$85.74	\$9.31	\$95.04
May-14	\$1,865,133.00	\$1,092,504.00	\$844,023.07	-\$248,480.93	77.26%	\$115,228.00	\$85.74	\$9.24	\$94.98
Jun-14	\$1,865,133.00	\$1,092,504.00	\$854,537.20	-\$237,966.80	78.22%	\$115,228.00	\$85.74	\$8.85	\$94.59
Jul-14	\$1,865,133.00	\$1,092,504.00	\$865,084.93	-\$227,419.07	79.18%	\$115,228.00	\$85.74	\$8.46	\$94.20
Aug-14	\$1,865,133.00	\$1,092,504.00	\$875,601.37	-\$216,902.63	80.15%	\$115,228.00	\$85.74	\$8.07	\$93.80
Sep-14	\$1,865,133.00	\$1,092,504.00	\$886,151.24	-\$206,352.76	81.11%	\$115,228.00	\$85.74	\$7.68	\$93.41
Oct-14	\$1,865,133.00	\$1,092,504.00	\$872,372.87	-\$220,131.13	79.85%	\$115,228.00	\$85.74	\$8.19	\$93.92
Jan-15	\$1,865,133.00	\$1,092,504.00	\$867,330.55	-\$225,173.45	79.39%	\$115,228.00	\$85.74	\$8.38	\$94.11
Feb-15	\$1,865,133.00	\$1,092,504.00	\$888,965.76	-\$203,538.24	81.37%	\$115,228.00	\$85.74	\$7.57	\$93.31

RESULTING MONTHLY RESERVE FEE (~\$94) if PURSUING "ZERO DEFICIT" IN 20 YEARS = Nominal Reserve Fee (=NAC/112/12) + Add'l Monthly Fee (=Deficit/20/112/12)



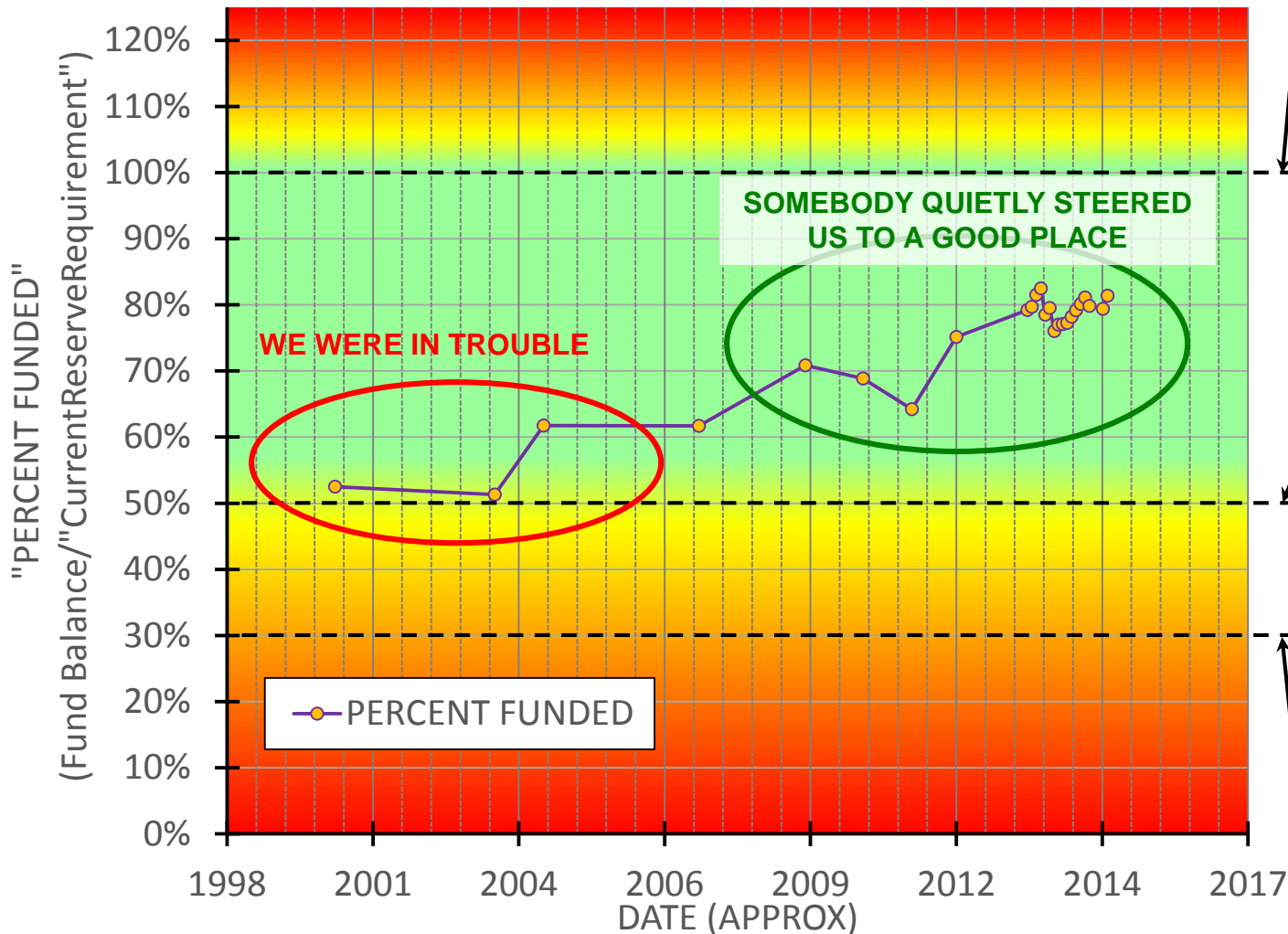
**TOTAL: ~\$94/month, per unit** 11

# RESERVES: Our fund is at a good place (~80% funded), and improving.



100% seems the obvious (and legal) target, but... we're almost there, and – with gradual increases in the Reserve balance, and diligent cost reviews, the “extra \$8/month” we pay for our reserve deficit will AUTOMATICALLY GO AWAY (as we hit 100%).

HI-2: History of Reserve "PERCENT FUNDED" Rating

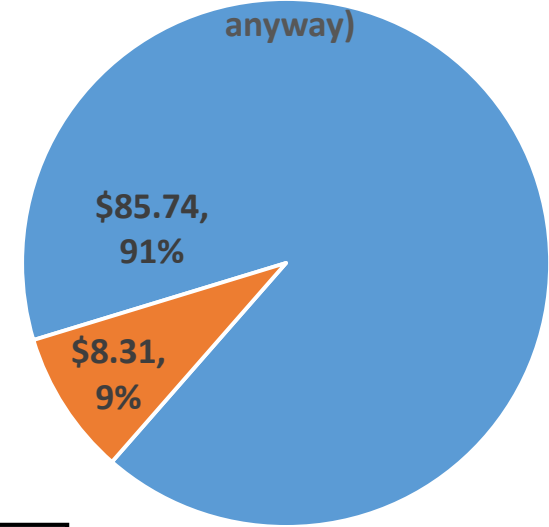


Above ~100%, some say condos run the risk of “corruption” (wasting money by - illegally - spending reserves on a gazebo, golden diving board, etc), and there are no benefits to a higher fund balance - unless invested fortunately.

50% seems like pending trouble (not having enough roofs to “Steal from Peter to pay Paul”, but... I don't know

Below ~30%: Reportedly exponential increase in financial problems (financing fees, foreclosure, assessments, Fannie/Freddie won't buy those loans, etc)

SO: In other words, we could cut the \$8.31/month, below (small orange pie slice) – and supposedly hold at 80%-funding. (Or: wait/cut costs and get to 100%, then the \$8/month goes away, anyway)



- NOMINAL MONTHLY RESERVE FEE (per unit; \$)
- Add'l Monthly Fee to Eliminate Deficit in # of years, above (\$)

# How Big is Big, for a Maintenance Fee?

## Maintenance Fee Comparison: Purpose & Approach



PURPOSE: To answer our question, “How does our monthly maintenance fee compare among local condos?” ...

### APPROACH:

1) I took a quick, unscientific sample of semi-comparable condos within several miles, and plotted them. Into [www.BrevardMls.com](http://www.BrevardMls.com)... I entered “272” (to limit search to Cocoa Beach), narrowed to “condos” and only for waterfront property (to get comparable saltwater corrosion, insurance, etc; Banana- or Ocean-front condo associations), and further narrowed to only compare against condos with a community pool and tennis courts to maintain. This population narrowed to 25 listings (almost a tolerable handful) - for sale on 9-Apr-2015, via [www.brevardmls.com](http://www.brevardmls.com) - which I listed in order of selling price (~\$1M-\$150k), tabulated HOA fees, and highlighted Harbor Isles.

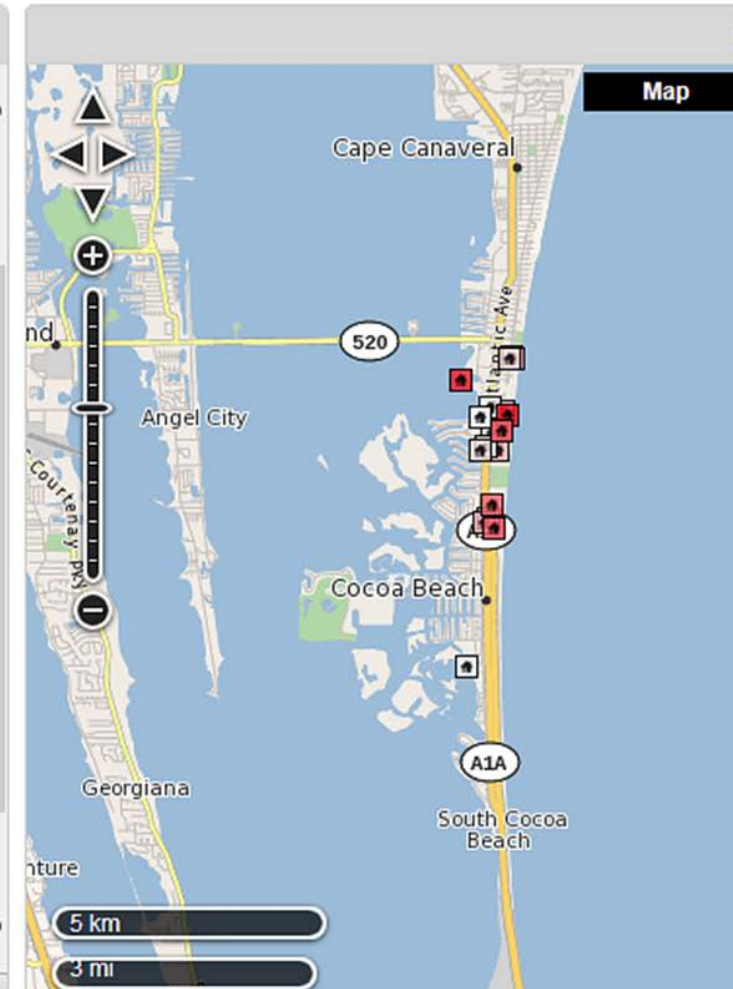
2) I also asked my realtor (Larry Walker; Walker-Bagwell Realty), for a data warehouse or site which documents histories of condo assessments. (He doesn't know of one, so... again, unscientifically...) I recalled anecdotal assessments (\$5000 here, \$10000 there, etc), and merely added a chart item so people can hand-enter to illustrate what an assessment would be like, if distributed monthly.

25 listings matched your search [View Results](#)

**Search** Reset Search

- ▼ Bedrooms X
- ▼ Baths - Total X
- ▼ Baths - Full X
- ▼ Baths - Half X
- ▼ SqFt - Living X
- ▲ Waterfront of [Yes](#) X
- ▲ Waterfront Type of [Banana River or Ocean](#) X
 

<input checked="" type="checkbox"/> <a href="#">or Banana River</a>	<input type="checkbox"/> <a href="#">or Canal Navigation</a>
<input type="checkbox"/> <a href="#">or Canal Non Navigation</a>	<input type="checkbox"/> <a href="#">or Crane Creek</a>
<input type="checkbox"/> <a href="#">or Deeded Access Only</a>	<input type="checkbox"/> <a href="#">or Eau Gallie River</a>
<input type="checkbox"/> <a href="#">or Horse Creek</a>	<input type="checkbox"/> <a href="#">or Indian River</a>
<input type="checkbox"/> <a href="#">or Lake/Pond</a>	<input type="checkbox"/> <a href="#">or Newfound Harbor</a>
<input type="checkbox"/> <a href="#">or None</a>	<input checked="" type="checkbox"/> <a href="#">or Ocean</a>
<input type="checkbox"/> <a href="#">or Sykes Creek</a>	<input type="checkbox"/> <a href="#">or Turkey Creek</a>
- ▲ Property Status X
- ▼ Year Built X
- ▼ Acreage X
- ▼ Dwelling View X
- ▼ Status of [Active](#) X
- ▼ Common Amenities of (or) [Tennis Courts](#) X
- ▼ Association Fee Incl of (or) [Pool Maintenance](#) X

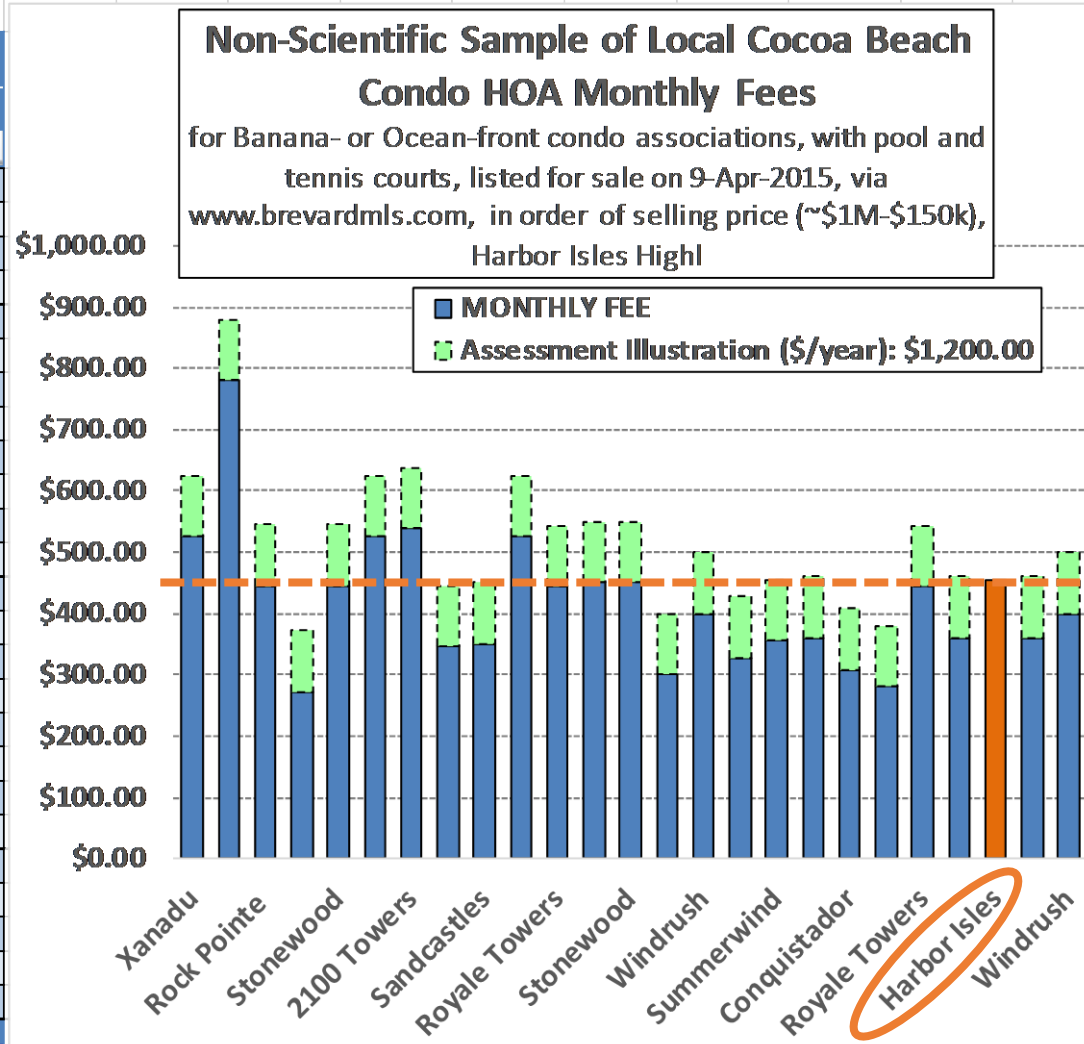


# Monthly Maintenance Fee Comparison

We're \$460/month: The average may be ~\$417.80, plus assessments...

Assuming condos get SOME sort of assessment, we can make a place for that on the graph... and add an example assessment to illustrate an "equivalent" monthly (GREEN)

Order	SalePrice	Condo Association	Monthly Fee (\$/month)	Assessment Illustration (\$/year): <b>\$1,200.00</b>	Equivalent Monthly Fee (\$/month)	Ocean or River-front
1	\$1,000,000	Xanadu	\$525.00	\$100.00	\$625.00	Ocean
2		2100 Towers	\$780.15	\$100.00	\$880.15	River
3		Rock Pointe	\$445.00	\$100.00	\$545.00	River
4		The Diplomat	\$273.00	\$100.00	\$373.00	Ocean
5		Stonewood	\$445.00	\$100.00	\$545.00	Ocean
6		Xanadu	\$525.00	\$100.00	\$625.00	Ocean
7		2100 Towers	\$537.90	\$100.00	\$637.90	River
8		Windward	\$345.00	\$100.00	\$445.00	Ocean
9		Sandcastles	\$350.00	\$100.00	\$450.00	Ocean
10		Xanadu	\$525.00	\$100.00	\$625.00	Ocean
11		Royale Towers	\$444.00	\$100.00	\$544.00	Ocean
12		Stonewood	\$450.00	\$100.00	\$550.00	Ocean
13		Stonewood	\$450.00	\$100.00	\$550.00	Ocean
14		Conquistador	\$300.00	\$100.00	\$400.00	Ocean
15		Windrush	\$400.00	\$100.00	\$500.00	Ocean
16		Conquistador	\$328.00	\$100.00	\$428.00	Ocean
17		Summerwind	\$355.00	\$100.00	\$455.00	Ocean
18		Fountain Cove	\$360.00	\$100.00	\$460.00	River
19		Conquistador	\$308.00	\$100.00	\$408.00	Ocean
20		The Commodore	\$280.00	\$100.00	\$380.00	River
21		Royale Towers	\$444.00	\$100.00	\$544.00	Ocean
22		Fountain Cove	\$360.00	\$100.00	\$460.00	River
23		Harbor Isles	\$455.00	\$100.00	\$555.00	River
24		Fountain Cove	\$360.00	\$100.00	\$460.00	River
25	\$150,000	Windrush	\$400.00	\$100.00	\$500.00	Ocean
		<b>AVERAGE:</b>	<b>417.802</b>		<b>517.802</b>	
		<b>STD DEVIATION:</b>	<b>108.9642</b>		<b>108.96419</b>	



Having an assessment is kinda like having your monthly fee raised (except you pay it all at once vs "QVC Easy-Pays", plus some won't pay, goes to collections, maybe foreclosures, court, etc).

Having a small assessment (like: \$3600 every 3 years) is equivalent to having your MONTHLY fee raised by \$100 per month. (\$100 per month x 12 months x 3 years = \$3600)

Having an assessment of \$3600 every year is like an extra \$300 PER MONTH on your maintenance fee.

Having a \$50,000 assessment (like Casa Playa, Ocean Paradise, and Waters Edge) every 20 years is like having an extra \$208/month on your maintenance fee.

# CONCLUSION



**As of mid-2015, I think we're financially doing...**

- **VERY WELL**, thanks to prior management – and...
- **IMPROVING**, thanks to current management – with cost savings and diligent contract reviews to assure TOP-quality services, at a fair and frugal price, going forward.

**So, personally, I (Sean) would say: Stay the course.**

**END OF 12-SLIDE SUMMARY**



# FULL PRESENTATION



# SCOPE of this Presentation

**BACKGROUND:** At the March 2015 meeting, we had some good (and contentious) questions – which I couldn't answer.

- “Why is our Monthly Fee so high?”
- “Is our Monthly Fee higher than others?”
- “Why keep adding \$94/month to raise our Reserve Fund Balance for the next 20 years?”

As an owner, I wanted to know these answers, too. (And as an engineer, I didn't like NOT knowing the answers.) As a board member, I should have researched these answers, LAST year. But...

Thanks to Jerry Scholder's good questions... I finally did the chore of gathering this information...

**GOAL:** Gather the historical financials to present as tools for discussion...

- HI-2 INCOME
- HI-2 EXPENSES
- HI-2 “Special Assessment” History
- HI-2 “Reserve” (Our history, %-funding, Florida Statute's required contributions, etc)
- HI-2 Monthly Fee (What's in it, how it compares, how it's changed, effect from assessments, etc)

**OVERALL: INCOME & EXPENSES**  
**(including “SPECIAL ASSESSMENTS”)**

# Review of 2014 Budget

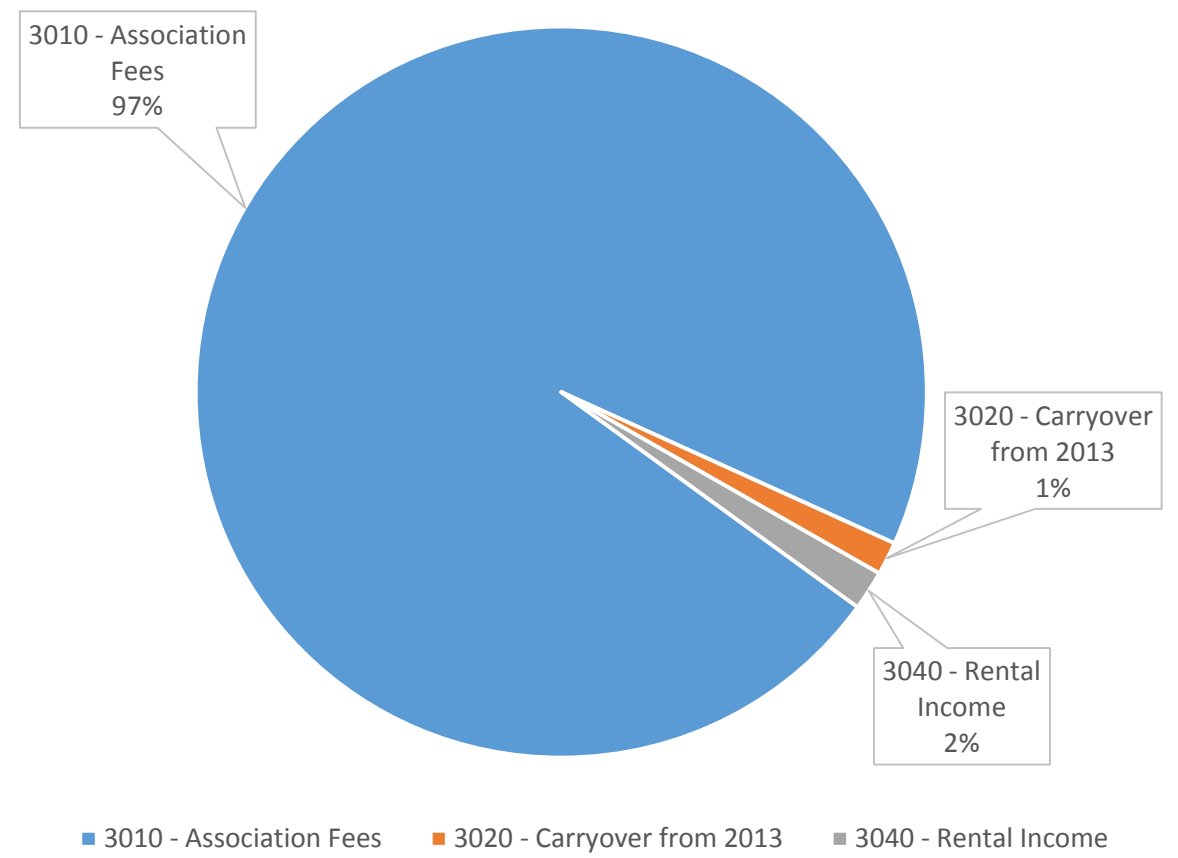
(The most recent year that's already "in the books")



## Our TOTAL INCOME & OUTFLOW OF MONEY...

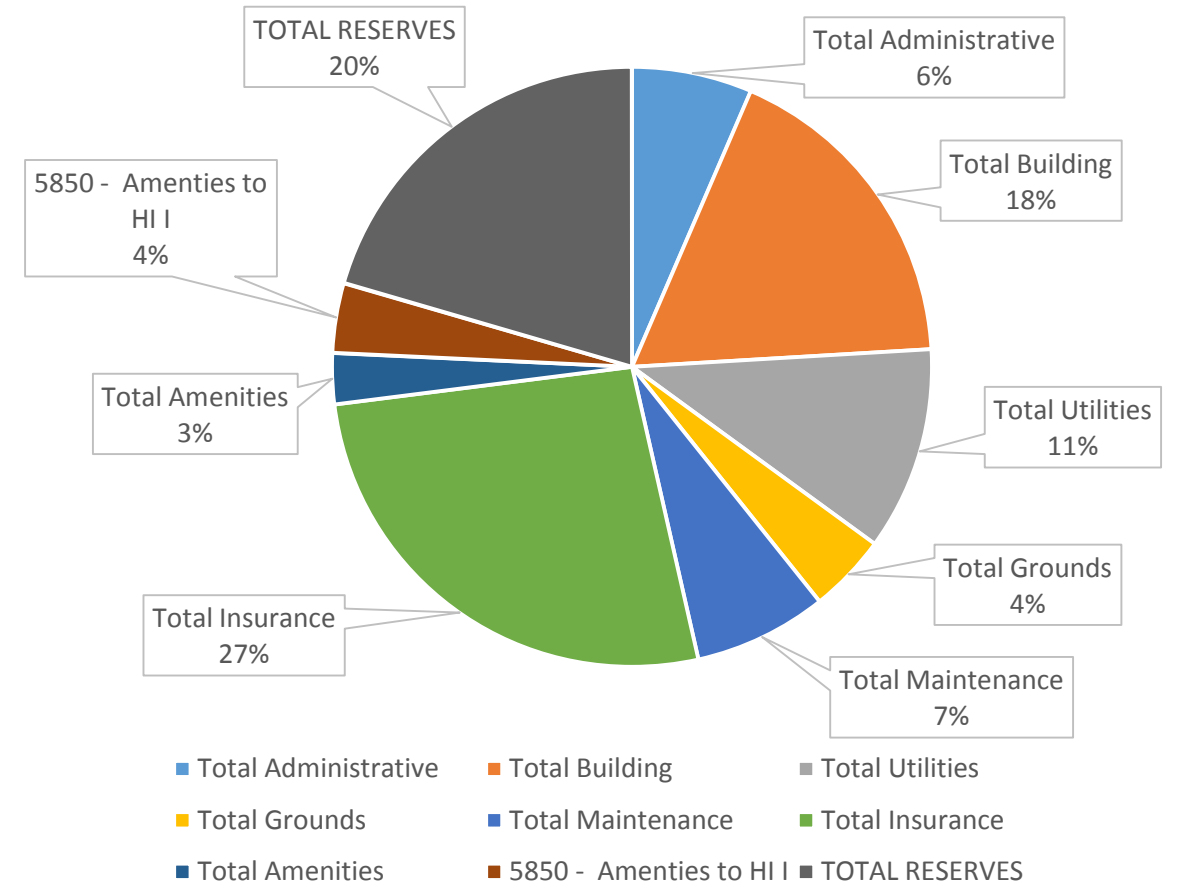
INCOME for HI2

(2014-Budgeted; Total \$617,928 which is mostly the monthly Association fees of ~\$445 x 112 units)



EXPENSES for HI2

(2014-Budgeted; Total \$617,928 Actual costs generally ran within ~1-20% for each category – and within 4%, overall)



■ 3010 - Association Fees   ■ 3020 - Carryover from 2013   ■ 3040 - Rental Income

■ Total Administrative   ■ Total Building   ■ Total Utilities  
 ■ Total Grounds   ■ Total Maintenance   ■ Total Insurance  
 ■ Total Amenities   ■ 5850 - Amenities to HI I   ■ TOTAL RESERVES

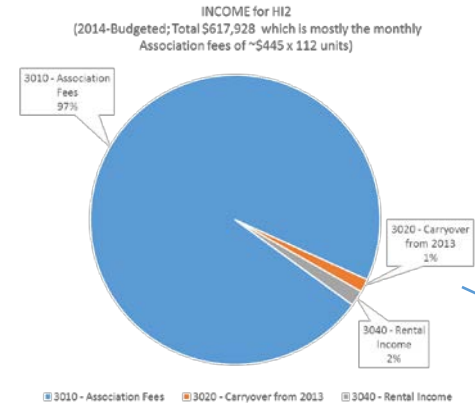
# Review of 2014 Budget "Forecast"



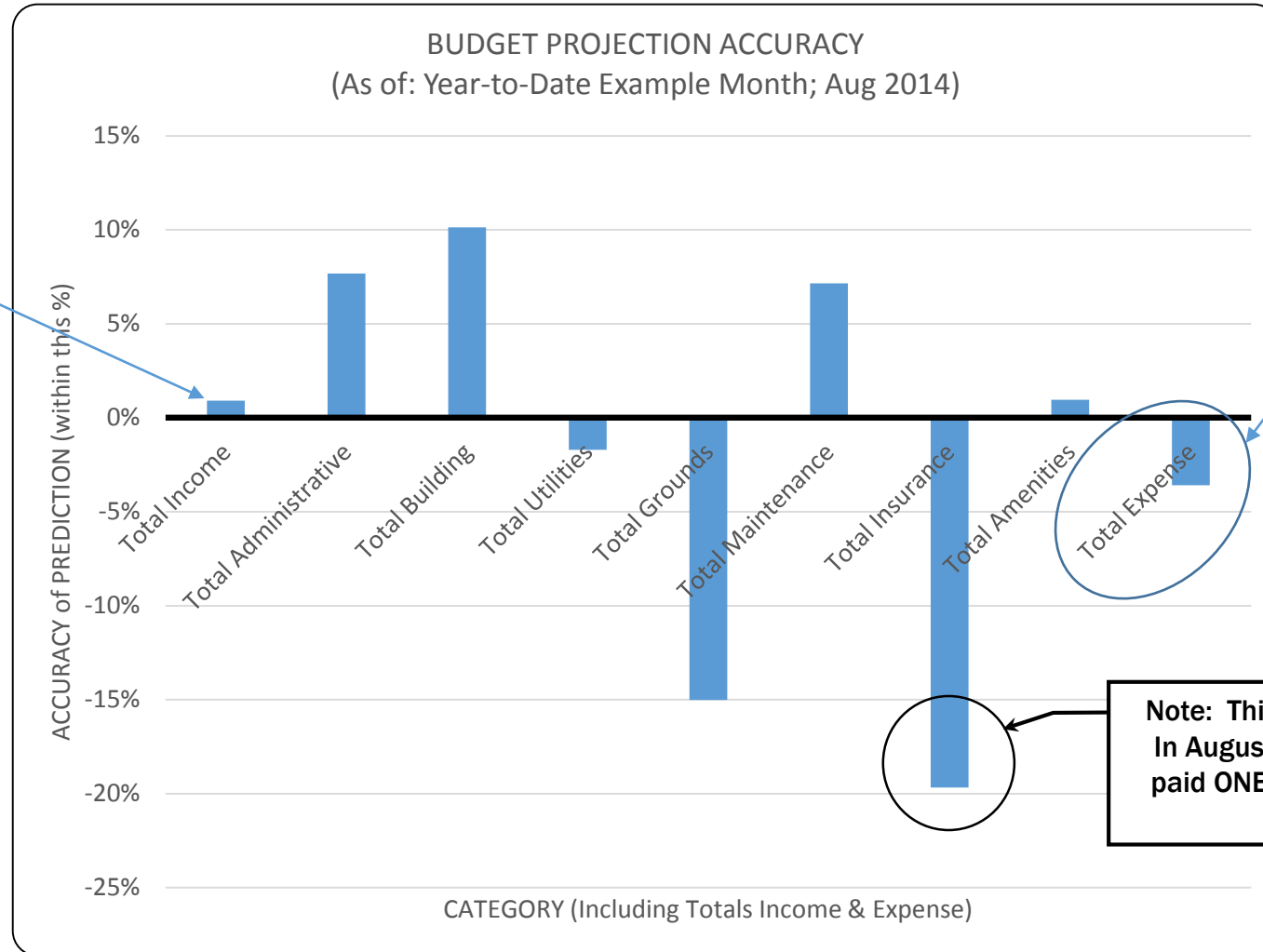
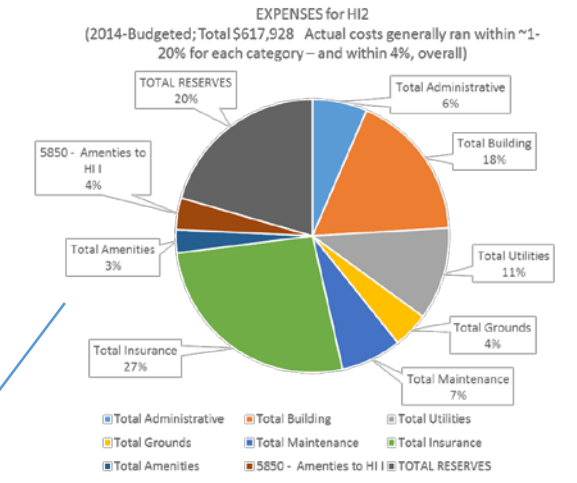
How Accurate was somebody's Crystal Ball?  
Within ~4%, overall (+/- 15%, individually)

Accuracy of Projection, for our TOTAL INCOME & OUTFLOW OF MONEY...

## INCOME



## EXPENSES



**Note: This "under budget" rating may be misleading; In August (the time this sample was taken) we HAD paid ONE of our two insurance policies (in June), but had not yet paid a 2<sup>nd</sup> policy.**

# History of “Special Assessments”

## For HI-2, since the 1997 Developer Turnover (~18 Years Ago)

HI-2 ASSESSMENT HISTORY

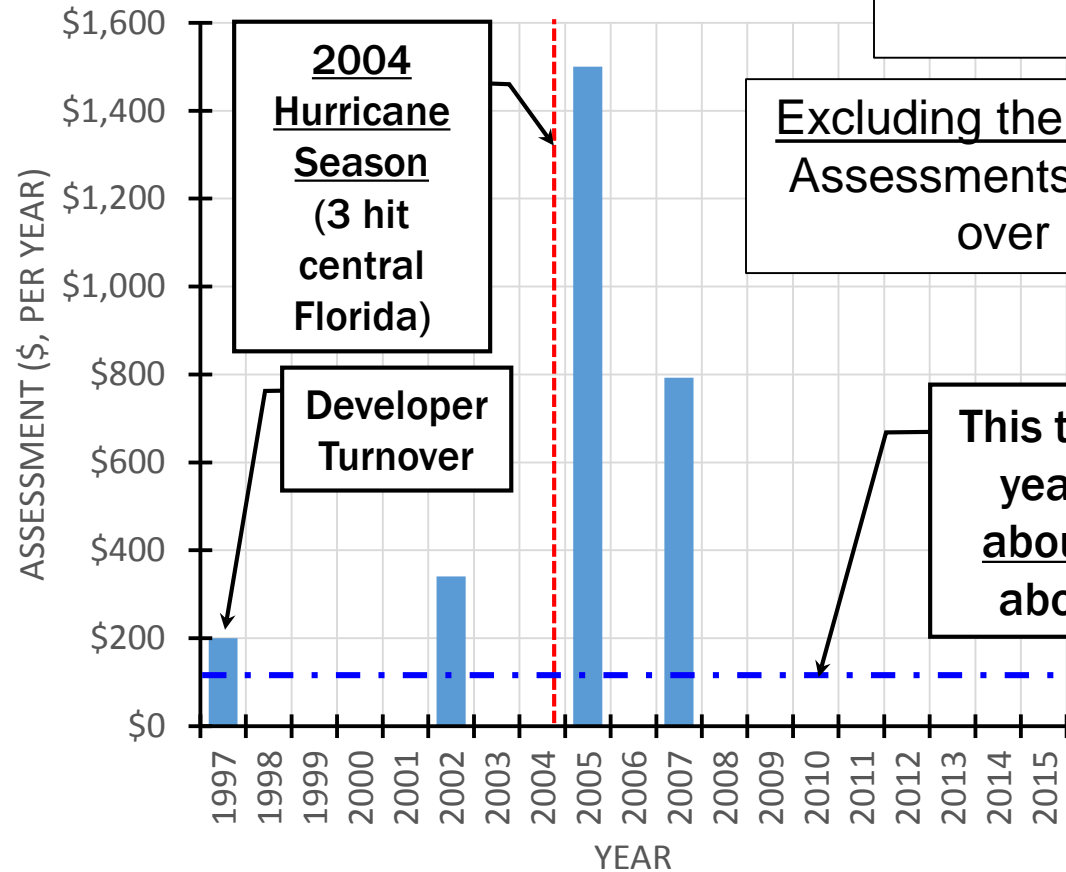
YEAR	\$	Cause
1997	\$200	Lawyer; Initial Developer Turnover
1998		
1999		
2000		
2001		
2002	\$341	Insurance Premium
2003		
2004		
2005	\$1,500	Post-2004 Hurricane Damage & Premium Increase
2006		
2007	\$793	Insurance Premium
2008		
2009		
2010		
2011		
2012		
2013		
2014		
2015		

TOTAL: \$2,834

over 18 years since developer turnover

or... \$13.12 per month, average (=\$2834/18years/12)

HI-2 Assessment History



**TOTAL (over 18 Years):**  
**\$2,834**

**Excluding the 2004 Hurricanes:**  
 Assessments were \$541, total over 18 years.

**This total (\$2,834 over 18 years) averages out to about \$157 per year (or about \$13 per month)**

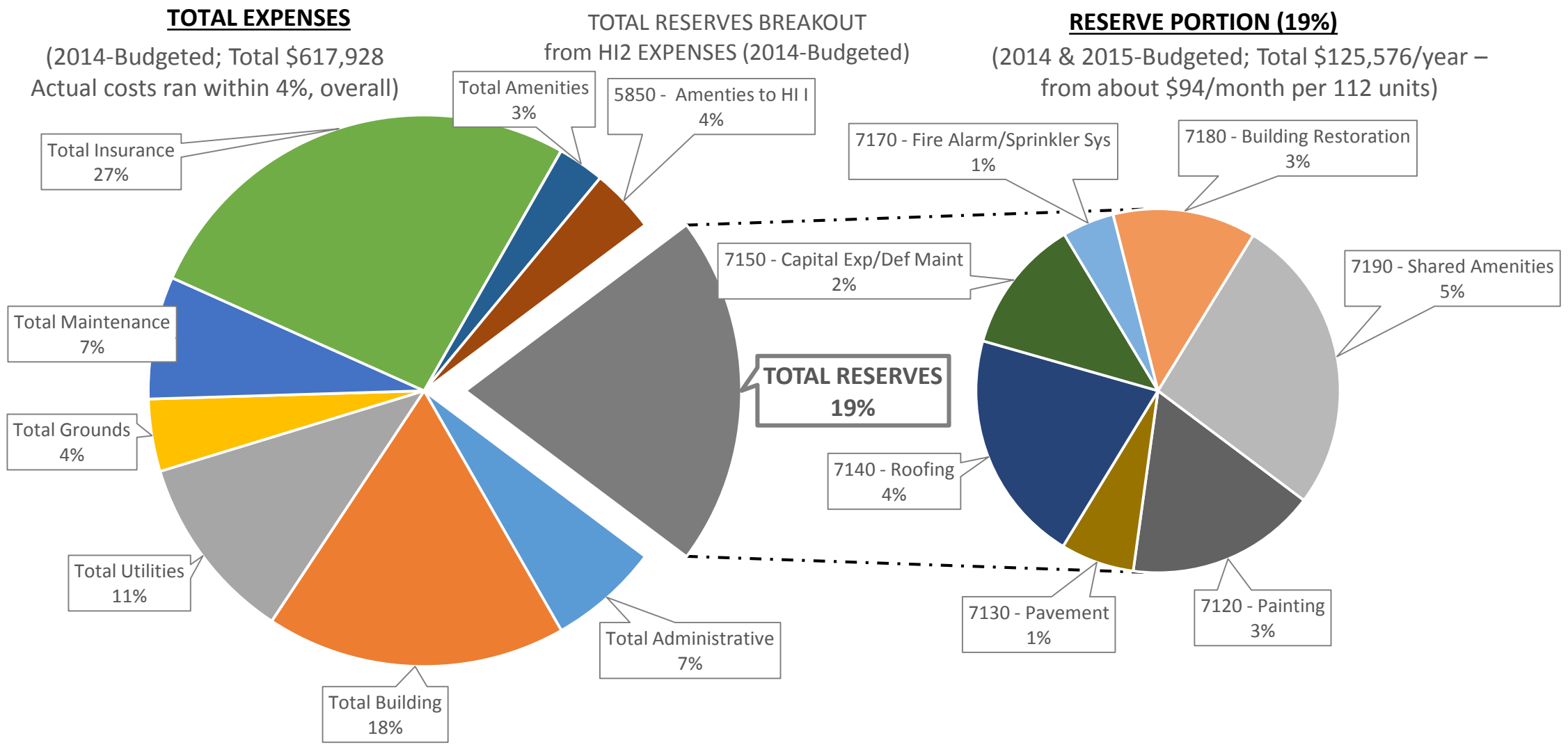
- Lawyer; Initial Developer Turnover
- Insurance Premium
- Post-2004 Hurricane Damage & Premium Increase
- Insurance Premium

**END OF “Income & Expenses” Data**

**Next Section:  
“THE RESERVE”**

# BREAKOUT of RESERVES

BREAKOUT of 2014 "Reserves" portion of our TOTAL EXPENSES...



# Zoom Review of "RESERVES"

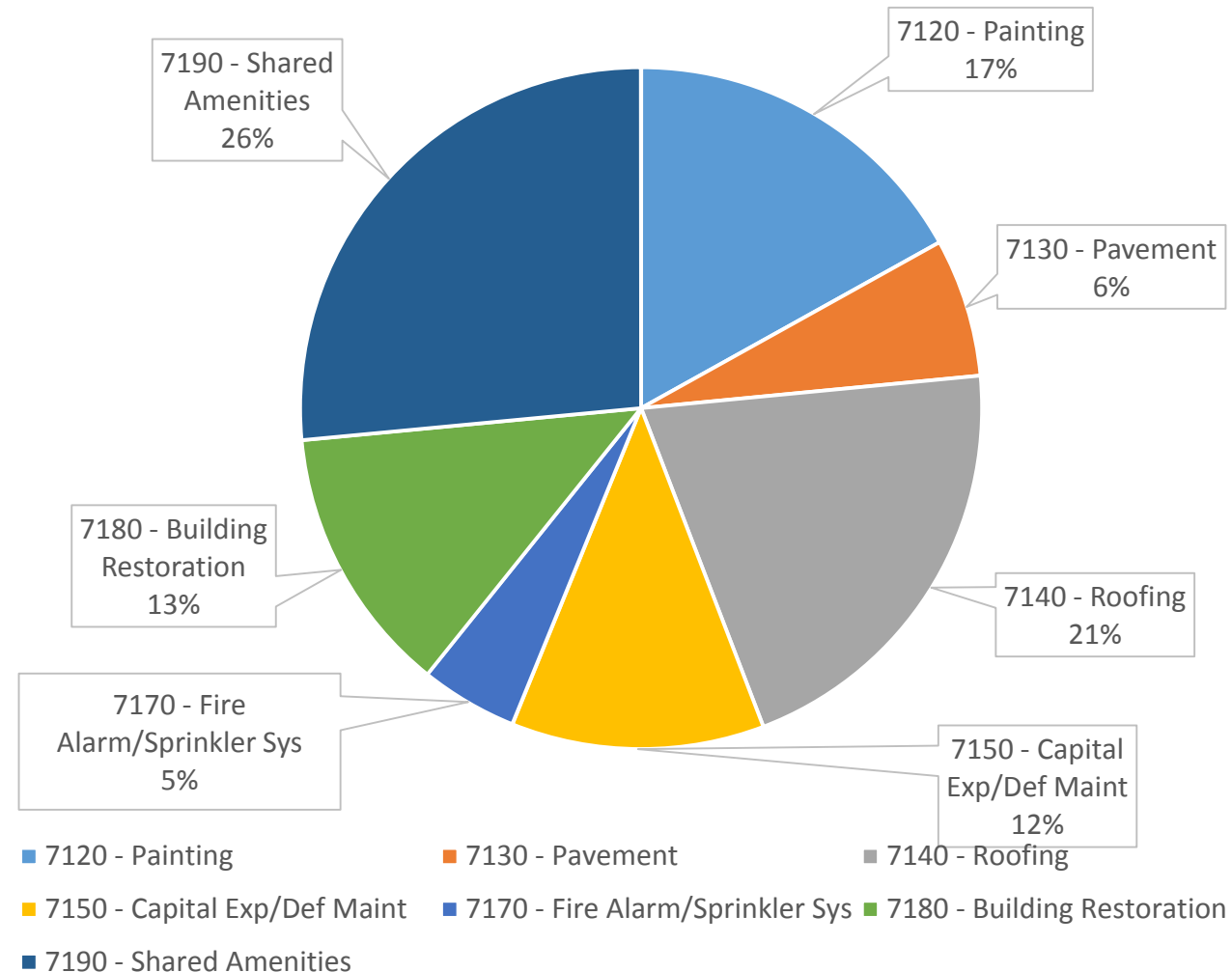
## BACKGROUND:

- What does "Reserve" Mean?
- What do we need?
- What do we have?
- What do we want?
- How do we calculate it?

## THE REQUIREMENT:

Florida Statute 718.112(f) [2] requires condominium associations to fund a reserve account for certain capital expenditures and deferred maintenance; "restricted categories" of roof replacement, building painting, pavement resurfacing and any other expenditure which is expected to exceed \$10,000

BREAKOUT of HI2 "RESERVE EXPENSE"  
(2014-Budgeted; Total \$125,576 - About \$94/month per 112 units)





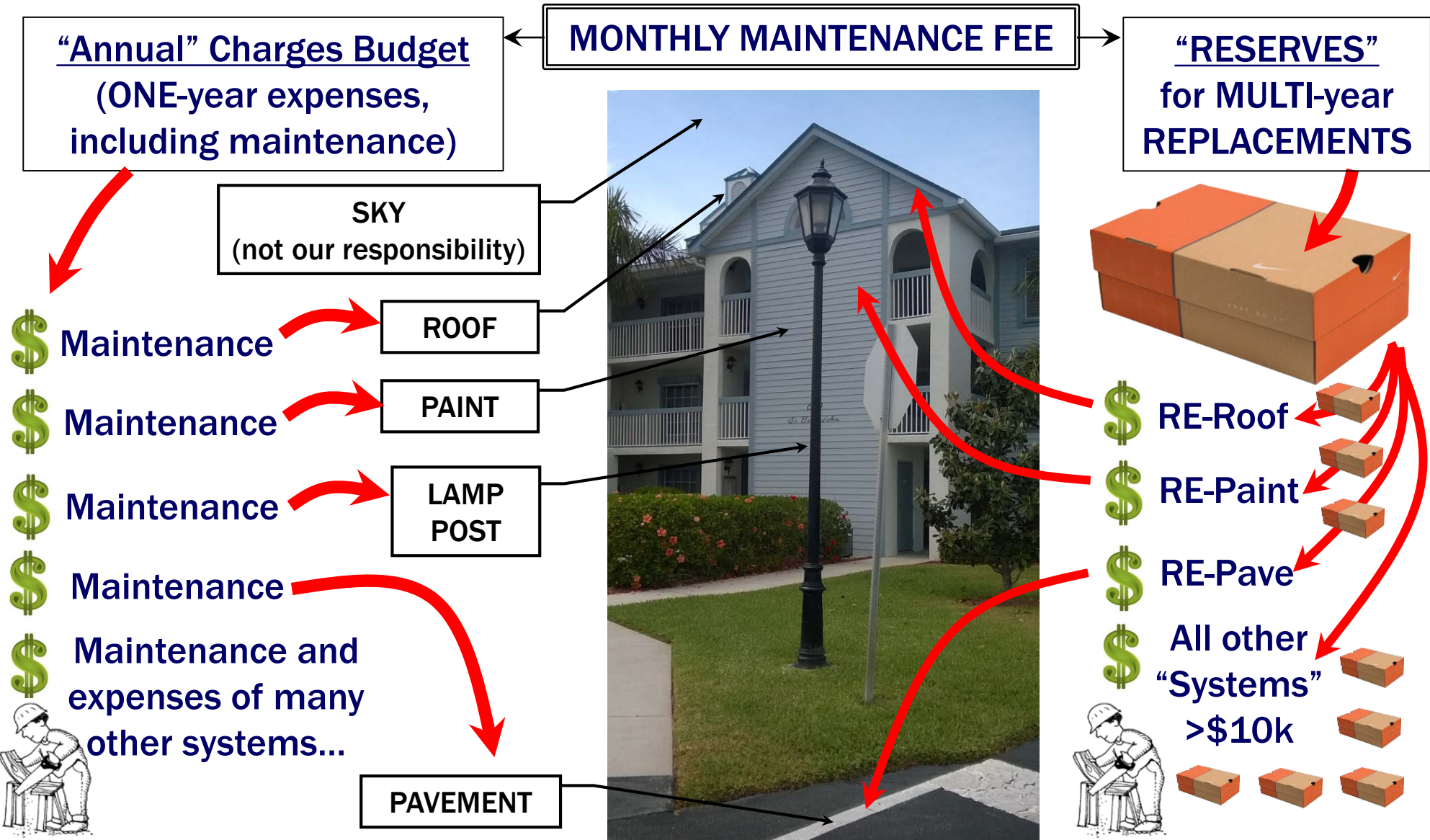
# RESERVES: Some Key Definitions...

- (per JR Frazer; Reserve Specialist): The Florida statute (718.112) to be “100% funded” only means to have all of the “restricted category” funds (roof, paint, paving, + \$10k systems, etc) available *ON THE DAY* the restricted-category item needs those funds (not available on all of the days *PRIOR* to the scheduled replacement). {Sean’s Notes...}
  - That’s why we measure our deficit (or overage), and “percent funded”, against only our “Current Reserve Requirement” (CRR; the “expired fraction” of our assets), rather than against our TOTAL replacement cost.
  - For example: A roof should be 0% funded at the beginning of its (freshly-replaced) life, only 20% funded if 80% of its projected life remains, 50% funded at the half-life age, etc. So, if you schedule your fund to hit those numbers (0%, 20%, 50%, etc)... then you’re matching your “expired \$”, the CRR... and THAT’s being “100% funded”.
  - Otherwise (without paying attention to “how much has expired?”), we would merely contribute our “Normal Annual Contribution” (NAC) – which is how much \$ expires PER YEAR (i.e. a Nominal Monthly Reserve Fee)
- The “Percent Funded” rating which gets discussed is the current Reserve fund’s balance divided by the “Current Reserve Requirement” ( $\% = \text{FundBalance} / \text{CurrentReserveRequirement}$ )
- CurrentReserveRequirement = Summation of Each Item’s [ReplacementCost/NormalLife\*ExpiredYears]

SECTION ONE  
 (Facts, Only)

# “RESERVES”: What are they?

(Florida-law “shoebox savings” for REPLACEMENT of large condo items; roofs, paint, pavement, \$10k+ systems, etc... per Florida Statute 718.112(f) [2] )



**“RESERVES”: ROOF EXAMPLE:**  
 Even if you “maintain” a roof EACH year (touch-ups with caulk, nails, etc)... after 15 years, “the roof” (shingles) has to be replaced.

That’s about a \$50,000 job (on a Harbor Isles building)... which is about \$3,500 per unit, every 15 years.

So, to avoid financing or an “assessment” to each unit for \$3500, Florida Statutes require each condo pre-save money for this job; about \$20 must be “reserved” from each unit, each month, via the monthly “maintenance fee” – so on the day that the 15 year lifespan of the roof has expired, the roof will have achieved “100% funding” and can be replaced (without further effort from the condo owners).



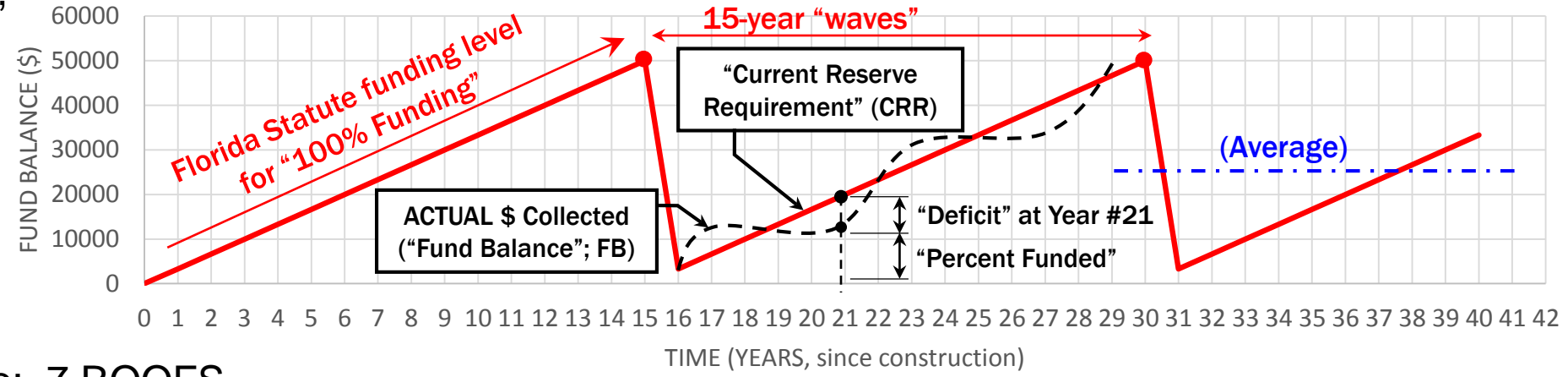
# Two Hypothetical "RESERVE" Examples

(Showing: Balances can be complex over decades)

(1) World's Simplest Condo: ONE ROOF  
 (No pool, no tennis courts, no lamp posts, etc)



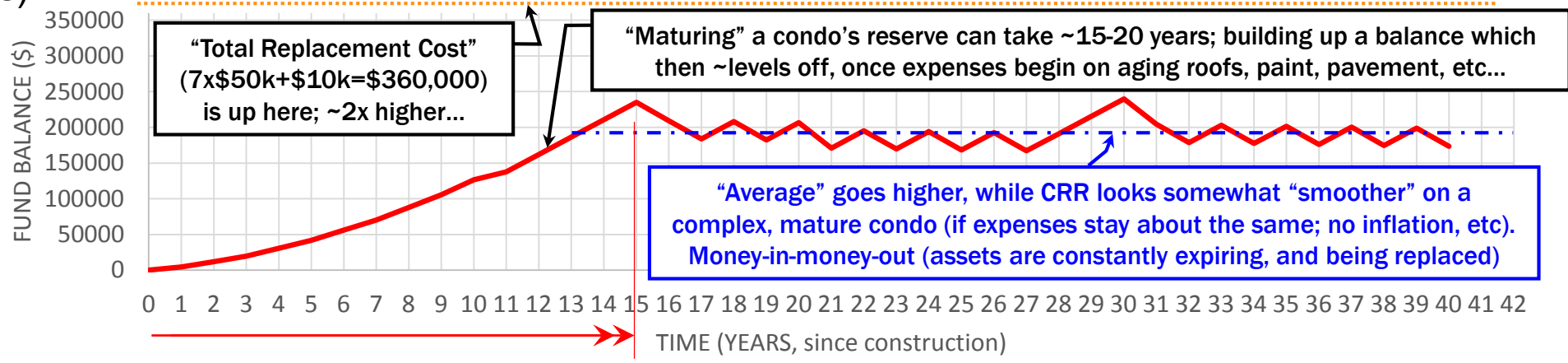
EXAMPLE #1: This is what the RESERVE FUND BALANCE might look like (Assuming the World's Simplest Condo: One roof; \$50k every 15 years)



(2) A Medium-complex Condo: 7 ROOFS  
 (plus a new set of \$10k lamp posts every 10 years)



EXAMPLE #2: RESERVE FUND BALANCE shows complex cycles of deposits & withdraws... (Superimposing: 7 roofs, 2-yr staggered, and a new set of lamp posts for \$10k every 10 years)

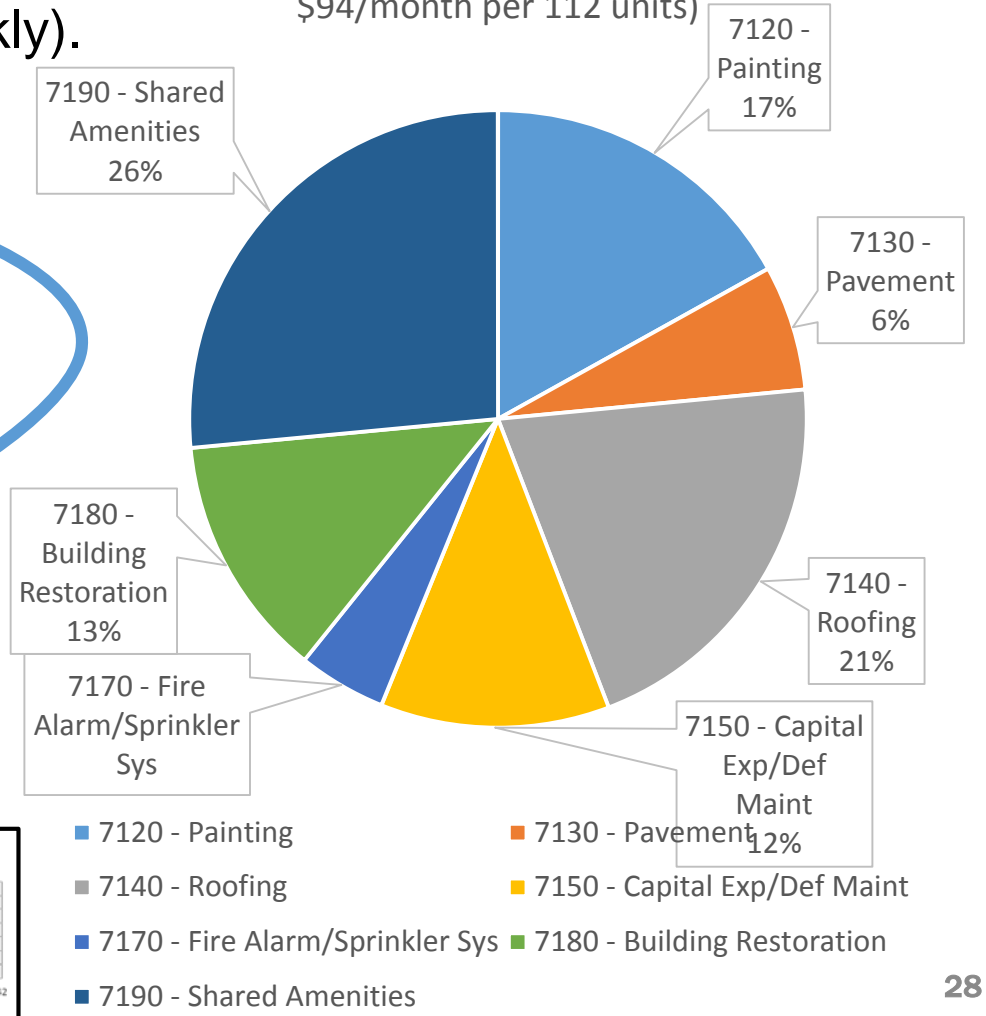
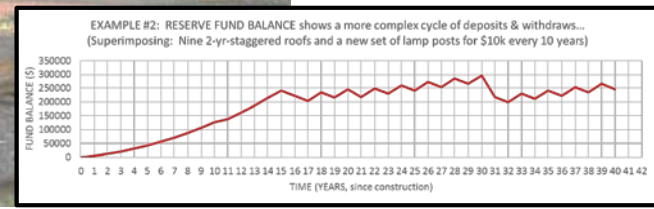
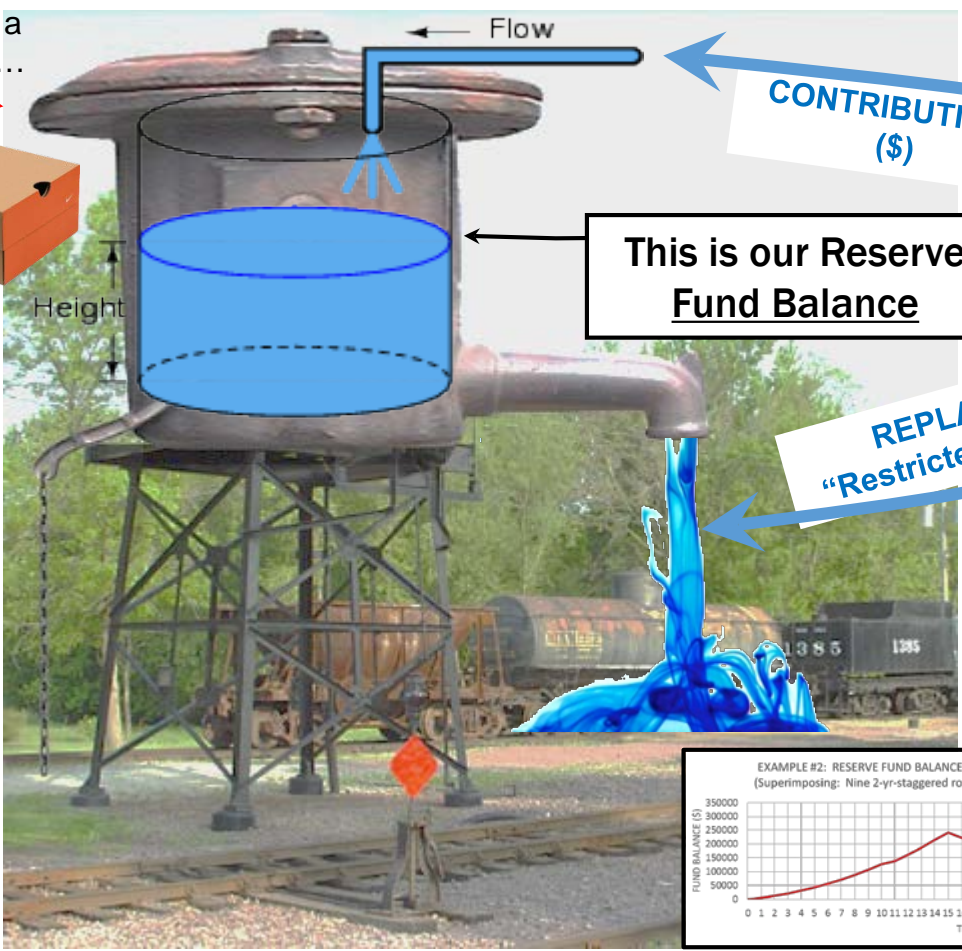
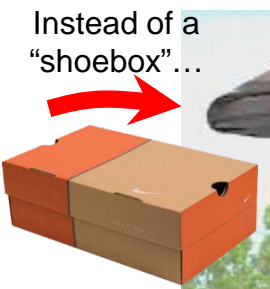


# RESERVES: In the long run... (supposedly)... Money In = Money Out



It's like the old railroad water tanks: You ADD 86 gallons per day, because you expect a train will NEED 86 gallons per day – so you can KEEP THE SAME LEVEL OF WATER in the tank (weekly).

BREAKOUT of HI2 "RESERVE EXPENSE"  
(2014-Budgeted; Total \$125,576 - About \$94/month per 112 units)



# Review of "RESERVES"

**BACKGROUND:**

- What does "Reserve" Mean?
- What do we need?
- What do we have?
- What do we want?
- How do we calculate it?

**THE REQUIREMENT:**

Florida Statute 718.112(f) [2] requires condominium associations to fund a reserve account for certain capital expenditures and deferred maintenance; "restricted categories" of roof replacement, building painting, pavement resurfacing and any other expenditure which is expected to exceed \$10,000

A typical "Reserve Study" Summary Page (2013, shown)...

Harbor Isles II Condominium Association, Inc. 660 S. Brevard Avenue, Cocoa Beach, Florida 32931									
<b>2013 RESERVE SUMMARY</b>									
RESERVE CATEGORY	REPLACEMENT COST	NORMAL LIFE (YEARS)	REMAIN LIFE (YEARS)	NORMAL ANNUAL Contribution	CURRENT RESERVE Requirement	FUND BALANCE 4-31-13	FUND (DEFICIT) OVERAGE	Yr. 2014 CONTRIBUTION	Yr. 2014 Monthly
Roofing	\$371,275	7-35	1-17	\$25,978	\$266,285	\$251,905	(\$14,380)	\$25,978	\$2,164.83
Paving	108,174	4-18	2-3	8,221	88,888	97,632	8,744	8,221	685.08
Painting	159,249	7-14	1-12	21,257	81,622	45,802	(35,820)	21,257	1,771.42
Deferred Maintenance	343,525	4-32	1-17	15,068	170,935	120,901	(50,034)	15,068	1,255.67
Fire Alarm/Sprinkler Sys.	134,079	20-26	1-18	5,784	86,255	78,901	(7,354)	5,784	482.00
Building Restoration	242,233	21	7	11,535	161,489	123,604	(37,885)	15,985	1,332.08
Shared Amenities	506,598	5-40	1-32	27,385	237,030	120,161	(116,869)	27,385	2,282.08
<b>TOTAL</b>	<b>\$1,865,133</b>	<small>life range of years for summary purpose, see actual estimated years in detail pages</small>		<b>\$115,228</b>	<b>\$1,092,504</b>	<b>\$838,906</b>	<b>(\$253,598)</b>	<b>\$119,678</b>	<b>\$9,973</b>



**SECTION ONE**  
(Facts, Only)

# RESERVES: The formulae\*, with acronyms

(\* as best I can figure them. Reserve specialists may be able to adjust some of these numbers, I don't know - but these appear to be the relations)

In theory, these equations convert the "lampposts" all the way to your wallet (monthly reserve fee)...

Total Replacement Cost (TRC) =  $\sum_1^n IndividualItemReplacementCost$

Individual Item Replacement Cost (IRC) = Cost to replace one item (roof, lamppost, etc) at the end of its Individual Normal Lifespan (INL)

Individual Remaining Life (IRL) = INL - Currently Expired Years

Normal Annual Contribution (NAC) =  $\sum_1^n \frac{IRC}{INL}$

Current Reserve Requirement (CRR) =  $\sum_1^n \frac{IRC}{INL} * ExpiredYears$

Fund Balance (FB) = current cash stores (sum of bank accounts, CDs, etc)

Deficit = FB - CRR

**"Percent Funded" (PF) = FB/CRR** = ratio of your fund to the "expired \$"

**CONCLUSION:**

Nominal Monthly Reserve Fee (NMRF) = NAC / (# units) / 12months... (i.e. this NMRF has no adjustment down or up, for fund overage or deficit)

Adjusted Monthly Reserve Fee (AMRF) = NMRF +/- ADL, where...

ADL = An additional amount to drive the long-term average Deficit higher or lower; typically to zero: ADL = Deficit/(20years)/(# of units)/(12months)

Harbor Isles II Condominium Association, Inc. 660 S. Brevard Avenue, Cocoa Beach, Florida 32931										
<b>2013 RESERVE SUMMARY</b>										
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Paving	108,174	4-18	2-3	8,221	88,888	97,632	8,744	8,221	685.08	
Painting	159,249	7-14	1-12	21,257	81,622	45,802	(35,820)	21,257	1,771.42	
Deferred Maintenance	343,525	4-32	1-17	15,068	170,935	120,901	(50,034)	15,068	1,255.67	
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Building Restoration	242,233	2	7	11,535	161,489	123,604	(37,885)	15,985	1,332.08	
Shared Amenities	506,598	5-40	1-32	27,385	237,030	120,161	(116,869)	27,385	2,282.08	
<b>TOTAL</b>	<b>\$1,865,133</b>			<b>\$115,228</b>	<b>\$1,092,504</b>	<b>\$838,906</b>	<b>(\$253,598)</b>	<b>\$119,678</b>	<b>\$9,973</b>	

range of years for summary purpose, see actual estimated years in detail pages

# RESERVES: a "Study"

## Specific Example: *THE BILLIARD TABLE...*



2012 RESERVE ANALYSIS							
Harbor Isles II Condominium Association, Inc., 660 S. Brevard Avenue, Cocoa Beach, Florida 32931							
SHARED AMENITIES	QUANTITY	UNIT	REPLACE	NORMAL	REMAINING	NORMAL	100%
RESERVES	UNITS	COST	COST	LIFE	LIFE	ANNUAL	RESERVE
(continued)	(SHARE 44.4%)	\$	\$	(YEARS)	(YEARS)	CONTRIBUTE	REQUIREMENT
<b>Clubhouse Pool Area (continued):</b>							
clubhouse roof (4400)	1,936	3.50	6,776	15	2	\$452	\$5,873
clubhouse ext. paint (1660)	730	0.82	599	7	5	\$86	\$171
clubhouse int. paint (6848)	3,013	0.78	2,350	10	8	\$235	\$470
clubhouse siding (1350)	594	3.40	2,020	20	8	\$101	\$1,212
restroom restorations	0.44	26,000	11,440	30	2	\$381	\$10,677
electrical & plumbing	0.44	12,400	5,456	30	5	\$182	\$4,547
security system	0.44	1,000	440	10	1	\$44	\$396
interior carpeting (380)	167	30.00	5,010	10	8	\$501	\$1,002
ceramic tile (500)	263	8.75	2,301	30	24	\$77	\$460
office furniture	0.44	now managers furniture				\$0	\$0
decorating & furniture	0.44	15,000	6,600	20	18	\$330	\$660
fitness equipment	0.44	6,700	2,948	15	13	\$197	\$393
fitness equipment	0.44	14,000	6,160	15	7	\$411	\$3,285
billiard table	0.44	6,500	2,860	30	4	\$95	\$2,479
billiard room furniture	0.44	1,900	836	30	28	\$28	\$56
fire sprinkler repairs (2968)	1,306	2.32	3,030	26	1	\$117	\$2,913
chemical feeders (3 pools)	0.44	3,600	1,584	10	4	\$158	\$950
paint entry monuments 06	0.44	900	396	7	1	\$57	\$339
* All above cost are based upon Harbor Isles 112/252 shared portion.							
<b>SUB-TOTAL</b>			250,354	5-40	1-32	13,240	122,991

So, we apparently have a 26-yr-old pool table, with 4 years remaining on its life, and it will cost \$6,500 to replace (and HI2 owns 44.4% of the table, HI1 owns the remaining 55.6%... of what seems to be a pretty pricey pool table. Hopefully we got the top half).

This means – for each of the 30 years – HI2 needs to collect \$95, so we’ll be able to contribute our \$2860 (=\$95x30) to HI1 for them to replace the pool table.

This means – dividing over the HI2 community – our Monthly Reserve Fee (MRF) includes...

$$\text{MRF\_BilliardTable} = \frac{\$95/\text{year}}{112\text{units}/12\text{months}} = \$0.07$$

**SO: Each of us pays about 7 cents,** every month... so HI1&2 will be able to have a new pool table every 30 years (with no assessments, no financing, etc).

# RESERVES: a "Study"...

Inspectors tabulate hundreds of items at Harbor Isles...



Every roof, every lamppost, pool cushions, billiard tables, etc... dozens of pages and hundreds of individual items... all tabulated for their IRC, IRL, etc... to make the multi-decade prediction of our financial needs (resulting in our monthly reserve fee):

Harbor Isles II Condominium Association  
660 S. Brevard Avenue, Cocoa Beach, Florida 32931

### 2013 RESERVE SUMMARY

RESERVE CATEGORY	REPLACEMENT COST	NORMAL LIFE (YEARS)	REMAIN LIFE (YEARS)	NORMAL ANNUAL CONTRIBUTION	CURRENT RESERVE REQUIREMENT	FUND BALANCE 4-31-
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Deferred Maintenance	343,525	4-32	1-17	15,068	170,935	120,000
Fire Alarm/Sprinkler Sys.	134,079	20-26	1-18	5,784	86,255	78,000
Building Restoration	242,233	21	7	11,535	161,489	123,000 (37,885)
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life range of years for summary purpose, see actual estimated years in detail pages

### 2012 RESERVE ANALYSIS

Harbor Isles II Condominium Association, Inc., 660 S. Brevard Avenue, Cocoa Beach, Florida 32931

SHARED AMENITIES RESERVES	QUANTITY UNITS	UNIT COST	REPLACE COST	NORMAL LIFE (YEARS)	REMAINING LIFE (YEARS)	NORMAL ANNUAL CONTRIBUTION	100% RESERVE REQUIREMENT
(continued)	(SHARE 44.4%)	\$	\$	(YEARS)	(YEARS)		

### 2012 RESERVE ANALYSIS

Harbor Isles II Condominium Association, Inc., 660 S. Brevard Avenue, Cocoa Beach, Florida 32931

SHARED AMENITIES RESERVES	QUANTITY UNITS	UNIT COST	REPLACE COST	NORMAL LIFE (YEARS)	REMAINING LIFE (YEARS)	NORMAL ANNUAL CONTRIBUTION	100% RESERVE REQUIREMENT
(continued)	(SHARE 44.4%)	\$	\$	(YEARS)	(YEARS)		

### 2012 RESERVE ANALYSIS

Harbor Isles II Condominium Association, Inc., 660 S. Brevard Avenue, Cocoa Beach, Florida 32931

SHARED AMENITIES RESERVES	QUANTITY UNITS	UNIT COST	REPLACE COST	NORMAL LIFE (YEARS)	REMAINING LIFE (YEARS)	NORMAL ANNUAL CONTRIBUTION	100% RESERVE REQUIREMENT
(continued)	(SHARE 44.4%)	\$	\$	(YEARS)	(YEARS)		

Clubhouse Pool Area (continued):  
clubhouse roof (4400)  
clubhouse ext. paint (1660)  
clubhouse int. paint (6848)  
clubhouse siding (1350)  
restroom restorations  
electrical & plumbing  
security system  
interior carpeting (380)  
ceramic tile (500)  
office furniture  
decorating & furniture  
fitness equipment  
fitness equipment  
billiard table  
billiard room furniture  
fire sprinkler repairs (2968)  
chemical feeders (3 pools)  
paint entry monuments 06

\* All above cost are based upon Harbor Isles

### 2012 RESERVE ANALYSIS

Harbor Isles II Condominium Association, Inc., 660 S. Brevard Avenue, Cocoa Beach, Florida 32931

SHARED AMENITIES RESERVES	QUANTITY UNITS	UNIT COST	REPLACE COST	NORMAL LIFE (YEARS)	REMAINING LIFE (YEARS)	NORMAL ANNUAL CONTRIBUTION	100% RESERVE REQUIREMENT
(continued)	(SHARE 44.4%)	\$	\$	(YEARS)	(YEARS)		

Main Pool Area (continued):  
a/c compressor 3.5 ton 0.44 3,500 1,540 10 1 \$154 \$1,386  
a/c handler 3.5 ton 0.44 1,500 660 20 1 \$627 \$627  
a/c compressor 3.5 ton 0.44 3,500 1,540 10 2 \$154 \$1,232  
a/c handler 3.5 ton 0.44 1,500 660 20 2 \$33 \$594

Boat Storage Area:  
Paving (1530 yds) 673 7.00 4,711 18 6 \$262 \$3,141  
seal coating storage (1530) 673 0.78 525 5 1 \$105 \$420  
Boat Storage Lights 0.44 1,500 660 8 1 \$83 \$578  
Boat Parking Fencing (432) 190 26.50 5,035 28 19 \$180 \$1,618

Tennis Shuffleboard Area Improvements:  
#1 court re-surface 0.44 4,700 2,068 5 1 \$414 \$1,654  
#1 court major repairs \*\* 0.44 15,000 6,600 5 1 \$1,320 \$5,280  
#1 fence replacement (362) 160 34 5,440 28 1 \$194 \$5,246  
#1 lighting replacement 0.44 15,500 6,820 28 1 \$244 \$6,576  
#2 paint courts/lights (9760) 4,294 1.20 5,153 5 2 \$1,031 \$3,092  
#2 lighting replacement 0.44 14,000 6,160 28 2 \$220 \$5,720  
#2 fence replacement (505) 222 34 7,548 28 2 \$270 \$7,009  
shuffleboard R&R 0.44 1,500 660 6 2 \$110 \$440

\* All above cost are based upon Harbor Isles 112/252 shared portion. \*\* one time expense due to current conditions

**SUB-TOTAL** 306,134 5-40 1-32 18,045 167,604



# RESERVES: The Summary Numbers...



In theory, these numbers convert all the way from the "lampposts" to your wallet...



DATE (approx)	TOTAL REPLACEMENT COST (TRC; \$)	CURRENT RESERVE REQUIREMENT (CRR; \$)	RESERVE FUND BALANCE (FB; \$)	Funding Overage or Deficit (\$)	PERCENT FUNDED (PF)	Deficit Elimination Time (Years Forward):		Add'l Monthly Fee to Eliminate Deficit in # of years, above (\$)	Total "100%-Funding" Monthly Reserve Fee (\$)
						NORMAL ANNUAL CONTRIBUTION (NAC; \$)	NOMINAL MONTHLY RESERVE FEE (per unit; \$)		
Aug-00	\$850,777.00	\$283,992.00	\$149,130.00	-\$134,862.00	52.51%	\$62,619.00		\$5.02	\$51.61
Aug-03	\$1,136,700.00	\$512,741.00	\$262,976.00	-\$249,765.00	51.29%	\$80,777.00		\$9.29	\$69.39
Jul-04	\$1,184,942.00	\$561,827.00	\$346,916.00	-\$214,911.00	61.75%	\$85,377.00		\$8.00	\$71.52
Jun-07	\$1,522,668.00	\$790,463.00	\$487,691.00	-\$302,772.00	61.70%	\$106,212.00		\$11.26	\$90.29
Jun-09	\$1,694,743.00	\$794,773.00	\$563,261.00	-\$231,512.00	70.87%	\$110,834.00		\$8.61	\$91.08
Jul-10	\$1,748,887.00	\$957,473.00	\$659,543.00	-\$297,930.00	68.88%	\$114,321.00		\$11.08	\$96.14
Jun-11	\$1,821,119.00	\$1,033,128.00	\$663,526.00	-\$369,602.00	64.22%	\$118,576.00		\$13.75	\$101.98
Apr-12	\$1,848,320.00	\$1,013,814.00	\$761,776.00	-\$252,038.00	75.14%	\$114,015.00		\$9.38	\$94.21
Aug-13	\$1,865,133.00	\$1,092,504.00	\$865,437.09	-\$227,066.91	79.22%	\$115,228.00		\$8.45	\$94.18
Sep-13	\$1,865,133.00	\$1,092,504.00	\$870,722.74	-\$221,781.26	79.70%	\$115,228.00		\$8.25	\$93.99
Oct-13	\$1,865,133.00	\$1,092,504.00	\$890,457.73	-\$202,046.27	81.51%	\$115,228.00		\$7.52	\$93.25
Nov-13	\$1,865,133.00	\$1,092,504.00	\$901,336.15	-\$191,167.85	82.50%	\$115,228.00		\$7.11	\$92.85
Dec-13	\$1,865,133.00	\$1,092,504.00	\$857,776.84	-\$234,727.16	78.51%	\$115,228.00		\$8.73	\$94.47
Jan-14	\$1,865,133.00	\$1,092,504.00	\$869,089.73	-\$223,414.27	79.55%	\$115,228.00	\$85.74	\$8.31	\$94.05
Feb-14	\$1,865,133.00	\$1,092,504.00	\$830,929.19	-\$261,574.81	76.06%	\$115,228.00	\$85.74	\$9.73	\$95.47
Mar-14	\$1,865,133.00	\$1,092,504.00	\$841,440.08	-\$251,063.92	77.02%	\$115,228.00	\$85.74	\$9.34	\$95.08
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May-14	\$1,865,133.00	\$1,092,504.00	\$844,023.07	-\$248,480.93	77.26%	\$115,228.00	\$85.74	\$9.24	\$94.98
Jun-14	\$1,865,133.00	\$1,092,504.00	\$854,537.20	-\$237,966.80	78.22%	\$115,228.00	\$85.74	\$8.85	\$94.59
Jul-14	\$1,865,133.00	\$1,092,504.00	\$865,084.93	-\$227,419.07	79.18%	\$115,228.00	\$85.74	\$8.46	\$94.20
Aug-14	\$1,865,133.00	\$1,092,504.00	\$875,601.37	-\$216,902.63	80.15%	\$115,228.00	\$85.74	\$8.07	\$93.80
Sep-14	\$1,865,133.00	\$1,092,504.00	\$886,151.24	-\$206,352.76	81.11%	\$115,228.00	\$85.74	\$7.68	\$93.41
Oct-14	\$1,865,133.00	\$1,092,504.00	\$872,372.87	-\$220,131.13	79.85%	\$115,228.00	\$85.74	\$8.19	\$93.92
Jan-15	\$1,865,133.00	\$1,092,504.00	\$867,330.55	-\$225,173.45	79.39%	\$115,228.00	\$85.74	\$8.38	\$94.11
Feb-15	\$1,865,133.00	\$1,092,504.00	\$888,965.76	-\$203,538.24	81.37%	\$115,228.00	\$85.74	\$7.57	\$93.31

Recent numbers - highlighted in YELLOW - are only approximated (extrapolated as constant)

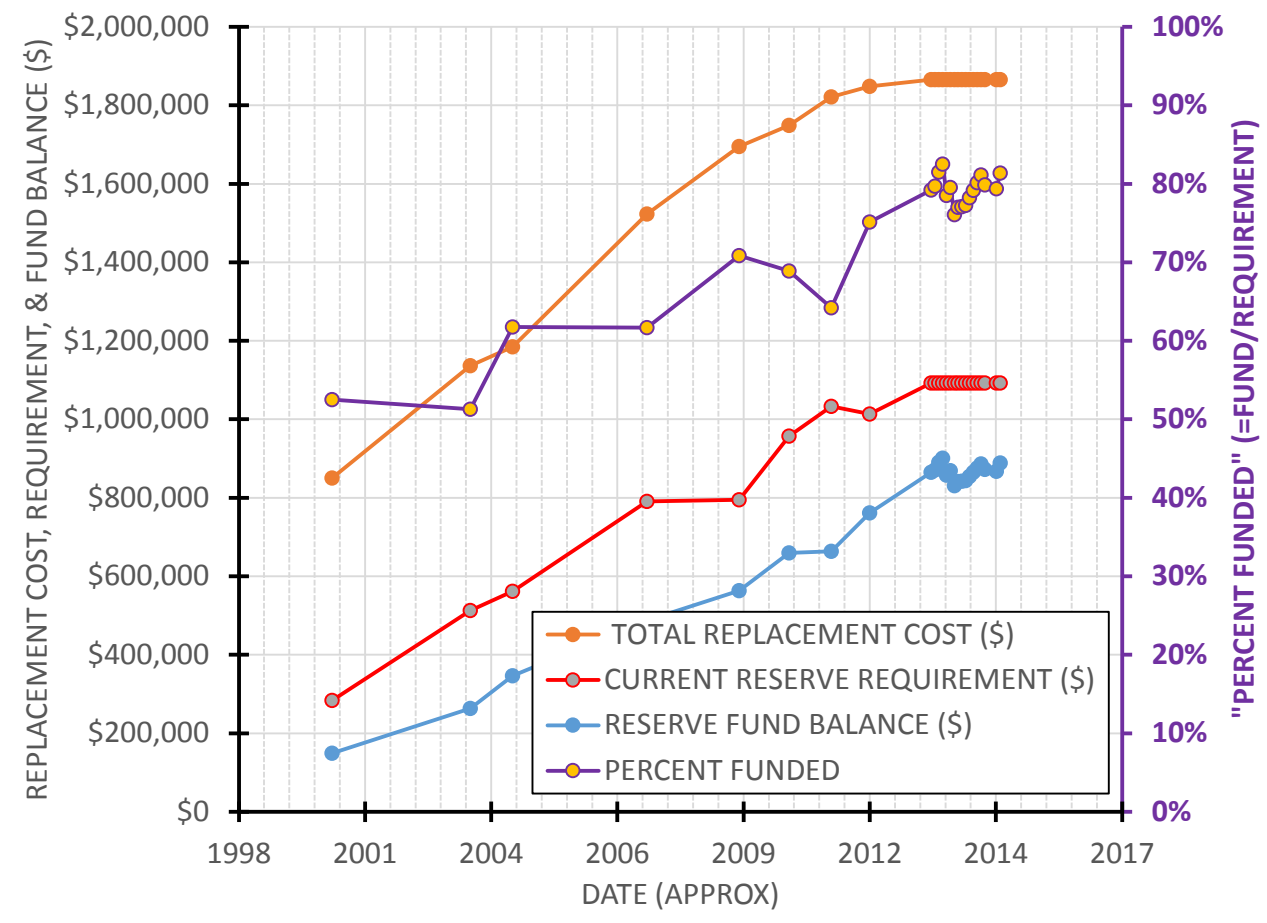
# RESERVES: The Graphs...

(with "Percent Funded" = FB/CRR = FB/"Expired\$")



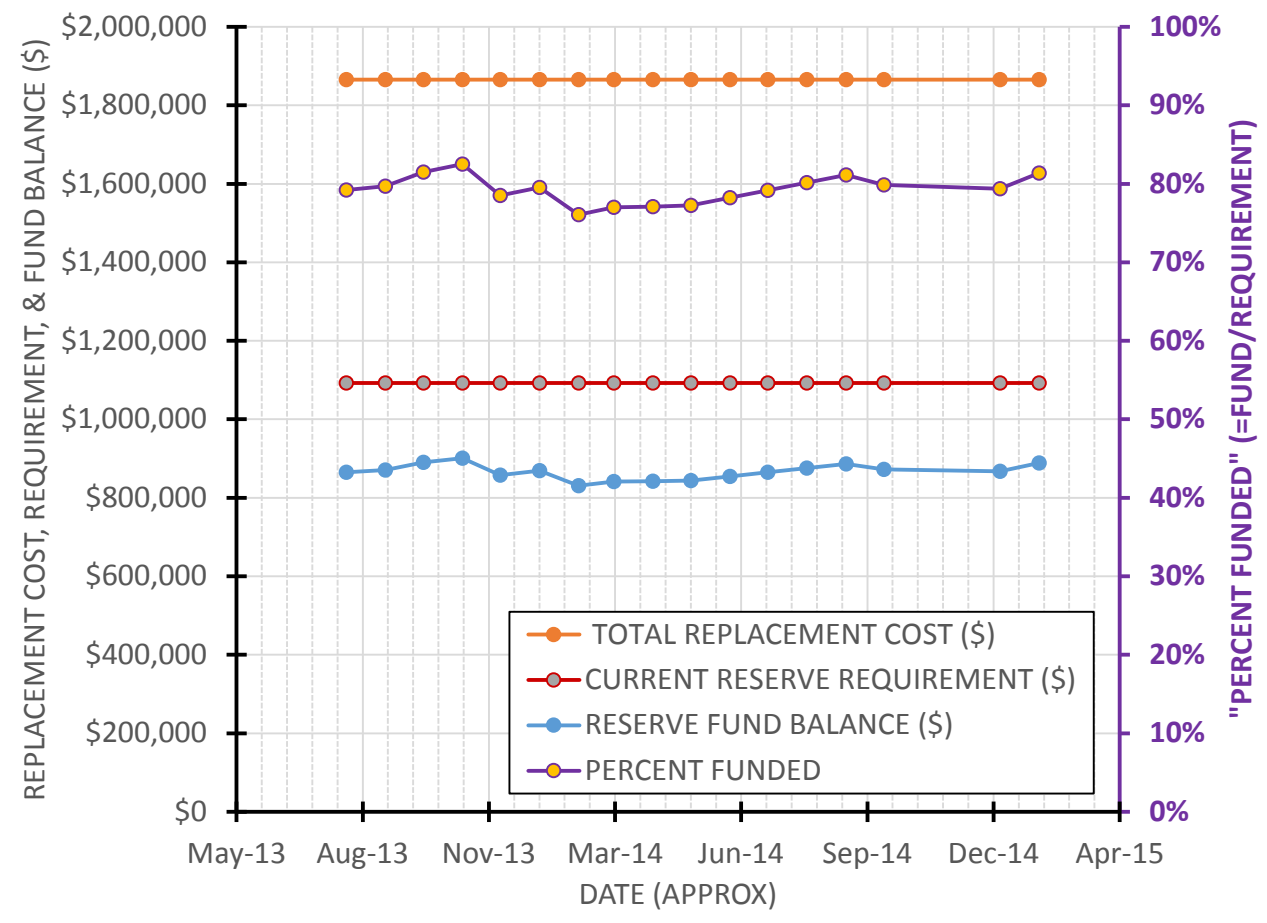
## ~15-YEAR LOOK BACK...

HI-2 RESERVE FUND: ~15-YEAR HISTORY



## CURRENT...

HI-2 RESERVE FUND: ~18-MONTH HISTORY



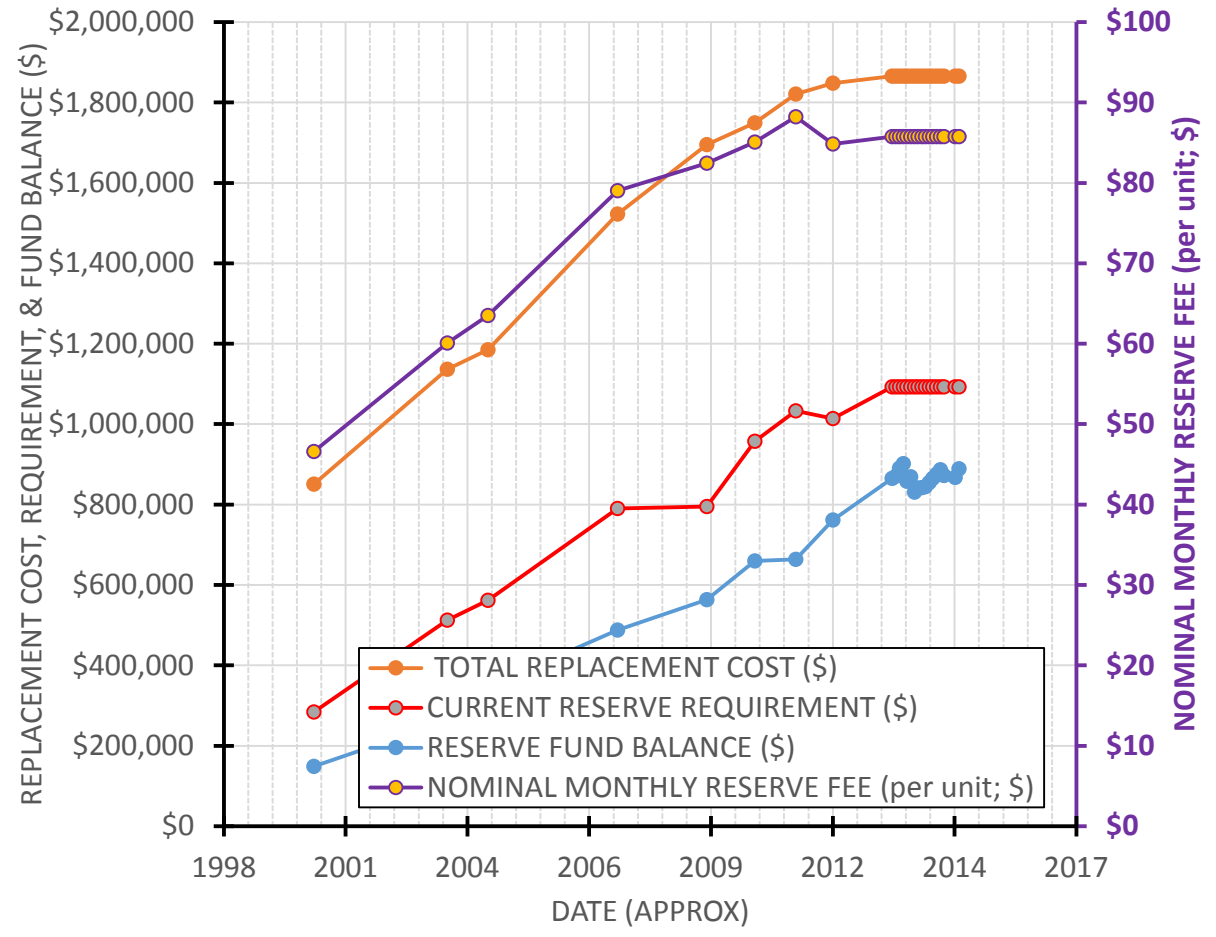
# RESERVES: The Graphs



(Now plotting with “Nominal Monthly Reserve Fee”;  
 $NMRF = NAC / (\# \text{ units}) / 12\text{months}$ )

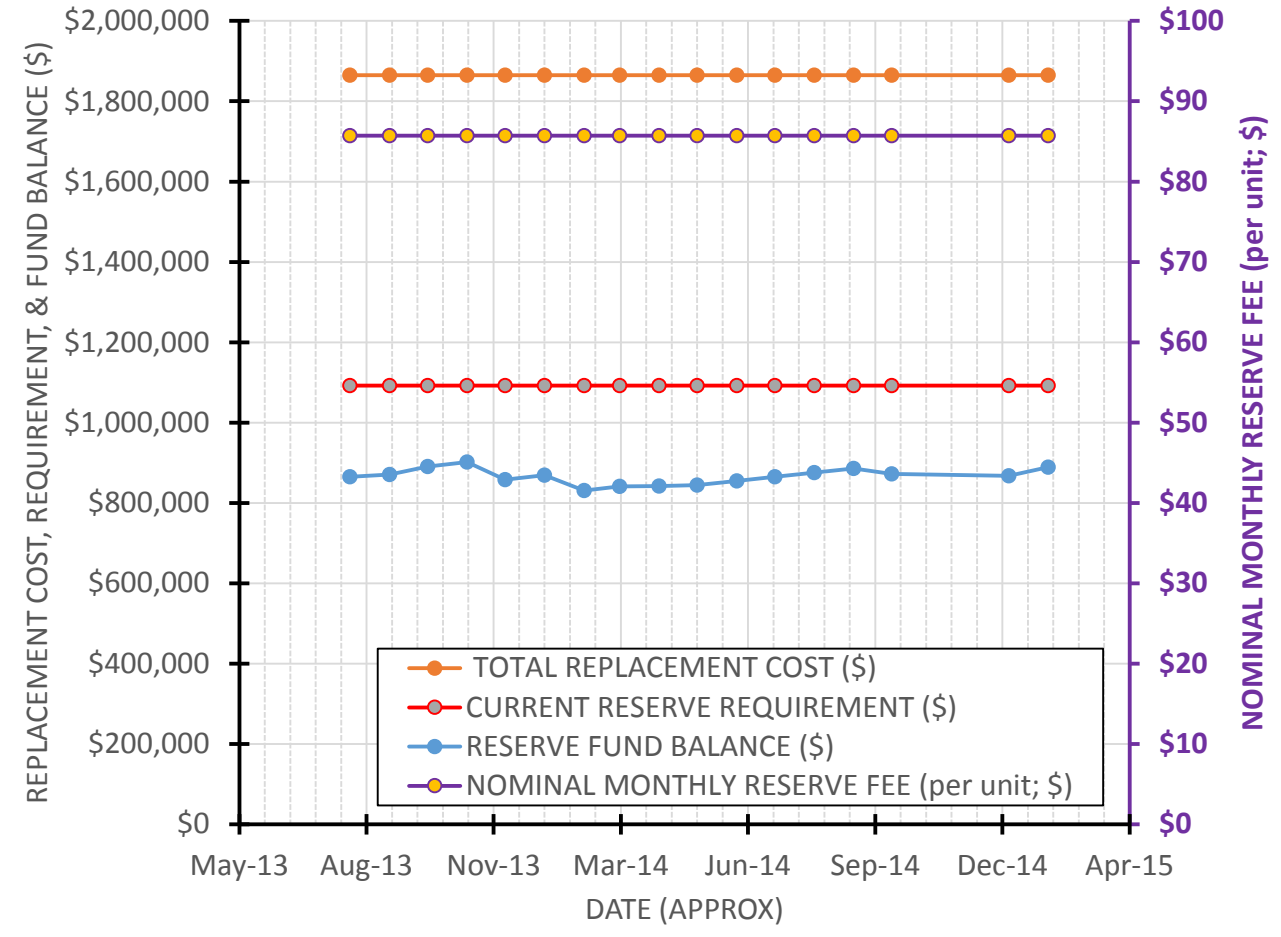
## ~15-YEAR LOOK BACK...

HI-2 RESERVE FUND: ~15-YEAR HISTORY



## CURRENT...

HI-2 RESERVE FUND: ~18-MONTH HISTORY



# RESERVES: Why the 2000-2010 Increase?

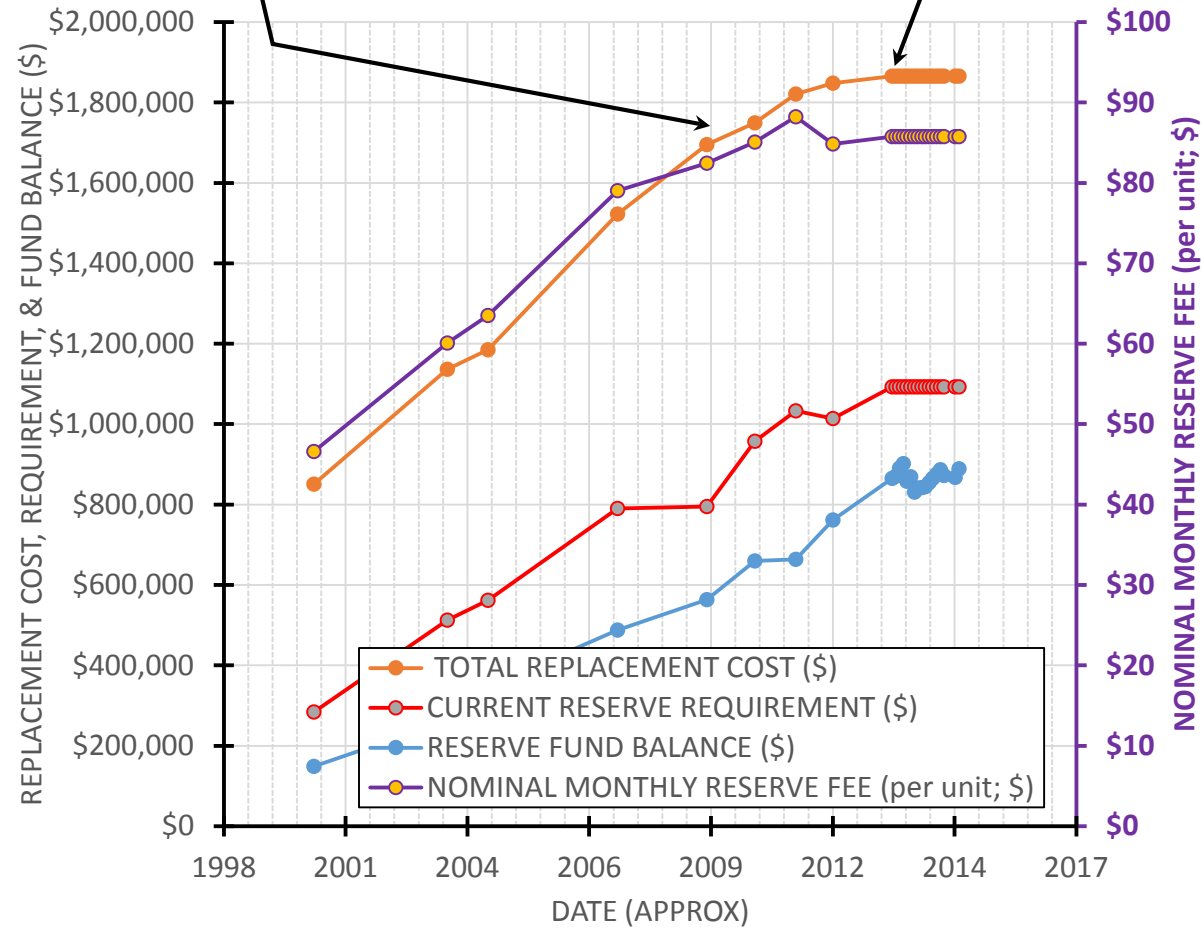
I don't know (many contributors to our "Total Replacement Cost" have gone up)



"REPLACEMENT COSTS" steadily increased through the 2000's (and that drives everything; NAC, CRR, NMRF, etc)

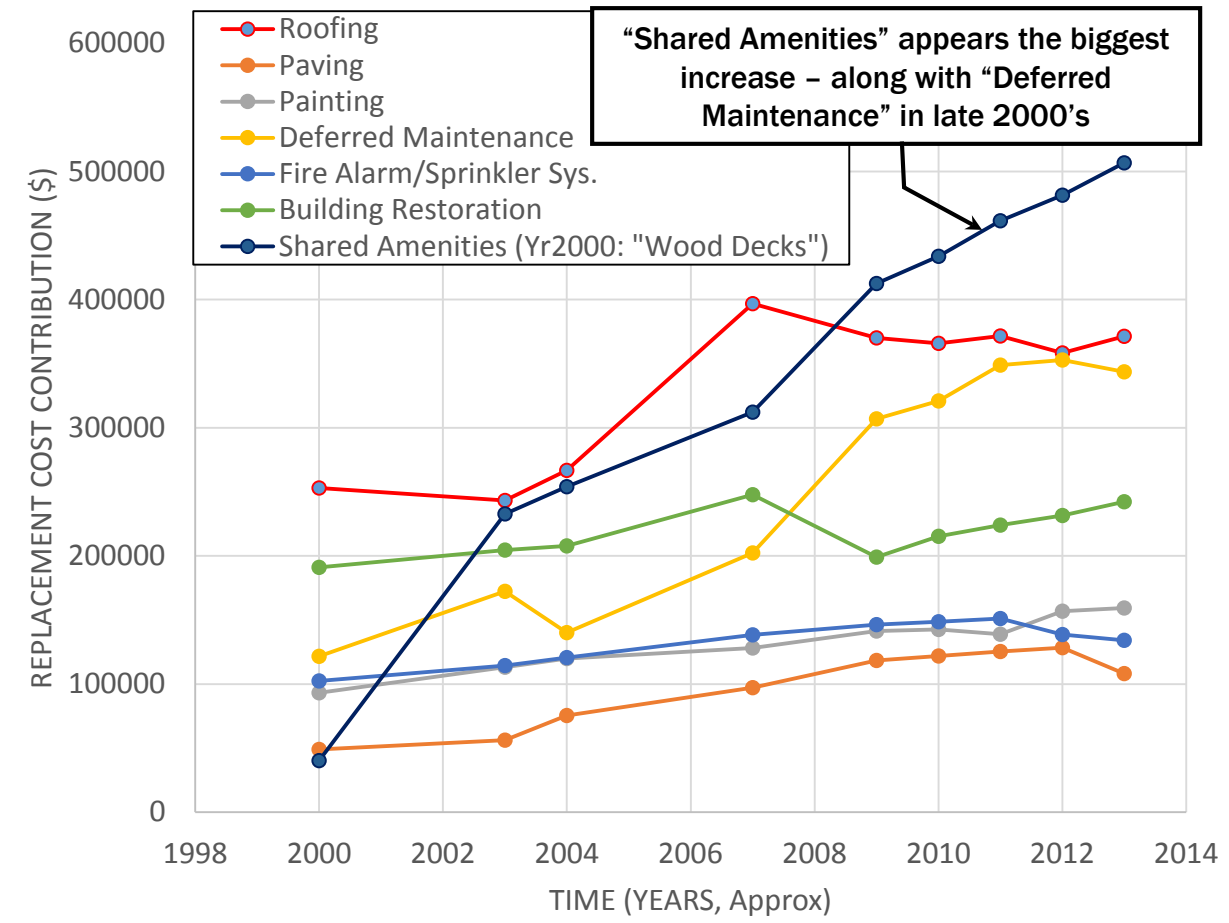
...but appear to have "leveled off" in the last few years...

HI-2 RESERVE FUND: ~15-YEAR HISTORY



## CONTRIBUTORS to TRC...

HI-2 REPLACEMENT COST CONTRIBUTORS: ~15-YEAR HISTORY



# RESERVES: Creating the Monthly Fee...

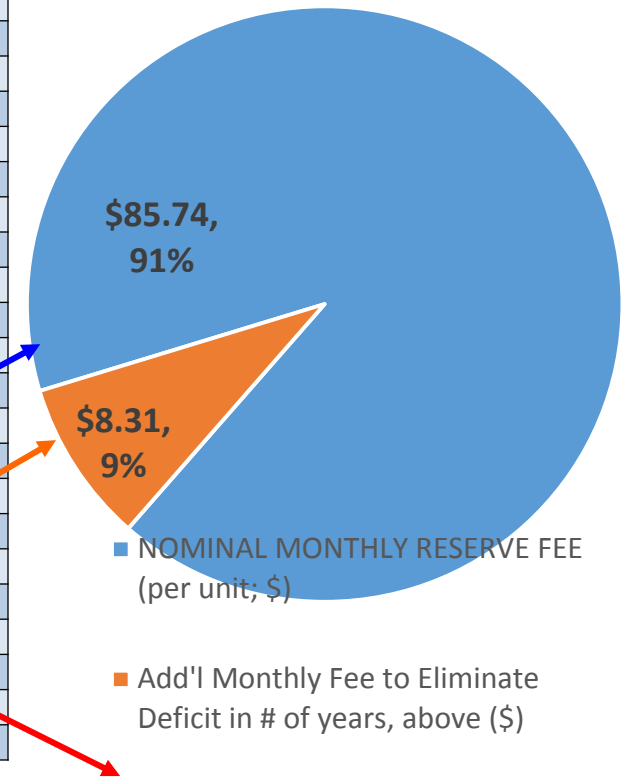
Nominally: pay this (to offset how much our assets "depreciate" each year)

COMPARE

Deficit Elimination Time (Years Forward): **20**

DATE (approx)	TOTAL REPLACEMENT COST (TRC; \$)	CURRENT RESERVE REQUIREMENT (CRR; \$)	RESERVE FUND BALANCE (FB; \$)	Funding Overage or Deficit (\$)	PERCENT FUNDED (PF)	NORMAL ANNUAL CONTRIBUTION (NAC; \$)	NOMINAL MONTHLY RESERVE FEE (per unit; \$)	Add'l Monthly Fee to Eliminate Deficit in # of years, above (\$)	Total "100%-Funding" Monthly Reserve Fee (\$)
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RESULTING MONTHLY RESERVE FEE (~\$94) if PURSUING "ZERO DEFICIT" IN 20 YEARS = Nominal Reserve Fee (=NAC/112/12) + Add'l Monthly Fee (=Deficit/20/112/12)



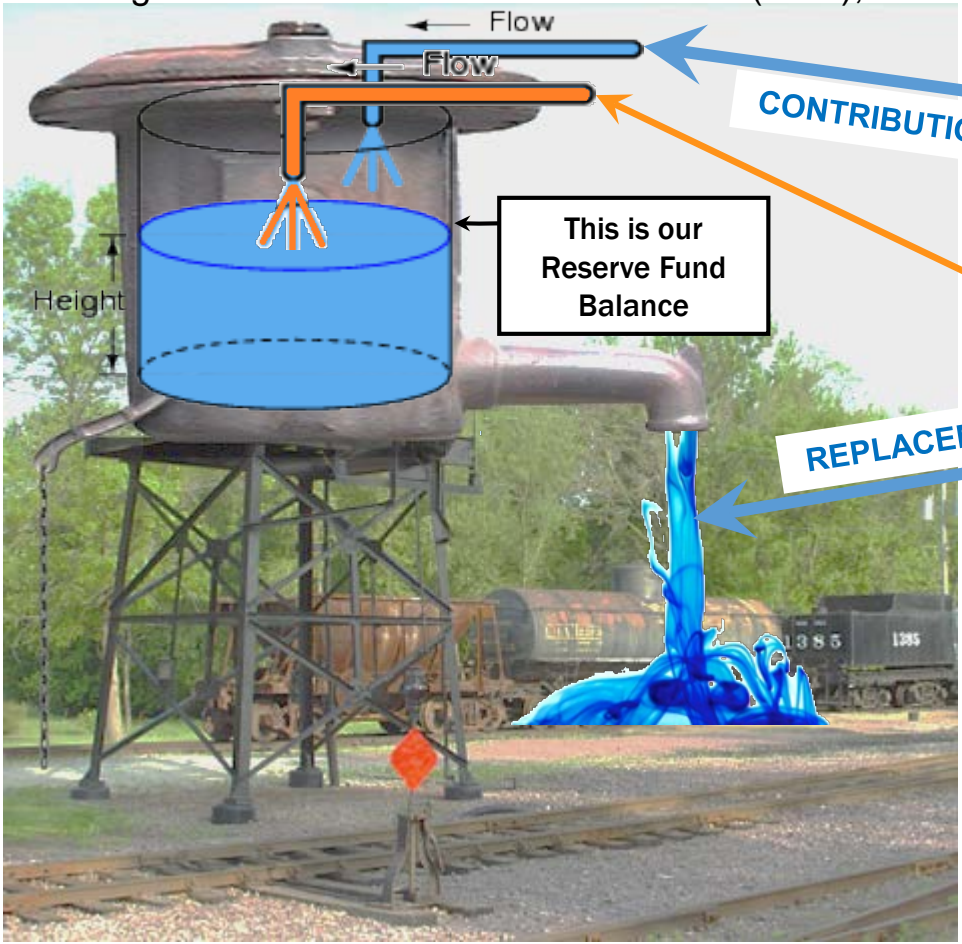
**TOTAL: ~\$94/month, per unit** 37

# RESERVES: “Normal Annual Contribution” (NAC) plus “Deficit Reduction” Contribution...



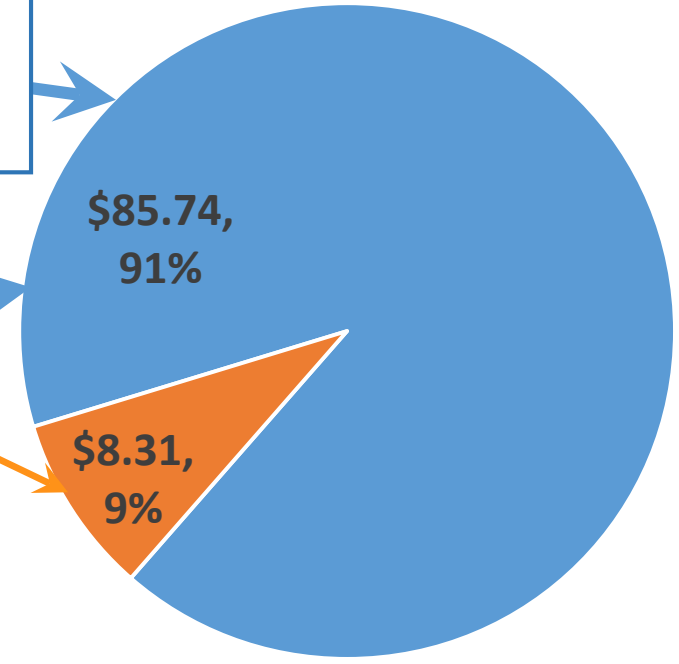
If your water level (Fund Balance; FB) is behind schedule, then merely adding 86 gallons/day when you lose 86 gallons/day may not meet future train needs. With a forecasted “Deficit”, Reserve Specialist wisdom is to gradually add water (an extra 8 gallons/day... \$8) to approach a zero deficit (“100% on schedule with the CRR”) by adding (or subtracting) ~1/20th of the Deficit/Overage to the Normal Annual Contribution (NAC), to set the monthly reserve fee.

RESULTING MONTHLY RESERVE FEE (~\$94) if PURSUING "ZERO DEFICIT" IN 20 YEARS = Nominal Reserve Fee (=NAC/112/12) + Add'l Monthly Fee (=Deficit/20/112/12)



NAC is – on average – what we would add to the tank AND SPEND – each year, if we were “on schedule” (no deficit, only NAC = ~\$115,228.00, or \$85.74/month/unit)

But, if we’ve NOT kept up with the drain rate (“expired money”; CRR)... then there is a “deficit”... and this is the “DEFICIT REDUCTION” addition... (\$8.31, each month, per unit)



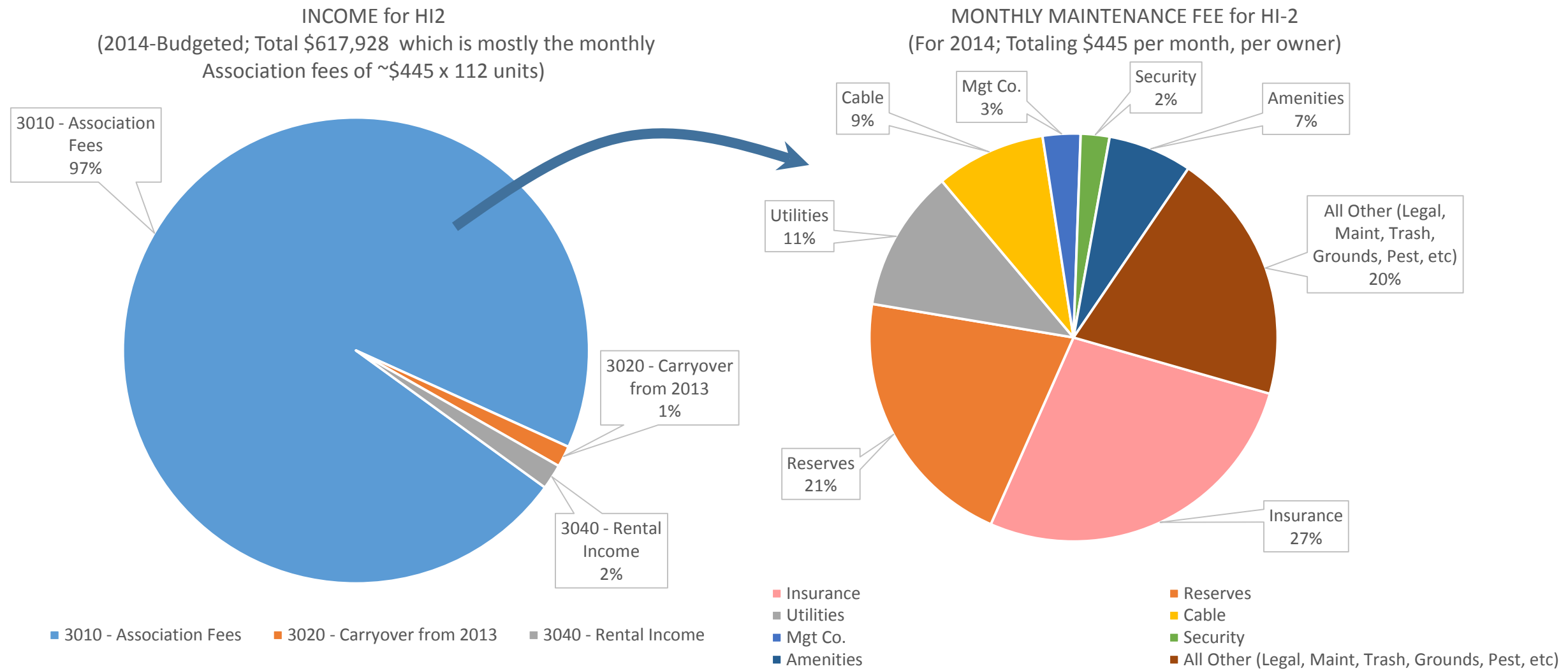
■ NOMINAL MONTHLY RESERVE FEE (per unit; \$)  
 ■ Add'l Monthly Fee to Eliminate Deficit in # of years, above (\$)  
**TOTAL: ~\$94/month, per unit, in 2014/2015**

**END OF “RESERVES” Data**

**Next Section:  
THE MONTHLY “MAINTENANCE FEE”**

# Monthly Maintenance Fee; Breakout

**BREAKOUT of 2014 "Monthly Maintenance Fee" from our TOTAL INCOME...**



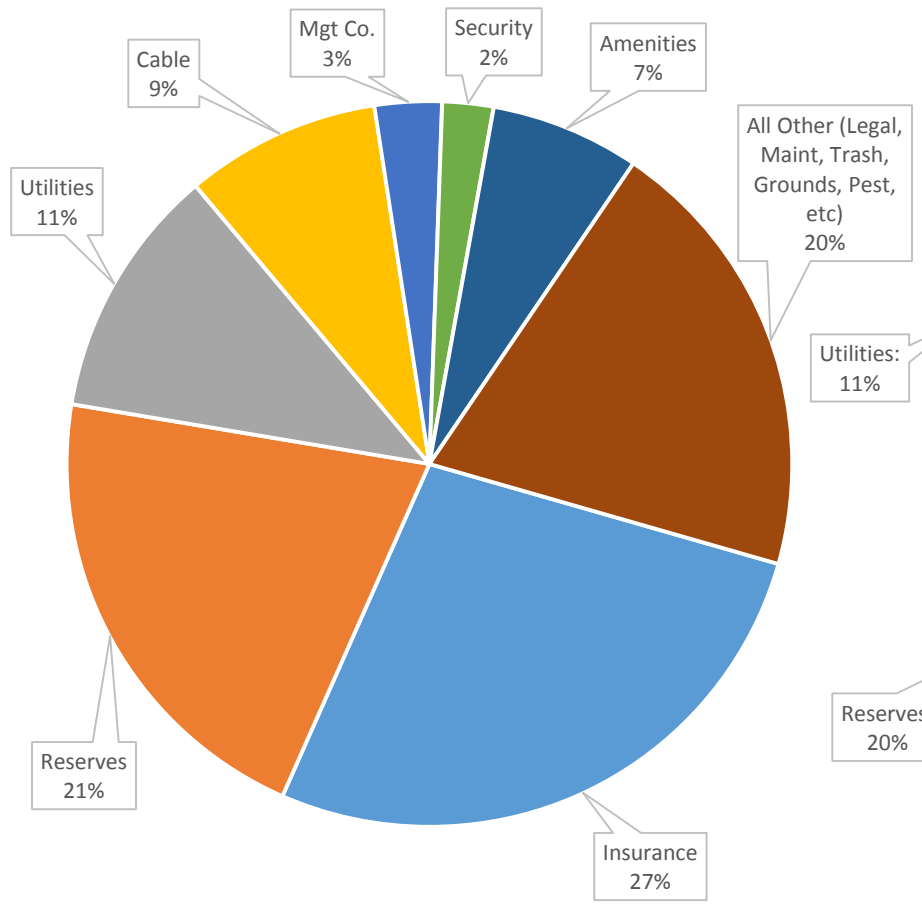


# Review of the 2014-2015 Change in Monthly Maintenance Fee

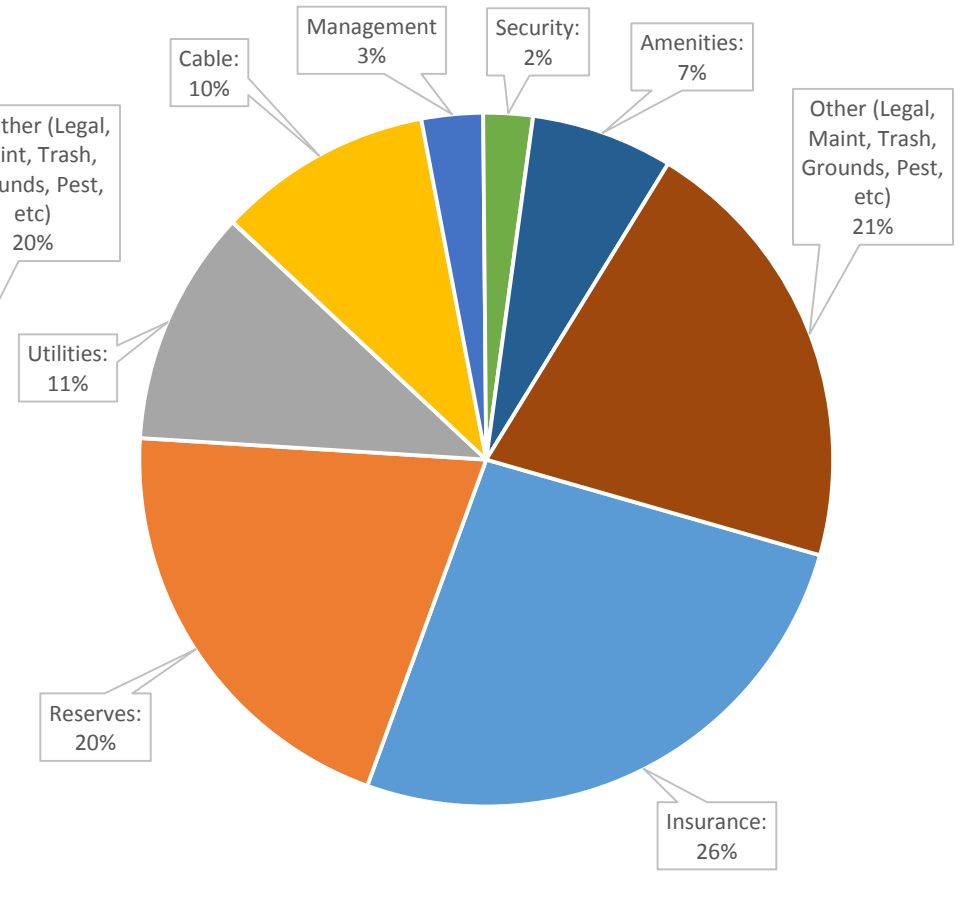


COMPARISON of 2014 → 2015 “Monthly Maintenance Fee” Breakdowns...

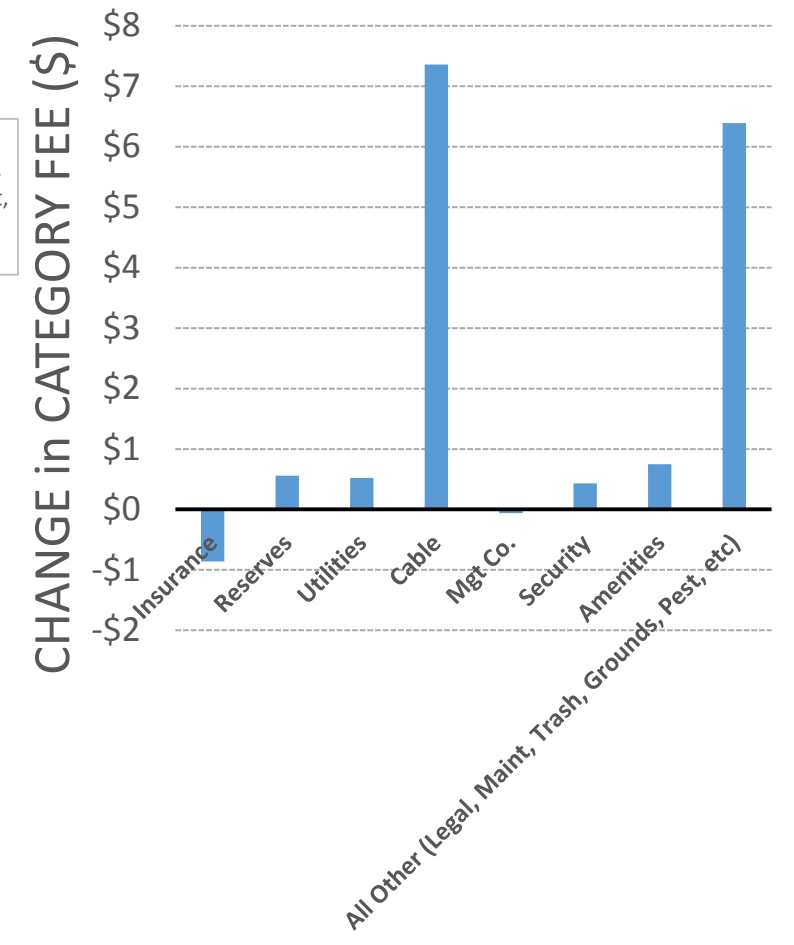
MONTHLY MAINTENANCE FEE for HI-2  
(For 2014; Totaling \$445 per month, per owner)



MONTHLY MAINTENANCE FEE for HI-2  
(As of 2015; Totaling \$460 per month, per owner)



CHANGE in MONTHLY FEE, PER CATEGORY  
From 2014 to 2015



# How Big is Big, for a Maintenance Fee?

## Maintenance Fee Comparison: Purpose & Approach



PURPOSE: To answer our question, “How does our monthly maintenance fee compare among local condos?” ...

### APPROACH:

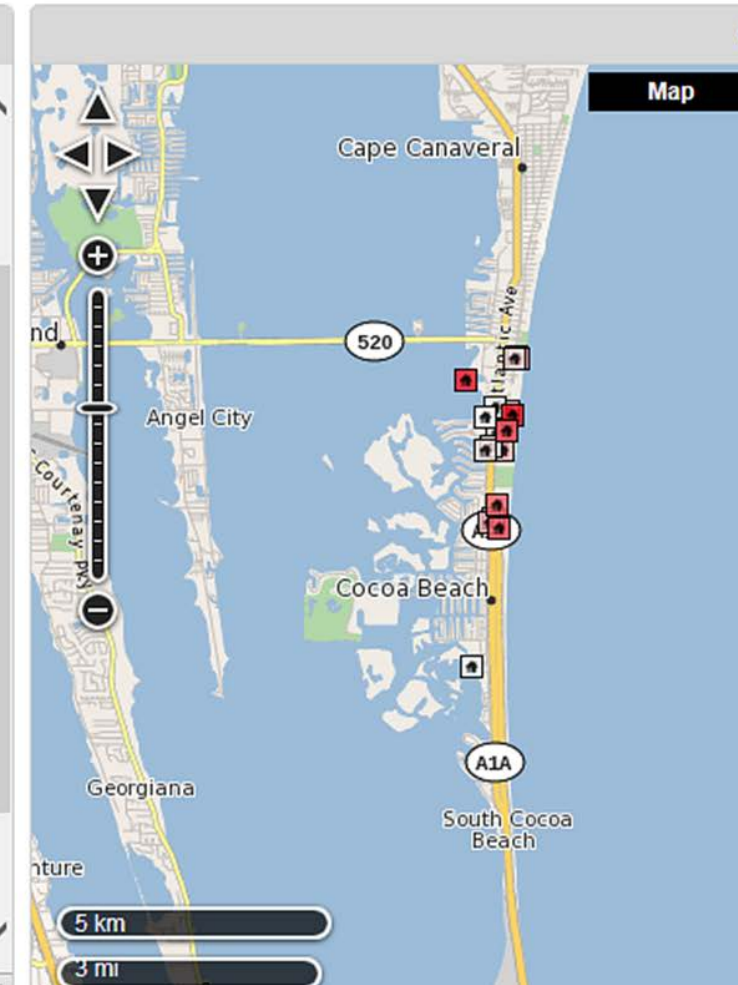
1) I took a quick, unscientific sample of semi-comparable condos within several miles, and plotted them. Into [www.BrevardMls.com](http://www.BrevardMls.com)... I entered “272” (to limit search to Cocoa Beach), narrowed to “condos” and only for waterfront property (to get comparable saltwater corrosion, insurance, etc; Banana- or Ocean-front condo associations), and further narrowed to only compare against condos with a community pool and tennis courts to maintain. This population narrowed to 25 listings (almost a tolerable handful) - for sale on 9-Apr-2015, via [www.brevardmls.com](http://www.brevardmls.com) - which I listed in order of selling price (~\$1M-\$150k), tabulated HOA fees, and highlighted Harbor Isles.

2) I also asked my realtor (Larry Walker; Walker-Bagwell Realty), for a data warehouse or site which documents histories of condo assessments. (He doesn't know of one, so... again, unscientifically...) I recalled anecdotal assessments (\$5000 here, \$10000 there, etc), and merely added a chart item so people can hand-enter to illustrate what an assessment would be like, if distributed monthly.

25 listings matched your search [View Results](#)

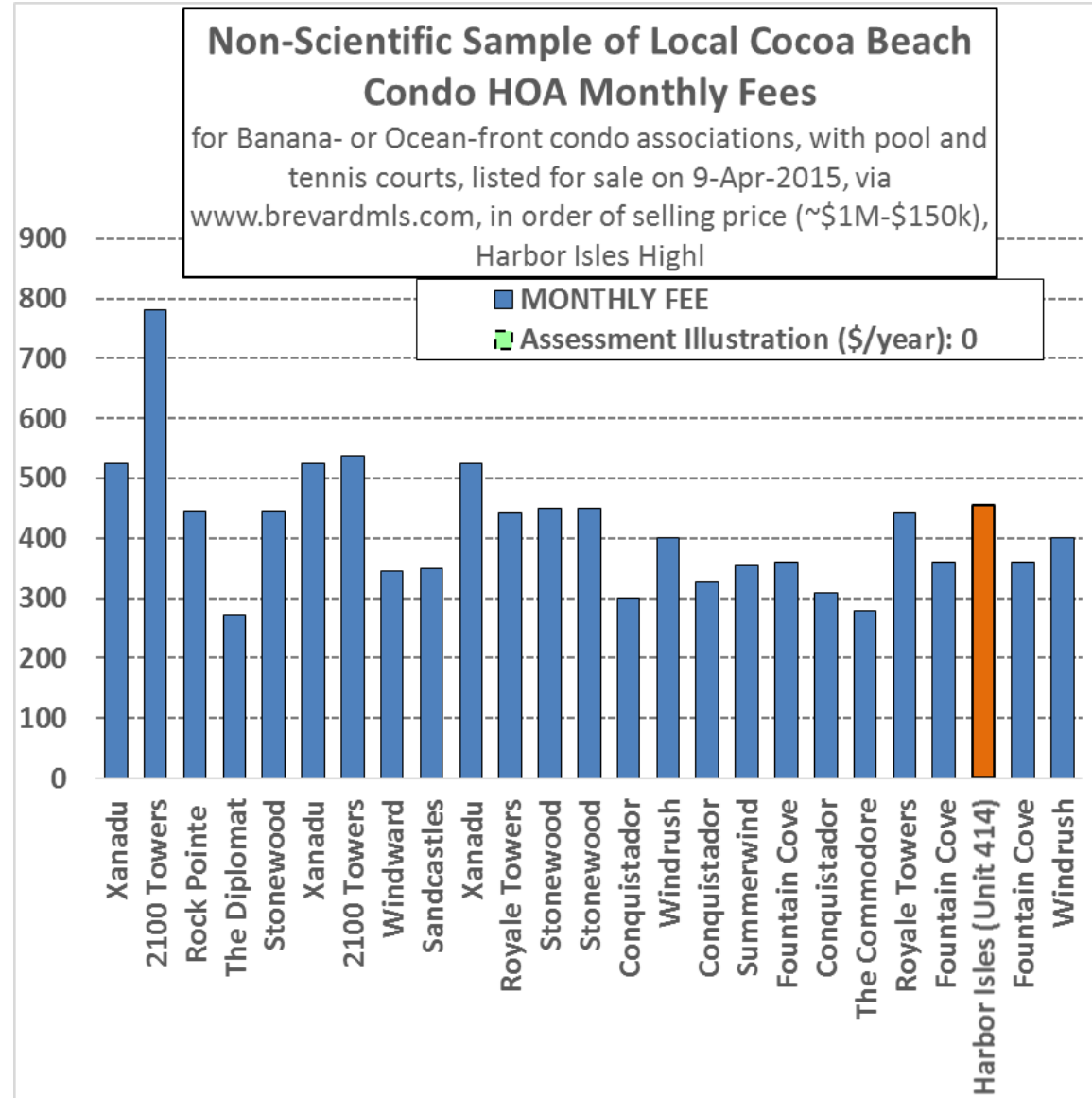
**Search** [Reset Search](#)

- Bedrooms X
- Baths - Total X
- Baths - Full X
- Baths - Half X
- SqFt - Living X
- Waterfront of [Yes](#) X
- Waterfront Type of [Banana River or Ocean](#) X
  - [or Banana River](#)  [or Canal Navigation](#)
  - [or Canal Non Navigation](#)  [or Crane Creek](#)
  - [or Deeded Access Only](#)  [or Eau Gallie River](#)
  - [or Horse Creek](#)  [or Indian River](#)
  - [or Lake/Pond](#)  [or Newfound Harbor](#)
  - [or None](#)  [or Ocean](#)
  - [or Sykes Creek](#)  [or Turkey Creek](#)
- Property Status X
- Year Built X
- Acreage X
- Dwelling View X
- Status of [Active](#) X
- Common Amenities of (or) [Tennis Courts](#) X
- Association Fee Incl of (or) [Pool Maintenance](#) X



# Monthly Maintenance Fee Comparison

## RESULTS (with no condos having assessments)



**LIMITATIONS OF THIS GRAPH:**

- 1) NO ASSESSMENT HISTORY of other condos. Most condos get assessments, but the statistical history is difficult to find. The “green bar” add-ons are only examples of assessments becoming “equivalent additions” to monthly fees (such as: \$1200/year = \$100/month, \$3600/3yrs = \$100/month, \$3600/yr = \$300/month, etc).
- 2) Some condos are repeated (as multiple units may be for sale) – although some condos charge different monthly fees based on unit size, orientation, height, etc.
- 3) These 25 condos are a small sample – from only one day – and only of units that are for sale.
- 4) No condo is the same (stucco vs. wood, dock vs. boardwalk, etc). Most large condo buildings have concrete roofs (more expensive to build, but generally afterward avoids the ~\$50,000/15-year fees of shingle replacement)

**The Average was \$417.80 (not counting assessments), with a standard deviation of ~\$108.96**

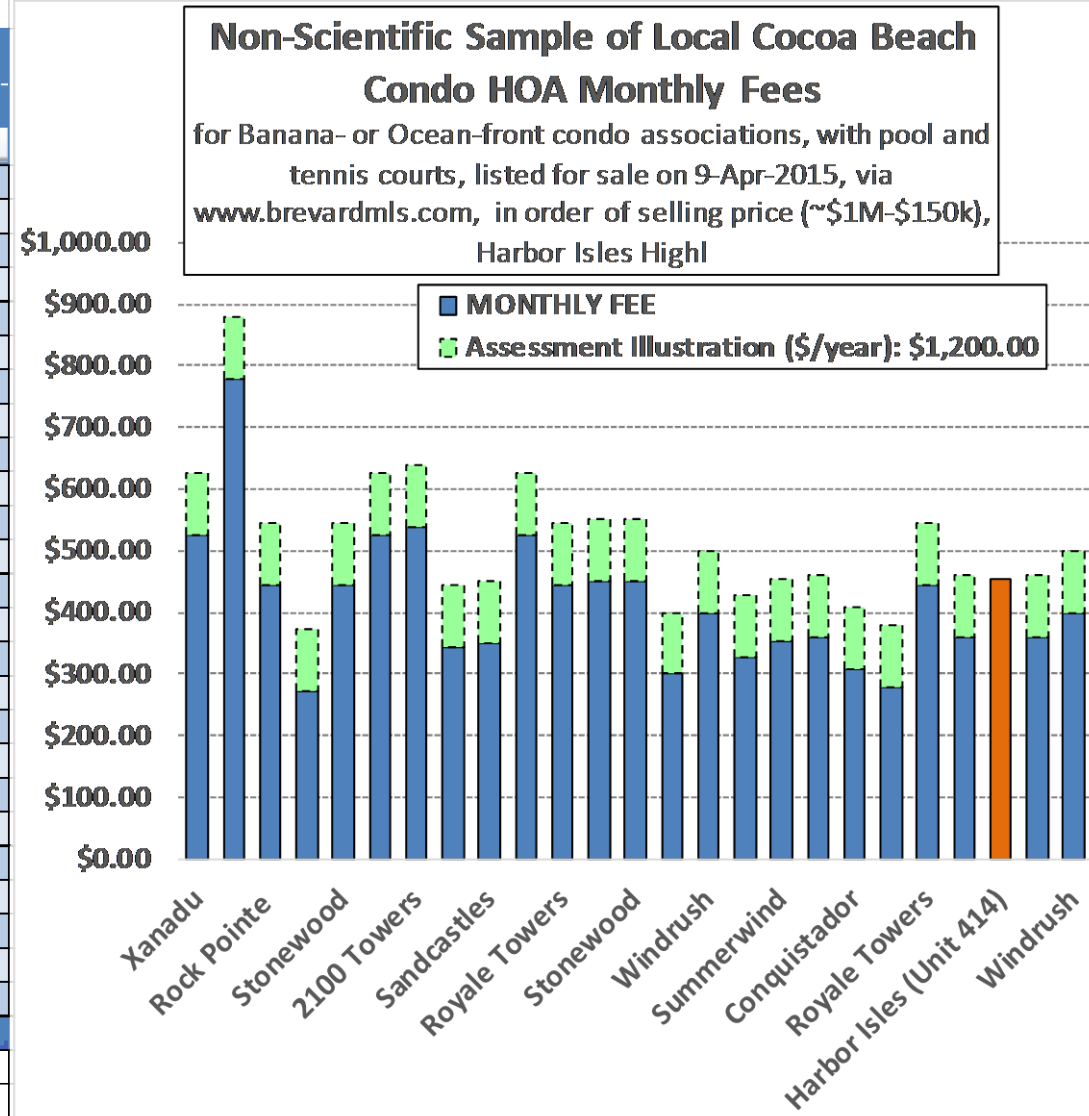
# Monthly Maintenance Fee Comparison

if we assume other condos have \$1200/year assessments



Assuming condos get SOME sort of assessment, we can make a place for that on the graph... and add an example assessment to illustrate an "equivalent" monthly (GREEN)

Order	Sale Price	Condo Association	Monthly Fee (\$/month)	Assessment Illustration (\$/year): <b>\$1,200.00</b>	Equivalent Monthly Fee (\$/month)	Ocean or River-front
1	\$1,000,000	Xanadu	\$525.00	\$100.00	\$625.00	Ocean
2		2100 Towers	\$780.15	\$100.00	\$880.15	River
3		Rock Pointe	\$445.00	\$100.00	\$545.00	River
4		The Diplomat	\$273.00	\$100.00	\$373.00	Ocean
5		Stonewood	\$445.00	\$100.00	\$545.00	Ocean
6		Xanadu	\$525.00	\$100.00	\$625.00	Ocean
7		2100 Towers	\$537.90	\$100.00	\$637.90	River
8		Windward	\$345.00	\$100.00	\$445.00	Ocean
9		Sandcastles	\$350.00	\$100.00	\$450.00	Ocean
10		Xanadu	\$525.00	\$100.00	\$625.00	Ocean
11		Royale Towers	\$444.00	\$100.00	\$544.00	Ocean
12		Stonewood	\$450.00	\$100.00	\$550.00	Ocean
13		Stonewood	\$450.00	\$100.00	\$550.00	Ocean
14		Conquistador	\$300.00	\$100.00	\$400.00	Ocean
15		Windrush	\$400.00	\$100.00	\$500.00	Ocean
16		Conquistador	\$328.00	\$100.00	\$428.00	Ocean
17		Summerwind	\$355.00	\$100.00	\$455.00	Ocean
18		Fountain Cove	\$360.00	\$100.00	\$460.00	River
19		Conquistador	\$308.00	\$100.00	\$408.00	Ocean
20		The Commodore	\$280.00	\$100.00	\$380.00	River
21		Royale Towers	\$444.00	\$100.00	\$544.00	Ocean
22		Fountain Cove	\$360.00	\$100.00	\$460.00	River
23		Harbor Isles (Unit 414)	\$455.00	\$100.00	\$555.00	River
24		Fountain Cove	\$360.00	\$100.00	\$460.00	River
25	\$150,000	Windrush	\$400.00	\$100.00	\$500.00	Ocean
<b>AVERAGE:</b>			<b>417.802</b>		<b>517.802</b>	
<b>STD DEVIATION:</b>			<b>108.9642</b>		<b>108.96419</b>	



Having an assessment is kinda like having your monthly fee raised (except you pay it all at once vs "QVC Easy-Pays", plus some won't pay, goes to collections, maybe foreclosures, court, etc).

Having a small assessment (like: \$3600 every 3 years) is equivalent to having your MONTHLY fee raised by \$100 per month. (\$100 per month x 12 months x 3 years = \$3600)

Having an assessment of \$3600 every year is like an extra \$300 PER MONTH on your maintenance fee.

Having a \$50,000 assessment (like Casa Playa, Ocean Paradise, and Waters Edge) every 20 years is like having an extra \$208/month on your maintenance fee.

**END of Section One (“Facts Only”)**

**Section Two:  
Includes “Opinions”**

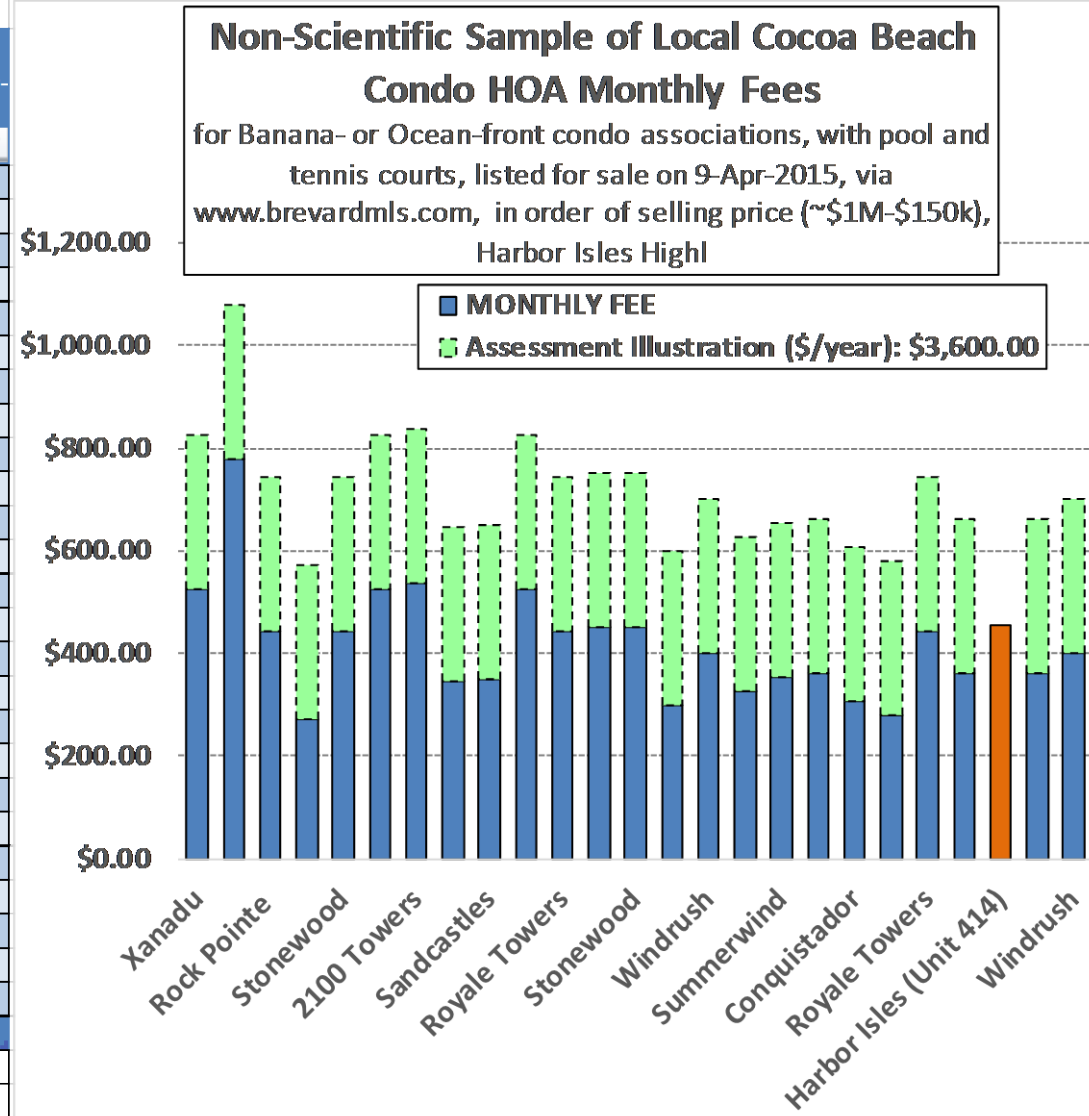
# The Monthly Maintenance Fee:

## Equivalent/Comparison to a \$3600/year Assessment...



I speculate that most condos get larger (\$2k-\$50k) assessments, so... to illustrate a ~worst-case annual special assessment of \$3,600... here's it's equivalent monthly...

Order	Sale Price	Condo Association	Monthly Fee (\$/month)	Assessment Illustration (\$/year): <b>\$3,600.00</b>	Equivalent Monthly Fee (\$/month)	Ocean or River-front
1	\$1,000,000	Xanadu	\$525.00	\$300.00	\$825.00	Ocean
2		2100 Towers	\$780.15	\$300.00	\$1,080.15	River
3		Rock Pointe	\$445.00	\$300.00	\$745.00	River
4		The Diplomat	\$273.00	\$300.00	\$573.00	Ocean
5		Stonewood	\$445.00	\$300.00	\$745.00	Ocean
6		Xanadu	\$525.00	\$300.00	\$825.00	Ocean
7		2100 Towers	\$537.90	\$300.00	\$837.90	River
8		Windward	\$345.00	\$300.00	\$645.00	Ocean
9		Sandcastles	\$350.00	\$300.00	\$650.00	Ocean
10		Xanadu	\$525.00	\$300.00	\$825.00	Ocean
11		Royale Towers	\$444.00	\$300.00	\$744.00	Ocean
12		Stonewood	\$450.00	\$300.00	\$750.00	Ocean
13		Stonewood	\$450.00	\$300.00	\$750.00	Ocean
14		Conquistador	\$300.00	\$300.00	\$600.00	Ocean
15		Windrush	\$400.00	\$300.00	\$700.00	Ocean
16		Conquistador	\$328.00	\$300.00	\$628.00	Ocean
17		Summerwind	\$355.00	\$300.00	\$655.00	Ocean
18		Fountain Cove	\$360.00	\$300.00	\$660.00	River
19		Conquistador	\$308.00	\$300.00	\$608.00	Ocean
20		The Commodore	\$280.00	\$300.00	\$580.00	River
21		Royale Towers	\$444.00	\$300.00	\$744.00	Ocean
22		Fountain Cove	\$360.00	\$300.00	\$660.00	River
23		Harbor Isles (Unit 414)	\$455.00	\$300.00	\$755.00	River
24		Fountain Cove	\$360.00	\$300.00	\$660.00	River
25	\$150,000	Windrush	\$400.00	\$300.00	\$700.00	Ocean
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# The Monthly Maintenance Fee: (Notes from my realtor; “CondoRanger”)



NOTES on “How big is big, for a monthly fee... and an assessment?”:

I contacted my realtor (Larry Walker; Walker-Bagwell Realty), asking for a data warehouse where “histories of assessments” are kept (he doesn’t know of one), but offered the following commentary...

“From my experience, in most average to large size buildings/complexes if monthlies aren't \$400-\$450 a month, it will wind up costing that after the assessments that surely accompany the lower monthlies. Doesn't seem to be much difference in river and ocean except for some river buildings without pools and/or elevators. When I sold my unit at Casa Playa, monthlies were over \$400 and in the 18 months following my sale, there were several special assessments totaling around \$50,000 per unit. I heard last week that Ocean Paradise in Satellite is about to go through a series of assessments this year totaling \$55,000 per unit. Waters Edge West in south Cocoa Beach is in the middle of their new seawall project. I don't know how much the assessment was but it was probably expensive from the looks of it.” – Larry Walker, Walker-Bagwell Realty, Cocoa Beach

*So, I don't know which is best (high monthly, or high assessments). I think the proper method to reduce the monthly fee is to “cut waste”; run a competitive budget... but I don't like the idea of using a “failure in foresight” (lower reserves, to cause a later assessment of \$5000+). I think: Target a “threshold reserve %” of ~80% or 100%, but compete contracts to cut expenses. - Sean*

# **SEAN'S OPINIONS**

**(only Sean's; no decisions here)**



**SECTION TWO**  
(Opinions)

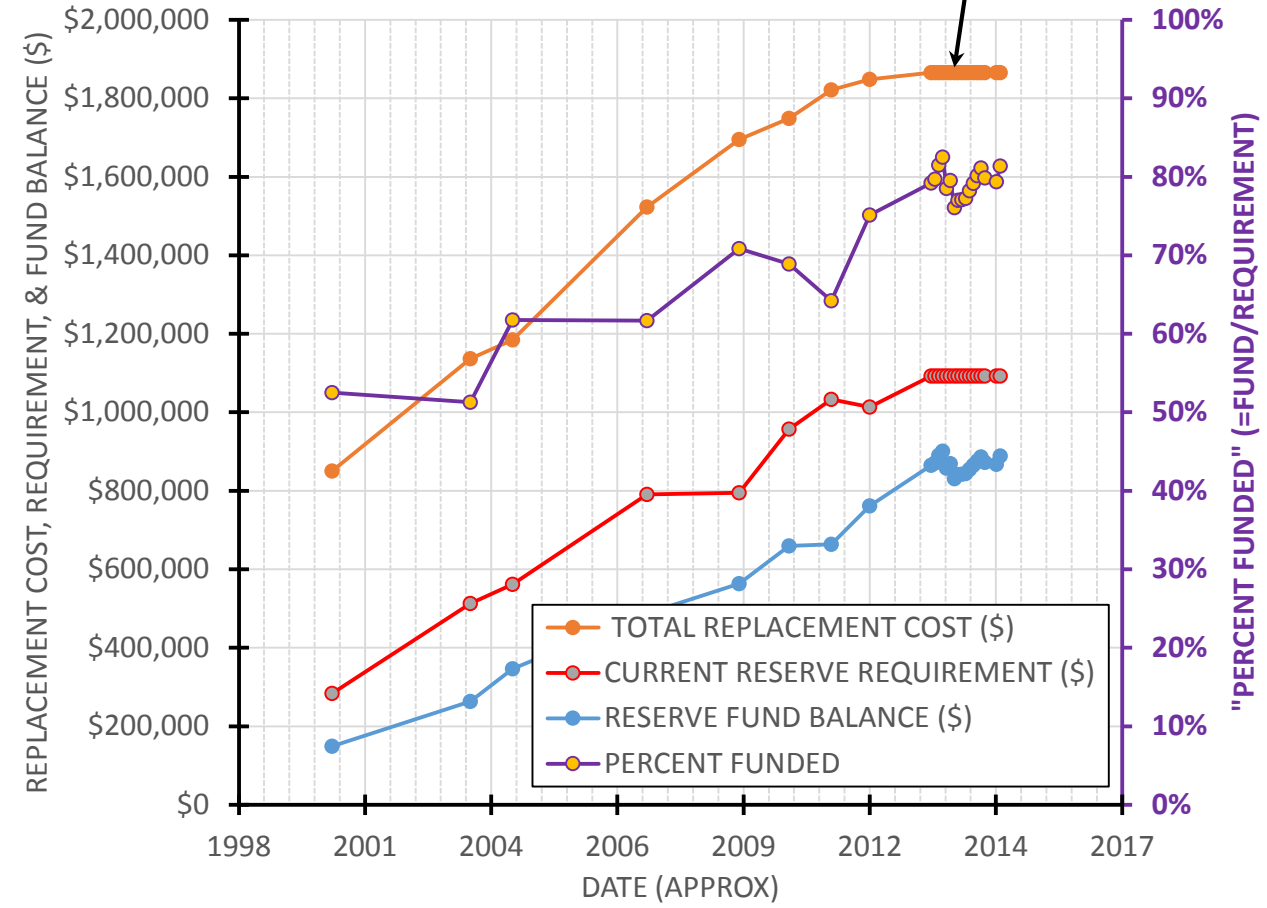
It looks to me (tentatively) that we've "leveled out" (Replacement Costs are NOT going up), as a mature, well-managed condo. So, now, if we compete contracts to get the best deals on the best service, fees may even go down.



**~15-YEAR LOOK BACK...**

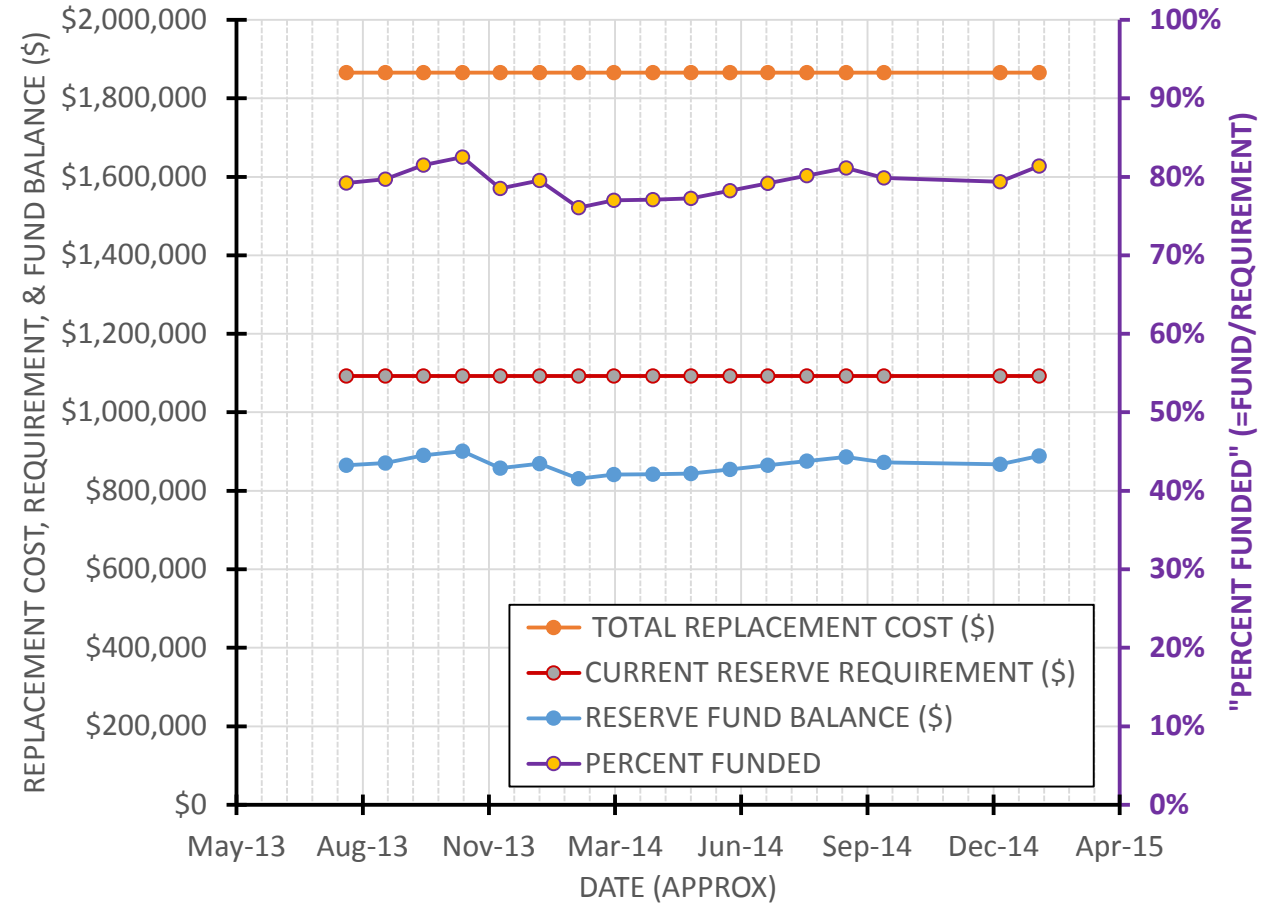
HI-2 RESERVE FUND: ~15-YEAR HISTORY

Appears to be "leveling out" - and if our Total Replacement Costs stay flat (or drops), our fees do, too.



**CURRENT...**

HI-2 RESERVE FUND: ~18-MONTH HISTORY



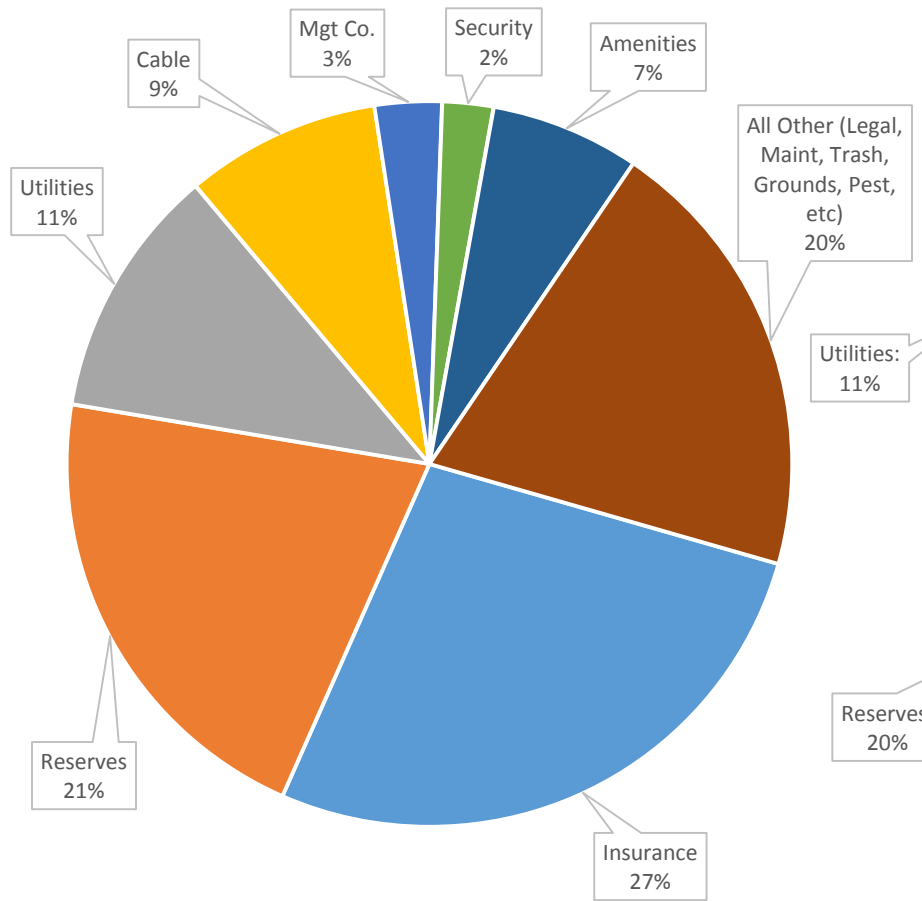
**SECTION TWO**  
 (Opinions)

**Problem #1:** Cable (Brighthouse networks) has been unfairly jacking up our rates.  
**The Solution:** Jerry has correctly identified, and begun negotiations, to fix.

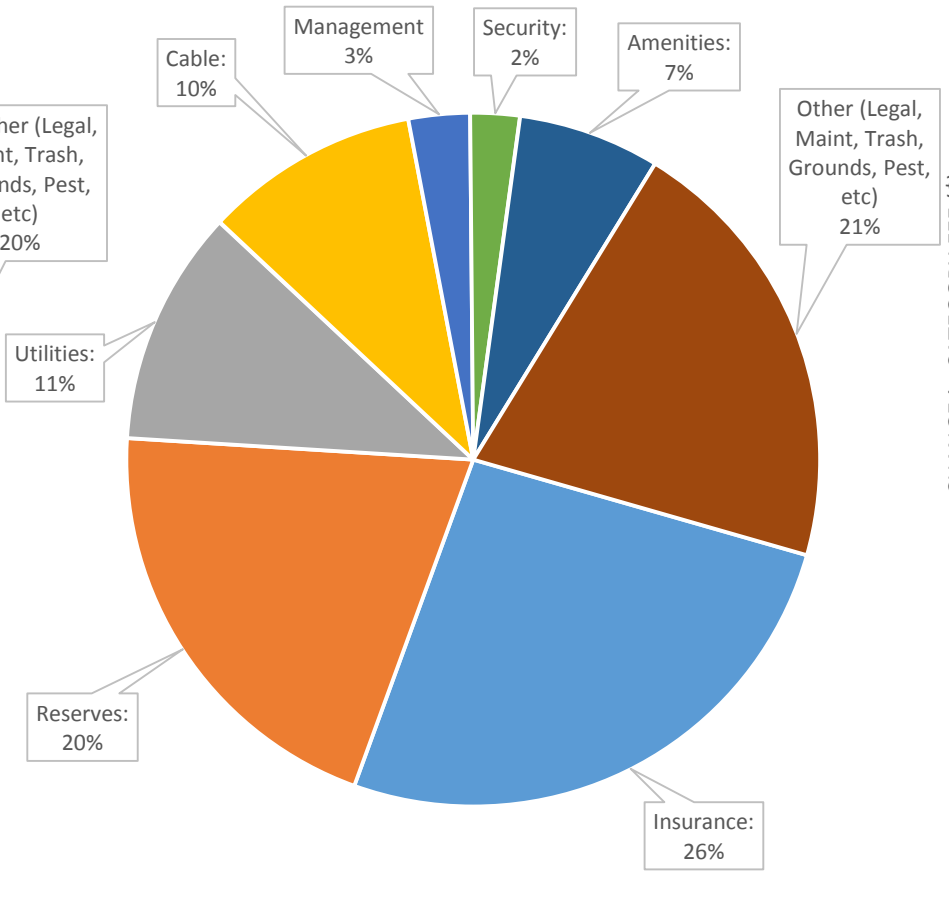
**COMPARISON of 2014 → 2015 "Monthly Maintenance Fee"**

Of the +\$15/month change: Inflation of Cable rate was the biggest cause; about 50% of our monthly increase.

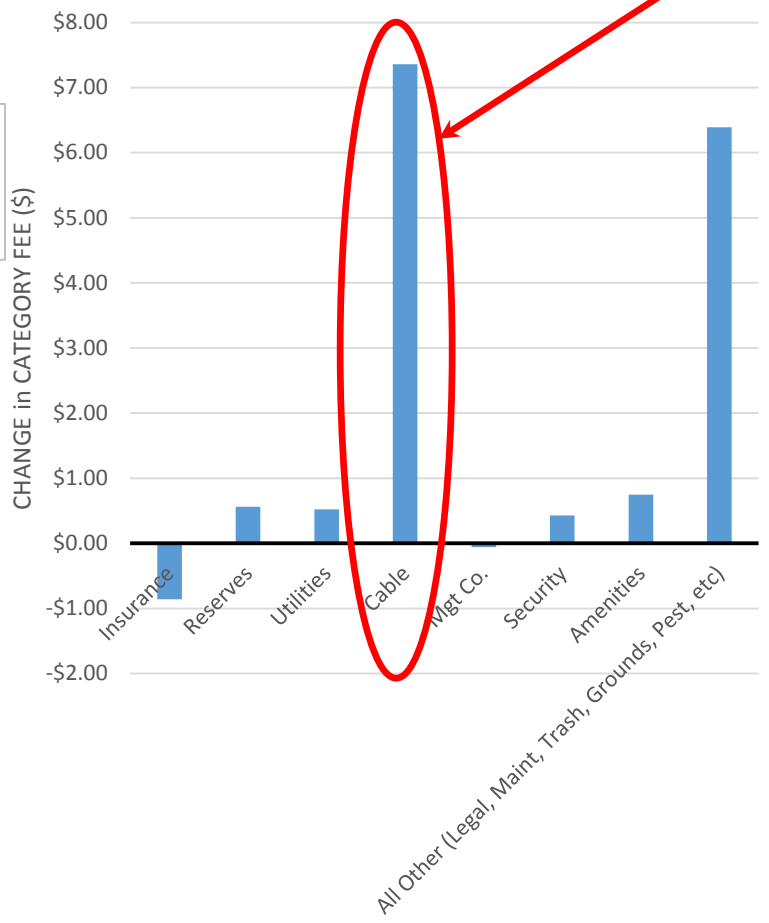
MONTHLY MAINTENANCE FEE for HI-2  
 (For 2014; Totaling \$445 per month, per owner)



MONTHLY MAINTENANCE FEE for HI-2  
 (As of 2015; Totaling \$460 per month, per owner)



CHANGE in MONTHLY FEE, PER CATEGORY  
 From 2014 to 2015

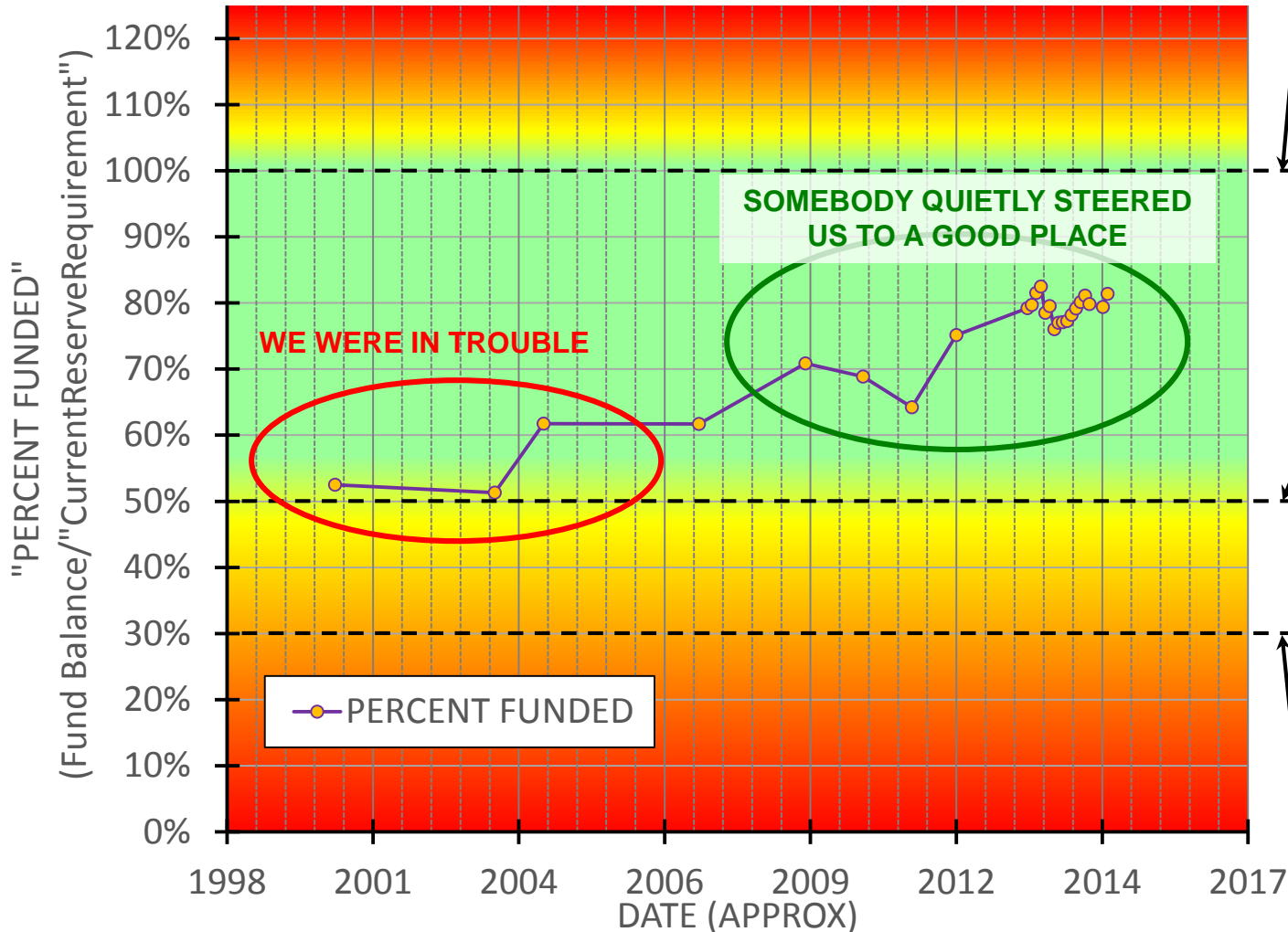


# RESERVES: Our fund seems at a good place (~80%)



100% seems the obvious target, but... Some say 70% is good (I don't know how - I guess by taking funds from one roof to pay for another; "Robbing Peter to pay Paul", etc, but...) Maybe after years of improvement, it's time to "lock in" a "threshold funding" of 80% (vs. 100%), so we'll save \$8/month. (Our monthly reserve fee would go to ~\$86/mo, rather than \$94/month, and we'd stop growth toward 100%. On the other hand, that \$8 would go down, anyway, as we approach/bust 100%, so... I'm yet undecided)

HI-2: History of Reserve "PERCENT FUNDED" Rating

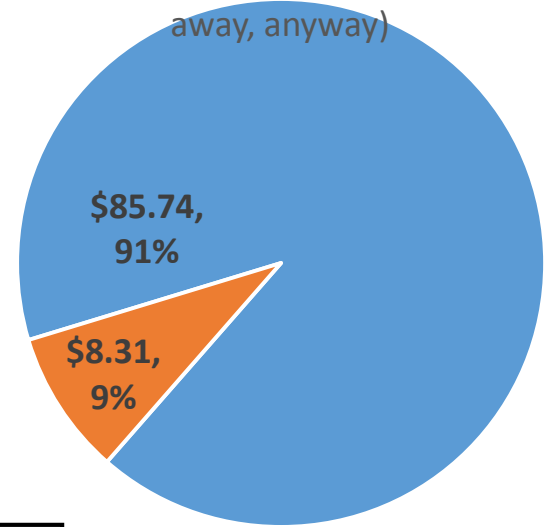


Above ~100%, some say condos run the risk of "corruption" (wasting money by - illegally - spending reserves on a gazebo, golden diving board, etc), and there are no benefits to a higher fund balance - unless invested fortunately.

50% seems like pending trouble (not having enough roofs to "Steal from Peter to pay Paul", but... I don't know

Below ~30%: Reportedly exponential increase in financial problems (financing fees, foreclosure, assessments, Fannie/Freddie won't buy those loans, etc)

SO: In other words, we could cut the \$8.31/month, below (small orange pie slice) - and supposedly be ok, by holding steady at 80%-funding. (Or: cut costs and get to 100%, then the \$8/month goes away, anyway)



- NOMINAL MONTHLY RESERVE FEE (per unit; \$)
- Add'l Monthly Fee to Eliminate Deficit in # of years, above (\$)

# DISCUSSION



Only Sean's thoughts...

## **Monthly "Reserve" Fee: To cut & pay via annual special assessments?**

We could (theoretically, within Florida Statutes... I think (?!))... cut our Monthly fee by ~\$8/month, by targeting a "threshold funding %" of 80% (roughly where we are, now).

- But, if we instead cut COSTS (by competing for top-quality contracts, without overpaying for top quality) – then that may bring our TRC down, and THAT will automatically get us us closer to 100% (= FB/CRR), which would AUTOMATICALLY cut our monthly fee (by us not having a deficit).
- Overestimates of Individual Replacement Costs (IRCs; like overestimating the price of a billiards table, pool cushions, roof, etc) will automatically self-correct, by leaving extra money in the Fund Balance AFTER the job, which cuts our deficit – which automatically cuts our monthly reserve fee payment (via the  $ADL = \text{Deficit} / 20\text{yrs}$ ).
- One problem with cutting the monthly fee even further (to "pay later, via annual special assessments") is that a falsely-low monthly fee brings in buyers who say, "Hey, I need a cheap monthly fee like that"... but, they won't be able to afford the true cost (monthly + annual special assessments). This "hidden" billing approach causes future financial troubles for buyers who have limited funds (and thus looked for that cheap monthly fee) – which causes higher rates of defaults & foreclosures for them, disrepair on HI-2 property, a drop in all of our property values (including theirs, which worsens their financial position), and higher fees for us (legal fees, management fees, etc) as the HI-2 board burns man-hours trying to collect the special assessment money from people who were already in financial distress. So, that's bad for everybody (them and us).

# CONCLUSION



We're good. We can get a little better.

## **RECOMMENDATIONS to keep our monthly expenses at their best value:**

- 1) Discuss... (we can look at capping our TRC, threshold %, using competition to cut costs, etc)...
- 2) Continue to aggressively compete (2-3 bids) for each "significant" cost on our budget.
- 3) Per Jerry Scholder's successes: Pursue cutting our Monthly fee by ~\$7, by getting Brighthouse networks to "roll back" our current monthly fee (which went up by 8%, for the last 3 consecutive years), to the ~2013/2014 rate... (while his additional successes of negotiating more services, bundled services, security, etc – continues, and will save money, at least on owners' personal upgrades).
- 4) Continue to pay our current "Reserve Study" at the historical pace (~\$2400 every 3 years for a "hands on" hardware review, with optional <\$1000 updates on off-years) – as this product (a Reserve Study), I believe, is the single most important tool we have: it FINDS these costs, allowing us to graph & discuss them (like we've done, here – since year-2000), to guide our future financial stability (and it costs less than 0.4% of our budget).

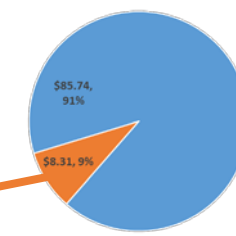


**END OF BOTH SECTIONS**



## BACKUP SLIDES

# “Zeno’s Paradox” of paying to “Eliminate the Deficit in 20 years”



The actual math approach is,

“We’ll pay down  $1/20^{\text{th}}$  of the CURRENT year’s deficit, next year”.

(Who cares?)



This means: You’re constantly updating “the deficit” (or overage) – EVERY YEAR, and paying only  $1/20^{\text{th}}$  of THAT amount.

(Who cares?)

This means (all else held constant): The SECOND year, you’re paying  $1/20^{\text{th}}$  of only  $19/20^{\text{th}}$  of the deficit, the 3<sup>rd</sup> year  $1/20^{\text{th}}$  of only  $18/20^{\text{th}}$ ... etc. Or, to use the mathematical philosopher’s “Zeno’s Paradox” example: ***If you walk toward the edge of a cliff, but – with each step – you’re only allowed to cut your REMAINING distance by  $1/20^{\text{th}}$ , then... will you ever fall off the cliff?***

(No – you merely keep getting “closer” to the cliff’s edge, with each step, and each step becomes smaller).

### The good:

- For desperately-deficient condos (0-30% funding), the INITIAL payment (such as:  $1/20^{\text{th}}$  of a 70% deficiency) helps start a process to build the condo out of danger within ~5-10 years, by taking “large but manageable bites” from the deficiency.
- This method adjusts for a “gentle landing” (as you get closer to 0-deficit, that portion of your monthly contribution gradually – and automatically - goes to zero)
- This method automatically REDUCES your monthly reserve fee, if you’ve gone over your target threshold (80%, 100%, or otherwise) – because the “ $1/20^{\text{th}}$  of the deficiency/overage adjustment” contribution turns NEGATIVE. (So: If your Reserve Study has overestimated actual costs - like \$6500 for a \$3500 pool table – your monthly fee will ultimately drop).

The bad: Never actually gets to your target threshold. (But, with the “noise” of annual updates, inflation, etc... this small mathematical nuance is probably never noticed, and only occurs in the long-term, well-managed, near-threshold years.)