

# Whitley Bay Reserves Analysis Committee Report 2022

## *Purpose of Reserves, Analysis and Plan, Recommendations*

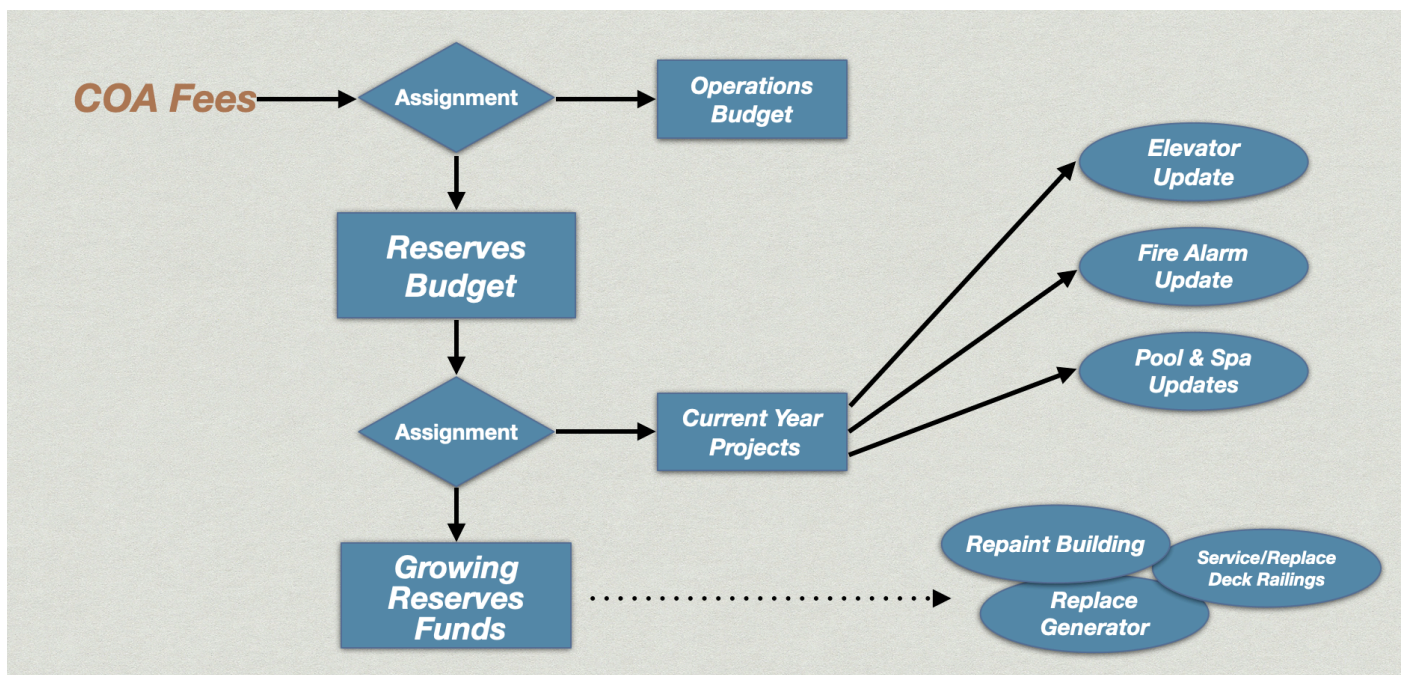
### Why Reserves ?

A. It's smart. Having a Reserves plan avoids surprise expenses, enables informed decisions, that in the long term saves money, and protects property values.

B. It's required by Florida law (updated extensively in 2022 by SB-4).

Condominium financial reporting rules must include, but not be limited to, standards for presenting a summary of association reserves, including a good faith estimate disclosing the annual amount of reserve funds that would be necessary for the association to fully fund reserves for each reserve item based on the straight-line accounting method. [Section 718-111\(13\)](#).

Work conducted by Whitley Bay's Reserves Analysis Committee over the past three years supports these two concerns.



HOW RESERVES WORKS

# Historical Perspective

## 2019-2020

In May 2019, Association Reserves Inc. completed a professional “[Full Reserves Study](#)” for Whitley Bay which reported we were funded at 24% of a “Fully-Funded Balance” (FFB). This shortcoming was the result of numerous years of funding Reserves at 50% of FFB, and prompted the Board to form a Reserves Analysis Committee to look over the study and recommend appropriate response.

In Fall 2019, the committee recommended and gained membership approval on two actions:

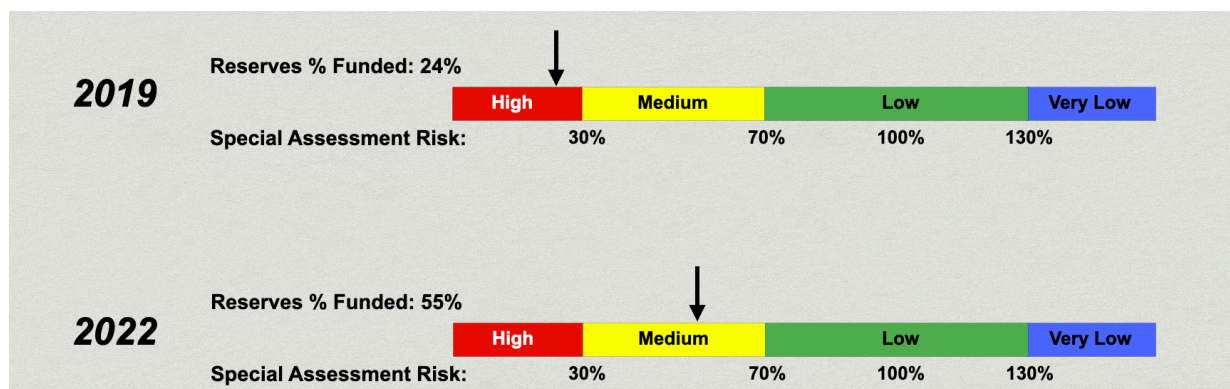
- Increase Reserves contributions by 60% to begin rebuilding Reserves funds from FY2020 on. Contributions lifted from \$64K to \$102K per year.
- Move from Straight-line to Pooled accounting, thereby reducing complexity and the total amount of cash needed on hand.

In Spring 2020, the committee scrutinized the Study, interviewed key suppliers and vendors, and adjusted useful life and replacement cost numbers in numerous categories. There were two significant aspects:

- The strategy offered by Association Reserves was to completely replace whole systems at end-of-life. The committee instead identified replacement of equipment elements with the goal of extending useful life while maintaining optimal performance.
- Using cash-flow analysis, the committee identified the Starting Reserve Balance as a critical indicator in meeting our long-term financial requirements. Beginning each year as planned assures we can comfortably pay for big-ticket items such as repainting the building, scheduled every 12-14 years.

In conclusion the committee judged that funding level was now adequate to meet requirements for 5-10 years, presented in the report “[WB Reserves Analysis 2020](#)”.

### IMPROVEMENT IN LONG-TERM STABILITY



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2021-2022

**SURFSIDE CONDOMINIUM COLLAPSE PROMPTS FLORIDA STATE SENATE BILL 4-D**

“New Florida law means big changes for condo associations”  
by Molly Duerig, Spectrum News, June 24, 2022

Before, condo buildings across Florida weren’t technically required to be inspected by a licensed architect or engineer after being built and occupied. Now, that must happen once a building turns either 25 or 30 years old, depending on its proximity to the coast, and again every 10 years afterward.

But SB 4-D includes another big change, too — one most condo associations aren’t prepared to handle, according to industry experts who spoke with Spectrum News.

Under the new law, condo associations must have enough money in their reserves to fund all repairs necessary to maintain the structural integrity of all buildings three stories or higher. Existing associations must meet this requirement before 2025.

<https://www.mynews13.com/fl/orlando/news/2022/06/23/new-building-safety-law-means-big-changes-for-condo-associations>

SB 4-D does impact Whitley Bay planning and Reserves funding, however we are in better shape than most associations; our current Reserves funding plan goes a long way towards meeting SB 4-D requirements.

- Whitley Bay construction was completed and turned over to WBCOA in 2004. This indicates comprehensive structural inspections for our area away from beachside must begin no later than 2034. WB has had several structural inspections in past years, with no significant issues.
- In ‘having enough money to fund repairs to maintain structural integrity’, the team strives to assure adequate cash-on-hand, as indicated by each year’s Starting Reserve Balance.
- The team also advocates for addressing maintenance and repair issues in a timely and aggressive manner, with a goal of eliminating any possible structural impact (eg. roof coatings, building painting, investigation/repair of cracks, settling, water ingress, etc.)

# Committee Analysis 2022

## 2020-22 Budgets vs Actuals

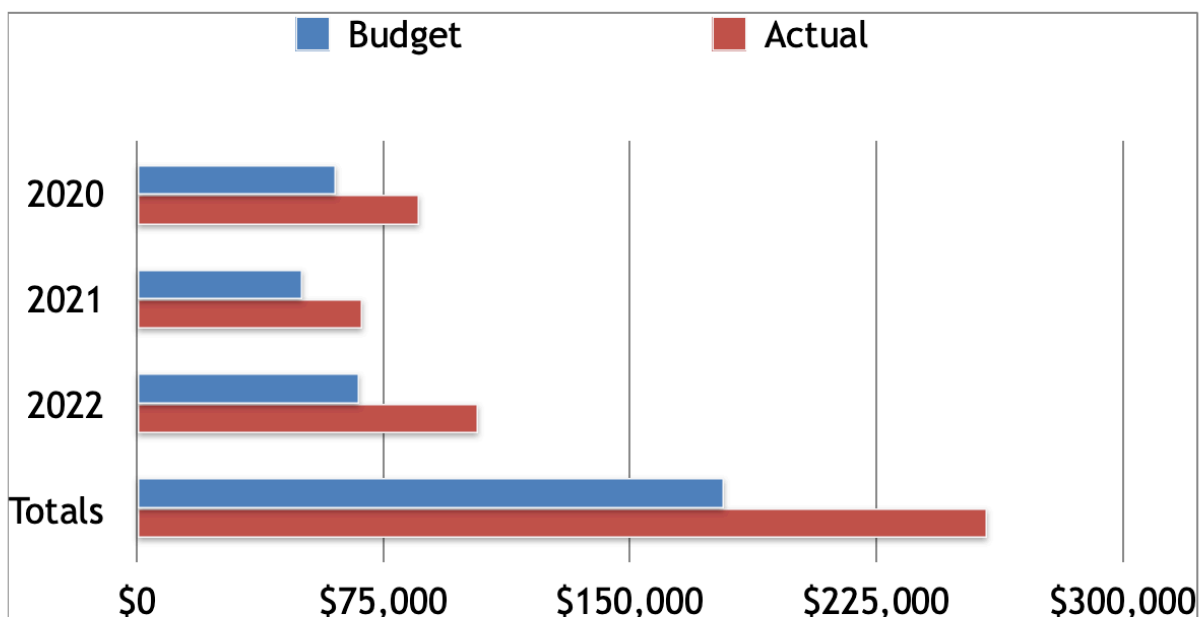
Past expenditures and timeframes affect forecast for later years. Specifically, paying for an item resets its values for useful life and replacement cost. Without that information, future forecasts are not accurate.

The team began by reviewing Reserves expenditures over the past three years and comparing them to the budget set up in 2020.

- WB Financial reports have not always clearly identified Reserves expenditures. Consequently, a fair amount of work was done to cross reference expenditures with explanations that sometimes appeared in Board meeting minutes.
- Over the past three years actual expenditures have exceeded budget by \$79,861 or 44.7%.

2020 Budget vs 2020-22 Actuals (a/o Aug 2022)

| Year          | Budget           | Actual           | Amt Over Budget | % Over Budget | Items Over Budget  |
|---------------|------------------|------------------|-----------------|---------------|--|
| 2020          | \$60,650         | \$86,050         | \$25,400        | 41.9%         | Struct survey, Garage painting, Elev cable repl, Gen cntl, ATP pump cntl, HW OD Syst (Home Depot), Walkway resurface, Garage door repl, RecRm kitch appliances |
| 2021          | \$50,500         | \$68,700         | \$18,200        | 36.0%         | Struct insp garage wall, Garage fan motors repl, Gutters over planter, HW OD syst (Remedial), Lobby remo   |
| 2022          | \$67,550         | \$103,811        | \$36,261        | 53.7%         | Otis elev syst upgr, ATP alarm syst upgr, RecRm HVAC, Jacuzzi rehab  |
| <b>Totals</b> | <b>\$178,700</b> | <b>\$258,561</b> | <b>\$79,861</b> | <b>44.7%</b>  |  |





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## Planning for the Future

### External Factors

The team solicited Board feedback on planned work and expected expenditures for the remainder of 2022, and during 2023.

- Of significant interest were anticipated costs for elevator and fire alarm system upgrades, HVAC replacements, and jacuzzi/pool repairs.

The team set key time/money factors, to keep up with current market conditions:

- **Interest rate** (for accumulating Reserves funds) was set as **0% (zero)**; savings accounts where used currently provide little or no interest income.
- **Inflation rate** was set to an average **2.4%** annually. While inflation currently is spiking, government forecasts indicate it will settle down after 2022.

These factors result in a Reserve Plan that shows shakiness in the near term, and weakness in the long-term. See *Appendix A: 30-year Reserve Plan Summary without Corrective Action where Reserves funding rate remains at \$102,456/year*.

To assure adequate funding for mid- and long-term requirements the team continues to plan on starting each year with amounts indicated by **Starting Reserve Balance**.

## Recommendations

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### Increase Reserves Contributions

To overcome the external factors of 1) minimal interest on savings, and 2) inflation\*, an increase in Reserves contribution is necessary to maintain near-term cashflow and assure long-term solvency. *\* Inflation reduces the buying power of Reserves WB already has, and increases future costs of equipment and services.*

The team recommends a **3.5% increase in the Reserves portion of COA fees** each year over the next 20 years to maintain solvency. The Reserves Analysis team recommends the Board include this progressive increase in future annual budgets, AND to evaluate periodically.

- FY2023 - increase from \$133.41 to \$138.08 / mo (increase of \$4.67)
- FY2024 - increase from \$138.08 to \$142.90 / mo (increase of \$4.82)
- FY2025 - increase from \$142.90 to \$147.91 / mo (increase of \$5.01)

Increasing Contributions results in a Reserve Plan that shows stability in the near term, and strength in the long-term. See *Appendix B: 30-year Reserve Plan Summary with Corrective Action where Reserves funding rate increases by 3.5% each year for 20 years*.

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## Transparency & Communications

1. When the Board has the 2023 budget ready for full membership approval, Reserves Committee requests to review / approve Reserves portion prior to.
2. Team presents a Reserves Update to general COA Membership, preferably at the Annual Meeting, explaining the Reserves plan and answering questions. This Update could also host an expert to explain Senate Bill 4-D and condo preparedness.
3. Team recommends the WB Treasurer keeps all Board members apprised of Reserves budget vs actuals within the fiscal year, via Monthly report or Board meeting report:
  - Show what is budgeted in current year, items/amounts/actual costs
  - Show what has been spent that was not budgeted in current year

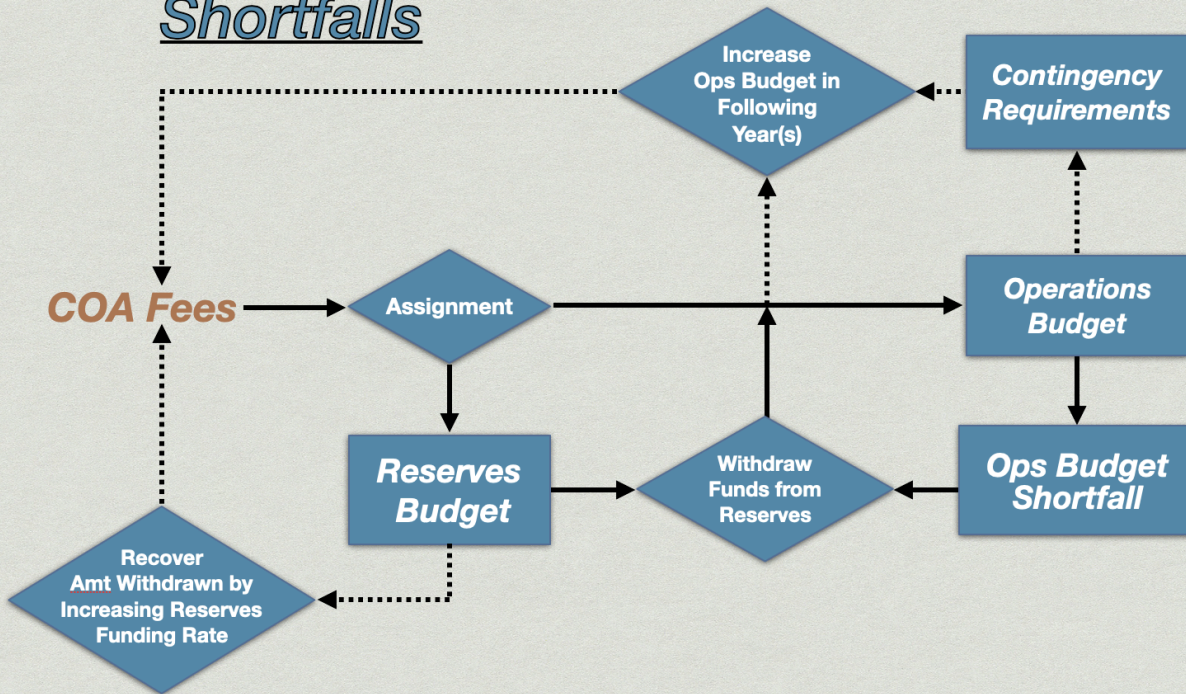
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## Emergency Funding

The Reserves Committee requests the Board prepare for emergency funding situations.

- The Board can increase budgets for Ops items by some agreed amount to cover unexpected costs. (Eg Increase insurance budget by 20%.), and/or
- The Board can establish an Ops “Contingency” line item that gets funded from HOA fees. (Eg 5-10% of the overall Ops budget.)
- If funds are used from either Ops source, no COA Membership vote would be needed.
- If there are no remaining available funds in the Operations budget, the Board may choose to withdraw Reserves funds, BUT the Board must call for a COA membership vote to pay for things NOT included in the list of Reserves items (per FL Statute FL Stat 718.112 (2f-3). The Law states “in advance”.

## Operations Budget Shortfalls



If funds are withdrawn from Reserves, the Reserves Committee will need to take action:

- Recommend an increase of Reserves funding in one or more following years, or
- Recommend a special assessment to recover the withdrawn amount.

Thank you for your attention and support.

Respectfully submitted,  
The Whitley Bay Reserves Analysis Committee

Members: Jim O'Leary, Mike Hall, Tracey Kickbusch, Ed Mango & Steve Shannon

# Appendix A - 30-year Reserve Plan Summary *without Corrective Action*

( *Reserves funding rate remains as-is at \$102,456/year* )

Table 5: 30-Year Reserve Plan Summary

36044

Fiscal Year Start: 01/01/20

Interest: 0.00%

Inflation: 2.40%

| Reserve Fund FFB Strength Calculations<br>(All values as of Fiscal Year Start Date) |                                |                            |                          |                          |  |  | Reserve Committee<br>Cash-Flow Strength |                               |                    |                     | Projected Reserve Balance Changes |  |  |  |
|---|--------------------------------|----------------------------|--------------------------|--------------------------|--|--|---|-------------------------------|--------------------|---------------------|-----------------------------------|--|--|--|
| Year  | Starting<br>Reserve<br>Balance | Fully<br>Funded<br>Balance | FFB<br>Percent<br>Funded | Special<br>Assmt<br>Risk | Start Res Bal<br>Against<br>\$400K Floor | Spl Assmt<br>Risk with<br>\$400k Floor | Reserve<br>Contribs.                    | Loans or<br>Special<br>Assmts | Interest<br>Income | Reserve<br>Expenses |                                   |  |  |  |
| 2020  | \$350,732                      | \$637,068                  | 55.1%                    | Medium                   | 87.7%                                    | Medium                                 | \$102,456                               | \$0                           | \$0                | \$86,950            |                                   |  |  |  |
| 2021  | \$366,238                      | \$668,122                  | 54.8%                    | Medium                   | 91.6%                                    | Medium                                 | \$102,456                               | \$0                           | \$0                | \$68,700            |                                   |  |  |  |
| 2022  | \$399,994                      | \$733,356                  | 54.5%                    | Medium                   | 100.0%                                   | Low                                    | \$102,456                               | \$0                           | \$0                | \$162,473           |                                   |  |  |  |
| 2023  | \$339,977                      | \$727,732                  | 46.7%                    | Medium                   | 85.0%                                    | Low                                    | \$102,456                               | \$0                           | \$0                | \$34,344            |                                   |  |  |  |
| 2024  | \$408,089                      | \$817,677                  | 49.9%                    | Medium                   | 102.0%                                   | Low                                    | \$102,456                               | \$0                           | \$0                | \$60,542            |                                   |  |  |  |
| 2025  | \$450,003                      | \$874,422                  | 51.5%                    | Medium                   | 112.5%                                   | Low                                    | \$102,456                               | \$0                           | \$0                | \$73,592            |                                   |  |  |  |
| 2026  | \$478,867                      | \$921,257                  | 52.0%                    | Medium                   | 119.7%                                   | Low                                    | \$102,456                               | \$0                           | \$0                | \$33,221            |                                   |  |  |  |
| 2027  | \$548,102                      | \$1,038,192                | 52.8%                    | Medium                   | 137.0%                                   | Low                                    | \$102,456                               | \$0                           | \$0                | \$35,390            |                                   |  |  |  |
| 2028  | \$615,169                      | \$1,144,977                | 53.7%                    | Medium                   | 153.8%                                   | Low                                    | \$102,456                               | \$0                           | \$0                | \$459,383           |                                   |  |  |  |
| 2029  | \$258,242                      | \$822,794                  | 31.4%                    | Medium                   | 64.6%                                    | Medium                                 | \$102,456                               | \$0                           | \$0                | \$169,598           |                                   |  |  |  |
| 2030  | \$191,100                      | \$784,128                  | 24.4%                    | High                     | 47.8%                                    | Medium                                 | \$102,456                               | \$0                           | \$0                | \$27,064            |                                   |  |  |  |
| 2031  | \$266,492                      | \$886,764                  | 30.1%                    | Medium                   | 66.6%                                    | Medium                                 | \$102,456                               | \$0                           | \$0                | \$0                 |                                   |  |  |  |
| 2032  | \$368,948                      | \$1,028,900                | 35.9%                    | Medium                   | 92.2%                                    | Low                                    | \$102,456                               | \$0                           | \$0                | \$49,913            |                                   |  |  |  |
| 2033  | \$421,491                      | \$1,126,237                | 37.4%                    | Medium                   | 105.4%                                   | Low                                    | \$102,456                               | \$0                           | \$0                | \$60,745            |                                   |  |  |  |
| 2034  | \$463,203                      | \$1,217,788                | 38.0%                    | Medium                   | 115.8%                                   | Low                                    | \$102,456                               | \$0                           | \$0                | \$46,274            |                                   |  |  |  |
| 2035  | \$519,385                      | \$1,329,396                | 39.1%                    | Medium                   | 129.8%                                   | Low                                    | \$102,456                               | \$0                           | \$0                | \$97,053            |                                   |  |  |  |
| 2036  | \$524,788                      | \$1,394,799                | 37.6%                    | Medium                   | 131.2%                                   | Low                                    | \$102,456                               | \$0                           | \$0                | \$61,163            |                                   |  |  |  |
| 2037  | \$566,081                      | \$1,511,401                | 37.5%                    | Medium                   | 141.5%                                   | Low                                    | \$102,456                               | \$0                           | \$0                | \$55,373            |                                   |  |  |  |
| 2038  | \$613,164                      | \$1,619,580                | 37.9%                    | Medium                   | 153.3%                                   | Low                                    | \$102,456                               | \$0                           | \$0                | \$149,342           |                                   |  |  |  |
| 2039  | \$566,278                      | \$1,631,568                | 34.7%                    | Medium                   | 141.6%                                   | Low                                    | \$102,456                               | \$0                           | \$0                | \$40,801            |                                   |  |  |  |
| 2040  | \$627,933                      | \$1,775,048                | 35.4%                    | Medium                   | 157.0%                                   | Low                                    | \$102,456                               | \$0                           | \$0                | \$726,323           |                                   |  |  |  |
| 2041  | \$4,066                        | \$1,264,464                | 0.3%                     | High                     | 1.0%                                     | High                                   | \$102,456                               | \$0                           | \$0                | \$21,721            |                                   |  |  |  |
| 2042  | \$84,801                       | \$1,425,769                | 5.9%                     | High                     | 21.2%                                    | High                                   | \$102,456                               | \$0                           | \$0                | \$128,481           |                                   |  |  |  |
| 2043  | \$58,776                       | \$1,485,299                | 4.0%                     | High                     | 14.7%                                    | High                                   | \$102,456                               | \$0                           | \$0                | \$332,147           |                                   |  |  |  |
| 2044  | -\$170,914                     | \$1,341,470                | 0.0%                     | High                     | -42.7%                                   | High                                   | \$102,456                               | \$0                           | \$0                | \$288,570           |                                   |  |  |  |
| 2045  | -\$357,029                     | \$1,242,667                | 0.0%                     | High                     | -89.3%                                   | High                                   | \$102,456                               | \$0                           | \$0                | \$39,804            |                                   |  |  |  |
| 2046  | -\$294,376                     | \$1,400,177                | 0.0%                     | High                     | -73.6%                                   | High                                   | \$102,456                               | \$0                           | \$0                | \$68,549            |                                   |  |  |  |
| 2047  | -\$260,469                     | \$1,536,075                | 0.0%                     | High                     | -65.1%                                   | High                                   | \$102,456                               | \$0                           | \$0                | \$18,971            |                                   |  |  |  |
| 2048  | -\$176,985                     | \$1,730,142                | 0.0%                     | High                     | -44.2%                                   | High                                   | \$102,456                               | \$0                           | \$0                | \$114,909           |                                   |  |  |  |
| 2049  | -\$189,437                     | \$1,834,865                | 0.0%                     | High                     | -47.4%                                   | High                                   | \$102,456                               | \$0                           | \$0                | \$0                 |                                   |  |  |  |

Top of Weak Range: 30.0% High  
Top of Fair Range: 70.0% Medium  
Top of Strong Range: 130.0% Low  
Named Surplus: Low



## Appendix B - 30-year Reserve Plan Summary with Corrective Action

(Reserves funding rate increases by 3.5% each year for 20 years)

Table 5: 30-Year Reserve Plan Summary

36044

Fiscal Year Start: 01/01/20

Interest: 0.00% Inflation: 2.40%

| Year | Reserve Fund FFB Strength Calculations<br>(All values as of Fiscal Year Start Date) |                            |                          |                          | Reserve Committee<br>Cash-Flow Strength  |  | Projected Reserve Balance Changes |                               |                    |                     |
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| 2020 | \$350,732   | \$637,068                  | 55.1%                    | Medium                   | 87.7%                                    | Medium                                 | \$102,456                         | \$0                           | \$0                | \$86,950            |
| 2021 | \$366,238   | \$668,122                  | 54.8%                    | Medium                   | 91.6%                                    | Medium                                 | \$102,456                         | \$0                           | \$0                | \$68,700            |
| 2022 | \$399,994   | \$733,356                  | 54.5%                    | Medium                   | 100.0%                                   | Low                                    | \$102,456                         | \$0                           | \$0                | \$162,473           |
| 2023 | \$339,977   | \$727,732                  | 46.7%                    | Medium                   | 85.0%                                    | Low                                    | \$106,042                         | \$0                           | \$0                | \$34,344            |
| 2024 | \$411,675   | \$817,677                  | 50.3%                    | Medium                   | 102.9%                                   | Low                                    | \$109,753                         | \$0                           | \$0                | \$60,542            |
| 2025 | \$460,887   | \$874,422                  | 52.7%                    | Medium                   | 115.2%                                   | Low                                    | \$113,595                         | \$0                           | \$0                | \$73,592            |
| 2026 | \$500,890   | \$921,257                  | 54.4%                    | Medium                   | 125.2%                                   | Low                                    | \$117,571                         | \$0                           | \$0                | \$33,221            |
| 2027 | \$585,239   | \$1,038,192                | 56.4%                    | Medium                   | 146.3%                                   | Low                                    | \$121,686                         | \$0                           | \$0                | \$35,390            |
| 2028 | \$671,535   | \$1,144,977                | 58.7%                    | Medium                   | 167.9%                                   | Low                                    | \$125,945                         | \$0                           | \$0                | \$459,383           |
| 2029 | \$338,097   | \$822,794                  | 41.1%                    | Medium                   | 84.5%                                    | Medium                                 | \$130,353                         | \$0                           | \$0                | \$169,598           |
| 2030 | \$298,852   | \$784,128                  | 38.1%                    | Medium                   | 74.7%                                    | Medium                                 | \$134,915                         | \$0                           | \$0                | \$27,064            |
| 2031 | \$406,702   | \$886,764                  | 45.9%                    | Medium                   | 101.7%                                   | Medium                                 | \$139,637                         | \$0                           | \$0                | \$0                 |
| 2032 | \$546,339   | \$1,028,900                | 53.1%                    | Medium                   | 136.6%                                   | Low                                    | \$144,524                         | \$0                           | \$0                | \$49,913            |
| 2033 | \$640,951   | \$1,126,237                | 56.9%                    | Medium                   | 160.2%                                   | Low                                    | \$149,583                         | \$0                           | \$0                | \$60,745            |
| 2034 | \$729,789   | \$1,217,788                | 59.9%                    | Medium                   | 182.4%                                   | Low                                    | \$154,818                         | \$0                           | \$0                | \$46,274            |
| 2035 | \$838,333   | \$1,329,396                | 63.1%                    | Medium                   | 209.6%                                   | Low                                    | \$160,237                         | \$0                           | \$0                | \$97,053            |
| 2036 | \$901,517   | \$1,394,799                | 64.6%                    | Medium                   | 225.4%                                   | Low                                    | \$165,845                         | \$0                           | \$0                | \$61,163            |
| 2037 | \$1,006,199   | \$1,511,401                | 66.6%                    | Medium                   | 251.5%                                   | Low                                    | \$171,650                         | \$0                           | \$0                | \$55,373            |
| 2038 | \$1,122,476   | \$1,619,580                | 69.3%                    | Medium                   | 280.6%                                   | Low                                    | \$177,657                         | \$0                           | \$0                | \$149,342           |
| 2039 | \$1,150,791   | \$1,631,568                | 70.5%                    | Low                      | 287.7%                                   | Low                                    | \$183,875                         | \$0                           | \$0                | \$40,801            |
| 2040 | \$1,293,865   | \$1,775,048                | 72.9%                    | Low                      | 323.5%                                   | Low                                    | \$190,311                         | \$0                           | \$0                | \$726,323           |
| 2041 | \$757,853   | \$1,264,464                | 59.9%                    | Medium                   | 189.5%                                   | Low                                    | \$196,972                         | \$0                           | \$0                | \$21,721            |
| 2042 | \$933,104   | \$1,425,769                | 65.4%                    | Medium                   | 233.3%                                   | Low                                    | \$203,866                         | \$0                           | \$0                | \$128,481           |
| 2043 | \$1,008,489   | \$1,485,299                | 67.9%                    | Medium                   | 252.1%                                   | Low                                    | \$203,866                         | \$0                           | \$0                | \$332,147           |
| 2044 | \$880,208   | \$1,341,470                | 65.6%                    | Medium                   | 220.1%                                   | Low                                    | \$203,866                         | \$0                           | \$0                | \$288,570           |
| 2045 | \$795,504   | \$1,242,667                | 64.0%                    | Medium                   | 198.9%                                   | Low                                    | \$203,866                         | \$0                           | \$0                | \$39,804            |
| 2046 | \$959,566   | \$1,400,177                | 68.5%                    | Medium                   | 239.9%                                   | Low                                    | \$203,866                         | \$0                           | \$0                | \$68,549            |
| 2047 | \$1,094,883   | \$1,536,075                | 71.3%                    | Low                      | 273.7%                                   | Low                                    | \$203,866                         | \$0                           | \$0                | \$18,971            |
| 2048 | \$1,279,777   | \$1,730,142                | 74.0%                    | Low                      | 319.9%                                   | Low                                    | \$203,866                         | \$0                           | \$0                | \$114,909           |
| 2049 | \$1,368,734   | \$1,834,865                | 74.6%                    | Low                      | 342.2%                                   | Low                                    | \$203,866                         | \$0                           | \$0                | \$0                 |

Top of Weak Range: 30.0% High  
Top of Fair Range: 70.0% Medium  
Top of Strong Range: 130.0% Low  
Named Surplus: Low