

The Landing Condominium Association  
2023 Reserve Funds Analysis

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Original analysis approved by the Board of Directors on July 18, 2020

Revisions approved by the Board of Directors on December 4, 2023

## Revisions in 2023

After several years of high inflation, particularly in the building industry, the Board of Directors of The Landing Condominium Association (LCA) recognized the need for revisions in the Reserve Fund Analysis to accomplish the following:

1. Reset the cost of materials and labor using 2023 numbers, and then apply an inflation factor going forward.
2. Change the life expectancy of some elements to better reflect current experience in the construction industry.
3. Include interest earnings on the amount in the reserve fund, using assumptions that 75 percent of the reserve fund will be invested each year at the estimated rate of return of 2.5 percent.
4. Extend the analysis to the year 2043.

## Cost Adjustments for Major Repairs/Replacement

*Black top.* Because of the high cost of oil in 2023, the cost of asphalt went from \$2.75 per square foot in our original calculations to the actual cost of \$7.00 per square foot in 2023. This is a 255 percent increase, far greater than the rate of inflation for other materials. However, experience has shown that black top can last longer than we originally anticipated, particularly if seal coat is applied periodically. The dates for replacing the road and driveways were delayed in this version. It is shown in two different years so that we can distinguish the cost of the road versus the driveways, but it is likely that the work would be done at the same time to save money and preserve the aesthetics. The cost of seal coat is not included in the reserve fund analysis, as it is assumed this will be part of the operational budget for the Association approximately every 5 years.

*Roof replacement.* The cost of roof replacement went up by about 35 percent compared to our original estimates.

*Painting.* The cost of painting declined or remained generally the same as estimated previously.

## Goals of the Analysis

The Board of Directors of the LCA undertook this analysis with the following goals:

1. Determine the life expectancy of expensive items that will need replacement (such as roofs and driveway paving), the expected year the replacement is needed, and the estimated cost of replacement.
2. Determine the percentage of operating budget needed to fund the reserve accounts that will provide adequate funding in time for the replacements needed.
3. Make other recommendations to assure compliance with Michigan State Law and the LCA documents with regard to reserve funds.

## Uses for the Reserve Funds

At the present time, LCA does not have policies that specify how reserve funds are to be used. Michigan State Law Regarding Condominium Reserve Funds (559.205 Reserve fund. Sec. 105) states: "A reserve fund for major repairs and replacement of common elements shall be maintained by the associations of co-owners."

For the purpose of this analysis, "major repairs and replacement of common elements" includes the following items:

- Roof replacement
- Re-paving driveways (general common and limited common elements)
- Painting exterior trim

Spending from the reserve fund should only be used for the items included in this reserve analysis. In other words, what goes into the reserve account should equal what comes out of the reserve account for the repair and replacement of the above-named items. However, the Board could consider making a loan from the reserve account to pay for a repair that is needed immediately and then reimburse that amount to the reserve account from a special assessment.

Elevators are not included in this Reserve Funds Analysis. It is expected that elevator repairs and replacement will be funded from special assessments on the Co-owners of units specified in the Master Deed.

## Basic Information and Timelines

The industry standards for the major items in this analysis are:

- Roofs on our buildings have a 20-year life span.
- Blacktop was changed from a 20-year life span to a life span of 27-28 years in this revised analysis.
- Exterior trim should be painted 25 years after installation.

Our siding is expected to last for 50 years, so we did not include it in this analysis.

To calculate the estimated year for major repairs or replacement, we took the year the buildings and driveways were completed and added the expected life span.

Table 1  
Dates of Completion of Common Property

<b>Common Property</b>	<b>Year Construction Was Completed</b>
Kawbawgam	2008
Baraga	2009
Smith Garage	2010
Storage Units	2010
Ripley	2011
Everett	2012
Traffic Black Top	2013
Driveway Black Top	2015

As the above table indicates, our buildings range in age from 11 to 15 years old. Roof replacement for the first building completed can be expected in 5 years (20 years after construction was completed for the Kawbawgam Building).

### Methods for Calculating Costs of Replacement and Repair

The basic methodology is to multiply the size or quantity needed by current costs per unit for replacement or repair. Then an inflation factor is used to estimate what the cost will be in the year the replacement or repair is needed.

Based on past inflation and projected future inflation, the average annual inflation factor used is 2.5 percent (2.05 percent was used in the original study).

Summary of Estimated Costs to the Reserves by Year

The following tables show how much the LCA can expect to spend each year for major repair and replacement of common elements starting in 2028. Table 2 shows the costs estimated in previous reports, as well as the revised costs for 2023. There are two tables because our Bylaws call for separate accounting of the Residential Building reserve fund and the reserve fund for the Smith Garages and the Storage Unit Building.

Table 2  
Schedule and Estimated Cost for Major Repair and Replacement  
of Residential Buildings and Driveways

<b>Year Due</b>	<b>Location</b>	<b>Type of Repair or Replacement</b>	<b>Previous Estimated Cost</b>	<b>2023 Revised Estimated Cost</b>
2028	Kawbawgam	Roof	\$17,998	\$24,192
2029	Baraga	Roof	\$39,998	\$53,314
2031	Ripley	Roof	\$67,665	\$92,102
2032	Everett	Roof	\$69,052	\$93,600
2033	Traffic	Black top	\$51,231	
2033	Kawbawgam	Painting	\$2,850	\$2,705
2034	Baraga	Painting	\$5,260	\$5,092
2035	Driveways	Black top	\$3,410	
2036	Ripley	Painting	\$8,935	\$8,742
2037	Everett	Painting	\$10,000	\$9,860
2041	Traffic	Black top	\$51,231	\$127,546
2042	Driveways	Black top	\$34,140	\$80,804

In the 14 years from 2028 until 2042, we will need \$497,957 to cover the costs for roofs and painting trim for the residential buildings and for black top.

Table 3  
 Schedule and Estimated Cost for Major Repair and Replacement  
 of Smith Garage and Storage Units Building

<b>Year Due</b>	<b>Location</b>	<b>Type of Repair or Replacement</b>	<b>Previous Estimated Cost</b>	<b>2023 Revised Estimated Cost</b>
2030	Smith Garage	Roof	\$11,165	\$17,702
2030	Storage Units	Roof	\$5,742	\$8,971
2035	Smith Garage	Painting	\$3,670	\$1,890
2035	Storage Units	Painting	\$3,390	\$2,430

In the 5 years from 2030 to 2035, we will need \$30,993 for replacing the roofs and painting trim on the Smith building and storage units.

Current Reserves

At the end of 2022, there was \$99,975 in the general reserve account and \$10,218 in the reserve account for the Smith Building and storage units. Actual, audited amounts are highlighted in Tables 4, 5 and 6.

Will we have enough money in the general reserve account to cover the costs of major repairs and replacements for residential buildings?

Using the current 15 percent rate on the total operating budget and projected interest on investments, our analysis shows that we should have enough money in the general reserve account each year to meet the costs for roof replacement, paving, and painting for the residential buildings. Table 4 shows the projected cash flow.

Table 4

Projected Cash Flow for Reserve Account

Year	Receipts			Disburse	Year End Balance	Notes
	HOA Fees	Interest	Total			
2019 and prior	\$ 63,165	\$ -	\$ 63,165		\$ 57,802	\$6,000 has been moved to garages/storage
2020	\$ 13,357	\$ -	\$ 13,357	\$ -	\$ 71,159	
2021	\$ 13,748	\$ 637	\$ 14,385	\$ -	\$ 85,544	
2022	\$ 14,178	\$ 253	\$ 14,431	\$ -	\$ 99,975	
2023	\$ 14,511	\$ 3,153	\$ 17,664	\$ -	\$ 117,639	
2024	\$ 14,808	\$ 2,206	\$ 17,014	\$ -	\$ 134,653	
2025	\$ 15,112	\$ 2,525	\$ 17,637	\$ -	\$ 152,290	
2026	\$ 15,422	\$ 2,855	\$ 18,277	\$ -	\$ 170,567	
2027	\$ 15,738	\$ 3,198	\$ 18,936	\$ -	\$ 189,503	
2028	\$ 16,061	\$ 3,553	\$ 19,614	\$ 24,192	\$ 184,925	Kawbagam Roof
2029	\$ 16,390	\$ 3,467	\$ 19,857	\$ 53,314	\$ 151,469	Baraga Roof
2030	\$ 16,726	\$ 2,840	\$ 19,566	\$ -	\$ 171,035	
2031	\$ 17,069	\$ 3,207	\$ 20,276	\$ 92,102	\$ 99,208	Ripley Roof
2032	\$ 17,419	\$ 1,860	\$ 19,279	\$ 93,600	\$ 24,887	Everett Roof
2033	\$ 17,776	\$ 467	\$ 18,242	\$ 2,705	\$ 40,424	Paint Trim Kawbawgam
2034	\$ 18,140	\$ 758	\$ 18,898	\$ 5,092	\$ 54,230	Paint Trim Baraga
2035	\$ 18,512	\$ 1,017	\$ 19,529	\$ -	\$ 73,759	
2036	\$ 18,892	\$ 1,383	\$ 20,274	\$ 8,742	\$ 85,292	Paint Trim Ripley
2037	\$ 19,279	\$ 1,599	\$ 20,878	\$ 9,860	\$ 96,310	Paint Trim Everett
2038	\$ 19,674	\$ 1,806	\$ 21,480		\$ 117,790	
2039	\$ 20,077	\$ 2,209	\$ 22,286		\$ 140,075	
2040	\$ 20,489	\$ 2,626	\$ 23,115		\$ 163,191	
2041	\$ 20,909	\$ 3,060	\$ 23,969	\$ 127,546	\$ 59,614	Blacktop Traffic Area
2042	\$ 21,338	\$ 1,118	\$ 22,455	\$ 80,804	\$ 1,265	Blacktop Driveways
2043	\$ 21,775	\$ 24	\$ 21,799		\$ 23,064	
2044	\$ 22,221	\$ 432	\$ 22,654		\$ 45,718	
Totals	\$ 356,301	\$ 34,978	\$ 391,280	\$ 497,956		
		Audited				
		Curent budget				
		Estimated				

Will there be enough money in the reserve account for the Smith garage and storage buildings to cover the costs of major repairs and replacements?

Table 5 shows the projected cash flow for the Smith garage building and the storage units with no increase in HOA fees. It indicates that there will be insufficient funds for the projects. Table 6 shows the projected cash flow for the Smith Building and the storages units with a \$1 per unit per month increase in HOA fees starting in 2025. This should be adequate to meet the needs. While there would be a shortfall for two years, we have been advised by our attorney (see end notes) that we could borrow the money from the general reserve fund and then pay it back in the following two years.

Table 5

Projected Cash Flow for Reserve Account for Smith Building and Storage Units

Smith Building and Storage Building Reserves				
Year	Receipts	Disburse	Year End Balance	Notes
2019 and prior	\$7,328	\$0	\$ 7,328	
2020	\$250	\$0	\$ 7,578	
2021	\$1,200	\$0	\$ 8,778	
2022	\$1,440	\$0	\$ 10,218	
2023	\$1,440	\$0	\$ 11,658	
2024	\$1,440	\$0	\$ 13,098	
2025	\$1,440	\$0	\$ 14,538	
2026	\$1,440	\$0	\$ 15,978	
2027	\$1,440	\$0	\$ 17,418	
2028	\$1,440	\$0	\$ 18,858	
2029	\$1,440	\$0	\$ 20,298	
2030	\$1,440	\$27,121	\$ (5,383)	Roofs for both buildings
2031	\$1,440	\$0	\$ (3,943)	
2032	\$1,440	\$0	\$ (2,503)	
2033	\$1,440	\$0	\$ (1,063)	
2034	\$1,440	\$0	\$ 377	
2035	\$ 1,440	\$ 4,518	\$ (2,702)	Paint siding and trim, both bldgs
Totals	\$ 28,938	\$ 31,640		
		Audited		
		Curent budget		
		Estimated		



Table 6

Alternative Projected Cash Flow for Reserve for Smith Building and Storage Units

With \$1.00 monthly increase in HOA fees starting in 2025

Smith Building and Storage Building Reserves							
Year	Receipts	Disburse	Year End Balance	Notes			
2019 and prior	\$ 7,328	\$ -	\$ 7,328				
2020	\$ 250	\$ -	\$ 7,578				
2021	\$ 1,200	\$ -	\$ 8,778				
2022	\$ 1,440	\$ -	\$ 10,218				
2023	\$ 1,440	\$ -	\$ 11,658				
2024	\$ 1,680	\$ -	\$ 13,338				
2025	\$ 1,680	\$ -	\$ 15,018				
2026	\$ 1,680	\$ -	\$ 16,698				
2027	\$ 1,680	\$ -	\$ 18,378				
2028	\$ 1,680	\$ -	\$ 20,058				
2029	\$ 1,680	\$ -	\$ 21,738				
2030	\$ 1,680	\$ 26,673	\$ (3,255)	Roofs for both buildings			
2031	\$ 1,680	\$ -	\$ (1,575)				
2032	\$ 1,680	\$ -	\$ 105				
2033	\$ 1,680	\$ -	\$ 1,785				
2034	\$ 1,680	\$ -	\$ 3,465				
2035	\$ 1,680	\$ 4,320	\$ 825	Paint trim both buildings			
2036	\$ 1,680	\$ -	\$ 2,505				
2037	\$ 1,680	\$ -	\$ 4,185				
2038	\$ 1,680	\$ -	\$ 5,865				
2039	\$ 1,680	\$ -	\$ 7,545				
2040	\$ 1,680	\$ -	\$ 9,225				
Totals	\$ 31,818	\$ 30,993					
		Audited					
		Curent budget					
		Estimated					

## Recommendations

1. The Board of Directors should continue to apply 15 percent of the annual operating budget to the general reserve fund.
2. The Board should increase HOA fees for storage units and Smith Building garages by \$1.00 per month (\$12.00 per year per unit) starting with the 2025 budget.
3. The Property Manager should include the Smith Building and storage units in the annual roof inspections.
4. The Board of Directors should keep at least 75 percent of the general reserve account funds invested in safe instruments, such as certificates of deposit in insured institutions and government bonds.
5. Use of reserve funds should be restricted to items listed in the analysis.
6. The Board of Directors should update the cash flow spreadsheet each year to reflect the audited amounts of receipts and year-end balance.
7. The Board should review, revise, update and extend the years in this Reserve Fund Analysis every five years or more frequently.

## Notes on Treatment of Garages and Storage Units in Legal Documents

In the course of the original analysis, we recognized that the bylaws amendment recorded in 2017 calls for a separate accounting for reserves for the Smith Building and storage units. It states:

The Association shall separately account for the expense, income, and reserves for the Storage Building and Smith Building, which shall be attached as an addendum to the Association's annual budget and financial statements.

The amendment does not actually say that the owners of the garages and storage units shall pay the cost of major repairs and replacement for those buildings. However, this is addressed in the current Bylaws, Section 5.3.e, which states:

Unit Owners of 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 35, 36, 37, 38, 39, 40, 40, 42, 43, and 44 shall have a special assessment levied against their Units in order to pay an appropriate share of the initial budget and maintenance, cleaning and repair of the exterior of the Storage Building.

The unit numbers listed in Section 5.3.e, are the storage units and garages in both the Smith Building and the (unnamed) storage building. The restated Bylaws make the corrections of adding the Smith building to the corresponding section, Article II, Section 4(E.). In addition, the word "replacement" is added to clarify that the owners of these units are responsible for funding the replacement of such things as the roof and siding.

Guidance from our lawyer, Matt Heron, via email on October 29 and November 8, 2019, provides further clarification on a number of related issues:

- We do not need to set up a separate reserve account for the garages and storage buildings, but we do need to account for them separately.
- Language in the current Bylaws calls for funding of the Smith Building and storage units through a "special assessment"; however, he states, that this is "somewhat of a misnomer, it is really simply a method of allocating expenses of the Association."
- An increase in the fees for operations and reserve account funding for garages and storage units does not require a vote of the membership, unless the funds collected "fall within a category that requires a vote on special assessments on section 5.2(c) (such as additions to the common elements in excess of \$5,000)."

- If there is insufficient funding in the reserve account for garages and storage units when it is time to do major repairs or replacements, the additional money may be borrowed from the general reserve fund. A special assessment for garages and storage units may then be employed to repay the general reserve fund.