

Spring Creek Association Governance Analysis

Preliminary Findings

Hansford Economic Consulting

February 25, 2017

NOTE: Until the study is completed, all information presented is DRAFT.

Overview

- ▶ Purpose of the Study
- ▶ Demographics
- ▶ SCA Financial Review
- ▶ Potential Governance Scenarios
- ▶ Considerations & Constraints
- ▶ Ranking Criteria
- ▶ Estimated Costs by Scenario
- ▶ Assumptions Used in Model
- ▶ Estimated Budget and Revenue Sources by Scenario
- ▶ Water Utilities Preliminary Assessment

Purpose of Study

- ▶ Examine the general feasibility of a new public entity to provide services in Spring Creek
 - ▶ General Improvement District
 - ▶ Unincorporated Town
- ▶ HEC also looked at potential for other public entities including:
 - ▶ District for Maintenance of Roads
 - ▶ Cooperative Agreements
- ▶ Scope of Services Task 3 includes assistance with formation documents of recommended structure if Board proceeds (not presented here)

Demographics & Statistics

POINTS TO AN ECONOMICALLY STABLE COMMUNITY

- ▶ About 13,000 people in Spring Creek
- ▶ About 6,000 people in Spring Creek have jobs; 95% work outside Spring Creek
- ▶ About one-third of jobs in mining, quarrying, oil & gas
- ▶ Unemployment rate very low at 1.50%
- ▶ Low HOA delinquency rate (approx. 4.0%)
- ▶ Only 1% of homes in Spring Creek are vacant (very low)
- ▶ Only 15% of homes in Spring Creek are rented
- ▶ Spring Creek population is 55% of the unincorporated County, and 25% of the County
- ▶ Spring Creek assessed valuation is 23% of the unincorporated County, and 14% of the County

General Financial Health of SCA

► Healthy

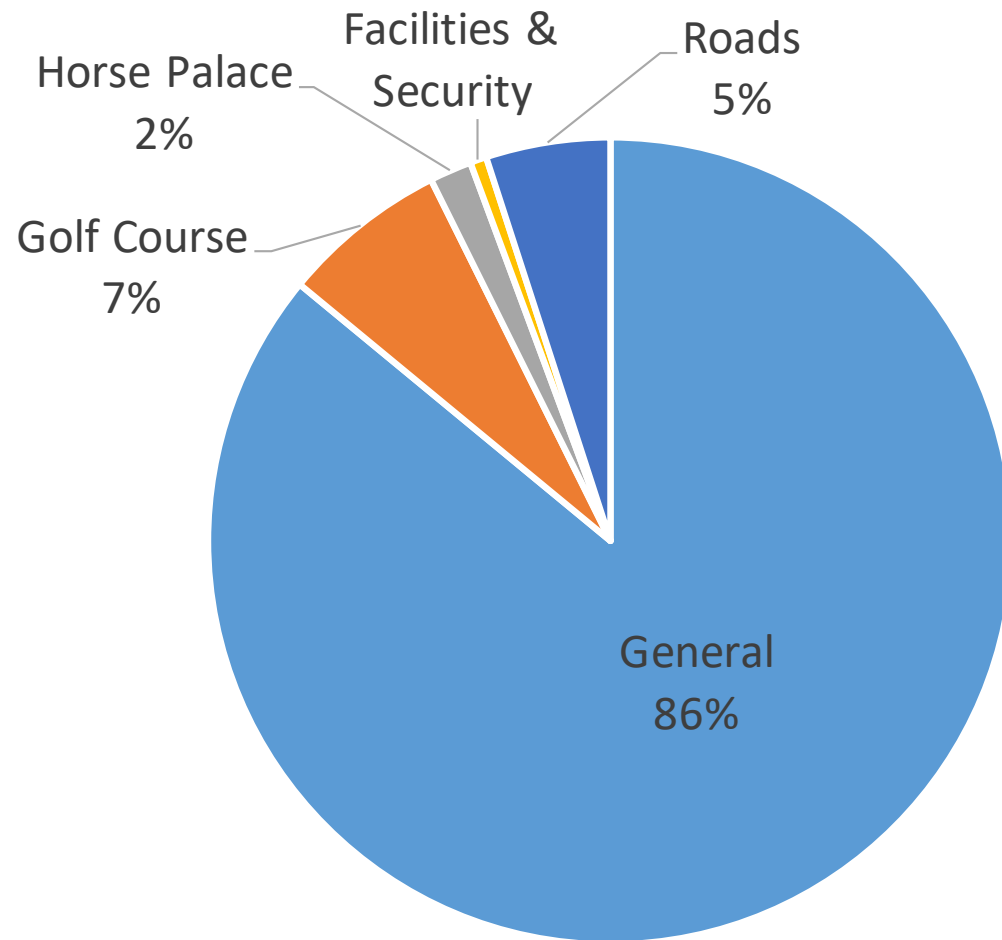
► Low Debt Ratio

► Typical for an HOA
(little lower because
of user fees for
facilities)

► Able to cover
operating costs @
current assessments

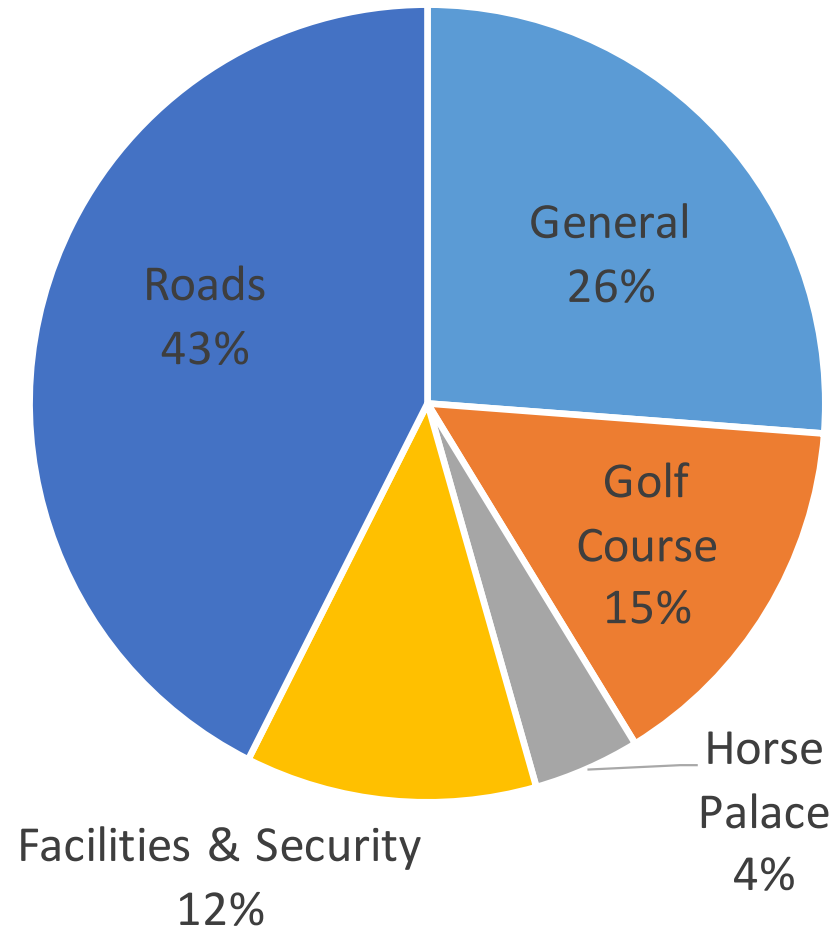
| Metric | 2014 | 2015 |
|-----------------------------------|-------------|-------------|
| Debt Ratio | | |
| Assets | \$8,839,692 | \$9,662,188 |
| Liabilities | \$449,208 | \$474,189 |
| Debt Ratio | 0.05 | 0.05 |
| Assessments Reliance Ratio | | |
| Assessments | \$3,094,484 | \$3,159,324 |
| Total Revenue | \$4,014,777 | \$4,132,898 |
| Reliance Ratio | 0.77 | 0.76 |
| Self-sufficiency Ratio | | |
| Total Revenue | \$4,014,777 | \$4,132,898 |
| Total Expenses | \$3,229,039 | \$3,560,006 |
| Self-sufficiency Ratio | 1.24 | 1.16 |

Operating Revenues by Function (2010 - 2015)

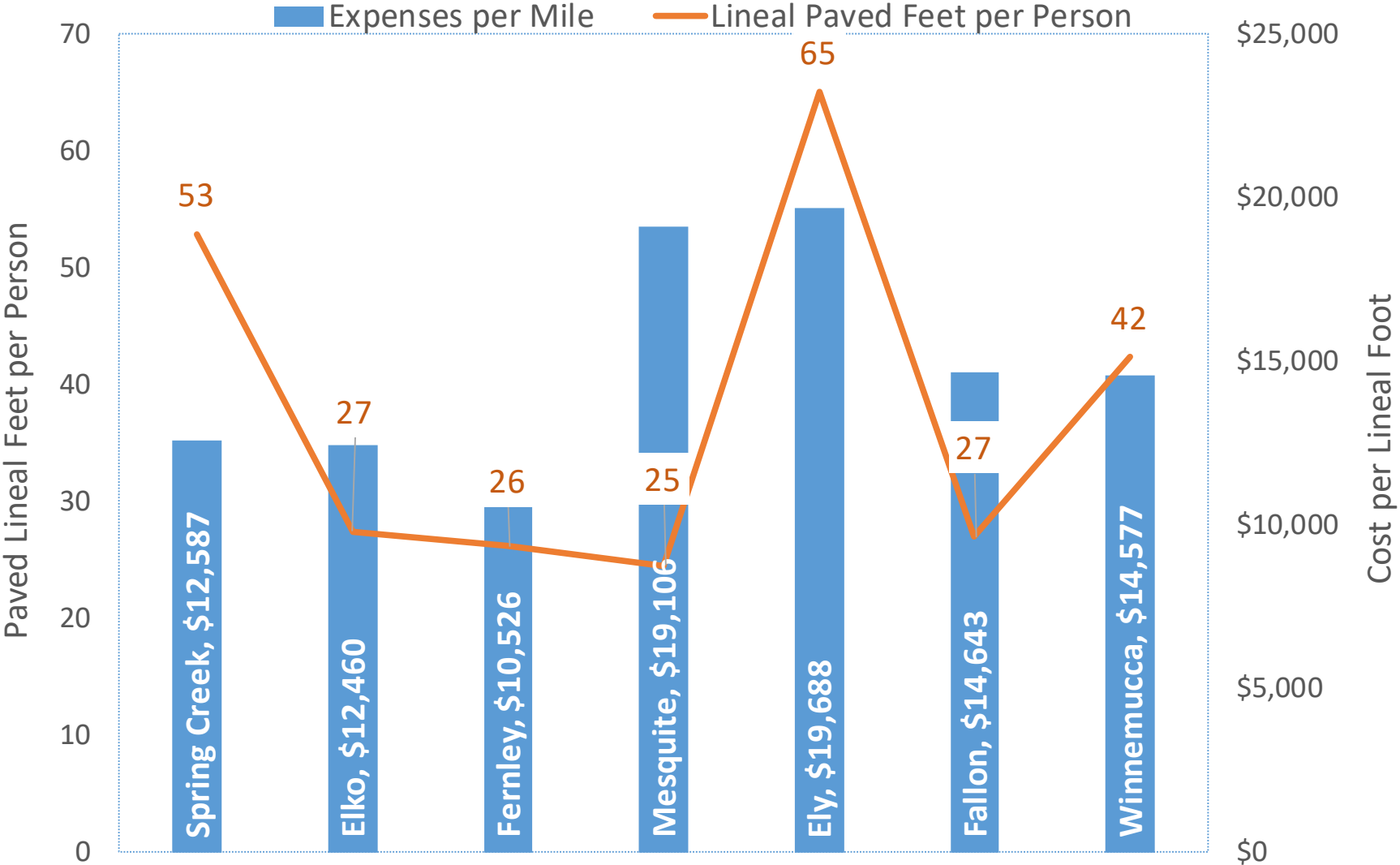


Operating Expenses by Function (2010 - 2015)

- ▶ Fairly consistent year to year for the past 5 years

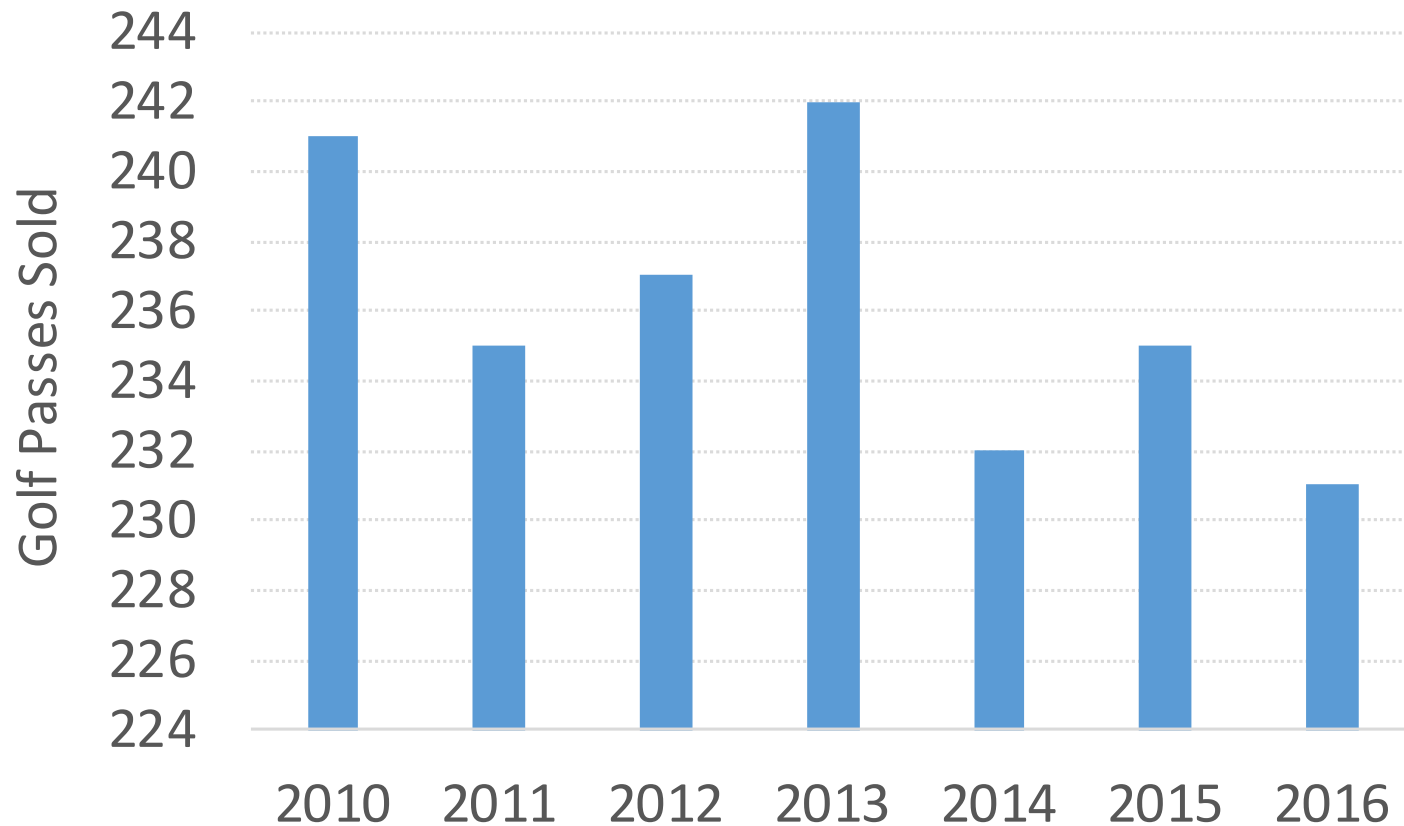


Comparison of Road Expenditures per Mile



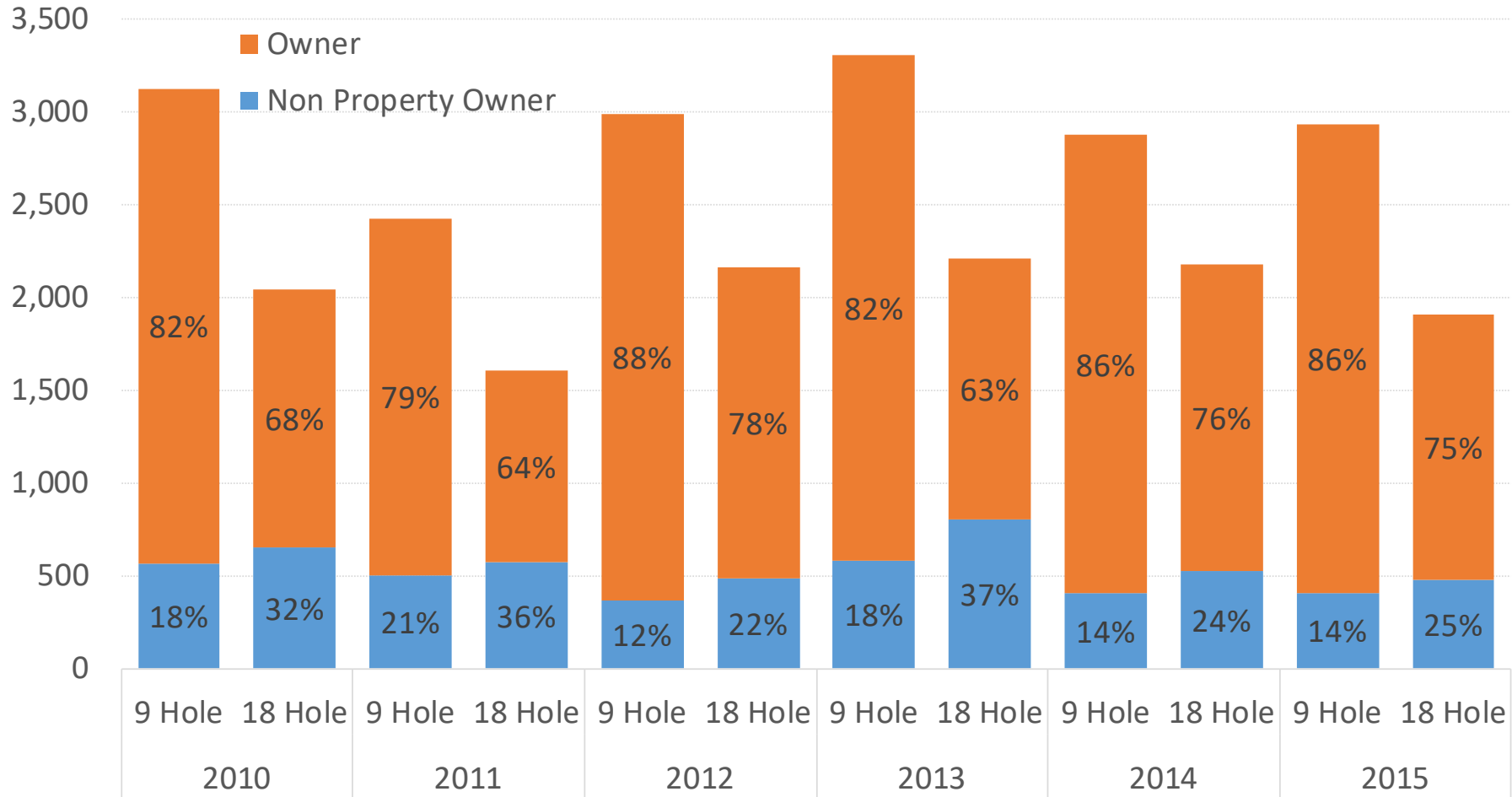
Use of Golf Course & Horse Palace

- ▶ Horse Palace about 60 passes / yr sold
- ▶ Graph shows Golf Course passes sold / yr



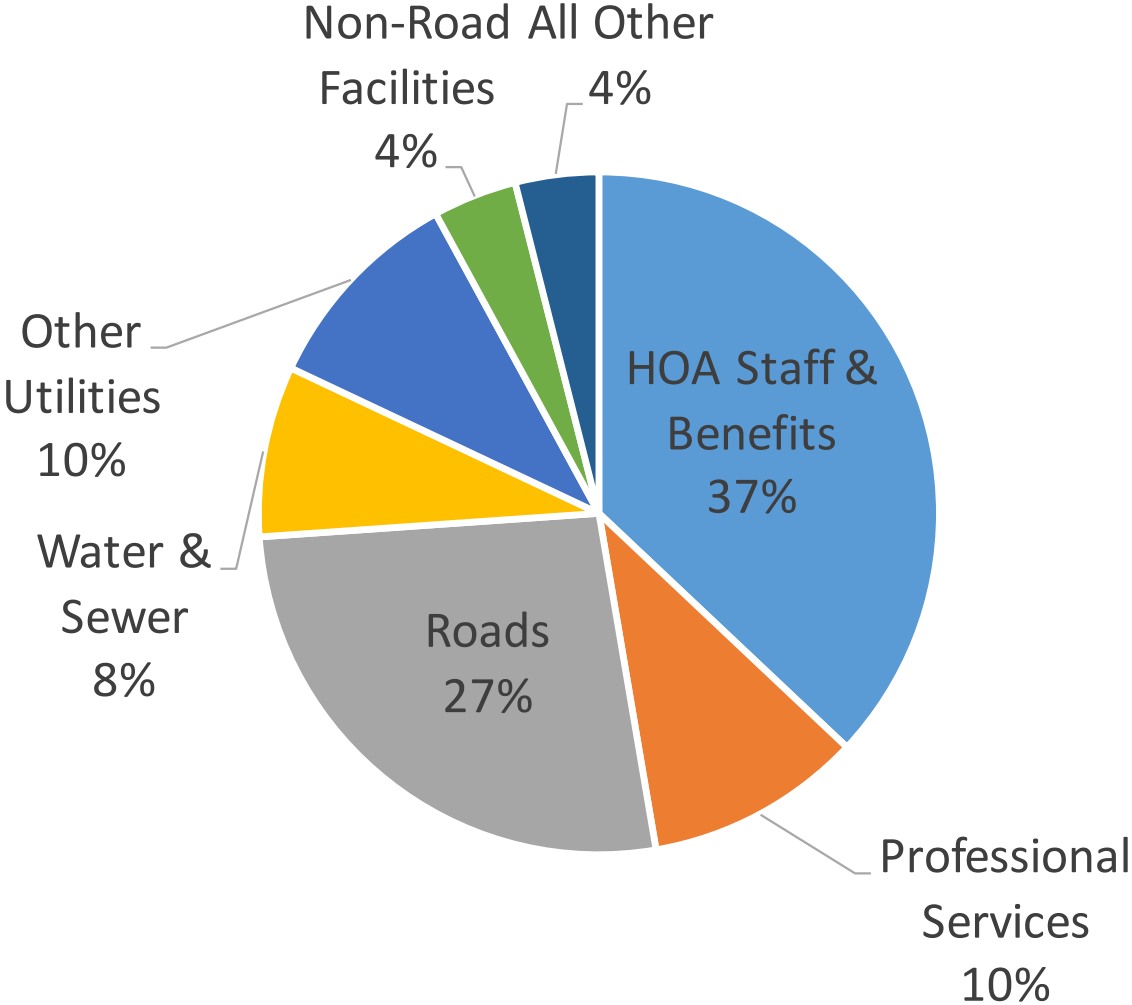
Golf Course Rounds Played

4,000 to 5,500 / yr typically; Low # for the 18-hole course



**2016 City of Elko
Total Rounds: 21,054**

Operating Expenses Detail (2010 - 2015)



Comparison of HOA Assessments for Communities with Similar Amenities

| Community | Services/Amenities | Annual HOA Assessments | # Lots | Estimated Annual Assessment Revenue | Median Home Sales Price |
|--------------------------|--|------------------------|--------|-------------------------------------|-------------------------|
| Spring Creek Association | Equine facilities (barn, trails, indoor arena, rings, pastures), 18 hole golf course, Clubhouse, marina, parks, sports fields, rifle range, trap and skeet, campground, 140 miles of roads | \$624 | 5,374 | \$3,353,376 | \$235,000 |
| Auburn Lake Trails | Equine facilities (barn, stables, arena, trails, pastures), 9 hole golf course, Clubhouse, lake and parks, pool, tennis courts, gated, 3 community buildings, campground, library, 32 miles of roads | \$2,208 | 1,104 | \$2,437,632 | \$355,000 |
| Bear Valley Springs | Equine facilities (6 arenas, barn, pastures, trails), 9 hole golf course, Clubhouse, campgrounds, athletic fields, dog park, shooting range, tennis courts, 2 lakes, gated (separate district for roads and utilities) | \$1,420 | 3,582 | \$5,086,440 | \$272,000 |

Source: HOAs, redfin.com, Trulia.

SCA Monthly Assessments

- ▶ Monthly assessments are \$52 (\$624 annually) beginning in January 2017.
- ▶ The Declaration of Reservations originally called for a \$144 annual maximum on assessments that could be periodically increased at the same proportionate rate as the cost of living index of the U.S. Department of Labor as fixed on the first day of June, 1971.
- ▶ Based on the Bureau of Labor Statistics Inflation Calculator, \$144 in 1971 is equivalent to \$853.36 in 2016.

Potential Governance Scenarios

| | SCA | SCA & DMR | SCA & Roads GID | SCA & Multiservice GID | SCA & Uninc |
|---------------------|-----|-----------|-----------------|------------------------|-----------------|
| Architecture Review | SCA | SCA | SCA | SCA | SCA |
| Roads | SCA | DMR | GID | GID | UNINC |
| Weed Control | SCA | SCA | SCA | GID | UNINC |
| Security | SCA | SCA | SCA | SCA | SHERIFF * |
| Parks & Recreation | SCA | SCA | SCA | GID | UNINC |
| Water & Wastewater | SCU | SCU | SCU | SCU or GID ** | SCU or UNINC ** |

* Anticipates an interlocal agreement between the unincorporated town and the County Sheriff for service.

** Cooperative agreement potential to include properties outside of GID or Uninc. Boundaries.

Acronyms

| | | | |
|-----|-----------------------------------|-------|------------------------------|
| SCA | Spring Creek Association | GID | General Improvement District |
| SCU | Spring Creek Utilities Inc. | UNINC | Unincorporated Town |
| DMR | District for Maintenance of Roads | | |

SCA Considerations on Forming New Entity

- ▶ The new entity would assume ownership of assets (equipment or property) currently owned by the HOA based on the services it provides.
- ▶ Requires approval by a majority of those voting in person or by proxy at a regular meeting or duly-called special meeting of the membership.
- ▶ The SCA cannot dedicate, sell or transfer all or any part of the Common Recreation Facilities without the approval of at least seventy-five percent (75%) of the total number of votes in the Association.
 - ▶ No vote required to transfer SCA property to a general improvement district.

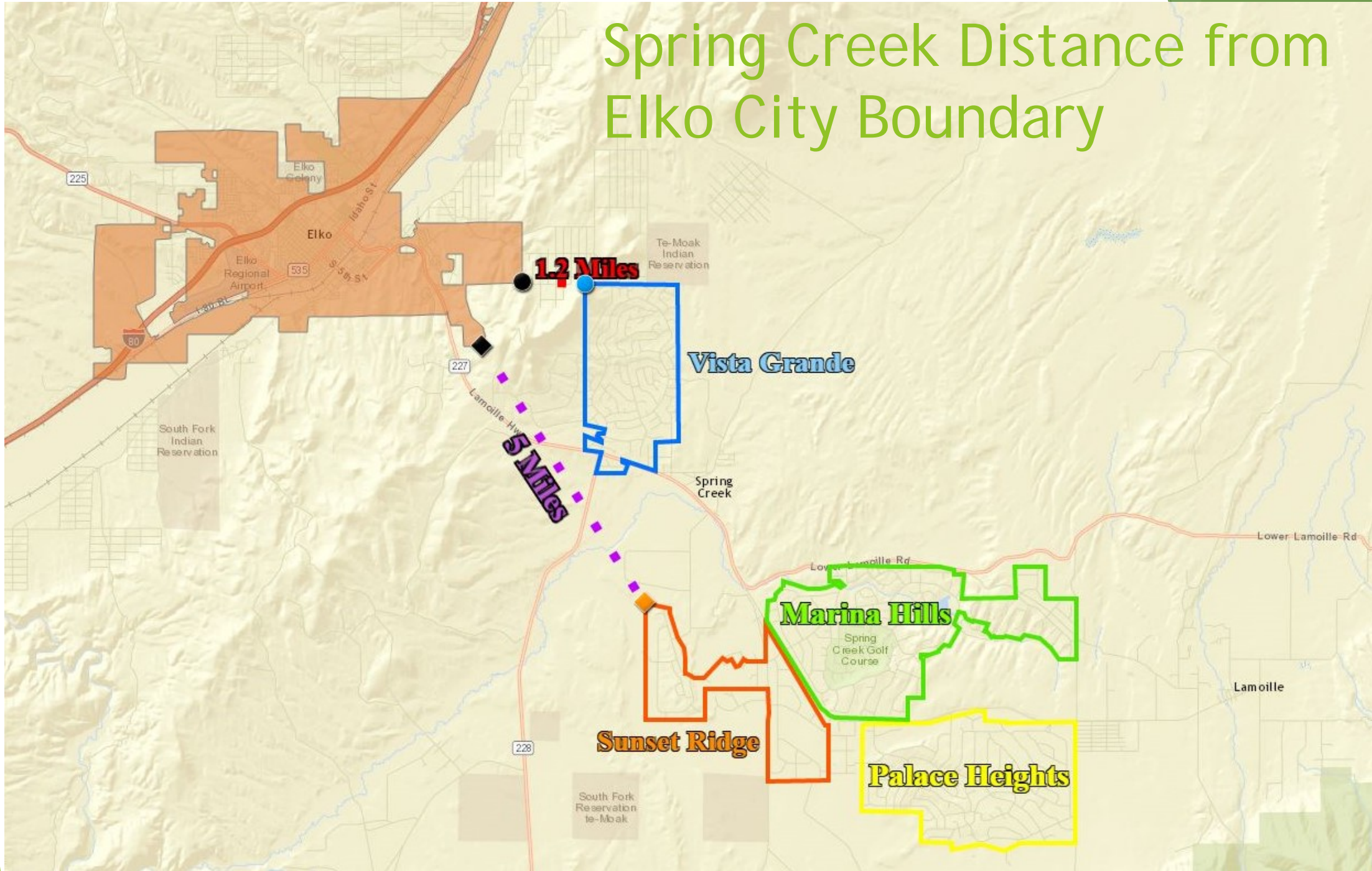
Constraint of Forming a GID

- ▶ Requires unanimous approval of the Board of County Commissioners (BOCC)
 - ▶ Boundaries are within 7 miles of Elko City

Constraints of Forming an Unincorporated Town

- ▶ Boundaries of Town Must be Contiguous
 - ▶ Requires either removal of the 200 Tract OR
 - ▶ Addition of properties between the 200 Tract and the 300 and/or 100 Tract

Spring Creek Distance from Elko City Boundary



Boundaries

DMR

Noncontiguous

Town

Contiguous

HOA

Noncontiguous

Road GID

Noncontiguous

Multi GID

Noncontiguous

Flexibility of Service Provision

DMR

One Service

Town

Many Services

HOA

Many Services

Road GID

One service; can
be amended to
add services

Multi GID

Many Services

Powers of a GID vs Unincorporated Town

| GID | Town |
|----------------------------|--------------------------------------|
| | <i>Including but not limited to:</i> |
| **** | POLICE |
| FIRE PROTECTION, AMBULANCE | FIRE PROTECTION, AMBULANCE |
| STREETS, CURBS, SIDEWALKS | STREETS, CURBS, SIDEWALKS |
| CEMETERY | CEMETERY |
| DUMP STATIONS | DUMP STATIONS |
| WATER, SEWER & SOLID WASTE | WATER, SEWER & SOLID WASTE |
| PARKS, REC., POOLS | PARKS, REC., POOLS |
| FLOOD CONTROL, FENCING | FLOOD CONTROL, FENCING |
| TV, ELECTRIC, RADIO | TV, ELECTRIC, RADIO |
| RODENT & WEED CONTROL | RODENT & WEED CONTROL |
| WILDLIFE PRESERVATION | WILDLIFE PRESERVATION |

Autonomy

DMR

County &
Residents

Town

County &
Residents

HOA

Controlled by
Homeowners

Road GID

Residents

Multi GID

Residents

Formation

DMR

Property owner petition,
then considered &
enacted by BOCC

Town

Petition & BOCC OR
Petition & Majority Voter
Approval

HOA

Road GID

BOCC resolution OR
Property owner petition
with procedures and
requires unanimous BOCC
approval

Multi GID

BOCC resolution OR
Property owner petition
with procedures and
requires unanimous BOCC
approval

Eminent Domain

DMR
Not Specified

Town
Yes

HOA
No

Road GID
Yes

Multi GID
Yes

Ease of Administration

DMR

BOCC appoints 5 member board, elected thereafter

Town

BOCC may appoint 3 or 5 residents to *advisory* board, elected thereafter

HOA

Road GID

BOCC ex officio initially, then appoint 5 member board, elected thereafter

Multi GID

BOCC ex officio initially, then appoint 5 member board, elected thereafter

Sources of Revenue

DMR

Parcel assessment

Town

Ad valorem tax,
service fees,
C-tax

HOA

Assessments, user
fees

Road GID

Ad valorem tax,
parcel charge,
user/service fees

Multi GID

Ad valorem tax,
parcel charge,
user/service fees

Authority to Issue Debt Securities

DMR

No

Town

Yes; up to 25% of assessed value of taxable property

HOA

Yes

Road GID

Yes; up to 50% of assessed value of taxable property

Multi GID

Yes; up to 50% of assessed value of taxable property

Accounting/Administration

DMR
County

Town
County

HOA

Road GID
County or GID

Multi GID
GID

Ease of Dissolution

DMR

51% property
owner petition or
BOCC resolution

Town

Public hearing
and BOCC
resolution

HOA

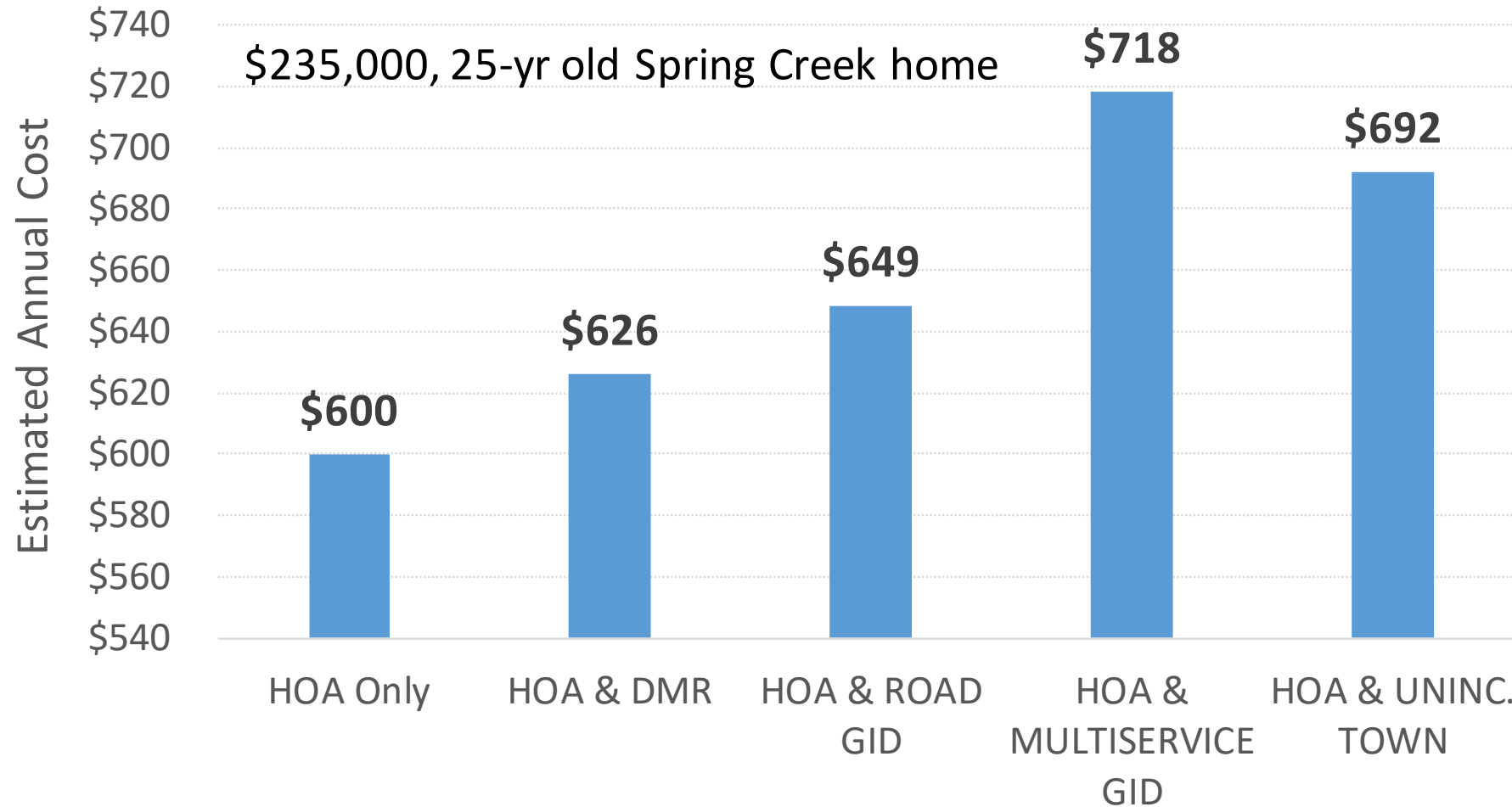
Road GID

Resolution by
majority of BOCC

Multi GID

Resolution by
majority of BOCC

Annual Cost for a Typical Home in Spring Creek - *Excludes Water Utilities*



Key Assumptions: Budget Estimates by Scenario

Municipal Salaries - use +23% on average, all positions

| HOA | GID | Spring Creek Assn. (SCA) | Sun Valley GID | Incline Village GID | Indian Hills GID | Round Hill GID | Palomino Valley | Kingsbury GID | Average | Average to SCA Salary Ratio |
|---|--|--------------------------|----------------|---------------------|------------------|----------------|-----------------|---------------|-----------|-----------------------------|
| Position Title | Position Title | | | | | | | | | |
| President | General Manager | \$90,000 | \$114,020 | \$166,250 | \$86,914 | \$96,108 | | \$129,419 | \$118,542 | 1.32 |
| Secretary / Treasurer | Controller / Contracts Manager | \$56,900 | | \$82,316 | | | | \$88,855 | \$85,585 | 1.50 |
| Assessment Clerk | Accountant / Admin. Assistant | \$38,500 | \$54,856 | \$51,478 | \$43,758 | \$51,736 | | \$43,402 | \$49,046 | 1.27 |
| Receptionist | Administrative Clerk | \$33,200 | | \$39,177 | | | | \$38,647 | \$38,912 | 1.17 |
| Golf Course Superintendent | Grounds Superintendent - Golf Course | \$72,900 | | \$96,931 | | | | | \$96,931 | 1.33 |
| Roads Supervisor | Public Works Director | \$62,000 | \$71,798 | \$77,043 | | | | | \$74,421 | 1.20 |
| Assistant Roads Supervisor | Fleet Superintendent / Roads Supervisor | \$54,080 | | \$75,588 | | | \$60,080 | | \$67,834 | 1.25 |
| Equipment Operator I | Service Technician II / Roads Specialist | \$39,520 | \$48,996 | | | | | \$43,231 | \$46,114 | 1.17 |
| Equipment Operator II | Electrician / Instrument Tech | \$41,600 | | | \$54,987 | | | | \$54,987 | 1.32 |
| Head Mechanic | Mechanic II Certified | \$56,000 | | \$60,760 | | | | | \$60,760 | 1.08 |
| Mechanic | Mechanic | \$47,400 | | \$49,559 | | | \$50,125 | | \$49,842 | 1.05 |
| Laborer | Buildings Maintenance II | \$38,600 | | \$41,084 | | | | | \$41,084 | 1.06 |
| Buildings & Grounds Supervisor | Buildings Superintendent | \$57,800 | | \$67,649 | | | | | \$67,649 | 1.17 |
| Parks Supervisor | Parks and Recreation Center Manager | \$40,700 | | \$53,982 | | | | | \$53,982 | 1.33 |
| Average of Position Salary Ratio | | | | | | | | | | 1.23 |

*Salaries from 2015.

Key Assumptions: Budget Estimates by Scenario

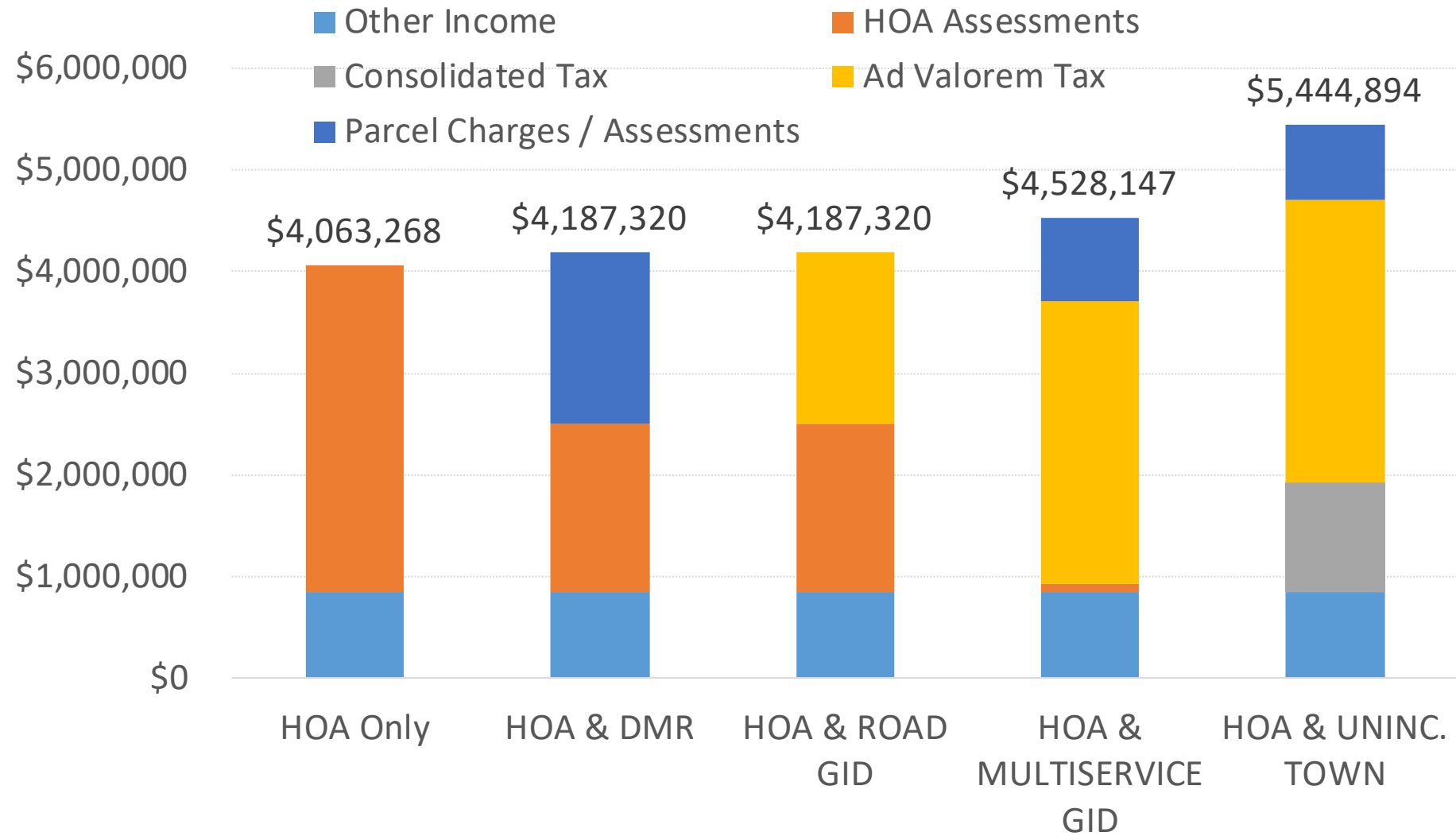
Loading for Benefits - use 55% in estimates

| GID Name | Population Served (approximately) | Services | Base Pay | Benefits | Total | Benefits as % of Base Pay |
|---------------------------------|-----------------------------------|--|--------------------|--------------------|---------------------|---------------------------|
| Incline Village | 8,576 | Recreation, Water, WW, Garbage | \$6,379,015 | \$2,519,807 | \$8,898,822 | 40% |
| Sun Valley | 19,663 | Recreation, Water, WW, Garbage | \$782,063 | \$462,780 | \$1,244,842 | 59% |
| Indian Hills | 6,187 | Roads, Water, WW, Sidewalks, Lighting | \$611,791 | \$278,476 | \$890,267 | 46% |
| Kingsbury | 1,970 | Roads, Water, WW | \$893,491 | \$465,825 | \$1,359,315 | 52% |
| Round Hill | 849 | Roads, Water, WW, Drainage | \$342,997 | \$178,590 | \$521,588 | 52% |
| Total / Median for GIDs | | | \$9,009,357 | \$3,905,477 | \$12,914,835 | 52% |
| Spring Creek Association | 13,564 | Roads, Weed Control, Recreation | \$1,079,541 | \$450,963 | \$1,530,504 | 42% |

Source: TransparentNevada.com (2015 data) and Spring Creek Association.

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Estimated Budget and Revenue Sources by Governance Scenario - *Excludes Water Utilities*



Water Utilities – Preliminary Assessment

- ▶ Requires purchasing from a private entity
 - ▶ Purchase price not assessed at this point in time
- ▶ Spring Creek GID could form a Cooperative Agreement with Elko County so that service could extend beyond the Spring Creek GID boundary
- ▶ A Spring Creek Unincorporated Town could form a Cooperative Agreement with Elko County so that service could extend beyond the Spring Creek Town boundary (note that Tract 200 cannot be part of the Town unless properties in between agree to be part of the Town)
- ▶ The utilities systems likely require a significant amount of investment (based on review of PUCN dockets and SCA meeting minutes)
- ▶ Initially rates would likely be just as high for at least the first 10+ years as revenues are needed to pay debt service for the purchase; over time they may decrease (depending on the state of the infrastructure and water quality regulations)
 - ▶ A publicly-run utility does not earn a rate of return, and can set policy on appropriate collection for system rehabilitation

Water Utilities – Preliminary Cost Estimate

- ▶ Currently collecting \$4.5 Million / Year (water & wastewater)
- ▶ Costs to operate \$1.6 Million / Year; need to collect \$2.7 Million / Year to include depreciation / system rehabilitation
- ▶ Difference of \$1.8 Million is for:
 - ▶ (1) Rate of Return
 - ▶ (2) Costs associated with rate cases (PUCN)
 - ▶ (3) Cash balance (for emergency expenditures)
- ▶ As a public enterprise, potential to eliminate (1) and (2) and reduce amount collected for system rehabilitation (not advised); however, must pay for purchase of systems
- ▶ Greater analysis of taxes & fees payable as a public system necessary
- ▶ **Feasibility study required to determine purchase price as this is major driver of expected rates as a public system**

Questions?

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