

What is the Reserve Fund?

Over the years, homeowners have asked “Just what is the Reserve Fund”? Although Montego Bay has been around for more than 50 years, it wasn’t until 1980 that it became necessary to re-evaluate how homeowner assessments were allocated for routine operating expenses as well as unexpected expenses. As a result, in 1982, MBCA established a savings account to set aside money for unexpected expenses. A few years later, a “Capital Improvement Fund” was established.

In 2010, the Board completed an on-site inspection of the amenities within the community taking into consideration the age, condition and replacement costs and the first reserve fund was established. At that time it was recommended that “reserve funds” be budgeted each year, in addition to the operating budget, to allow funds to be set aside for future capital replacement and large-scale repair and maintenance expenses. In 2017 and in 2021, an engineering firm was contracted to conduct a professional evaluation of all of the amenities and to analyze the reserve fund to ensure that the allocation of money is sufficient to fund repair and replacement expenses over the next 30 years.

Below are some of the commonly asked questions with responses to help answer and clarify those questions.

Q-1: What exactly is the Reserve Fund?

A: The reserve fund is a savings account funded by the assessments paid by homeowners. It is intended to be used to meet the costs of scheduled major upgrades and repair and replacement of amenities throughout the community.

Bear in mind that unanticipated expenditures can always arise and maintenance of a significant reserve fund balance is a way to avoid special assessments.

Q-2: Why do we need a Reserve Fund?

A: A reserve fund will allow the association to fund major repair and replacement expenditures without resorting to special assessments. With sufficient cash in the reserve funds, the community will be able to meet any unexpected expenditures.

The reserve fund plan should reflect the recommendations provided by a qualified engineer and includes a realistic plan to cover long-term costs.

Q-3: Is it mandatory for the Association to maintain a Reserve Fund?

A: The Maryland Homeowners Association Act requires Associations that have the responsibility under its declarations for maintaining and repairing common areas be required to complete an annual budget to cover operating expenses as well as reserve fund contributions for replacement of amenities.

Q-4: Who determines what amenities need to be upgraded and when?

A: Every three-five years, MBCA hires an architectural engineering firm to evaluate the amenities within the community. Factors taken into consideration are the replacement costs as well as the life expectancy. Projections are forecasted over 30 years, however, should be reevaluated and updated every three-five years, based upon inflation and the cost of goods.

A copy of the 2021 Reserve Study is available on Town Square and/or you may request to review a copy at the Office.

Q-5: What is the breakdown of amenities evaluated?

A: Amenities evaluated include the:

- Pools: Plaster, Tile & Coping, Concrete Shell, Circulation & Filtration Equipment, Concrete Decking, Vinyl/Chain Link Fencing, Pool Covers and Furniture.
- Tennis Courts: Asphalt Resurface and Color Coat and Chain Link/Vinyl Fencing.
- Pickle Ball Court: Resurfacing
- Putt-Putt: Surfaces, Curbing, Obstacles
- Walkers Pond: Supply Pump Replacement, Electric and Platform, Drain Valve, Aeration Compressor, Aerators & Tubing, Fountains and Bank Stabilization.
- Office Computer Equipment

Also evaluated are the structural replacement needs, to include:

- On-Site: Asphalt Pavements, Sidewalks, Bulkhead, Signage
- Buildings: Exterior and Interior of the main office, pool houses and sheds
- Mechanical: Plumbing, HVAC, Electric Panels, Light Poles and Lamps Heads

Q-6: What if a forecasted replacement doesn't need to take place as projected?

A: Monies in the Reserve Fund do not go away. If a projected replacement is not needed, the money will remain in the fund until the replacement becomes necessary.

Q-7: What if there is an insufficient amount of money in the Reserve Fund to cover scheduled, routine and unscheduled expenses.

A: Without an adequate reserve fund, the Association may need to increase dues significantly and possibly levy a special assessment. It's much more fair and efficient to automatically include repair and replacement costs as a part of the periodic assessments, to ensure the reserve fund is adequately maintained.

Q-8: How does MBCA determine how much money to set aside?

A: Based upon the findings of the Reserve Fund Study completed in February 2021, the recommendation was made for the Association to make an annual contribution of \$120,000 to the reserve fund with a 3% increase each year over the next 11 years. This recommendation was made based upon the inflation rate of 2.5%.

In 2021 the inflation rates continued to rise monthly. As of the end of 2021, the inflation rate was at 6.7% and prices at the wholesale level increased 9.75%.

Q-9: Is the Reserve Fund for Montego Bay adequately funded?

A: Assuming that the life expectancy of amenities within Montego Bay, annual reserve fund contributions, inflation rates and costs of goods remain constant, we should be adequately funded over the next 11 years.

However, it is important to recognize that our community is over 50 years old and although replacements have occurred as needed, unanticipated replacements of the pools, buildings, roads, etc. could easily deplete funds accrued.