



RESERVE STUDY - DECEMBER 16, 2022
Sterling Oaks Homeowners Association Oak Park, California

REVIEWED BY:		
Les Weinberg, MBA, RS DATE: December 16, 2022		



OVERVIEW

This "Full" Reserve Study has been prepared for "Sterling Oaks Homeowners Association" in , . It consists of three main divisions:

The **Summary** is a brief synopsis of the results of the Reserve Study for compliance with the Civil Code.

The **Financial Analysis** utilizes the data gathered from the Condition Assessment. Future expenditures by year over a 30-year period are then projected. Specific information regarding methods and assumptions are delineated in that section.

The **Condition Assessment** is both an inventory and examination of the major components that are subject to deterioration within the 30-year scope of this study. Specific information regarding survey methods and assumptions are delineated in that section.

Information contained in this report will assist in compliance with the provisions of California Civil Code, Sections 5300, 5570, and 5550 which require, among other items, that a pro forma operating budget (which should include a summary of the Reserve Study) be distributed between 30 and 90 days prior to the beginning of the calendar/fiscal year. The code requires that a Reserve Study with a visual inspection be performed at least once every 3 years, which must be updated annually. The summary of the Reserve Study must include:

- 1) An estimation of remaining life expectancy of those components.
- 2) A statement of annual contributions necessary to defray such costs.
- 3) Identification of common area components with less than a 30-year life.
- 4) A statement showing the current reserves available to defray such costs.
- 5) "Percent Funded" (i.e., item #4 above divided by item #3).
- 6) A statement as to whether the board has determined or anticipates any special assessments.
- 7) A statement regarding the procedures used for calculation and establishment of the reserves.

DOCUMENTS TO BE DISTRIBUTED (within 30 – 90 days prior to the fiscal year the study is for):

- 1) **Summary**
- 2) **Component Inventory**
- 3) **ARFDS (Assessment and Reserve Funding Disclosure Summary)**
- 4) **Copies of the full Reserve Study should be made available upon request.**

In addition to the legal objectives, the information contained in the study will provide a perpetual inventory of all common area components which can be expanded should the project undergo any future physical changes. Also, the detailed schedules will serve as an advance warning system with respect to major repair or replacement of the components. This will allow time for obtaining competitive bids, ultimately resulting in cost savings. As a planning tool, the study can be utilized as a "maintenance monitor", thus obtaining maximum life potential from the components and avoiding the "quick-fix" option that can occur due to a lack of funds.

One of the most important aspects of this report is that it will provide an educated estimate as to what the monthly reserve contribution realistically needs to be. This will ensure the physical well-being of the project while helping to avoid unexpected and costly special assessments.

It is important to note that the information contained herein includes estimates and assumptions based on various sources of information. While every effort has been made to ensure accurate results, this report reflects the judgment of Reserve Studies Inc. based on conditions present at the time of the study and should not be construed as a guarantee or assurance of future events. This study has been undertaken by an independent third party. RSI (Reserve Studies Inc.) has no involvement with the client outside of the scope of the services provided herein.

SUMMARY
STERLING OAKS HOMEOWNERS ASSOCIATION

ASSUMPTIONS:

(A) FISCAL (12 MONTH) PERIOD RESERVE STUDY IS TO COVER:	1/1/2023	through	12/31/2023
(B) INFLATION FACTOR (10 year average CPI per Bureau of Labor Statistics):			1.88%
(C) INTEREST % ON RESERVE FUNDS (unless provided, assumed to be 1%):			1.0000%
(D) BEGINNING RESERVE BALANCE PER ASSOCIATION AS OF:	1/1/2023		\$78,499
(E) NUMBER OF UNITS:			82

ANALYSIS OF MONTHLY <u>RESERVE</u> CONTRIBUTION	PERIOD			TOTAL	PER UNIT ¹
(F) CURRENTLY BUDGETED PER ASSOCIATION:	1/1/2022	through	12/31/2022	\$0.00	\$0.00
(G) RECOMMENDED TO BUDGET (see Funding Plan #3²):	1/1/2023	through	12/31/2023	\$1,541.60	\$18.80
(H) <u>DOLLAR</u> INCREASE / (DECREASE) ("G" less "F"):	1/1/2023	through	12/31/2023	\$1,541.60	\$18.80
(I) <u>%</u> INCREASE / (DECREASE) ("H" divided by "F"):	1/1/2023	through	12/31/2023	N/A	N/A
(J) SPECIAL ASSESSMENT (ANNUAL) - IN ADDITION TO "G":	1/1/2023	through	12/31/2023	\$0.00	\$0.00
(K) FUTURE <u>ANNUAL</u> % INCREASES / (DECREASES):	1/1/2024	through	1/1/2024	6.00%	6.00%
	1/1/2027	through	1/1/2052	2.64%	2.64%

ANALYSIS OF MONTHLY <u>ASSESSMENT</u> ("DUES"):	PERIOD			TOTAL	PER UNIT ¹
(L) CURRENTLY BUDGETED PER ASSOCIATION:	1/1/2022	through	12/31/2022	\$7,708.00	\$94.00
(M) RESERVE CONTRIBUTION <u>%</u> (item "F" divided by "L"):	1/1/2022	through	12/31/2022	0.00%	0.00%
(N) % CHANGE IN ASSESSMENT ("H" divided by "L") (if recommended reserve contribution implemented)	1/1/2023	through	12/31/2023	20.00%	20.00%

ACCUMULATED DEPRECIATION:	PERIOD			TOTAL	PER UNIT ¹
("ideal reserve balance" / funds in reserve accounts necessary to achieve 100% funding for the current year)	1/1/2023	through	12/31/2023	\$56,610	\$690

OVERAGE / (DEFICIT):	PERIOD			TOTAL	PER UNIT ¹
(between "actual" and "ideal" reserve balance)	1/1/2022	through	12/31/2022	\$21,889	\$267

PERCENT FUNDED³

as of 1/1/2023	138.67%
as of 12/31/2023 (if Funding Plan #3 ² recommended above is followed)	134.22%

FOOTNOTES:

1. Per Unit amounts reflect "Total" amounts divided by units - no adjustments made for variable rate assessments.
2. Funding Plan #3 reflects minimum funding and may only marginally cover total annual expenditures in some years.
3. Actual reserve balance (item "D") divided by accumulated depreciation (per schedule).

FINANCIAL ANALYSIS

This **Financial Analysis** reveals the financial ramifications over a 30-year projection resulting from the Condition Assessment, and consists of the following schedules:

- 1) **COMPONENT INVENTORY** - Lists all the components compiled from the Condition Assessment, including their quantity, typical useful lives, estimated remaining lives and average costs. Also provided for each component is an allocation of the beginning reserve balance, annual depreciation, accumulated depreciation, and monthly contributions.
- 2) **FUNDING PLANS / ILLUSTRATIONS** - Four funding plans / illustrations are provided to illustrate the effects of various levels of reserve contributions versus anticipated reserve expenditures. They include 30 years of activity, are detailed on an **annual** basis, and include interest income earned on reserve funds (net of taxes), which can offset the amount of contributions required.
- 3) **FUNDING ILLUSTRATION #1** - This illustration assumes that the current reserve contribution will remain the same throughout the 30-year projection. In most cases this will not be sufficient to cover future reserve expenditures over the 30-year period. **This is not a recommended funding plan.**
- 4) **FUNDING ILLUSTRATION #2** - This illustration also assumes that the current reserve contribution will remain the same throughout the 30-year projection. However, special assessments are generated for any year that the reserve balance would otherwise drop below \$0.00. **This is not a recommended funding plan**
- 5) **FUNDING PLAN #3** - This plan increases (or sometimes decreases) current reserve contributions as necessary to cover all future expenditures and achieve 100% funding at least by the end of the 30-year projection. It most fairly matches the depreciation of the common components and the enjoyment of the benefits. **This is a recommended funding plan** and fulfills the requirement of the California Civil Code with respect to distribution of a full funding plan.
- 6) **FUNDING ILLUSTRATION #4** - This illustration dictates what the reserve contribution would need to be to achieve annual 100% funding.
- 7) **COMPARISON OF FUNDING PLANS / ILLUSTRATIONS** - Details comparison of the 4 funding plans / illustrations on an annual basis, including the **monthly** reserve contributions and the percent funded for each year.
- 8) **GRAPH: FUNDING PLANS / ILLUSTRATIONS 1-4 vs. RESERVE EXPENDITURES** - Shows the cash receipts (reserve contributions plus interest income) in each of the 4 funding plans / illustrations versus the total reserve expenditures on an annual basis.
- 9) **GRAPH: FUNDING PLANS / ILLUSTRATIONS 1-4 vs. ACCUMULATED DEPRECIATION** - Shows the cash receipts versus the accumulated depreciation on an annual basis.
- 10) **RESERVE EXPENDITURES BY YEAR** – Details the component expenditures for each year they come due.
- 11) **COMPONENT ACCUMULATED DEPRECIATION ANALYSIS** – Calculates the accumulated depreciation for each component at year-end. The total accumulated depreciation per year is ideally the amount that should be in reserves and represents 100% funded. For example, if a component cost is \$1,000, has a useful life of 10 years and is 6 years old, then \$600 should be in reserves: \$1,000 divided by 10 years = \$100 per year x 6 years of depreciation.

COMPONENT INVENTORY
STERLING OAKS HOMEOWNERS ASSOCIATION

threshold = \$500

AS OF: 1/1/2023

CATEGORY / COMPONENT	ID#	APPROXIMATE QUANTITY	LIFE IN YRS		CURRENT COST	ANNUAL DEP	RESERVES			MONTHLY CONTRIBUTION	
			USEFUL	REMAIN			ACTUAL	ACCUM DEP	SURPLUS/ (DEFICIT)	CURRENT	RECOMMEND
LANDSCAPE/ HARDSCAPE											
concrete block walls	0101	operating budget	30+	30+	0	0	0	0	0	0.00	0.00
irrigation controllers	0102	3 @ 18 stations	10	3	5,250 ⁴	525	5,096	3,675	1,421	0.00	100.08
irrigation controller cabinets	0103	3 cabinets	30	0	3,100 ⁴	103	4,299	3,100	1,199	0.00	84.42
back flow preventers	0104	3 @ 2 inches	15	3	2,850 ¹	190	3,162	2,280	882	0.00	62.09
slope contingency	0105	allowance	2	1	16,000 ⁶	8,000	11,093	8,000	3,093	0.00	217.86
major tree trimming/removal	0106	allowance	2	1	20,000 ⁶	10,000	13,867	10,000	3,867	0.00	272.32
landscape remodel	0107	allowance	10	0	28,000 ⁶	2,800	38,827	28,000	10,827	0.00	762.49
CONTINGENCY RESERVE	0201	5% of total annual expenditures - see "Reserve Expenditures by Year" schedule for details			<u>1,555</u>	<u>1,555</u>	<u>2,156</u>	<u>1,555</u>	<u>601</u>	<u>0.00</u>	<u>42.35</u>
TOTALS					<u>76,755</u>	<u>23,173</u>	<u>78,499</u>	<u>56,610</u>	<u>21,889</u>	<u>0.00</u>	<u>1,541.60</u>

COST SOURCES

- 1) In-house database. Developed from experience of costs for recent repairs, replacements, or restoration of components in similar properties.
- 2) Based on contractor proposal provided by association and/or information from association's vendors.
- 3) Based on actual cost of recent repair, replacement, or restoration of component - information provided by association.
- 4) National cost guide (National Construction Estimator, R.S. Means, LSI, etc.)
- 5) Per Mechanical Engineering Evaluation
- 6) Per information in previous non-RSI study

Percent Funded: ratio of the actual reserve balance to the component accumulated depreciation	138.67%
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FUNDING PLAN #3 (assumption: current contribution increased as necessary to cover all expenditures)
STERLING OAKS HOMEOWNERS ASSOCIATION

RECOMMENDED TO BE ADOPTED
ANNUAL BASIS

DESCRIPTION	1/1/2023	1/1/2024	1/1/2025	1/1/2026	1/1/2027	1/1/2028	1/1/2029	1/1/2030	1/1/2031	1/1/2032	1/1/2033	1/1/2034	1/1/2035	1/1/2036	1/1/2037
RESERVE CONTRIBUTION	18,499	19,609	20,786	22,033	22,615	23,212	23,824	24,453	25,099	25,761	26,442	27,140	27,856	28,592	29,346
SPECIAL ASSESSMENT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
INTEREST INCOME (a)	437	338	346	330	318	334	353	371	393	414	331	247	275	280	290
COMPONENT COSTS (b)	(32,655)	(38,511)	0	(48,967)	0	(41,489)	0	(43,063)	0	(44,696)	(35,419)	(46,393)	0	(55,174)	0
NET RECEIPTS/(DISBURSE)	(13,719)	(18,563)	21,132	(26,604)	22,933	(17,944)	24,177	(18,239)	25,492	(18,521)	(8,646)	(19,007)	28,131	(26,303)	29,637
CASH BALANCE: begin year	78,499	64,780	46,217	67,349	40,745	63,678	45,734	69,911	51,672	77,164	58,643	49,997	30,990	59,121	32,819
CASH BALANCE: end year	64,780	46,217	67,349	40,745	63,678	45,734	69,911	51,672	77,164	58,643	49,997	30,990	59,121	32,819	62,455
COMPONENT ACCUMULATED DEPRECIATION (c)	56,610	48,265	32,377	58,177	32,675	58,991	42,007	69,474	51,999	80,668	64,379	58,246	39,107	70,008	43,170
less: beginning cash balance	78,499	64,780	46,217	67,349	40,745	63,678	45,734	69,911	51,672	77,164	58,643	49,997	30,990	59,121	32,819
over/(under) funded-total	21,889	16,516	13,840	9,172	8,070	4,687	3,727	437	(327)	(3,505)	(5,736)	(8,249)	(8,117)	(10,887)	(10,351)
" " " per unit	267	201	169	112	98	57	45	5	(4)	(43)	(70)	(101)	(99)	(133)	(126)

DESCRIPTION	1/1/2038	1/1/2039	1/1/2040	1/1/2041	1/1/2042	1/1/2043	1/1/2044	1/1/2045	1/1/2046	1/1/2047	1/1/2048	1/1/2049	1/1/2050	1/1/2051	1/1/2052
RESERVE CONTRIBUTION	30,121	30,916	31,732	32,570	33,430	34,313	35,218	36,148	37,103	38,082	39,087	40,119	41,178	42,266	43,381
SPECIAL ASSESSMENT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
INTEREST INCOME (a)	321	357	392	420	447	361	275	324	347	375	429	490	551	618	685
COMPONENT COSTS (b)	(49,980)	0	(51,877)	(4,187)	(53,847)	(42,669)	(55,892)	0	(66,471)	0	(60,214)	0	(62,499)	0	(64,871)
NET RECEIPTS/(DISBURSE)	(19,538)	31,273	(19,753)	28,803	(19,970)	(7,995)	(20,398)	36,472	(29,022)	38,457	(20,697)	40,609	(20,770)	42,884	(20,804)
CASH BALANCE: begin year	62,455	42,918	74,191	54,438	83,241	63,270	55,276	34,877	71,349	42,327	80,784	60,087	100,696	79,926	122,810
CASH BALANCE: end year	42,918	74,191	54,438	83,241	63,270	55,276	34,877	71,349	42,327	80,784	60,087	100,696	79,926	122,810	102,006
COMPONENT ACCUMULATED DEPRECIATION (c)	74,947	54,558	87,723	66,948	97,299	77,677	70,293	47,239	84,470	52,140	90,423	65,861	105,819	80,553	122,255
less: beginning cash balance	62,455	42,918	74,191	54,438	83,241	63,270	55,276	34,877	71,349	42,327	80,784	60,087	100,696	79,926	122,810
over/(under) funded-total	(12,492)	(11,640)	(13,532)	(12,510)	(14,058)	(14,406)	(15,017)	(12,362)	(13,121)	(9,813)	(9,639)	(5,774)	(5,123)	(627)	555
" " " per unit	(152)	(142)	(165)	(153)	(171)	(176)	(183)	(151)	(160)	(120)	(118)	(70)	(62)	(8)	7

FOOTNOTES: (a) Interest income calculated on average balance less Federal & State income taxes of 39.3%
(b) See "Reserve Expenditures By Year Schedule"
(c) See "Component Accumulated Depreciation Analysis"

Rate: 1.0000%