

# Asset Preservation & Deferred Maintenance



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# Deferred Maintenance

The practice of delaying needed maintenance repairs on real property:

- Lack of funds
- To save costs
- Meet budget goals

# Consequences of Deferred Maintenance



Exposes an asset to ultimately higher repair and/or replacement costs



Increase liability issues



Decreases the value of an asset

# Common Deferred Maintenance Items

- Gutters and roofs
- Windows and structural repairs
- Lighting and fire safety
- Plumbing and landscaping
- Concrete and asphalt
- Environmental and hazardous material

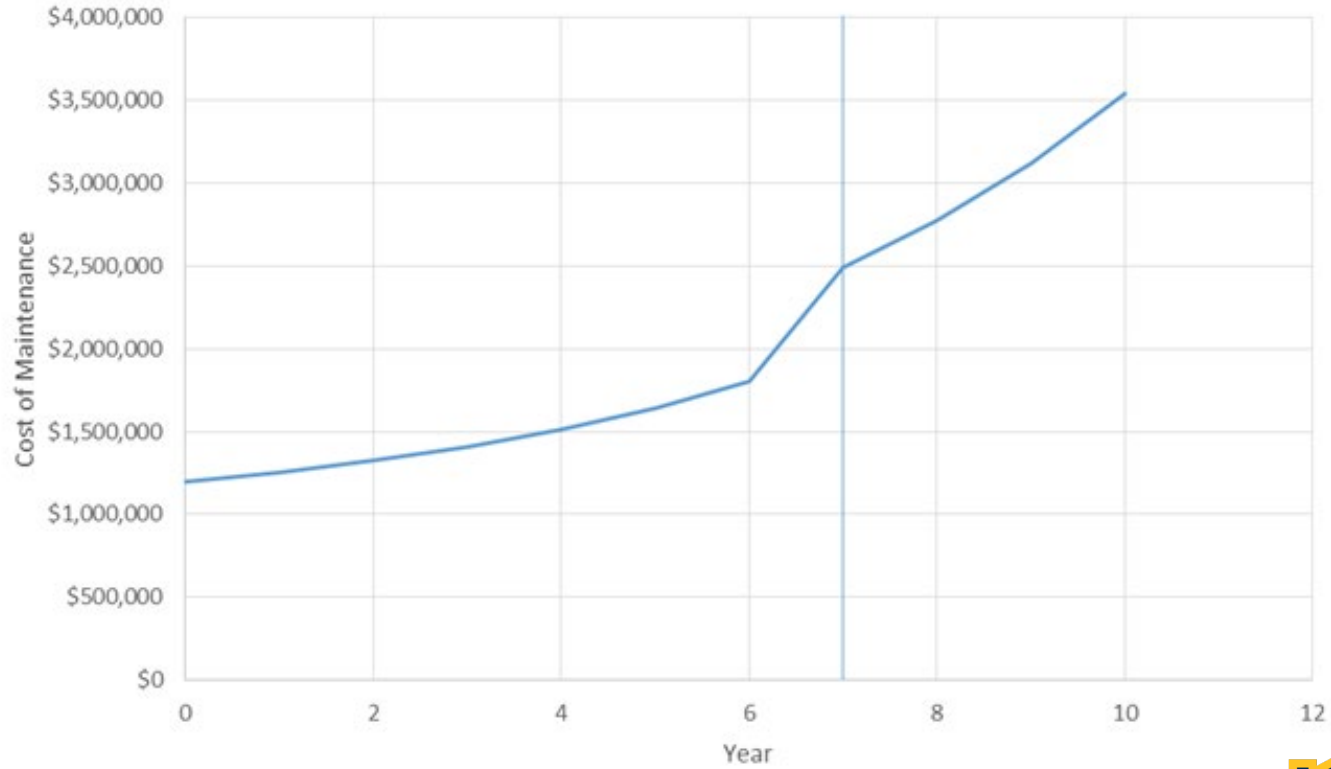
# Deferred Maintenance Example

- Annual maintenance cost: \$3000
- Inflation: 2%
- Cost of raw materials increases by 3%
- Deferred maintenance cost: \$150
- Additional costs \$\$\$ due to increased scope of work and liability claims

# Deferred Maintenance Example

- Initial cost of an apartment community roof replacement = \$1.2M
- Inflation & raw materials = 3.5% annually
- Labor = 1.5% annually
- Damage growth = 1% annually

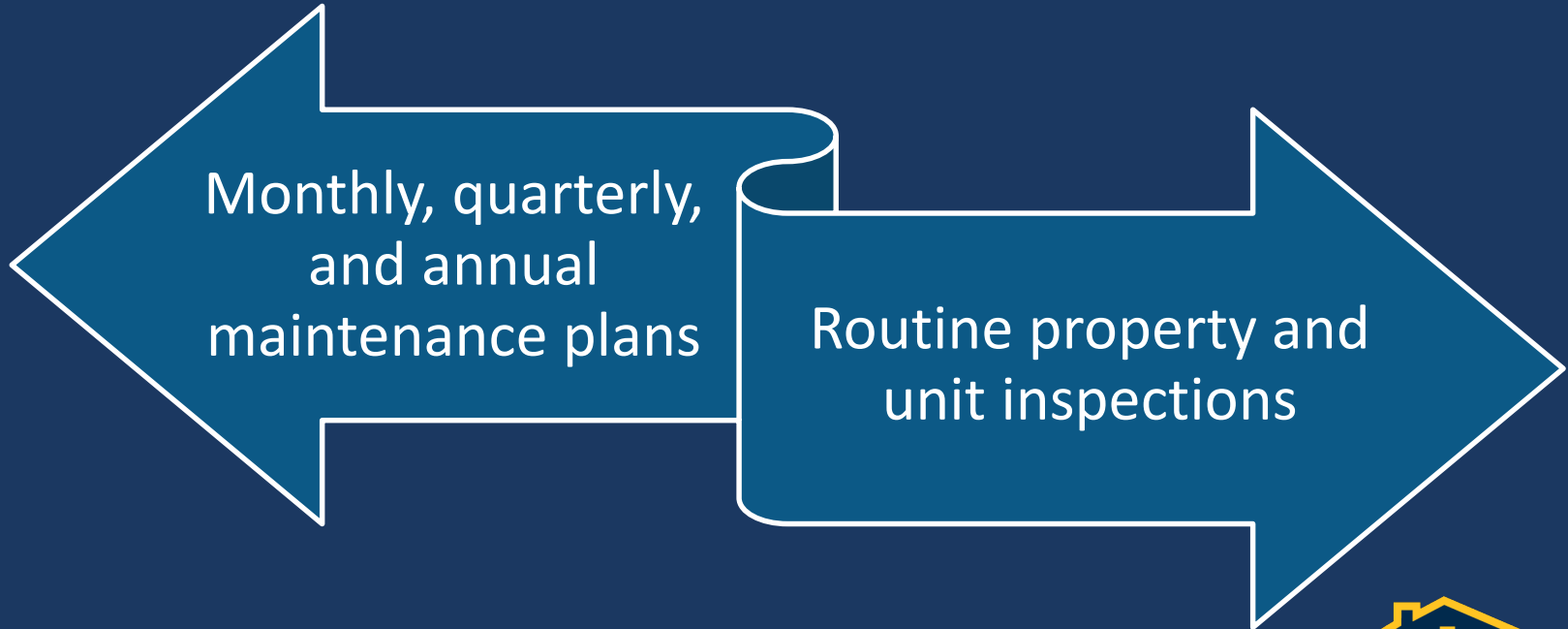
## Cost of Deferred Maintenance Over Time



# Preventative Maintenance

With proper planning, preventative maintenance counteracts negative effects of deferred maintenance

# Effective Maintenance Program



# Property Inspection Checklist

Date: May 1, 2018	No	Needs	Date	
	Correction	Correction	Completed	Comments
Location- Las Lomas East Side				
Lighting		X	5/1/18	light out 2005 bldg.
Landscaping	X			
Cleanliness		X	5/2/18	Cobwebs on rails
Signage - clean, not faded	X			
Curb appeal	X			
Perimeter sidewalks/walkways	X			
Trees - trimmed, not lifting surfaces	X			
Concrete/asphalt - no trip hazards		X	5/1/18	Lifting concrete 2010 bldg.
Concrete/asphalt -clean				
Asphalt - cracks/water run-off		X	23/2/18	

# Rent Ready Checklist

	Assigned	Completed	Comments
Master Bedroom			
Walls		X	
Doors, hinges, handles		X	
Outlet and vent covers		X	
Outlet plugs	X		Not operational
Screens		X	
Windows	X		Cracked window
Blinds		X	

# Cost Approach Valuation

Appraised Value	\$28,300,000
Landscaping	\$24,154
Painting	\$133,838
Fencing, Gates & Railing	\$127,613
Laundry Rooms	\$5,400
Buildings - Termite Control	\$126,512
Repairs	\$264,917
Value After	\$27,617,566
Deferred Maintenance	

# Reserve Budgeting and Funding

- An association has the legal and fiduciary duty to maintain the community in a good state of repair (Civil Code §5600)
- Boards must adopt a "Reserve Funding Plan" to meet their association's obligation for the repair and replacement of all major components (Civ. Code §5550(b))
- Individual property values are significantly impacted by the level of maintenance
- Most lenders require reserve funding

# Long Term Planning

## Reserve Study

- Used as a budgetary tool to forecast improvements and replacements

## Reserve Funding

- follow reserve study recommendations for maintenance

# Best Practices

- (i) reserve contributions must be 10% of an association's total budget or (ii) reserves must be 50% funded
- “Weak” - under 30% funded
- “Strong” - 70% funded or above
- “Fair” – In between

# Executive Summary

- **Anticipated Reserve Balance:** amount of money to be used for the repair of reserve components
- **Fully Funded Reserve Balance:** money that should have theoretically accumulated in the reserve fund

# Executive Summary

## Adequacy of Reserves as of July 1, 2017:

Anticipated Reserve Balance	\$1,419,300.00
Fully Funded Reserve Balance	\$2,381,587.09
Percent Funded	59.59%

Recommended Funding for the 2017-2018 Fiscal Year:	Annual	Monthly	Per Unit
			Per Month
Member Contribution	\$310,000	\$25,833.33	\$258.33
Interest Contribution	\$19,360	\$1,613.30	\$16.13
Total Contribution	\$329,360	\$27,446.64	\$274.47

# Reserve Study

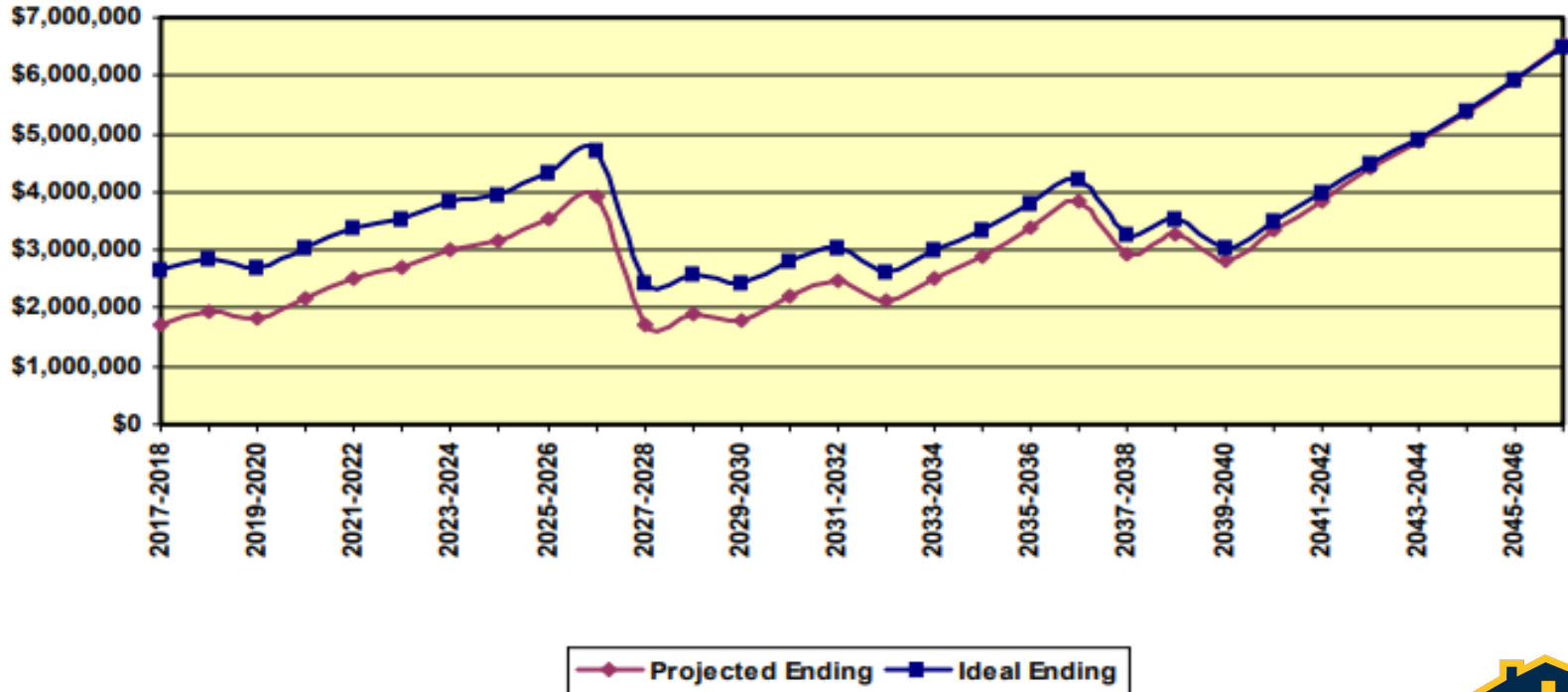
- **Physical Analysis:** repair/replacement costs
- **Financial Analysis:** estimates the total annual contribution necessary to defray future costs

# Reserve Components

Major Reserve Components	Current Cost	Assigned Reserves	Remaining Life Range	Useful Life Range
010 Streets	\$110,496	\$15,746	0-14	4-24
020 Roofing	\$371,600	\$0	15-20	25-30
030 Painting	\$133,838	\$113,349	1-2	3-11
040 Fencing, Gates & Railing	\$127,613	\$2,900	10-20	20-30
050 Lighting	\$171,000	\$38,875	10-20	20-30
060 Buildings	\$1,569,688	\$732,910	2-15	5-25
070 Apartment Interior	\$1,909,100	\$386,524	10-20	20-30
080 Grounds	\$130,730	\$68,757	5-10	10-20
090 Landscape	\$19,500	\$13,500	2-10	12-20
100 Laundry Room	\$5,400	\$5,400	0	10
Contingency	n.a.	\$41,339	n.a.	n.a.
<b>Total</b>	<b>\$4,548,964</b>	<b>\$1,419,300</b>	<b>0-20</b>	<b>3-30</b>

# Projection Chart

## Year End Reserve Balance



Questions?