

# The Reserve at Pinewood Lakes Policy Paper No. 8

## Asset Repair and Replacement Funds

**Effective Date:** 04-05-22 - Approved by a majority vote of the Members of the Reserve at the 2022 HOA Annual Meeting

**Last Revision Date:** None

Ratified: May 3, 2022

**CC&R References:** CC&Rs: §5.5.2.2

### **Asset Repair and Replacement funding Policy**

**Preface:** The purpose of this policy is to outline a strategy for funding a short-term reserve account (less than 20 years) and a long-term reserve account (greater than 20 years) for HOA asset repair and replacement.

#### **CC&R Reference Sections:**

Specific CC&R language related to these issues is stated below:

*§5.5.2.2: Duties of the Board, Reserve Account. "Establish and fund a reserve account with a reputable banking institution or savings and loan association or title insurance company authorized to do business in the State of Idaho, which reserve account shall be dedicated to the costs of repair, replacement, maintenance and improvement of the Common Area."*

#### **Policy:**

1. **Overview:** The Reserve at Pinewood Lakes is responsible for establishing accounts to fund the repair and replacement of the Community owned assets within The Reserve. The Reserve HOA has developed a funding plan {Plan) which is included as Attachment "A". The Plan provides for two funding accounts. A short-term reserve account (less than 20 year fundingneeds) and a long-term reserve account (greater than 20 years funding needs) for HOA asset repair and replacement as outlined below.
2. **Short Term (<20 years) Capital Reserve Allocation-** The Reserve HOA shall, subject to funding available, deposit \$14,000 annually into a savings account to fund pavement sealing on a 10 year interval, waterfall pump replacement and gate painting and mechanism repair/replacement as determined necessary by the HOA Board.
3. **Long Term (>20 years} Capital Reserve Allocation-** The Reserve HOA shall, subject to funding available, deposit \$7,000 annually into a S&P 500 index fund managed by Fidelity (Fidelity 500 Index Fund FXAIX) for street pavement replacement/rebuilding, gate replacement and major rebuilding of the waterfall including piping and pond liner replacement as determined necessary by the HOA Board. The Reserve HOA President and Reserve HOA Secretary or Treasurer shall be signees

to this account. A summary of the fund features and growth history is attached as Attachment "B". The target investment fund balance over time is shown graphically on Attachment "C".

4. **Fund Withdrawals-** Short Term Capital Reserve Funds can be transferred and used for the purposes listed above if approved by a majority vote of the Reserve HOA Board. Long Term Capital Reserve Funds can be transferred and used for the purposes listed above if approved by a majority vote of the Reserve HOA members or the funds can be used for emergency use subject to a majority vote of the Reserve residents.
5. **Policy Periodic Review-** This policy should be reviewed on a minimum 5year basis to determine if the funding amounts are appropriate and the funding targets are still applicable.
6. **Policy Modification-** Because this policy was approved by a majority vote of the Reserve HOA members, modification of this policy may only be done by a majority vote of the Reserve HOA members.

**Background:** The Reserve at Pinewood Lakes is responsible for the repair and replacement of the Community owned assets within The Reserve. These assets include the gates, waterfall, waterfall Common Area sprinklers and landscaping and the private streets. The Reserve HOA Board has developed a Capital Replacement Plan to fund the repair and replacement of the Reserve HOA assets. Because some of the assets have an estimated useful life of 50 to 100 years, the Plan envisions creating two funding accounts, a Short Term Capital Reserve Allocation (<20 years) and a Long Term Reserve Allocation (>20 years). A summary description of each account is outlined below.

#### **Funding Accounts:**

1. **Short Term(< 20 years) Repair and Replacement Allocation** This allocation into the Reserve savings account provides for pavement sealing on a 10 year interval, waterfall pump replacement, gate painting and mechanism repair/replacement. Using the life expectancy and estimated costs assumptions contained in the Plan, an annual contribution of \$14,000 is required to fund these items on an ongoing basis. Because these repair/replacement items are far more predictable and cannot normally be delayed, the HOA Board is investing this annual contribution in a Washington Federal savings account. This account has a very low (currently less than 1%) annual rate of return but is a very safe accessible account.
2. **Long Term (>20 years) Repair and Replacement Account:** This account provides for street pavement replacement/rebuilding, gate

replacement and major rebuilding of the waterfall including piping and pond liner replacement. These items have an estimated lifespan of 50 to 100 years. Determining the appropriate annual contribution to fund this account is difficult because of the number of variables that must be considered which have a significant impact over a 50-to-100-year timespan. The most significant variables include inflation, timeframe for repair, cost of repair and fund rate of return. Funding the eventual street pavement rebuilding is by far the most significant funding challenge. The 2021 estimated rebuilding cost of the street pavement is almost \$320,000. As shown in the Plan, this is over 80% of the estimated overall long term funding needs. The normal useful life of pavement is 50 to 75 years. Long term construction inflation has historically been around 3% per year. Phase 4 and 6 streets were built in 2006 and phase 9 streets were built in 2013. Therefore, it is predicted the pavement will need to be replaced/rebuilt somewhere between the year 2056 and year 2088. The Plan assumes the pavement will need to be replaced in the year 2085. If the Plan assumptions are reasonably accurate, the HOA would need to have \$2.7 million available to fund our obligations. If funds are accrued by investment growth, an estimated 30% Capital Gains Tax must be paid on the growth portion such that the funds needed would need to be increased to pay the taxes.

The most important factor in creating an account to fund long term investments is the fund annual rate of return. To illustrate this, using the assumptions that the pavement will need to be replaced in the year 2085, construction inflation averages 3% per year and using the current estimated construction costs and asset useful life contained in the Plan, the annual investment needed to fund the account can be calculated using two types of funding, a no risk fund such as a CD or Bond or a low-risk fund such as an index fund.

**No Risk Strategy-** Because these are community funds, the CC&R's envision funding long term reserve accounts in a no risk account such as a CD or savings account. The average annual rate of return for a 5 year CD over the last 30 years is approximately 3-4% per year however over the last 10 years 5 year CDs averaged 1-2% per year with the rate in 2021 being 0.2%. If we assume an average return of 2% over the next 63 years until 2085, we would need to invest approximately \$25,000 per year (\$26/month/home) to reach our investment goal of \$2.7 million including an additional \$580,000 for capital gains tax. This assumes CD rates would go up significantly in the near future which, if not, would require an even higher rate of contribution.

**Low Risk Strategy-** Because of the historically low current rate of return for CD's, the Board believes investing in a S&P Index fund is currently the preferable method to invest for our Long Term Replacement Account. An S&P Index fund is recommended because of its current relatively low risk and relatively high rate of return over the long term. These funds are managed to track the performance of the 500 largest U.S. public companies by market

capitalization. The average annual rate of return for the S&P 500 over the last 30 years is approximately 10.7% per year, however over the last 10 years the S&P 500 averaged 16% per year with the rate in 2021 being over 26%. If we assume an average return of 5.2% over the next 63 years until 2085, we will need to invest approximately \$7,000 per year (\$7.38/month/home) to reach our investment goal of \$2.7 million including an additional \$800,00 for capital gains tax. This is the amount targeted for in our budget, such that no dues increase would be required for this purpose.

The recommended index fund is an S&P 500 index fund managed by Fidelity (Fidelity 500 Index Fund **FXAIX**). This fund was selected because it has the lowest annual management fee (0.015%) and does not require a minimum contribution.

**POLICY 8-ATTACHMENT A**  
**THE RESERVE AT PINWOOD LAKES CAPITAL REPLACEMENT PLAN**

**SHORT TERM (<20 yrs) CAPITAL RESERVE ALLOCATIONS**

1/12/2022

**Construction Inflation Rate**      **3.00%**

Capital Items	Start Date	Est. Life Span	Estimate Cur. Cost	Estimated Future Cost	Annual Allocation	2022 Year End	
						Age	Req Reserve
Gate Mechanism {Ph 4 & 6}	2006	20	\$3,000	\$5,418	\$271	16	\$4,335
Gate Mechanism PH 9	2013	20	\$3,000	\$5,418	\$271	9	\$2,438
Gate Hardware/Software Replacement	2006	20	\$15,000	\$27,092	\$1,355	16	\$21,673
Gate Repainting	2015	10	\$5,000	\$6,720	\$672	7	\$4,704
Water Feature Pumps	2006	15	\$5,000	\$7,790	\$519	16	\$5,523
Private Streets Micro Seal - PH 4 & 6	2014	10	\$51,400	\$69,077	\$6,908	8	\$55,262
Private Streets Micro Seal - PH 9	2021	10	\$28,038	\$37,681	\$3,768	1	\$3,768
<b>Total Short Term Capital Items</b>				<b>\$159,196</b>	<b>\$13,764</b>		<b>\$97,703</b>

**Construction Inflation Rate**      **3.00%**

**LONG TERM (Yr 2085) CAPITAL RESERVE ALLOCATIONS (75 Yr Avg. Pavement Life)**

1/12/2022

Capital Items	Construction Date	Est. Life Span	Estimate Cur. Cost	Estimated Yr End 2085 Cost	% life used Yr2085	Yr 2085 Funding Goal	Yr 2022 Desired
Gate System (Ph 4 & 6)	2006	75	\$32,000	\$218,559	105%	\$230,215.95	\$5,973.33
Water Feature Piping	2006	100	\$2,000	\$13,660	79%	\$10,791.37	\$280.00
Water Feature Rock/ Liner	2006	75	\$5,000	\$34,150	105%	\$35,971.24	\$933.33
Private Streets Mill and Fill (Ph 4 & 6)	2006	75	\$205,700	\$1,404,927	105%	\$1,479,856.91	\$38,397.33
Private Streets Mill and Fill (Ph 9)	2013	75	\$112,152	\$765,996	96%	\$735,356.37	\$10,467.52
Gate System (Ph 9)	2013	75	\$32,000	\$218,559	96%	\$209,817.07	\$2,986.67
<b>Total longTerm Capital Items</b>			<b>388,852</b>	<b>\$2,655,852</b>		<b>\$2,702,009</b>	<b>\$59,038</b>

**PINEWOOD LAKES LONG TERM (YR 2085) CAPITAL REPLACEMENT INVESTMENT ACCOUNT (75 Yr Avg. Pavement Life)**

Yr 2085 CapitalNeeds	\$2,702,009
Yr 2085 Funding Goal (W/ 30% Capital Gains Tax)	\$3,424,412
Assumed Fund Annual Growth Rate	5.25%
Annual Investment Needed To Meet Yr 2085 Funding Goal	\$7,000.00
Monthly Dues \$/Home	\$7.38
Predicted 2085 Investment Fund Balance	\$3,576,681



FXAIX

Attachment “B”

Fidelity® 500 Index Fund

**NTP** No Transaction Fee<sup>1</sup>

[Buy](#) [Sell](#) [Prospectus](#) [More](#)

**Morningstar® Snapshot\***  
AS OF 1/31/2022

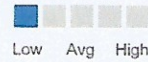
Overall Rating



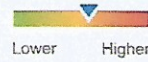
Returns



Expenses



Risk of this Category



Morningstar Category: Large Blend \*Data provided by Morningstar

**Performance<sup>2</sup> ?**  
AS OF 1/31/2022

**YTD (Daily)\***  
**-7.51%**

**Average Annual Returns**

1 Yr	+23.28%
3 Yrs	+20.70%
5 Yrs	+16.77%
10 Yrs	+15.42%

\*AS OF 2/14/2022; Value is cumulative

[Summary](#)

**Details ?**

[MORE](#)

Morningstar Category Large Blend

Fund Inception 2/17/1988

Share Class Inception 5/4/2011

Exp Ratio (Gross) 0.015%<sup>4/29/2021</sup>

Exp Ratio (Net) 0.015%<sup>4/29/2021</sup>

NAV \$152.90<sup>2/14/2022</sup>

Minimum to Invest \$0.00

Turnover Rate 2%<sup>8/31/2021</sup>

Portfolio Net Assets (\$M) \$387,086.09<sup>1/31/2022</sup>

12 Month Low-High \$130.92 - \$166.37<sup>1/31/2022</sup>

Feedback



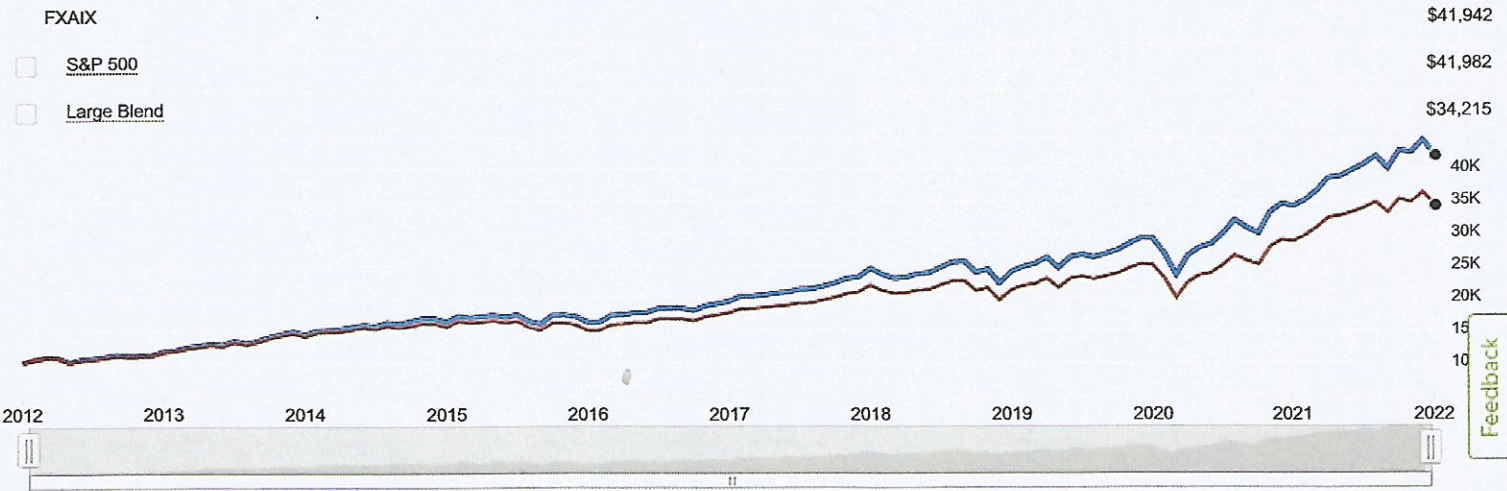
Hypothetical Growth of \$10,000 <sup>3,4</sup> ?

MORE

AS OF 01/31/2022; Morningstar Category: Large Blend

01/31/2022:

- FXAIX
- ☐ S&P 500
- ☐ Large Blend



YTD 1Y 3Y 5Y 10Y Frequency: Monthly

Compare Chart | Fund Facts Search

The performance data featured represents past performance, which is no guarantee of future results. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your shares. Current performance may be higher or lower than the performance data quoted.

Top 10 Holdings <sup>5</sup> ?

MORE

AS OF 12/31/2021 29.29% of Total Portfolio

AAPL	APPLE INC
MSFT	MICROSOFT CORP
AMZN	AMAZON.COM INC
GOOGL	ALPHABET INC CL A
TSLA	TESLA INC
GOOG	ALPHABET INC CL C
FB	META PLATFORMS INC CL A
NVDA	NVIDIA CORP
BRK/B	BERKSHIRE HATHAWAY INC CL B
UNH	UNITEDHEALTH GROUP INC

508 holdings as of 12/31/2021 | 501 issuers as of 12/31/2021



Similar Fund Picks from Fidelity ?

Morningstar Category: Large Blend

Similar Fidelity Funds

- ☐ Fidelity® Leveraged Company Stock Fund (FLVCX)
- ☐ Fidelity® Large Cap Core Enhanced Index Fund (FLCEX)

All Similar Funds

- ☐ BNY Mellon Appreciation Fund, Inc. - Investor Shares (DGAGX)
- ☐ JPMorgan U.S. Equity Fund Class A (JUEAX)
- ☐ Parnassus Core Equity Fund - Investor Shares (PRBLX)
- ☐ American Century Sustainable Equity Fund Investor Class (AFDIX)
- ☐ Fidelity® Leveraged Company Stock Fund (FLVCX)
- ☐ Fidelity® Large Cap Core Enhanced Index Fund (FLCEX)
- ☐ Jensen Quality Growth Fund Class J (JENSX)

Compare

View Fund Picks From Fidelity®

Fund Manager(s) 6 ?

Geode Capital Management  
Manager Tenure: since 8/4/2003

Funds Currently Managed

Funds Previously Managed

- Fidelity® Large Cap Core Enhanced Index Fund (since 4/19/2007)
- Fidelity® 500 Index Fund (since 8/4/2003)
- VIP Disciplined Small Cap Portfolio - Service Class 2 (since 12/27/2005)
- Fidelity® SAI Small-Mid Cap 500 Index Fund (since 8/12/2015)
- Fidelity Flex® Mid Cap Index Fund (since 3/9/2017)
- Fidelity® Commodity Strategy Fund (since 5/30/2017)
- Scotia® 500 Index Bond Class E (since 11/2/2017)

Show more

Commentary

Quarterly Fund Review

Investment Approach





Fund Overview

Objective

Seeks to provide investment results that correspond to the total return (i.e., the combination of capital changes and income) performance of common stocks publicly traded in the United States.

Strategy

Normally investing at least 80% of assets in common stocks included in the S&P 500 Index, which broadly represents the performance of common stocks publicly traded in the United States.

Risk

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Additional Disclosures

This description is only intended to provide a brief overview of the mutual fund. Read the fund's prospectus for more detailed information about the fund.

The S&P 500 Index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

Returns prior to May 4, 2011 are those of the Premium Class and reflect the Premium Class' expense ratio. Had the Institutional Premium Class' expense ratio been reflected, total returns would have been higher.

Feedback

Quarter-End Average Annual Total Returns <sup>2,3</sup> ?

MORE

AS OF 12/31/2021 ; Fund Inception 2/17/1988 Expense Ratio (Gross): 0.015% AS OF 4/29/2021

	1 Yr	3 Yrs	5 Yrs	10 Yrs	Life
<b>Before Taxes</b>					
Fidelity® 500 Index Fund	28.69%	26.06%	18.46%	16.54%	11.22%
S&P 500	28.71%	26.07%	18.47%	16.55%	11.36%
Large Blend	26.07%	23.83%	16.57%	14.96%	—
<b>After Taxes on Distributions</b>					
Fidelity® 500 Index Fund	28.28%	25.51%	17.88%	15.95%	—
Large Blend	22.97%	21.71%	14.47%	13.12%	—
<b>After taxes on distributions and sale of fund shares</b>					
Fidelity® 500 Index Fund	17.22%	20.69%	14.84%	13.87%	—
Large Blend	16.06%	18.30%	12.64%	11.84%	—

Additional Important Information

Generally, data on Fidelity mutual funds is provided by FMR, LLC. Morningstar ratings and data on non-Fidelity mutual funds is provided by Morningstar, Inc. and data on non-mutual fund products is provided by the product's investment manager, trustee or issuer or the plan sponsor whose plan is offering the product to participants. Although Fidelity believes the data gathered from these third-party sources is reliable, it does not review such information and cannot warrant it to be accurate, complete or timely. Fidelity is not responsible for any damages or losses arising from any use of this third-party information.

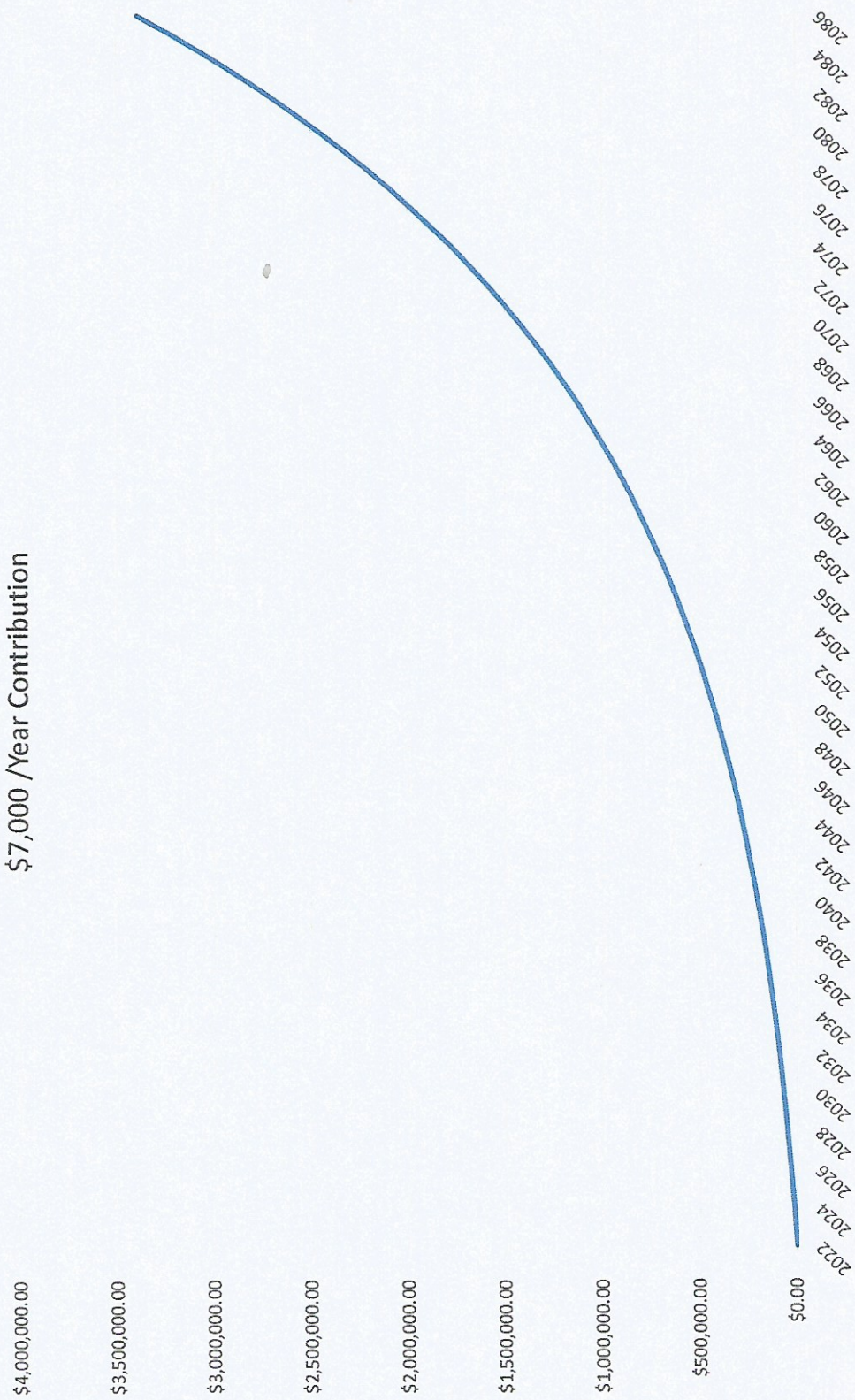
Before investing, consider the investment objectives, risks, charges and expenses of the fund or annuity and its investment options. Contact Fidelity for a free prospectus and, if available, summary prospectus containing this information. Read it carefully.

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Attachment C  
 Long Term Asset Repair and Replacement Fund  
 Target Investment Fund Balance  
 5.25% Annual Fund Growth  
 \$7,000 /Year Contribution

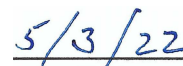




Policy paper # 8 Asset Repair & Replacement Funds 04-05-22

Ratified May 3, 2022 by The Reserve at Pinewood Lakes HOA Board.

  
William Kinard, President

  
Date