EastBluff #4 Town Hall: Special Assessment Options & Recommendation

February 22, 2021

Agenda

I. Executive Summary and Overview

II. Reserve Study and Project Plan

III. Phase II Funding Options and Finance Committee Recommendation

IV. Summary and Next Steps

Executive Summary

I. **Project Costs:** Reserve Study has been completed--Projects have been costed and phased

II. **Deferred maintenance remains critical and must be addressed**

III. **Long Term Plan:** More urgent projects will take an estimated 5 years and returning EB4 to financial stability will take up to 10 years

IV. **Financial Shortfall:** A significant shortfall exists--Now we must decide how to fund it

V. **Funding Options:** Board has identified three options to fund infrastructure requirements and return EB4 to financial stability

VI. **Next steps--**

- ➢ Conduct Residents' Survey to Obtain Feedback
- ➢ Board Election
- ➢ Board Vote on Funding Recommendation
- ➢ Residents' Vote on Funding Plan

How Did We Get Here? (See June 2020 Board Presentation for Details)

- ❖ **Aging Infrastructure:** EB4 is a 35 year old community with aging infrastructure
- ❖ **Over the Past Decade, Regular Assessments Have Not Kept Pace with Expenditures**
- ❖ **Unexpected Project Costs & Repairs Since Fiscal 2018 Have Depleted Reserves**
- ❖ **Previous Financial, Operating and Project Management practices have contributed to our funding shortfalls**

Reserve Study and Project Plan

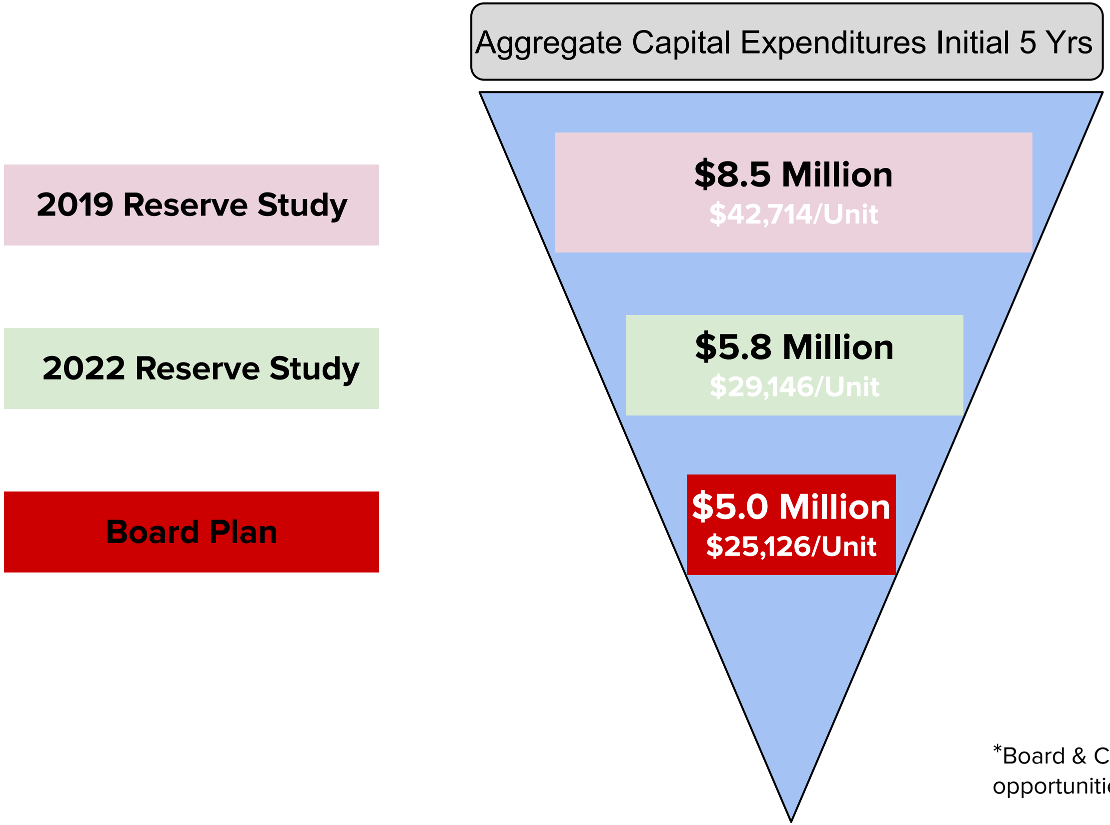
Updated Reserve Study Confirms Need to Address Infrastructure in Next 5 Years

Projects	**2022 Current Estimated Replacement Cost**	**2019 Current Estimated Replacement Cost**
Asphalt & Concrete	$707,512	$345,750
Buildings: Balconies, Landings, Doors, Weep Screeds,Pony Walls, Stucco, etc	4,532,627	5,055,452
Electrical/Lights	187,878	172,878
Fences, Gates, Rails, Walls	423,586	429,820
Irrigation & Landscape	902,000	1,217,450
Paint & Waterproofing	1,199,267	814,447
Pools & Related	381,411	287,858
Utilities	673,000	1,826,000
Termite Control & Other	536,539	325,291
Total	**$9,543,820**	**$10,474,946**
Aggregate Capital Expenditures Initial 5 Years	$5.8 million (61%)	$8.5 million (81%)

Projects w/ Replacement Costs of $2.7 million or 28% of Total Cost Have **Remaining Useful Lives of 1 Year or Less**

Projects w/ Replacement Costs of $5.5 million or 58% of Total Cost Have **Remaining Useful Lives of 5 Years or Less**

Reducing Capital Expenditures During Initial Years Mitigates Need for Special/Regular Assessments



Modifying & Phasing Critical Projects, Along with Returning Responsibility for Select Repairs to Homeowners Has Resulted in a 41% Decline in 5 Year Project Costs*

*Board & Construction Committee will continue to look for opportunities to reduce costs over the term of the projects

Project Costs and Phasing--Includes 2% annual inflation & 6% Contingency. Used in All Four Options.

Projects	2022	2023	2024	2025	2026	2027	2028	2029	2027	2031	10 Yr Total
Total Asphalt & Concrete	45,000	77,250	59,676	128,659	114,186	100,800	170,478	4,711	14,543	-	715,303
Total Building - Balconies & Landings	-	159,687	-	-	-	-	-	-	-	-	159,687
Total Buildings – Doors	29,026	18,700	-	-	5,628	15,100	15,402	15,710	16,024	16,345	131,935
Buildings – Pony Walls	75,000	136,990	141,100	145,333	123,806	89,264	91,942	94,700	97,541	100,468	1,096,144
Total Buildings Roofs	125,014	122,828	126,462	5,306	29,221	138,646	5,631	5,743	5,858	5,975	570,686
Total Buildings – Stucco, flashing & wood	85,161	86,864	116,150	118,472	82,783	57,964	59,123	60,306	-	-	666,823
Total Electrical/ Lights	15,000	24,058	15,606	15,918	16,236	16,561	16,892	17,230	17,575	17,926	173,004
Total Fences/Gates/Rails/Walls	233,512	140,768	-	-	-	28,989	-	-	-	-	403,269
Irrigation - System Refurbish	300,000	-	-	-	-	-	-	-	-	-	300,000
Total Landscape	42,175	155,350	87,463	84,576	104,515	93,882	76,075	77,597	5,202	5,306	732,140
Total Paint & Waterproofing	-	202,499	232,981	-	-	174,589	-	-	-	-	610,069
Total Pool Cabanas	9,000	27,306	41,345	42,569	1,624	1,656	1,689	1,723	1,757	7,013	135,682
Total Pools & Spas	21,700	32,961	98,878	25,883	86,326	-	23,522	10,437	-	33,402	333,109
Signage	7,653	515	1,061	-	1,126	-	-	-	-	-	10,355
Total Termite Control	11,250	75,708	112,783	91,442	140,858	12,421	12,669	12,923	13,181	13,445	496,679
Total Utilities	65,000	51,000	8,000	8,160	8,323	8,490	8,659	8,833	9,009	9,189	184,664
Contingency	40,000	40,800	41,616	42,448	43,297	44,163	45,046	45,947	46,866	47,804	437,989
TOTAL RESERVE EXPENITURES	1,104,491	1,353,284	1,083,119	708,766	757,930	782,525	527,130	355,860	227,558	256,873	7,157,536

Initial 5 Year Total--$5.0 Million

Final 5 Year Total--$2.2 million

Pictures Support the Numbers!

Fencing

Asphalt

Pony Walls

Bare Slopes

Unexpected Repairs/Work Orders (e.g., gas leaks, sewers) Since Mid-February

~$75,000

Reserve Study Conclusions & Funding Objectives

- **Conclusions**
  - ***Special Assessment and/or Regular Assessment Increases during Years 1-5 are required*** to address critical deferred maintenance
    - $2.7 million or 28% of projects have a Remaining Useful Life of one year or less
    - $5.5 million or 58% of projects have a Remaining Useful Life of five years or less
  - ***Return Financial Responsibility for Select Repairs to Homeowners*** (e.g., water heaters and portions of concrete, termite, and garage doors) to reduce financial burden & be consistent with other HOAs
- **Funding Objectives**
  - Fund and Complete Deferred Capital Projects Over 10 years and Replenish Reserves
  - While funding all critical projects during years 1-5, delay less urgent repairs until years 5-10.
  - Mitigate amount of a Special Assessment and spread it over several years
  - Target Regular Assessment Increases to annual inflation
  - Target Reserve level of “30% Funded” ($1.0-1.5 million) by Year 10 to ensure sustainable financial stability.

Phase II Funding Options

What Funding Options Are We Considering?

- **Option #1: Special Assessment--**$2.95 million Special Assessment (with optional payment plan), nominal annual Regular Assessment increases, & no Financing. Payment plan spreads payments over six years, would result in a property lien and interest at 4.0-5.0%.
- **Option #2: Financing--** Borrow $2.5 million over 10 years to avoid a Special Assessment. Increase Regular Assessments during years 1-4 to accommodate debt payments.
- **Option #3: Combination--** $2.0 million Loan and an $800,000 Special Assessment. Increase Regular Assessments during years 1-4 to accommodate debt payments
- **Option #4: "Do Nothing" & Pay-As-You-Go--** Assumes future Boards would need to increase Regular Assessments by the 20% annual maximum in early years and impose a series of 5% Special Assessments to fund a portion of the deferred maintenance repairs. Board could impose additional Special Assessments for health & safety repairs, as needed

Funding Shortfall with No Special Assessment or Regular Assessment Increases?

		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Annual Assessment		1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	11,880,000
Assessment Increase - input		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Operating Expenses - 2% annual increase	2%	(805,700)	(821,814)	(838,250)	(855,015)	(872,116)	(889,558)	(907,349)	(925,496)	(944,006)	(962,886)	(8,822,190)
Reserve Allocation		(382,300)	(366,186)	(349,750)	(332,985)	(315,884)	(298,442)	(280,651)	(262,504)	(243,994)	(225,114)	(3,057,810)
Reserve Percentage Increase			-4%	-4%	-5%	-5%	-6%	-6%	-6%	-7%	-8%	
Beginning Cash Balance		100,000	(622,191)	(1,609,289)	(2,342,658)	(2,718,440)	(3,160,486)	(3,644,568)	(3,891,048)	(3,984,404)	(3,967,967)	
Reserve Allocation		382,300	366,186	349,750	332,985	315,884	298,442	280,651	262,504	243,994	225,114	3,057,810
Total Project Expenditures		**1,104,491**	**1,353,284**	**1,083,119**	**708,766**	**757,930**	**782,525**	**527,130**	**355,860**	**227,558**	**256,873**	**7,157,536**
Ending Reserve Balance		(622,191)	(1,609,289)	(2,342,658)	(2,718,440)	(3,160,486)	(3,644,568)	(3,891,048)	(3,984,404)	(3,967,967)	(3,999,727)	

- Regular annual assessment revenue remains constant over 10 years
- Operating expenses increase by 2% per year due to inflation
- Reserve allocation decreases annually

- **$3.2 million 5 year reserve deficit**
- **$4.0 million 10 year reserve deficit**

Option #1: Special Assessment Option--$2.95 million Special Assessment (with payment plan), Nominal Annual Regular Assessment Increases, & No Financing.

		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Annual Assessment		1,188,000	1,247,400	1,284,822	1,323,367	1,363,068	1,403,960	1,446,078	1,489,461	1,534,145	1,580,169	13,860,469
Assessment Increase - input		0%	5%	3%	3%	3%	3%	3%	3%	3%	3%	
Operating Expenses - 2% annual increase	2%	(805,700)	(821,814)	(838,250)	(855,015)	(872,116)	(889,558)	(907,349)	(925,496)	(944,006)	(962,886)	(8,822,190)
Reserve Allocation		(382,300)	(425,586)	(446,572)	(468,351)	(490,952)	(514,402)	(538,729)	(563,965)	(590,139)	(617,283)	(5,038,279)
Reserve Percentage Increase			11%	5%	5%	5%	5%	5%	5%	5%	5%	
Beginning Reserve Balance		100,000	177,809	146,861	271,064	309,899	260,921	201,798	213,397	421,502	784,083	
Reserve Allocation		382,300	425,586	446,572	468,351	490,952	514,402	538,729	563,965	590,139	617,283	5,038,279
Total Project Expenditures		**1,104,491**	**1,353,284**	**1,083,119**	**708,766**	**757,930**	**782,525**	**527,130**	**355,860**	**227,558**	**256,873**	**7,157,536**
Ending Balance w/o Additional Funding		(622,191)	(749,889)	(489,686)	30,649	42,921	(7,202)	213,397	421,502	784,083	1,144,492	
Special Assessment		800,000	800,000	700,000	250,000	200,000	200,000	-	-	-	-	2,950,000
Interest Income (4.5% on O/S balance)			96,750	60,750	29,250	18,000	9,000					213,750
Net Funding		800,000	896,750	760,750	279,250	218,000	209,000	-	-	-	-	3,163,750
Ending Reserve		177,809	146,861	271,064	309,899	260,921	201,798	213,397	421,502	784,083	1,144,492	

	Overall Cost Increase: 10 Year Average Total Assessments/Unit	**Cost Spread:** Total Annual Avg. Assessments/Unit- **Over 6 Years**	**Cost Spread:** Total Annual Avg. Assessments/Unit **-Over 10 Years**	**Saleability:** Year 6 Average Monthly Regular Assessment	**Financial Stability:** Year 10 Reserve Balance
Current Cost	$59,700	$5,970	$5,970	$498/mo	$100,000
Option #1	$24,775	$9,012	$8,447	$571/mo	$1.14 million
% Increase	42%	51%	42%	15%	N/A

Option #2: Financing Option-- No Special Assessment, Maximum Loan of $2.5 million, with a 12 Month Draw Period. High Regular Assessment Increases During Years 1-4 to Accommodate Debt Payments.

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Annual Assessment	1,188,000	1,425,600	1,639,440	1,885,356	1,979,624	1,979,624	1,979,624	1,979,624	1,979,624	1,979,624	18,016,139
Assessment Increase input	0%	20%	15%	15%	5%	0%	0%	0%	0%	0%	
Operating Expenses - 2% annual increase	(805,700)	(821,814)	(838,250)	(855,015)	(872,116)	(889,558)	(907,349)	(925,496)	(944,006)	(962,886)	(8,822,190)
Reserve Allocation	(382,300)	(603,786)	(801,190)	(1,030,341)	(1,107,508)	(1,090,066)	(1,072,275)	(1,054,128)	(1,035,618)	(1,016,738)	(9,193,949)
Reserve Percentage Increase		*58%*	*33%*	*29%*	*7%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*	
Beginning Reserve Balance	100,000	576,247	724,092	96,069	82,800	108,784	103,982	348,032	756,456	787,876	
Reserve Allocation	382,300	603,786	801,190	1,030,341	1,107,508	1,090,066	1,072,275	1,054,128	1,035,618	1,016,738	9,193,949
Total Project Expenditures	**1,104,491**	**1,353,284**	**1,083,119**	**708,766**	**757,930**	**782,525**	**527,130**	**355,860**	**227,558**	**256,873**	**7,157,536**
Ending Balance w/o Additional Funding	(622,191)	(173,251)	442,163	417,644	432,378	416,325	649,126	1,046,300	1,564,516	1,547,740	
Special Assessment input	-	-	-	-	-	-	-	-	-	-	-
Financing - Update Amortization 2	**1,250,000.00**	**1,250,000.00**	-								**2,500,000**
Debt Payments	(51,562.50)	(352,656.25)	(346,093.75)	(334,843.75)	(323,593.75)	(312,343.75)	(301,093.75)	(289,843.75)	(776,640.63)	-	**(3,088,672)**
Closing Costs	(57,500.00)										
Net Funding	1,198,438	897,344	(346,094)	(334,844)	(323,594)	(312,344)	(301,094)	(289,844)	(776,641)	-	
Ending Reserve	576,247	724,092	96,069	82,800	108,784	103,982	348,032	756,456	787,876	1,547,740	

	Overall Cost Increase: 10 Year Average Total Assessments/Unit	**Cost Spread:** Total Annual Avg. Assessments/Unit-**Over 6 Years**	**Cost Spread:** Total Annual Avg. Assessments/Unit-**Over 10 Years**	**Saleability:** 2027 Average Monthly Regular Assessment	**Financial Stability:** Year 10 Reserve Balance
Current Cost	$59,700	$5,970	$5,970	$498/mo	$100,000
Option #2	$30,833	$8,457	$9,053	$829/mo	$1.55 million
% Increase	52%	42%	52%	67%	N/A

Includes Total Interest & Costs of $646,172

Option #3: Combination-- $2.0 million Loan, $800,000 Special Assessment & Modestly High Regular Assessment Increases in Years 1-4 to Accommodate Debt Payments

		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Annual Assessment		1,188,000	1,306,800	1,437,480	1,581,228	1,739,351	1,913,286	1,913,286	1,913,286	1,913,286	1,913,286	16,819,288
Assessment Increase input		0%	10%	10%	10%	10%	10%	0%	0%	0%	0%	
Operating Expenses - 2% annual increase	**2%**	(805,700)	(821,814)	(838,250)	(855,015)	(872,116)	(889,558)	(907,349)	(925,496)	(944,006)	(962,886)	(8,822,190)
Reserve Allocation		(382,300)	(484,986)	(599,230)	(726,213)	(867,235)	(1,023,728)	(1,005,937)	(987,790)	(969,280)	(950,400)	(7,997,098)
Reserve Percentage Increase			*27%*	*24%*	*21%*	*19%*	*18%*	*-2%*	*-2%*	*-2%*	*-2%*	
Beginning Reserve Balance		100,000	177,809	218,261	452,247	192,818	34,248	16,576	245,508	636,563	914,535	
Reserve Allocation		382,300	484,986	599,230	726,213	867,235	1,023,728	1,005,937	987,790	969,280	950,400	7,997,098
Total Project Expenditures		**1,104,491**	**1,353,284**	**1,083,119**	**708,766**	**757,930**	**782,525**	**527,130**	**355,860**	**227,558**	**256,873**	**7,157,536**
Ending Balance w/o Additional Funding		(622,191)	(690,489)	(265,628)	469,693	302,123	275,451	495,383	877,438	1,378,285	1,608,062	
Special Assessment input		**800,000**	-	-	-	-	-	-	-	-	-	**800,000**
Financing - Update Amortization 1			**1,000,000**	**1,000,000**								**2,000,000**
Debt Payments			(41,250.00)	(282,125.00)	(276,875.00)	(267,875.00)	(258,875.00)	(249,875.00)	(240,875.00)	(231,875.00)	(619,687.50)	**(2,469,312)**
Closing Costs			(50,000.00)									
Net Funding		800,000	908,750	717,875	(276,875)	(267,875)	(258,875)	(249,875)	(240,875)	(231,875)	(619,687)	
Ending Reserve		177,809	218,261	452,247	192,818	34,248	16,576	245,508	636,563	914,535	988,374	

	Overall Cost Increase: 10 Year Average Total Assessments/Unit	**Cost Spread:** Total Annual Avg. Assessments/Unit- **Over 6 Years**	**Cost Spread:** Total Annual Avg. Assessments/Unit **-Over 10 Years**	**Saleability:** 2027 Average Monthly Regular Assessment	**Financial Stability:** Year 10 Reserve Balance
Current Cost	$59,700	$5,970	$5,970	$498/mo	$100,000
Option #3	$28,839	$8,347	$8,854	$801/mo	$988,374
% Increase	48%	40%	48%	61%	N/A

Includes Total Interest & Costs of $519,312

Option #4: "Do Nothing" & Pay-As-You-Go-- Assumes Future Boards Would Need to Increase Regular Assessments by the 20% Annual Maximum and Impose Sporadic 5% Special Assessments to Address Repairs, as needed

		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Annual Assessment		1,188,000	1,425,600	1,710,720	2,052,864	2,463,437	2,463,437	2,463,437	2,463,437	2,463,437	2,463,437	21,157,805
Assessment Increase - input		**0%**	**20%**	**20%**	**20%**	**20%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0**
Operating Expenses - 2% annual increase	**2%**	(805,700)	(821,814)	(838,250)	(855,015)	(872,116)	(889,558)	(907,349)	(925,496)	(944,006)	(962,886)	(8,822,190)
Reserve Allocation		(382,300)	(603,786)	(872,470)	(1,197,849)	(1,591,321)	(1,573,879)	(1,556,088)	(1,537,941)	(1,519,431)	(1,500,551)	(12,335,615)
Reserve Percentage Increase			*58%*	*44%*	*37%*	*33%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	
Beginning Reserve Balance		100,000	(562,791)	(1,241,009)	(1,366,122)	(774,397)	182,166	973,520	2,002,478	3,184,559	4,476,432	
Reserve Allocation		382,300	603,786	872,470	1,197,849	1,591,321	1,573,879	1,556,088	1,537,941	1,519,431	1,500,551	12,335,615
Total Project Expenditures		**1,104,491**	**1,353,284**	**1,083,119**	**708,766**	**757,930**	**782,525**	**527,130**	**355,860**	**227,558**	**256,873**	**7,157,536**
Ending Balance w/o Additional Funding		(622,191)	(1,312,289)	(1,451,658)	(877,040)	58,994	973,520	2,002,478	3,184,559	4,476,432	5,720,109	
Special Assessment - 5% NO VOTE		**59,400**	**71,280**	**85,536**	**102,643**	**123,172**	**-**	**-**	**-**	**-**	**-**	**442,031**
Line of Credit Financing			-									
Debt Payments			-	-	-	-	-	-	-	-	-	
Net Funding		59,400	71,280	85,536	102,643	123,172	-	-	-	-	-	
Ending Reserve		(562,791)	(1,241,009)	(1,366,122)	(774,397)	182,166	973,520	2,002,478	3,184,559	4,476,432	5,720,109	

Insufficient Reserves to Fund Projects

	Overall Cost Increase: 10 Year Average Total Assessments/Unit	**Cost Spread:** Total Annual Avg. Assessments/Unit- **Over 6 Years**	**Cost Spread:** Total Annual Avg. Assessments/Unit- **Over 10 Years**	**Saleability:** 2027 Average Monthly Regular Assessment	**Financial Stability:** Year 10 Reserve Balance
Current Cost	$59,700	$5,970	$5,970	$498/mo	$100,000
Option #4	$48,275	$9,743	$10,797	$1,032/mo	$5.72 million
% Increase	81%	63%	81%	107%	N/A

How Do the Four Options Compare?

	Overall Cost Increase: 10 Year Average Total Assessments/Unit	**Cost Spread:** Total Annual Avg. Assessments/Unit **Over 6 Years**	**Cost Spread:** Total Annual Avg. Assessments/Unit **Over 10 Years**	**Saleability:** 2027 Average Monthly Regular Assessment	**Financial Stability:** Year 10 Reserve Balance	**Comments**
Option #1: Special Assessment	$24,775	$9,012	$8,447	$571/mo.	$1.14 million	• Least expensive plan • Lowest Regular Assessment in 2027 • Solid/balanced reserves
Option #2: Financing	$30,833	$8,457	$9,053	$829/mo.	$1.55 million	• More Expensive plan • Regular Assessment increases in 67% by 2027 • Total Financing cost of $646,172
Option #3: Special Assessment/ Financing Combination	$28,839	$8,347	$8,854	$801/mo.	$988,374	• Low cost during initial 6 yrs • Regular Assessment increases by 61% by 2027 • Low Reserves in 2026-27
Option #4: “Do Nothing”	$48,275	$9,743	$10,797	$1,032/mo.	$5.72 million	• Most expensive plan • Insufficient to fund projects • Regular Assessment more than doubles by 2027 • High uncertainty for residents

Trade-Offs Among the Funding Components

	Pros	Cons	Comments
Cost Management and Project Phasing	● **Phasing select projects reduces immediate financial burden on residents**	● Increases overall costs due to inflation ● Increases health/safety risk & risk emergency repairs are needed	● **Project cost estimates and phasing are the same across all four options** ● All projects will be rebid prior to construction, so costs subject to change
Special Assessment	● Least expensive overall ● **Reduces need for large, recurring Regular Assessment increases** ● Non-recurring impact on residents	● Largest near term impact	● **Requires 51% Resident Vote** ● Providing payment options over multiple years reduces immediate financial impact ● **Special Assessment with payment options would include property lien and interest cost** ● Board may impose up to a 5% Special Assessment without resident vote
Financing	● Reduces near term financial impact by spreading costs over 10 years	● **Upfront and interest costs increase overall project costs to residents** ● **Regular Assessments must be increased to make debt payments** ● 2/3rds Residents' approval may be hard	● No guarantee of loan approval ● **Requires approval from 2/3rds of residents**
Annual Regular Assessment Increases Above Inflation	● Moderates the amount of a Special Assessment	● **Once Regular Assessments increase, they typically never go down** ● **Negative impact on property values and owners' ability to quality for mortgages**	● Future boards could decide to reduce Regular Assessment levels ● **Board may increase Regular Assessments by up to 20% annually, without resident vote**

Finance Committee Recommendation*

- **Option #1: Special Assessment--**$2.95 million Special Assessment (with optional payment plan), nominal annual Regular Assessment increases, & no Financing. Payment plan would result in a lien on the property and interest at 4.0-5.0%.

- **Two Payment Options** (per unit averages)
  - One Payment of **$14,825**
  - Six Year Payment Plan--Yr 1: **$4,020** , Yr 2: **$4,506** , Yr 3: **$3,823** , Yr 4: **$1,403** , Yr 5: **$1,095** , Yr 6: **$1,050**
    - Payment Plan includes interest at 4.5% and is prepayable at anytime without penalty
    - Outstanding balance will be secured by property lien
- **Actual payment amounts will depend on Homeowners plan type/unit square footage**

- **Rationale**
  - Least Expensive plan to Residents, Overall
  - Results in the Lowest Increase in Regular Assessments
  - Two Payment Options Provide Maximum flexibility to Residents
  - Avoids High Cost of Debt and Significant Increase in Regular Assessments

* **By 3:1 Vote**

Next Steps

Summary & Next Steps

Summary

- Addressing deferred projects will require 5 years and returning EB4 to financial stability will take 10 years
- Project Costing/Planning has ***reduced 5-Year Expenditures by more than 41%*** to $5.0 million
- Recommended Funding Plan represents the ***lowest cost option***, results in ***limited Regular Assessment increases,*** and provides a ***payment option to spread payments over 6 years***

Next Steps

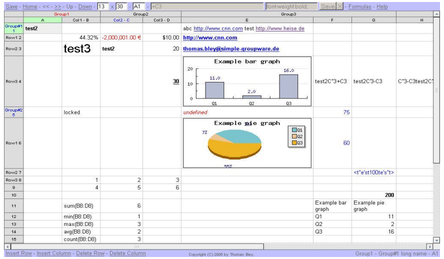
- **Obtain Feedback from Residents via Community-Wide Survey**
- **Board Election**
- **Board Vote on Funding Recommendation**
- **Residents' Vote on Funding Program and Bylaw Change Returning Select Projects to Homeowners** (subject to Board election results)
- **If Funding Program is Voted On and Approved by 51% of Residents:**
  - Poll Residents to Determine the Break-Down of Residents Paying Upfront vs. Opting for the Payment Plan
  - Based on the Number of Upfront Payors, Adjust Project Timing to Accelerate Schedule and Reduce Costs
- **Commence Project Plan Implementation, Subject to Periodic Review and Adjustment**

Long Term Goals For Our Community

Sound Infrastructure

Predictable Assessments

Better Disclosure for Owners/Buyers



Stable Financial Position

Improved Property Values

Attractive Community Aesthetic

Appendix

Summary of the Challenges--What did we know then and what have we learned after completing Phase I of the Board's Plan?

❖ **Immediate Challenges Identified in June 2020**

- ➢ **Current Situation:** Our Community is 35 years old and must address its aging infrastructure
- ➢ **Reserve Study:** Updated Reserve Study required every 3 years for audit, annual budget, & YE Disclosure purposes
- ➢ **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 Special Assessment.

❖ **After Completing Phase I, What Have We Learned and/or Confirmed?**

- ➢ Majority of deferred infrastructure repairs must be addressed over the next five years
  - ■ Until repairs are completed, health & safety risk remains high (e.g., gas leaks & water intrusion)
  - ■ Further delays will continue to increase costs
- ➢ Regular Assessments: "Cost of living" increases needed to keep pace with inflation (est. 2-3%/year)
- ➢ Financing alternatives are available, but expensive
- ➢ Board believes it can identify & implement additional operating cost reductions in Fiscal 2022 to mitigate a portion of future Regular Assessment increases

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 financial 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 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

2022 Cash Flow Prioritization (From SCT Reserve Study)

(in thousands)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Beg. Reserve Balance[1]	$0	$296	$480	$1,039	$1,794	$1,282	$825	$953	$1,145	$1,411
Regular Assessment Contribution[2]	382	399	416	434	453	472	493	518	537	560
Special Assessment[3]	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%

[1]SCT assumed a zero balance as of Jan 31, 2022; however actual balance is estimated to be ~$239,000

[2]Annual increases based on SCT assumption of 4.34%

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

Indicative Financing Terms

❖ Indicative Terms

- **Loan Amount:** Up to $2.5 million estimated for EB4
- **Draw Period:** 12 months
- **Term:** 10 years, repayable in equal annual installments
- **Upfront Costs:** 1.5% of Loan Amount, plus closing costs
- **Interest Rate:** 4.0-5.0% fixed rate
- **Collateral:** Lien on Association's Regular Assessments
  - Individual properties would not be liened
- **Prepayment Penalties:** None

❖ Other Considerations

- Time Needed for Application and Approval: Four to Six Months
- No guarantee EB4 could obtain a loan and indicative terms subject to changes
- Primary Underwriting Requirements:
  - Annual payments for Principal and Interest cannot exceed 20-25% of Annual Regular Assessments
  - ~20% of Accounts Receivable cannot be greater than 90 days past due
- EB4 would need 2/3rds of residents to approve to incur debt

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

Project	Examples	Comments
❖ Continue to evaluate opportunities to reduce operating expense to increase the portion of regular assessments that funds the Reserve and capital projects	• Earthquake Insurance • Water Usage & Cost • Legal Expense • Water Intrusion & Remediation	• 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
❖ Shift financial responsibility for select projects back to homeowners	• Water Heaters • Concrete Entry Pads • Atrium Drains • Garage Doors & Components • Water Meters	• 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.
❖ Reduce, Phase and/or Delay less critical projects or repairs	• Landscape & Tree Removal • Asphalt & Concrete • Fences	
❖ Finance all or a portion of necessary projects over 5-10 years to spread out the cost.	• Line of credit for a portion of project cost during yrs. 1-5 • Repayment term 5-10 yrs. • Upfront fee, plus annual interest	Finance Committee is investigating loans & lines of credit, which may be used to reduce/defer need for a large Special Assessment

Special Assessment Program Goals, Objectives and Rationale

	Goals & Objectives	Rationale
Infrastructure	Address critical infrastructure needs over 5 Years	Avoids future cost increases and improves property values
Special Assessment	Optimize amount of and payment plan to reduce overall cost and burden to residents	• One time assessment • Favorably impacts property values & qualifying for mortgage
Regular Assessments	Target annual Regular Assessment increases to annual inflation	• Regular Assessments rarely decrease • High dues negatively impacts RE values • Adversely impacts mortgage qualifying
Financing	Avoid or limit amount of financing	Limit fees, interest & need to substantially increase Regular Assessments
Financial Stability	Meet a minimum of 30% reserve funding on or before year 10	Reserves of 30-40% considered adequate to fund ongoing repairs
Impact on Residents	• Prudently Minimize & Spread Costs • Avoid high Regular Assessments • Provide payment options	• Mitigate immediate & ongoing financial burden as much as possible • Provide flexible solutions for all residents