Memo

To: Hot Springs Village Board of Directors
From: Lesley Nalley, Chief Executive Officer
Date: June 21, 2017
Re: Chapter 1, Article 10 - Reserves

Starting last year, the board and staff began discussing revisions to HSVPOA’s reserve practices and policies, noting a need to balance current operational needs and future repairs and replacements. The attached revision to Chapter 1, Article 10 is recommended for adoption at the July meeting.

Included below is a copy of the current policy entitled “Building Reserve Fund”, which was last updated November 19, 2003. The revised policy will be titled “Reserve Funds” and incorporate a three-part approach: Public Utility Reserves, Non-Utility Asset Repairs & Replacements, and Operating Reserves. Each fund type will have a distinct purpose and minimum targeted funding level.

To achieve full funding, a multi-year approach will be needed. This approach will include a repayment by the Public Utility division to the general fund and is dependent upon a favorable ruling on the assessment vote.
CHAPTER 1, ARTICLE 10
RESERVE FUNDS

SECTION 1. PURPOSE: To provide cash reserves for maintaining corporate assets and/or operations in a manner that encourages long term sustainability and market relevance.

SECTION 2. FUND TYPES: HSVPOA shall maintain three separate funds, as follows.
A. Public Utility Reserve. To be funded through net utility profits and used for water or waste water projects, except as noted in Section 3 below. 1 year of annual depreciation (water and waste water assets) shall be the minimum targeted funded level.
B. Non-Utility Asset Repairs & Replacements. To be funded through net operating profits (excluding water & waste water operations) and used for capital projects that maintain and/or improve property value and asset conditions or emergency asset repairs. 1 year of annual depreciation shall be the minimum targeted funding level.
C. Operating Reserves – To be funded through a combination of net operating profits and available line of credit access. These funds will be used for priority operational needs during a short-term cash shortage. One month of average budgeted operating expense shall be the minimum targeted funding level.

SECTION 3. FUNDING STARTUP:
As of the date of policy adoption, HSVPOA has $100k in Public Utility Reserves, $358k in Non-Utility Reserves, a $1mil available Line of Credit, and $1.5mil in investments, which serve as the starting point for this revised policy. The minimum funding levels described above are projected to be in place within 5 years and will be a component of the annual budget process.

It is also understood that the 2014 water plant expansion exhausted all previous reserves, using $6.2mil of cash for the project. The Public Utility Department will repay $3mil into the general operating account over the next 6 years to help address the deferred maintenance resulting from such usage of cash. Upon repayment, all excess profits of the Public Utility Department shall go to fund the Public Utility Reserve. Until that time, a minimum of $100k will be added to the Public Utility Reserve Fund.

This policy was formerly referred to as “Building Reserve Fund”. It is expanded herein to reflect both operating and capital reserve elements, along with minimum funding levels.

SECTION 4. FUNDING PHILOSOPHY: HSVPOA recognizes the duty to adequately fund both current operations and save for future needs. As such, related annual budgets will balance spending and saving decisions.

SECTION 5. ACCOUNT REQUIREMENTS: Interest earned on the Public Utility Reserve will remain within that fund. Interest income earned on asset and operating funds will be deposited to the general operating account.

Reserve contributions shall be deposited, at a minimum, annually in accounts as defined in Article 20’s Investment Policy Statement.
ARTICLE 10
BUILDING RESERVE FUND

Policy: To maintain a reserve fund of sufficient value to be used for
needed repair, maintenance and replacement of major fixed
assets when operating cash funds are not available.

Purpose of Replacement Reserve Fund:

1. One of the primary duties of the Board of Directors is to maintain
and preserve the property values of the property owners and common
property. A replacement reserve fund is one way this is carried
out.

2. A reserve fund and periodic reserve studies are required by the
American Institute of Certified Public Accountants (AICPA) under
their guidelines issued in 1991 for Common Interest Realty
Associations.

By having reserve funds we enhance resale value of our member’s
property; it provides planned replacement and repair of major common
items allowing for the aesthetic qualities of the Village to be
maintained; minimizes the need for special assessments; distributes the
contributions of repairs and replacements over old and new owners; and
it fulfills the requirements of the AICPA for an unqualified audit
opinion.

Limits:

The HSVPOA fund shall be maintained at $300,000.00. Initial funding
will be through yearly contributions to the fund from operations at a
rate set by the annual budget. The maintained amount shall be
adjusted, as needed, after each reserve study and HSVPOA Board of
Directors approves the adjustment.

Fund Earnings

Interest income on the Replacement Reserve Fund will be deposited to
the operating checking account of the POA.

8-11-99, 8-25-99 B.O.D., Rev. 11-19-03