

Overlook II At Scottsdale Mountain Homeowners Association

c/o VISION Community Management
16625 S. Desert Foothills Pkwy
Phoenix, AZ 85048
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March 19, 2019

Dear Overlook II Homeowner,

The purpose of this communication is to inform the Overlook II Homeowners Association (OL2HOA) members of the Board of Directors (OL2BOD) decision to increase the regular monthly assessment and to explain this important decision. As I am sure you are aware, the Condominium Declaration (CC&R) document Section 5.1 gives the OL2HOA the responsibility to "maintain, repair and replace all Common Elements.... The cost of all such maintenance, repairs and replacements shall be a Common Expense and shall be paid for by the Association."

In addition, Section 7.2.1 states, "If the OL2BOD determines during any fiscal year that its funds budgeted or available for that fiscal year are, or will, become inadequate...the OL2BOD may increase the Regular Assessment by Members...and the revised Regular Assessment shall commence on the date designated by the OL2BOD."

The OL2BOD voted at the March 2019 Executive Board Meeting to increase the Regular Monthly Assessment by \$25 per month (\$325/month total) effective July 1, 2019 and by an additional \$25 per month (\$350/month total) effective January 1, 2020.

The decision to increase the regular monthly assessment was not taken lightly and in the interest of full transparency, the OL2BOD wants to fully explain to all OL2HOA members why it is necessary. We are providing this information as far in advance as possible to allow time for budgetary adjustment for all members.

On October 26, 2018, the OL2BOD received an updated version of the "Reserve Study" (Study) commissioned by the OL2HOA for our community. The Study contains all the fundamental information needed to understand our community's current and future reserve obligations and the most significant expenditures our community will face in the future. With respect to our accumulated reserves, the Study tells us "where we are," and "where to go from here."

Included in the Study is (1) a list of what we are reserving for (community assets), (2) an evaluation of our current reserve fund, and (3) a recommended multi-year catch-up reserve funding plan. Since the Study is 76 pages, it is not practical to provide it to all members, however, a 1-page summary from the report is attached to this letter. The highlights of the summary are:

- Based upon the Study's conclusion of the required reserves, the current reserve fund is 11.3% of the recommended reserve fund level (categorized in the "Weak" category).
- The most recent monthly reserve fund contribution (2018) was \$3,859 or \$49.47 per unit.
- The 2019 budget set by the OL2HOA calls for a monthly reserve fund contribution of \$4,280 or \$54.87 per unit.
- The Study recommends a monthly reserve fund contribution of \$10,000 or \$128.21 per unit (to increase the reserve fund level to 100% of the required amount).



The BOD does not believe the full recommended amount is necessary currently for the following reasons:

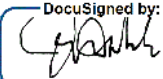
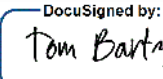
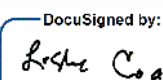
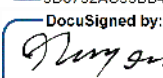
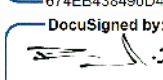
1. We have already completed several major upgrades. And, though these large expenses have depleted the reserve fund, they will not be required again for many years. These upgrades include the irrigation system, painting all the buildings, replacement of pool heaters, and replacement of exercise and pool equipment.
2. Because building roofs represents the largest potential future expense for the community, regular inspections and repairs are being performed to extend their life.
3. While the Study recommends a monthly reserve contribution enough to grow the reserve fund to the 100% funding level, a generally acceptable level of reserve funding is in the 30% to 70% range.

Of course, the OL2BOD would like the reserve funding to be more than acceptable, but we believe it is also necessary to take modest steps consistent with the budgetary needs of OL2HOA members. The two-step increases approved by the OL2BOD will result (by 1/1/2020) in a community wide reserve fund contribution of \$7,758.66 or \$99.47 per unit, per month. This is 77.5% of the amount recommended by the Study and should take us beyond the 30% minimum acceptable level before any significant expenses come due.

The OL2BOD believes this is the most responsible approach and will continue to monitor the situation with further reserve study updates. The last thing we all want is to resort to "special lump-sum assessments" (such as has occurred to the neighboring Overlook I community to our west) to meet large expenses. We welcome your questions and comments.

Respectfully,

Overlook II at Scottsdale Mountain Homeowner's Board of Directors

Jerry Dabels, President	 <small>DocuSigned by:</small> <small>803C9157C83C434...</small>	3/24/2019
Tom Bartz, Vice-President	 <small>DocuSigned by:</small> <small>AD3E6BE91DBD4D2...</small>	3/24/2019
Leslie Coates, Secretary	 <small>DocuSigned by:</small> <small>9D8792AC35BB495...</small>	3/24/2019
Izzy Myers, Treasurer	 <small>DocuSigned by:</small> <small>874EB438490D414...</small>	3/24/2019
Reimundo Rodriquez, Director at Large	 <small>DocuSigned by:</small> <small>8AB1A215DB83491...</small>	4/19/2019



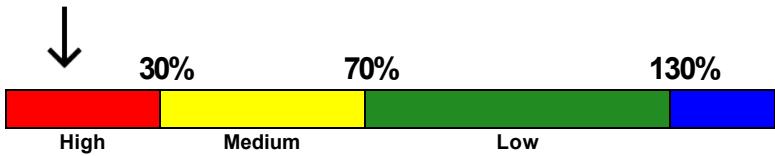
3- Minute Executive Summary

Association: Overlook II HOA **Assoc. #: 25455-1**
Location: Scottsdale, AZ **# of Units:78**
Report Period: January 1, 2019 through December 31, 2019

Findings/Recommendations as-of: January 1, 2019

Projected Starting Reserve Balance	\$85,752.
Current Fully Funded Reserve Balance	\$757,341
Average Reserve Deficit (Surplus) Per Unit	\$8,610.
Percent Funded	11.3 %
Recommended 2019 Monthly Reserve Contribution	\$10,000.
Recommended 2019 Special Assessments for Reserves	\$0.
Most Recent Reserve Contribution Rate	\$3,859.

Reserves % Funded: 11.3%



Special Assessment Risk:

Economic Assumptions:

Net Annual "After Tax" Interest Earnings Accruing to Reserves 1.00 %
Annual Inflation Rate 3.00 %

- This is an Update "With-Site-Visit" Reserve Study based on a prior report prepared by Association Reserves for your 2014 Fiscal Year. We performed the site inspection on 9/25/2018.
- The Reserve expense threshold for this analysis is \$1,000, which means no expenses under that amount are funded in the Reserve Study.
- Your Reserve Fund is 11.3 % Funded. This means the Reserve Fund status is Weak, and special assessment risk is currently High.
- The objective of your multi-year Funding Plan is to Fully Fund Reserves, where associations enjoy a low risk of Reserve cash flow problems.
- Based on this starting point and anticipated future expenses, we recommend budgeting Monthly Reserve contributions of \$10,000 for the 2019 Fiscal Year. Annual increases are scheduled thereafter to help offset inflation and strengthen Reserves (see tables herein for details).