

EastBluff #4 Town Hall: Special Assessment Program Update

January 19, 2021

Immediate Challenges--We face a number of immediate challenges that must be addressed before tackling our aging infrastructure

Immediate Challenges

- ❖ **Current Situation:** Our Community is 35 years old and must address its aging infrastructure
- ❖ **Reserve Study:** Updated Reserve Study is required every 3 years and must accompany upcoming audit, annual budget, and Dec. YE Disclosure Statement
- ❖ **Deferred Work Orders:** Various deferred health and safety work orders require immediate resolution
- ❖ **Gutter Project:** Prior gutter contract did not contain the project specs detailed by EB4's engineer, OSJ.
- ❖ **Special Assessment:** Board believes a Special Assessment may be needed to fund deferred capital projects & repairs.
- ❖ **Data Requirements:** Project specifications, cost data, and/or supporting bids needed to complete Reserve Study and estimate amount of any Special Assessment. Collecting the necessary data is extensive and costly.

What is the Plan to Address the Challenges?

- ❖ **Implement Two-Phased Plan to Return EB4 to Financial Stability and Address Infrastructure Requirements**
- ❖ **Phase I:**
 - Address operating and operating deficiencies
 - Update Reserve Study and Prioritize Capital Projects
 - Determine if a Special Assessment is needed
- ❖ **Phase II:**
 - Subject to sufficient funding, complete Project Plan
 - Return EB4 to Financial Stability.
- ❖ **Gutter Project:** Rebid Gutter Project and Complete
- ❖ **Improve Disclosure and Transparency to Residents**

How Has The Board Responded?

- ❖ *Implemented Two-Phased Plan to Return EB4 to Financial Stability and Address Infrastructure--Phase I implemented in June and scheduled for completion by end of January 2021*
- ❖ *Phase I:*
 - *Address operating and operating deficiencies--*
 - *Property Manager & Landscape Contractor replaced and monthly costs reduced*
 - *Overall 2022 Operating Budget reduced by 6.5%*
 - *Past Due Receivables collected and reduced*
 - *Update Reserve Study and Prioritize Capital Projects--completed without need for “interim special assessment”*
 - *Determine if a Special Assessment is needed--Options and Recommendation will be delivered by end of January 2021*
- ❖ *Phase II: (subject to adequate funding, on track to begin during first half of 2021)*
 - *Subject to sufficient funding, complete Project Plan*
 - *Return EB4 to Financial Stability.*
- ❖ *Gutter Project: Project re-bid to OSJ specifications. Project completion scheduled before end of February 2021, resulting in higher quality materials and installation*
- ❖ *Improve Disclosure and Transparency to Residents--Monthly program updates and multiple Town Halls delivered to educate Residents since June 2020. Information/Document postings expanded on Avalon’s website and multiple surveys conducted to obtain Residents’ feedback.*

Reserve Study, Cost Data and Assumption Sources

- ❖ **Reserve Study:** Prepared by SCT, EB4's consultant, to comply with California Civil Code. Select sections of the Level II Study required for year end disclosure
- ❖ **Inputs**
 - Cost Data
 - EB4 Beginning Reserve Balance
 - 2022 Budget, including annual Reserve Allocation
- ❖ **Cost Data:**
 - OSJ Specifications
 - Contractor Bids
 - Construction Committee Estimates
 - SCT Industry Standard Data
- ❖ **SCT Assumptions**
 - 3.0% inflation rate for project costs and 1.0% interest rate on reserve balances
 - 4.34% annual increase in Reserve Allocations

Reserve Study Comparisons: Key Summary Stats 2022 vs. 2019

| | 2022 Reserve Study | 2022 Per Unit | 2019 Reserve Study | 2019 Per Unit |
|---|--------------------|---------------|--------------------|---------------|
| Aggregate Estimated Current Replacement Cost | \$9.5 million | \$47,959 | \$10.5 million | \$52,638 |
| Aggregate Estimated Future Replacement Cost | \$14.5 million | \$72,821 | \$15.0 million | \$75,524 |
| Aggregate Capital Expenditures Initial 5 Years | \$5.8 million | \$29,353 | \$8.5 million | \$42,802 |
| SCT: Annual Reserve Allocation Increase % Assumption | 4.34% | | 4.95% | |
| SCT: Special Assessment Assumption--over 5 yrs for 2019 study & 4 yrs for 2022 study | \$5.0 million | \$25,126 | \$8.7 million | \$43,500 |
| SCT: Inflation Rate Assumption | 3.0% | n/a | 3.0% | n/a |
| 100% Funded | 30 Years | n/a | 30 Years | n/a |

More accurate project specs and bids resulted in a net reduction in estimated replacement cost

Spreading projects over a longer period results in higher inflation-adjusted costs over 30 years

Size of estimated project/costs reduced and timing has been spread out to mitigate Special Assessment

Lower current replacement costs & capital expenditures during years 1-5. **SCT Assumption-Not Final**

Inflation assumption higher than current economic forecasts

Many HOAs target a 35-40% funded rate at all times

Comparison: Summary of Capital Projects/Infrastructure Repairs

| Projects | 2022 Current Estimated Replacement Cost | 2019 Current Estimated Replacement Cost | Comments |
|--|---|---|---|
| Asphalt & Concrete | \$707,512 | \$345,750 | More accurate specifications |
| Buildings: Balconies, Landings, Doors, Weep Screeds, Pony Walls, Stucco, etc | 4,532,627 | 5,055,452 | Reduction in weep screeds, partially offset by Pony Wall increase |
| Electrical/Lights | 187,878 | 172,878 | N/A |
| Fences, Gates, Rails, Walls | 423,586 | 429,820 | N/A |
| Irrigation & Landscape | 902,000 | 1,217,450 | Less Landscape Refurbishment |
| Paint & Waterproofing | 1,199,267 | 814,447 | Increase in Cabanas, doors, & gates to avoid need for wood trim replacement |
| Pools & Related | 381,411 | 287,858 | N/A |
| Utilities | 673,000 | 1,826,000 | Drains & Sewer Lines |
| Termite Control & Other | 536,539 | 325,291 | N/A |
| Total | \$9,543,820 | \$10,474,946 | <\$931,126> |
| <i>Aggregate Capital Expenditures Initial 5 Years</i> | \$5.8 million (61%) | \$8.5 million (81%) | |

2022 Cash Flow Prioritization (SCT)

| (in thousands) | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|--|--------------|--------------|----------------|----------------|----------------|--------------|--------------|----------------|----------------|----------------|
| Beg. Reserve Balance¹ | \$0 | \$296 | \$479 | \$1,039 | \$1,794 | \$1,282 | \$825 | \$953 | \$1,145 | \$1,411 |
| Regular Assessment Contribution² | 382 | 399 | 416 | 434 | 453 | 472 | 493 | 518 | 537 | 560 |
| Special Assessment³ | 1,250 | 1,250 | 1,250 | 1,250 | 0 | 0 | 0 | 0 | 0 | 0 |
| Project Expense | 1,340 | 1,465 | 1,115 | 944 | 976 | 936 | 371 | 332 | 283 | 380 |
| Ending Reserve Balance | \$296 | \$480 | \$1,039 | \$1,794 | \$1,282 | \$825 | \$954 | \$1,145 | \$1,411 | \$1,605 |
| Reserve EOY % Funded | 5.5% | 10.7% | 26.1% | 49.0% | 38.3% | 27.0% | 29.3% | 32.8% | 37.3% | 40.0% |

¹SCT assumed a zero balance as of Jan 31, 2022; however actual balance is estimated to be ~\$236,000

²Annual increases based on SCT assumption of 4.34%

³**SCT Assumption--Board will reduce, delay and/or finance any Special Assessment prior to Vote**

Potential Initiatives to Reduce HOA Capital Expenditures, Special Assessments, and Annual Regular Assessment Increases

| Project | Examples | Comments |
|---|---|---|
| <ul style="list-style-type: none"> ❖ Continue to evaluate opportunities to reduce operating expense to increase the portion of regular assessments that funds the Reserve and capital projects | <ul style="list-style-type: none"> ● Earthquake Insurance ● Water Usage & Cost ● Legal Expense ● Water Intrusion & Remediation | <ul style="list-style-type: none"> ● Finance Committee will continue to review operating expenses to identify opportunities to reduce ● Operating expense reduction would allow a larger allocation of Regular Dues to Reserves |
| <ul style="list-style-type: none"> ❖ Shift financial responsibility for select projects back to homeowners | <ul style="list-style-type: none"> ● Water Heaters ● Concrete Entry Pads ● Atrium Drains ● Garage Doors & Components ● Water Meters | <ul style="list-style-type: none"> ● Many HOAs do not bear the financial responsibility for listed examples ● Bylaws would have to be changed and changes must be approved by residents' vote. |
| <ul style="list-style-type: none"> ❖ Reduce, Phase and/or Delay less critical projects or repairs | <ul style="list-style-type: none"> ● Landscape & Tree Removal ● Asphalt & Concrete ● Fences | |
| <ul style="list-style-type: none"> ❖ Finance all or a portion of necessary projects over 5-10 years to spread out the cost. | <ul style="list-style-type: none"> ● Line of credit for a portion of project cost during yrs. 1-5 ● Repayment term 5-10 yrs. ● Upfront fee, plus annual interest | <p>Finance Committee is investigating loans & lines of credit, which may be used to reduce/defer need for a large Special Assessment</p> |

Next Steps to A Recommendation and Residents' Vote

- ❖ **AMOUNT AND TIMING OF A SPECIAL ASSESSMENT HAVE NOT BEEN DETERMINED.**
“Special Assessment” estimates above, based on SCT Assumptions. EB4’s Board is developing a plan to reduce, delay and/or finance any Special Assessment before the vote
- ❖ Board and Finance Committee will continue to identify opportunities to reduce the need for a Special Assessment (See Slide #8):
 - Reduce and/or delay select estimated project costs
 - Continue to reduce operating expense to increase funds available to increase reserves
 - Initiatives to shift responsibility for select projects/repairs to individual homeowners
 - Financing alternatives to spread financial impact over multiple years.
 - In the next 5-10 years, achieve and sustain a Reserve Balance of 35-40% of “100% Funded” target.
- ❖ Board will develop two or three project plan alternatives and a Special Assessment recommendation.
- ❖ Town Hall to Discuss Alternatives and Special Assessment recommendation before end of January.
 - Pros and cons of alternatives and financing options will be reviewed
- ❖ **Residents' Vote**

What Does the Board Want For Our Community in the Long Run?



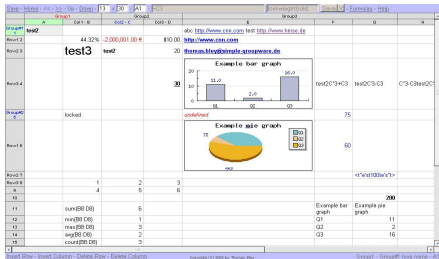
Sound Infrastructure



Predictable Assessments



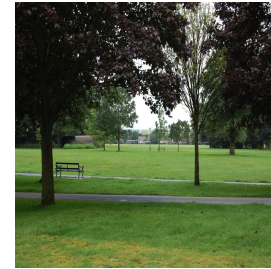
Better Disclosure for Owners/Buyers



Stable Financial Position



Improved Property Values



Attractive Community Aesthetic

