

Financial Overview

Villas las Palmas Annual Meeting

3/12/24

[SLIDE 1 – FINANCIAL OVERVIEW]

Good evening, my name is Larry Wasson, and I am the Secretary/Treasurer for Villas las Palmas Homeowner's Association. I will be sharing our financial update and a couple improvement projects facing our community. To stay on our agenda, I will be covering several slides quickly. So, please take notes and hold any questions or comments until the end of tonight's agenda. Thank you.

[SLIDE 2 – BALANCE SHEET]

Our financials include a balance sheet that shows two separate account classifications. An operating account, that acts as a checking account and pays for the association's reasonably predictable expenses both in terms of frequency and cost. And a Reserve account, where funds are typically used for major expenses that occur other than annually and must be budgeted for in advance.

Our reserve balance looks healthy now, but tonight we want to inform you that this will change considerably after completion of the current ongoing paint project, and other needed 2024 capital improvement projects.

[SLIDE 3 – 2024 BUDGET]

Our financials also include a yearly budget. For 2024 this is \$480,900 (\$229 per unit per month). Our top 3 community expenses are: Landscaping (nearly 46%), Water and other Utilities (17% and 7% respectively); and Reserve Contributions (12.5%).

Now, before sharing information concerning a couple major and costly expenditures on the horizon, I want to share some historical financial background.

[SLIDE 4 – HISTORICAL ASSESSMENT AND INFLATION DATA]

Since the development of our community, over the course of 42 years there have been several consecutive years where assessments did not increase in step with the national inflation rate.

And as we all have experienced since the pandemic, increase in costs have been significant in 2021, 2022, and 2023.

[SLIDE 5 – COST TO MAINTAIN THE COMMUNITY]

Our community age is contributing to multiple maintenance projects coming due simultaneously.

And maintenance costs are far out-pacing recent inflation rates.

[SLIDE 6 – PAINTING COST INCREASE]

As mentioned earlier, maintenance costs are outpacing our assessment income.

[SLIDE 7 – BOARD ACTIONS TAKEN TO PROACTIVELY IDENTIFY RESERVE REQ'TS]

In October 2022, the then HOA Board of Directors proactively engaged in a Professional Reserve Study to ensure a complete list of common area elements were identified. This effort helped generate a road map of the condition of how well funded the association is in meeting it's ability to maintain the community. The result from the 2022 Reserve Study revealed we were about 84% funded. However, it also identified a sizable shortfall in reserve contributions to meet future maintenance needs. This translated to recommending an increase of annual reserve contributions from the then current levels to \$145,714 annually within 10 years; a ~130% increase over this 10-year time period. This revelation along with recent extraordinary inflationary pressures has led to our recent consecutive annual assessment increases.

The Board also had a Legal Review of our governing documents completed in 2023 to help clarify and delineate association and owner maintenance responsibilities. This effort generated a user-friendly maintenance matrix that describes those elements of the community that the association maintains or is the owner responsibility.

The 2022 Reserve Study Report and the Maintenance Matrix are available on our website portal for everyone's reference.

[SLIDE 8 – MAJOR EXPENDITURES ON HORIZON]

Since the completion of the 2022 Reserve Study the Board has discovered some additional but previously unaccounted-for common area repairs required of the association (e.g. - Perimeter Wall; electric pedicels). As a result, in 2023 the board proactively engaged an Engineer to complete a perimeter wall study to determine the extent of damage and needed repairs. The Board has recently obtained contractor bids for completing this required work.

Additionally, in a possible proactive cost-saving and water conservation effort, the Board has recently obtained a cost estimate to convert turf areas. This has been a community discussed project off and on over the past few years.

[SLIDE 9 – PERIMETER WALL REPAIR PLAN]

PERIMETER WALL REBUILD AND REPAIR PROJECT

Before the HOA Board of Directors engaged a block-wall engineer, perimeter wall repairs were board-estimated at \$210,000 and this amount was Board approved to include in a future Reserve Study update. However, this amount was underestimated based on actual contractor bids recently obtained.

We have obtained 3 bids from reputable contractors arranged by the engineer. Bid amounts ranging from a low bid of \$405,599 and a high bid of \$781,369. The project is broken down into 3 phases. Phase 1 is considered a priority and should be done as quickly as we can, based on recommendations from our engineer. Walls will be rebuilt. Phases 2 and 3 are still needed but are not as much a priority as Phase 1. Walls will be repaired in Phases 2 and 3.

Phase 1 – Perimeter Wall Cost estimate - \$250,566 (2024?)

Phase 2 – Perimeter Wall Cost estimate - \$71,858 (2025?)

Phase 3 – Perimeter Wall Cost estimate - \$83,175 (2026?)

Total - Perimeter Wall Total Cost estimate - \$405,599

In some areas, the association will be 100% responsible, but in other areas owner's will be accountable for 50% of the repair costs, and in some areas, owners will be 100% accountable.

By including this needed project cost, it will significantly reduce our % funding status in an updated Reserve Study.

[SLIDE 10 – HISTORICAL LANDSCAPE AND COMMON AREA MAINTENANCE COSTS]

Additionally, over the past couple years the association has experienced multiple large increases in landscaping costs. In fact, just this month we have been notified of another landscape cost increase from \$10,502 to just over \$13,000 per month. These significant and consecutive increases have led the board to proactively obtain cost estimates to convert turf areas in the community as a cost-saving initiative, and to reduce water consumption costs.

[SLIDE 11 – FRONT YARD TURF CONVERSION ESTIMATE]

TURF CONVERSION TO DESERT LANDSCAPE PROJECT/GOAL

Before defining turf areas for conversion, costs were Board-estimated to be \$300,000, and this amount was Board approved to be included in an updated Reserve Study. However, this amount was underestimated based on a recent front-yard only estimate obtained from a reputable landscape contractor.

Multiple landscape companies have informed us that converting our front yards versus the larger common areas would be more cost effective. Labor costs in mowing the front yards is higher and irrigation repairs could be reduced due to vehicular damage to turf sprinklers. Additionally, the summer Bermuda Grass in front yards has long struggled to thrive because of the dense shade from trees and from our many buildings.

Estimated front yard turf to desert landscape conversion - \$420,000

Estimated cost savings on maintenance and water usage:

Less lawn maintenance - \$48,060/year (\$4,005/month)

Less water consumption - \$27,000/year (~ 1/3 of current water budget)

Less irrigation repairs - \$3,300/year (~ 1/3 of current irrigation repair budget)

Less winter rye seed - \$4,100/year (~ 1/3 of pending bid from new landscape vendor)
Total estimated savings - \$82,460/year
Break even analysis - ~5 to 5.5 years (\$420,000/\$82,460)

In recognition of these significant and costly projects, the Board has again engaged a Reserve Study professional and are in process of updating the Reserve Study to account for these items. Once the updated Reserve Study is completed it will be shared via the website portal.

[SLIDE 12 – RESERVE BALANCE PROJECTION FOR 2024]

In summary, here is where the association stands regarding estimated reserve funds available for common area maintenance as of 1/31/2024.

Reserve Balance - \$835,646

Anticipated Reserve Contributions for the year 2024 - \$32,447 (originally \$54,947; but now impacted by increase of \$2,500/month landscaping maintenance)

2024 Projected Reserve expenditures - \$499,480; top 3 anticipated cost repairs are:

- Community paint project
- Pool pergola repairs (2nd and final payment; work completed in 12/23)
- Pool deck and pool surface repairs

Projected 2024 year ending Reserve Balance - \$368,613

[SLIDE 13 – FUNDING BEYOND CURRENT ASSESSMENTS WILL BE REQUIRED]

With our projected year-ending Reserve Balance, it is clear that additional funding sources will be required to maintain our community.

[SLIDE 14 – POSSIBLE FUNDING SOURCES FOR INSUFFICIENT RESERVES]

Annual assessment increases.

Acquire a community loan.

Pass a special assessment.

Combination of all the above.

Defer repairs until sufficient funds are available.

In closing, we wanted to share with everyone what the Board knows at this time regarding our reserve balance and the needs of our community. We ask for everyone's understanding and encourage future participation in helping your Board navigate these and future community needs.

Thank you!