

PSLU Committee

From: Scott Shapiro <shapmaui@aol.com>
Sent: Wednesday, July 15, 2020 8:31 PM
To: PSLU Committee
Cc: Kelly King; Tamara A. Paltin
Subject: testimony pslu-56
Attachments: A-012 2020-05-26 BRE Iconic AR Workforce Housing Credits Purchase and Sale Agreement (Fully Executed).pdf; hawaii-reserve-study-guidebook_5a8f30e9e1a94.pdf

Attached please find the executed agreement between BRE Iconic and Ikaika Ohana, for BRE to purchase from Ikaika 38 housing credits.

The purchase price is between \$67,000 and \$75,000 per credit.

The developer of Kilohana Makai has stated they expect to sell their 21 workforce housing credits for \$25,000 per credit. The developer seems comfortable moving ahead with the project anticipating that amount.

Being that this is an affordable housing project, I ask that you add as a condition of approval, that any amount the developer receives over \$25,000 per credit, goes into the Kilohana Makai Homeowner's Association to fund the required reserves necessary by Hawaii law. This will help to provide a leg up for these new homeowners who have given everything they have to get into this new development.

Homeowner Associations in Hawaii by law must collect a minimum of 50% of projected long term capital expenses and replacement reserves.

Please see attachment describing this process.

Mahalo,

Scott Shapiro

AMENDED AND RESTATED
RESIDENTIAL WORKFORCE HOUSING CREDITS
PURCHASE AND SALE AGREEMENT

THIS AMENDED AND RESTATED RESIDENTIAL WORKFORCE HOUSING CREDITS PURCHASE AND SALE AGREEMENT (this “**Agreement**”) is made effective as May 26, 2020 (the “**Effective Date**”) by and between **Ikaika Ohana**, a Hawaii nonprofit corporation (the “**Seller**”), and **BRE Iconic GWR Owner LLC**, a Delaware limited liability company (the “**Buyer**”). Notwithstanding anything to the contrary contained in this Agreement, the parties intend that this Agreement shall be deemed effective, executed and delivered for purposes under this Agreement as of the Effective Date.

RECITALS

WHEREAS, A0578 Kihei, L.P., a Hawaii limited partnership, and A0688 Kihei, L.P., a Hawaii limited partnership, (collectively, “the **Partnerships**”) were formed for the purpose of acquiring, developing, operating, financing and constructing that certain affordable housing project located at the intersection of Kaiwahine Street and Hale Kai Street in Kihei, Maui, Hawaii (the “**Property**”);

WHEREAS, the Partnerships are in the process of developing and constructing a 120 unit affordable housing complex on the Property (the “**Project**”) and construction of Project improvements has been initiated, but is not completed;

WHEREAS, the Partnerships, pursuant to a Residential Workforce Housing Agreement (the “**Housing Agreement**”) entered into with the County of Maui, dated April 9, 2019, a copy of which has been provided to Buyer, expect to be awarded 118 residential workforce housing credits pursuant to Section 2.96.050 of the Maui County Code related to, and as a result of, the Project, and have irrevocably designated the Seller as the recipient of such credits;

WHEREAS, the Buyer is interested in acquiring up to 38 residential workforce housing credits (the “**Credits**”) to meet its obligations under Maui County Code Chapter 2.96 requirements for the addition of rooms or units to its existing facilities at Grand Wailea Resort (the “**Resort Renovation**”);

WHEREAS, in connection with the Resort Renovation, the Buyer has submitted applications for a Special Management Area Use Permit, Planned Development Step I and Step II Approvals, and Shoreline Setback Assessment (collectively, the “**County Approvals**”); and

WHEREAS, this Agreement amends and restates in its entirety that certain Residential Workforce Housing Credits Purchase and Sale Agreement, dated May 22, 2019, between Seller and Buyer.

FOR GOOD AND VALUABLE CONSIDERATION, the receipt and adequacy of which are hereby acknowledged, the Seller and Buyer agree as follows:

1. Recitals. The recitals are made a part of this Agreement.

2. Option. The Buyer shall have an option to purchase some or all of the Credits pursuant to the terms of this Agreement until the earlier to occur of: (a) the sixtieth (60th) day after receipt by the Buyer of all of the County Approvals or (b) September 30, 2021 (the earlier of (a) or (b) being the “**Option Exercise Deadline**”). Buyer shall pay Seller One Hundred Twenty-Three and No/100 Dollars (\$123.00) as consideration for this option.
3. Notice of County Approvals: The Buyer shall notify the Seller within five (5) Business Days of the date that all of the County Approvals have been received by the Buyer.
4. Option Extension: The Buyer shall have the right to extend the Option Exercise Deadline to June 30, 2022 provided that the Buyer purchases at least 4 Credits by the Option Exercise Deadline and deposits the Purchase Price, defined below, for such Credits into escrow at least seven (7) Business Days prior to the date of the Closing of such purchase (the date of such Closing is referred to below as the “**Initial Closing Date**”). The Buyer’s rights and Seller’s obligations to the remaining Credits are set forth in Section 5.
5. Purchase of Remaining Credits. Provided that the Buyer complies with Section 4 above, the Buyer shall have the option to acquire from the Seller all or less than all of the remaining Credits not purchased on the Initial Closing Date (the “**Remaining Credits Option**”) as set forth in this Section 5 below and otherwise pursuant to the terms of this Agreement:
 - 5.1. Extended Option Period. The period during which the Remaining Credits Option may be exercised (the “**Extended Option Period**”) shall begin on the Initial Closing Date and shall end on June 30, 2022, unless the Remaining Credits Option is terminated as set forth in this Agreement herein or the Remaining Credits Option is exercised for all of the Credits cumulatively or otherwise as set forth herein. Subject to the terms and conditions set forth herein, the Buyer may purchase Credits on any Business Day during the Extended Option Period.
 - 5.2. Consideration for the Remaining Credits Option. For any Credits that the Buyer decides NOT to purchase by September 30, 2021, the Buyer shall, at least seven (7) Business Days prior to September 30, 2021, to deposit 2.0% of the Purchase Price for all remaining Credits (the “**Deposit**”) as consideration for the Remaining Credits Option. The Deposit, upon deposit into escrow, shall be non-refundable and shall be released from escrow to the Seller as soon as commercially possible; provided, however, that if Seller breaches its obligations under this Agreement to sell any of the remaining Credits that Buyer has elected to purchase pursuant to the Remaining Credits Option under the terms and conditions hereof, Seller shall promptly refund the Deposit to Buyer on demand. If and when the Buyer purchases all remaining Credits, the Deposit will be applied to the Purchase Price of the total remaining Credits. The Remaining Credits Option shall terminate if the Deposit is not timely deposited into Escrow.
 - 5.3. Exercise of Remaining Credits Option. The Buyer may exercise all of the Remaining Credits Option in a single exercise, or part of the Remaining Credits Option one or more times until all the Credits have been purchased, during the Extended Option Period by notifying the Seller in writing at least thirty (30) days prior to the Business Day it wants to close the acquisition of additional Credits and

by timely depositing the Purchase Price for the additional Credits at least seven (7) Business Days prior to the Business Day it wants to close Escrow for such additional Credits as set forth below.

- 5.4. Automatic Termination. If the Buyer fails to timely exercise the Remaining Credits Option in accordance with its terms during the Extended Option Period, then the Remaining Credits Option and the rights of the Buyer hereunder shall automatically and immediately terminate without notice. Termination of the Remaining Credits Option shall not affect the rights and ownership interests of the Buyer with respect to any Credits acquired prior to termination of the Remaining Credits Option.
6. Completion of the Project. “**Completion of the Project**” is the date when all of the buildings comprising the Project receive a certificate of occupancy issued by the local government authority having jurisdiction over the Project. Upon Completion of the Project, the Seller shall immediately provide Buyer with copies of certificates of occupancy, thereof together with a notice that Completion of the Project has occurred. If Completion of the Project does not occur by December 31, 2020, this Agreement shall automatically and immediately terminate. As of the Effective Date, Completion of the Project occurred as of the end of April.
7. Purchase Price. The total purchase price of the Credits purchased shall be the sum of (i) \$67,000 per Credit issued to the Seller from the rental of 2-bedroom units at the Project that are acquired by the Buyer, and (ii) \$75,000 per Credit issued to the Seller from the rental of 3-bedroom units at the Project that are acquired by the Buyer (the “**Purchase Price**”). For each closing date, the Buyer must purchase an equal number of Credits issued to the Seller from the rental of 2-bedroom units and 3-bedroom units, except for the closing date on which the last of the 38 Credits are purchased.
8. Seller’s Representations. Except to the extent set forth in Section 6, the Seller, by the Seller’s execution of this Agreement, makes the following representations to Buyer, which representations shall be true and correct as of the Effective Date (except for Section 8.5, 8.6 and 8.8 below) and as of each of the closing dates, and shall survive the relevant closing date hereunder for a period of 12 months after such closing date:
 - 8.1. Organization. The Seller has all requisite power and authority to enter into this Agreement and to consummate the transactions contemplated hereunder.
 - 8.2. Due Authorization. All the documents executed by the Seller which are to be delivered to Buyer at each closing are, and at the relevant closing will be duly authorized, executed, and delivered by the Seller and will be valid and binding obligations of the Seller in accordance with their respective terms.
 - 8.3. No Pending Actions. To the actual knowledge of the Seller, no action at law or in equity and no investigation or other proceeding is now pending or threatened against the Seller or either of the Partnerships or relating to the Credits.
 - 8.4. Bankruptcy. Neither Seller, nor either of the Partnerships, has (i) made a general assignment for the benefit of creditors, (ii) filed any voluntary petition in bankruptcy or, to the actual knowledge of Seller, suffered the filing of any involuntary petition by creditors of Seller or the Partnerships, as the case may be, (iii) suffered the

appointment of a receiver to take possession of all, or substantially all, of Seller's or the Partnerships' assets, as the case may be, (iv) suffered the attachment or other judicial seizure of all, or substantially all, of Seller's or the Partnerships' assets, as the case may be, (v) admitted in writing its inability to pay its debts as they become due, or (vi) made an offer of settlement, extension or composition to its creditors generally.

- 8.5. Ownership of Credits. As of each of the closing dates, the Credits to be purchased on such closing date have been duly issued to Seller by the County of Maui and Seller shall own the Credits.
- 8.6. No Liens, Encumbrances or Options. As of each of the closing dates, the Credits to be purchased shall be free and clear of any security interests, liens, encumbrances and options, other than the options provided for herein.
- 8.7. No Claims. To the actual knowledge of Seller, no claims have been asserted in writing by the County of Maui or any third party relating to the issuance, ownership, sale or transfer of the Credits.
- 8.8. Seller's Compliance. As of each of the closing dates, Seller shall have complied in all material respects with the County of Maui legal requirements relating to the issuance and transfer of the Credits, including the requirements under the Housing Agreement, and shall use its best effort to obtain one (1) executed original "Notice of Exercise and Assignment of Residential Workforce Housing Credits", on the County of Maui's official form, executed by both Seller and the County of Maui Department of Housing and Human Concerns.
- 8.9. Housing Agreement and Resolutions. There have been no amendments to the Housing Agreement. There have been no County of Maui resolutions relating to the Credits dated between May 22, 2019 and the Effective Date hereof.

EXCEPT AS EXPRESSLY PROVIDED IN THIS SECTION 8, NEITHER THE SELLER NOR ANY AGENT OR REPRESENTATIVE OF THE SELLER HAS MADE ANY STATEMENTS OR REPRESENTATIONS, EXPRESSED OR IMPLIED, REGARDING ANY MATTER OR THING AFFECTING OR RELATING TO THE CREDITS, INCLUDING, WITHOUT LIMITATION, REGARDING (I) THE CURRENT OR FUTURE USE OF THE CREDITS, INCLUDING, BUT NOT LIMITED TO, THE USE OF THE CREDITS FOR COMMERCIAL, RETAIL, RESIDENTIAL, INDUSTRIAL OR OTHER PURPOSES, (II) THE AVAILABILITY TO BUYER OF ANY REQUIRED PERMITS OR APPROVALS, OR (III) THE VALUE OF THE CREDITS.

9. Buyer's Representations. Buyer, by Buyer's execution of this Agreement, makes the following representations to the Seller, which representations shall be true and correct as of the date made and as of each of the closing dates and shall survive the relevant closing date hereunder for a period of 12 months after such closing date:
 - 9.1. Due Authorization. All the documents executed by Buyer which are to be delivered to the Seller at each closing are, and at the relevant closing will be, duly authorized,

executed, and delivered by Buyer and will be legal, valid and binding obligations of Buyer in accordance with their respective terms.

9.2. No Pending Actions. No action at law or in equity and no investigation or other proceeding whatsoever is now pending or threatened to liquidate or dissolve Buyer, or to declare any of its rights, powers or privileges to be null or void or otherwise than in full force and effect.

9.3. Bankruptcy. Buyer has not (i) made a general assignment for the benefit of creditors, (ii) filed any voluntary petition in bankruptcy or, to the actual knowledge of Buyer, suffered the filing of any involuntary petition by Buyer's creditors, (iii) suffered the appointment of a receiver to take possession of all, or substantially all, of Buyer's assets, (iv) suffered the attachment or other judicial seizure of all, or substantially all, of Buyer's assets, (v) admitted in writing its inability to pay its debts as they become due, or (vi) made an offer of settlement, extension or composition to its creditors generally

10. Escrow. Closing for each closing shall take place at the offices of Escrow Agent, or at such other date, time or place as the Seller and Buyer may agree to in writing. The Escrow Agent shall be Title Guaranty Main Office, Jeremy Trueblood, Commercial Manager 808-521-0208 jtrueblood@tghhawaii.com. The Escrow Agent's reasonable fees and costs shall be shared equally, except that Buyer shall be solely responsible for costs of a UCC insurance policy and/or a UCC report.

The Purchase Price, plus Buyer's share of Escrow Agent's fees and costs, shall be deposited and paid by Buyer to Escrow Agent by 11:00 a.m. (Hawaii Standard Time) at least seven (7) Business Days prior to the closing date or as set forth above, or as otherwise earlier required by Escrow Agent to comply with Hawaii's good funds requirement.

Seller and Buyer shall jointly prepare and approve a preliminary settlement statement (the "**Closing Statement**") on the basis of sources of income and expense as provided herein, and shall deliver such computation to Escrow prior to Closing.

11. Conditions to each Closing.

11.1. Conditions Precedent to Buyer's Obligations. Buyer's obligations under this Agreement for each closing are subject to the fulfillment of each of the following conditions precedent which are included herein for the benefit of Buyer and may be waived or asserted by Buyer:

(i) The Seller's Performance. The Seller is not in default as to its obligations under this Agreement;

(ii) Seller's Representations. All of the Seller's representations as set forth herein shall be true and correct in all material respects as of the Effective Date and on each of the closing dates;

(iii) Maui County Resolutions. Reasonably promptly following the adoption, enactment or promulgation of any County of Maui resolutions relating to the Credits

after the Effective Date until the final closing hereunder, Seller shall deliver to Buyer a true and correct copy of the same;

(iv) Housing Agreement. Seller shall promptly deliver to Buyer true and correct copies of any amendments to the Housing Agreement that may be executed between the Seller and the County of Maui after the Effective Date;

(v) UCC Insurance Policy. Buyer shall order and receive a UCC insurance policy, effective the closing date, insuring that the Credits being purchased are free and clear of UCC security interests, at Buyer's sole cost and expense; and

(vi) Conditions. All other conditions required of Seller in this Agreement shall have been met.

11.2. Conditions Precedent to the Seller's Obligation to each Closing. The Seller's obligations under this Agreement for each closing are subject to the fulfillment of each of the following conditions precedent which are included herein for the benefit of the Seller and may be waived or asserted by the Seller.

(i) Buyer's Performance. Buyer is not in default as to its obligations under this Agreement;

(ii) Buyer's Representations. All of Buyer's representations as set forth herein shall be true and correct in all material respects as of the Effective Date and on each of the closing dates; and

(iii) Conditions. All other conditions required of Buyer in this Agreement shall have been met.

12. Seller's Obligations at each Closing. Except as noted below in (c) and (d), on or before three (3) Business Days prior to the relevant closing date, the Seller shall deliver to Escrow all documents required by Escrow Agent to be delivered, including:

(a) two (2) executed originals of the Bill of Sale in substantially that form attached as Exhibit A duly setting forth the number of Credits to be acquired executed by the Seller;

(b) Seller's executed Closing Statement;

(c) for the first closing, a corporate resolution from Seller approving this Agreement and the sale of up to 38 Credits pursuant to this Agreement in one or more closings; and

(d) on or before the relevant closing date, one (1) executed original "Notice of Exercise and Assignment of Residential Workforce Housing Credits", on the County of Maui's official form, executed by both Seller and the County of Maui Department of Housing and Human Concerns, evidencing the assignment of the subject Credits by Seller as "Transferor" to Buyer as "Transferee" (the "**Official Assignment**"). In the event that the fully executed Official Assignment cannot be

delivered to Escrow Agent by the relevant closing date due to a delay in processing by the County of Maui that is not the fault of Seller, the closing date shall be extended until the date that the Official Assignment is delivered to Escrow Agent.

13. Buyer's Obligations at each Closing. Except as noted below, on or before three (3) Business Days prior to the relevant closing date, the Buyer shall deliver to Escrow all documents required by Escrow Agent to be delivered, including:

(a) Buyer's executed Closing Statement; and

(b) for the first closing, a corporate resolution from Buyer approving this Agreement and the purchase of up to 38 Credits pursuant to this Agreement in one or more closings.

14. Each Closing. Provided that Escrow has received the documents, instruments and funds described herein and Escrow has not received written notice from either Buyer or Seller that any of the applicable conditions to Closing set forth herein have not been satisfied or waived or that any of the representations and warranties made by either Buyer or Seller are untrue in a material respect either as of the Effective Date or as of the relevant closing date, then Escrow is authorized and instructed on each of the closing dates to deliver the balance of the Purchase Price to Seller and deliver to the Buyer one original Bill of Sale, the original Official Assignment, the Seller resolutions (for the first closing), and a copy of the executed Closing Statement.

15. Indemnification and Waiver.

15.1. The Seller shall defend, indemnify and hold Buyer harmless from and against any and all claims, liabilities, losses, damages, costs and expenses, including reasonable attorney's fees and costs, which arise out of the breach of any covenant of the Seller contained in this Agreement or the inaccuracy of any representation or warranty of the Seller contained in this Agreement, or claims, lawsuits, actions or proceedings brought by a third party against Buyer with respect to the actions or omissions of Seller prior to the relevant closing date regarding he acquired Credits. The provisions of this Section shall survive the termination of this Agreement and/or each closing date.

15.2. Buyer shall defend, indemnify and hold the Seller harmless from and against any and all claims, liabilities, losses, damages, costs and expenses, including reasonable attorney's fees and costs, which arise out of the breach of any covenant of Buyer contained in this Agreement or the inaccuracy of any representation or warranty of Buyer contained in this Agreement, or claims, lawsuits, actions or proceedings brought by a third party against the Seller or the Partnerships with respect to the actions or omissions of the Buyer after the relevant closing date regarding the acquired Credits. The provisions of this Section shall survive the termination of this Agreement and/or each closing date.

16. Brokerage. The Seller and Buyer each represents and warrants to each other that each party has employed no brokers, finders, other consultants, or agents in connection with this transaction, and each party shall defend, indemnify and hold the other party harmless from and against all claims, losses, expenses and damages (including reasonable attorneys' fees and costs) resulting from a breach of this representation and warranty. This Section shall survive the relevant closing date.

17. Confidentiality. Buyer and Seller each agree that the terms of this Agreement, the completion of the transaction(s) as contemplated by this Agreement (the "**Transaction**"), the identities of Buyer and Seller, and all information made available by one party to the other or in any way relating to the Transaction, shall be maintained in strict confidence and no disclosure of such information will be made, prior to Closing, except to such attorneys, accountants, investment advisors, lenders, Maui County and others as are reasonably required to evaluate and consummate the Transaction. Nothing in this Section shall prevent either Buyer or Seller from disclosing or accessing any information otherwise deemed confidential under this Section (i) in connection with that party's enforcement of its rights hereunder; (ii) pursuant to any legal requirement, any statutory reporting requirement or any accounting or auditing disclosure requirement; (iii) in connection with performance by either party of its obligations under this Agreement (including, but not limited to, the delivery and recordation of instruments, notices or other documents required hereunder); or (iv) to potential investors, participants or assignees in or of the Transaction or such party's rights therein. Notwithstanding the foregoing, Seller may consider and accept back-up offers and, except as otherwise stated above, provide information about the Credits to interested back-up offeror(s)/buyer(s). This Section shall survive any termination of this Agreement, and shall survive the relevant Closing.

18. Defaults and Remedies

18.1. LIQUIDATED DAMAGES. THE PARTIES AGREE THAT IF BUYER DEFAULTS IN THE PURCHASE OF THE CREDITS, IT WOULD BE IMPRACTICABLE OR EXTREMELY DIFFICULT TO DETERMINE THE SELLER'S ACTUAL DAMAGES AND THAT IN THE EVENT BUYER FAILS TO COMPLETE THE PURCHASE BY REASON OF ANY DEFAULT OR BREACH ON THE PART OF BUYER, THE SELLER'S SOLE AND EXCLUSIVE RECOURSE, FOR SUCH DEFAULT OR BREACH, SHALL BE PAYMENT TO AND RETENTION BY THE SELLER FOR THE DEPOSIT MADE BY BUYER UNDER SECTION 5.2, PLUS COSTS AND EXPENSES AS PROVIDED IN SECTION 19.9. THE SELLER AGREES THAT PAYMENT OF SUCH DEPOSIT TO THE SELLER FROM ESCROW CONSTITUTES FIXED AND LIQUIDATED DAMAGES RESULTING FROM SUCH DEFAULT OR BREACH, AND, UPON PAYMENT TO THE SELLER OF SUCH SUM, THE SELLER WAIVES ANY OTHER CLAIM, AT LAW OR IN EQUITY, AGAINST BUYER UNDER OR RELATING TO THIS AGREEMENT.

EACH OF BUYER AND SELLER ACKNOWLEDGES THAT IT HAS READ AND UNDERSTANDS THE PROVISIONS OF THIS SECTION AND BY ITS INITIALS IMMEDIATELY BELOW AGREES TO BE BOUND BY ITS TERMS,

Buyer's Initials: TV Seller's Initials: _____

16.2 Seller's Default/Buyer's Remedies.

(a) Except as provided in clauses (b) and (c) below, if Seller is in default in the performance of any obligation, covenant or representation and warranty under this Agreement, Seller shall be liable to Buyer for damages in an amount equal to the lesser of (i) Buyer's proven damages as a result thereof, or (ii) \$50,000, plus in either case costs and expenses as provided in Section 19.9.

(b) If Seller is in default of the obligation to convey the Credits to Buyer, except where such default is beyond Seller's control, Seller shall be liable to Buyer for

17. Confidentiality. Buyer and Seller each agree that the terms of this Agreement, the completion of the transaction(s) as contemplated by this Agreement (the "**Transaction**"), the identities of Buyer and Seller, and all information made available by one party to the other or in any way relating to the Transaction, shall be maintained in strict confidence and no disclosure of such information will be made, prior to Closing, except to such attorneys, accountants, investment advisors, lenders, Maui County and others as are reasonably required to evaluate and consummate the Transaction. Nothing in this Section shall prevent either Buyer or Seller from disclosing or accessing any information otherwise deemed confidential under this Section (i) in connection with that party's enforcement of its rights hereunder; (ii) pursuant to any legal requirement, any statutory reporting requirement or any accounting or auditing disclosure requirement; (iii) in connection with performance by either party of its obligations under this Agreement (including, but not limited to, the delivery and recordation of instruments, notices or other documents required hereunder); or (iv) to potential investors, participants or assignees in or of the Transaction or such party's rights therein. Notwithstanding the foregoing, Seller may consider and accept back-up offers and, except as otherwise stated above, provide information about the Credits to interested back-up offeror(s)/buyer(s). This Section shall survive any termination of this Agreement, and shall survive the relevant Closing.

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EACH OF BUYER AND SELLER ACKNOWLEDGES THAT IT HAS READ AND UNDERSTANDS THE PROVISIONS OF THIS SECTION AND BY ITS INITIALS IMMEDIATELY BELOW AGREES TO BE BOUND BY ITS TERMS,

Buyer's Initials: _____ Seller's Initials: AB

16.2 Seller's Default/Buyer's Remedies.

(a) Except as provided in clauses (b) and (c) below, if Seller is in default in the performance of any obligation, covenant or representation and warranty under this Agreement, Seller shall be liable to Buyer for damages in an amount equal to the lesser of (i) Buyer's proven damages as a result thereof, or (ii) \$50,000, plus in either case costs and expenses as provided in Section 19.9.

(b) If Seller is in default of the obligation to convey the Credits to Buyer, except where such default is beyond Seller's control, Seller shall be liable to Buyer for

damages in an amount equal to the lesser of (i) the additional cost to Buyer of purchasing credits from another seller, or (ii) \$1,000,000, plus in either case the costs and expenses as provided in Section 19.9. For the avoidance of doubt, this clause (b) shall not apply if Completion of the Project does not occur by December 31, 2020, and this Agreement terminates as a result pursuant to the last sentence of Section 6 of this Agreement.

(c) If Seller is in default of its representation and warranty set forth in Section 6.6 hereof, and, as a result thereof, any Credits purchased by Buyer are subject to a security interest, lien, encumbrance or option that is being asserted against Buyer, Seller shall be liable to Buyer for damages in an amount equal to the lesser of (i) Buyer's proven damages as a result thereof, or (ii) the Purchase Price paid for such Credits, plus in either case costs and expenses as provided in Section 19.9.

(d) Buyer waives the remedy of specific performance and other equitable remedies.

19. Miscellaneous.

19.1. Instruments of Further Assurance, Good Faith. Each of the parties hereto agrees, at its own expense, to execute and deliver to the other at or after each closing any and all further instruments and documents as either may reasonably request in order to carry out any of the provisions of this Agreement. The Seller and Buyer shall act in good faith in all respects relative to the transactions contemplated hereby. This Section shall survive the relevant closing date.

19.2. Notices. Any notice, consent or approval required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given (i) upon hand delivery, (ii) one (1) Business Day after being deposited with Federal Express or another reliable overnight courier service for next day delivery, or (iii) three (3) Business Days after being deposited in the United States mail, registered or certified mail, postage prepaid, return receipt required, and addressed as follows (or such other address as either party may from time to time specify in writing to the other in accordance with this Section):

If to Buyer: Blackstone Real Estate Advisors L.P.
 345 Park Avenue
 New York, New York 10154
 Attn: Head, U.S. Asset Management
 Email: realestatenotices@blackstone.com

With a copy to: Scott McCormack
 57-091 Kamehameha Highway
 Kahuku, Hawaii 96731
 Email: smccormack@tbrdevelopment.com

If to the Seller: 2000 E. Fourth Street, Suite 205
 Santa Ana, California 92705

19.3. Parties in Interest. This Agreement, and each and every term and provision hereof, shall inure to the benefit of, and be binding upon and enforceable against, Buyer and the Seller hereto and their respective successors and permitted assigns.

19.4. No Third-Party Benefits. This Agreement is not intended and shall not be deemed or construed to confer any rights, powers or privileges on any person, firm, partnership, corporation or other entity not a party hereto, except as otherwise provided.

19.5. Assignment. Buyer is permitted to assign this Agreement to a purchaser of the Grand Wailea Resort, or an Affiliate, provided that (i) the assignment shall not release Buyer from its obligations under this Agreement that arose or accrued prior to such assignment, (iii) the assignment does not delay any closing, (iv) the permitted assignee assumes all duties and obligations of Buyer under this Agreement arising or accruing following such assignment, including but not limited to the prohibitions on assignment contained in this Section, (v) the Seller is provided with a copy of the assignment which includes such assumption by the assignee, and (vi) the Seller is given copies of any formation document confirming the above matters. This Agreement shall not otherwise be assignable or transferable in whole or in part, or by operation of law, by either party and nothing in this Agreement is intended to confer upon any person, other than the parties hereto and permitted assignees of Buyer, any rights, remedies or obligations under, or by reason of, this Agreement. The term “Affiliate” means an entity directly or indirectly, through one or more intermediaries, controlled by or under common control with the Buyer. The terms “controlled” and “control”, as used in the immediately preceding sentence, means, with respect to an entity that is a corporation, the right to the exercise, directly or indirectly, of more than fifty percent (50%) of the voting rights attributable to the shares of the controlled corporation and, with respect to an entity that is not a corporation, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of the controlled entity.

19.6. Severability. If any term, provision, covenant or condition of this Agreement should be held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of this Agreement shall continue in full force and effect and shall in no way be affected, impaired or invalidated thereby.

19.7. Time is of the Essence. Time is specifically declared to be of the essence of this Agreement and of acts required to be done and performed by Buyer and the Seller.

19.8. Applicable Law and Forum. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Hawaii, excluding its choice of law rules that may otherwise require the application of the law of another jurisdiction. Any legal action or any other proceeding, including an action for declaratory relief or any proceeding in bankruptcy, brought to enforce the Agreement or because of or relating to any dispute, breach, default, or misrepresentation in connection with the Agreement, shall be brought and maintained solely in the Second Circuit Court of the State of Hawaii, or the United States District Court for the District of Hawaii, as appropriate. Buyer and the Seller by execution of this Agreement consent to exclusive personal jurisdiction and venue in such courts, and waive any right to object to such forum or seek any transfer or change of venue to any other forum.

19.9. Attorneys’ Fees. Should either party hereto reasonably retain counsel for the purpose of enforcing or preventing the breach of any provision hereof, including, but not limited to, instituting any action or proceedings to enforce any provision hereof, for damages by reason of any alleged breach of any provision of this Agreement, for a declaration of such party’s rights or obligations hereunder or for any other judicial remedy, then the prevailing party shall be entitled

to be reimbursed by the other party for all costs and expenses incurred in connection therewith, including, without limitation, reasonable attorneys' fees and costs for the services rendered to such prevailing party.

19.10. No Party Deemed Drafter. The parties agree that no party shall be deemed to be the drafter of this Agreement and further that in the event that this Agreement is ever construed by a court of law, such court shall not construe this Agreement or any provision of this Agreement against any party as the drafter of this Agreement.

19.11. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

19.12. Facsimile Signatures. Facsimile and PDF e-mail copies of this executed Agreement shall be fully binding and effective for all purposes whether or not originally executed documents are transmitted to the other party. Facsimile and PDF e-mail signatures on documents will be treated the same as original signatures. Notwithstanding the foregoing, all documents to be recorded shall be originals.

19.13. Entire Agreement. This Agreement constitutes and contains the entire agreement between the Seller and Buyer and supersedes any and all prior negotiations, correspondence, understandings and agreements between the parties respecting the subject matter hereof.

19.14. Amendment. This Agreement may be amended only by a writing signed by each of the parties hereto.

19.15. No Partnership. The Seller and Buyer are not and shall not be considered joint venturers or partners and neither shall have the power to bind, obligate or represent the other.

19.16. Business Days. "Business Days" means Mondays to Fridays, other than federal and State of Hawaii holidays.

19.17. Authority. Each of the individual(s) executing this Agreement on behalf of Buyer and Seller represent and warrant that he/she is authorized to execute this Agreement and the instruments referenced herein on behalf of Buyer and Seller and has the legal power, right and actual authority to bind Buyer and Seller to the terms and conditions of this Agreement and the instruments referenced herein.

(Signatures on the following page)

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth below their name.

SELLER:

IKAIKA OHANA, a Hawaii nonprofit corporation

By: DAVID H. BIGLEY
Name: DAVID H. BIGLEY
Title: TREASURER
Date: 5/26/2020

BUYER:

BRE ICONIC GWR OWNER LLC, a Delaware limited liability company

By: _____
Name: _____
Title: _____
Date: _____

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth below their name.

SELLER:

IKAIKA OHANA, a Hawaii nonprofit corporation

By: _____

Name:

Title:

Date: _____

BUYER:

BRE ICONIC GWR OWNER LLC, a
Delaware limited liability company

By:  _____

Name: Patrick Volz

Title: Chief Operating Officer

Date: 5/26/20

EXHIBIT A
TO WORKFORCE HOUSING CREDITS PURCHASE AND SALE AGREEMENT

BILL OF SALE

THIS BILL OF SALE (this “Bill of Sale”) is made in connection with that certain Workforce Housing Credits Purchase and Sale Agreement by **Ikaika Ohana**, a Hawaii nonprofit corporation (“the Seller”) and _____ (“Buyer”) (the “Agreement”). Capitalized terms which are not defined herein shall have the meaning given to them in the Agreement.

1. Credits. The “Credits” shall mean _____ [NUMBER] development affordable housing credits as more particularly described in the Agreement.

2. Sale. For good and valuable consideration received by Seller, the receipt and sufficiency of which are hereby acknowledged, Seller hereby sells, assigns and transfers the Credits to Buyer.

3. Representations and Warranties. EXCEPT AS EXPRESSLY PROVIDED IN SECTION 8 OF THE AGREEMENT, NEITHER THE SELLER NOR ANY AGENT OR REPRESENTATIVE OF THE SELLER HAS MADE ANY STATEMENTS OR REPRESENTATIONS, EXPRESSED OR IMPLIED, REGARDING ANY MATTER OR THING AFFECTING OR RELATING TO THE CREDITS, INCLUDING, WITHOUT LIMITATION, REGARDING (I) THE CURRENT OR FUTURE USE OF THE CREDITS, INCLUDING, BUT NOT LIMITED TO, THE USE OF THE CREDITS FOR COMMERCIAL, RETAIL, RESIDENTIAL, INDUSTRIAL OR OTHER PURPOSES, (II) THE AVAILABILITY TO BUYER OF ANY REQUIRED PERMITS OR APPROVALS, OR (III) THE VALUE OF THE CREDITS.

IN WITNESS WHEREOF, Seller has executed this Bill of Sale as of the day set forth below.

SELLER:

Ikaika Ohana, a Hawaii nonprofit corporation

By: _____

Name: _____

Its: _____

Date: _____

HAWAII
RESERVE STUDY

GUIDE FOR
Board Members
&
Property Managers



RESERVE DATA ANALYST

www.reservedataanalyst.com

Introduction

This eBook has been put out together to help bring some clarity to the Board members and Property Managers who have an interest in all things related to Reserve Studies. I have tried to touch on the topics that most often come up without getting too much into the in depth concepts, math or gray areas which can be confusing for those that do not deal with them every day. Please feel free to download and share this eBook, use it as a reference tool or simply as a cheat sheet at the next Board meeting.

This book is easily navigable by utilizing the Table of Contents. You will find ****Reserve Analyst Tips**** throughout this document.

Is there anything additional you would like include or answered? Just let me know and I can add it to this book. This is an evolving project so please help me help you!



Jesse Tax, PRA

Professional Reserve Analyst

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Hawaii Reserve Study Laws

Numerous laws have been implemented with regards to reserve accounts, reserve funding levels and reserve studies, outlines in the Hawaii Condominium Act 514B-14B (Link: <http://cca.hawaii.gov/pvl/files/2013/08/hrs514B-CPR-0715.pdf>). These laws were created to protect the membership of common interest communities, such as condominiums, from unnecessary or unexpected special assessments for known and expected common area expenses such as roofing, asphalt, paint, window replacement etc.



How often does the Hawaii State Law indicate a reserve study must be conducted?

While the current law does not state specifically a reserve study must be completed annually it does state that the annual budget must include numerous calculations that can only be determined by having a reserve study completed. Below is the law as is stated under Hawaii 514B-14B. I have highlighted items most relevant to this question:

-----start----->>>>

[§514B-148] Association fiscal matters; budgets and reserves. (a) The budget required under section 514B-144(a) shall include at least the following:

- (1) The estimated revenues and operating expenses of the association;
- (2) Information as to whether the budget has been prepared on a cash or accrual basis;
- (3) The total replacement reserves of the association as of the date of the budget;
- (4) The estimated replacement reserves the association will require to maintain the property based on a reserve study performed by the association;
- (5) A general explanation of how the estimated replacement reserves are computed;
- (6) The amount the association must collect for the fiscal year to fund the estimated replacement reserves; and
- (7) Information as to whether the amount the association must collect for the fiscal year to fund the estimated replacement reserves was calculated using a per cent funded or cash flow plan. The method or plan shall not circumvent the estimated replacement reserves amount determined by the reserve study pursuant to paragraph (4).

(b) The association shall assess the unit owners to either fund a minimum of fifty per cent of the estimated replacement reserves or fund one hundred per cent of the estimated replacement reserves when using a cash flow plan; provided that a new association need not collect estimated replacement reserves until the fiscal year which begins after the association's first annual meeting. For each fiscal year, the association shall collect the amount assessed to fund the estimated replacement for that fiscal year reserves, as determined by the association's plan.

(c) The association shall compute the estimated replacement reserves by a formula that is based on the estimated life and the estimated capital expenditure or major maintenance required for each part of the property. The estimated replacement reserves shall include:

- (1) Adjustments for revenues which will be received and expenditures which will be made before the beginning of the fiscal year to which the budget relates; and
- (2) Separate, designated reserves for each part of the property for which capital expenditures or major maintenance will exceed \$10,000. Parts of the property for which capital expenditures or major maintenance will not exceed \$10,000 may be aggregated in a single designated reserve.

(d) No association or unit owner, director, officer, managing agent, or employee of an association who makes a good faith effort to calculate the estimated replacement reserves for an association shall be liable if the estimate subsequently proves incorrect.

(e) Except in emergency situations or with the approval of a majority of the unit owners, a board may not exceed its total adopted annual operating budget by more than twenty per cent during the fiscal year to which the budget relates. Before imposing or collecting an assessment under this subsection that has not been approved by a majority of the unit owners, the board shall adopt a resolution containing written findings as to the

necessity of the extraordinary expense involved and why the expense was not or could not have been reasonably foreseen in the budgeting process, and the resolution shall be distributed to the members with the notice of assessment.

(f) The requirements of this section shall override any requirements in an association's declaration, bylaws, or any other association documents relating to preparation of budgets, calculation of reserve requirements, assessment and funding of reserves, and expenditures from reserves with the exception of:

(1) Any requirements in an association's declaration, bylaws, or any other association documents which require the association to collect more than fifty per cent of reserve requirements; or

(2) Any provisions relating to upgrading the common elements, such as additions, improvements, and alterations to the common elements.

(g) Subject to the procedures of section 514B-157 and any rules adopted by the commission, any unit owner whose association board fails to comply with this section may enforce compliance by the board. In any proceeding to enforce compliance, a board that has not prepared an annual operating budget and reserve study shall have the burden of proving it has complied with this section.

(h) As used in this section:

"Capital expenditure" means an expense that results from the purchase or replacement of an asset whose life is greater than one year, or the addition of an asset that extends the life of an existing asset for a period greater than one year.

"Cash flow plan" means a minimum twenty-year projection of an association's future income and expense requirements to fund fully its replacement reserves requirements each year during that twenty-year period, except in an emergency; provided that it does not include a projection of special assessments or loans during that twenty-year period, except in an emergency.

"Emergency situation" means any extraordinary expenses:

(1) Required by an order of a court;

(2) Necessary to repair or maintain any part of the property for which the association is responsible where a threat to personal safety on the property is discovered;

(3) Necessary to repair any part of the property for which the association is responsible that could not have been reasonably foreseen by the board in preparing and distributing the annual operating budget;

(4) Necessary to respond to any legal or administrative proceeding brought against the association that could not have been reasonably foreseen by the board in preparing and distributing the annual operating budget; or

(5) Necessary for the association to obtain adequate insurance for the property which the association must insure. "Major maintenance" means an expenditure for

maintenance or repair that will result in extending the life of an asset for a period greater than one year.

"Replacement reserves" means funds for the upkeep, repair, or replacement of those parts of the property, including but not limited to roofs, walls, decks, paving, and equipment, that the association is obligated to maintain.

<<<<<----- end -----

So even though there is no specific law that says some level of reserve study must be completed annually, all of the information that must be disclosed annually in the budget and related to the reserve account can only be appropriately disclosed after a reserve study has been completed. With Level III Updates being so affordable for the typical community there really is no reason why a community should forgo having an update completed. Additionally we do not see how a community would be able to make the legally required annual disclosures to the community without someone completing a reserve study. That being said the law does not state a reserve study cannot be completed in-house. If someone has the expertise, knowledge, tools and understanding of the concepts and formulas to complete one, it can be done. A designated Professional Reserve Analyst have years of experience in these matters.

What are the levels of reserve studies?

- *Level I* - Considered a full reserve study with site inspection, measurement & quantities of components and a full financial analysis with funding plans.
- *Level II* - An update to the Level II which includes a site inspection for condition/useful life assessments but utilizes measurements and quantities of components from a prior Level I or Level II study. A full financial analysis and funding plans are included in this level of study.
- *Level III* - This is an update with no site inspection. Measurements, condition assessments and useful life are taken from the prior Level I or Level II Study. Updates to the projects completed or deferred costs of the components, useful life and financials of the Association are completed.

We have found that every three years most communities will benefit most from an on-site visit as the Reserve Analyst will be able to make appropriate determinations as to whether components are deteriorating in line with the prior study's expectations. If

components are deteriorating faster or slower than what was initially deemed appropriate the component remaining useful life and service life can be adjusted accordingly. It is important to remember that a reserve study is an evolving document that will change as a community ages and components are added or removed. Updates to the reserve study are extremely important for a community to make appropriate reserve allocation budgeting decisions over time and through changing AOA Board and community membership.

What are the items required to be included in a Hawaii Reserve Study?

- *Component List* – as highlighted above, a separate line item component “for each part of the property for which capital expenditures or major maintenance will exceed \$10,000. Parts of the property for which capital expenditures or major maintenance will not exceed \$10,000 may be aggregated in a single designated reserve”
- *Components* – the following must be included at a minimum as is noted and highlighted above ” Replacement reserves” means funds for the upkeep, repair, or replacement of those parts of the property, including but not limited to roofs, walls, decks, paving, and equipment, that the association is obligated to maintain.”
- *Timescale* – If using a Cashflow Method or Percent Funded method as highlighted above the timeframe is for a minimum twenty-year projection.
- *Funding Methods* – The Hawaii State Statute has two funding methods a community can choose from when calculating a reserve budget that would be in compliance with the Law. The Percent Funded & Cashflow Methods are described in more depth on the next page.

How to calculate a reserve budget which is in compliance with the Hawaii Statute

Unfortunately there are two very different methods listed in the Hawaii Statute. These result in very different long term projections for a reserve account and have different goals for the reserve account. I will touch on both below:

- *Hawaii Fifty Percent Funding Model* – The goal of this funding method is to keep the reserve account a minimum of 50% Funded for a minimum of 20 years. Essentially this means that the reserve account should have a minimum of 50% of an ideal amount in the reserve account at any point in time in the next 20 years. This ideal amount is determined by calculating a fully funded balance for the reserve account in each of the 20 year period and simply having 50% of this amount in any given year. How to calculate the fully funded balance is touched on in more depth later in this reserve study guidebook.
- *Hawaii Cash Flow Funding Model* – The goal of this funding method is to keep the reserve account cash positive for a minimum of 20 years. Essentially this means that the reserve account balance is kept at a level that the reserve account balance never drops below \$0. This is more commonly referred to as a Baseline Funding method and it carries significant risk over time as it assumes the common area projects will occur exactly when planned (i.e. the roofs will fail at exactly 20 years). While this funding method often carries a lower allocation rate it is much more difficult to implement successfully and carries a much higher risk for reliance on special assessments or unsightly deferred maintenance when some of the components inevitably fail earlier than projected.

While both of the above funding methods comply with the Hawaii Statute neither has a long term goal of elevating the reserve account into a “Good” funding range above 70%. At a Percent funded of 70%-100% reliance on special assessments, deferred maintenance and loans is minimized for predictable project expenses. In our reserve studies we will also include a Recommended Funding Method which will guide a reserve account to a 100% funded level.

****Reserve Analyst Tip****

Utilize the services of a reserve study company that provides the annual disclosure document with their services and in their fees. This will ensure the numbers match the reserve study findings and compliance with the law is met.

What is a Reserve Study



A reserve study is a report which outlines the common area components that are an Associations responsibility as well as the expected replacement costs associated with them over a specific period of time; at a minimum of 20 years in Hawaii per the statute.

A reserve study will provide a replacement schedule for these common area components (e.g. roofing, paint, windows) as well as indicate how much an Association will need to set aside now and annually to have enough for these future obligations.

Below is a list of what you will typically find in a reserve study:

- Summary of the funding models and a measure of adequacy of the reserve account (Percent Funded)
- A list of common area components which are the Associations responsibility
- Current and future expected costs related to these component projects
- Useful life and remaining useful life of components
- A timeline of the expected repair & replacement of these components

- Numerous funding plans that meet statutory requirements, client goals and any specific reserve analyst recommendations

Why is a Reserve Study Important?



A comprehensive reserve study will help guide an Association's Board in their funding and budgeting decisions related to the reserve account and how much is adequate to set allocated to the reserve account to meet the long term obligations of the community. Without a reserve study that provides a clear list of obligations, costs and a timeline of the estimated expenses a Board is left to make guesses as to how much to allocate to a reserve account.

Fairness to Community Membership

A reserve study will provide funding scenarios which fairly distribute the costs amongst all the community members (current and future) so that current members are not underpaying or overpaying their share to the reserve account. This is an extremely important concept and has the additional benefit of reducing the likelihood for reliance on special assessments or loan. If everyone pays their fair share to the reserve account then when the cost occurs there will be a sufficient amount in the reserve account. A reserve study takes into inflation and changes in costs so as time moves on and updates to the reserve study are completed the Board will have a reserve study that can be relied on to continue appropriately and fairly distributing the cost estimates. Remember inflation causes the dollar to lose value over time so future owners will be paying a higher dollar amount but an equal share of the total cost if a funding model is followed

to fairly distribute the project cost. Another way to look at it is that everyone pays for their share of the deterioration of the component, annually.

Fiscal Responsibility

Boards have a legal and fiscal responsibility to the community membership in common interest communities. According to most community governing documents and legal requirements Boards must strive to maintain and adequately prepare for costs related to common area obligations. Refraining from adequately preparing for or making poor decisions which place in the Association in a poor financial position can open the door to legal liabilities, lawsuits and community membership which loses confidence in the Board. Obtaining the services of a reserve study company shows a community that the Board is serious about the matter and is a first step in following a path of fiscal responsibility.

Community Appeal and Values

For the long term health of a community, the appeal of the units/homes in the community and to protect property values a long term funding plan which can be utilized over many years and by changing Boards a reserve study is extremely important. A community which relies only on guesswork is also one that will typically rely on special assessments, loans and deferred maintenance issues - all of which negatively impact the appeal and values in a community.

Financing

As Lenders have become much more knowledgeable about reserve accounts and the process in which the accounts are funded they have become much stricter in their lending guidelines. Fannie Mae, Freddie Mac and FHA all have requirements with regards to how much must of the budget must be budgeted to the reserve account. They have been enforcing these guidelines and often require a copy of a recent (last 12

months) reserve study by an independent professional to verify the guidelines are met. This has come up consistently over the last several year with purchase & sales in communities, refinances of units and for loans to the Association for projects in the community.

Hiring a Reserve Study Professional



There are many reserve study companies to choose from so to narrow the list down to several that are likely to provide reliable bids and comprehensive studies to the community we recommend following the below steps:

Step 1 – Ask your Associates/Board Members

We have found that the best predictor of future performance is their past performance. A company that has provided accurate bids, shows up on time, treats all parties with professionalism and provides a top quality product is likely to do the same in the future. Other Property Managers or Board Members will be able to provide their experience with different reserve study companies and with different property types. This is a great starting point.

Step 2 – Look for Experience

Companies which have reserve analysts which have years of experience will often be able to provide a more comprehensive reserve study as they will have more experience with various property types and have likely seen a community just like the one you are

managing or live in. This helps to ensure the component list is more accurate and the funding models more appropriate.

Step 3 - Look for a Designation

There are two designations in the reserve study industry which are widely accepted as helping to elevate the industry standards and professionalism. The Community Associations Institute (CAI) has the Reserve Specialist (RS) designation and the Association of Professional Reserve Analysts (APRA) has the Professional Reserve Analysts (PRA) designation. A designation ensures the reserve analyst is following ethical and industry specific criteria in providing comprehensive and reliable reserve studies to common interest communities. Obtaining these designations require significant amount of work related experience, references, peer review and ongoing educational requirements to keep up on industry trends.

Ensure that the reserve analyst actually completing the study has a designation as some companies hire inexperienced staff to complete the site inspections and write up the report, relying on the more experienced & designated person to review all their work from the office. While this business model is more profitable for the person who owns the reserve study company the final product is usually less accurate than if an experienced reserve analyst completed the work from start to finish. It is just too easy to miss components or specific concerns without being on site. It is an unfortunate and common scenario we find in many reserve studies we see. Remember the component list is the foundation of the rest of the reserve study so if that is not correct the rest of the studies can have significant flaws.

Step 4 - Find Local Professionals

It has been our experience that in the past there has been many reserve study companies that appear and then disappear never to be seen again. These are usually out

of state reserve study companies which are run by people getting into the field to make ends meet before going back to their usual industry. Often they are contractors, engineers, architects, builders, etc. who are not familiar with many of the concepts of the local statutory requirements or National Reserve Study Standards. We have seen many reports which do not even meet the minimum statutory requirements for reserve studies but which were sold off as comprehensive and done by a professional. Additionally when questions arise or revisions are requested many communities have a difficult time getting answers in a timely manner if at all.

Step 5 – Confirm Turn Times

Often reserve studies are ordered at the last minute and are needed by specific dates such as a Board Meeting or to comply with the end of year Disclosure requirements. Let the reserve study company know of the date the study will be needed and confirm they will be able to meet the deadline. This ensures you as a Manager or Board member has done your due diligence. Reserve study companies can often get backed up during the summer and fall months so make sure you let them know of the deadline you are needing the report back by.

Step 6 – Confirm the Studies Meet Statutory Requirements

Even though laws have been passed in Hawaii related to reserve studies we still regularly see reports which do not meet these minimal requirements. A reserve study which does not meet the minimal requirements is likely not going to provide the community with the necessary information to complete the annual disclosure requirements to the community membership. In the end this will be a negative reflection on you as a property manager or Board who they have entrusted to find qualified and professional vendors.

Document Review



The reserve analyst completing your reserve study will review blueprints, community maps and the community's governing documents to interpret what is listed as an Association's obligation and review the financials with regards to the reserve account to complete a study that is most helpful for the Association.

Governing Documents

Community governing documents will have an explanation of what are considered common areas, limited common areas, limited use areas or limited common elements amongst other labels or definitions of the community area. There will typically be an explanation of what the different common areas are defined as and a maintenance schedule indicating who is required to pay for the maintenance and repair/replacement of them (e.g. Unit Owner or AOA Association).

When reviewing the governing documents of a community such as the Bylaws, Declarations and CC&R's there may be common areas which are left out, not fully explained or are very vague in who's obligation it may be to repair/replace them. When we encounter this scenario we will ask the Board how the Board has historically treated the common area in question and then utilize that prior history as precedent for the

reserve study. Additionally we always suggest the Board utilize the services of an attorney for clarification and interpretation of the Governing Documents in question, if a revision to the reserve study is needed we can do so or incorporate the findings into future reserve studies for the Association. It is not uncommon for changing Boards to also have changing opinions as to what is to be included as an Association responsibility.

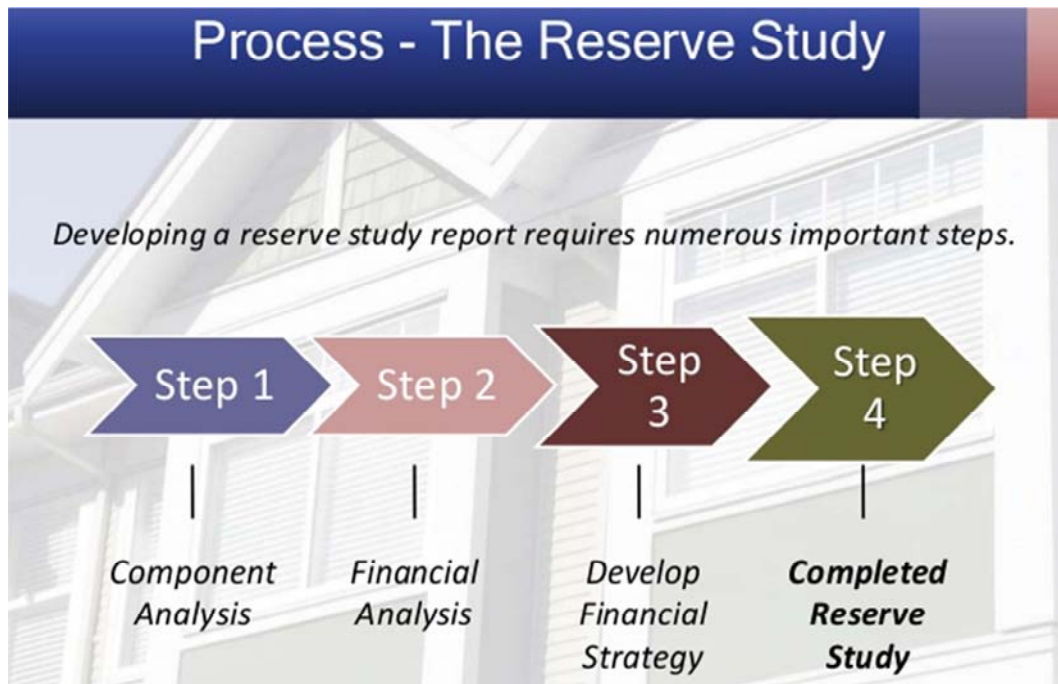
Financials

The reserve analyst will also need to review financial information regarding the reserve account in order to create a reserve study which is most beneficial to an Association. Typically the Reserve Analyst will at a minimum need to know the reserve account balance, the current and/or expected reserve account allocation rate, and any special assessments or loan which have already been implemented or are planned.

Bids, Invoices, Work Orders

Additional documents like bids from vendors, invoices for past work performed or work orders are very helpful to the reserve analyst who can incorporate these actual costs into the reserve study. Utilizing actual cost figures will lead to a more accurate and well documented reserve study for the Board to rely on. It's important to remember that without actual costs figures the reserve analyst will be utilizing average costs (from past experience, other bids, cost manuals) which can vary significantly from actual costs to the community for a specific project.

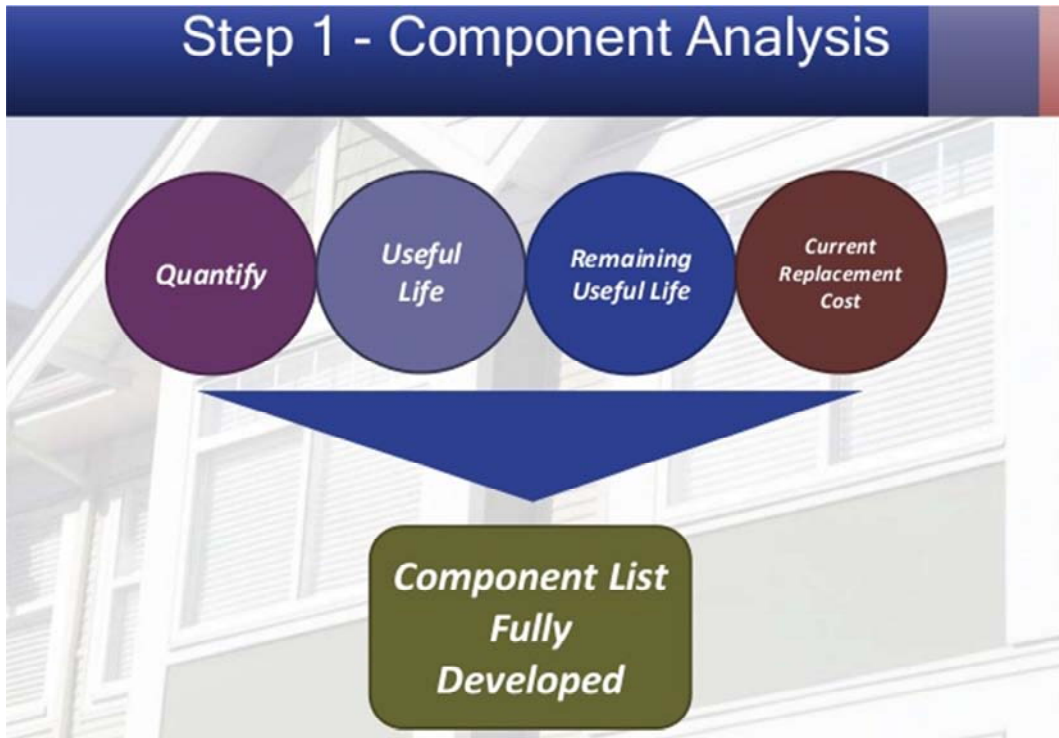
The Reserve Study Process



A Reserve Study completed by a reserve study professional will be done in numerous steps. Each of these steps is extremely important to end with a comprehensive and catered reserve study report. It is important to remember that a Reserve Analyst will build on their initial site inspection findings & research to come to a complete reserve study with many different aspects to it. At each step the Reserve Analyst will be making assumptions about certain things like inflation, past replacement dates or replacement schedules. This is why is so important to provide as much information to the reserve Analyst as is possible including past component project dates, invoices, bids, past historical replacement cycles (e.g. how often paint has been completed). The more information the Reserve Analyst has the more accurate some of these assumptions will be and the more catered and useful the reserve study will be for your community.

Over the next several pages we will dig a little deeper into each step of the study so a basic understanding of the process can be formed.

The Component Analysis



The Component Analysis is the first step in the reserve study. This step involves determining what components to include in the study, completing a site inspection, quantifying the components, evaluating the common area components for useful life & remaining useful life and determining the current cost for the common area components.

Because the remainder of the study is based on these findings it is extremely important that the reserve analyst compiles an accurate list of components, accurate cost figures and accurate useful life/remaining useful life of the components. This component list should be reviewed closely by the Manager and/or Board to make sure it's in line with the Association's governing documents and the historical way the components are treated when there are grey areas in the governing documents. A large error in the

component list can have a significant impact on the funding plans developed and for an Association.

We regularly come across reserve studies which are missing significant expenses which may not be apparent to Board Members or Managers. Components that are out of sight can often be excluded from a reserve study without any knowledge to a reader. Some of these out of sight component have an extremely high cost related to them and should be included in the reserve study. Often this includes underground sprinkler piping replacement, sewer/water pipes repairs/replacement, waste & drain line repairs/replacement, asphalt resurfacing, pond liner replacement, lanai refurbishment, etc.

What Components to Include

Determining what components to include in a reserve study is the first step in the Component Analysis. Based on a review of the governing documents, interviews with Board Members, Statutory requirements and applying a four part test outlined in National Reserve Study Standards, the reserve analyst will be able to create a comprehensive reserve study list. The four part test outlined in the CAI's National Reserve Study Standards is listed below:

- The component an obligation of the Association
- The component has a limited useful life expectancy
- The component has a reasonably defined remaining useful life
- The cost of the component is above a minimum expense threshold set by the Association

Typical common area components that will be seen in a reserve study can include:

- Roof Replacement
- Fencing Replacement
- HVAC Equipment Replacement
- Asphalt Overlay / Sealcoat

- Siding Replacement
- Paint
- Pool Re-plastering
- Lighting Replacement

The above four part test covers the vast majority of the components in a community however there are gray areas which will require some additional due diligence by the Reserve Analyst. Gray areas can include components which are not clearly defined or mentioned in the governing documents. In these scenarios we will typically consider how the component(s) have been historically treated by the Association, based on how they have interpreted their governing documents, and then utilized that historical precedent in the reserve study.

What Common Area Components to Exclude

Some common area components may be left out of the study or be included in the component list as an “Unfunded” component and removed from the mathematical models. These components will typically fall into one or more of the categories listed below.

- Below Threshold Costs - Component repair and/or replacement costs that are deemed too small to be considered capital expenses and are typically covered in the operational or maintenance budget of the Association typically are not included in a reserve study. Minimal threshold costs are determined by the Association or by the Reserve Analyst based on the typical minimal threshold costs for similar sized communities.
- Operational Expenses - These occur at least annually and can be effectively budgeted for each year. They are characterized as being reasonably predictable both in terms of frequency and cost. Operational expenses include all minor expenses which would not otherwise adversely affect an operational budget from one year to the next. Examples can include lawn care, pool cleaning janitorial services.

- Very Long or Unpredictable Useful Life Expectancy - Components which, when properly installed & maintained, have a very long useful life and which cannot be accurately predicted, will typically be excluded from a reserve report. These components may require maintenance and upkeep which is typically funded from the operational budget of the association.
- Unit Improvements - Improvements made to the property that fall within the Governing Documents' unit description summary (Unit Owner's responsibility), are not typically considered to be community owned or the responsibility of the association.
- Other Non-Association Owned - Improvements installed on the property but which are owned by other parties such as governmental agencies, utility companies, the US Postal Service, etc., are not included in a reserve study. The replacement and maintenance of these improvements are not typically the responsibility of the Association.

Site Inspection

The site inspection will take from several hours to several days depending on the size of the community and the number of common area components to evaluate and quantify. The Reserve Analyst will be taking lots of pictures, notes and measurements so that an accurate component list and quantities will be included in the reserve study.

The visual inspection of the components is done to quantify, determine an estimated useful life, remaining useful life and complete a basic visual condition assessment. This visual inspection is not a building inspection and there is no deconstructive or invasive testing conducted; issues that are not apparent from a visual inspection will not typically be known. It is important to remember that a reserve study is for cost and budget planning and should not be substituted for an engineering report, building inspection or code compliance inspection which are all well beyond the scope of a reserve study. Anytime there are concerns with a building or grounds component we recommend a qualified professional come out and inspect the component to determine

the scope of the issue and the cost to repair it; this can then be incorporated into a reserve study.

Component Cost & Useful Life

The costs and useful life data of components is the foundation on which the remainder of the reserve study is based as all recommended financial models are directly impacted by the estimated current and future costs for the component repair/replacement projects. Inaccurate data during the component analysis portion of the reserve study will likely lead to inaccurate projections in the future and funding models which may not meet the goals of the community or statutory requirements.

Where do the Cost Data and Useful Life Come From?

Cost data and useful life both have significant impacts on the funding recommendations and long term timeline of projected expenditures in the study. Every effort is made to include a prior replacement schedule or make very educated estimated based on the following:

- *Prior Studies* - The most reliable data we have is a database of thousands of prior reserve studies. Many of these have invoices and bids from vendors which were reviewed and included as actual costs data into these prior studies. Our database is updated regularly to reflect actual costs data from these vendors for all types of building and grounds components. The useful life of components is also listed in these prior studies and are specific to each community as we assign a placed in service data for each component. Example: When a composition shingle roof last about 25 years for the vast majority of buildings we encounter this is a good sign that it will also last approximately 25 years on your building.
- *Cost Manuals* - We also regularly utilize cost manuals such as RS Means and Marshall & Swift both of which are extremely accurate, updated quarterly and specific all the way down to the zip code. These cost manual companies interview thousands of vendors for many thousands of ground and building

components to determine average costs and then provide them in very comprehensive cost manuals. We have found these to be extremely accurate. Architectural, Engineering and to a lesser extent Cost Manuals also supply Useful Life of Components. These are based on interviews with vendors who deal with these materials every day as well as manufactures indicators related to warranties and in house tests for longevity.

- *Client History* - When we complete a reserve study for our Clients we ask for any relevant bids, vendor invoices and known historical expenses so that we can incorporate these into the reserve study. These are generally pretty reliable with the exception of some that did not obtain numerous bids and overpaid or hired a vendor who has provided a bid for work that is less than the recommended standards (e.g. one sealcoat layer versus the recommended two). The reason vendors provide high or low bids are numerous and can include: they do not really want the job (too big or too small), they are too busy, they lack the necessary equipment (e.g. high bid to purchase or lease equipment), not experienced with some aspect of the job, etc. It has been our experience that the most accurate indicator of the Useful Life of a component is the prior history of that component in a specific community. All site characteristics and building designs are different so materials will wear at slightly different rates (e.g. if the roof on a building has been replaced at 20 years twice prior we will likely fund for replacement at 20 years again.) Many variables impact useful life of components including sun exposure, rain, wind, sand/dust, wooded, desert, arid, humid, etc. The more information we have regarding the historical timeline of replacement of components the more accurate and catered the reserve study will be.

How is Remaining Useful Life of Components Determined?

Remaining Useful life of components is based on the placed in service data (client historical records) as well as the comprehensive onsite visual inspections. Typically an experienced Reserve Analyst will have a good read on the remaining useful life for more typical components such as roofing, siding, fencing, paint, and asphalt as they have seen these thousands of times prior and are familiar with the different condition levels during the life cycle of these more common components. Mechanical equipment can be much

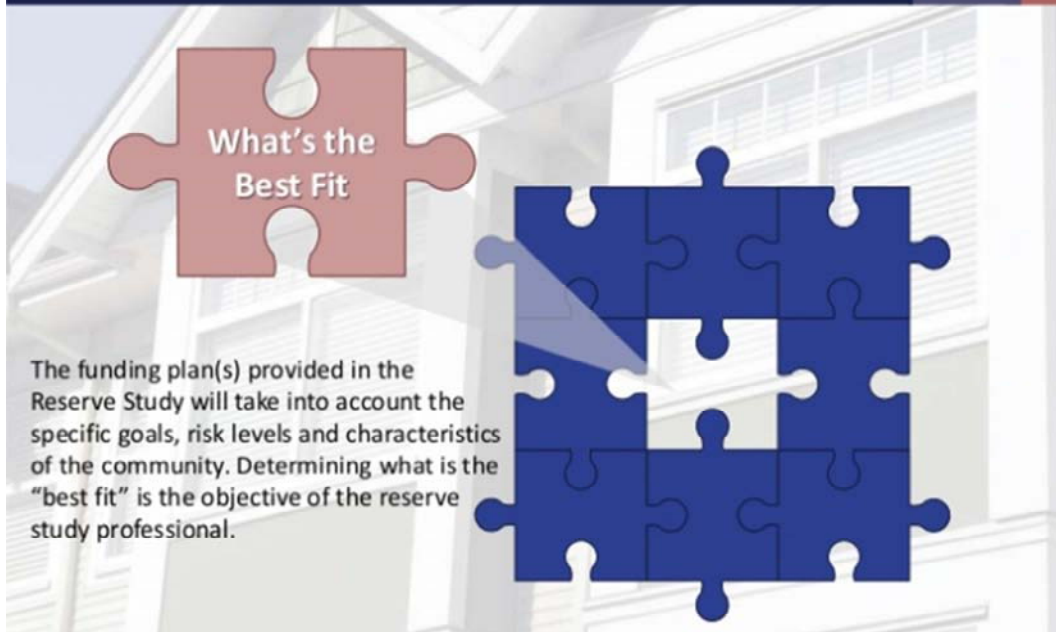
tougher to determine just by looking at it so we will often also rely on serial number data to determine manufacturing dates.

Hidden Systems / Components

Then there are components completing out of view such as plumbing, electrical, drainage systems, etc. These are much more difficult to place a condition assessment on, determine costs and determine a remaining useful life; often the Reserve Analyst must rely only on data provided to them from the Association or Management Company. These types of components are often addressed with a contingency in a reserve study based on the prior history of repair for the component. (e.g. if the community has averaged about \$5,000 every 3 years in plumbing repairs, in recent history, that could be would be a good projection or starting point to budget for the future). Revisions to the costs and remaining useful lives can always be made in updates to the study. If repairs become more costly or the Client has a professional analysis of the systems completed; determining a scope, timeline and costs for large scale replacement of these hidden systems, then the Reserve Analyst can incorporate these finding and recommendations in the reserve study update.

The Financial Analysis

Funding Plan Goal - Finding the Best Fit for the Association



The second step in the reserve study is the Financial Analysis which utilizes all the findings and research in the Component Analysis to project out costs and develop funding plans that an Association can follow. Additionally the reserve study will indicate the current adequacy of the level of reserves for an Association versus an ideal reserve account balance based on its future obligations; this is known as Percent Funded and is generally a good indicator of the financial strength of a reserve account. We will dig a little deeper into the financial analysis in the next few pages.

Goals of the Reserve Analyst

In developing funding plans for a community a professional reserve analyst will follow National Reserve Study Standards Principles. These four principles are listed below:

1. There are adequate reserves when needed

The recommended funding plan will take into account that some years will have dramatically higher expenses than others (often referred to as Peak or Threshold Years). The overall financial model should result in a reserve account balance which is large enough to cover expenses in all periods of time. There is little need for a reserve funding model which result in an Associations failure to meet its fiscal responsibility to the membership. Implementing a funding plan developed by a designated Reserve Analyst will likely result in a positive reserve account balance and adequate funding for those common areas covered in the study.

2. The budget should remain stable across years of changing membership and boards

Costs related to common area projects fluctuate wildly from one year to the next, sometimes with minimal expenses for a decade or longer. The Reserve Analyst will develop a strategy that fairly assesses reserve contribution dues while still remaining stable; requiring membership to pay their fair share over time. Often an allocation rate increase that matches the inflation rate is adequate and is considered a “stable” annual increase to the reserve allocation rate. Note that this stable budget concept does not mean there should be no increases to the allocation rate; in fact the exact opposite is true. A *stable* increase of 3% per year follows this concept (typical to offset inflation) whereas wide variances such as 1% one year and 7% the next is not fair to the membership in either year.

3. The costs are fairly distributed to the membership

The cost to replace the common areas should be fairly distributed across years of membership in a community (current and future members). An adequate reserve allocation rate to the reserve account on an annual basis ensures the community members are paying their fair share of the deterioration of the components. The costs may fluctuate wildly over a 30 year period but if the reserve study is updated annually

the Association will be able to assess a fair amount to the membership in any given year and be adequately prepared for the common area replacement expenses when they come up.

4. The financial strategy must allow the Association / Board to be fiscally responsible

The membership of a community is counting on the Board to make good long term budgeting decisions. A financial strategy which removes reserve funds to pay for a large capital improvement (e.g. construction of a recreation building) is not a fiscally responsible decision and does not follow the concepts in the National Reserve Study Standards. A Reserve Analyst will develop a plan which the Board can rely on and implement; the result is a community which stands on solid financial ground.

About Percent Funded



Percent funded is a measurement of the financial health of a community with regards to its reserve account balance. Essentially it is the calculation of how much the community has in the reserve account versus how much it ideally should have at one particular point in time. This figure can be helpful for Community Membership, Boards and outside parties such as Lenders / Buyers to grasp the current financial health of the reserve account.

However, percent funded is only part of the entire picture in a reserve study. Additionally there are graphs, charts, projections and a cash flow analysis for all the funding plans provided in a comprehensive study. Just because a community has a high percent funded level today does not mean it will continue that way into the future. Large expenses will often drive down the percent funded level so it's important to review the projections of the expenses and the cash flow analysis in the study to see how a community's reserve account balance is impacted during time periods of large expenses.

Typically one of the goals of the recommended funding plan in a reserve study will be to increase the reserve account balance and the Percent Funded to a high (above 70%) percent funded range within the time frame covered in the report. Hawaii has requirements to include several funding model scenarios to comply with the law.

Percent Funded Ranges

The goal of the reserve study is to guide the Association towards a path of becoming fully funded over the 30 year period covered in this report. The different ranges in levels of funding are explained below.

70-100 % Funded - Good

At this level, the reserve account is considered to have a good or high level of funding. The risk for reliance on special assessments, loans and deferred maintenance is minimized. While the goal is to reach and remain at the 100% funded mark the actual funding level will likely fluctuate above and below 100% due to changing component expenses in any given period of time covered in the reserve study.

30 – 70 % Funded - Fair

A fairly funded reserve account is typically one on the right path to a good funded level but one that can also run into trouble if large expenses arise such as unexpected component failures or rapidly rising costs, specifically in years when large expenditures come to fruition. Additionally it's important that the Association is vigilant with their goal to reach a high percent funded level as there is often pressure to reduce dues or utilize money elsewhere when the reserve account balance grows to a level which is perceived to be large. AOA Board's often have difficulties in continuing with the longer term goals in years of economic downturn when much of the community seeks lower dues or a reduced allocation to the reserve account.

0 – 30 % Funded – Poor

A poor funding level often forces an Association to rely on special assessments and/or loans. With insufficient funds the Association may not be able to meet predictable common area expenditures. At this level of funding many communities choose to ignore condition deficiencies over time and suffer from significant deferred maintenance issues which in turn hurt marketability in the community. It is important to realize that a

reserve account can often stay within a poor funding range for many years or even decades before any apparent negative impact. The reality of the financial position of the reserve account will often become apparent in "peak" expense years when one or several large expense component projects occur (e.g. roofing, asphalt, siding, windows) which will require special assessments to be implemented or loans secured. Communities are often "surprised" by project expenses which may only happen every 20 – 30 years or longer. An experience Reserve Analyst will be able to determine what component project expenses will be coming due and appropriately create funding models to address these costs years in advance of their likely failure.

****Reserve Analyst Tip****

If your Association has a goal, such as reaching a certain percent funded range within a specific period of time or reaching a percent funded that complies with FHA approval; let the Reserve Analyst know so they can incorporate it as one of their funding models in the reserve study. This could be for lending/financing purposes or just to hit targets set by the Board. The reserve study should be a catered document that takes into account both Client Goals and Statutory Requirements.

About The Fully Funded Balance

A Fully Funded Balance is a reserve account balance which is equal to the estimated accumulated deterioration of the Association's common area components. As common area components grow older, they deteriorate until they no longer perform their intended function, at which time; the component is fully deteriorated and must be replaced. The fully funded balance is the estimated monetized amount that will match this deterioration to the assets at any specific point in time.

Example

An Association which has a building that needs to be painted in 5 years at a cost of \$5,000 will need to set aside \$1,000 into their reserve account annually to have enough in the reserve account to pay the painter in year 5. If the Association has \$1,000 in the reserve account at the end of year 1 they are on track to pay for this paint job and are considered to be 100% Fully Funded as the paint job has deteriorated by 1/5th and the amount in the reserve account is 1/5th of the total amount needed. At the end of year two this community would need \$2,000 in the reserve account to remain Fully Funded (ie. 2/5th deterioration of the paint and 2/5th the total in the reserve account). This would go on each year until year 5 when the building is painted and the process starts over again.

The fully funded balance is simple enough to determine if the community has only one common area component but most communities have many components and a corresponding fully funded balance that ranges from one year to the next as components are repaired/replaced, remaining useful life expectancies are updated over time and the common area component list grows or shrinks over time.

It's important to realize that a fully funded balance is not the total replacement cost of the common area components. A community which has a fully funded balance one year then decides against following recommended increases to offset inflation will very likely fall below a fully funded balance in a very short period of time. This is a common scenario when membership request lower dues and/or the reserve account balance appear to be very large.

Timeline of Expenses

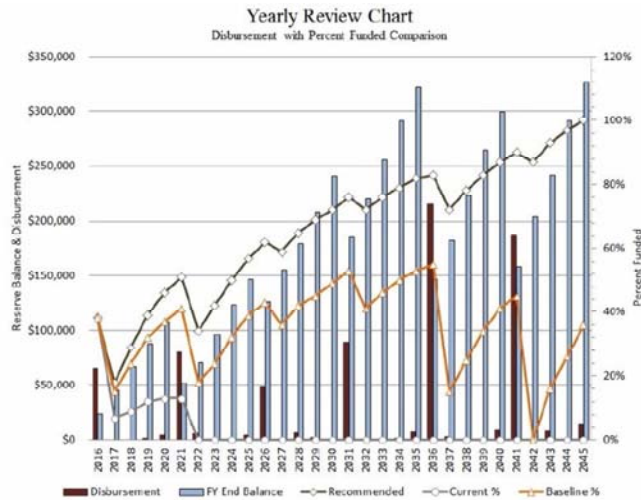
Description	Expenditures
Replacement Year 2020 continued...	
Bathroom- Refurbish	6,556
Elevator- Cab Refurbish	16,391
Entry Access System	3,825
Fencing- Wood- Replace	13,572
Kitchen- Refurbish	6,556
Landscape- 25% Refurbish Contingency	9,400
Mailbox Clusters- Replace	1,661
Retaining Wall-Masonry- 20% Conting.	3,734
Total for 2020	\$63,225
Replacement Year 2021	
Central Vacuum- Replace	1,970
Hot Water Heater/Tank- Replace	2,251
Total for 2021	\$4,221
Replacement Year 2022	
Concrete Surfaces- 3% Repair Contingency	4,039
Paint- Garage Walls/Ceiling	16,727
Paint- Wood Fencing	5,039
Paint/Seal- Ext. Wood Surfaces	7,871
Sump Pump- Garage- Replace	5,796
Total for 2022	\$39,473

The reserve study will include a schedule of expected expenses related to the common area components in the reserve study. This will include the expected year the project will need to be completed as well as the expected costs at that time (inflated costs based on inflation rate). This is one of the most valuable tools in the reserve study should a Board or Property manager decide to utilize it properly. Most of the time "surprises" can be minimized as a review of the expected expenditures will provide a community years of advanced notice. This is especially helpful for large expense projects like roofing or roads which may require a Board to look into funding options ahead of time.

Cost Efficiencies

When the Reserve Analyst creates a timeline of expenses one of the goals is to make sure components are timed appropriately for cost efficiency. An example of this would be to include a siding repair component being timed with the paint cycles of the building.

About Funding Plans



The reserve analyst will likely be developing numerous funding models for a common interest community as there are several important considerations to take into account.

These include:

- Statutory requirements
- Association goals
- Reserve Analyst recommendations

Additionally there may be "what if" scenarios or funding models that meets certain third party requirements, such as for a Lender's guideline. It's important to notify the Reserve Analyst of special request so these funding models can be taken into consideration during the process of developing the reserve study.

Below are some examples of different funding scenarios on a comparison graph.

Funding Strategies

There are four basic funding strategies most commonly utilized and accepted in the reserve study industry. It is recommended that associations consult professionals to

determine the best strategy or combination of plans that best suit the Association's need. Additionally, associations should consult with their accountant to determine the tax implications of selecting a particular plan. The four funding strategies and descriptions of each are detailed below.

Full Funding Strategy

Given that the basis of funding for reserves is to distribute the costs of the replacements over the lives of the components in question, it follows that the ideal level of reserves would be proportionately related to those lives and costs. If an association has a component with an expected estimated useful life of ten years, it would set aside approximately one-tenth of the replacement cost each year (ignoring interest and inflation for this example). At the end of three years, one would expect that three-tenths of the replacement cost to have accumulated, and if so, that component would be "fully-funded." This model is important in that it is a measure of the adequacy of an association's reserves at any one point of time, and is independent of any particular method which may have been used for past funding or may be under consideration for future funding. The formula is based on current replacement cost, and is a measure in time, independent of future inflationary or investment factors. When an association's total accumulated reserves for all components meet this criteria, its reserves are "fully-funded."

Baseline Funding Strategy

The goal of this funding method is to keep the reserve cash balance above zero. This means that while each individual component may not be fully funded, the reserve balance overall does not drop below zero during the projected period. An association using this funding method must understand that this is a higher funding plan as even a minor reduction in a component's remaining useful life can result in a deficit in the reserve cash balance specifically in years when cost are substantial.

Threshold Funding Strategy

This method is based on the baseline funding concept. The minimum reserve cash balance for threshold funding, however, is set at any predetermined dollar or Percent Funded figure by the Client or Reserve Analyst.

Statutory Funding Strategy

This method is based on local statutes. Per the Hawaii Condominium Act there are several funding models and calculations that must be included in the reserve study for a community to comply with the appropriate funding requirements. A review of these can be done by going to the Table of Contents of this eBook and going to the page for Hawaii Reserve Study Laws.

Updating the Reserve Study

It's very important for an Association to update its reserve study annually. The Hawaii Condominium Act requires annual disclosures to the community with a reliance on annual updates to the reserve study mathematical model and calculations.

Many communities will try and update their reserve study in-house by a Board member who may have some experience in the construction industry or in finance. While this may seem like a good idea to save some money this more often than not ends up changing the financial model from what was originally created by a designated Reserve Analyst and to a degree that causes the study to lose credibility. This often includes removing components, adjusting costs to unrealistic levels or utilizing inaccurate mathematical formulas to come to reserve study calculation such as Percent Funded.

Whoever completes the reserve study update will need to be familiar with construction costs, components life expectancies and be familiar with reserve study concepts. The research needed could involve calling vendors, purchasing cost manuals, taking classes and researching reserve study concepts so that the reserve study update will remain credible. The annual disclosure requirements will also need to be completed utilizing the updated figures from the reserve study so it is important that the person updating the reserve study can extrapolate this information from the study accurately and in line with industry / statutory accepted formulas.

****Reserve Analyst Tip****

Updates to reserve studies are typically inexpensive for years when a site visit is not required. The amount saved by doing it in house is typically only a few hundred dollars but risk can be significant if the data being updated is not accurate. Our tip, establish a relationship with a reserve study company you trust and have them update annually. This is cost efficient and removes significant risk and liability from the Board.

Definitions

Full Funded Balance (FFB)

Total Accrued Depreciation. An indicator against which the FY Start Balance can be compared. The balance that is in direct proportion to the fraction of life “used up” of the cost.

Funding Goals

A) *Baseline Funding* - Maintaining a Net Reserve Balance above zero for length of the study.

B) *Full Funding* - Maintaining a Reserve Balance at or near Percent Funded of 100%.

C) *Statutory Funding* - Maintaining a specified Reserve Balance/Percent Funded per statutes.

D) *Threshold Funding* - Establishing and maintaining a set predetermined Reserve Balance or Percent Funded.

Funding Method (or Funding Plan)

An association’s plan to provide income to the reserve fund to offset expected disbursements from that fund. The following represents two (2) basic methodologies used to fund reserves:

A. *Cash Flow Method* - A method of developing a reserve funding plan where allocations to the reserve fund are designed to offset the variable annual expenditures from the reserve fund. Different reserve funding plans are tested against the anticipated schedule of reserve expenses until the desired funding goal is achieved.

B. *Component Method* - The component method develops a reserve-funding plan where the total contribution is based on the sum of contributions for individual components.

The component method is the more conservative (typically higher reserve account balance) of the two funding options, and assures that the association will achieve and maintain an ideal level of reserves over time. This method also allows for computations on individual components in the analysis. However this method has also limitations with respects to variations in actual useful life of components and is much more time intensive to accurately follow this funding strategy.

Percent Funded

A comparison of the Fully Funded Balance (ideal balance) to the Fiscal Year Actual Start Balance expressed as a percentage, and used to provide a 'general indication' of reserve strength.

Useful Life (UL)

Total Useful Life or Depreciable Life. The estimated time, in years, that a reserve item can be expected to serve its intended function if properly constructed and maintained in its present application or installation.