

Dear Owners,

I will attempt to summarize how the Budget Committee reached the recommendations it did. Thanks to Ray Harries' excellent data collecting abilities .

For many years, we, the owners, hadn't paid enough in HOA dues to offset the benefits we received. It appears this trend started approximately in 1991. We coasted along replacing fewer roofs/HVACs with a band-aid approach (some roofs w/5 repairs, when code recommends 2); replacing water heaters only when it became an emergency; painting villas less frequently; not consistently budgeting for danger tree removal, (health/ safety issue); and not following the 2018 Reserve Study recommendations for the care and maintenance of our infrastructure.

As a budget committee, we set a goal to do our best to avoid what would likely be a required special assessment at some point, due to lagging monthly dues increases. Instead, we were determined to do a better job of managing required increases in monthly dues, as determined by the annual budget process. By taking appropriate steps now, and going forward, we are determined to rebuild and maintain the Association's financial stability.

Some background may provide context:

Currently, the Association's Reserve fund is down approximately \$1,200,000 from a high of \$2,343,834 on 12/31/2018, to a current balance of approximately \$940,000. At the start of 2019, the Reserve fund had a balance of \$2,101,603, (July 2019 \$1,821,389) and a Reserve Study performed in 2018 stated that amount to be almost 89% funded – a strong financial position. At the end of 2020, the Association continued to be in a strong position, with Reserve funds at \$1,501,734. One year later, on 12/31/2021, the Reserve fund had dropped to \$927,010 placing the fund at only 39% funded. This level of Reserve funding is no longer considered strong, and borders on a recommendation of a special assessment to shore up Reserve funds to an adequate level.

There are multiple reasons for the significant drop in the Reserve fund balance. The embezzlement of approximately \$450,000, significant expenses incurred due to long-avoided roof replacements, major road maintenance, Arizona's inflation rate of 13%, possible expenses due to the July storm event this year and the Markets, among others. The combined effect of

these events has diminished the Reserve fund by more than \$1.2 million. While a special assessment can be an option to replenish Reserves, there are other options, discussed below.

Aside from managing a healthy Reserve fund, the budget committee, through the annual budget process, must balance forecasted expenses and revenue for the coming year. While the process of doing so is extensive, the principle that we follow is straight forward: If expenses – after appropriate trimming and reduction – are forecasted to exceed the revenue generated primarily from monthly dues, then monthly dues must increase. To do otherwise would be irresponsible financial management and would subject the Association to further diminishment of Reserve funds to make up the shortfall.

After hours of hard work by your budget committee over several weeks, digesting in excess of 120 budget line items, increasing some and decreasing others, we all agreed to a recommendation to the Board of Directors an HOA 2023 dues increase of \$30 a month. This amount of increase both balances the forecasted budget and potentially adds a modest amount of \$25,000 to the Reserve fund.

Considering the significant diminishment of the Reserve fund, the committee provided a second recommendation to the Board: Increasing dues by \$40 instead of \$30. Doing so would provide a forecasted \$100,000 to the Reserve fund by the end of 2023 instead of \$25,000.

Comparing these two recommendations, a \$30 increase in monthly dues, over time, would require 51.5 years to replenish the more than \$1.2 million depleted from the Reserve fund. A \$40 increase would reduce that time frame to about 13 years. Of course, both calculations can be impacted by future unbudgeted events (e.g., damaging hail/monsoon storms, falling Eucalyptus trees causing damage or injury, collapsing gas land sewer lines (which just happened again this week, etc.).

To be clear, these are two separate but related considerations: (1) prudent management of annual expenses through monthly dues revenue, so as not to continue depleting Reserve funds, and (2) replenishing and then maintaining a healthy Reserve fund.

The first of these considerations, prudent management of annual expenses, currently requires an increase in the monthly dues. Doing otherwise would be irresponsible management of the Association's finances. Whether that increase is \$30 or \$40 will be determined by the Board.

The second consideration, replenishing and maintaining a healthy Reserve fund can be addressed in multiple ways: One is to slowly, over time, increase that fund through small surpluses in the annual budget. As discussed above, for example, by adding an expected \$25,000 next year through a \$30 increase in monthly dues, or \$100,000 through a \$40 increase in monthly dues. Another way is through a special assessment. In order to replenish the more than \$1.2 million depleted from the Reserve fund, a special assessment of approximately \$1,900 per unit would be required.

Several weeks ago, it was suggested to the budget committee that we budget an expense item for amending our 2018 Reserve Study based on all the infrastructure that is being replaced by our insurance companies. An amended study could provide us with a recommended Reserve fund amount significantly less than the \$2,228,408 we had on 12/31/2018, rated as "strong." A lower recommended Reserve balance would translate to less funds to be replenished, and therefore either shorter timeframes to replenish through incremental annual increases, or a smaller special assessment.

The bottom line, we are facing significant financial pain, and as your budget committee, we are determined to take responsible action on behalf of the Association we serve. We were disappointed in the outcome of the Board meeting but are hoping that by communicating better going forward we can have a different result.

It was suggested that we sharpen our pencils and cut the budget. If we do here are some options available to us.

- Adding a surcharge for water
- Closing 1 or 2 of the pools
- Reducing the heat of the pools
- Adding a surcharge for garbage pickup
- Getting rid of the green spaces replaced with gravel like Villas East has done
- On call maintenance could be eliminated
- Reduction in roof, HVAC and water heater replacements (sadly is what we by default have been doing)

We hope this helps explain and provide clarity regarding the serious financial situation the Association faces. While none of us who own at Villas West enjoys increases in monthly dues, we do not consider ignoring the reality of the Association's financial condition to be a reasonable – or responsible – action. By taking appropriate action, and prudently managing the Association's finances, we will benefit from a healthy and stable Association for years to come.

I will add that it has been shared with me that in the last years, as dues were increased, owners were told it was to shore up reserves and it was never done. Pat and I are new here, but if that is what you have been told previously, I want to assure you that I will guarantee we will follow through in adding to the reserve fund balance. If that is not happening, I will resign as your treasurer.

Before closing I would like to share a bit of news we just found out. Villas East just went through their budget process and monthly HOA dues were raised by \$48 (\$288 monthly) which was a 34% increase. They described the situation as "a perfect storm" with the villas age, the economy/inflation, priority maintenance (catch up/keep up) and the potential cost due to the storm which won't be realized until the end of the 2023.

They also listed what they called sticker shock – the cost of doing business basically

- HVAC up from \$4,600 in 2020 to \$6,890 for 2023
- water heaters up from \$800 in 2021 to \$1,450 for 2023.
- HVAC Units to replace up 66%
- Insurance up 185%
- Utilities up 7%
- Landscaping up 11%

Feel free to e-mail me any thoughts, concerns, or questions you might still have, and I will do my level best to get you an answer.

Sincerely,
Linda Djupstrom,
Villas West Treasurer
Chair of the Budget Committee