

## **REPORT OF MAJOR REPAIR & REPLACEMENT SUB-COMMITTEE (MR-1)**

The MR&R Focus sub-committee met several times and held discussions with Peter Trees and Dick Webb from the MR&R Committee and with Mike DeFalco and Bob Cowan of KICA. Our charge was to review the effort to ensure an adequate reserve fund to maintain the infrastructure at a level consistent with perpetuating existing standards and to cover the needs of major repairs such as those associated with a hurricane.

We believe the necessity for a major reserve fund is palpable. As our Island's infrastructure continues to grow and to age, periodic repairs and rehabilitation must be carried on in a systematic manner in order to maintain the quality of the Association's physical assets at a level acceptable to its members. By the very nature of major replacements and repairs, reserves must be accumulated to avoid erratic swings in annual operating expenses and assure funding for scheduled as well as unexpected repair and replacement requirements.

Reserves for major repair and replacement are authorized in Article V, Section 6 of the Association's covenants. Uses for the reserve are specified in Special Resolution S-94-1 as follows:

- (1) major rehabilitation or repairs of infrastructure owned or leased by the Association;
- (2) for emergency and other repairs as a result of storm, fire, natural disaster or other casualty loss;
- (3) recurring periodic maintenance;
- (4) initial cost of any new service to be performed by the Association.

Minor repairs and routine maintenance will be funded by the Association's operating budget. These definitions and procedures seem to us to be sound, but we recommend periodic review to assure relevance and to guard against any attempts to use the fund as a "piggy bank" for other projects by stretching or changing the essence of Special Resolution S-94-1.

The principal source of revenue for the MR&R reserve is the contribution(tax) to the reserve fund collected from each real estate settlement.

Other sources are transfers from the operating budget, vehicle access and bike fees and interest. These sources are adequate at the present time to fund repairs and replacement as defined. Primary risks to the adequacy of reserves are two:

(1) Many of the relevant assets are still relatively young. Acceleration in the pace of repair and rehabilitation is a reasonable expectation. Continued growth in the pace of construction activity will add to this pace.

(2) The specter of a major calamity such as hurricane, earth-quake and other weather-related events is very real. To illustrate, Hurricane Hugo in 1989 was not a direct hit and still cost KICA more than \$2.8 million. We are all aware of the growth of our Island's infrastructure in the ten years since Hugo came calling. It is probably impractical to try and accumulate a reserve based on "doomsday" projections. In such a case, special assessments are probably unavoidable and appropriate. However, we feel strongly the major portion of our reserve target of \$10 million should be held for such eventualities.

The determination, attainment and maintenance of an adequate reserve level is one of the most important issues facing the Association and the property owners who are its members. Fortunately, much good work has been accomplished by the KICA Board through its MR&R Committee. We have reviewed various data including a detailed reserve analysis prepared in 1992, a summary of insurance coverage and certain financial exhibits. The Board's target of \$10 million in reserve fund balance seems entirely appropriate and sound.

The overriding concern is that we aren't there yet and won't be for several more years under normal circumstances.

In summary, we strongly recommend that the Association needs a reserve fund of at least \$10 million and that we should get to and maintain that level as soon as possible. The excellent work done to date by the Board and the MR&R Committee provides a sound framework to achieve this goal.

We recommend that the Board continue to review the definitions of appropriate uses of funds to preserve the integrity of the reserve and to obtain such outside assistance to update relevant material such as the previously mentioned 1992 analysis. While not part of our

charge, we urge the continued employment of a qualified professional staff person to oversee all maintenance, repairs and replacements such as the present incumbent, Bob Cowan.

We express our thanks and appreciation to all individuals named in this report and to Tammy McAdory and Shannon White for their assistance.

Bill Cantees, Sandy Speno, Doug Dodge  
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