

2016 Palms of Terra Ceia Bay CDD

Reserve Study Report Reserve Study With Site Visit

For 30-Year Projection Period Beginning October 1, 2015



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2016 Palms of Terra Ceia Bay CDD

October 1, 2015

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Board Of Supervisors
Palms of Terra Ceia Bay
Community Development District
Palmetto, FL

Preparer's Report
Level I Reserve Study With Site Visit

We have prepared the accompanying Reserve Funding Forecast of 2016 Palms of Terra Ceia Bay CDD as of and for the thirty-year period beginning October 1, 2015 as a Level I Reserve Study. This forecast is the responsibility of District Management.

We conducted our engagement in accordance with National Reserve Study Standards of the Community Associations Institute and the Association of Professional Reserve Analysts. Those standards require that we perform a site visit to visually observe and assess the condition of the significant common area components of the Association. A Level I Reserve Study also includes assessing the significant estimates used by management, as well as evaluating the overall forecast report presentation.

This report presents, in the form of a financial forecast, information that is the representation of management of the District. We do not express an opinion or any other form of assurance on the accompanying report or assumptions. Furthermore, there will usually be differences between the forecast and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Facilities Advisors, Inc.

Lynn Sallee



Lynn Sallee RS, PRA

April 18, 2016

Exempted items :

1. Golf Course and their components
2. Tennis Club
3. Community amenities
4. Clubhouse
5. Parking and structures in communities / high rise areas.
6. Utilities and components of public or private utility companies.

Notes :

1. The annual contribution for 2016 was estimated to be \$48,000 determined by the 2015 budget less expenses shown on September 30, 2015. It was forecast that approximately collected but not spent should roll in the reserve balance. Future cash flow and present funded provides for these expenses at a later date (as needed) and using these reserve funds.
2. It is recommended and general practise to combine all capital reserve funds into one, undelineated account for any future expense. This does not preclude the use of estimated individual component accessment or line item estimates, but recommends a single, non-specific item capital account. This eliminates the need for 100 % funding of any single component line, or a shortage of funds to complete a project when needed. In effect---you can borrow from the "the pot".

Report Introduction

That portion of the annual budget related to reserves generally consists simply of the assessment. Because of the multi-year approach of the reserve budget, the reserve study itself is the budget tool used to determine the assessment amount. The current year reserve assessment amount is simply extracted from the 30-year reserve funding plan and inserted into the annual budget. The reserve study funding plan is an integral part of the annual budget process and overall financial plan for the District.

The property described in this report is a common interest development. As such, it contains common areas and facilities that are owned "in common" by the members. As the elected governing body of the association, the Board of Supervisors is responsible for maintenance of the common areas and the sound financial management and operation of the District.

One of the primary duties of the Board of Supervisors is the preparation and/or review of the annual budget. The annual budget process must, at a minimum, address two areas; Operating Funds and Reserve Funds. The net result is a determination of the annual assessment to be charged to members, which will consist of an operating assessment and a reserve assessment.

The operating budget is intended to provide for all annually recurring expenses of the District, including routine maintenance of common areas. Such routine maintenance is the basis of the facilities maintenance plan, and to a large degree, will dictate the timing and amount of future expenditures of the reserve fund. The normal budget process is to estimate the required expenditures for the Districts governance, business, member services, and maintenance activities, then determine the assessment required to provide for those costs. By its nature, this is geared to an annual cycle.

Reserve funds are a part of the monthly or annual assessments paid by owners of an individual unit or lot. These funds are intended to be set aside specifically for major repairs and replacements and not be used for any other purpose. These funds are accumulated by the District, earn interest, and should be expended as approved by management only for major repairs and replacements of the common area components.

This Reserve Study assists the Board of Supervisors by providing the information to determine the appropriate amount of money to assess owners. Specifically, the reserve study report provides a 30-year funding plan to assure an equitable assessment structure to provide for the non annual major repairs and replacements of common area components. The report is a financial projection that is based upon an evaluation and Visit of the common area components.

Because the reserve study is a projection of future events, it necessarily is based upon a number of assumptions. The reserve study process is an exercise in refining those assumptions to those most likely to occur. Future events occurring near term are inherently more predictable than those occurring long term. That is why it is necessary to perform periodic updates to the reserve study; to update and refine the assumptions based on the passage of time and actual maintenance activities that have occurred.

The reserve study consists of two parts; the physical analysis, and the financial analysis. The findings of the physical evaluation, including identification of components, condition, useful and remaining life, and replacement cost, are summarized in this report. The financial analysis consists of the evaluation of the current reserve funding status, and a 30-year projection of cash inflows and outflows.

Executive Summary

This summary identifies the major characteristics of the project.

Association Name:	2016 Palms of Terra Ceia Bay CDD
Location	Palmetto, Florida
Community Development District	
30-Year Projection Period	October 1, 2015 - December 31, 2044
Site Visit Date	April 6th, 2016
Report Effective Date	October 1, 2015
Projected Reserve Fund Balance at October 1, 2015	\$ 156,021
Ideal Reserve Balance at October 1, 2015	\$ 645,186
Percent Funded at October 1, 2015	24.18 %
Recommended Annual Contribution to Reserves Year 1	\$ 48,000
Estimated Interest Rate	0.50 %
Estimated Inflation Rate	1.40 %
Estimated Tax Rate	0.00 %

The status of the CDD's Reserve Fund is evaluated primarily by attempting to measure its strength. While there are subjective considerations that can be applied, the percent funded calculation represents the most universally accepted objective measure of the strength of the reserve fund. The discussion in the paragraph above evaluates the strength of the Association's reserve fund.

This financial projection was prepared for the District by Facilities Advisors, Inc. and is based upon certain assumptions regarding condition, replacement costs, and estimated useful lives of the components contained in this study. Estimated replacement costs are based upon bids received, prior costs paid, construction costs manuals and other sources. This study is limited to those components contained herein. Certain components have been omitted as they have useful lives in excess of the scope of this study (30 years), or major repair and replacement costs are included in the operating budget. Funding has been calculated using a pooled, cash flow calculation. Assumptions for interest earnings on invested funds, the inflation rates estimated for future replacement costs, and the applicable net income tax rate are shown above.

The Board of Supervisors has determined that, based upon the reserve study, **no special assessments are presently anticipated** for any year covered by this study. However, actual expenditures may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the reserve fund may not be adequate to meet future needs. The Board regularly updates assumptions and estimates used in the reserve study in order to have accurate financial projections of future cash needs.

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The operating budget is intended to provide for all annually recurring expenses of the CDD, including routine maintenance of common areas. Such routine maintenance is the basis of the facilities maintenance plan, and to a large degree, will dictate the timing and amount of future expenditures of the reserve fund. The normal budget process is to estimate the required expenditures for the Association's governance, business, member services, and maintenance activities, then determine the assessment required to provide for those costs. By its nature, this is geared to an annual cycle.

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The reserve study consists of two parts; the physical analysis, and the financial analysis. The findings of the physical evaluation, including identification of components, condition, useful and remaining life, and replacement cost, are summarized in this report. The financial analysis consists of the evaluation of the current reserve funding status, and a 30-year projection of cash inflows and outflows.

Physical Analysis

The physical analysis itself consists of two parts;

1. The site visit wherein (a) all common area components are identified, (b) measurements or counts are made or verified, and (c) condition of components is assessed,
2. The analysis, usually performed after the site Visit, consisting of determining what components are to be included in the reserve funding study, and the useful (normal) life and remaining life, and repair or replacement cost of each component to be included in the funding study.

The identification of all common area components is based upon prior reserve studies, inquiries of management, depreciation schedules, asset listings, plot maps, building plans, vendor or contractor representations, and insurance records, in addition to our own observations to attempt to correctly identify all common area components. In addition, management representations and governing documents help determine maintenance responsibility.

Measurements or counts of common area components are included, except for certain items where an "allowance" factor is included. Quantification; counts and measurements are in accordance industry standards and the Association's maintenance plan. As an example, measurements of roofing or painting may not be necessary if we have firm bids or contracts that specify a cost, as the measurement then becomes irrelevant, except for cost verification purposes. Components are included in the study at the level where costs are anticipated to be incurred, not grouped so at a level of detail data becomes meaningless.

Condition is assessed on a subjective basis considering a number of factors: original useful life, age, quality, rate of wear and tear, management representations, and maintenance plan. The maintenance plan is the most important factor, as often components will be replaced long before their useful life has ended, strictly for aesthetic purposes.

The identification of components to be included in the reserve study is based upon a number of factors. ICBI National Reserve Study Standards established a four part test:

- 1) The component must be a common area maintenance responsibility
- 2) The component must have a limited life
- 3) The limited life must be predictable
- 4) The component must be above a minimum threshold cost.

Based on the above standards, most small equipment and tool items are excluded from the study. Most building infrastructure components are also excluded from the study. Again, however, the Association's maintenance plan may override these considerations. For instance, if smaller, low cost items such as pool equipment, which may otherwise be excluded based on individual cost to replace, are considered to be part of the swimming pool "system," then it would be appropriate to include such items in the reserve study.

Likewise, small tools may be grouped for this purpose to provide a funding vehicle for non-annual expenses that simply do not fit into the operating budget.

Useful life is usually based on our experience with similar components. However, other factors that may factor into this decision are the Association's maintenance plan, warranty periods, assumptions regarding

quality, wear and tear, maintenance procedures, and climate conditions. The useful life is also used as the normal replacement cycle for calculation of future major repairs and replacements.

Remaining life will normally be the difference between a component's age and its useful life. However, we will often modify remaining life based on observed condition, maintenance history, and the Association's maintenance plan. Also, because maintenance records are often sketchy, and staff and board members have changed, it is often very difficult to determine when a component was actually placed into service. The date placed in service may end up being an estimated date, calculated from the estimated remaining useful life. The following categories help us establish guidelines for determining useful life and remaining life.

- Cyclic Regular - Items like road slurry or wood painting fall into this category. Such components have a very predictable life cycle. That life cycle may vary based upon local climate, usage, exposure to weather, or similar issues, but will generally stabilize for the components of a given property and have a reasonably high degree of predictability concerning both useful and remaining life.
- Cyclic Irregular - Items like deck surfaces and roofing fall into this category. These items have a normal life span great enough that climate, level of preventive maintenance, owner care, and other issues can materially affect the actual life.
- Predictable but Irregular Non-Catastrophic Failure - This category includes pool pumps, spa heaters, and other items which can be expected to wear out with some predictability (regular or irregular), but do not need to be replaced until failure. With these items the Association may well have accumulated the money for repair or replacement and then actually wait for failure to spend this money. This does not affect the reserve contribution prior to the expected replacement date, but once that date is reached assessments can be reduced until failure because adequate reserves are on hand.
- Catastrophic Failure - With these items waiting until failure is not appropriate. A hydraulic elevator falls into this category. In these cases, a fund is built for a general replacement time frame, then a decision is made to repair or replace before failure.
- Outdated Design/Aesthetics - This category refers to items where aesthetics are a major concern. Examples include light fixtures, window coverings, and other items that may be quite functional past the time they are desirable. They should be recognized and reserved for in order to keep the common area from appearing dated and unappealing.

Cost estimates can be derived from a number of different sources. Since the preparation of a reserve study is an attempt to refine estimates as much as possible, the use of "real costs" is our goal. That means we try to use the most reliable costs available, and if they're not available, go to the next most reliable source.

In order of reliability, costs are obtained from:

- Actual cost of most recent repair
- Bid for repair not yet under taken
- Contractor or vendor estimate
- Facilities Advisors inc. cost database (continually updated)
- Construction cost estimating guides

Site Visit Observations

Site visit observed no unusual or dangerous features other than those noted, if any. Project was in overall good condition and showed normal, expected aging.

Financial Analysis

The attached Cash Flow Projection summarizes the cash inflows and outflows of the reserve fund for the thirty-year projection period. This analysis incorporates the assumptions set forth in the Summary of Significant Assumptions. The projected assessments should reflect the amounts set forth in the Association's annual budget.

The starting point for the Cash Flow Projection is the estimated combined cash and investment balance at the first day of the fiscal year of the 30- year projection period. Since this report is prepared prior to that actual date, the amount must be estimated. Several factors must be considered; the current cash balance, the estimated reserve fund transfers from the interim report date until year end, estimated expenditures from the interim report date until year end, and estimated interest earnings from the interim report date until year end. For purposes of this analysis, estimated interest income is ignored as being an immaterial amount.

The financial analysis of a reserve study consists of creating a forecast of future expenditures, then building a cash flow stream to provide funding for those future expenditures. This is necessarily dependent upon a number of assumptions about both current and future events.

The calculation of future expenditures is based upon the information obtained from the physical analysis; the estimated replacement cost and estimated remaining life for each component. This future cost typically includes an inflation assumption, as the future replacement cost is normally higher than the current replacement cost. Future replacement cost may also include a minor contingency factor into the projected future cost of each component, simply as a precaution against estimating mistakes in replacement costs or replacement dates.

Building a stream of estimated future cash inflows to adequately provide for the projected future expenditures is a subjective process. This stream of cash inflows may consist of several parts, including regular member assessments, special assessments, interest income, bank loans, or other income. In addition, we normally recommend an assessment "adjustment factor" that slowly increases annual assessments to keep pace with effect of inflation increases on future expenditures for replacement of the common area components.

Assessments - While we are usually able to calculate an "ideal" first year assessment amount, for most associations that is impractical, as Association's are generally limited to a maximum "politically acceptable" assessment for the first year. We honor that, because with a 30-year budget, we can make up any deficiency in future (the remaining 29) years.

Interest Income - Interest income is normally retained within the reserve fund, so is normally included as a factor in building the funding plan. For purposes of this financial forecast, interest is compounded on a monthly basis. Interest rates may vary from year to year, but are essentially not able to be predicted over long periods of time. Most associations choose to build their funding plan using known, current interest rates, and do not modify that rate over time. We have performed a comparative study of interest and inflation rates over a 70-year time period that indicates that interest and inflation rates tend to correlate relatively closely over long periods of time, so relatively offset each other at high percent funded levels.

Adjustment factor - We generally recommend that reserve assessments be increased annually as an offset to the effects of inflation. Failure to do so will likely leave the Association in an under funded situation, unless the entire reserve assessment structure is re-challenged and revised yearly.

Funding Goals - The Association's funding plan can be built using one of three recognized goals; Baseline funding, Threshold funding, or Full funding. However, as discussed below, any of the three methods should also be combined with a relatively uniform assessment structure to provide consistency for members so they can better plan their own cash flows.

The goal of Baseline funding is simply to make sure your cash balance does not drop below zero. Since this term is not precisely defined, a number of different funding plans could be developed that could all be described as "Baseline funding." The simplest example is that the cash balance does not drop below zero amount in a single year, normally the year in which the largest expenditures are made, and is well above zero in other years. A more extreme example is that annual assessments, instead of attempting to be relatively uniform, are more erratic over time, conforming to the timing of expenditures. Since this essentially defeats the purpose of having a long term reserve plan, that example, although still technically qualifying as a "baseline funding" goal, should not be used.

Threshold funding establishes a funding goal greater than Baseline funding, but less than Full funding, or 100% funded. This is generally defined as a specific minimum dollar amount below which the reserve fund is not allowed to go, as an example \$100,000 might be established as the minimum threshold. Again, strict adherence to using threshold funding could lead to erratic annual funding, so a threshold funding plan should be used only when using a relatively uniform assessment structure.

Full funding establishes a goal of 100% funding. This is interpreted as having 100% of the funds needed at a given point in time (the ideal balance), not as having 100% of the replacement cost of all components.

The percent funded calculation is generally regarded as the best objective measure of the strength, or status, of an association's reserve fund. Percent funded measures the ideal balance against the funds actually set aside for reserves. There is general consensus amongst industry professionals that a percent funded ratio of less than 30% represents a "weak" reserve fund. 30% to 70% is generally considered "adequate." 70% and above is considered "strong."

Summary of Significant Assumptions

The following significant assumptions were used in the preparation of this reserve study report. If the actual replacement costs or remaining lives vary from the assumptions used in this analysis, the impact could be significant on future assessments. Accordingly, an annual review of the analysis is necessary to see if the Board, within its authority, should increase the regular assessments, pass special assessments or reschedule future replacement dates.

Generally, only long-term major repair and replacement activities for components with a life of 2 years or longer and a cost of \$1,000 or more have been considered in this analysis.

The Association will not have to replace the components that have a remaining life of more than 30 years. Those components are assumed to be permanent, lifetime components. A projection of events 30 years in the future can only be made in general terms. However, as the Association matures, certain components may deteriorate and the remaining physical life will be reduced such that those components may need to be reevaluated to determine if they should be included in future studies.

The Board of Directors will implement and/or continue preventive maintenance and repair programs to prevent abnormal deterioration of the common areas.

The analysis assumes that no unusual conditions will occur, such as weather, vandalism, unusual use, or unforeseen obsolescence.

Measurements and quantities were obtained by count, measurement, or estimation from plans provided by the Board of Directors unless otherwise noted, and are assumed to be a close approximation to actual. Proper construction and installation of all improvements is assumed, unless otherwise noted.

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This analysis assumes that the Association membership wishes to continue the use and maintenance of all amenities currently in place.

The Association carries comprehensive property insurance to cover most insurable risks, such as all-risk property liability, and theft.

Current financial information was supplied by the Board of Directors and is assumed to be reasonably accurate as of the date of this analysis. Funded cash balances were not audited nor confirmed directly with financial institutions as a part of this analysis.

The Association will collect and set aside reserve assessments on an annual basis, in order that sufficient funds will be available when expenditures are scheduled or necessary.

The Board of Directors does not anticipate any special assessments other than those that may be scheduled as part of the attached 30-year funding projection.

Components Excluded from this report

Major Component	Reason Not Included
Building Structures i.e. - Foundation, structural & framed skeleton, brick and masonry units, concrete floors, interior common walls, interior common utilities, steel and concrete stairs, elevator shafts and the like	Lifetime Component
Utilities - Underground / In Structure / Private & Public Utility Companies	Lifetime Component
Street Base - Hard scape, Storm water piping and underground components	Lifetime Component

Disclosures

Neither Facilities Advisors, Inc. nor its owners individually have other relationships with the CDD that would represent a conflict of interest.

Your Facilities Advisors, Inc. Reserve Specialist is Lynn Sallee. Mr. Sallee has been in commercial and residential construction, development, management and financing since 1974. His background is unique with lengthy periods of experience on both sides of the property table as a producer and as planner / financier. This professional blend of business background, coupled with 4 years community and HOA property management provides experience and insights invaluable in his reserve study inspections and finished reports. Mr. Sallee holds

the RS designation from Community Associations Institute (CAI) and the PRA designation from the Association Professional Reserve Analysts (APRA). His reserve study experience encompasses all types of reserve studies, including condominium, homeowners, public and religious buildings, and time share associations.

The skill-set involved in the above described experiences and designations represent the skills most directly applicable to evaluation of existing facilities for purposes of a reserve study.

The site visit performed as part of this engagement included observations of all significant visible common area components, unless otherwise indicated on the detail component listing. No destructive testing was performed.

We are not aware of any material issues that, if not disclosed, would cause a significant distortion of the Association's reserve status or funding plan.

Limitations on Report

The preparer has relied upon certain information provided by District representatives in the performance of this reserve study. Such information includes, but is not necessarily limited to, financial data, identification or quantification of common area components, and historical maintenance information. Such information is deemed reliable by Facilities Advisors, Inc.

The reserve study is a reflection of information provided to the preparer and this report has been assembled for use by the Association. This report has not been audited, nor subjected to a forensic or quality analysis, or background checks of historical records.

The reserve balance projected in this report is based upon information provided by the District to the preparer and was not audited.

Information provided to the preparer by the District about reserve projects is considered reliable. The onsite visit cannot be considered a project audit or a quality visit.

Terminology

Report Effective Date – Effective date of report based on the Association fiscal year end.

Current Replacement Cost - Calculation based upon unit cost, measurement basis, and quantity.

Common Area - The areas of a project whose ownership is under an undivided interest basis. These areas are shared equally between all owners, in use and maintenance.

Component - A specific item of the common areas that requires major repair or replacement (pool pump, tennis court net, couch, roof, etc.).

Compound Interest - A financial calculation that takes into account that interest, added to the principal at specified compounding periods, also earns interest.

Funds - Actual monies that are on deposit or to be collected.

Future Cost - Estimated cost to replace at a specific future date based upon estimated current replacement cost and the rate of inflation applied on a compounded basis for a specified period.

Project Date - Date that the first unit was delivered for occupancy.

Estimated Life - Estimated total life of a reserve component, for recurring replacement cycles.

Unit - This is an actual residence or condominium.

Remaining Life - An estimate of the service life of a particular component made after the first year in which a reserve item has been in place.

Adjusted Life - Changed life for the first replacement cycle only of a component.

Date Placed in Service - The initial date that a component is placed in service.

Special Assessment - Supplemental contributions by owners (in addition to the normal contributions) usually assessed when long-term maintenance or replacements of reserve items are of immediate nature and sufficient funds are not available to pay for these items

Measurement Basis - The basis in which costs are measured for reserve items (sq. yd., linear feet, etc.).