**FINANCIAL FAQs**

**Q1. What are reserves?**

**Ans.** A maintenance fee that goes into a fund, called the “Reserve Fund” that will be used to pay for major inevitable repairs in the future. Major repair costs are now required to be paid over time instead of a special assessment. The annual cost is called the reserve expense or reserve cost. There are two types of reserves in Florida:

* “SIRS” means Structural Integrity Reserve Study which covers major items like concrete restoration and roof repairs
* “Normal” reserves which cover items not considered structural but still important like elevators

**Q2. Why are we paying so much towards the reserves?**

**Ans.** The cost of repairing a major item, like the roof, was always there, it was just not visible to owners until a special assessment was needed to pay for it. The goal of the Reserve Fund is to accumulate enough cash to pay all major repairs when they occur without using a special assessment. So, the reserve cost replaces the special assessments to some extent. The reserve basically changes the timing of when owner have to pay, an amount over several years now into a Reserve Fund or bigger amounts later in special assessments.

The Florida statutes in section #718 now requires condo associations like LCG to use reserve costs instead of special assessments. It also removes the option that owners could waive by voting the reserve costs for the “SIRS” portion. It can no longer be partially funded at 3% or 5% by a vote of the owners as we had done in the past. This means that we cannot use special assessments for “SIRS” repairs anymore. It also means that when a condo association like LCG did not fully fund its reserves, it now has to catch up for missing payments, we call this the “reserve shortfall”.

For LCG, the “SIRS” portion of reserves has to be 100% funded by 30 June 2026.

The reserve costs have increased dramatically for all condos in Florida, not just for LCG, because most condos need to catch up for several years of missing payments.

**Q3. Will the reserves be held in separate accounts for each building instead of jointly?**

**Ans**. The reserves are held in separate ledger accounts for each building so that each building is easily accounted for. They are not in separate bank accounts as having 26 additional bank accounts would be difficult to manage for us and for the banks. We are currently seeking to consolidate the several accounts we already have, to attract higher interest rates. There are no transfers or cross subsidy between any buildings.

Only common areas expenses and reserves are shared by everyone.

**Q4. Will the funds be maintained in interest-bearing insured accounts?**

**Ans**. Yes, they will. We are working to obtain the benefits of association banking: higher interest and better protection than we have now. We are currently completing an application to an Association Bank (Centennial Bank) and will shortly be transferring our Reserve Funds. In the meantime, we have moved funds to a CD and started collecting competitive interest each month on $150,000. All buildings have and will receive the same interest rates on their respective Reserve Fund.

**Q5. Who will oversee the management and security of the Association’s reserves?**

**Ans**. The Board is responsible for the management of the Association’s reserves, as they do for all of our financial and physical assets. The Board may choose to form a new LCG Committee and to delegate some of the investment work to the Committee but the Board retains ultimate authority regarding all decisions. By voting for individual Board members each year, owners have a say in the management of the funds.

The Finance Committee will report, at least annually in your budget documents, the investment income or interest earned in the Reserve Funds. Furthermore, our finances are subject each year to the careful scrutiny of an independent auditor who reports to the authorities.

**Q6. Will owners have to pay additional monies to monitor, manage and safeguard these funds?**

**Ans**. No. There are no additional fees to manage and monitor the Reserve Fund which is and always has been, part of our financial portfolio. Financial management is a critical function of property management and The Board seeks these servicesat costs within industry standards for such services.

As the Reserve Fund grows over the years, the Board may choose a different approach or different providers.

**Q7. Why am I paying more than friends in larger units or single-family homes?**

**Ans.** The requirement for full funding of specified reserves does not apply to family homes of 4-stories or less. Your friends may also be living in newer buildings whose elements still have a lot of useful life so they may have a smaller reserve shortfall. And some newer condos have their owners committed to full funding from time of purchase, so they too will be paying less, over a longer period.

There many reasons why fees do not compare well between associations:

* Age, size, design of the buildings and their conditions;
* The level of funding they have done in the past;
* Whether they are subject to SIRS requirements or not;
* What services and common area amenities are available: swimming pool, lake pond, auditorium, etc.

Within the same LCG building, small unit owners will always pay less than larger unit owner of the same building. It is possible however that an owner of a small unit paid more than an owner of a larger unit in a different LCG building for many reasons:

* Level of past funding at each building: 100% or 60% funding in the FY24 budget
* The level of Reserve Funds that have accumulated up to June 30, 2023 at each building;
* The difference in age and replacement costs of some components used in the FY24 budget reserves varied considerably, e.g. Roof costs.
* Major repairs done in the past varied significantly between buildings, even when the two buildings are the same size;

With the new inspections in 2024, new roof costs, and SIRS requirement, we expect to reduce significant differences in average unit fees between LCG buildings.

**Q8. Why can’t we achieve the 100% funding with a smaller increase over a longer period of time?**

**Ans**. Because the application of Florida Statutes section 718 requires that our budget of July 2025 to June 2026 must reflect full funding of the SIRS reserves. Our choices therefore are large increases over these two years or a much larger lump sum now or in the last year. The opportunity for smaller increases by using a longer period has passed us and ownersvoted against it. Again, LCG is not alone here, many condo associations in Florida and in other states have similar issues.

**Q9. What is being done to lower the sky-rocketing fees?**

**Ans**. Many of the factors impacting our sky-rocketing fees are external to and beyond the control of the Association and its Board. The legislation, the cost of insurance, the age of the building are all factors that impact our fees. We try to maintain our building so that its integrity is preserved despite its age but that is expensive. We have been trying to improve our financial management by reviewing our expenses, removing unnecessary services and replacing inefficient ones to get better bang for our buck, and investing our funds in higher-yielding but still protected instruments.

**Q10. Can we have a multi-year forecast of the fees?**

**Ans**.Yes, the Finance Committee is preparinga four-year budget forecast for you documents showing both option for full funding: in a single lump sum or monthly instalments.

As with any forecast, any costs beyond the first budget year are subject to change.

**Q11. How much do we need to have in our budget to have 100% funding of reserves by the due date? Also how much does each building need to have for full funding of reserves?**

100% of reserves is $11.7M, reduced by our Reserve Fund of $2.9M, the reserve shortfall is $8.8M as of June 30, 2024. These amounts are based on a preliminary report for SIRS, and subject to change. If each owner pays a lump sum to cover the reserve shortfall, the average amount by building is shown the chart below:

Using monthly payments instead of a single lump sum, from July 1, 2024 to June 30 2026, we can spread the reserve shortfall costs over 24 months to cover mandatory “SIRS” portion and over a longer period for the “Normal” portion of the reserves such as 36 months. To do so, we need to budget a reserve expense for the next budget, the period from July1, 224 to June 30, 2025, called the “FY25” a significant increase compared to last year FY24 for most buildings:

Your exact amount will vary by your unit size and will be shown in your budget documents.

**Q12. When will these large payments end?**

If we pay the entire reserve shortfall in a single lump sum, the monthly payments for reserves will reduce immediately to a low maintenance level.

If we pay the entire reserve shortfall instead in monthly payments from July 1, 2024 to June 30 2026, and spread the “Normal” portion of the reserves over 36 months for example. The monthly payments will remain high for 2 years, reduce significantly in the third year, and reduce to a low maintenance level in the fourth year.

**Q13. Once 100% funding is achieved, will the maintenance fees be decreased?**

From the Financial 101 presentation on the LCG website, you will see that maintenance fees have two types: annual maintenance called “operating” and major repairs called “reserves”.

Yes, if all assumptions used in preparing the budget FY25 hold true, in particular if:

* Final SIRS report reduces its costs to a level comparable to the ones used in the budgetFY25;
* repair cost estimates do not change beyond expected inflation, we used 3% per year;
* no new or unexpected damage occurs;
* the deterioration occurs as expected, for example roofs have 2 years of remaining life;

then the portion of maintenance fees for “reserves” will reduce significantly to a low maintenance level.

On the other hand, the portion of the maintenance fees for “operating” is expected to grow with inflation each year.

We will show expected levels with a four-year budget forecast in your budget documents.

**Q14. If I am already paying 100% funding, how long and how much will it take for my building to attain our funded reserves amounts?**

We are using the maximum number of 24 months before June 30, 2026 for all buildings regardless of the vote that occurred in last year’s budget. The “Normal” portion of the reserve shortfall will be paid in the third year. This means that using monthly payments, the reserve shortfall for both “Normal” and “SIRS” reserves will reach 100% in 3 years.

See question number 3 above for average amounts by building.

Buildings that have voted 100% can expect smaller increases than buildings that voted for 60% in last year’s budget