Road Study and Reserve Planning Considerations

Finance Committee Report to ACCCA Board, August 2022
Proposed Work Plan

Proposed Work Plan for Finance Committee, 2022-2023

Our budget process has two expense components—operating expenses and reserve expenses, and two revenue components—assessments and reserve income, the latter through monthly transfers from assessments and our Lifestyle Enhancement Fee (LEF).

The Expense Side

Operating Expenses

This is the most straightforward of the two components. Many of our operating expenses are fixed by contract, some with escalator clauses, some without. Margaret and her team have always handled this well.

With inflation now (July 2022) an issue, our major concern this year likely will be the revenue needed to cover any increases in operating costs while maintaining reserve funding levels.

Reserve Expenses

The reserve budget process starts with our road consultant's study with current dollar estimates of necessary maintenance and repairs. These estimates feed into the reserve study, which then applies long-term inflation and return estimates to arrive at expected expenditures and a reserve-funding ratio. Both studies look out 30 years, a typical useful life estimate for long-term assets. Consequently, we regard these numbers as a planning guide, but not quite as important for short term annual budgeting needs.

The Board has approved a 70-75% funding ratio as appropriate for our community. Per our Reserve Study, this level keeps the community at a low risk for either a special assessment or the need to borrow to fund immediate projects. The Finance committee takes this approach as a given. (See the appendix for the data.)

Proposed 2022-23 Committee Work Plan

For annual budgeting purposes, here is a proposal for planning. It consists of three interlocking stages—the operating budget, the reserve budget with its estimates of annual reserve expenditures, and acceptable reserve funding levels.

- Operating Expenses

As noted above, the operating expense projections have been managed by Margaret and her team. While the Committee reviews these estimates and may make comments or suggest revisions, we can take these reasonably as a given. That seems appropriate. It should also allow the Committee to spend more time on intermediate and long-term needs.

- Reserve Expenses

If we view the Reserve study as a given, long-term estimate, it seems reasonable to focus on shorter term and intermediate term cash outflows for budgeting and planning. Given the reserve numbers we are dealing with this should at least 5, perhaps 10, years out. [FBS note: This was the focus of Bob Miller's spreadsheet, which seems to have been lost in the maze of short-term planning and time constraints over the past few years.]

To date, Frank Civil Consulting has been conservative in their maintenance and repair estimates. Their estimates have run roughly 15% over actual expenses. Mostly the community has done only routine maintenance so far, so we should bear this in mind going forward. In the past year, we have also needed some R&R (Remove and Replace pavement)

We can break this down into an annual "What revenue increase do we need to fund current reserve expenditures?" and "What revenue increase do we need to meet the long-term funding ratio?"

We would use the long-term funding ratio as a constraint to be satisfied. We can model this and examine different scenarios within Excel, even performing some optimization. For example, given our expenditure estimates, minimize annual assessment increases to meet the 75% reserve funding ratio.

In summary,

1. Operating Budget—expenses and needed revenues
2. Reserve budget—next year's expenses and revenues
3. Reserve Budget—intermediate term planning and cash flow constraints.

Background Information on our Road study and Reserve reports

[FBS note: I consider this section to be “stylized facts.” That is, I’ve based it on what we discussed in the Finance Committee since I’ve been a member (late 2016), what I remember from previous committee work, both Communications and LEC, and from regular attendance at quarterly Board meetings. Fact-checking is appreciated!]

Prior to 2015, we planned for road maintenance and any other road work using PMIS as our expert consultants. In 2015, the Board authorized Frank Civil Consulting, Michael Frank, principal, as our road consultant. We also changed Reserve study providers, with Father/Daughter providing the reserve study in 2106 and 2017, and Reserve Associates providing that service since.

This change resulted in significantly higher estimates for necessary road maintenance, including asphalt removal and reconstruction, which led to a significant increase in our required reserves. The major difference driving these higher estimates was that prior to 2016 we did not reserve for eventual asphalt removal and reconstruction (R&R). Also, prior road studies and reserve estimates did not extend beyond 10 years, later increased to 15 years, and now based on 28 years, the expected life of residential roads. [Note: the CAAM minimum projection for reserves is 20 years; we now do this.]

Frank Civil Consulting’s estimate was based on a useful road life of 25-30 years, an industry standard. The company also conducted a detailed on-site survey of our roads. The projected costs for this remove & replace (R&R) are much greater than regular maintenance.

Since the community was built out in less than ½ the time originally planned, our roads were built in a very compressed period. The accelerated pace of build-out resulted in a bunching of projected replacement costs, with a currently projected amount of over $17 million, occurring over a 7-year frame from about 2028 to 2035—an average of $2.4 million per year, which is about twice our current annual contributions. Based on these numbers, we will completely exhaust our available reserves by 2035 unless we increase Reserve contributions as recommended in the new draft Reserve study.

In addition, we have 4 major “arterial streets”, Anthem Club Drive, Anthem Hills Drive, (our manned entrances, with a lot of heavy truck traffic, both for residents and for the AG&CC), Anthem Ridge (transponders only, but that includes regular vendors with transponders who may have heavier vehicles and extra trailers), and Wolf Run, our only east-west connecting street. These streets are 2 lanes divided except for Wolf Run. Wolf Run was not designed to serve as an arterial street since it was originally planned to end at Congressional, and not connect to Anthem Hills. These streets are about 8 miles of our pavement—more than 20% of our total 37 miles. Our three major arterial streets are projected to need asphalt R&R by 2030.

Current Position

Presently we are adding about $1.0 to $1.3 million dollars per year to our Reserve fund account; $900K from operating funds, and a budgeted $340K for the LEF. Even with this additional funding, we will deplete our Reserve fund as indicated above, unless we continue to add about 2% per year to our annual Reserve contributions.

The Board authorized achieving a 5-year goal of 75% fully funded reserves at the end of 2018. To date we have achieved that goal, but this has been only on a year-to-year budget analysis and approval. This process has pushed our later Reserve needs in the background, but not resolved those needs.

The Board has been appropriately cautious in authorizing increases in assessments. Estimates of necessary reserves before 2015 hovered around $3.5-$4.0 million and we reached a fully funded position. At one point, the Board reduced annual assessments because we did not appear to need our current level of revenues to maintain a stable financial position. (See the appendix for details.)

Current Reserve Funding

In late 2018, the Board authorized an increase in our Lifestyle Enhancement Fee from 0% to .25%, the maximum allowed. [The fee was originally set to 0% in 2011 because of the 2009-2010 housing crash, which severely affected our community.] At the present this is adding about $330,000 per year to our Reserve fund. To date we have added approximately $1.4 million to our Reserve fund through this funding mechanism. With some significant reserve expenses this year, we will not move beyond our current 73% reserve funding level.

LEF Funding

Our total annual assessment budget is approximately $3.3 million. We have budgeted annual increases in our Reserve fund by about $900,000 from assessments, and about $340,000 from the LEF. For 2022 we are currently (May 2022) at 48% of our annual budget, with less than 42% of the year and are likely to end the year with about $325,000 from the LEF, though we have seen some reduction month-to-month is home sales. Through May 2022, we have added approximately $1.38 million to our reserve funds through the LEF, substantially greater than anticipated. Most of that increase occurred during the 2020 and 2021 budget years from pandemic effects.

Our Reserve fund is currently almost $8 million, and with expenditures so far this year, we are likely to end the year at approximately that same level. This leaves us currently OK, but does not help with our longer-term needs, which are substantial.

Future Planning

Based on our current $3.3 million annual assessment revenues, every 1% increase in assessments adds $33,000 for our needs. The current draft Reserve study includes an annual 2.5% increase in reserve funding for the next several years.

We have budgeted about $285,000 annually from the LEF. This is currently running very high relative to budget, due to both increased home values and to increased sales. The Finance committee expects a "return to normal" at some point. As a rough estimate, if home values remain at or near current levels, we might reasonably expect the LEF to generate $300-$350K for reserves, greater than our original budget projections.

Offsetting this are historically low current returns on our invested reserve funds, slightly greater than .5% (pre-tax), versus prior estimates of 2.5-3.0%.

Our Reserve study is estimating inflation using the long-term historical figure of 3% and after-tax returns on interest income at 1.75%. This is reasonable.

Constraints on Funding Alternatives

Based on current Board policy and our Reserve report, the committee expects the following constraints on any Board actions:

- The community will not tolerate any special assessment.
- The community will not tolerate any borrowing and doing so would require "extraordinary measures."

Options for flexibility

The obvious one is that road repair estimates are just that. They are based on average useful life and observed wear and tear to date. Since we are talking far into the future, we must build in estimates of cost inflation, which is currently set at the long-term historical rate of 3%. Inflation has been running at under 2% for several years, but this is not a number that can be used for future planning. [See the appendix for details.]

What options do these facts suggest?

(1) We can start budgeting significant annual assessment increases to cover our projected road needs. Our what-if scenarios indicate that something like 3% annually solely for reserve funding would meet these needs. [This is confirmed in the current draft Reserve study.]

The Finance committee presented such a plan to the Board as part of the budget process in 2018. As a new member of the Finance committee at the time, I was not directly involved, but Anita O'Connor, Finance committee chair, and Chuck Durrant were directly involved and made such a presentation to the Board at that time. For the 2019 budget, the Board implemented a $67 annual increase in assessments. Most of the current Board members were not serving at that time. [See Appendix for details.]

The Board has recently contracted with Schwab to provide brokerage services for US Treasury investments. This account has been set up and is currently active. The Finance committee has rolled over maturing CDARs investments into cash, which will be invested in short-term Treasuries, by the end of this week. The Committee reviewed our prior recommendation and confirmed a recommendation to the Board at our meeting Tuesday, July 19.

(2) We could expand the range of acceptable investments in the hopes of generating a higher return. This would entail more risk, but the Finance committee believes the risk level we could reasonably accept might generate about a 2-3% return with minimal risk. Our current reserve level is $7.0 million. For each $1.0 million we invest at, say, 2.5%, we would generate an additional $25,000 annually to reserves.

(3) In adopting (2), the Board has an account with Schwab that includes the option of advice and management. We are currently using Schwab for trade execution, but for 50 basis points (.5%) we can have our funds there managed.

(4) We could adopt a program of "deferred maintenance." That is, we could expand estimates of useful life for some roads. This would allow us to spread out our costs. While this would not affect our required reserves, it could result in reducing our expenditures so that we might not run out of cash. If we adopted such a program, I would suggest that our road consultant give us revised estimates of road life to see if this is possible.

(5) In my current estimation, some combination of the above is likely to be a reasonable solution.

Why Act Now?

The current economic situation is unusual. We have been through a multi-year pandemic, which is not yet under control, and is unlikely to be for the foreseeable future. Interest rates are at historically low levels, due to monetary policy actions, which seem likely to be reversed in the near term. The housing market locally and nation-wide is in an unusual situation of low inventory of both newly built and existing homes, reduced homebuilding due to uncertainty about future demand, extremely high home values in neighboring states and communities leading to migration to lower cost states like Arizona, increased remote working, and low costs of financing.

Inflation has been running at a low rate historically, under 2%, (about 2.0% since 2010, and about 1.8% through 2015, and about 2.4% since 2016). These numbers are within Federal Reserve guidelines for “easy” monetary policy. Current expectations for inflation are well above the long-run average of 3%. Through May, the CPI-U is up 8.3%, year-over-year, and the PPI (relevant for our vendors as their costs) is up about 7.7%.

The net result for us is that home values have skyrocketed, and sales have increased dramatically, despite very low inventory. While we might be hopeful that increased home values will last, there is no reason to expect increased sales levels to persist.

Recommendations

- The Finance committee recommends the Board accept this proposed work plan for 2022 and 2023, with regular monitoring at our monthly meetings.
- The Finance committee recommends that the Board invest $2,500,000 in 2-year US Treasuries at a yield of approximately 3%, and an additional $1,000,000 in 6-month US Treasuries. These investments will be made through our Schwab account, now operational.

Previous Committee recommendations and Board actions

The Finance committee recommended that the ACCCA Board increase quarterly assessments for the 2022 to $300, an increase of $12 per quarter, or 4.2%. The Board approved this it its 2022 budget.

This increase was consistent with the projected inflation rate for 2022. It is consistent with our 2020 Reserve study and our draft 2023 Reserve study recommendations.

The committee will be reviewing over the next month or so a recommendation for 2023. Current indications have several contract services generating significantly higher increases than 2022. This may require cost-cutting and/or dues increase. The committee will be reviewing recommendations at its coming meetings.

Appendix I: Data on Assessments, Reserves and LEF

ACCCA Assessments

Year	Quarterly Assessment per Lot	Percentage Increase	CPI Change
2010	$234	---	1.5%
2011	$234	0%	2.96%
2102	$234	0%	1.74%
2013	$225	-3.8%	1.51%
2014	$225	0%	.76%
2015	$225	0%	.73%
2106	$240	6.7%	2.07%
2017	$240	0%	2.87%
2018	$267	11.3%	2.86%
2019	$279	4.5%	1.65%
2020	$288	3.2%	.65%
2021	$288	0%	5.39%
2022	$300	4.2%	
	Compounded Rate	2.1%	2.05%

LEF Transfers

Fiscal Year	Actual LEF Transfer	Budgeted LEF Transfers	Variance	Cumulative LEF Transfers
2018	$29,307	$0 (implemented 10/2018)		$29,307
2019	$333,979	$240,000	$93,979	$363,286
2020	$377,315	$240,000	$137,315	$740,601
2021	$471,427	$285,000	$186,427	$1,212,028
2022		$340,000		
2022 (YTD – May 2022)	$164,554	$171,000	-$6,446	$1,376,582
2022 (Year-end, pro forma)	$327,183	$340,000	-$12,817	$1,539,211

CDARs Maturity Schedule, as of June 30, 2022

Maturity Date	Amount	Cumulative Amount
June 2022	$614,806	
July 2022	$112,539	$723,345
August 2022	$538,183	$1,265,528
September 2022	$1,097,487	$2,363,015
October 2022	$667,055	$3,030,070
November 2022	$188,940	$3,219,010
December 2022	$1,095,499	$4,314,509
Total 2022		$4,314,509
January 2023	$315,109	
February 2023	$418,583	$733,992
April 2023	$251,237	$985,299
Cumulative Total		$5,299,738
Previously Redeemed (thru May 2022)	$2,388,738	

Projected Reserve Expenditures and Fully funded Reserve Levels, 2021

30-Year Reserve Plan Summary

20844-1 NSV

Fiscal Year Start: 2021	Interest: 1.75 %	Inflation: 3.00 %
Reserve Fund Strength Calculations: (All values of Fiscal Year Start Date)	Projected Reserve Balance Changes	

Year	Starting Reserve Balance	Fully Funded Balance	Percent Funded	Special Assmt Risk	% Increase In Annual Reserve Contribs.	Reserve Contribs.	Loan or Special Assmts	Interest Income	Reserve Expenses
2021	$6,267,017	$10,073,902	62.2 %	Medium	1.06 %	$1,140,000	$0	$116,359	$482,200
2022	$7,041,176	$10,784,822	65.3 %	Medium	2.25 %	$1,165,650	$0	$130,203	$486,675
2023	$7,850,354	$11,534,529	68.1 %	Medium	2.25 %	$1,191,877	$0	$147,041	$222,259
2024	$8,967,013	$12,637,933	71.0 %	Low	2.25 %	$1,218,694	$0	$153,267	$1,776,556
2025	$8,562,419	$12,196,011	70.2 %	Low	2.25 %	$1,246,115	$0	$150,842	$1,269,686
2026	$8,689,689	$12,227,324	71.1 %	Low	2.25 %	$1,274,153	$0	$159,938	$521,094
2027	$9,602,686	$13,072,181	73.5 %	Low	2.25 %	$1,302,821	$0	$178,581	$262,094
2028	$10,821,994	$14,273,663	75.8 %	Low	2.00 %	$1,328,877	$0	$182,773	$2,251,530
2029	$10,082,114	$13,465,346	74.9 %	Low	2.00 %	$1,355,455	$0	$173,106	$1,894,328
2030	$9,716,347	$13,022,050	74.6 %	Low	2.00 %	$1,382,564	$0	$167,112	$1,869,479
2031	$9,396,544	$12,625,713	74.4 %	Low	2.00 %	$1,410,215	$0	$161,834	$1,855,814
2032	$9,112,779	$12,147,123	75.0 %	Low	2.00 %	$1,438,420	$0	$155,121	$2,077,597
2033	$8,628,724	$11,598,228	74.4 %	Low	2.00 %	$1,467,188	$0	$141,945	$2,632,097
2034	$7,605,759	$10,553,966	72.1 %	Low	2.00 %	$1,496,532	$0	$115,204	$3,647,103
2035	$5,570,392	$8,472,486	65.7 %	Medium	2.00 %	$1,526,462	$0	$84,025	$3,141,195
2036	$4,039,684	$6,890,399	58.6 %	Medium	2.00 %	$1,556,992	$0	$82,464	$287,289
2037	$5,391,850	$8,242,348	65.4 %	Medium	2.00 %	$1,588,132	$0	$104,771	$493,768
2038	$6,590,984	$9,465,417	69.6 %	Medium	2.00 %	$1,619,894	$0	$125,057	$623,950
2039	$7,711,985	$10,635,622	72.5 %	Low	2.00 %	$1,652,292	$0	$142,738	$893,777
2040	$8,613,238	$11,608,877	74.2 %	Low	2.00 %	$1,685,338	$0	$162,293	$512,374
2041	$9,948,494	$13,051,419	76.2 %	Low	2.00 %	$1,719,045	$0	$183,010	$867,836
2042	$10,982,712	$14,219,772	77.2 %	Low	2.00 %	$1,753,426	$0	$197,018	$1,382,571
2043	$11,550,584	$14,943,120	77.3 %	Low	2.00 %	$1,788,494	$0	$212,636	$782,728
2044	$12,768,986	$16,357,630	78.1 %	Low	2.00 %	$1,824,264	$0	$215,521	$2,928,210
2045	$11,880,561	$15,657,901	75.9 %	Low	2.00 %	$1,860,749	$0	$219,287	$760,875
2046	$13,199,722	$17,224,304	76.6 %	Low	2.00 %	$1,897,964	$0	$239,839	$1,106,352
2047	$14,231,173	$18,538,269	76.8 %	Low	2.00 %	$1,935,923	$0	$257,406	$1,215,670
2048	$15,208,832	$19,837,158	76.7 %	Low	2.00 %	$1,974,642	$0	$282,128	$406,940
2049	$17,058,662	$22,067,852	77.3 %	Low	2.00 %	$2,014,135	$0	$309,914	$995,935
2050	$18,386,775	$23,820,445	77.2 %	Low	2.00 %	$2,054,417	$0	$326,145	$1,852,260

Projected Reserve Expenditures and Fully funded Reserve Levels, 2023

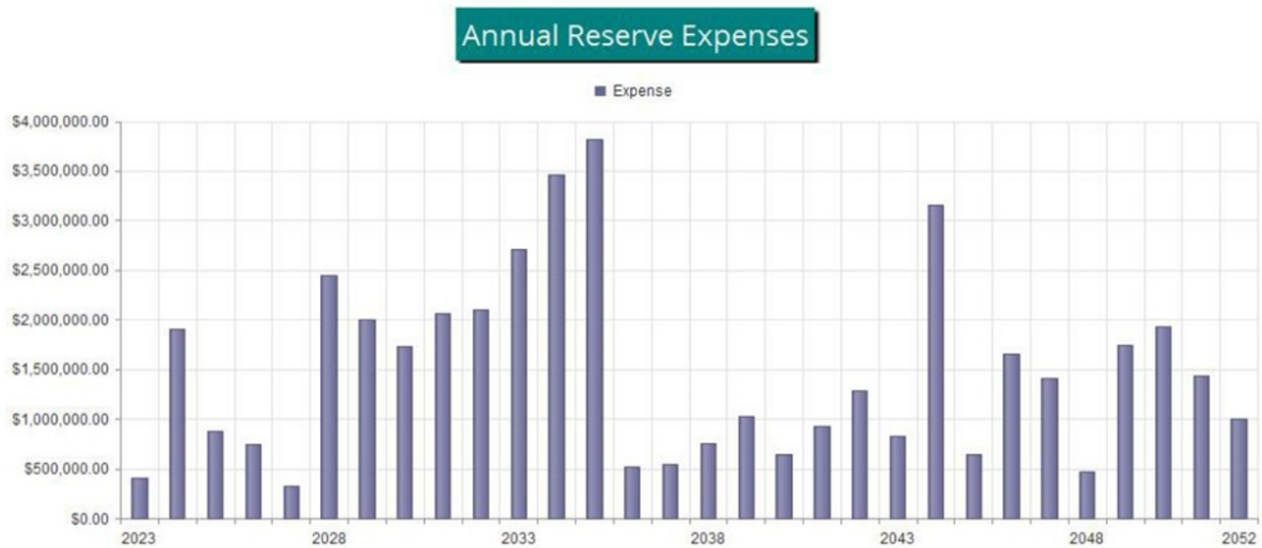
30-Year Reserve Plan Summary

Report # 20844-2
No-Site-Visit

Fiscal Year Start: 2023					Interest:	1.75 %	Inflation:	3.00 %	
Reserve Fund Strength: as-of Fiscal Year Start Date					Projected Reserve Balance Changes				
Year	**Starting Reserve Balance**	**Fully Funded Balance**	**Percent Funded**	**Special Assmt Risk**	**% Increase In Annual Reserve Funding**	**Reserve Funding**	**Loan or Special Assmts**	**Interest Income**	**Reserve Expenses**
2023	$7,963,010	$11,881,043	67.0 %	Medium	1.64 %	$1,260,000	$0	$147,958	$411,710
2024	$8,959,258	$12,875,483	69.6 %	Medium	2.50 %	$1,291,500	$0	$152,684	$1,899,938
2025	$8,503,504	$12,363,548	68.8 %	Medium	2.50 %	$1,323,788	$0	$153,963	$875,656
2026	$9,105,599	$12,916,060	70.5 %	Low	2.50 %	$1,356,882	$0	$166,015	$746,660
2027	$9,881,835	$13,662,225	72.3 %	Low	2.50 %	$1,390,804	$0	$183,733	$324,338
2028	$11,132,034	$14,907,193	74.7 %	Low	2.50 %	$1,425,574	$0	$187,392	$2,444,677
2029	$10,300,323	$14,023,710	73.4 %	Low	2.50 %	$1,461,214	$0	$176,927	$2,003,333
2030	$9,935,131	$13,570,719	73.2 %	Low	2.50 %	$1,497,744	$0	$173,220	$1,729,695
2031	$9,876,400	$13,405,813	73.7 %	Low	2.50 %	$1,535,188	$0	$169,519	$2,069,320
2032	$9,511,787	$12,902,990	73.7 %	Low	2.00 %	$1,565,891	$0	$163,019	$2,107,731
2033	$9,132,966	$12,450,516	73.4 %	Low	2.00 %	$1,597,209	$0	$151,278	$2,712,480
2034	$8,168,973	$11,451,488	71.3 %	Low	2.00 %	$1,629,153	$0	$127,893	$3,467,589
2035	$6,458,431	$9,687,367	66.7 %	Medium	2.00 %	$1,661,736	$0	$94,868	$3,823,278
2036	$4,391,758	$7,547,881	58.2 %	Medium	2.00 %	$1,694,971	$0	$87,892	$513,987
2037	$5,660,634	$8,798,016	64.3 %	Medium	2.00 %	$1,728,871	$0	$110,312	$543,867
2038	$6,955,950	$10,101,472	68.9 %	Medium	2.00 %	$1,763,448	$0	$131,655	$749,336
2039	$8,101,718	$11,280,390	71.8 %	Low	2.00 %	$1,798,717	$0	$149,728	$1,027,237
2040	$9,022,926	$12,257,868	73.6 %	Low	2.00 %	$1,834,691	$0	$169,702	$641,140
2041	$10,386,179	$13,713,263	75.7 %	Low	2.00 %	$1,871,385	$0	$191,558	$926,481
2042	$11,522,641	$14,970,860	77.0 %	Low	2.00 %	$1,908,813	$0	$208,782	$1,284,128
2043	$12,356,107	$15,951,824	77.5 %	Low	2.00 %	$1,946,989	$0	$227,859	$826,422
2044	$13,704,533	$17,489,287	78.4 %	Low	2.00 %	$1,985,929	$0	$231,517	$3,147,432
2045	$12,774,547	$16,739,537	76.3 %	Low	2.00 %	$2,025,648	$0	$237,543	$644,079
2046	$14,393,658	$18,604,772	77.4 %	Low	2.00 %	$2,066,160	$0	$257,534	$1,656,352
2047	$15,061,000	$19,544,116	77.1 %	Low	2.00 %	$2,107,484	$0	$271,817	$1,413,076
2048	$16,027,224	$20,824,831	77.0 %	Low	2.00 %	$2,149,633	$0	$297,521	$473,508
2049	$18,000,871	$23,176,220	77.7 %	Low	2.00 %	$2,192,626	$0	$321,544	$1,740,348
2050	$18,774,693	$24,359,735	77.1 %	Low	2.00 %	$2,236,479	$0	$333,869	$1,934,521
2051	$19,410,520	$25,447,182	76.3 %	Low	2.00 %	$2,281,208	$0	$349,895	$1,434,004
2052	$20,607,618	$27,153,260	75.9 %	Low	2.00 %	$2,326,832	$0	$375,182	$1,006,960

[Source: 2023 Reserve study draft.]

Projected Annual Expenditures per Reserve Study



[Source: Reserve Study, 2023 draft]

Appendix II: **Finance Committee arguments for LEF, June 2018**

[FBS Note: The following is a reproduction of Finance committee information that was presented to the Board in late 2018, in preparation for the budget discussion that year. Anita O'Connor was committee chair and Chuck Durant crunched the numbers for this analysis. I was part of the discussion but did not participate in the presentation.]

Finance Committee – Lifestyle Enhancements Fee (LEF) Pros and Cons Considerations

- **Background**
  - May 2016 Frank Civil Consulting Road Study indicated significant road repair / replacement costs of approximately $7.8MM may be needed in the period of 2027 through 2029 period (this estimate is based on 2016 material costs)
  - The May 2017 Father & Daughter Reserve Study accounted for this new and unanticipated expense + additional reserve expenditures for a total of $10.5MM for the 2027-29 period. This key component resulted in reducing the reserve funding percentage from 87% at year-end 2016 to a fiscally untenable 39%% at year-end 2017 and forecasted 48% at year-end 2018.
  - 2018 assessment was increased by an additional $27 per quarter per household to begin to increase reserve funding percentages.

- **Board Objectives**
  - Increase reserve funding percentage to approximately 75% in six years (2023) at a steady pace.
  - Continue to build the reserve fund to be able to completely fund the *anticipated* road repair work projected for 2027, 2028 and 2029 as well as normal reserve expenditures for those years totaling 10.5MM.
  - Avoid a special assessment in 2027, which could occur if increases in annual contributions to the reserve fund are not implemented.
  - Fiscal prudence requires that the ACCCA maintain the reserve fund funding percentage in the 80% to 100% range after 2029 for the years remaining in the current reserve study.

- **Baseline Assumptions**
  - Use findings and projections of the current version of the Road Study and Reserve Study.
  - Conduct a new Road Study in 2019 and update the Reserve Study and take results into account for 2020 budgeting.
  - Inflation 2%, return on investment 1.6%
  - At some point in time ACCCA road repair and replacement will be required. Based on the 2016 Road Study and Reserve Study, road repairs and replacement are projected to be 2027-2027 at a cost of $10MM plus $500K of other forecasted reserve expenditures.
  - Per the May 2017 Reserve Study, the reserve fund will be short if the ACCCA does not increase future annual contributions to the reserve fund.
  - Annual reserve fund contributions from a ¼% fee (LEF) on home gross selling price would be approximately $240,000 annually beginning in 2019 and increase with the inflation rate. This equates to an $84 annual per home additional assessment increase.
  - LEF funds would be transferred into the reserve fund, not into operating funds, with the intention of defraying the cost of future road repairs and replacements.

- **Pros for Implementing the LEF at ¼ % in 2019**
  - Reduce the amount of annual assessment increase percentages and actual dollar amounts to meet the funding objectives.
  - By generating projected revenue of $240K per year, the LEF implementation eliminates the need to increase annual assessments by $84 annual cost per home. Note: assessments will still need to be increased.
  - Potential buyers of homes in the country club may consider the level of annual assessments to be a bigger factor in decision -making than the LEF.
  - Will achieve higher reserve funding percentage more quickly without large dues increases resulting in a more fiscally responsible community and will avoid the need for a potential special assessment.
  - Based on initial market research, LEF-type assessments are a common practice among peer communities and should not be a concern/issue for among sellers, buyers and Realtors.

- **Cons for Implementing the LEF at ¼ % in 2019**
  - Once the LEF is implemented it will be difficult to rescind.
  - By continuing our road repair maintenance plan, the life of our roads may be extended. The next road study schedule for 2019 may reflect such an extended life, resulting in less reserve funds needed and/or pushing out the date for road replacement.
  - Potential buyers may perceive higher annual assessments (required in the absence of an LEF) to be a negative factor in their decision-making.
  - Seller may have to raise home sale price to offset the LEF.

- **Structure of LEF – Percentage of Home Gross Sales Price VS. Flat Fee**
  - General => Per the CC&Rs (LEF shall not exceed ¼% of homes gross sales price), a Flat Fee will need to be capped so that it does not exceed the ¼% of home gross sales price. May be structured as the lower of an established flat fee or ¼% of gross sales price. Example => $250,000 = $625 flat fee per home. If there 250 home sales annually, then it would bring in around $156,000 first year.
  - ¼ % of Gross Home Sales Price => May be perceived as beneficial to lower value homes and less fair to higher value homes.
  - Flat Fee => May be perceived as beneficial to higher value homes and less fair to lower value homes. A flat fee is easier to understand and add to closing documents.
  - A Flat Fee could be structured across a sliding scale of home gross sales price ranges in order to minimize perceived cross-subsidization, e.g., $150K to $250K / $251to $350K etc.

Appendix

- **Additional Major Reserve Expenditures for 2027, 2028 and 2029 from the May 2017 Father Daughter Reserve Study**
  - 2027 Major Expenditures – Lighting Replacement $36,000, Hills Guardhouse Remodel $19,500, Granite Replenishment $130,500
  - 2028 Major Expenditures – Rails and Drainage Structure Painting $28,300, Lighting Monuments Replacement $15,300, Main Gate Water Feature Resurface $33,600, Security System Barrier Arm Operators, Safety Loops, etc. $178,000, Granite Replenishment $134,300
  - 2029 Major Expenditures – Main Gate Roof Guardhouse $49,800, Granite Refreshment $138,400

- **Assessment Model Projection with and without 2019 Implementation of the LEF**
  - Without LEF – 5 years of annual assessment increases ending in 2022 at $369 annual assessment
  - With LEF – 5 years of lower annual assessment increases ending in 2022 at $348 annual assessment

30-Year Reserve Plan Summary

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Fiscal Year Start: 2021	Interest: 1.75 %	Inflation: 3.00 %
Reserve Fund Strength Calculations: (All values of Fiscal Year Start Date)	Projected Reserve Balance Changes	

Year	Starting Reserve Balance	Fully Funded Balance	Percent Funded	Special Assmt Risk	% Increase In Annual Reserve Contribs.	Reserve Contribs.	Loan or Special Assmts	Interest Income	Reserve Expenses
2021	$6,267,017	$10,073,902	62.2 %	Medium	1.06 %	$1,140,000	$0	$116,359	$482,200
2022	$7,041,176	$10,784,822	65.3 %	Medium	2.25 %	$1,165,650	$0	$130,203	$486,675
2023	$7,850,354	$11,534,529	68.1 %	Medium	2.25 %	$1,191,877	$0	$147,041	$222,259
2024	$8,967,013	$12,637,933	71.0 %	Low	2.25 %	$1,218,694	$0	$153,267	$1,776,556
2025	$8,562,419	$12,196,011	70.2 %	Low	2.25 %	$1,246,115	$0	$150,842	$1,269,686
2026	$8,689,689	$12,227,324	71.1 %	Low	2.25 %	$1,274,153	$0	$159,938	$521,094
2027	$9,602,686	$13,072,181	73.5 %	Low	2.25 %	$1,302,821	$0	$178,581	$262,094
2028	$10,821,994	$14,273,663	75.8 %	Low	2.00 %	$1,328,877	$0	$182,773	$2,251,530
2029	$10,082,114	$13,465,346	74.9 %	Low	2.00 %	$1,355,455	$0	$173,106	$1,894,328
2030	$9,716,347	$13,022,050	74.6 %	Low	2.00 %	$1,382,564	$0	$167,112	$1,869,479
2031	$9,396,544	$12,625,713	74.4 %	Low	2.00 %	$1,410,215	$0	$161,834	$1,855,814
2032	$9,112,779	$12,147,123	75.0 %	Low	2.00 %	$1,438,420	$0	$155,121	$2,077,597
2033	$8,628,724	$11,598,228	74.4 %	Low	2.00 %	$1,467,188	$0	$141,945	$2,632,097
2034	$7,605,759	$10,553,966	72.1 %	Low	2.00 %	$1,496,532	$0	$115,204	$3,647,103
2035	$5,570,392	$8,472,486	65.7 %	Medium	2.00 %	$1,526,462	$0	$84,025	$3,141,195
2036	$4,039,684	$6,890,399	58.6 %	Medium	2.00 %	$1,556,992	$0	$82,464	$287,289
2037	$5,391,850	$8,242,348	65.4 %	Medium	2.00 %	$1,588,132	$0	$104,771	$493,768
2038	$6,590,984	$9,465,417	69.6 %	Medium	2.00 %	$1,619,894	$0	$125,057	$623,950
2039	$7,711,985	$10,635,622	72.5 %	Low	2.00 %	$1,652,292	$0	$142,738	$893,777
2040	$8,613,238	$11,608,877	74.2 %	Low	2.00 %	$1,685,338	$0	$162,293	$512,374
2041	$9,948,494	$13,051,419	76.2 %	Low	2.00 %	$1,719,045	$0	$183,010	$867,836
2042	$10,982,712	$14,219,772	77.2 %	Low	2.00 %	$1,753,426	$0	$197,018	$1,382,571
2043	$11,550,584	$14,943,120	77.3 %	Low	2.00 %	$1,788,494	$0	$212,636	$782,728
2044	$12,768,986	$16,357,630	78.1 %	Low	2.00 %	$1,824,264	$0	$215,521	$2,928,210
2045	$11,880,561	$15,657,901	75.9 %	Low	2.00 %	$1,860,749	$0	$219,287	$760,875
2046	$13,199,722	$17,224,304	76.6 %	Low	2.00 %	$1,897,964	$0	$239,839	$1,106,352
2047	$14,231,173	$18,538,269	76.8 %	Low	2.00 %	$1,935,923	$0	$257,406	$1,215,670
2048	$15,208,832	$19,837,158	76.7 %	Low	2.00 %	$1,974,642	$0	$282,128	$406,940
2049	$17,058,662	$22,067,852	77.3 %	Low	2.00 %	$2,014,135	$0	$309,914	$995,935
2050	$18,386,775	$23,820,445	77.2 %	Low	2.00 %	$2,054,417	$0	$326,145	$1,852,260