

ELDORADO COMMUNITY IMPROVEMENT ASSOCIATION, INC.

To: ECIA Membership
From: ECIA Finance Committee and Board
Subject: Fiscal Year 2017 Budget
Date: Dec 15, 2016
Reference: Adopted Budget Dated 12/15/16

Here are the recommendations from the ECIA Finance Committee adopted by the Board for the 2017 Operating Budget and Replacement Reserve expenditures. This is the result of an effort that started in July, and includes staff recommendations; communication with ECIA members; the Facilities and Grounds and other committees; public meetings; Committee/Board interactions; Finance Committee deliberations; and refinements through several drafts.

2017 Budget Summary: The Recommended Budget includes an ANNUAL ASSESSMENT FOR 2017 OF \$460—NO INCREASE from 2016. It provides revenues of \$1,311,550 balanced by expenses and fund transfers allocated as follows:

- **\$1,083,316 Recurring Operating expenses, which includes a \$30,000 Operating contingency**
- **\$1,800 Nonrecurring operating expense for independent update of Replacement Reserve items**
- **\$30,000 Nonrecurring operating expense for materials to pave ½ of Hike/Bike street and driveway crossings**
- **\$166,434 transfer from the Operating Fund to the Replacement Reserve Fund at 2017 end**
- **\$30,000 allocation to the Capital Reserve Fund at 2017 end**

The Replacement Reserve budget and transfer was developed from an ongoing review of replacement requirements and operating needs. An independent Replacement Reserve audit was performed, and the results used to augment and update the analysis performed in-house. Both audit and analysis are available to members upon request.

2016 REVIEW: The 2016 Operating Year is projected to finish the year with a large underrun in expenditures, and thus a beneficial increase available for transfer to reserves. Several changes in expenditure details resulted from transfer of ECIA staff from direct employment by the ECIA to hiring through HOAMCO; this was largely cost neutral. A major cost underrun contributor was deferred maintenance on Hike/Bike paths—partly a result of changes in HOAMCO management. Work not accomplished for 2016 is budgeted to be done in 2017.

Note that 2016 projections are based on September 2016 unaudited financial reports, and there will undoubtedly be changes at the end of the year 2016 and completion of a formal audit.

An independent review of the Association's Replacement Reserve was completed. Multiple individual adjustments were made to improve the usefulness and integrity of the analysis, but results of the overall financial model were largely unchanged.

HOAMCO now collects and deposits assessments on behalf of the ECIA; and files and releases property liens for overdue assessments. HOAMCO settles all accounts and collects fees upon property transfers.

2017 OUTLOOK: Uncollected annual assessments remain a challenge that is being met through use of a formal collection service. To keep faith with those who pay in a timely manner to operate and maintain our community's amenities and services, the few who do not remain current are pursued assertively, and largely bear the fee for collections. For those who wish to spread payments, the HOAMCO web site allows for use of credit cards.

At the request of the Facilities and Grounds Committee, a non-recurring Operating project has been included to pave about half the transitions across dirt/gravel roads and driveways crossed by the Hike/Bike trails. The other half would be budgeted for 2018. The Board has not yet approved this project.

2016 DETAILS: Major replacement projects in 2016 included replacement of 2-5 yr. Play Equipment at both Compadres Park and the Community Center with safer modern metal equipment; gas wall heaters in three meeting areas in the Community Center; Office copiers; and a vehicle trailer for maintenance equipment.

A project to convert all of the Association's critical paper records to electronic form continues, beginning with Architectural records and lasting through 2017.

All of the Association's funds are required to be kept in federally insured instruments and accounts, mostly short-term. This is not expected to change under any circumstances. As a result, gyrations in financial markets have no effect upon the Association's financial status, although interest earned continues to be minimal.

In addition to the foregoing Operating Budget discussion, 2016 results are projected for the following Reserve funds:

2016 Capital Reserve:	Beginning of Year	\$25,000
	Projected Expenditure	0
	Projected Transfer In	<u>+ 5000</u>
	End of Year Projected	\$30,000
2016 Replacement Reserve:	Beginning of Year	\$ 538,283
	Projected Expenditure	- 101,324
	Projected Transfer In	<u>+ 349,931</u>
	End of Year Projected	\$ 786,890
Unallocated Fund Balance:	Beginning of Year	\$ 150,000
	End of Year Projected	\$ 150,000

The Association's Bylaws allow for an assessment increase only every two years. 2017 is a year when no increase is allowed, and therefore **the ANNUAL per-lot assessment remains at \$460.**

2017 Revenues in the recommended budget are shown at \$1,311,550 a slight decrease compared to the 2016 budget. Most of this decrease results from having HOAMCO process lien collections, and assume corresponding costs. Note that 2017 budget expenses include an allowance for doubtful accounts-- uncollected assessments on an estimated 80 lots, unchanged from the estimate for 2016, which has proved fairly accurate. Although these debts are being actively pursued and much may eventually be collected, this is not all anticipated during 2017. Collection efforts on past-due assessments, fees and interest will continue through the external agency approved by the Board in 2015.

Payment Options: HOAMCO is now collecting assessments on behalf of the ECIA, and their web site provides for payment by credit card, along with a small convenience fee. **Association members who find it difficult to make a single yearly payment may use HOAMCO's credit card option to pay over whatever term is more convenient for them and acceptable to their card issuer.**

2017 Operating Expenses are budgeted at \$1,115,116 which includes a \$30,000 operating contingency and \$31,800 in non-recurring projects. The Operating Expense budget is increased by \$24,533 or 2.25% from the 2016 budget.

Legal expenses. The ECIA regularly incurs expenses involved with enforcement of its architectural covenants, and for legal advice to assure that the Board of Directors adheres to the Association's governing documents. 2017 is expected to be an average year in this regard. There is one suit against the Board by a former Director; it is expected the Board's legal defense expenses will be reimbursed by the Association's liability insurance.

Operating Contingency. A contingency of \$30,000 for unanticipated expenses has been included in the Operating budget.

Document Preservation. The Association continues to move its business and architectural records from paper to electronic form. This will preserve them from loss through fire, water damage, misplacement, deterioration and other hazards. Without these records, the Association would be severely handicapped in conducting its business and enforcing architectural covenants. Going forward, many Association business—but only limited architectural—records will

become part of HOAMCO's system. It will be important in 2017 to coordinate electronic records between HOAMCO and the ECIA.

Non-Recurring Operating Expenses. The Association has retained the professional Reserves auditing firm of Association Reserves to perform two more annual updates of the full Reserves audit they performed in 2016. At the end of this period, the benefits of an ongoing relationship will be evaluated. A separate project is contemplated with Santa Fe County to improve crossings of the Hike/Bike trails where they cross unpaved driveways and roads.

Capital Reserve Fund. The Finance Committee recommends that there be a transfer to the Capital Reserve Fund sufficient to bring it up to and maintain it at \$30,000. This will allow continued upgrade of Community Center trees and other landscaping, which are reaching the end of their natural life and require installation of more drought-tolerant vegetation and irrigation, and consideration of other minor capital improvements.

Replacement Reserve Fund: Additional future expenses are projected to maintain amenities that are aging and require either replacement because they are worn out, or significant repair to keep them operating. Major amenities include our clubhouse, pool, tennis courts, playgrounds, and athletic fields. Many of our hike/bike/multiuse paths are over 20 years old. We also have to bear the costs of maintaining some of our newer amenities that have been added in response to member requests. These include the dog park, basketball court, additional hike/bike paths, fencing, Compadres Park, and the Community Center patio.

Work continued in 2016 by members of the Facilities and Grounds and Finance Committees to identify all capital assets and amenities, and estimate their useful life and replacement cost over the next 30 years. An outside consultant (Association Reserves) completed a study—including photos, a search for items currently not listed, and an independent estimate of each item's lifetime and replacement cost. The updated Replacement Reserve analysis, along with the independent consultant's report, is available upon request.

In the past, the Association's auditor has strongly recommended that we maintain a fund for repair and replacement of our fixed assets (mainly amenities) equal to five years of forecasted need. This is required in some states, and may become so in New Mexico in the near future. The independent Reserve auditor has recommended an even larger fund, equivalent to perhaps 7 years. Since the ongoing maintenance of Association amenities is a primary reason for the Association's existence, the Finance Committee continues to maintain a schedule for transfers to a Replacement Reserve that will provide the necessary funds. Because of greatly improved data and computer tracking tools, this schedule can now be reviewed and updated continuously throughout every year, and adjustments made as required. The results of this work are discussed in further detail below, and available separately upon request in tables organized by item and by year. Table 1, attached, shows a list of amenities projected to require repair or replacement in 2017. Table 2 shows a 30-year estimate of requirements and funding.

The present Replacement Reserve Schedule projection uses an escalation of 3% per year to estimate cost inflation of most replacement items, and incorporates multiple replacements of items that require replacement multiple times during the 30-year period.

Fortunately, the forecast indicates smaller annual assessment increases will suffice in future—perhaps \$60 every two years in 2018, and even less in 2020. The plan that the Finance Committee proposes may now reach the five-year reserve goal by 2019. However, even then without modest increases, our assets would deteriorate, decreasing property values and, in some cases possibly increasing our liability exposure where safety issues are involved.

The current projections anticipate that the County will continue to meet its obligation for repaving Multiuse Hike/Bike trails as it did in 2015, and that the ECIA will continue to meet its trail maintenance responsibilities.

"Designated for Operations" Unallocated Fund Balance: The Association was projected to end 2016 with a total Unallocated Fund Balance of \$150,000. This represents the savings in expenditures vs. revenues from previous years—in effect, the Association's savings account, and is the minimum level recommended by the Finance Committee. Once the Replacement Reserve Fund has reached the recommended 5-year level or greater, it will be prudent to increase this Unallocated Fund level.

FUTURE OUTLOOK: The recommended assessment will remain fixed for 2017. However, it is highly likely another assessment increase will be needed for 2018 and again for 2020.

As previously noted Table 2, attached, provides an estimated projection of future Replacement Reserve expenses, and annual assessment needs to fund them, for the next 30 years. It incorporates a plan to reach the goal of a reserve able to meet the replacement needs of the Association for five years, by 2019. The Finance Committee will continue to monitor operating expenditures and maintenance requirements to assure that our assessments stay as low as possible consistent with our needs.

Budget comparison FY 2016 to FY 2017: The 2017 Operating Budget spreadsheet contains detailed comparisons of each line item to the corresponding budget item in 2016, along with 2016 projections and remarks on changes for 2017.

Surplus (Deficit): As part of the 2016 audit, the Board may decide to allocate any Operating Budget surplus, which was designed into the 2016 Operating Budget, to the Replacement Reserve Fund, Capital Reserve Fund or the Unallocated Fund Balance, or divide it between the three.

If, as projected there is a substantial 2016 Operating surplus the Finance Committee recommends that sufficient funds be allocated to the Capital Reserve to bring it up to \$30,000, and the remainder to the Replacement Reserve Fund. In the contrary event of any Operating shortfall, the Finance Committee recommends that it be made good by reducing the transfer to the Replacement Reserve. In the highly unlikely event of a remaining deficit, it will need to be made up from the Unallocated Fund Balance.

Note that any expenditures exceeding the budgeted amount for 2017 Replacement Reserve items, as well as expenditures for any unanticipated and previously unapproved projects, will require a separate approval by vote of the Board. Any items or amounts that may be deferred or unexpended will result in funds that will of course remain in the Replacement Reserve for use in future years.

2017 Capital improvements. The Board has already approved a multi-year Community Center landscape renewal plan with approved expenditures of \$6,600 in 2017. Other Capital projects proposed but not yet acted upon for 2017 include upgraded and additional security cameras for Compadres Park for approximately \$5,000; upgraded security cameras for the Stables, and an upgrade to planters and walkways between the Community Center and Railroad buildings.

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The Finance Committee wishes to thank other ECIA committees and chairs for their input, particularly the members of the Facilities and Grounds Committee. Special thanks are due to staff members, who have provided invaluable assistance in estimating and tracking expenses. Special thanks are also due to Board Liaison and Treasurer Todd Handy, whose exceptional attention to detail is always of immeasurable value, and to Board President Dag Ryen.

2016 ECIA Finance Committee:

Dan Drobnis, Chair
Joseph Guterrez
Sandy MacGregor
Sal Monaco
Gale Oppenheim
Marti Zieg

**Table 1 Replacement Reserve Budget
Staff/Committee Recommendation 2017**

Balance from Previous Years

\$786,888 (est)

Revenues

Transfer from 2017 Operating Budget \$ 166,434

Total Revenues

\$ 166,434
=====

Expenditures

Maintenance Expenses \$ 148,843

Total Expenditures

\$-148,843
=====

Balance Carried Forward to Future Years

\$ 804,479
=====

2017 Replacement Reserve Expenditures	
Depot Roof Replacement	\$8,700
Community Preserve Parking Areas	2,534
Athletic Field Infield Dirt/Clay	5,796
Rental House Septic System	5,607
Paint Depot Exterior	3,564
Defibrillator Replace/Retrain	2,492
Adult Pool Ladders	2,643
Outdoor sign Compadres Park	1,711
Community Center Folding Chairs	1,100
Adult Pool Decking	39,949
Community Ctr Siding Replacement	16,480
Husky/Toro Mower	9,980
Paint Exterior CC Wood Trim	8,955
Adult Pool Pump	7,000
Shuffleboard Courts	7,000
Pool Shed 10x10x10	5,418
Barn Siding--Replace as Needed	4,100
Dog Park Surface	4,000
Barn Yard Fence	3,713
Camouflage Net for Patio	2,280
Baby Pool Water Heater	2,027
Brush Cutter	1,711
Dog Park Benches	1,075
Hike-Bike Trail Signs	1,008
Total 2017	<u>\$148,843</u>

**Table 2 Summary of 30-year
Replacement Reserve Analysis**

Note Color Code: Red: <75% of 5-year Projected Need; Yellow >75% of 5-yr Projected Need; Green >100% of 5-yr Projected Need.

Year	R&R Spend	Xfr to R&R	End Year Projection	5-yr Projection	Assess	Income	Est Need Operating +3%/yr with HikeBike	Special Assess	Xfr to Capital Reserve	Special Projects
2015	65,274	188,451	538,283	760,245	400	1,168,765	948,277		26,700	
2016	101,326	349,931	786,888	1,067,783	460	1,304,325	922,164		5,000	26,000
2017	148,843	166,434	804,479	989,034	460	1,311,550	1,083,316		30,000	31,800
2018	163,483	317,835	958,831	990,321	520	1,495,450	1,115,815		30,000	31,800
2019	127,771	316,160	1,147,220	994,054	520	1,495,450	1,149,290		30,000	
2020	218,822	368,262	1,296,659	1,051,151	551	1,582,030	1,183,769		30,000	
2021	408,864	332,749	1,220,543	777,060	551	1,582,030	1,219,282		30,000	
2022	70,093	387,945	1,538,395	968,725	584	1,673,805	1,255,860		30,000	
2023	164,770	350,269	1,723,894	948,787	584	1,673,805	1,293,536		30,000	
2024	131,504	392,531	1,984,921	1,171,809	613	1,754,873	1,332,342		30,000	
2025	275,919	352,561	2,061,562	1,100,489	613	1,754,873	1,372,312		30,000	
2026	134,774	413,537	2,340,325	1,231,815	650	1,857,018	1,413,482		30,000	
2027	261,758	371,132	2,449,700	1,187,576	650	1,857,018	1,455,886		30,000	
2028	144,832	435,730	2,740,597	1,604,922	689	1,965,292	1,499,563		30,000	
2029	354,526	390,743	2,776,814	1,493,736	689	1,965,293	1,544,550		30,000	
2030	204,599	401,792	2,974,007	1,434,023	710	2,022,678	1,590,886		30,000	
2031	266,100	354,065	3,061,972	1,415,023	710	2,022,678	1,638,613		30,000	
2032	217,519	403,418	3,247,872	1,334,007	745	2,121,189	1,687,771		30,000	
2033	562,179	352,785	3,038,478	1,051,940	745	2,121,189	1,738,404		30,000	
2034	243,340	362,695	3,157,834	964,525	768	2,183,252	1,790,556		30,000	
2035	144,885	308,979	3,321,927	1,102,128	768	2,183,252	1,844,273		30,000	
2036	247,100	381,499	3,456,325	1,136,435	814	2,311,100	1,899,601		30,000	
2037	136,503	324,511	3,644,333	1,174,157	814	2,311,100	1,956,589		30,000	
2038	280,112	401,332	3,765,553	1,632,329	863	2,446,619	2,015,287		30,000	
2039	155,925	340,873	3,950,501	1,743,838	863	2,446,619	2,075,745		30,000	
2040	282,488	422,251	4,090,264	2,633,880	915	2,590,269	2,138,018		30,000	
2041	281,408	358,111	4,166,967	2,770,876	915	2,590,269	2,202,158		30,000	
2042	174,224	444,315	4,437,058	2,877,201	969	2,742,538	2,268,223		30,000	
2043	738,284	376,268	4,075,043	2,596,083	969	2,742,538	2,336,270		30,000	
2044	267,435	467,586	4,275,194	2,556,123	1028	2,903,943	2,406,358		30,000	
2045	1,172,530	395,395	3,498,059	2,062,605	1028	2,903,944	2,478,549		30,000	
2046	418,405	492,128	3,571,783	1,960,287	1089	3,075,033	2,552,905		30,000	
2047	280,549	415,541	3,706,775	2,134,242	1089	3,075,033	2,629,492		30,000	
2048	457,165	487,785	3,737,395		1144	3,226,162	2,708,377		30,000	
2049	227,475	406,534	3,916,454		1144	3,226,162	2,789,628		30,000	
2050	679,011	481,531	3,718,974		1201	3,384,848	2,873,317		30,000	
2051	316,087	395,331	3,798,218		1201	3,384,848	2,959,517		30,000	
2052	454,503	473,166	3,816,881		1261	3,551,468	3,048,302		30,000	