

Nature Pointe HOA Board Presentation – Budget, Assessment Rates & Finance Committee Recommendations

IMPACT OF RESERVE CONTRIBUTIONS ON 2020 BUDGET & ASSESSMENT RATES

- **Under the HOA’s governing documents, the Board is required to provide for such reserves, if any, as the Board in good faith deems reasonable.**
- Straight line depreciation on the clubhouse is approximately \$144,500 per year. This is the methodology used for financial reporting and tax purposes.
- No reserve contributions have been made since 2014 and the HOA’s reserve strength has declined to 7% (per the Finance Committee’s presentation). Since 2015, capital expenses, including new equipment and capital improvements, have been made each year out of the HOA’s operating budget and/or retained earnings.
- The Board expects to include a reasonable reserve contribution in the 2020 budget. **While the exact amount of such contribution for 2020 is still under consideration, it is possible that it will be in the neighborhood of \$50,000.**
- A \$50,000 reserve contribution would add approximately \$69/month (\$824 annually) to the assessment rate for homeowners and \$39/month (\$470 annually) to the assessment rate for lot owners. These numbers have been calculated at the current ratio (.57) of the assessment rate for lot owners to the assessment rate for homeowners.
- Note: The HOA’s governing documents provide that the “expected” ratio of the lot owners’ assessment rate to the homeowners’ assessment rate will be .76. **As part of the budget and rate assessment process, the Board is analyzing the current assessment ratio of .57.**

IMPACT OF REGULATORY ISSUES ON 2020 BUDGET & ASSESSMENT RATES

Recent Compliance Issues

1. Numerous complaints have been made to the County Planning Department, the New Mexico State Police, the Sheriff’s Department and the Fire Marshal relating to the wedding operations

2. Requests have also been made to the County Planning Department for interpretations adverse to the wedding operations, at least one of which (if adopted by the County) would probably end the wedding business
3. The County Planning Department issued a citation with respect to on-street overflow parking
4. The State Police have imposed a new requirement on the wedding operations based on an anonymous complaint about alcohol being served at weddings to non-wedding guests
5. A new County Planning Department citation is about to be issued relating to the apartment rentals
6. Potential for more complaints and more requests for adverse interpretations?

Effect on 2020 Budgeted Revenue and Expenses

1. New SUP needed to preserve apartment rental income (**\$30,000**)
2. Potential mandated capital changes (**\$20,000**)
3. Potential loss of rental income in 2020 (**\$6,000**) and annually thereafter (**\$24,120**).
4. Additional wedding staff responsibilities for monitoring entrances and checking invitations (**\$4,000** annually)
5. Lower wedding revenue and/or higher wedding expenses due to unavailability of on-street overflow parking (**\$4,800** annually)
6. **Aggregate Effect of the Above in 2020:**
 - **On the budget: \$64,800**
 - **On assessment rates:**
 - **\$88/month (\$1,051 annually) for homeowners***
 - **\$50/month (\$599 annually) for lot owners***

(*at the existing 2019 L/H assessment rate ratio)
 - **Risk of mid-year dues increase and/or special assessments based on actual outcomes**

BOARD'S INITIAL ASSESSMENT OF FINANCE COMMITTEE RECOMMENDATIONS

Reserve Fund Matters

1. Compute and report reserve fund strength annually

- Board supports
- Implementation:
 - Finance Committee: Update estimates and actuals, compute and report reserve strength to Board each Fall
 - Board: Review recommendation and revise reserve funding plan for following year

2. Update or commission a new reserve fund study

- Board supports
- Implementation:
 - Finance Committee: Investigate costs, frequency needed, and make recommendation including budget
 - Board: Review recommendation, finalize policy and budget

3. Pay reserve expenses and only reserve expenses from the reserve account.

- Board supports
- Implementation:
 - Board: Get input from CPA, share with Finance Committee
 - Finance Committee: Research and provide recommendations to Board on a clear policy defining what a “reserve expense” is. Factor in tax law requirements if HOA converts to a two-entity structure.
 - Board: Finalize policy

4. Prioritize and adequately fund reserve account

- Board supports
- Implementation:
 - Board: Budget appropriate reserve funding starting immediately

5. Plan for Lifecycle costs of assets

- Board supports
- Implementation:

- Board: Inform Finance Committee and Maintenance Committee of asset purchases
- Finance Committee: Research purchase and provide lifecycle cost plan recommendation for each asset
- Maintenance Committee: Advise on purchase, review FC lifecycle cost plan recommendation

HOA Operational Matters

1. Audit of financial statements

- Useful but costly
- Implementation:
 - Finance Committee: Research and evaluate cost/benefits of audit versus review of GAAP financial statements and determine the appropriate frequency of a full audit. Make recommendation to Board
 - Board: Review recommendation and choose approach

2. Develop Conflict of Interest Policy

- Board supports
- Implementation:
 - Governance Committee: complete working on draft policy with a view to making its recommendation to the Board in the near future. In the interim, Governance Committee is advising Board of Directors regarding potential or actual conflict situations even without a formal policy.

3. Work with CPA to explore tax reduction strategies

- Board supports, already underway
- Implementation:
 - Board: Complete working with CPA to analyze and quantify tax savings based on proposed two-entity structure. Review with Finance Committee

4. Other Recommendations

- Look to Finance and/or other Committees to assist in the research and development of recommendations. Additional volunteer

resources may be needed to finalize and implement operational initiatives.

Sustainability Initiatives

1. Understand and comply with all applicable laws and regulations

- This “initiative” is an aspiration only, but it is one worth continuing to strive for within the parameters of the HOA’s available human resources and funding.
- Would require enormous amount of human resources and professional services and even then would not be achievable in a literal sense.
- Many regulatory “requirements” are imposed only as necessary to respond to abuses or if someone files a complaint
- All laws and regulations are subject to interpretation. Agency interpretations, which are seldom published, may not be correct but challenging them can be very expensive.

2. Surprise Expenses:

- Board is aware; addressing this reality is underway
- Implementation:
 - Board: Get and pay for professional advice when significant anomalies are discovered
 - Finance Committee: Update reserve study periodically (see above)
 - Board: Review Finance Committee update of reserve strength analysis annually, include appropriate reserve funding in each year’s budget (see above)

3. Improve Organizational Memory:

- Board is aware
- Implementation:
 - It will likely require some sort of information management software with an annual license fee to achieve a significant improvement. This is awaiting availability of qualified

personnel to research, as well as a decision on cost/benefit before allocating the funds to purchase.

4. How to Accelerate Community Growth:

- Will need help from everyone in the community
- Board is beginning to meet with realtors to understand options
- More to come...

5. The Board of Directors should focus on strategic planning and get out of the business of managing the details of day-to-day operations

- This “initiative” is the governance model for a large organization with permanent staff. It is unworkable for a small non-profit HOA.
- Management companies do not have the skill set to perform most of what the Board does and, to the extent they can perform some of the lower level tasks, these extra services are currently charged at \$65 per hour.
- Small HOAs cannot afford the financial cost of hiring the permanent high-level staff and professionals that would be necessary to achieve this initiative.
- Attempting to accomplish this initiative without the required resources would be imprudent. Boards that do not provide adequate oversight of day-to-day operations are putting their organizations (and themselves) at great risk. To the extent that the organization cannot afford to hire the staff and professionals to manage the day-to-day operations, then there is no one to “supervise” and the Board has no choice but to perform the management function itself.
- One of the specific responsibilities of the Finance Committee is to make recommendations as to how to eliminate the HOA’s “dependence on heroic volunteerism.”
- **Pending proposals from the Finance Committee or others of practical and affordable alternatives, the only real solution to the “dependence on heroic volunteerism” seems to be to recruit more volunteers to share the work load.**